

CPD in-house dialogue on
US Trade Preference Schemes for LDCs
30 June 2009; CPD Dialogue Room

Visiting Speaker: Dr Randall Soderquist, Senior Trade Program Associate, Center for Global Development (CGD)

Introduction of the Speaker by Dr Debapriya Bhattacharya, Distinguished Fellow, CPD:

Introduction of participants:

CPD staff introduction and designation

Dr Soderquist: Thank you all for coming. I am honoured and overwhelmed by the number of individuals present here today. CPD is an excellent organization, and I am pleased to be here. CPD and CGD are both like minded organizations which understand the importance of pursuing effective research, inserting ideas into policy making process, and advocating for change. I hope we have an opportunity to do more work together.

CGD is a prominent research organization in the United States. We have done and continue to do excellent work. But we want to improve our efforts at inserting ideas into the policy process. In cooperation with Kim Elliott, my colleague at CGD, we hope to create a strong internal research/advocacy effort on the critical trade and development issues confronting the world today.

I worked, on the whole, for eight years in the United States Senate, and I worked on almost every single trade agreement or arrangement that came our way. When I moved to the German Marshall Fund, we had lengthy discussions on the benefits of integrating the four U.S. trade preference schemes, and in cooperation with another individual at the Carnegie Endowment for International Peace, explored the idea of global trade preference coordination, especially what it would mean for developing countries.

When I moved to CGD, we continued these discussions about coordinating global trade preference schemes (US, Canada, Australia, EU, New Zealand), and coordinating best practices. To set the stage, I did a lot of outreach activities on this issue, meeting with many individuals from preference-giving governments. Every single government and organization agreed there were potential benefits to be had from the coordination of trade preference schemes. So Kim and I decided to pursue this initiative.

We formed our first, high-level working group; from the public, private and non-profit sectors. We had our first meeting and, the members decided it would be beneficial to have consultation meetings to objective feedback on our work. On this trip, our first consultations were in India, and then here in Dhaka, and tomorrow I fly to the UK. In August I will go to the AGOA Forum in Africa.

The goal of these consultation meetings is to obtain comments in our effort to come up with a set of concrete policy recommendations to reform and coordinate trade preference programs. The target is to have a working document by the end of this year. The Canadian government has expressed strong interest in using this document as a reference point for its G20 meeting in June, 2010.

Today it is my goal to target two questions, 'what should we do on these issues, and how should we do it?' One is a technical question, and the other is a political one. My job today is to listen to you, not advocate, using the list of questions in front of you as a guide.

Dr Bhattacharya: This is a much initiated crowd. Dr Randall is expecting more of a structured input from the stakeholders, so that it can be converted into a document that is usable and can be pressed into the policy system. These seven questions are very familiar in Dhaka. I will now go through the questions one by one.

For example, the first question.

1. Should DFQF treatment be applied to LDC's prior to the completion of the Doha Round? Should DFQF treatment also include 100% product coverage and be permanent?

Everybody agreed.

2. Should countries that receive DFQF treatment be expanded beyond LDCs?

Dr Bhattacharya: A couple of small and vulnerable countries are already there. For example, Sri Lanka is already there and we are fighting on preference erosion issues. There are other countries like Jamaica etc. Although not all of them are interested in textiles. Some are interested in tropical products, services etc. They are not fully defined and are quite often in the arbitrary category, but there is a group operating within the WTO—you may know that Australia once wanted to be a small and vulnerable economy because it thinks it is not adequately inhabited.

Here, I believe most of us will unanimously say 'no' to it—we don't want anyone but the LDCs. Let me broaden the question—how about non-LDC, AGOA countries?

Summary of the participants' comments:

Negotiations with WTO is on the back-burner. The upcoming ministerial will discuss three issues functioning of the system, stock taking-(there are no modalities yet) and the impact of the financial crisis. The US is not ready as yet, therefore in effect nothing is ready.

If negotiations go on as it stands now, Doha Rounds will not be in effect before 2014. It's a negotiation issue.

Through Hong Kong we have accepted that countries which are in the same economic situations will be affected by the DFQF trade—the LDCs will be taken care of. That is a secondary issue to us.

Can there be a secondary list of really deserving countries, as LDC requirements are clearly defined?

CPD Executive Director, Professor Mustafizur Rahman: One of the arguments we have been making to the WTO with respect to the disproportionately affected countries is to give them time to see the effects on them. Our stand will be to give it to the LDCs and review it after 2 years. One way of looking at it—is doing it in a staggered manner.

Dr Nazneen Ahmed, Research Fellow, Bangladesh Institute of Development Studies (BIDS): There has to be a clear definition/guidelines of 'disproportionately affected' as everyone will claim that they are affected in some way or another. There should not be a proliferation of different groups.

There has to be a coalition of interest amongst these countries but there is a problem of preference erosion. Instead we can go for product specific preferences.

Syed Saifuddin Hossain and Asif Anwar, Senior Research Associates of CPD: On one hand we are worried about the crowding in/crowding out, but on the other hand there is the issue of comparative advantage. Most Asian LDCs concentrate on ready-made garments, African LDCs concentrate on cotton. If this proposition is to be supported then why not give support to the small and vulnerable economies (SVEs) particularly on some products which are outside the LDC basket. LDCs should be given more preference than the SVEs.

If situations and conditions of SVEs are very precarious then they can be treated as LDCs. Some LDCs are also SVEs. It needs to be clearly defined, in order to basket them accordingly. However, if we keep adding new issues that might take time, and delay the entire process. We need to find a strategy to minimize the time to get the benefit. In fact, we can share the benefits with other adversely affected countries.

To summarise, we are not interested in the inclusion of any countries. We remain committed to the LDC definition. Countries have to meet certain transparent criteria in order to get into the secondary list, to see if they are disproportionately affected or not. Thirdly, there must be some sectoral

sensitivity, to protect the preference erosion. In our opinion the harmonization of preference programme should focus on the core countries of the LDCs.

3. Are there approaches that would allow rules of origin/cumulation to be effectively improved and harmonized across countries? Are global cumulation, regional cumulation, or mutual recognition schemes viable candidates?

This is the most challenging job for any trade specialist. This is one issue that has not progressed much in the WTO negotiations. Can the rules of origin (25% VAT) in trade preference scheme of Canada be held as a model, as it seems to be the least bureaucratic? Our working model between Bangladesh-Canada with 25% value added seems to be working without any hassle.

The problem arises from the regional/global accumulation issue. The conflict of interest may arise amongst the Bangladeshi garments and textiles industries, the latter may want a higher accumulation in order to add more national value. Our main concern is whether this 25% balances the interests of both garments and textile industries.

Some of us here believe that Bangladesh requires more than 25%, as we will get higher preferences when compared to other LDCs, on a global scale. However it is disputed that to increase it above 25% would be politically unjustifiable (and unfair to other LDCs). The question of regional cumulation arises in this case, which seems to be the best fit. Also, if producers need additional assistance, fiscal policy needs to be redressed as trade policy alone will not serve the purpose. We also need to question whether this balance is consistent with development. The rules of origin is a significant tool for precipitating structural change.

4. What complementary or facilitating measures can be used to overcome obstacles created by preference-giving countries -- examples being SPS and other such NTBs -- to increase the utilization rate for trade preference programs by preference receiving countries?

Building capacity in terms of capacity, knowledge and institutional aspects of it, is the key. If non tariff barriers are to be maintained and duty-free and quota free entries are to be made, then developed countries must provide support towards these three factors, even for outside the garments sector.

How do developed countries with limited funds target interventions (ex. For each sector)?

Not every sector of every country needs to be targeted specifically. Strengthening the capacity of standardized institutions in every country may be effective.

There has to be a standstill in terms of the new SPS activity, but if it happens there has to be predictability in terms of the time frame (6 months for every country, 1-2 years for LDCs). There also has to be a lot of dissemination of knowledge about TBT and SPS because there is a lack of transparency in this factor. Sites like the ITC should be updated regularly as they contain each country's SPS, TBT, etc.

Testing facilities, capacities of financial, technical resources and human capital has to be strengthened on a systematic basis. It is not enough to only test the product, it is also important to ensure that they are of good quality. However, these global standards are set without the participation of the LDCs. There needs to be transparency in this case, in order to determine what purpose they are serving (whether it is commercial/environmental or from a humanistic point of view). These factors are indivisible to supply side capacity.

5. Are there approaches that could address in an effective and sustained way the supply-side constraints that now limit the effectiveness of trade preference programs?

There are supply side constraints due to lack of investment in terms of trade related infrastructure. It may be regarding the ports, power, education and training. There are some hidden barriers which are never brought to the forefront, such as regional issues. For example in Bangladesh, most supervisor level officials are externally hired which is very costly. In many cases these are requirements from the buyers' side.

Tightness of the labour market is related to the terms of recruitment of the labour. If a labourer is semi-skilled, it will be easier for another recruiter to attract him with a higher wage, as he/she is not tied to his/her existing workplace, in terms of pensions etc. So the initiative for training workers is low.

In case of Bangladesh, market access is the major problem. Also, Bangladesh has been termed officially as the supplier of lower-end products and are treated so even in their order receipts. So it becomes more difficult to diversify.

It should also be noted that sectors other than RMG have also grown over the last decade, and RMG trade does not signify a greater portion of the balance sheet. Bangladesh has always responded whenever there was a scope for market access. The dominant causation is therefore the strengthening of market access for Bangladesh in order to improve economic performance.

6. Should services or other sectors be included in policy recommendations given their potential relevance to effective use of trade preference programs by preference-receiving countries?

The fundamental defining point is that under no circumstances should the rights of LDCs under WTO regulations be undercut. We need to have preferences in the area of goods and services. The preference scheme for services can be worked out on a bilateral basis. However immediate DFQF to manufactured goods would be more effective than DFQF to both goods and services five years down the line.

7. Is there a way that preferences could be used to ensure that developing countries do not all attempt to become competitive in the same sectors/industries?

In terms of non-tariff barriers, there are scopes to improve. It is important to diversify, and preference schemes can play a role provided it becomes more flexible and accommodating in the areas of non-traditional products (outside textiles-mostly agri products, which are more important for SPS etc). Maybe a provision for PPPs for other sectors may be beneficial.

Concluding Remarks by Dr Soderquist:

Thank you all for coming. My colleague, Kim Elliott, has a paper on 'eligibility' which explains in detail the logic behind expanded eligibility and I urge you to read it as it may be a determining factor in how you think about this issue. Also, it is important to note that based on our earlier discussions, we are looking now more towards coordinating, and not harmonizing, the preference schemes. Again, there are technical and political questions about how that occurs. Please do not hesitate to email me if you feel that we have missed important issues. The consultations do not have to be limited to on site conversations and we welcome ongoing dialogue. Again, I would like to thank you all for this lively debate.

Dr Bhattacharya:

Thank you all for your input. I have tried to be very stringent on the time, because I feel that time is a very valuable resource. Thank you for giving me the opportunity to chair this interesting dialogue. I hope reflecting on it; will be beneficial for your working paper.

Professor Mustafizur Rahman:

I deeply appreciate all your inputs, especially to the Chair, who has succinctly reflected on the insightful discussion. This is a window of opportunity for us and we hope something will be done as soon as possible.