

SUMMARY OF WORKING GROUP CONSULTATIONS

Jaipur, New Delhi, Dhaka, and London

During the first Global Trade Preference Program Reform Working Group meeting April 22-23 2009, members observed a lack of representation of LDC countries on the Working Group and, as a result, suggested that significant global outreach would be required if the potential recommendations were to be considered substantively valid and politically viable. The chairs of the Working Group concurred with this view, and stated that, within existing financial constraints, funding had been budgeted within the project to ensure that the opinions of key stakeholders from the public, private, and non-profit sectors across developed, emerging, and developing economies would be collected. The goals of these activities were: 1) to obtain specific feedback on Working Group discussions to mitigate the perception that decisions concerning preference reform and coordination were made in isolation, and; 2) to create a foundation for political support for the recommendations such that recommendations for preference reform and coordination could effectively be inserted into the policy process and policy change would occur.

To this end, consultations were arranged in Jaipur and New Delhi, India (June 22 and June 24/25 respectively), Dhaka, Bangladesh (June 29/30), and London, Great Britain (July 2/3) to initiate discussion on the key Findings from the first Working Group. The meetings in Jaipur and New Delhi were facilitated by CUTS International, the meeting in Dhaka was facilitated by the Center for Policy Dialogue (CPD), and the meeting in London was facilitated by the Overseas Development Institute (ODI). CGD co-hosted these events with each of the aforementioned organizations. Another consultation is scheduled for Nairobi, Kenya on August 3/4 to be co-hosted by CUTS International and CGD. Consultations in Geneva and East Asia may be held, dependent on available funding.

The Jaipur, New Delhi, and Dhaka consultations were organized around a set of six questions (the London consultation consisted of ten questions) that were designed to focus but certainly not limit the discussion. All the consultations offered a lively and intensive exchange of opinions on the critical issues related to trade preference program reform and coordination. The participants were extremely engaged and, more importantly extremely intrigued by the economic opportunities for developing countries that could result from viable policy recommendations emanating from the Working Group initiative. Although there were dissenting opinions and sometimes heated debate in each of the consultations, the following observations can be made on the critical issues. They derive from conversations with participants before, during, and after the consultations, and are designed to complement the summaries and transcripts of the consultations that will be made available.

Permanent 100% Duty-Free, Quota-Free (DFQF) treatment prior to the completion of the Doha Round:

The vast majority of the participants in the consultations supported the immediate implementation of 100% DFQF treatment for LDCs prior to the completion of the Doha Round as it is consistent with the promises regarding market access previously made by most developed countries (the United States being a specific outlier at the WTO Hong Kong Ministerial). There was near consensus on the importance of implementing 100% DFQF within the next two or three years maximum, as the economic benefits that would derive from this approach are rapidly being reduced through an increase in bilateral and regional free trade agreements.

Some individuals stated their concern about the concept of “permanency”, either in the context of WTO legal texts or in terms of LDC commitment to the completion of the Doha Round. The term “on a lasting basis” or the equivalent was considered by most to be sufficient to mitigate these concerns.

Some individuals stated their concern about the impact of 100% DFQF treatment for LDCs on lower-income countries (LICs). Questions concerning compensation for LICs were discussed, with no obvious answer provided. In general, there was a recognition that any response would require a political economic strategy supported by research that created flexibility for LICs to respond positively to the proposals. This resonates with the comments made by Ricardo Melendez-Ortiz at the first Working Group meeting as it relates to Colombia (see transcripts and summary of the first Working Group meeting).

In Jaipur and New Delhi there was substantial discussion concerning the potential of trade preference programs to “lock LDCs into specific production bands or patterns,” many of which increase vulnerability of their populations to fluctuations in the global economy. The key problem in the view of these participants was not 100% DFQF market access, but rather the issue of product, industry, and sector diversification, meaning how to assist LDCs in identifying viable national strategies that would ensure they would become less vulnerable and more competitive. There was significant debate – at the New Delhi consultation specifically – as to whether this was an issue that trade preference program reform and coordination could address and fit in the mandate of the Working Group. Some suggested it was not and was the responsibility of governments; some suggested it was and was directly related to the issue of supply-side constraints. Although no obvious answer was provided, the debate on the role of trade preferences as it relates to diversification is consistent with comments that Swedish and Dutch government officials provided prior to the initiation of the Working Group.

A question that was raised at every consultation related to the actual benefits that would derive from 100% DFQF treatment for LDCs and which countries would and would not benefit from this approach. A second question that was raised is if certain countries did benefit, and others did not, what then is the solution to be provided – that is, should the Working Group address “compensatory” financial mechanisms like additional capacity building (more on this below).

Should countries that receive DFQF treatment be expanded beyond LDCs? As an example, given the current economic situation, should a set or sub-set of small and vulnerable economies (SVEs) be included?

As a general observation there was significant resistance among participants to expand eligibility to SVEs, the primary reason being there is a pre-existing definition for LDCs that is accepted by key international economic institutions and to expand that definition would require a lengthy political consultation that would delay and potentially derail any effort to reform and coordinate trade preference programs in a timely and effective manner. There was an understanding that other countries were potentially deserving of preferential treatment given their poverty levels. There was sympathy to the provision of preferences under certain circumstances, be it political, economic, or related to natural disaster. But by and large the argument was that, as a practical matter, the Working Group would be doing itself a disservice to attempt to expand eligibility at this time as it would create an unnecessary distraction.

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

Several initial observations should be made on this question in terms of the consultations. First, every participant understood the importance of ROO/cumulation in terms of their potential impact on industry/sector concentration, economic growth, and job creation. Second, a limited number of participants understood how specific countries addressed ROO/cumulation in their specific preference programs, or the opportunities/constraints these programs placed on LDCs in terms of their production or export patterns. Third, those participants that did understand specific preference programs were very wedded to schemes that benefited specific LDCs. The consultation in Bangladesh was a specific example of this tendency, as a number of the participants felt strongly that any ROO/cumulation scheme that did not fully incentivize the creation of significant and sustainable backward linkage production arrangements would be unacceptable.

That said, given that ROOs/cumulation schemes were recognized by all participants as one of the most significant obstacles to effective use of trade preference programs, there was a consensus that the Working Group should explicitly include the goals of simplification, transparency and predictability in the recommendations, the intent being to minimize administrative costs and facilitate implementation for preference-receiving countries. In the view of the participants, compliance costs still frequently outweigh the benefits that are provided by trade preference programs, and until those costs are measurably minimized or eliminated and the margins available through preferences increased, the programs will be of limited value.

It cannot be accurately stated that the participants of the consultations found consensus around any specific ROO/cumulation scheme. It can be said that the Canadian preference program was the most intriguing to the participants as it seemed to be the most simple and straightforward system available for use by LDCs. There was considerable interest in

global cumulation as it was compatible with the current dynamics of global economy (that is, multiple sourcing locations and company sourcing networks) and offered governments a mechanism through which countries could become competitive through their own initiative. National strategies could then decide outcomes versus the provisions of the preference programs.

There was some stated sympathy for regional ROO/cumulation schemes in terms of creating economic clusters, and certainly a recognition among participants that this is occurring at a rapid pace at this time in the global economy. Questions about how these overlapping regimes can be integrated and made to work better for LDCs were raised and debated. But in terms of appropriate policy recommendations that would come from the Working Group, there was a definite lean to global cumulation. There were participants in the Bangladesh session that agreed with this position.

The issue of how political agreement could be attained across preference-giving countries on ROOs/cumulation schemes was discussed, and there was obvious agreement that harmonization was not a realistic option as this would require intensive political negotiations involving multiple governments. This is currently being attempted in the context of the Global System of Trade Preferences (GSTP) negotiations and has resulted in no effective outcome. Time constraints related to the need for immediate implementation further negated this option.

The notion of “mutual recognition”, although not well-defined, did offer an intriguing alternative for the participants (especially given the acceptance in international community and the WTO of Mutual Recognition Agreements, or MRAs), although three questions were raised: 1) what role would LDCs have in this process; 2) how would the Working Group facilitate this process, and; 3) how would the Working Group ensure that optimal (versus suboptimal) practices would be recognized? In short, how does policy change occur? Questions related to recommendations versus implementation, research versus outcomes were raised frequently in the consultations, and will be discussed more fully later.

A research question that was raised in the context of different ROO/cumulation schemes was which countries would and would not benefit from coordination. If, as an example, preference-giving countries were to accept the Canadian program as a model, and other preference-giving countries were to mutually recognize the provisions contained in that program, what would this mean for specific LDCs in terms of increased or decreased export opportunities? Who would win, and who would lose?

What complementary or facilitating measures can be used to overcome obstacles created by preference-giving countries – examples being sanitary/phytosanitary (SPS) standards and other non-tariff barriers – to increase the utilization rate for trade preference programs?

The role that standards play as an impediment to the positive impact of trade preference programs was one of the most discussed issues at the consultations, and there was strong

consensus that it must be addressed if the recommendations of the Working Group are to be considered legitimate.

There is an obvious understanding that the political obstacles involved in previous efforts at standards harmonization have been substantial and cannot be resolved by the Working Group. That said, there are a number of changes that participants argue can be pursued “on the margins” that can assist LDCs in their efforts to better utilize programs and increase market access to developed countries. Some changes, examples being greater transparency and participation in the creation of product standards are not new and could be easily recommended by the Working Group. Others, a specific example being finding tangible ways to coordinate or harmonize standards used by the private sector to export into developed country markets, are more difficult but also more innovative – and, it was argued, should be addressed by the Working Group. Participants from the private sector were adamant that because governments in developed, emerging, and developing countries were unable to find common ground on this issue, the next feasible step was outlining a strategy where companies with standards already accepted by developed countries would find a way to further expand their standards network to other companies and their sub-contractors.

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?

Consensus around the need for more effective coordination as it relates to the provision of preferences and the funding used to support the use of those preferences – be it related to trade facilitation, basic infrastructure, advanced infrastructure, governance, or otherwise – was unanimous and emphatic. The core problem is that while every participant considered the mitigation or elimination of supply-side constraints to be an essential component of trade preference program reform, very few could offer a coherent approach through which this could be accomplished – especially in an era of very limited budgets. As most considered this to be an outcome that is defined by a national strategy, the first and best option focused on more intensive dialogues between preference-giving and preference-receiving countries that would allow the definition, or what another CGD discussion group has called “sequencing”, of program priorities. This would allow countries to incrementally but strategically build capacity in those sectors, or portions of those sectors, where they feel they would be most competitive in the global economy.

There was also discussion of the importance of innovative financial mechanisms such as trade related capacity building measures to compensate for preference erosion and provide opportunities for alternative economic development strategies on the part of LDCs, consistent with the paper written by Susan Prowse and Bernard Hoekmann (**citation needed**).

Reference to the importance of public-private sector partnerships was made at all the consultations, the argument being that there was a significant amount of research

available that could be aggregated by the Working Group, leading to viable recommendations.

Although a solution as it relates to supply-side constraints is necessary, the question as to whether existing preference programs offer realistic policy options and whether some of these preference programs are more effective than others in terms of actual outcomes remains unresolved and requires further analysis.

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?

During the first meeting of the Working Group in April, Bernard Hoekman and others raised the question as to whether it was possible that recommendations concerning services could be included in the final report. As a result, a question on services was included in the consultations, the goal being that ideas other than Mode 4 might be identified by some of the participants.

Unfortunately, very few ideas were provided. There was a recognition that services – one example being investment in a telecommunications infrastructure to support the agriculture sector – would represent a concrete opportunity for more effective utilization of preferences by preference-receiving countries. However, the general consensus among participants was that nothing was preventing investment in telecommunications, or any other service industry for that matter, from happening in at this time. There was a reference in the Dhaka consultation relating to increased Mode 3 access and the potential for direct sales by LDCs in the developed countries, but it is unclear why this could not occur while avoiding problems related to the mobility of labor and visas.

Further analysis related to services was requested by participants in all the consultations. One key participant in the Bangladesh consultation was adamantly opposed to the inclusion of recommendations for the service sector and LDCs unless it avoided sensitive issues currently being addressed in the Doha Round negotiations.

Conditionalities

The issue of conditionalities – labor, the environment, intellectual property rights, human rights, and others – were not included in the questions for the consultations (London being the exception). In spite of this exclusion, the issue of conditionalities was raised by participants in every meeting. The consensus was that preferences are, by definition, an opportunity provided to the LDCs specifically designed to increase economic growth and enhance political stability, and as such there should be no pre-conditions for their use. That said, there was an explicit recognition among participants that the current stance of the U.S. Congress has likely made the application of conditionalities in preference programs inevitable. The inclusion of conditionalities in the EU GSP+ program further reinforces the perspective on the part of LDC governments that they must identify mechanisms that allow them to comply with increasingly strict provisions. As such, the

potential for a “sliding scale” for LDCs, combined with sufficient capacity building funding to incrementally change existing practices, was discussed.

Participants in the London consultation engaged in a more intensive debate on the issues of conditionalities, and although there were several significant outliers, there was some agreement that any recommendations by the Working Group to conditionalities should reference an internationally-accepted set of standards, such as those in the International Labor Organization (ILO) core labor principles.

South-South trade and emerging economy trade preference programs

The Working Group agreed during its first meeting that the provisions of emerging economy trade preference programs would play an integral role in the development prospects of LDCs given the increase in South-South trade. The issue was not included in questions for the consultations (London being the exception), but was raised by participants at each event. Time constraints prevented any lengthy discussion of the issue.

Three observations can be made based on the comments made: 1) all the participants recognized that the governments of Brazil, India, and China would be forced to consider their responsibility as leaders in the global community as they became more influential; 2) all the participants agreed that problems related to domestic political constituencies would create the same problems for emerging economies as it has for developed economies (a specific example being the “sensitive list” India has created within its preference program); 3) all participants agreed the most important step the Working Group could make would be create viable recommendations that would apply to and would be accepted by the governments of developed economies, in effect establishing “role models” for the rest of the world, and; 4) all participants agreed more significant outreach on the part of the Working Group to emerging economy governments on this issue would be timely and useful

There were a number of requests for additional research on the impact of South-South trade on economic growth in LDCs, with particular reference to individual product exclusions in emerging economy trade preference programs.

The Political Economy of Change

The consultations in India, Bangladesh, and London provided an opportunity to discuss the substance of the critical questions in front of the Working Group, but time constraints prevented any serious discussion of how policy change can occur. Reference was made in each consultation on current budget limitations of the Working Group and its potential impact on future activities. Participants emphasized that follow-up discussions that verify the critical public, private, and non-profit actors required for policy change efforts should be pursued and a viable timetable – consistent with the policy window required for effective preference reform and coordination – be created. Participants in all the consultations stated that they appreciated the research and analysis that has been pursued by the Working Group over the last year, but remain skeptical that innovative policy

ideas will be adopted by key countries in a timely manner. Admiration for the work of CGD was stated frequently, but there were questions concerning the utility of an effort that does not result in new and more effective trade preference programs. There were across-the-board offers of assistance to ensure that the recommendations are turned into tangible policy outcomes.

In London, several participants stated that the G-8/G-20 meetings were not a sufficient goal for the Working Group in terms of a political platform or leverage point, and one participant suggested that a new mechanism – a specific group of influential stakeholders – be established with a specific task to direct outreach and insert the recommendations into the policy process of preference-giving countries.