US AND EU TRADE PREFERENCES TOWARDS THE DEVELOPING COUNTRIES. A COMPARISON.

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1. Introduction

Less developed countries are classified based on their economic performance in relation to an "industrialized" nation. Factors such as overall citizen economic welfare and technological advancement are among the functions that contribute to the overall economy of a country. World Bank uses the gross national income (GNI), to measure a country's economic position, but more specifically, per capita GNI, the summation of the market value of final products produced within a country divided by its population (Rahnama-Moghadam, Samavati and Dilts, 1995, p. 10). Within the term less developed countries, there are two classifications, low and middle-income countries. The World Bank dictates the threshold that groups a country in one category over the other every year. Currently, for the 2015 fiscal year, the World Bank classifies countries with a GNI per capita of $1,045 or less in 2013 as low income economies while those above $1,045 but less than $12,746 are idle income economies (World Bank, 2015). The term less developed countries encompasses both the low (least developed countries, LDC) and middle-income (developing) economies/countries, based on the definition and classification by the World Bank.

It is more useful to teach a child to fish rather than offer him a fish to sustain him for a meal. In this concept, the more industrialized nations have sought to not only offer aid as previously done, but to establish trade preferences specific for the developing nations. As established in the United Nations Conference on Trade and Development (UNCTAD), to correct the world economic imbalances and improve international cooperation towards development, developing countries had to be treated differently thus the rise of preferential trade establishments. The World Trade Organization (WTO) with regard to the General Agreement on Tariffs and Trade (GATT) authorization clause (Jones, Hornbeck and Villarreal, 2013, p. 2) allows trade preferences. The subsequent UNCTAD conference established the need for the trade preferences was to mainly help boost the export earnings, industrialization and economic growth in general. It is through this that the Generalized System of Preferences (GSP) was founded, and is adapted by industrialized nations to help developing nations (Onguglo, 1999). Grimmett, (2011, p. 4) defines GSP as generalized systems to which preferences administered are nonreciprocal and non-discriminatory and are set to be beneficial to developing nations.

Having explained the foundation of the essay, the trade preference programs that have been established by both the United States of America (U.S.) and the European Union (EU)will be discussed in depth, their differences explored and a conclusion arrived at by establishing that the EU is the more generous party with supportive reasons. Based on the emphasis of the essay on developing nations, more focus is accorded to them over the least developed nations.

2. US Trade Preference Programs

The U.S. currently has in place temporary waivers granted by the WTO, which allows it to establish trade preferences with various regions. Among the current regional preference schemes includes the African Growth and Opportunity Act (AGOA), the Caribbean Basin Economic Recovery Act (CBERA) and the Andean Trade Preference Act (ATPA) (Grimmett, 2011, p. 2). The trade preferences offer duty free importation of goods from selected nations into the U.S. based on the selection of the country's congress.

The GSP in the US is the largest as well as the oldest preference program in the country, dating back to 1974. It benefits an approximate 128 countries and offers duty free access to an approximate 3150 products, while low-income countries can export extra 1400 products duty free. It is thus based on benefitting developing (middle-income) and least developed countries (low-income), the former abbreviated as BDC and the latter as LDBDC (Jones, Hornbeck and Villarreal, 2013, p. 6). Some of the eligibility criteria required include sufficient protection towards intellectual property, adaptation of internationally acclaimed workers' rights, support of U.S. economic policies and interests and establishment of an operational free market economy based on multilateral trade regulations (Jones, Hornbeck and Villarreal, 2013, p. 7). A prequalification in this category is the minimal 35% procession or value addition of any product from ant BDC. Import sensitive products such as those of the textile industry are excluded from the programs. Eligibility of developing nations is determined by two factors; a set threshold value, above which limitations are effected, as of 2010, the threshold was 140 million dollars, and the second factor is the percentage the country accounts for in the U.S. imports of the specific product, the threshold is at 50%. Other factors that may be applied based on the president's discretion is if the developing country is seen to have moved to a high-income economy or its economic development level, state of living standards or per capita income has elevated, making it legible for fair economic competition as displayed with the graduation of Croatia in 2011 (ibid).

CBERA is one of the regional programs by the U.S. established in 1983 on limited exports from the select nations in the Caribbean on the basis of improving the deteriorating conditions in the region, economic and political, during that decade. Some of the exclusions include apparel among others. Amendments have been made over time such as inclusion of other countries as well as products, such as selected apparel products. An exception to these terms is Haiti, mainly due to the continuous deteriorating conditions based on the damages accorded by the frequent hurricanes among other factors. Under proper monitoring by the United Nations (UN), the U.S. permits limited importation of apparel products into the country as part of the HELP and HOPE

Acts of the U.S. The CBERA program extends to end of September 2020, and is termed as relatively permanent.

ATPA was enacted in 1991 and has been continually renewed henceforth (Jones, Hornbeck and Villarreal, 2013, p. 8). Though the program commenced with a number of nations, it currently only serves Ecuador. Countries such as Peru and Columbia were deemed self-sufficient to trade freely while Bolivia failed to meet the set standards. Among the products exported include petroleum and related products, tuna and textiles as well as apparels (Jones, Hornbeck and Villarreal, 2013, p. 9). The ATPA program is viewed as a measure to mitigate drug trafficking as well as unlawful crop production in the general Andean territory. it does this through the promotion of legal business and employment opportunities as well as general economic growth.

The final program to be addressed with relation to the trade preferences in the U.S. is the AGOA. It was launched in 2000, and aimed at the promotion of development of the sub-Saharan African region. The extension of the program to 30th September 2015 also encompassed the extension of GSP benefits to the member nations as up to the same date, despite any of subsequent amendments made by the U.S. Congress with regard to the GSP (Jones, Hornbeck and Villarreal, 2013, p. 9). AGOA may be regarded as the most favored preference program of the U.S. as it provides for more duty-free products than the GSP, including ‘import sensitive” products such as some textiles and apparel (ibid). In addition to the trade products, capacity building and technical assistance is offered through established hubs in countries such as the capital cities of Kenya, Botswana, Senegal and Ghana. The program currently includes 40 nations and bases its eligibility on the selected nations abiding by internationally accepted human rights, shunning of terrorism, progress towards establishment of a market based economy and supportive actions towards the U.S. foreign interests in terms of its policies and national security (ibid).

3. EU Trade Preference Programs

The EU is a major target market for developing nations, more so former colonies of countries within the EU (De Benedictis and Salvatici, 2011, p. 3). The trade preferences established by the EU set to make its market more available to the developing nations as well as help overcome structural obstacles and irregularities within the beneficiary nations. The nonreciprocal trade preferences in the EU include the Economic partnership Agreements (EPAs) and GSP agreements encompassing general GSP program, the "GSP+" program and the Everything but Arms (EBA) program (European Commission, 2015). It was enacted in July 2008 but revised and enforced in 2014.

The standard GSP program in the EU offers tariff reductions on all products from developing nations. The reductions may be partial and in selected products, they are completely removed, giving rise to the "GSP+". The standard GSP boosts an approximate 176 developing nations and over 10,000 products as at a 10-digit level (Davies and Nilsson, 2013, p. 3). Products are classified into non-sensitive products that are duty-free and sensitive goods that have reduced tariff rates at 3.5 percentage points as per the value of the duties as well as a general 30% reduction on certain duties, with the exception of products such as textiles that has a 20% off instead (ibid). The "GSP+" program is defined so due to the added benefit of complete writing off of the tariffs listed in the standard GSP. The additional benefits are granted to nations that abide by the set regulations of the EU such as international labour rights, exercise of good governance and sustenance of the environment. Currently, the program has 15 countries.

The EBA program is tailored mainly for low-income nations, allowing for import of all their products on a duty and quota free basis, in the exception of ammunition and arms (European

Commission, 2015). It was established in 2001 and has no time limit for the beneficiaries. The terms of the program may be considered the best trade preference program globally. Currently the program has 49 beneficiaries.

The EPAs main purpose is the promotion of sustainable development within the (African, Caribbean and Pacific nations) ACP, poverty reduction and regional integration (Davies and Nilsson, 2013, p. 4). Trade liberalization under the project will provide free EU market access for the beneficiaries as well as improved rules of origin with regard to the interest areas of the participatory countries (ibid). Among the participatory nations include those within the East African Community (EAC) such as Kenya and in Sothern African Development Community (SADC).

4. Comparison

The report by the authors Davies and Nilsson (2013) will be referred to with supportive current information where available to make comparisons of the U.S. and EU programs, on the basis of verified and comparable data of the year 2010. Main differences may be established based on three factors.

The EU imports more products from developing nations that the U.S. Based on the duty-free most favoured nation (MFN) tariffs, more developing nations benefit from the EU at a 48.5% of all goods imported from the beneficiaries in contrast to the 5.8% of all imports by the U.S (World Bank, 2015).

Second difference lies in the countries incorporated into the trade preference programs by the two parties. The EU has more beneficiaries in comparison to the U.S. In addition to the benefitting nations, goods accommodated by the trade preference programs are more and of a greater variety by the EU programs than those of the U.S. The total agro-food products imported by the EU surpass those by the U.S. market (Di Rubbo P. and Canali, 2008, p. 3). It includes both reduced tariffs as well as those that have been completely scrapped off. The EU extends the preference to almost all the imports while the U.S. is at a 74.4% rate of preference.

The third difference is the utilization schemes. Utilization of the preference schemes in the EU is higher than in the U.S. at an 85% in the former against a 41.5% in the latter (Di Rubbo P. and Canali, 2008, p. 3).

Based on the three factors, more duty-free goods from developing nations are imported into the EU in relation to the U.S. The former accounts for an approximate 92.3% of its imports from the developing nations to be duty free against the 34.3% of U.S total imports from the developing nations (World Bank, 2015). As the time of the study, the top three developing nations for the EU are Bangladesh, Angola and Equatorial Guinea while for the U.S. it is Angola, Bangladesh and Cambodia.

The main products imported by the U.S are mined fuels at 64% of the total imports against the 32% by the EU (World Bank, 2015). Apart from this difference, the EU has an established nil MFN tariffs in contrast to the US that only allow 1.7% of its mineral imports to be the tariff free (AGOA, 2015).

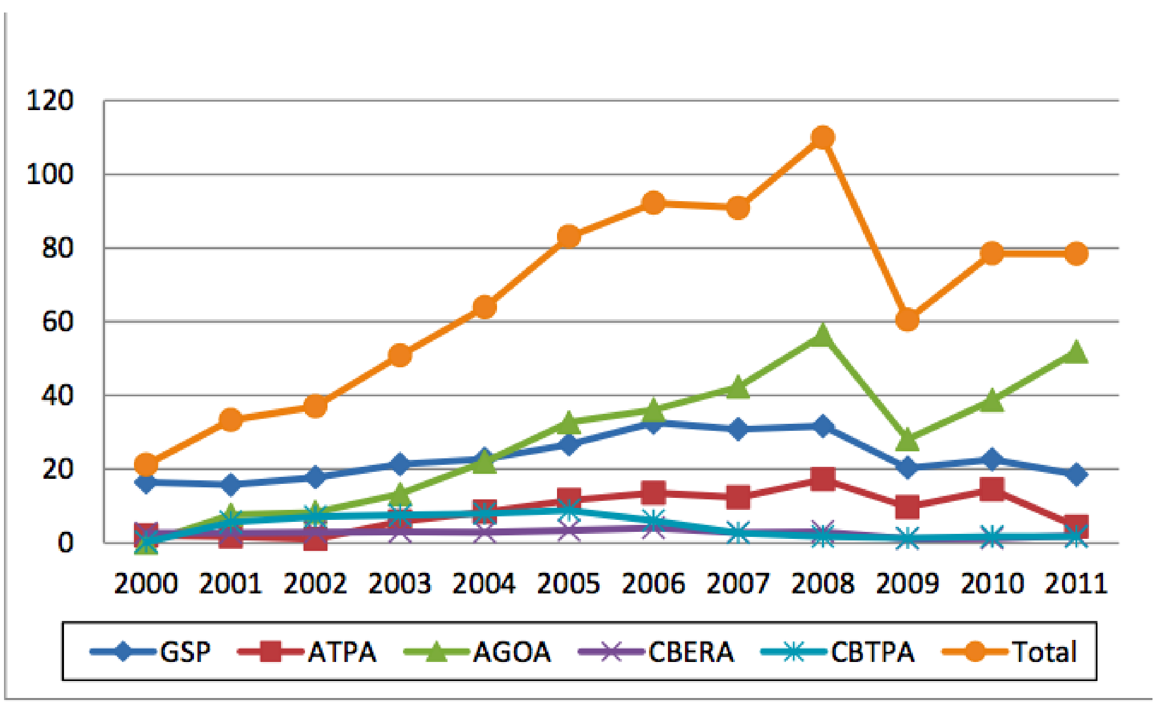
The great restriction in importation of textiles and related products by the U.S in contrast to the relaxed regulations on the same products establishes the difference in the total share of the duty-free textile products in the two regions. It is approximated that the products have about an 80% share in the EU market against a less than 10% in the U.S. market (AGOA, 2015).

Recent statistics are diverse and insufficient to compare the two regions based on trade preferences to recent years as 2014 leading to the use of 2010 statistics, however, some of the recent studies will be briefly highlighted to show the general trend.

The total imports based on the preference programs as at 2011 was at 78.4 million dollars for the U.S. , which was constant similar to the previous year, 2010, but had increased from $60.5billion in 2009 (Jones, Hornbeck and Villarreal, 2013, p. 13). The decline in 2009 is credited to the Great Recession, which heavily influenced petroleum imports, a major product from AGOA regions. The graph below displays this information

Imports under the preference program from 2000 to 2011

(in billions of U.S. dollar)

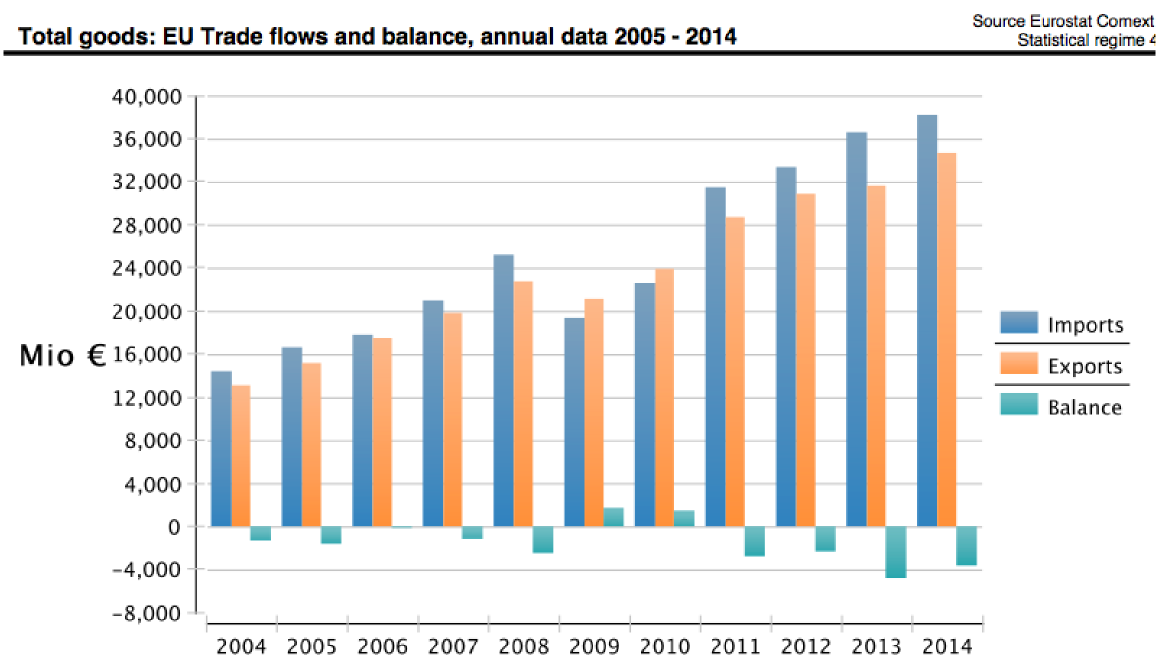


Source: (Jones, Hornbeck and Villarreal, 2013, p. 14)

EU trade with EBA beneficiaries as from 2005 to 2014

Recently, in the year 2014, an estimated 55% of the total export products by AGOA nations to the U.S. were duty free (AGOA, 2015).

The graph below compares the imports and exports of the EU with relation to the EBA beneficiaries as at 2014.



Source: European Commission, 2015, p.3

<u>Benefits of EU trade preference programs over the US preference programs</u>

In general, some of the benefits derived from the trade preferences include the enhanced competitiveness of the developing nations in various industries, such as the agricultural sector

(Jones, Hornbeck and Villarreal, 2013, p. 2). In addition, the developing countries also benefit from more establishments of the industries as well as creation of employment opportunities due to the increased export due to the preference program. Moreover, some industries also benefit from joint production by firms in the U.S. or EU in the developing nations, a factor that boosts the quality as well as quantity of production. It is considered a means of apprenticeship and benchmarking.

Despite the general advantages, the EU offers better terms to the developing countries unlike the US. One of the setbacks of the trade preferences extended by the U.S. is the rigidity of the terms. They may be termed as suffocating; aiming to boost the country more than the developing nations it sets to help. An illustration of this is the limitation of import of certain apparel products from the CBERA nations only if garments are made from yarn sourced from the U.S. (Jones, Hornbeck and Villarreal, 2013, p. 8). This is in contrast to the more relaxed rules by the EU, more so the wider ranges of products to be imported under the tariff free specification (Davies and Nilsson, 2013, p. 9). To aid in comparison, the common nations that benefit from both the AGOA and EBA programs are used to establish common grounds in evaluating preference utilization. It is mainly due to the overlap of the benefitting nations such as Angola and South Africa. The preference utilization of EU is higher at 91.2% against the 31.9% of the U.S. leading to more duty-free imports by the former in contrast to the U.S. (Jones, Hornbeck and Villarreal, 2013, p. 8). in addition, the exclusion of mineral fuels imports by both countries leaves the value of U.S import from developing nations at 2.2 billion euros against the 13.2 billion euros of the EU (Jones, Hornbeck and Villarreal, 2013, p. 8).

An adverse effect of the nonreciprocal trade preference programs as argued by Hudec (1987 in De Benedictis and Salvatici, 2011, p. 3) is the reduced willingness of the benefiting nation's export sector from opposing its government's policies that may alter the agreement. There is also reduced incentive to liberate own markets as the program offers an "easier way out". An evaluation of the removal of a country from GSP shows the removed nations tend to set lower trade barriers than the remaining eligible nations, an act that shows the aim of liberating these economies is not met within the programs. This is true for the U.S. but the EU has in place transitioning mechanisms that help an excluded country ease back to self-support in a span of 5 years as per the recently revised laws on preferential trade policies.

5. Conclusion and Policy Recommendations

Based on the literature review in the essay, the EU trade preferences have been illustrated to be more beneficial the U.S based programs. A detailed review of various trade preference programs of each region have been analysed in the essay and a compared based on the detailed report by Jones, Hornbeck and Villarreal, *A Comparative Analysis Of EU And US Trade Preferences For The LDCs And The AGOA Beneficiaries* (2013).

The derived benefits may be summarized as more diversity of imports by the EU in contrast to the US from developing nations, greater preference offer by the EBA in contrast to the AGOA, with more products being duty-free, better utilization of the EU preference schemes over those by the US and greater number of products imported by the EU from the developing nations enjoy duty-free MFN tariffs in contrast to the U.S. In addition, generally the overall imports of the EU from the developing nations is greater than those by the U.S, mainly based on the differential trade policies established by the two nations such as restrictions on textiles and tariffing of various mineral fuels.

It should however be noted the insufficient literature material with regard to the issue of trade preferences (De Benedictis and Salvatici, 2011, p. 3), a matter evidenced by the utilization of 2010 information instead of 2014 in this essay.

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