PART III

Tools of State Building

10

Aid through Trade: An Effective Option?

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What trade policy initiatives can the rich countries such as the United States take to assist the poor countries in improving their growth prospects and achieving faster alleviation of poverty? This question has been a subject of research and debate among policy analysts in the area of trade and development for more than four decades. During the Kennedy Round of trade negotiations, developing countries successfully lobbied for the addition of Part IV, titled "Trade and Development," to the General Agreement on Tariffs and Trade (GATT). Under Article XXXVII of this part, developed countries promised to "accord high priority to the reduction and elimination of barriers to products currently or potentially of particular export interest to less developed contracting parties" and to "refrain from introducing, or increasing the incidence of, customs duties or non-tariff barriers on products currently or potentially of particular export interest" to them.

Again, in 1971, under the auspices of the United Nations Conference on Trade and Development (UNCTAD, founded in 1964), developing countries successfully pushed for the adoption of the Enabling Clause by the

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GATT contracting parties. The clause was initially adopted for ten years but was renewed in 1979 for an indefinite period. It gives legal status to the Generalized System of Preferences (GSP) and the exchange of South-South trade preferences. The GSP provision gives legal status to one-way trade preferences by developed to developing countries, while the provision on South-South preferences freed developing countries from GATT's Article XXIV requirements while exchanging trade preferences among themselves.

Subsequently, encouraged by the 1973 success of the Organization of Petroleum Exporting Countries (OPEC) in increasing oil prices, developing countries called for far-reaching changes in the rules of the North-South engagement under the rubric of the New International Economic Order (NIEO). As a part of this effort, on May 1, 1974, the Sixth Special Session of the UN General Assembly adopted a manifesto entitled "Declaration and Program of Action of the New International Order." Among the measures proposed under the NIEO were the indexation of developing country export prices to developed country manufactures exports, raising official development assistance to 0.7 percent of developed country gross national product (GNP), linking the International Monetary Fund's special drawing rights to development aid, lowering tariffs on manufactures exported by developing to developed countries, creating an international food program, and negotiating the redeployment of some developed country industries to developing countries.[1]

Unfortunately, few of these efforts during the 1960s and 1970s can be said to have contributed significantly to growth and development in the poor countries. Given the best endeavor nature of the commitments in Part IV of GATT and the unwillingness of the rich countries to give one-way concessions, its addition led to the lowering of few barriers facing the products exported by developing countries. On the contrary, the 1960s and 1970s saw the grip of textile and apparel quotas, organized under the rubric of the Multifiber Arrangement in 1974, tighten progressively. The enabling clause did lead to the grant of trade preferences under the GSP and other schemes, but as I discuss later in greater detail, these had at most limited impact on the developing country exports and proved of questionable value.

The NIEO movement was a complete failure. Beyond paying lip service to the proposed agenda, developed countries yielded little. Instead, they chose to delegate the issues of concern to developing countries to the Bretton Woods institutions, in which they held the balance of power. In turn, these institutions went on to aggressively promote liberal trade policies in developing countries themselves. Simultaneously, in the aftermath of the Tokyo

Round (1974–79), developed countries began to insist that developing countries abandon the practice of free riding the multilateral liberalization negotiated by developed countries and become active parties to future rounds of negotiations. The Uruguay Round was launched in 1986 only after developing countries agreed formally to participate fully in the negotiations.

During the last two decades, the NIEO agenda was thus relegated to the background.[2] But following the Uruguay Round Agreement, the process came full circle. Perceptions that developing countries got shortchanged in the Uruguay Round and that the benefits of the agreement went asymmetrically to the rich countries have led to a partial resurgence of the NIEO agenda.[3] Though many of the impractical schemes proposed under the NIEO have been buried for good, moral pressure is being exerted once again for one-way concessions from rich to poor countries through trade and aid. Interestingly, this time around the leadership at the Bretton Woods institutions has joined hands with the United Nations in accusing developed countries of double standards and maintaining trade barriers that hurt developing country interests.

A question that has, therefore, gained salience in the United States is whether the changed circumstances make it more feasible for the nation to deploy trade policy instruments to assist the neediest developing countries, characterized in this volume as poorly performing states, in their endeavor to achieve faster growth and reduce poverty.[4] Is there scope for further expansion of the trade concessions by the United States to these countries; if yes, does the experience to date point to the desirability of such expansion; and if not, are political circumstances favorable to reforms that would make the expansion desirable?

In pursuit of answers to these questions, I examine the scope for and desirability of U.S. assistance to poor performers through three separate trade policy measures: one-way trade preferences as, for example, under the GSP; bilateral trade preferences as under free trade agreements, such as the North American Free Trade Agreement (NAFTA) and the U.S.-Jordan Free Trade Agreement; and multilateral trade liberalization for products of interest to developing countries, as under the Uruguay Round Agreement. Based on the accumulated experience of the past forty-five years, my principal conclusion is that of these three forms of market access, only the last one—multilateral trade liberalization—is both desirable and feasible.

The record of one-way trade preferences by the United States and the European Union (EU) has been quite poor, and there is little reason to believe that this will change in the near future. These preferences have been

selective, uncertain, and subject to all kinds of side conditions. On balance, EU preferences have been less arbitrary than those of the United States, but even they have failed to generate significant impact on growth in the beneficiary countries.

Likewise, the potential for free trade agreements between the United States and poorly performing states is limited and their value questionable. Currently, with the attention focused on Latin America, few free trade agreements with poor performers are on the U.S. trade policy radar screen. But even if that were not the case, it is far from clear that two-way trade preferences would succeed where one-way preferences have failed. For example, the U.S.-Jordan Free Trade Agreement has given few reasons for celebration of Jordan's economic development.

Therefore, multilateral liberalization under the auspices of the Doha Round remains the best available option. This liberalization is subject to World Trade Organization (WTO) discipline and cannot be withdrawn at will. It is also free of the trade diversion that plagues free trade agreements. And above all, it has the potential to induce nondiscriminatory liberalization in poor performers themselves.

A final qualification must be added before I proceed to the detailed discussion of these themes. Further opening of developed country markets, no matter what form it takes, can help these countries only in a limited way. Despite all the rhetoric and assertions to the contrary, the bitter and sad truth is that even if developed countries were to open their markets fully without asking for reciprocal liberalization and without any side conditions, few poor performers would succeed in achieving significant growth and poverty reduction purely as a consequence of this opening up. The explanation for the poor growth performance of many of these countries is to be found not in the barriers to their exports in the rich countries—though these barriers do impose a burden on them—but in their own domestic policies and political environment, which governs the internal investment climate.

This conclusion is supported by the fact that though the external environment facing all developing countries has been the same during the past several decades, their performance has been far from the same. Some of them have managed to register much higher growth rates than others. They have accomplished this principally because of their superior economic policies rather than special market access favors granted them. From the 1950s through the 1970s, most developing countries took the pessimistic view that the world economic order was rigged against them and chose inward-looking policies. But countries such as the Republic of Korea, Taiwan, Singapore, and

Hong Kong did the opposite, opting to go for the world markets. The result was spectacular growth on a sustained basis. This experience has been repeated subsequently by such countries as Malaysia, Thailand, Indonesia, People's Republic of China, India, and Vietnam in Asia; Chile in Latin America; and most recently Uganda in Africa.

Barriers to Exports: An Overview

By definition, poorly performing states are countries with low per capita incomes and poor performance along some specified dimensions. This volume defines low-income countries as those having annual per capita incomes below US$1,435 in 2001. This is the level used by the World Bank to identify countries eligible for its concessional lending window, the International Development Association. There are thought to be seventy-four countries that fall below this cutoff point. Invoking the governmental performance criteria narrows down this set further. This volume adopts the criteria of the Millennium Challenge Account, measuring governmental performance along three dimensions: the degree to which governments rule justly, invest in people, and promote economic freedom.

The criteria used to identify poorly performing states are highly correlated with those used to identify the least developed countries (LDCs) by the United Nations.[5] Not surprisingly, four-fifths of the countries categorized as LDCs by the United Nations appear as poor performers on one or many of the dimensions described in this volume. This commonality allows us to exploit the detailed information collected by UNCTAD on LDCs to gain further insight into the economic performance of poorly performing states.

During 1990–98, the real GDP of LDCs as a group grew by 3.2 percent a year compared with 3.4 percent for the low- and middle-income countries and 2.5 percent for the world.[6] This relatively favorable comparison is tempered by two facts. First, the bulk of LDC growth represents growth in one country, Bangladesh, with one-fifth of the total LDC population. Excluding Bangladesh, the growth rate was more modest, at 2.4 percent. Second, the growth rate of population in LDCs was much higher than that in other developing countries. As such, on a per capita basis, LDC incomes grew only 0.9 percent during 1990–98. If we exclude Bangladesh, this figure drops to 0.4 percent. Over the same period, other developing countries grew at 3.6 percent in per capita terms.

Behind these aggregate numbers, there is substantial variance in the performance across LDCs. The top fifteen LDC performers during 1990–98

grew at 2 percent or more in per capita terms. At the other extreme, twenty-two LDCs were either stagnant or declined in per capita terms during that time period. In eleven LDCs suffering armed conflicts and internal instability, real per capita GDP declined at 3 percent or more annually during 1990–98.

The share of LDCs in world trade declined from 3.04 percent in 1954 to a tiny 0.42 percent in 1998. The bulk of this decline took place during the 1960s and 1970s, though there was a slight decline during the 1990s as well. In 1999, LDCs sent 27 percent of their exports to the United States, 37 percent to EU countries, 4 percent to Japan, 1 percent to Canada, 2 percent to other developed countries, 1 percent to each other, and 28 percent to other developing countries. Thus overall they sent 71 percent of the exports to developed countries and 29 percent to developing countries.

Table 10-1 provides the weighted applied tariff rates facing LDCs in various regions of the world in 1999. It is evident from this table that least developed countries faced the highest tariffs in South Asia: 28 percent in agriculture and fisheries and almost 25 percent in manufactures. Corresponding rates in developed countries are 2.1 and 4.4 percent, respectively. All developing country regions impose higher barriers to LDC exports than developed countries.

Table 10-2 offers further details on the status of trade barriers in 1998 facing LDCs in what are termed the Quad countries by the WTO: Canada, the European Union, Japan, and the United States. These four markets account for most LDC exports to developed countries. Among the four markets, the EU offers LDCs the least restrictive trade regime. In 1998 only 3.12 percent of LDC exports to EU members faced any tariffs. In contrast, in the United States 47 percent of LDC exports faced tariffs exceeding 5 percent. A similar pattern is also observed in terms of the proportion of product lines subject to tariffs. Furthermore, LDCs registered positive exports in many more product lines in the EU in than the United States.

The lead enjoyed by the EU in offering trade concessions to LDCs was strengthened following the adoption of the "Everything but Arms" (EBA) initiative by it in February 2001. Under this initiative, the EU introduced duty- and quota-free entry to all products from LDCs, with three important exceptions (plus arms and ammunition, of course). The three excluded products are bananas, rice, and sugar. They are to be given unlimited duty-free access starting January 2006, July 2009, and September 2009, respectively. Currently, two of the products, rice and sugar, are subject to limited tariff-free quotas, which are to be increased annually.

Table 10-1. *Weighted Applied Tariffs Facing Least Developed Country Exports, by Region, 1999*

Export	*Developed countries*	*South Asia*	*Middle East and North Africa*	*Latin America and the Caribbean*	*Europe and Central Asia*	*East Asia and the Pacific*	*Sub-Saharan Africa*	*Quad markets*[a]	*World*
Agricultural and fishery products	2.1	28.3	7.6	14.8	11.9	14.0	11.0	1.7	6.0
Crustaceans (live)	0.7	16.4	15.1	30.0	14.3	9.4	11.5	0.7	1.8
Other fish	1.8	13.8	12.8	14.6	9.6	22.7	19.3	1.8	6.0
Edible fruit and nuts	0.1	38.0	13.0	17.0	8.9	6.4	23.5	0.0	24.0
Coffee and substitutes with coffee	0.0	35.0	16.3	12.7	7.4	0.9	4.5	0.0	1.7
Oil seeds and miscellaneous grain, seeds, and fruits	0.4	33.4	8.1	11.2	5.8	14.1	7.6	0.3	4.4
Other agricultural and fishery products	5.1	13.0	29.2	16.8	18.4	3.2	7.8	5.3	6.9
Minerals and fuels	0.0	6.5	14.4	5.9	0.7	4.5	9.3	0.0	2.9
Ores, slag, and ash	0.0	5.0	12.0	0.0	0.0	1.3	0.0	0.0	0.1
Crude and refined petroleum oil	0.0	30.0	20.0	6.0	3.9	4.5	15.4	0.0	3.6
Other minerals and fuels	0.0	5.0	0.0	5.2	0.0	3.0	10.8	0.0	2.2
Manufactures	4.4	24.7	12.6	10.3	8.0	2.4	7.4	4.5	5.0
Rubber, leather, and footwear products	2.8	13.0	12.7	11.5	13.8	1.4	17.4	2.6	3.4
Wood and wood products	0.4	7.7	11.5	18.1	3.2	2.0	5.8	0.3	2.2
Cotton products	0.3	4.5	11.9	8.4	0.0	2.0	1.0	0.0	2.1
Knitted or crocheted articles	8.3	35.7	16.0	26.3	21.1	1.8	24.0	8.4	8.5
Nonknitted or crocheted articles	7.2	35.5	13.3	20.8	22.9	6.2	13.4	7.2	7.4
Diamonds	0.0	40.0	4.2	4.5	5.0	0.3	0.0	0.0	0.0
Other manufactured products	0.5	34.5	11.2	7.5	1.9	2.7	8.9	0.2	2.0
Other products not elsewhere specified	3.3	28.8	5.2	10.7	7.9	7.5	7.0	2.1	8.3
Total	3.5	25.5	8.9	9.7	9.4	4.5	8.8	3.4	4.9

Source: UNCTAD, "Handbook of Market Access Barriers" (Geneva: United Nations, 2001).

a. Quad markets are Canada, Japan, the United States, and the European Union.

Table 10-2. *Least Developed Country Exports to the Quad Markets, 1998*

Measure	*Canada*	*European Union*[a]	*Japan*	*United States*
Total least developed country (LDC) exports (US$1,000)	227,677	9,874,807	1,019,120	6,962,416
Total imports in product lines of LDC (US$1,000)	83,670,842	637,766,105	126,378,101	528,279,235
Total imports (US$1,000)	211,085,424	783,684,206	305,438,116	1,015,143,866
LDC share of competitive imports (percent)	0.27	1.55	0.81	1.32
LDC share of total imports (percent)	0.11	1.26	0.33	0.69
Total harmonized system 6 (HS6) tariff lines	758	2,222	545	946
Tariff (HS6) lines with protection	201	55	74	335
Tariff (HS6) lines with protection above 5 percent	181	51	36	282
LDC exports entering duty free (US$1,000)	103,260	9,566,647	498,534	3,596,270
LDC exports dutiable (US$1,000)	124,417	308,160	520,586	3,366,146
LDC exports dutiable above 5 percent (US$1,000)	123,827	308,134	226,274	3,272,917
Share of LDC exports facing protection (percent)	54.60	3.12	51.10	48.30
Share of LDC exports facing tariff >5 percent (percent)	54.40	3.12	22.20	47.00
Share of HS6 lines with tariff (percent)	18.50	4.20	12.10	17.10
Share of HS6 lines with tariff >5 percent (percent)	12.80	3.80	7.60	14.10

Source: UNCTAD, "Duty and Quota Free Market Access for LDCs: An Analysis of Quad Initiatives" (Geneva: United Nations, 2001).

a. Before the "Everything but Arms" initiative.

One-Way Trade Preferences

To assess possible benefits from further expansion of trade preferences by the United States, we must consider three questions: Is there substantial scope for this expansion? If yes, does the experience to date support the desirability of the expansion? And if not, do political circumstance offer an opportunity to reform the system such that the expansion is made desirable? Consider each of these questions in turn.

The Scope for the Expansion of Trade Preferences

The United States offers trade preferences under the GSP, the Africa Growth and Opportunity Act (AGOA), the Caribbean Basin Trade Partnership Act (CBTPA), and the Andean Trade Preferences Act (ATPA). None of the beneficiary countries of ATPA and CBTPA are poor performers as described in this volume. Therefore, the discussion below is limited to the GSP and the AGOA.

The U.S. GSP program was introduced in 1976.[7] Since the program carries an expiration date, it had to be renewed eight times by 2002. The last expiration took place on September 30, 2001, and the last renewal August 6, 2002. The latest renewal validates the GSP until December 31, 2006. Currently, of more than 10,000 items, 4,600 are accorded duty-free status under the program. In 1997 the United States added another 1,700 items to the duty-free list for developing countries, though stricter criteria allow only thirty-five of these forty-nine countries to qualify for the expanded preferences.

The Trade and Development Act of 2000, which contains the AGOA, seeks to expand trade with sub-Saharan African countries. The AGOA offers to the eligible among these countries—many of them poor performers—duty-free and quota-free access to the U.S. market for all products under the GSP, plus 1,800 new items until September 30, 2008. Under special conditions, it also extends duty-free status to apparel, which is subject to high tariffs in the United States. Furthermore, the AGOA eliminates the GSP competitive-need limitation, which can otherwise be invoked to withdraw duty-free status when imports from a country exceed certain limits.

Despite these concessions, there remains considerable scope for the expansion of trade preferences by the United States to poorly performing states. U.S. preferences have fallen far short of those granted by the EU under its EBA initiative. According to UNCTAD, a little more than 45 percent of total LDC exports in 2000 were eligible for better-than-MFN access to the United States market.[8] Although more than 80 percent of all harmonized system 6 (HS6) products qualified for duty-free access that year, if petroleum

products are excluded, this share drops down to about 50 percent. Furthermore, not all LDC exports eligible for preferences actually receive preferential treatment. Thus the utilization ratio was about 77 percent in 1998.

Some insight into the nature of excluded products can be obtained by examining the top twenty LDC exports by source country to the United States according to their product classification and preference status (see table 10-3). None of the exporters of manufactures on this top twenty list received any preference. The only preferences received were those on tobacco and perhaps oil. An examination of the products with tariff peaks reinforces this picture. Various apparel items, which are subject to tariff peaks, are excluded from the GSP. The AGOA permits duty-free entry of these items but requires that exporters have a strict visa system to ensure origin. Until April 2001 only two LDCs, Lesotho and Madagascar, were able to fulfill this requirement. Of these two, only Madagascar appears on the list of poorly performing states. Of course, neither of these countries is a big enough exporter to make the top twenty exports list in table 10-3.

Does Past Experience Point to the Desirability of Expansion of Preferences?

If the objective is to see poor performers grow faster, the past offers little support to the concentration of efforts on the expansion of trade preferences.[9] The preferences may make the donor countries feel good, transfer some of the forgone tariff revenue to the beneficiary countries, and may even lead to a marginal expansion of the latter's exports, but the track record of preferences to date gives little reason to conclude that they will make a perceptible difference in growth and poverty to the beneficiary countries.

EU preferences are by far the most extensive of all for developing countries and African countries, although the record of these preferences is disappointing. Under Lomé IV, which was succeeded by the Cotonou Agreement, seventy-one African, Caribbean, and Pacific (ACP) countries, including many poorly performing countries, enjoyed a highly favorable trade regime. Yet a 1997 European Commission "green paper," published as a preparatory step toward the 1998 talks for the extension of Lomé IV, offered a grim assessment. It reported that the share of ACP countries in the EU market had declined from nearly 7 percent in 1976 to 3 percent in 1998. Merely ten products accounted for 60 percent of ACP exports to EU members. Per capita gross domestic product (GDP) in sub-Saharan Africa grew by only 0.4 percent a year, compared with 2.3 percent for all developing countries from 1962 to 1992. At most, a handful of nations—Côte d'Ivoire, Mauritius, Zimbabwe,

Table 10-3. *Top Least Developed Country Exports to the United States, using the Harmonized System of Product Codes, 2000*

Harmonized system 6 code	*Product*	*Value (US$1,000)*	*Country (% preferential margin)*
270900	Petroleum oils and oils obtained from bituminous minerals, crude	2,488,009	Angola (n.a.)
270900	Petroleum oils and oils obtained from bituminous minerals, crude	337,349	Congo (n.a.)
620520	Apparel	193,570	Bangladesh (0)
620342	Apparel	184,549	Bangladesh (0)
650590	Headgear and parts thereof	165,258	Bangladesh (0)
620342	Apparel	155,759	Cambodia (0)
620462	Apparel	152,775	Bangladesh (0)
620630	Apparel	127,913	Bangladesh (0)
610910	Knitted apparel	125,935	Haiti (0)
260600	Aluminum ores and concentrates	116,814	Guinea (0)
30613	Shrimps and prawns	115,046	Bangladesh (0)
270900	Petroleum oils and oils obtained from bituminous minerals, crude	109,067	Zaire (n.a.)
611020	Knitted apparel	106,662	Cambodia (0)
620462	Apparel	85,251	Cambodia (0)
611030	Knitted apparel	80,848	Bangladesh (0)
611020	Knitted apparel	77,042	Bangladesh (0)
710231	Diamonds	73,949	Zaire (0)
610821	Briefs and panties	56,182	Bangladesh (0)
620193	Apparel	55,669	Bangladesh (0)
240120	Tobacco	52,535	Malawi (31.11)

Source: See table 10-2.

and Jamaica, none of which were poorly performing countries—benefited perceptibly from the preferences.

Empirical studies support the broad conclusion that trade preferences have had little beneficial impact beyond the obvious rent transfer accompanying duty-free entry of goods.[10] In his assessment of the impact of the special and differential treatment to developing countries under GATT, John Whalley concluded "that special and differential treatment has had only a marginal effect on country economic performance, especially through GSP. And in the more rapidly growing economies, such as Korea, Taiwan, Turkey, and others, there is little evidence that special and differential treatment has played much of a role in their strong performance."[11] As noted in the introduction, the

limited or complete lack of impact of trade preferences on economic performance is to be attributed principally to domestic policy regimes that discourage economic activity in general and trade in particular. But many features of the preference schemes themselves complement this factor by making preferences largely ineffective. These are discussed below.

SIDE CONDITIONS. Despite the provision in the Enabling Clause that GSP schemes be unilateral and not require reciprocity from developing countries, donor countries have introduced a considerable element of reciprocity in them. The U.S. GSP scheme requires that beneficiary countries provide adequate and effective protection of intellectual property rights and that they take steps to observe internationally recognized worker rights. There have been many instances of countries losing GSP benefits on account of a poor intellectual property rights regime. Countries have also been investigated for child labor violations.

The AGOA attaches even more elaborate side conditions. Eligibility requires countries to work toward strengthening market-based economies, promoting the rule of law and political pluralism, eliminating barriers to U.S. trade and investment, protecting intellectual property, combating corruption, instituting policies to reduce poverty, increasing the availability of health care and educational opportunities, protecting human rights and worker rights, and eliminating certain child labor practices.

On one hand, these conditions seem sensible if the objective is to promote good governance in these states. And yet they become a hindrance to investments that might help a beneficiary country to take advantage of the preference, for the conditions introduce an element of uncertainty about the continuity of the preferential status. Whenever U.S. producers feel threatened by competition from a specific beneficiary country, they can lobby for the removal of the latter from the beneficiary list under the pretext that it is failing to satisfy one or more of the host of governance conditions. There have been several instances of a U.S. pharmaceutical firm successfully lobbying against countries it saw as failing to protect intellectual property rights. Because the preferences are not subject to WTO discipline, such decisions can be made unilaterally by the United States.

In addition to nonreciprocity, the Enabling Clause requires that preferences be generalized, meaning that they be extended to all products. Nevertheless, given the permissive, rather than mandatory, nature of the clause, countries have been highly selective in their choice of products, excluding precisely the products in which developing countries have a comparative advantage. It has already been noted that both the EU and the United States

give very limited preference in textiles and clothing sectors. Table 10-3 illustrates graphically how the United States has left the top exports of LDCs out of the preference net. More important, the EU and the United States maintain strict import quotas on the imports of these products from all significant suppliers under the Multifiber Agreement (MFA). Indeed, it was not until developing countries opted for reciprocal bargains in the Uruguay Round that the United States, the EU, and other developed country markets agreed to dismantle the MFA regime.[12]

This point applies even more forcefully to agricultural exports. Until just a few years ago, virtually all agricultural products remained out of even the more generous EU GSP schemes. Only a few years ago, the EBA initiative, aimed exclusively at LDCs, attempted to bring them into the GSP net. But even this attempt seems to have been more symbolic than real. Thus three major items of potential interest—rice, bananas, and sugar—have been left out of the EBA net. What is surprising is that (the publicity surrounding the EBA initiative notwithstanding) the potential for agricultural exports from the least developed countries is minimal. For example, given the paltry 2,000 tons of annual rice exports by LDCs to EU countries, there is little rationale for the failure of the EU to grant LDCs immediate quota-free entry of that product. A similar point also applies to sugar.

UNCERTAINTIES AND OTHER LIMITATIONS. Uncertainties and other limitations further undercut the value of GSP schemes. The schemes are made available for limited periods of time and can expire if not renewed. The U.S. GSP scheme has gone through eight renewals since inception, and there have been breaks during most of those renewals. For instance, the last expiration took place on September 30, 2001, and renewal did not take place until August 6, 2002. Such breaks can be fatal for producers operating on small margins of profit, as is likely among producers in developing countries. The U.S. GSP system also applies a competitive needs limit whereby a country is denied the preference in a product if it exports that product in a value exceeding a specified limit. Currently, this limit is set at US$100 million a year for each tariff line. This provision necessarily discourages countries from taking full advantage of specialization. Finally, the side conditions mentioned above can be invoked to deny a potential competitor the GSP benefit. Within the U.S. system, this often happens in response to complaints by domestic producers whose objective is to place a particularly efficient supplier from a developing country at a disadvantage.

These limits and uncertainties discourage potential entrepreneurs from making the necessary investments. Amar Hamoudi of the Center for Global

Development made this point forcefully in the context of the AGOA in a letter to the *Financial Times,* June 6, 2002. To quote him,

> Take the recent case where a consortium of US fruit producers asked the Bush administration to suspend South Africa's AGOA benefits on canned pears, arguing that the expansion of the industry in South Africa threatened to put a handful of Americans out of work. Fruit producers in South Africa protested that AGOA did not induce them to expand production, since the necessary investments were too risky given that the benefits granted by AGOA can be revoked at any time. Producers in Africa can expect that any time they succeed in taking true advantage of AGOA, some special interest group in the US will demand that the benefits be rescinded.

RULES OF ORIGIN. Favorable impact of tariff preferences on LDC exports has often been contained by the rules of origin that such exports must satisfy. In principle, preferences are meant for goods produced in the beneficiary countries, so rules of origin are unavoidable, for in their absence, beneficiary countries would simply import goods from more efficient nonbeneficiary countries and reexport them as their own, pocketing the tariff revenue in the process.

Nevertheless, the rules of origin can be and are chosen in ways that minimize the benefit of the preference to exporters and result in reverse preferences to producers in the donor countries. The commonest such rule makes the preference contingent on a minimum value addition to the product within the exporting country. According to the U.S. GSP scheme, to qualify for duty-free treatment, the cost, or value, of materials wholly grown, produced, or manufactured in the beneficiary developing country plus the direct processing costs there must be at least 35 percent of the product's dutiable value. This requirement can be a major deterrent, since many poor performers are able to perform only simple assembly operations. Indeed, it can discriminate against these states, since larger and richer developing countries are able to take advantage of the preference due to their ability to satisfy the rules of origin—whereas they are not. Effectively, trade can be diverted away from them relative to no tariff preference.

The AGOA rules of origin on apparel also introduce an element of reverse preferences. They require that fabric used in apparel be of U.S. or beneficiary country origin. Such a feature introduces a rent on the fabric made in the United States, especially because few African beneficiary countries produce it. Though this rule of origin is waived for less developed African countries

(defined as those with per capita incomes less than US$1,500) in place of a visa requirement, few of them are able to satisfy the latter—and even then there is a strict quantitative limit placed on such exports.

ADVERSE IMPACT ON THE LIBERALIZATION OF BENEFICIARY AND DONOR COUNTRIES. Tariff preferences can also discourage liberalization within the beneficiary countries themselves. As Robert Hudec has noted, "the non-reciprocity doctrine tends to remove the major incentive [the GSP beneficiary country] export industries have . . . for opposing protectionist trade policies at home."[13] Once exporters have achieved free access to the markets of major trading partners, their incentive for using internal liberalization as an instrument of encouraging the partner to open its market disappears. Alternatively, if exporters fear losing GSP status because exports cross a certain threshold (as is true of many GSP schemes), they may be more accommodating of protectionist policies at home.

Econometric research by Caglar Ozden and Eric Reinhardt supports this hypothesis.[14] These authors analyzed a panel data set of annual observations on each of the 154 developing countries ever eligible for the U.S. GSP program, starting in the year of first eligibility (mostly 1976) and continuing through 2000. Comparing those countries remaining on the GSP to those dropped, they find that the countries dropped from the program opened their markets substantially. Specifically, according to their quantitative estimates, the removal from the GSP program had the effect of boosting a developing country's imports by 8 percent of its GDP, cutting its average nominal tariff by 4 percentage points, and reducing the duties it collects by about 1.6 percent of the value of its trade. These findings control for a wide variety of confounds (like geography, income, GDP, and global liberalization trends), and the response rises slightly after correction for the endogeneity of the GSP.

Ozden and Reinhardt offer the example of Chile, whose trade liberalization had come to a standstill by the late 1980s. In 1988 Chile was dropped from the U.S. GSP program for human and worker rights violations. Its finance minister immediately announced a reduction in Chile's average nominal tariff from 20 to 15 percent, his explicitly stated rationale being to compensate for its exporters' loss of competitiveness in the U.S. market by defraying their input costs.

Ironically, preferences have also had an adverse effect on genuine, multilateral trade liberalization by developed countries in products of interest to developing countries. Notwithstanding various strings attached to the preferences, they have helped developed countries promote the image that they have opened their markets to developing countries without reciprocity. More

concretely, the fear on the part of the beneficiary countries that multilateral liberalization would erode their preference margin has undercut their incentive to push harder for such liberalization. To some degree, special deals built around trade preferences have allowed developed countries to maintain MFA and high tariffs in apparel, footwear, and fisheries.

Is Reform Possible: The Politics of Preferences

Devotees of preferences may respond to these criticisms by suggesting that the fault lies not with preferences but with their implementation and that what is required is more judicious implementation. That is to say, the GSP must be reformed as per its original conception in the Enabling Clause, making it truly general by bringing all products within the fold, freeing it of reciprocity by eliminating side conditions and ending the uncertainty by ensuring that export success in specific products does not result in the loss of the preference.

If these reforms could be accomplished, the GSP will be worth promoting. But given the politics in the United States, there is little reason to think that such far-reaching reform could ever be achieved. In the introduction, I describe the disappointing history of developing country efforts to obtain one-way concessions from developed countries. The GATT Article XXXVII in Part IV actually committed developed countries to open their markets in products exported by developing countries and to refrain from erecting new barriers in those products. But no progress whatsoever was made with tariff peaks and agricultural protection having disproportionately greater limiting impact on the exports of developing countries. The MFA quotas reinforced these restrictions.

The politics of trade preferences is even worse. The United States clearly sees them as a privilege rather than a right and therefore subject to the use as an instrument of promoting other policy objectives. For instance, given the U.S. failure to bring labor standards into the WTO to date, it is more likely to use preferences as an instrument of promoting labor standards. Given all kinds of side conditions even in AGOA, it is naïve to think that a proper reform of trade preferences is possible even as applied to developing countries. Hence I am skeptical that trade preferences can serve as a genuine instrument of aid.

Of course, even if one considers the hypothetical scenario in which the trade preferences to poor performers are freed of all these abuses, one must take into account the adverse impact of the preferences on trade policies

within these countries before reaching a final conclusion on the desirability of such a reform. One must confront the evidence provided by Ozden and Reinhardt that countries that were successful in taking advantage of the preferences also found their own trade liberalization programs slow down.

Two-Way Preferences: Free Trade Areas

An alternative to one-way trade preferences is the free trade area, in which preferences are two-way, which has two advantages over one-way preferences. First, free trade areas in which one or more developed countries participate are subject to the discipline of GATT Article XXIV. This means that some of the abuses of one-way preferences under the Enabling Clause can be contained. For example, substantially all products must be subject to zero duty, and no limits can be placed on the quantity of exports entering the partner country market at zero duty. Nor can the preference be arbitrarily withdrawn in response to domestic lobbying pressures on one pretext or the other. Second, a free trade area agreement forces the developing country participant to open its own market to the developed country partner as well. Therefore, it may be viewed as having a liberalizing impact on the developing country as well.

But these advantages must be weighed against many disadvantages.[15] First, like one-way preferences, free-trade-area preferences are also subject to the rules of origin. The costs of rules of origin are not confined merely to higher prices of inputs sourced from within the union but also include substantial administrative costs. Using firm-level data, Matti Koskinen estimates that administrative compliance costs within the FTA between the European Community and the European Free Trade Association (EFTA), administrative compliance costs ranged between 1.4 percent and 5.7 percent of the value of export transactions.[16] In a similar vein, Peter Holmes and G. Shephard note that the average export transaction from EFTA to the European Community required thirty-five documents and 360 copies.[17] According to the empirical evidence, within NAFTA, even Mexico has not been able to make use of the tariff preference effectively in some of the key sectors due to the rules of origin. Thus, according to Olivier Cadot and others, after we exclude the goods subject to zero external tariffs, Mexico's overall preference utilization rate in the U.S. market in 2000 was 83 percent.[18] But in the textile and apparel sector (HTS2, chapters 50–63), where the margin of preference is the highest and the Mexican comparative advantage greatest, the utilization rate is only 66 percent. Within textiles and clothing, the utilization rate

for knitted products (HTS2, chapter 61) was even lower, at 48 percent. The ability of poorly performing states to satisfy the rules of origin is likely to be far more limited than that of Mexico, so that they are unlikely to succeed in taking advantage of the preferences.

Second, side conditions are now increasingly a part of free trade area agreements as well. Within the NAFTA region, these side conditions were introduced through relatively benign side agreements on labor and the environment. But subsequently they began to appear centrally within the free trade area agreements concluded by the United States. Thus the U.S.-Jordan Free Trade Agreement requires the signatories to enforce their labor and environmental regulations and allows trade sanctions in case of noncompliance. The same provision also exists in the free trade area agreement concluded by the United States with Singapore and Chile. Indeed, these latter agreements extend the scope of side conditions further by limiting the ability of Singapore and Chile to use capital controls. The European Union's free trade agreements do not include these conditions, but they are themselves usually a part of broader agreements such as the Euro-Mediterranean Partnership and Cotonou Agreement, which are wide-ranging in scope and include such matters as human rights, democracy, and labor and environmental standards.

Third, given that the imports into many poorly performing states are still subject to relatively high trade barriers, preferential liberalization by them is likely to result in substantial trade diversion. The cost of such diversion must be borne by these countries, since they will be the ones paying the higher price to the union partner in preference to the lower price they would pay to the most efficient supplier of the product in the absence of the free trade area agreement. Thus when liberalization takes place on a discriminatory basis, as is true under a free trade area agreement, the benefits of liberalization are not automatic. We must weigh the losses due to trade diversion against the benefits from trade creation. This point becomes particularly compelling when we consider the fact that politics often results in the rules of origin being tighter in sectors where trade creation threatens the less efficient domestic industry and weaker in sectors where trade diversion is likely to displace the more efficient outside trading partners.

Finally, before embarking on a strategy of aiding specific poor countries through a web of crisscrossing free trade area agreements, the United States carries the responsibility of ensuring that it does not lead to a fragmentation of the entire trading system. Jagdish Bhagwati and Arvind Panagariya draw attention to the growing "spaghetti bowl" of tariffs, whereby the tariff on a product is no longer the simple most-favored-nation tariff but instead

depends on the source country.[19] The tariff varies according to the stage of implementation of the free trade area agreement to which the source country belongs and the rules of origin within that agreement. Even after all of these agreements are fully implemented, the differences in the rules of origin across agreements will continue to allow for discrimination in the tariff based on the source country. Andre Sapir has made the dramatic point that the EU already has so many preferential arrangements that its MFN tariff applies uniformly to only six trading partners.[20] Any attempts at helping poorly performing countries further through free trade area agreements will only damage the trading system further.

Even if we choose to ignore these limitations, the political reality is that it will be a long time before free trade area agreements with poor performers even appear on the U.S. trade policy radar screen. The countries with which the United States has concluded the last two such agreements are far from poor: Singapore and Chile. The next set of countries in the queue includes five Central American nations, Morocco, Australia, and several southern African states. Also on the agenda is the Free Trade Area of the Americas. Insofar as free trade agreements are concerned, the U.S. preoccupation is hardly with the states discussed in this volume.

Multilateral Liberalization

Having argued that neither one-way nor two-way trade preferences offer a desirable or feasible approach to help the least developed countries through trade, I now suggest that the best course is the multilateral approach. I reiterate that this is not a cure-all for these states, since the principal barriers to their development are within rather than outside. But if trade can be instrumental in promoting or facilitating faster growth in the presence of sound domestic policies and a stable investment environment, multilateral liberalization is to be preferred for a number of reasons.

First, multilateral liberalization does not carry with it the fear of trade diversion, since it treats all trading partners equally. Nor does it require any rules of origin, since market access is given independently of the origin of the product. Second, the liberalization is a legal obligation and therefore cannot be withdrawn at will. Domestic lobbies have only limited power to temporarily withdraw market access through safeguards and antidumping actions. In the case of small exporters (a quality of virtually all poor performers), even this power is limited. Third, multilateral liberalization has the great virtue that it will also lead to liberalization in some of the large developing countries. Recall

that (as shown in table 10-1) the least developed countries, including poor performers, face by far the highest trade barriers among developing countries. Since the latter do not give GSP preferences, and since South-South preferences are limited, liberalization by them could be doubly valuable.

Fourth, in principle, multilateral liberalization has the potential to induce liberalization in poor performers as well, which is a desirable objective. These governments are likely to find it politically less costly to liberalize in the multilateral context since they can mobilize the export interests against import-competing interests in the context of a two-way bargain. Fifth, it is only through multilateral bargains that developing countries will succeed in fully opening markets in developed countries for products such as apparel and footwear, in which they have a comparative advantage. As already argued, this has been one unequivocal lesson of the last forty years of experience. Sixth, at least for now, multilateral liberalization does not carry the risk of side conditions in the form of labor and environmental standards. Though the environment has now entered the WTO negotiating agenda, the mandate is extremely limited, while labor standards have remained entirely outside the WTO purview.

An obvious important reason for pushing ahead with the multilateral approach is its political feasibility. The Doha Round is in progress at present and, at least in the area of industrial products, both the European Union and the United States have placed ambitious liberalization proposals on the table. If the larger developing countries such as Brazil, China, and India could be induced to make similarly bold moves, we have the opportunity to virtually eliminate trade barriers against industrial products. The U.S. proposal calls for complete elimination of these barriers by 2015. To facilitate such an outcome, developing countries could be given a longer phase-out period, say until 2020 under the special and differential treatment mandate in the Doha Ministerial Declaration, and offered adjustment assistance through the instrumentality of the World Bank.

There is one point of caution relating to agricultural liberalization, however, that deserves to be highlighted in the context of the Doha Round. Since 2000, senior officials at various multilateral institutions, especially the World Bank and the International Monetary Fund but also the United Nations, have aggressively promoted the view that agricultural subsidies and protection in the OECD countries hurt the poor countries. But as far as the least developed countries are concerned, this is plain wrong. Subsidies and protections in the OECD countries have kept world prices of agriculture low. This

has benefited the countries that import these products but hurt those that export them. As it turns out, by and large least developed countries are net importers of agricultural products. Thus based on 1995–97 trade data, Alberto Valdes and Alex McCalla calculate that of the forty-eight least developed countries at the time, forty-five were net food importers and thirty-three net agricultural importers.[21] The repeal of agricultural subsides and protection in the OECD countries, which would raise world agricultural prices, would actually hurt the least developed countries as a group. Unqualified statements that agricultural subsidies and protection in the rich countries hurt the poor countries, pervasive in the press, do little good to promote the interests of the poor countries as a group. Instead, they principally promote the interests of the richer developing countries in Latin America and East Asia, along with the United States, Australia, and New Zealand.

I hasten to add that this asymmetry is not an argument against the liberalization of agriculture. From the long-run global perspective, there are good reasons to ensure an end to agricultural subsidies and protection under the ongoing Doha negotiations. Nevertheless, the recognition that such liberalization will hurt the majority of the poorest countries is the necessary first step toward working out a balanced bargain as well as preparing for adjustment assistance to these countries. The World Bank clearly has the responsibility to alleviate, through grants-in-aid, the pain that might accompany the rise in agricultural prices.

Concluding Remarks

During the last fifty years, developing countries that pursued outward-oriented policies under a realistic exchange rate and macroeconomic stability—such as the countries in the Far East during the 1960s and 1970 and Malaysia, Thailand, Indonesia, Vietnam, China, India, Chile, and Uganda subsequently—achieved fast growth under the same market access conditions that other countries failed to achieve. Despite high barriers against specific labor-intensive goods in the rich countries, these developing countries succeeded in penetrating the developed country markets. Failure to grow rapidly on a sustained basis has come largely from the failure to adopt sound domestic policies and ensure political stability, which are essential to promote productive investment. Even among the poor countries, the eleven worst failures during 1990–98 that declined by 3 percent annually in per capita terms were all subject to armed conflicts and internal instability.

Thus the hope for countries that do not have their own houses in order is truly limited, indeed. It is tempting to think that favors through trade preferences of one or the other kind that are contingent on good governmental policies may induce the necessary change in behavior in poor performers. I fear this is wishful thinking. Countries that are unable to exploit trade preferences in the absence of the side conditions are unlikely to be able to do so in their presence. Few governments that lack the capacity to enforce contracts and protect property rights to begin with are likely to become capable in these dimensions because trade preferences are available as a reward. Therefore, all the side conditions do is to make it politically easier for the donor country to offer the preferences since they reduce the likelihood that the preference will be used and make it possible to take restrictive action if imports from the beneficiary countries surge.

The upshot of this analysis is that we must be modest in thinking about the role of the U.S. trade policy in assisting poorly performing states. We may think along two possible avenues. First, recognizing that trade preferences are here to stay, what improvements can be made to make them more beneficial to these countries? And second, recognizing that multilateral liberalization offers the best route to promoting access to the U.S. market, precisely what can be done to accommodate the interests of poorly performing states?

Regarding the first question, given how limited the capacity of these states to export is, in the spirit of the "Everything but Arms" initiative, the United States could extend the zero-tariff treatment to all products. To make the preference credible, it could also consider eliminating all side conditions. Furthermore, for all commodities subject to a higher rate of tariff in the beneficiary country than in the United States, rules of origin may be waived entirely. This is because there is no incentive for a third country to export an item to a higher-tariff poor performer for reexport to the United States at zero tariff; direct entry into the United States will result in lower tariff paid. Finally, the United States could commit to maintaining the preference for at least fifteen years or until such time as the preference is eliminated by multilateral liberalization. Only then will potential investors have the incentive to establish production capacity in the otherwise highly risky environment.

On the multilateral front, it is critical for the United States to take the Doha negotiations to their logical conclusion. An immediate area where the United States could give concession to the benefit of poor performers is intellectual property. Virtually none of the countries is capable of taking advantage of the compulsory licensing provisions of the TRIPs Agreement due to the absence of domestic capacity to manufacture drugs. The United States

has essentially held up an agreement that would allow these countries to issue compulsory licenses to manufacture drugs to other countries. Poorly performing states would also benefit from an elimination of peak tariffs on industrial tariffs, since these cover labor-intensive products such as apparel and footwear. But my preference would be to push the current U.S. proposal to eliminate all industrial tariffs by the year 2015. As a part of the special and differential treatment, these countries can be given a longer phaseout, say, until 2025.

In the area of agriculture, the removal of these interventions will on balance hurt the least developed countries and perhaps poor performers as a group. Based on the 1999 data, of the forty-nine least developed countries, forty-five were net importers of food and thirty-three net importers of agriculture. These countries would be hurt rather than helped by the increase in prices that would follow the removal of the subsidies and protection. Therefore, it is important that liberalization in this sector be accompanied by adequate compensation to these countries in the form of extra assistance by the World Bank's International Development Association.

Under the Bush administration, the United States has substantially accelerated the move toward preferential trade arrangements. There is not a single poorly performing state currently on the U.S. free trade area agreement list, however. This means that if these countries have any capacity to export to the United States, free trade area agreements stand to divert trade from them. For example, the U.S.–South Africa Free Trade Area Agreement will likely divert imports into the United States from Kenya. Indeed, if the Free Trade Area of the Americas is concluded, trade from Africa and Asia (which contain virtually all poor performers) is bound to be diverted. This fact makes the case for multilateral liberalization under the Doha Round even stronger.

Notes

1. Jagdish Bhagwati, introduction to *The New International Economic Order,* edited by Jagdish Bhagwati (MIT Press, 1977), offers an excellent overview of the NIEO discussions. Also see Robert Looney, "New International Economic Order," in *Routledge Encyclopedia of International Political Economy,* edited by R. J. B. Jones (London: Routledge, 1999).

2. The process of liberalization in developing countries was aided in no small measure by the success of outward-oriented policies in the Far Eastern economies and the failure of inward-looking policies in other parts of the world. Starting in the early 1980s, many developing countries had begun to appreciate the benefits of their own liberalization as well as the futility of insisting on one-way trade concessions from the rich countries.

3. See Arvind Panagariya, "Developing Countries at Doha: A Political Economy Analysis," *World Economy* 25, no. 9 (2002): 1205–33, where I argue that the view that the Uruguay Round hurt developing countries fails to stand up to careful scrutiny. Though the balance of the bargain was in favor of the rich countries, developing countries benefited significantly from the package as well. They benefited from their own liberalization and the liberalization by developed countries, including the removal of the Multifiber Arrangement. The latter was criticized on the ground that it was back loaded. A much unappreciated fact, however, is that many of the uncompetitive developing countries had in fact lobbied for the back loading, since they feared losing their quota captive market to more competitive suppliers such as China. Developing countries also laid down the foundation of future liberalization in agriculture by bringing this sector into the GATT discipline; this was less than what they had hoped for, but it meant progress. Developing countries also benefited from a much stronger dispute settlement arrangement, which allows them to challenge developed countries on near equal footing. The main cost they paid was the TRIPs Agreement (Trade-Related Aspects of Intellectual Property Rights), which was not a win-win bargain and entailed benefits for developed countries at the expense of developing countries.

4. The Center for Global Development, which introduced this category, defines it as countries whose poor economic performance and widespread poverty combine with governments incapable of guaranteeing political freedoms, of providing the foundation for economic activity, and of controlling their territory. The center provides two illustrative lists but does not draw a fixed list even at a point in time.

5. The United Nations introduced this category in 1971. It includes nations deemed structurally handicapped in their development process and in need of the highest degree of consideration from the international community in support of their development efforts. The UN Economic and Social Council, which makes the determination, considers three factors: income, human resource weakness, and economic vulnerability. The income criterion requires that, based on a three-year average, the annual per capita gross domestic product be below US$900. Currently, there are forty-nine such countries, and the list is revised every three years.

6. UNCTAD, *The Least Developed Countries 2000 Report* (Geneva: United Nations, 2000).

7. Many of the details on the U.S. GSP program are taken from GSP Coalition, *The U.S. Generalized System of Preferences Program: An Update* (Washington: Trade Partnership, 2002).

8. UNCTAD, "Duty and Quota Free Market Access for LDCs: An Analysis of Quad Initiatives" (Geneva: United Nations, 2001).

9. This section draws on Arvind Panagariya, "EU Preferential Trade Arrangements and Developing Countries," *World Economy* 25, no. 10 (2002): 1415–32.

10. See R. Baldwin and T. Murray, "MFN Tariff Reductions and LDC Benefits under the GSP," *Economic Journal* 87, no. 345 (1977): 30–46; Gene M. Grossman, "Import Competition from Developed and Developing Countries," *Review of Economics and Statistics* 64 (1982): 271–81; A. Sapir and L. Lundberg, "The U.S. Generalized System of Preferences and Its Impacts," in *The Structure and Evolution of US Trade Policy,* edited by A. O. Krueger and R. E. Baldwin (University of Chicago Press, 1984); Drusilla K. Brown, "Trade and Welfare Effects of the European Schemes of the Generalized System of Preferences," *Economic Development and Cultural Change* 37 (July 1989): 757–76; and

A. Mattoo, D. Roy, and A. Subramanian, "The Africa Growth and Opportunity Act and Its Rules of Origin: Generosity Undermined?" *World Economy* 26, no. 6 (2003): 829–52.

11. John Whalley, "Nondiscriminatory Discrimination: Special and Differential Treatment under the GATT for Developing Countries," *Economic Journal* 100, no. 403 (1990): 1319.

12. Even as the MFA and other quantitative restrictions are dismantled, threats of antidumping and other contingent protection measures loom large. Irrespective of whether or not such threats are carried out and when carried out whether or not they succeed, their mere presence may have a lasting effect on exporters. Thus, for example, though EU attempts to impose antidumping duties on unbleached cotton imports from five emerging markets failed, the attempt itself led to considerable disruption of markets for the developing country exporters that were so targeted.

13. Robert E. Hudec, *Developing Countries in the GATT Legal System* (Aldershot, U.K.: Gower, 1987), p. xx; quoted on p. 2 of Caglar Ozden and Eric Reinhardt, "The Perversity of Preferences: GSP and Developing Country Trade Policies, 1976–2000," *Journal of Development Economics* 78, no. 1 (2005): 1–21.

14. Ozden and Reinhardt, "The Perversity of Preferences."

15. For more in-depth critiques of preferential trade arrangements, see Jagdish Bhagwati, "Regionalism and Multilateralism: An Overview," in *New Dimensions in Regional Integration,* edited by Jaime de Melo and Arvind Panagariya (Cambridge University Press, 1993); Jagdish Bhagwati and Arvind Panagariya, "Preferential Trading Areas and Multilateralism: Strangers, Friends, or Foes?" in *The Economics of Preferential Trading,* edited by Jagdish Bhagwati and Arvind Panagariya (Washington: AEI Press, 1996); Jagdish Bhagwati, David Greenaway, and Arvind Panagariya, "Trading Preferentially: Theory and Policy," *Economic Journal* (July 1998): 1128–48; and Arvind Panagariya, "The Regionalism Debate: An Overview," *World Economy* 22, no. 4 (1999): 477–511. Another work—Arvind Panagariya, "Preferential Trade Liberalization: The Traditional Theory and New Developments," *Journal of Economic Literature* 38 (2000): 287–331—offers a comprehensive review of the theoretical literature on these arrangements.

16. Matti Koskinen, "Excess Documentation Costs as a Nontariff Measure: An Empirical Analysis of the Import Effects of Documentation Costs," working paper (Helsinki: Swedish School of Economics and Business Administration, 1983).

17. Peter Holmes and G. Shephard, "Protectionism in the Economic Community," paper prepared for the eighth annual conference, International Economics Study Group, 1983.

18. See Olivier Cadot and others, "Assessing the Effects of NAFTA Rules of Origin" (University of Lausanne, 2002).

19. Bhagwati and Panagariya, "Preferential Trading Areas and Multilateralism."

20. Andre Sapir, "The Political Economy of EC Regionalism," *European Economic Review* 42 (1998): 717–32.

21. Alberto Valdes and Alex F. McCalla, "Issues, Interests and Options of Developing Countries," paper prepared for the joint World Bank and World Trade Organization conference "Agriculture and the New Trade Agenda in the WTO 2000 Negotiations," Geneva, October 1–2, 1999. This point is made more systematically in Arvind Panagariya, "Trade and Food Security: Conceptualizing the Linkages," paper prepared for the Food and Agriculture Organization conference "Trade, Agricultural Development, and Food Security: The Impact of Recent Economic and Trade Policy Reform," Rome, July 11–12, 2002.