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# POLICY OUTLOOK

Trade, Equity & Development Project July 2006

# Nickel and Diming the Poor

## *U.S. Implementation of the LDC Initiative*

By Viji Rangaswami

*"We believe that those who live in the most extreme poverty deserve this country's help…. the strategy to defeat extreme poverty begins with trade."*

President George W. Bush, June 15, 2006[1]

The United States has an opportunity to change the dynamics of the stalemated global trade talks at the World Trade Organization (WTO). Over the past few months, countries have criticized the United States for demanding that they open their markets to U.S. farm and manufactured goods exports, while at the same time refusing to open the U.S. market to goods from the poorest countries.

The United States can begin to alter the tenor of the current debate by making good on a commitment made during the December 2005 WTO Ministerial meeting in Hong Kong. At that meeting, rich countries agreed to open their markets to exports from the world's poorest countries. Unfortunately, in recent weeks, the United States has thrown doubt on whether it intends to comply with the spirit of the Hong Kong commitment. Rather than take a bold step toward making good on the lofty moniker given to the current round of trade negotiations—the "Doha Development Agenda"—the United States has indicated that it would use the ability to exempt 3 percent of tariff lines from that commitment to shield its own textile and agricultural producers. U.S. policy makers should reconsider their position and prioritize opening their market to the poorest countries. Such action will benefit U.S. interests not only in the Doha Round, but also in promoting global stability by generating economic growth.

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## WHAT IS AT STAKE AND HOW IT EVOLVED

Understanding why the U.S. position is so disheartening first requires an understanding of what the Hong Kong commitment to the poorest countries is, and how it evolved. The poor country initiative is an effort to open rich country markets to exports from UN-designated least developed countries (LDCs). (In WTO-speak, it is the Duty-Free/Quota-Free initiative, or DFQF.) The United Nations designates a country as least developed if the country: (1) has a low per capita income (generally below $750); (2) has weak human resources (evidenced by low levels of health, nutrition, education, and adult literacy); and (3) is economically vulnerable (due to instability of agriculture and/or export production, a low level of manufacturing and/or lack of modern services, lack of export diversification, size, or vulnerability to natural disasters).

**Table 1: The UN-Designated Least Developed Countries**

| | GNI per capita | Adult literacy rate (%) | Number of children who die before age of 5 (per 1,000) | % of U.S. Imports |
|---|---|---|---|---|
| **Afghanistan** | .. | 28 | .. | 0.004% |
| **Angola** | 930 | 67 | 260 | 0.509% |
| **Bangladesh** | 440 | .. | 77 | 0.162% |
| **Benin** | 450 | 35 | 152 | 0.000% |
| **Bhutan** | 760 | .. | 80 | 0.000% |
| **Burkina Faso** | 350 | 22 | 192 | 0.000% |
| **Burundi** | 90 | 59 | 190 | 0.000% |
| **Cambodia** | 350 | 74 | 141 | 0.106% |
| **Cape Verde** | 1720 | .. | 36 | 0.000% |
| **Central African Republic** | 310 | 49 | 193 | 0.000% |
| **Chad** | 250 | 26 | 200 | 0.089% |
| **Comoros** | 560 | .. | 70 | 0.000% |
| **Congo, Dem. Rep.** | 110 | 67 | 205 | 0.015% |
| **Djibouti** | 950 | .. | 126 | 0.000% |
| **Equatorial Guinea** | 710 | 87 | 204 | 0.094% |
| **Eritrea** | 190 | .. | 82 | 0.000% |
| **Ethiopia** | 110 | .. | 166 | 0.004% |
| **Gambia** | 280 | .. | 122 | 0.000% |
| **Guinea** | 410 | 29 | 155 | 0.004% |
| **Guinea-Bissau** | 160 | .. | 203 | 0.000% |

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*Table 1, continued*

| | GNI per capita | Adult literacy rate (%) | Number of children who die before age of 5 (per 1,000) | % of U.S. Imports |
|---|---|---|---|---|
| **Haiti** | 400 | .. | 117 | 0.027% |
| **Kiribati** | 970 | .. | 65 | 0.000% |
| **Lao PDR** | 390 | 69 | 83 | 0.000% |
| **Lesotho** | 730 | 82 | 112 | 0.024% |
| **Liberia** | 120 | .. | 235 | 0.005% |
| **Madagascar** | 290 | 71 | 123 | 0.019% |
| **Malawi** | 160 | 64 | 175 | 0.005% |
| **Maldives** | 2410 | 96 | 46 | 0.000% |
| **Mali** | 330 | 19 | 219 | 0.000% |
| **Mauritania** | 530 | 51 | 125 | 0.000% |
| **Mozambique** | 270 | .. | 152 | 0.001% |
| **Myanmar** | .. | 90 | 106 | 0.000% |
| **Nepal** | 250 | 49 | 76 | 0.007% |
| **Niger** | 210 | 29 | 259 | 0.004% |
| **Rwanda** | 210 | 65 | 203 | 0.000% |
| **Samoa** | 1840 | .. | 30 | 0.000% |
| **Sao Tome and Principe** | 390 | .. | 118 | 0.000% |
| **Senegal** | 630 | 39 | 137 | 0.000% |
| **Sierra Leone** | 210 | 35 | 283 | 0.001% |
| **Solomon Islands** | 560 | .. | 56 | 0.000% |
| **Somalia** | .. | .. | 225 | 0.000% |
| **Sudan** | 530 | 61 | 91 | 0.001% |
| **Tanzania** | 320 | 69 | 126 | 0.002% |
| **Timor-Leste** | 550 | .. | 80 | 0.000% |
| **Togo** | 310 | 53 | 140 | 0.000% |
| **Tuvalu** | .. | .. | .. | 0.000% |
| **Uganda** | 250 | 67 | 138 | 0.002% |
| **Vanuatu** | 1390 | 74 | 40 | 0.000% |
| **Yemen** | 550 | .. | 111 | 0.017% |
| **Zambia** | 400 | 68 | 182 | 0.002% |
| **TOTAL** | | | | 1.107% |

Source: World Development Indicators data. Most recent data available used.

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The clinical nature of assessing whether a country qualifies as an LDC, however, fails to adequately capture just how poor these countries are. The LDCs include countries like Bangladesh, where some rural poor ration food among "working" family members first, with elderly relatives that cannot work receiving what little is left over, in order to ensure family survival.[2] It includes Malawi, where malnutrition is so prevalent that 50 percent of children under the age of five are stunted, and half of those are severely stunted.[3] It also includes Cambodia, where child malnutrition rates are similarly alarming.[4]

These countries are so far behind the rest of the world in development that they cannot be viewed as competitive threats to any country. Trade statistics bear this out—the 50 LDCs combined account for just 1.1 percent of total U.S. imports. Yet the United States has refused to let many of these countries export the few products they do competitively produce without paying hefty tariffs, or being subject to stingy quotas. Moreover, the one group of LDCs that enjoys significant access to the U.S. market through existing preferences, the countries of Sub-Saharan Africa, is likely to lose the bulk of that access in September 2007, when a key provision in U.S. law expires.[5]

The poor country initiative was developed to address rich country barriers to exports from the poorest countries. Under the initiative agreed to in Hong Kong, developed WTO members, such as Japan, the United States, and the EU, have an affirmative obligation to open their markets to the poorest countries, while other better off developing countries, like Brazil, are urged to do the same but are not required to do so.

The economic importance of the initiative is substantial. A new study from the International Food Policy Research Institute (IFPRI) shows that the LDCs, along with eight other low-income countries (LICs), would see real income increase by $7.01 billion if all rich countries (i.e., OECD countries) fully opened their markets to LDC exports as part of the Round.[6] Without access to rich country markets, other studies show that under probable outcomes of the Round, many of the poorest countries actually lose real income, while others obtain only miniscule gains.[7]

Such a result is unacceptable, given how the Doha Round began, and how it has been billed by the developed world. Back in November 2001, mindful of the September 11 attacks, WTO Members met in Doha, Qatar, and seeing a link between terrorism, instability, and poverty, decided that they had a collective interest in ensuring that countries not benefiting from globalization start doing so. As a result, when the current set of trade negotiations was launched, explicit promises were made to focus on developing, and in particular, least developed country needs. The seeds for the poor country initiative can be found in the 2001 Doha Ministerial Declaration, which lays out the agenda for the Round. In the Declaration, WTO ministers stated that:

> We recognize that the integration of LDCs into the multilateral trading system requires meaningful market access, support for diversification of their production and export base, and trade-related technical assistance and capacity building.… We commit ourselves to the objective of duty-free, quota-free market access for products originating in LDCs.[8]

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Progress toward fulfilling the commitment on duty-free, quota-free access for the poorest countries largely stagnated after 2001, until the Hong Kong Ministerial in December 2005. The commitment made in Hong Kong does have flaws. It remains ambiguous whether the initiative is legally binding or merely a unilateral pledge. And rich countries retain flexibility to exclude some LDC exports from the duty-free, quota-free commitment. Nevertheless, with the renewed commitment in Hong Kong, hope remained that the development interests of the LDCs would regain prominence in the Doha negotiations.

## U.S. NON-IMPLEMENTATION

That hope is now dwindling. In mid-May 2006, the United States submitted an initial proposal to the WTO on how it intends to implement the poor country initiative. While the submission is not definitive, it nevertheless is disappointing in a number of respects. Rather than showing leadership by clearly indicating the U.S. intention to fully open its market to poor country exports as soon as possible, the United States signaled that its implementation of the LDC initiative will not happen until the conclusion of the Round, and when it does happen, will likely be something less than the full access that the poor countries are seeking.

### Putting Off Until Tomorrow What Can Be Done Today

With respect to the timing, the U.S. submission states that "[s]uccessful completion of the [Doha Round] is a prerequisite for US implementation of the [LDC] initiative."[9] Tying of the poor country initiative to the conclusion of the Round is troublesome in two respects.

First, this linkage undermines the value of the initiative by shortening the period of preferential treatment. When the Doha Round finally does conclude, developed country tariffs—on both agricultural products and manufactured goods—will likely be substantially reduced for all countries in the WTO. When that happens, goods from all WTO Members, including industrial giants like China and agricultural powerhouses like Brazil, will have better access to the U.S. and other developed country markets. That outcome is beneficial to global welfare; however, it will subject LDC exports to greater competitive pressures because they will be on a more level tariff playing field with advanced countries.

One of the purposes of the poor country initiative is to give the LDCs a period in which their exports are "advantaged" over other countries' exports through preferential access. The belief is that the LDCs can use this period to build the competitiveness of their export industries, so that in the future, when tariffs come down for all countries, the LDCs will be sufficiently competitive to no longer need such special treatment. In light of that purpose, it is imperative that the LDCs have a long enough period of advantage to "ramp up" production.

Second, this linkage penalizes the LDCs for actions they cannot control. As is widely acknowledged, the LDCs are not the reason the Doha talks are stalled. The Doha Round is stalled because of disputes among other WTO members, namely among the United States, the EU, India, and Brazil. Moreover, the LDCs lack sufficient political, economic, or other leverage with these bigger players to materially affect their positions. Holding the LDC interests captive in this manner is highly unlikely to produce the leverage the United States seeks, and brings to mind the African proverb, "when two elephants fight, it is the grass that gets trampled." Conversely, a clear U.S. commitment to implement the initiative fully and quickly garners good will and should undercut some of the criticism directed at the United States.

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**Strings Attached**

With respect to the ultimate content of a U.S. program for poor countries, the United States sets up an unhelpful quid pro quo. The U.S. submission states that poor country interests may not be met "until specific results are obtained in other areas of negotiations under the [Doha Round]." The submission is not clear on whether the "specific results" the U.S. seeks are commitments by the LDCs to liberalize their own economies, or commitments by Brazil, India, and the EU, etc., to make greater concessions. If it is the latter, the criticism expressed above applies—the LDCs lack leverage with the larger countries to effect the change being sought.

If it is the former, the U.S. stance contradicts the consensus among WTO members that LDCs should not have to bargain for preferential access to other markets. That consensus is reflected in WTO rules governing preferential treatment for poor countries, laid out in a 1979 GATT decision that remains in effect.[10] The 1979 decision clearly states that "developed countries do not expect reciprocity for commitments made by them in trade negotiations to reduce or remove barriers to the trade of developing countries …"[11] The U.S. quid pro quo also runs afoul of more recent commitments exempting LDCs from making cuts to their agricultural[12] and industrial tariffs[13] as part of the Round. On industrial tariffs, LDCs are expected to increase their tariff bindings; however, such a commitment means that they *cannot increase* their tariffs beyond bound rates—*it does not require a reduction* of tariffs. While the LDCs arguably could benefit from liberalizing their trade regimes, the U.S. position is at odds with the flexibilities to which it and other WTO members have already agreed.

**Beggar Thy Neighbor**

Another respect in which the U.S. submission is disappointing is its suggestion that new preferences for countries like Cambodia (with a per capita income of $350) and Bangladesh (per capita income $440) should be limited to prevent adverse impacts on LDCs currently favored under U.S. preference programs. Specifically, the U.S. submission states that "[d]evelopment of this legislation will require careful evaluation of its impact on and relationship to current tariff preference programs, such as the African Growth and Opportunity Act (AGOA) and the Caribbean Basin Initiative (CBI)."[14] The ostensible concern is that Cambodia's and Bangladesh's apparel exports will supplant African apparel exports in the U.S. market.

A cynic might argue that this concern is motivated more by protectionist U.S. interests, rather than true concern about the impact of preferences on African LDCs or Haiti. As shown in Table 2 below, the IFPRI study shows that Sub-Saharan African LDCs benefit if all rich countries provide 100 percent duty-free, quota-free treatment to all the poorest countries. For example, Malawi's export increase is almost five fold greater with full implementation of the LDC initiative by rich countries. Likewise, Mozambique goes from a decline in exports to an increase in exports with full implementation.

There are limits to the IFPRI study, namely, many of the African LDCs are aggregated for purposes of the analysis. It is conceivable that individually, some countries within the aggregated group could lose, while others would benefit. Likewise, Haiti is aggregated in the IFPRI analysis with a larger group of Latin American countries. As a result, no reliable data exists on the probable impact on Haiti. These unknowns, are, however, resolvable, and should not be an excuse for the United States to do nothing. Rather, U.S. policy makers

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should fill the information gaps by requesting that the U.S. International Trade Commission (ITC) immediately evaluate the impact of U.S. extension of duty-free, quota-free treatment for all LDCs on AGOA beneficiaries and Haiti, and present its finding *publicly*. The ITC should analyze the extension of complete LDC access by all rich countries (i.e., all OECD countries) and by the United States alone. The ITC analysis should also evaluate the impact of such access on the U.S. economy.

**Table 2: Impact of 100% Duty-Free, Quota-Free Treatment from All OECD Countries on Select LDCs and Low-Income Countries***

| | Real Income Gains ($B) | | Export Gains (%) | |
|---|---|---|---|---|
| **Country** | **Central Scenario[c] 97% DFQF** | **Central Scenario 100% DFQF** | **Central Scenario 97% DFQF** | **Central Scenario 100% DFQF** |
| **Bangladesh**** | 0.20 | 1.40 | 2.4 | 13.5 |
| **Developing Asia[a]** | 0.88 | 4.02 | 5.6 | 16.0 |
| **Madagascar**** | -0.01 | 0.04 | -4.9 | 0.7 |
| **Malawi**** | 0.07 | 0.17 | 3.2 | 15.0 |
| **Mozambique**** | 0.00 | 0.01 | -0.7 | 1.3 |
| **Rest of Sub-Saharan Africa[b]** | -0.14 | 1.21 | 2.7 | 6.0 |
| **Tanzania**** | 0.02 | 0.10 | 0.5 | 3.2 |
| **Uganda**** | 0.02 | 0.03 | 0.4 | 1.0 |
| **Zambia**** | 0.00 | 0.04 | -0.3 | 1.8 |
| **All LDCS/LICs[d]** | 1.03 | 7.01 | n/a | n/a |

*Data from Antoine Bouet, Simon Mevel and David Orden, "Two Opportunities to Deliver on the Doha Development Pledge," Draft IFPRI Assessment Brief (forthcoming)(hereinafter IFPRI draft), and "Missed Opportunities? Assessing the Potential Consequences of A Doha Agreement For Developing Countries," Presentation of Antoine Bouet, Simon Mevel, David Orden, International Food Policy Research Institute, at the German Marshall Fund, Washington D.C., June 8, 2006.

** LDC.

(a) Includes following LDCs: Afghanistan, Bhutan, Cambodia, Lao PDR, Maldives, Myanmar, Nepal, East Timor. Includes following non-LDCs: Brunei Darussalam, DPR Korea, Macau, Mongolia, Sri Lanka. Duty-free treatment extended only to LDCs.

(b) Includes following LDCs: Angola, DR Congo, Benin, Burkina Faso, Burundi, Cape Verde, Central African Republic, Chad, Comoros, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, Gambia, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Rwanda, Sao Tome and Principe, Senegal, Sierra Leone, Somalia, Sudan, Togo. Includes following non-LDCs: Mauritius, Seychelles, Cameroon, Congo, Cote d'Ivoire, Gabon, Ghana, Kenya, Nigeria. Duty-free treatment extended only to LDCs.

(c) IFPRI Central Scenario is described in the IFPRI draft.

(d) Group includes eight low income countries (LICs).

The concern about the countries of Sub-Saharan Africa and Haiti also overlooks the fact that the U.S. preferences are limited and could be improved. Both the AGOA and CBI programs include fairly restrictive rules of origin for apparel that undercut the benefits provided, and exclude many agricultural products deemed "sensitive" in the United States. If the United States is truly concerned about possible trade diversion from Sub-Saharan Africa and Haiti, its first step in implementing the duty-free, quota-free initiative could be to deepen its preferences for current beneficiaries.

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Finally, the concern disregards the express position of the African LDCs—the very countries the United States is purportedly trying to protect. In numerous recent fora, African trade ministers have expressed support for 100 percent duty-free, quota-free access for all LDCs. That position is reflected in the Zambian trade minister's statement in Hong Kong that "duty-free quota-free market access should be provided for ALL LDCs … [exclusion of] specified products … will not meet the requirements."[15] (*Emphasis in original.*)

**Half a Loaf, or Worse, Crumbs**

The third respect in which the U.S. submission is disappointing is its failure to disavow a major loophole in the Hong Kong commitment. That loophole allows rich countries to deny preferences to 3 percent of poor country exports for an indefinite period. Discussions with U.S. trade officials suggest that the United States plans to use the loophole, and that they interpret the loophole to mean that they may exclude up to 3 percent of *potential* exports by poor countries—not 3 percent of *current* exports.

That development is unfortunate. The exclusion of 3 percent of potential exports would effectively gut any LDC initiative because it allows the exclusion of most products that the poorest countries can actually produce. LDC exports are concentrated in a small number of products—in fact, more than 99 percent of LDC exports to the United States fall within 330 tariff lines.[16] Under the U.S. interpretation of the 3 percent exclusion, the United States could exclude more than 300 tariff lines (or products), or all current LDC exports.

As shown in Table 2, the IFPRI study graphically illustrates the extent to which the 3 percent exclusion undermines the benefit of the poor country initiative. Under IFPRI's "Central Scenario," rich countries deny preferences for 3 percent of the poorest countries' exports. If that occurs, the LDCs plus eight low income countries realize a real income gain of just $1.03 billion under a likely outcome for the Doha Round. In contrast, without the exclusion (i.e., full opening), the group's real income gains jump to $7.01 billion.

## MOVING FORWARD

In light of the history of the poor country initiative, and the data showing its importance in ensuring that the poorest countries see real benefits from the Round, U.S. policy makers should change their current approach in four respects.

**Change 1: Early Implementation**

The United States (and all OECD countries) should implement the poor country initiative before the conclusion of the Round on a provisional basis. Early, provisional implementation serves U.S. interests in three respects.

First, early implementation garners good will in the broader negotiations. The United States and the EU have both been criticized for shifting the focus of the Doha Round away from its ostensible focus on development and back to a mercantilist approach. Early U.S. implementation is an effective response to that criticism.

Second, early implementation removes a past and potentially future stumbling block to progress in the broader talks. U.S. conventional wisdom has it that the EU raised the poor country initiative just prior to the Hong Kong Ministerial to divert attention away from its agricultural positions. According to this view, the poor country initiative ended up "hijacking" the Hong Kong Ministerial, leaving little time for resolution of broader issues,

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such as the modalities for the agriculture talks. The issue could assume similar prominence again—the LDCs recently indicated that they want to reopen the Hong Kong text on this point because of concern about rich country interpretations.[17] In fact, a lesson can be learned from the TRIPs/compulsory license issue/access to medicines debate. That debate was a major impediment to moving the WTO negotiations forward in 2000. The partial resolution of that issue in 2003 effectively took it off the main negotiating table, enabling negotiators and ministers to focus on other areas.

Third, *provisional* early implementation at least partially answers U.S. policy makers' concerns that the LDCs will lose interest or create other hurdles in the Round once they get preferential access. Provisional implementation could extend duty-free, quota-free treatment to LDC exports to the United States for a limited period, such as three years. Extension after that initial period could be conditioned on the conclusion or at least on progress in the Round. Such conditionality, which could be included in the U.S. implementing legislation, will create an incentive for LDCs to remain engaged in the negotiations. Alternatively, the United States could implement the LDC initiative unilaterally now, and hold out the possibility of binding that duty-free, quota-free access for the poorest countries in the WTO once the Round concludes. (The LDCs are very interested in a "bound" commitment, because it greatly reduces the possibility of revocation at a later date.)

**Congressional Action: Prospects**

Prospects for congressional passage of a poor country initiative are not as bleak as some have suggested. Poor country trade initiatives have enjoyed strong bipartisan support in the U.S. Congress over the last five years, and require less political capital for passage than commonly believed.

A review of recent congressional votes on preference programs underscores the unusual level of support for preferences targeted at poor countries. The African Growth and Opportunity Act (AGOA)—which included trade benefits for thirty-four LDCs in Sub-Saharan Africa—passed the House and Senate in 2000 by wide margins. Subsequent improvements to AGOA in 2004 passed even more easily under procedures reserved for the most non-controversial legislation—the legislation was approved in the House by voice vote, and in the Senate by unanimous consent. Likewise, legislation to provide significant trade benefits to Haiti passed the Senate by unanimous consent in 2004, and could have passed easily in the House, if House Republicans allowed a vote. (House Democrats were prepared to proceed by unanimous consent [meaning no House Democrat would oppose the measure]).

**Recent House and Senate Votes on Trade Preferences for Developing Countries**

| Legislation | House Passage | Senate Passage |
|---|---|---|
| AGOA 1 (H.R. 434 Conference Report ) | 309-110<br>(May 4, 2000) | 77-19<br>(May 11, 2000) |
| AGOA 3 (H.R. 4103) | Voice Vote<br>(June 14, 2004) | Unanimous Consent<br>(June 24, 2004) |
| Andean Trade Preferences Act (H.R. 3009) | Voice Vote<br>(November 16, 2001) | 66-30<br>(May 23, 2002, passed with extension of fast track authority attached |
| Haitian Economic Recovery Act (S. 2261) | No action, but likely could have passed given that House Democrats cleared Haiti legislation for passage by unanimous consent in October 2004.* | Unanimous Consent<br>(July 16, 2004) |

*See, Letter from Congressman Charles Rangel to House Republican Leadership on Haiti, June 22, 2006, available from the Committee on Ways and Means, Democratic Staff.

*Congressional Action: Prospects, continued.*

The main reason for this degree of support is that most members of Congress are sympathetic to the plight of extremely poor countries, and—correctly—do not view their exports as a major competitive threat to U.S. industry. The exceptions are members from states and districts that compete with exports from the poorest countries—primarily sugar, textiles, and apparel.

Two points are worth noting. First, 100 percent LDC access may have little impact on U.S. industries. For example, the IFPRI study provides information about the impact of the LDC initiative on the U.S. textile and apparel sectors, and shows that giving the LDCs full access to the U.S. textiles and apparel market has a very minor effect on U.S. production. Under IFPRI's analysis, U.S. textiles and apparel production is expected to decline even if the sectors are protected under the LDC initiative, likely due to MFN tariff cuts and continued global competition. If textiles and apparel are included in the LDC initiative, the production declines increase only slightly. In the case of apparel, the production decline increases from 8.72 percent to 8.74 percent if the poorest countries are given open access to the U.S. market.[18] For the textiles sector, U.S. production declines by an additional 0.01 percent if the market is opened (from 6.06 percent to 6.07 percent).[19] The draft IFPRI study does not provide similar analysis on the impact on U.S. sugar; such analysis could be produced by the ITC.

Second, the reality is that members from affected districts are a small minority in Congress. Only about 60 members are part of the informal House textiles and sugar caucuses, and of those 60 members, only around 45 are hard-core "no" votes on trade deals that affect textiles and sugar. Those 45 "no" votes would not be difficult to overcome if the administration chose to work on a bipartisan basis to pass LDC legislation. Over the last four years, textiles and sugar interests have wielded disproportionate influence over U.S. trade policy only because of the lack of bipartisanship in the area of trade.

That trend could be reversed with an LDC initiative. In the past, Democratic members have been reliable supporters of (and in fact leading advocates for) preference programs for poor countries. Their support stems from both the development imperative and the fact that U.S. preference programs address a key area about which they have expressed concern—respect for internationally recognized core labor rights (the right to associate, collectively bargain, and prohibitions on slave labor and child labor). All U.S. preference programs condition country eligibility on respect for these basic rights. In the context of a poor country initiative, Democratic members will likely call for additional focus on improving respect for core labor standards, given that most LDCs have weak institutional and regulatory capacity and have poor track records in the area of respect for basic labor rights. If that request can be met, ample support for the initiative likely exists.

**Changes #2 & #3: Allow 100% Access and 100% Plus for Sub-Saharan Africa**

The United States should provide 100 percent duty-free quota free access to all LDC exports. As indicated above, the exclusion of 3 percent of products (or about 330 tariff lines) potentially excludes all current LDC exports, and drastically reduces the potential benefit of the initiative.

With respect to the competitive impact on LDCs in Sub-Saharan Africa and the Caribbean Basin, which already have U.S. preferences, the concerns appear misplaced. The IFPRI study cited above shows that greater access for all LDCs does not come at the expense of current beneficiaries. Under the study, Sub-Saharan African exports increase even after greater access is given to other LDCs.

In any event, U.S. policy makers should improve African and Haitian access as part of a new LDC initiative. For example, with elimination of quotas on global textiles and apparel trade, the AGOA preferences have not been effective in helping African exporters maintain their export share in the face of competition from China. Disincentives in the AGOA program are part of the reason why it has not been as effective as hoped. One such disincentive is the limitation on the amount of apparel Sub-Saharan African countries can ship to the U.S.

market duty-free. While African apparel exports have not reached the limit, it does diminish the incentive of businesses to invest in the productive capacity in these countries; apparel producers are not likely to make an investment based on the existence of preferential access if that access is not guaranteed. A second disincentive is the eventual requirement that African producers produce apparel using either U.S. or African fabrics, which typically are higher priced or lower quality fabrics than those available in Asia. That requirement makes African apparel less competitive globally and in the U.S. market. While this restrictive requirement is not yet in effect (it goes into effect on September 30, 2007), investors and U.S. retailers say it has been a deterrent to their embracing Sub-Saharan Africa as a long term production base.[20]

Outside the apparel sector, improvements should be made to other elements of the AGOA program. AGOA provides very little (and in some cases no) additional benefits for certain agricultural exports, such as sugar, and for processed agriculture, such as processed cocoa. Elimination of these restrictions, particularly with respect to the processed products, holds great potential. For example, Sub-Saharan Africa produces 70 percent of the world's cocoa, yet the region accounts for 10-15 percent of processed cocoa products. The disparity between exports of the commodity product (cocoa) and the higher value added product (processed cocoa) is due to the fact that once cocoa is combined with sugar, it encounters high tariffs and restrictive quotas in the U.S. and other markets.[21]

The AGOA program also fails to address the non-tariff barriers African exporters face in the U.S. market. In one calendar year, over 300 shipments of African agricultural products to the United States were rejected because they did not meet U.S. sanitary and phytosanitary (SPS) rules.[22] At a recent conference on AGOA, organic farmers in South Africa complained that they could not sell their various products into the U.S. market because they could not meet U.S. phytosanitary standards. A Malian mango exporter indicated that he had tried for years to export Malian mangoes to the U.S. market, but did not know how to meet U.S. SPS rules. In response to such complaints, the U.S. Department of Agriculture (USDA) and U.S. Agency for International Development have announced initiatives aimed at shortening the amount of time it takes for imported agriculture to get U.S. approval, and helping African farmers work the U.S. process. Those are positive steps. The USDA should now take the additional step of creating a dedicated office in USDA's Animal and Plant Health Inspection Service (APHIS) tasked solely with tackling problems African farmers face in getting approval for the U.S. market. The United States committed similar resources in the context of U.S.-Chile free trade negotiations, and that effort was key to a number of Chilean agricultural exports gaining access to the U.S. market.

**Change #4: Ensure Simple ROOs**

Rules of origin—the requirements a producer must meet to get duty-free, quota-free treatment—can drastically affect the utility of preferences. U.S. policy makers should ensure that the LDC preference rules of origin are sufficiently liberal so that recipient countries can actually use the preferences. The rule of origin in the existing U.S. Generalized System of Preferences, which requires products be substantially transformed in a beneficiary country, and that at least 35 percent of the value of the product originate a beneficiary country, is one example of a good, straightforward, easy to meet rule of origin that facilitates trade.

In addition, U.S. policy makers should allow for more flexible cumulation rules. Cumulation allows inputs from different countries eligible under the same program to be counted in

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meeting the value-added threshold. Cumulation is critical to the utility of any preference program in today's world, where production chains are increasingly fragmented.

Related to the effort to minimize potential adverse impacts on Sub-Saharan Africa, the rule of origin for that region could be even more permissive, requiring, for instance, substantial transformation and 25 percent value added. The lower value-added threshold would make it possible for Sub-Saharan countries to utilize the preferences while encouraging as much employment generation as possible. The threshold is high enough to ensure that the preferences do not become a vehicle for simple repackaging or minor finishing operations.

**Change #5: Expand the List to Include Other Low Income Countries**

The UN-designated LDCs are rightly the focus of the poor country initiative; however, there are other extremely poor countries that are only marginally better off than the LDCs. For example, Kenya (per capita income $480), Pakistan ($600), Sri Lanka ($1010), and Papua New Guinea ($560) are not LDCs, but have very low incomes and suffer from natural and biological challenges such as HIV/AIDS, earthquakes, and tsunamis. U.S. policy makers should consider expansion of the LDC program to low-income, economically vulnerable countries. Possible criteria for expansion could include: (1) low per capita income; (2) lack of export diversification; and (3) vulnerability to natural disasters.

## Conclusion

The United States has largely paid lip service to the notion that the current trade talks are about development. The world's poorest countries, including those currently favored by developed country preference programs, will benefit from 100 percent access to developed country markets. The United States and other developed countries should fully implement the LDC initiative as soon as possible. Early, full implementation could help create a more favorable climate for the negotiations, and help address the perception that the United States is ignoring the development objectives of the Round. ■

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[1] President's Speech Before Global Development's 2006 National Summit, June 15, 2006, available at www.whitehouse.gov/news/releases/2006/06.

[2] Rashed Unrabi, Dipankar Datta, and Subrata Chakrabarty, "Bangladesh: Waves of Disaster," in *Voices of the Poor: From Many Lands*, ed. Deepa Narayan and Patti Pettisch (World Bank, 2002).

[3] From World Development Indicators (WDI).

[4] WDI and UNICEF data.

[5] The provision of U.S. law allows most Sub-Saharan African countries to export apparel to the United States duty-free under an easy to meet rule of origin.

[6] Antoine Bouet, Simon Mevel and David Orden, *Two Opportunities to Deliver on the Doha Development Pledge*, Draft IFPRI Assessment Brief (forthcoming) (hereinafter, IFPRI draft).

[7] See e.g., Kym Anderson, Will Martin, and Dominique van der Mensbrugghe, "Market and Welfare Implications of Doha Reform Scenarios," in *Agricultural Trade Reform & the Doha Development Agenda*, ed. Kym Anderson and Will Martin (World Bank, 2006), Table 12.14, Scenario 7.

[8] World Trade Organization Ministerial Declaration, para. 42, adopted November 14, 2001, Ministerial Conference, Fourth Session, Doha, November 9-14, 2001.

[9] Communication from the United States, "Duty-Free, Quota-Free Market Access for the Least Developed Countries," WT/COMTD/W/149, May 15, 2006, para 2 (hereinafter, U.S. Communication).

[10] The GATT is the predecessor organization to the WTO.

[11] Differential and More Favourable Treatment of Reciprocity and Fuller Participation of Developing Countries, Decision of 28 November 1979 (L/4903).

[12] See Doha Work Programme, Decision Adopted by the General Council on 1 August 2004, WT/L/579, Annex A, Framework for Establishing Modalities in Agriculture, para. 45 (hereinafter, Doha Work Programme).

[13] See Doha Work Programme, para. 9.

[14] U.S. Communication, para. 5.

[15] Statement of Dipak Patel, Minister of Commerce, Trade and Industry of Zambia, 14 December 2005. http://www.ictsd.org/ministerial/hongkong/docs/05-12-14_Zambia.pdf.

[16] U.S. International Trade Commission. http://dataweb.usitc.gov/scripts/user_set.asp.

[17] See e.g., *LDCS Seek to Reopen Hong Kong Duty-Free, Quota-Free Decision*, Inside U.S. Trade, May 19, 2006.

[18] IFPRI draft, pg. 7.

[19] IFRPI draft, pg. 7.

[20] See e.g., Rodney Birkins, Jr., "The AGOA Acceleration Act of 2004," testimony before the U.S. House of Representatives, Committee on Ways and Means, Subcommittee on Trade, Hearing on Trade with Sub-Saharan Africa and H.R. 4103, April 29, 2004, available at http://waysandmeans.house.gov.

[21] Information from "A Better Future for Developing Country Sugar Producers," International Trade Services Corporation.

[22] Spencer Henson, et al. "The Impact of Sanitary and Phytosanitary Measures on Developing Country Exports of Agriculture and Food Products." Presented at the Conference on Agriculture and the New Trade Agenda in the WTO 2000 Negotiations," sponsored by the World Bank and World Trade Organization. http://wbln0018.worldbank.org/trade/DECagridoc.nsf/cd1d51b0730b98388525657c007c9eb2/f9bf12819fa25cbf852568a300518455/$FILE/henson_et+al.pdf.

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