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Technical and statistical report

# Trade Preferences Outlook 2024



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# Trade Preferences Outlook 2024



**United Nations**

Geneva, 2024

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# Abbreviations and acronyms

|                 |   |
|-----------------|---|
| <b>ACP</b>      | African, Caribbean and Pacific                          |
| <b>AfT</b>      | aid for trade   |
| <b>AGOA</b>     | African Growth and Opportunity Act                      |
| <b>ASEAN</b>    | Association of Southeast Asian Nations                  |
| <b>AVE</b>      | ad valorem equivalent                                   |
| <b>CARIBCAN</b> | Caribbean-Canada Trade Agreement                        |
| <b>CBAM</b>     | Carbon Border Adjustment Mechanism                      |
| <b>CBI</b>      | Caribbean Basin Initiative                              |
| <b>CCCT</b>     | Commonwealth Caribbean Country Tariff                   |
| <b>COMTRADE</b> | Commodity Trade Statistics Database                     |
| <b>DCTS</b>     | Developing Countries Trading Scheme                     |
| <b>DFQF</b>     | duty free and quota free                                |
| <b>EAEU</b>     | Eurasian Economic Union                                 |
| <b>EBA</b>      | Everything but Arms                                     |
| <b>EDF</b>      | European Development Fund                               |
| <b>EEC</b>      | European Economic Community                             |
| <b>EPA</b>      | Economic Partnership Agreement                          |
| <b>ESCAP</b>    | Economic and Social Commission for Asia and the Pacific |
| <b>FDI</b>      | foreign direct investment                               |
| <b>FTA</b>      | free trade agreement                                    |
| <b>GATS</b>     | General Agreement on Trade in Services                  |
| <b>GATT</b>     | General Agreement on Tariffs and Trade                  |
| <b>GDP</b>      | gross domestic product                                  |
| <b>GNI</b>      | gross national income                                   |
| <b>GPT</b>      | General Preferential Tariff                             |
| <b>GSP</b>      | Generalized System of Preferences                       |
| <b>GVC</b>      | global value chain                                      |
| <b>HIC</b>      | high-income country                                     |
| <b>HS</b>       | Harmonized Commodity Description and Coding System      |
| <b>ICT</b>      | information and communication technology                |
| <b>IFC</b>      | International Finance Corporation                       |
| <b>ILO</b>      | International Labour Organization                       |
| <b>IRA</b>      | Inflation Reduction Act                                 |
| <b>LDC</b>      | least developed country                                 |
| <b>LDCT</b>     | Least Developed Country Tariff                          |
| <b>LIC</b>      | low-income country                                      |
| <b>LLDC</b>     | landlocked developing country                           |
| <b>LMIC</b>     | lower middle-income country                             |



|                 |  |
|-----------------|--|
| <b>MFA</b>      | Multifiber Agreement   |
| <b>MFN</b>      | most-favoured nation   |
| <b>MNE</b>      | multinational enterprise   |
| <b>MRA</b>      | mutual recognition agreement                                     |
| <b>MSME</b>     | micro-, small- and medium-sized enterprise                       |
| <b>NIE</b>      | newly industrialized economy                                     |
| <b>NRTP</b>     | non-reciprocal trade preference                                  |
| <b>NTM</b>      | non-tariff measure   |
| <b>ODA</b>      | official development assistance                                  |
| <b>OECD</b>     | Organisation for Economic Co-operation and Development           |
| <b>OFDI</b>     | outward foreign direct investment                                |
| <b>PTA</b>      | preferential trade arrangement                                   |
| <b>R&amp;D</b>  | research and development   |
| <b>REC</b>      | regional economic community                                      |
| <b>RoO</b>      | rules of origin  |
| <b>RTA</b>      | regional trade agreement   |
| <b>SDT</b>      | special and differential treatment                               |
| <b>SEZ</b>      | special economic zone  |
| <b>SIDS</b>     | small island developing States                                   |
| <b>SITC</b>     | Standard International Trade Classification                      |
| <b>SME</b>      | small- and medium-sized enterprise                               |
| <b>SPARTECA</b> | South Pacific Regional Trade and Economic Co-operation Agreement |
| <b>SPS</b>      | sanitary and phytosanitary measures                              |
| <b>TBT</b>      | technical barriers to trade                                      |
| <b>TRAINS</b>   | Trade Analysis Information System                                |
| <b>TRIPS</b>    | Trade-Related Aspects of Intellectual Property Rights            |
| <b>UNDP</b>     | United Nations Development Programme                             |
| <b>UMIC</b>     | upper middle-income country                                      |
| <b>USITC</b>    | United States International Trade Commission                     |
| <b>WITS</b>     | World Integrated Trade Solution                                  |
| <b>WTO</b>      | World Trade Organization   |



# Notes

References to Latin America include the Caribbean countries, unless otherwise indicated.

References to sub-Saharan Africa include South Africa, unless otherwise indicated.

References to the United States are to the United States of America, and to the United Kingdom are to the United Kingdom of Great Britain and Northern Ireland.

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The following symbols may have been used in the tables:

- Two dots (..) indicate that data are not available or are not separately reported.
- Rows in tables have been omitted in those cases where no data are available for any of the elements in the row.
- A dash (–) indicates that the item is equal to zero or its value is negligible.
- A blank in a table indicates that the item is not applicable, unless otherwise indicated.
- A slash (/) between dates representing years, e.g. 1994/95, indicates a financial year.
- Use of an en dash (–) between dates representing years, e.g. 1994–1995.



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# Executive summary

Non-reciprocal trade preferences were created to support growth and diversification of developing countries' exports. Currently, 16 developed economies and 9 developing countries have trade preference schemes, targeting developing and least developed countries (LDCs) in the case of most developed countries and only LDCs in developing ones.

The proliferation of free trade agreements, declining most-favoured nation tariffs, the emergence of non-tariff measures, and the prominence of global value chains, however, have eroded the effectiveness of traditional trade preference schemes. For this reason, the effect of trade preferences today falls on a few specific markets, products and exporters. Trade preferences have helped create jobs in the sectors benefiting the most. However, as these sectors involve mostly raw materials and light manufacturing, tariff preferences alone are not sufficient to drive export diversification.

To increase the effectiveness of trade preferences in fostering growth and diversification of developing countries' exports, the following actions could be considered.

## Updating the design and operation of existing trade preferences

For the standard Generalized System of Preferences (GSP) schemes for non-LDCs, there is a clear trade-off between increasing preferences under these schemes on the one hand and strengthening the preferential benefits for LDCs on the other. In general, finetuning the product coverage is possible by targeting products of particular interest to non-LDCs in a manner that do not reduce preferences for LDCs. In addition, consideration could be given to focusing on those non-LDCs with special needs, such as small island developing States and landlocked developing countries, which are at a comparable level of poverty or vulnerability with LDCs or which do not benefit from alternative preferential market access arrangement.

For LDC schemes, there is some scope to improve preference utilization in some markets through rules of origin reforms and facilitation or through improved information dissemination and data availability in others. Coverage could be improved by reducing product mismatches. Smooth transitional arrangements for LDC graduation could help mitigate the possible loss of preferential benefits. LDCs could also benefit from an increase in the number of preference-granting countries.

Coordination between GSP-granting countries and beneficiary countries, as well as among granting countries, could be considered to maximize the benefits from trade preference programmes at the international level. Such policy coordination could take place at an intergovernmental forum comprising government representatives from the granting and beneficiary countries. Inspiration may be drawn from the Special Committee on Preferences, which was established at UNCTAD II as a subsidiary organ of the Trade and Development Board.

## Adapting trade preferences to the 21<sup>st</sup> century trade

Rules of origin could be reformed to adapt them to the reality of production processes across global value chains, through rules such as "single transformation" in the apparel sector, and the harmonization or coordination of origin rules across different preference schemes. Regional cumulation could also be modernized to promote the development of regional value chains.



Finally, compliance costs could be reduced, particularly for small- and medium-sized enterprises, and the predictability and stability of the schemes enhanced through longer operational periods.

Trade preferences could also support new industrial policy by incentivizing, for instance, exports of value-added environmental products from developing countries or processed critical minerals. This could secure supplies for the preference-granting economies while developing value chains and increasing local value addition in developing countries.

### Expanding trade cooperation beyond tariffs

As the effectiveness of tariff preferences are set to diminish in the long run, it is necessary to explore new and complementary forms of trade cooperation going beyond tariffs:

*Non-tariff measures (NTMs):* Regulatory cooperation in conformity assessment could help reduce testing and certification costs for exporters in lower-income countries, as they normally face higher compliance costs due to weaker organizational, administrative and technical capabilities, particularly those in the apparel and agriculture sectors where NTMs tend to be more widespread. Regulatory cooperation among granting countries could also significantly reduce compliance costs resulting from different regulations at similar levels of stringency.

*Services:* The LDC services waiver provides a theoretical basis for considering services trade preferences, or “GSP for services.” However, further work is needed in addressing barriers to services trade that affect LDCs on a preferential basis. In addition, trade facilitation in services could be enhanced by, among others, providing capacity building support and increasing preferences awareness among LDCs.

*Foreign direct investment (FDI):* Preference-granting markets could direct outward FDI promotion activities towards beneficiary countries by extending preferential access to sectors where FDI flows and by integrating FDI promotion into wider development assistance strategies. On the beneficiary countries’ side, incentives for foreign investment could take the form of fiscal benefits for priority sectors, establishment of special economic zones, one-stop shops for foreign investors, and insurance for investors.

*Access to technology:* Article 66.2 of the the Agreement on Trade-related Aspects of Intellectual Property Rights (TRIPS) under the World Trade Organization provides a basis for “preferential” transfer of technology in favour of LDCs. However, the implementation of the provisions has not been satisfactory. Trade preferences could be explored as a vehicle to promote technology transfer. For example, preferential tariffs and rules of origin may be designed in such a way as to incentivize the use of advanced technologies, such as green technologies. Preference schemes may also encompass measures to strengthen technology absorptive capacity in beneficiary countries.

*Development cooperation:* The benefits of trade preferences have been uneven, favouring those with more developed export sectors. Translating preferential market access into development gains requires a combination of trade, productive capacity, investment, finance, technology and innovation. An effective approach could be to combine non-reciprocal preferential market access with comprehensive development cooperation programmes to build supply capacities and facilitate trade, including through programmes such as Aid for Trade, as well as support for trade finance.





# Introduction





# Introduction

**Non-reciprocal trade preferences (NRTPs) are a trade policy instrument that has been widely used to support economic development. They have underpinned North-South trade relations over the past 60 years and continue to provide a privileged avenue of trade for developing countries.**

Non-reciprocal trade preferences are a set of unilateral advantageous (“preferential”) tariffs applied by importing countries – usually developed countries – to goods originating in a pre-determined set of “preferred” exporting countries, usually developing countries.<sup>1</sup> A reduced tariff rate (compared to the ordinary rate) is applied to goods imported from those preferred countries only, so that their goods can enjoy price advantages in comparison to goods from third countries. These preferences are “non-reciprocal” when, for a given pair of exporting and importing countries, only one side, *i.e.*, developed countries (and some developing countries in recent years), apply such tariff cuts.

By unilaterally opening their large markets, preference-giving countries seek to help developing countries increase their export earnings to foster industrialization and economic growth, while allowing them to preserve their existing tariff levels to continue protecting own domestic industries.

The Generalized System of Preferences (GSP) that emerged from the intergovernmental discussions conducted under UNCTAD in the 1960s is the case in point. Today, 16 “developed” countries offer GSP schemes, usually composed of standard schemes applicable to developing countries which do not fall in the least developed countries (LDCs) category, as well as more advantageous preferences

exclusively applied to LDCs. In addition, 9 developing countries offer LDC-specific preferences aimed at providing duty-free and quota-free (DFQF) market access conditions.

Non-reciprocal trade preferences were a trade policy response to the development challenge of the 1960s and 1970s. At the time, industrialization was the pressing goal for newly independent developing countries to overcome commodity dependence. This *raison d’être* of NRTPs remained unchanged over six decades of their existence. However, the trading environment has changed significantly from the 1970s, and the rationale for tariff preferences is not as straightforward as it used to be. The major shifts in the trading environment during the past six decades have generally weakened the effects of preferential tariffs on developing country exports.

Some of the main shifts are as follows:

- **Trade has become more closely associated with the global value chains (GVCs).** Today, production processes are no longer completed in a single country but are spread across several. In this process, intermediate goods (e.g., parts and components) cross borders several times before being assembled into a final product. The Organisation for Economic Co-operation and Development (OECD) estimates that about 70 per cent of

<sup>1</sup> Throughout the report, the term “country” or “countries” is used to refer also to separate customs territories possessing full autonomy in the conduct of their external commercial relations.





international trade involves GVCs.<sup>2</sup> The increased use of imported inputs makes it difficult to identify the origin of goods, reducing the utilisation of tariff preferences applied to final products.

- **Tariff advantages granted under trade preference programmes are set to diminish over time.** The cost advantages of preferential tariffs for eligible developing countries depend on the level of the most-favoured nation (MFN) tariff rates from which cuts are made. Average tariff rates of developed economies have been falling as they engage in unilateral, regional and multilateral trade liberalization. The global average MFN rate decreased from 22 per cent to 8.9 per cent between 1990 and 2022, resulting in a reduction of tariff advantages provided by various NRTP schemes.
- **Proliferating free trade agreements (FTAs) are causing preference erosion and dilution.** Compared to the early 1970s, there is a significant rise in the number of FTAs, which went from a total of three in 1970 to 354 in 2022. More recently, various new mega regional trade agreements (RTAs) that can reshape global trade flows entered into force. This trend is limiting the impact of NRTPs by reducing the tariff advantages offered by these schemes compared to other countries within FTAs receiving similar or even better preferential rates.
- **Tariffs are no longer the only principal constraint on developing country exports.** As the overall tariff levels decline, the impact of other trade costs, especially non-tariff measures (NTMs), increase across countries. Today, the costs associated with NTMs, including those related to the compliance with standards, are considered a bigger market access challenge than import tariffs. In fact,

the trade costs of certain NTMs are estimated to be twice the cost of tariffs.<sup>3</sup> Therefore, tariff advantages alone no longer provide strong incentives for developing country exporters.

In short, the effect of NRTPs may be fading out as MFN tariffs are falling, FTAs are proliferating, and NTMs are becoming more prevalent, overriding any cost advantages that may be achieved by preferential tariff reduction.

In the meantime, rapidly changing technologies and the international fragmentation of production processes have changed the sources of sustained trade competitiveness. In contemporary world trade, abundant unskilled labour or natural resources play increasingly a smaller role in building comparative advantages while foreign direct investment (FDI), technology and skills are becoming determining factors, including for resource-dependent, undiversified economies.

Facilitating developing country exports though improved market access remains key as international trade can work as a catalyst that facilitates learning processes thereby improving dynamic competitiveness of developing countries through backward and forward linkages. At the same time, many developing countries suffer from supply-side constraints, such as low levels of domestic investment in basic infrastructure, education and skills development, which render their exports less competitive. Therefore, complementing preferential market access with a built-in support mechanism to strengthen their domestic productive capacities and competitiveness might be warranted in enabling the countries to reap effective benefits from trade preferences.

Against this background, several questions arise:

- What has been the overall impact of trade preferences on developing country exports, especially export diversification?

<sup>2</sup> OECD, 2019, Trade Policy Implications of Global Value Chains, No. 2019/01, OECD publishing, Paris.

<sup>3</sup> ESCAP and UNCTAD, 2019, *Asia-Pacific Trade and Investment Report 2019: Navigating Non-tariff Measures towards Sustainable Development* (United Nations publications, Sales No. E.19.II.F.14, Bangkok).



- What drives the differential performances across preferential schemes and beneficiary countries?
- How effective are trade preferences in facilitating developing country exports under the contemporary trading environment?
- Should any modification of trade preference schemes, or alternative approaches thereto, be conceived to support developing countries' export growth and diversification better?

This first issue of the UNCTAD *Trade Preferences Outlook* seeks to shed light on these questions by taking stock of the current state of preferential trade conducted under NRTP programmes, assessing their effects, and examining their continued relevance in the light of the changing pattern and structure of international trade.

In particular, it seeks to contribute to the debate on whether and how GSP and other trade preferences have contributed to developing countries' export diversification, one of the key pillars for sustained export growth and economic development.

The report is organized as follows: Chapter I provides an overview of NRTPs and an empirical evaluation of trade preferences in promoting export diversification in developing countries. Chapter II examines the evolving effect of trade preferences in the light of the changing dynamics of international trade and the policy landscape. Finally, chapter III discusses possible ways forward for adapting trade preferences to the emerging trade realities and explores possible new areas of trade cooperation beyond tariffs for the consideration of member States.







Chapter I

# Trade preferences, export diversification and development





# Trade preferences, export diversification and development

Since the 1970s, non-reciprocal trade preferences have sought to support developing countries' export growth and diversification. During the last three decades, diversified economies grew faster than non-diversified ones. While trade preferences promoted export growth in some countries, most of these benefits accrued to a few economies and products. The divergent performances of various trade preference schemes in inducing export diversification are attributable not only to the level of tariff preferences or differences in product characteristics but also to the differences in domestic productive capacities of beneficiary economies.

## A. Historical background

### 1. Initial phase (1964–1994)

At their origin, NRTPs were conceived as a trade policy response to the major development challenges of the time. They find their roots in the post-war discussions around Europe and its relationship with its former colonies. To facilitate export earnings of newly independent developing countries, major European countries introduced a system of tariff preferences in conjunction with economic development assistance programmes.<sup>4</sup> Back then, as now, many developing countries were highly dependent on commodity exports and industrialization was their main goal to overcome this dependency.

During the 1960s, Singer and Prebisch hypothesized that in the long run, terms of trade of primary products would decline compared to those of manufactures due to relatively low income and price

elasticities of primary products.<sup>5</sup> Therefore, diversifying exports towards industrial products was considered necessary, as efforts to expand exports by commodity-dependent developing countries would deteriorate their terms of trade and reduce export revenues. Given the slower productivity growth of resource-based industries compared to others, commodity-dependent developing countries might be trapped in a peripheral status in the world economy. Coupled with other means of industrialization (e.g., tariff protection of infant industries, investment incentives), export promotion of industrial products, including by opening developed country markets on a preferential basis, was found to be instrumental for economic growth.

It was against this backdrop that UNCTAD II in 1968 adopted Resolution 21 (II), entitled “Preferential or free entry of exports of manufactures and semi-manufactures of developing countries to the developed countries”, calling for the establishment of “the generalized, non-reciprocal,

<sup>4</sup> The Yaoundé Conventions (1964–1969 and 1971–1975) and the Arusha Convention (1971–1975) concluded between the then European Economic Community (EEC) and groups of African countries marked the beginning of trade preferences and the ACP-EU trade and economic partnership.

<sup>5</sup> UNCTAD, 2018, Export Diversification and Employment, Geneva.



UNCTAD II in 1968 adopted Resolution 21(II) calling for the establishment of “the generalized, non-reciprocal, non-discriminatory system of preferences in favour of developing countries”

non-discriminatory system of preferences in favour of developing countries, including special measures in favour of the least advanced among the developing countries.”<sup>6</sup> The stated objectives of the arrangement were: (a) to increase their export earnings; (b) to promote their industrialization; and (c) to accelerate their rates of economic growth. Subsequent discussions further clarified that these arrangements would be voluntary in that: (i) the tariff preferences would be temporary in nature; and (ii) their grant would not constitute a binding commitment on the part of donor countries.<sup>7</sup>

Following this resolution, the then European Economic Community (EEC), Japan and Norway adopted their respective GSP schemes in 1971, followed by New Zealand and Switzerland in 1972, and Australia, Canada and the United States in 1974.

In 1975, the Lomé Convention was signed between six members of the EEC and 46 African, Caribbean, and Pacific countries (ACP), which combined contractual non-reciprocal preferential access to the EEC market with development cooperation for the period between 1976–1980. The Convention was extended three times (1981–1985, 1986–1989, 1990–1999) setting the framework for the ACP-EU trade and development cooperation. Other non-generalized region-specific preferential trade arrangements (PTAs) emerged in the 1980s and are still in force today, such as

Australia and New Zealand’s South Pacific Regional Trade and Economic Co-operation Agreement (SPARTECA)<sup>8</sup> in 1981, the United States’ Caribbean Basin Initiative (CBI)<sup>9</sup> in 1984 and Canada’s Caribbean-Canada Trade Agreement (CARIBCAN)<sup>10</sup> in 1986.

In hindsight, NRTPs found their rationale in the fact that many developing countries were commodity dependent at the time, and developed economies offered large and growing markets with high and escalating tariffs. Broad-based MFN tariff liberalization was yet to be undertaken under the GATT. In addition, manufacturing was typically completed in only one country without many imported inputs. This means that there was a significant scope for tariff margins, and it was reasonably straightforward to identify the origin of goods.

In the 1970s and 1980s, developed countries were the dominant importers in the world, and developing countries were yet to emerge as major players in the international trade arena. During this period, the developed countries represented nearly 80 per cent of global imports (79 per cent) and absorbed 71 per cent of developing country exports.<sup>11</sup> Developing countries’ share in world exports was limited on average to 23 per cent<sup>12</sup> while primary commodities accounted for 70 per cent of their exports.<sup>13</sup> For all developing regions, commodity exports

<sup>6</sup> See Resolution 21 (II), Preferential or free entry of exports of manufactures and semi-manufactures of developing countries to the developed countries, in UNCTAD, 1968, Proceedings of the United Nations Conference on Trade and Development, Second Session, vol. I, Report and Annexes (United Nations publication, Sales No. E.68. II.D.14, New York), p.38.

<sup>7</sup> See Agreed Conclusions of the Special Committee on Preferences; UNCTAD, 2018, Handbook on Duty-Free Quota-Free Market Access and Rules of Origin for Least Developed Countries Part I: QUAD Countries (United Nations publication, New York and Geneva).

<sup>8</sup> Current beneficiaries include Cook Islands, Fiji, Kiribati, Marshall Islands, Federated States of Micronesia, Nauru, Niue, Papua New Guinea, Samoa, Solomon Islands, Tonga, Tuvalu, Vanuatu.

<sup>9</sup> Current beneficiaries include Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, British Virgin Islands, Curacao, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago.

<sup>10</sup> Current beneficiaries include Anguilla, Antigua and Barbuda, Bahamas, Barbados, Belize, Bermuda, Cayman Islands, Dominica, Grenada, Guyana, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Trinidad and Tobago, Turks and Caicos Islands, and the British Virgin Islands.

<sup>11</sup> UNCTAD calculations from COMTRADE data, accessed through WITS.

<sup>12</sup> UNCTADstat. New definition of “developed” and “developing” countries that eliminated transition economies group that existed in the 1970s and 1980s are used.

<sup>13</sup> UNCTAD calculations from COMTRADE data, accessed through WITS.



represented an important source of foreign exchange during this period.

Despite the favourable conditions in the early years of their existence, benefits from preferential trade may have been limited due to shortcomings in individual programmes. Initial critiques were directed, for instance, to the discretionary nature of preferences; the presence of competing PTAs; limited product coverage focused on manufactures; limited tariff cuts, particularly for sensitive products; restrictive rules of origin (RoO) that dissuaded preference use; various conditionalities; country/product graduation; and safeguard measures. Such limitations were considered to have compromised potential benefits for exporters.

As the 1990s saw the conclusion of the GATT Uruguay Round based on reciprocal market openings, the non-reciprocal nature of preferential market opening was also questioned as tariff protection maintained by developing countries was seen as tantamount to preserving economic inefficiencies, thereby penalizing their own exports.

Overall, the contribution of preferences to developing countries' export performance in the initial years is uncertain, although the period witnessed a rapid growth of some developing countries (e.g., newly industrialized economies (NIEs)) supported by dynamic export sectors. Whether and to what extent preferences contributed to such export-led growth is a matter of debate. Examining the effects of the United States GSP schemes on Association of Southeast Asian Nations (ASEAN) countries and the Republic of Korea between 1976 and 1987, Truett et al. (1991) found that the only country in this group where the United States GSP had a positive effect

on exports was Thailand.<sup>14</sup> In beneficiary countries such as the Republic of Korea, which experienced a dramatic increase in its exports, there was little evidence that the GSP was a significant contributing factor.

Other studies also found the impact of GSP schemes on beneficiary countries' exports to be limited. For example, Sapir (1981) found that the EEC GSP scheme in the 1970s had only facilitated the expansion of manufacturing exports from semi-industrialized nations.<sup>15</sup> Pantelides (1984), which analyzed the effects of the United States GSP in the 1970s, found that the programme tended to benefit only a handful of advanced developing countries while the others had little capacity to benefit from it. In particular, the programme at that time seemed to have no significant effect on LDC exports to the United States, owing to the rigid RoO and the ceiling-type safeguards.<sup>16</sup> The impact of the United States GSP was also found to be insignificant in another study by Truett et al. (1989), which analyzed the impact of the scheme on Malaysia and Mexico between 1975 and 1986.<sup>17</sup> In the case of Malaysia, possible contributing factors were the lack of an initial broad industrial base, the uncertainty over the lifespan of the scheme, the lack of knowledge of the scheme among exporters, and the onerous procedure to obtain eligibility for the scheme.

## 2. Second phase (1995–present)

Since the establishment of the World Trade Organization (WTO) in 1995, NRTP schemes underwent significant modernization and reforms, particularly for LDCs, while becoming increasingly unavailable for high-income countries (HICs) and upper

Despite the favourable conditions in the early years of their existence, NRTPs' benefits may have been limited due to shortcomings in individual programmes

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<sup>14</sup> Truett LJ and Truett DB, 1991, U.S. trade preferences and economic development: The case of Southeast Asia, *Journal of Asian Economics*, 2(1):125–135.

<sup>15</sup> Sapir A, 1981, Trade benefits under the EEC generalized system of preferences, *European Economic Review*, 15(3):339–355.

<sup>16</sup> Pantelides P, 1984, Testing the USA Generalized System of Preferences, *Journal of Economic Development*, 9(2):87–107.

<sup>17</sup> Truett DB and Truett LJ, 1989, Level of development and the US generalised system of preferences: Malaysia and Mexico, *The Journal of Development Studies*, 25(2):226–239.





middle-income countries (UMICs). For these groups of countries, NRTPs have been increasingly replaced by reciprocal FTAs.

The advent of WTO led to a major reappraisal of NRTPs, as the legal basis of those schemes granted to a closed list of developing countries had come to be questioned. As a result, some “non-generalized” NRTPs, such as the European Union’s ACP preferences under the Lomé IV Convention, were transformed into reciprocal trade preferences (i.e., FTAs in the form of Economic Partnership Agreements (EPAs) since 2008) under the terms of the Cotonou Partnership Agreement (2000) that succeeded the Lomé IV Convention.

Differentiation of non-LDC developing countries among GSP beneficiaries based on income or other non-trade criteria was challenged under the WTO dispute settlement mechanism.<sup>18</sup> The disputes led the European Union to establish a positive-incentive scheme called “GSP+” in 2006 that granted more generous preferences to countries that complied with a set of international human rights, labour and environmental standards.

While non-LDC developing countries saw their unilateral trade preferences evolve towards more reciprocity and positive incentives, the integration of LDCs into global trade was brought to the forefront of the international trade policy agenda. The objective of improving market access for LDCs was confirmed in the United Nations

Millenium Declaration (2000) and reaffirmed in the Brussels Programme of Action for LDCs (2001).<sup>19</sup> This led to a series of initiatives to provide duty-free and quota-free (DFQF) market access to LDCs. The United States adopted its African Growth and Opportunity Act (AGOA) in 2000, and the European Union, its “Everything-but-Arms (EBA)” initiative in 2001.

The WTO Hong Kong Ministerial Decision in 2005 called upon developed countries, and “developing countries declaring themselves in a position to do so”, to provide DFQF market access for LDCs for “at least 97 per cent of tariff lines” to be implemented by 2008.<sup>20</sup> In response to this call, various GSP-granting countries strengthened LDC preferences under their GSP programmes. Several developing countries, such as India (2008) and China (2010), also put in place special trade preference programmes for LDCs.

More recently, several GSP-granting countries showed a tendency to tighten eligibility criteria with the stated objective of prioritizing LDCs in their preferential programmes. It has therefore become common to see different GSP schemes include graduation for HICs<sup>21</sup> from preference eligibility.<sup>22</sup> The European Union, in its 2014 reform, took the initiative of excluding UMICs from eligibility. Together with changes in other eligibility criteria, this significantly reduced the total number of beneficiary

The objective of improving market access for LDCs was brought to the forefront of the international trade policy agenda

<sup>18</sup> For instance, European Communities – Regime for the Importation, Sale and Distribution of Bananas (DS27) and European Communities – Conditions for the Granting of Tariff Preferences to Developing Countries (DS246).

<sup>19</sup> United Nations, General Assembly, 2000, United Nations Millenium Declaration, A/RES/55/2, New York, 18 September; United Nations, General Assembly, 2001, Report of the Third United Nations Conference on the Least Developed Countries, A/CONF.191/13, Brussels, 20 September.

<sup>20</sup> WTO, 2005, Ministerial Declaration, WT/MIN(05)/DEC, Geneva, 18 December.

<sup>21</sup> The income criterion (HIC, UMIC) usually refers to “three consecutive years”. Hence, the formulation allows for elimination of preferences over a transition period.

<sup>22</sup> In the case of the European Union, these countries will remain in the list of “eligible countries” but cannot be designated as “beneficiary countries” for the purpose of GSP preferences. Once they are reclassified out of high-income or upper middle-income status or terminate FTAs with the European Union, they could again become eligible to receive GSP benefits.



countries for the European Union's GSP scheme from 176 to 65 in 2022.<sup>23</sup>

The practice has been followed by several other GSP-granting economies, including Canada (2015), the Eurasian

Economic Union (EAEU) (2021) and the United Kingdom (2021). Box 1 summarizes recent developments in selected NRTP programmes.



## Box 1

### Recent developments

GSP schemes are subject to periodic renewal. Originally, GSP programmes were introduced for a period of 10 years, and have been extended every 10 years to provide predictability and security of market access conditions. Recently, several preference-granting countries have extended their schemes for another 10-year period (Japan until 2031, and Canada until 2034) or indefinitely (e.g., Switzerland).

The European Union GSP scheme was set to expire on 31 December 2023 but was extended until 2027 with no substantive changes pending the agreement on the European Commission's reform proposal.<sup>24</sup> In 2021, the Commission adopted a legislative proposal to extend the European Union's GSP for 10 years for the period 2024–2034.<sup>25</sup> The proposed regulation seeks to maintain the status quo of the overall architecture of the European Union GSP scheme composed of (i) Standard GSP, (ii) GSP+ and (iii) EBA for LDCs, while improving some of the key features, including social, environmental and climate aspects under GSP+, as well as catering for evolving needs of those LDCs expected to graduate from the LDC status.

The United Kingdom established a new GSP scheme in 2021 following its withdrawal from the European Union on 31 January 2020.<sup>26</sup> Subsequently, the new United Kingdom Developing Countries Trading Scheme (DCTS), which introduced major changes to the previous GSP scheme, entered into force on 19 June 2023.<sup>27</sup> The new DCTS is composed of three sub-arrangements: (i) Standard Preferences; (ii) Enhanced Preferences, and (iii) Comprehensive Preferences, respectively corresponding to the European Union's standard GSP, GSP+ and EBA.

While the proposed new European Union GSP+ is expected to maintain the eligibility requirement to ratify the updated list of 32 international conventions on sustainable development and good governance, the United Kingdom Enhanced Preferences removed this requirement. Countries are no longer required to ratify 27 international conventions on sustainable development and good governance to be eligible for the Enhanced Preferences. This change has enlarged the number of eligible countries for the Enhanced Preferences from 8 to 16, while reducing the number of beneficiaries for Standard Preferences from 33 to 2.<sup>28</sup>

<sup>23</sup> For the 2023 fiscal year, the World Bank defines low-income economies as those with a GNI per capita, calculated using the World Bank Atlas method, of \$1,085 or less in 2021 (28 economies); lower middle-income economies as those with a GNI per capita between \$1,086 and \$4,255 (54); upper middle-income economies as those with a GNI per capita between \$4,256 and \$13,205 (54), and high-income economies as those with a GNI per capita of \$13,205 or more (81). Fifty-four upper middle-income countries include countries such as Argentina, Brazil, China, Malaysia, South Africa and Thailand.

<sup>24</sup> In order to preempt the expiration of the current GSP regulation without a new regulation in place by 31 December 2023, the European Commission has proposed an extension of the current GSP regime until 2027. European Commission, 2023, Proposal for a Regulation of the European Parliament and of the Council amending Regulation (EU) No 978/2012 of the European Parliament and of the Council of 25 October 2012 applying a scheme of generalised tariff preferences and repealing Council Regulation (EC) No 732/2008, COM(2023) 426 final, 2023/0252 (COD), Brussels, 4 July.

<sup>25</sup> European Commission, 2021, Proposal for a Regulation of the European Parliament and of the Council on applying a generalised scheme of tariff preferences and repealing Regulation (EU) No 978/2012 of the European Parliament and of the Council, (COM (2021) 579 final, 2021/0297 (COD), Brussels, 22 September.

<sup>26</sup> United Kingdom, 2020, The Trade Preference Scheme (EU Exit) Regulations 2020, No. 1438.

<sup>27</sup> United Kingdom, 2023, The Trade Preference Scheme (Developing Countries Trading Scheme) Regulations 2023, No. 561.

<sup>28</sup> See the services and information website of the Government of the United Kingdom available at <https://www.gov.uk/guidance/preference-tiers-under-the-developing-countries-trading-scheme>.



The United States GSP scheme expired in January 2021 and has not been renewed (as of September 2024). GSP authorization in the United States has expired on ten occasions in the past. Once the programme was extended, duty-free treatment was retroactively applied to all GSP-eligible products that had been imported during the lapse period, thereby allowing importers to seek refunds of paid duties. In view of its expiration in 2025, the extension or otherwise of AGOA beyond 2025 is currently under consideration.

Canada's GSP schemes were set to expire on 31 December 2024 but have been extended until 31 December 2034. The major changes introduced pertain to the simplification and liberalization of the RoO for apparel and the expansion of the Commonwealth Caribbean Country Tariff (CCCT) programme (CARIBCAN) to include textile and apparel products. This change in RoO for apparel will apply to all programmes (General Preferential Tariff (GPT), Least Developed Country Tariff (LDCT) and GPT+) and introduces single transformation rule for apparel, allowing developing countries' and LDCs' exporters to use non-originating fabrics for cutting and sewing. This reform brings Canada's programmes in alignment with the RoO applied under LDC-specific schemes in the European Union and Japan. GPT+ will extend additional tariff benefits to those developing countries that meet international labour and environmental standards.<sup>29</sup>

Source: UNCTAD compilation.

## B. Trade preferences and export diversification: An empirical evaluation

### 1. Diversification and economic development

The contribution of trade preferences to export diversification is highly debated. Export diversification indicators show how “a country's exports are spread across a large number of products and/or trading partners.”<sup>30</sup> Export diversification can happen in two ways: Through trading (1) new products (product diversification) or (2) in new markets (market diversification). The former implies acquisition or mastery of new know-how, new skills, technologies and, climbing up the production value-chain. The latter often requires better market access conditions and improvement of the exporter's competitive advantages. This section will examine the diversification into new products among the LDC beneficiaries.

Earlier economic studies, which only focused on how international trade takes place based on differences in productivity, opportunity cost or factor endowments, mainly ignored the importance of the export composition. Singer and Prebisch challenged this view in the 1950s and 1960s by highlighting the dangers of over-dependence on exports of a few products such as terms of trade deterioration, persistent trade deficits, and unstable export revenues.<sup>31</sup>

A vast body of empirical and theoretical studies identify export diversification as one of the key determinants of sustained high economic growth and development. Findings show that export growth happening through new products is more effective in increasing per capita income than the growth through an increase in existing exported products.<sup>32</sup> Indeed, over the last three decades, economies with highly diversified exports grew almost twice as fast as economies with low export diversification. Overwhelming empirical evidence supports

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<sup>29</sup> Canada, 2023, Regulatory Impact Analysis Statement, Canada Gazette, Part II, 157(22):2881–2890, 25 October (See pp: 2885–2886).

<sup>30</sup> UNCTAD, 2018, Export Diversification and Employment, Geneva.

<sup>31</sup> Sarin V, Mahapatra SK and Sood N, 2020, Export diversification and economic growth: A review and future research agenda, Journal of Public Affairs, 22(4).

<sup>32</sup> See Dutt P, Mihov I and Van Zandt T, 2008, Trade Diversification and Economic Development, INSEAD; and Agosin MR, 2009, Export diversification and growth in emerging economies, CEPAL Review, 97, April 2009.



the positive impact of export diversification on economic growth and development.<sup>33</sup>

A simple figure below illustrates how diversified and non-diversified economies performed in economic growth over the last three decades (figure 1). In this figure, the countries are classified into three equally numbered groups according to their diversification score for the 1995–1999 (initial) period. Expectedly, economies with low and medium export diversity started at a lower income level compared to the highly diversified economies. In the following three decades, both groups with low and medium diversity remained below the highly diversified

economies and more importantly, the income gap between the highly diversified economies and the others widened over time. Therefore, the economies with a more diversified export basket tended to grow faster than non-diversified economies.

The economies with a more diversified export basket tended to grow faster than non-diversified economies

## 2. Trade preferences and export diversification

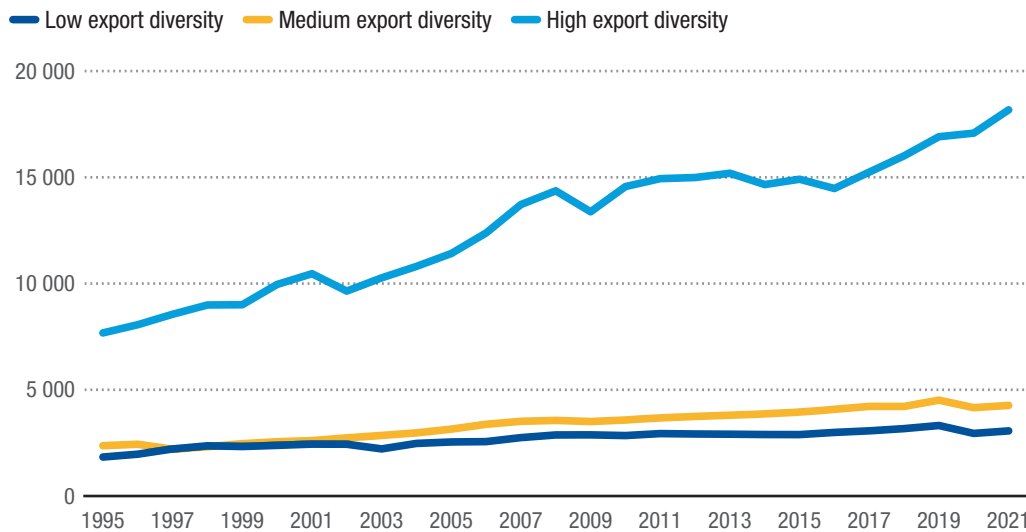
Since the beginning, one of the main goals of trade preferences has been to contribute to export diversification in developing countries. The existing literature on trade preferences focuses on the impact of preferential treatment on exports of beneficiary



**Figure 1**

### Average real income per capita by level of export diversification

Dollars



Source: UNCTAD calculations, based on UNCTADstat.

Note: Countries are classified into three equally numbered groups according to their diversification score. Initial diversification score is the average number of exported products calculated by using trade flows at Standard International Trade Classification (SITC) 3-digit level.

<sup>33</sup> See, for instance, Sarin V, Mahapatra SK and Sood N, 2020, Export diversification and economic growth: A review and future research agenda, *Journal of Public Affairs*, 22(4); ESCAP, 2004, *Export Diversification and Economic Growth: The Experience of Selected Least Developed Countries*, Development Papers No. 24 (United Nations publication. Sales No. E.04.II.F.15. New York); Aditya A and Acharyya R, 2013, *Export Diversification and Economic Growth: Evidence from Cross-Country Analysis*, *The Journal of International Trade and Economic Development*, 22(7): 959–992; Hesse H, 2008, *Export Diversification and Economic Growth*, Commission on Growth and Development Working Paper No.21, World Bank, Washington, D.C.



The precise design of the preference programmes and the productive capacities of the beneficiary countries influence export diversification

While diversification increased considerably in some product groups, the change in others was more limited

countries,<sup>34</sup> with a particular emphasis on the European Union's preference schemes.<sup>35</sup>

Gamberoni (2009), by looking at the European Union's non-reciprocal trade preference schemes for the 1994–2005 period, found differential impacts across programmes and product groups.<sup>36</sup> While preferences are increasing export concentration of beneficiary countries in the ACP scheme, especially in agricultural products, they are promoting export diversification in the standard GSP scheme. On the contrary, there is no effect in the LDC-only scheme. A more recent study by Persson and Wilhelmsson (2016) found rather similar results.<sup>37</sup> They studied the link between the preferential schemes and export diversification by analyzing the programmes offered by the European Union to developing countries during the 1962–2007 period and found differing impacts of these programmes on export diversification. While the GSP, GSP+ and LDC-only schemes promoted export diversification, preferences offered to Mediterranean countries and ACP countries did not yield similar results. Therefore, they concluded that the precise design of the preference programmes and the productive capacities of beneficiary countries influence the effectiveness of trade preference programmes on export diversification.

Similarly, Dutt et al. (2008) identified trade costs that can be measured by distance to trading centres and market

access conditions through multilateral, bilateral or unilateral trade arrangements, as key drivers of diversification.<sup>38</sup>

### 3. Diversification of least developed country exports

The average number of products exported by LDCs has expanded in the last two decades but at a slow pace. During the 2002–2004 period, LDCs exported 1,270 products at HS 6-digit level per year to the 25 preference-granting markets. This figure increased to 1,360 products in the period 2019–2022.<sup>39</sup> A total of 244 new products emerged in the LDCs' export basket two decades later, while 154 products lost their trade links in those markets.

Least developed countries' export basket expanded at a different pace by product category (figure 2). Diversification increased considerably in some product groups such as machinery-electrical equipment and textiles-apparel. Textiles and apparel, a key sector for developing countries, performed well, as the number of exported products has increased by 39 per country over this period. The increase is much higher in the machinery and electrical equipment product group, highlighting the important contribution of these industries in export diversification for LDCs. Nevertheless, the highest increases in this product group happened mostly in low and medium technology products, and parts and components such as pumps for liquids,

<sup>34</sup> Hoekman B and Özden C, 2005, Trade preferences and differential treatment of developing countries: A selective survey, Policy Research Working Paper No. 3566; Agostino MR, Aiello F and Cardamone P, 2007, Analyzing the impact of trade preferences in gravity models. Does aggregation matter? TRADEAG – Agricultural Trade Agreements, Working Paper 07/4; and Cardamone P, 2007, A survey of the assessments of the effectiveness of preferential trade agreements using gravity models, *Economia Internazionale*, 60(4):421–473.

<sup>35</sup> Manchin M, 2006, Preference utilisation and tariff reduction in European Union imports from ACP countries, *World Economy*, 29(9):1243–66; Candau F, Fontagne L and Jean S, 2004, The utilisation rate of preferences in the European Union, Conference papers 331286, Purdue University, Center for Global Trade Analysis, Global Trade Analysis Project; and Francois J, Hoekman B and Manchin M, 2006, Preference erosion and multilateral trade liberalization, *World Bank Economic Review*, 20(2):197–216.

<sup>36</sup> Gamberoni E, 2007, Do unilateral trade preferences help export diversification? HEI Working Paper No: 17/2007, Graduate Institute of International Studies, Geneva.

<sup>37</sup> Persson M and Wilhelmsson F, 2016, EU Trade Preference and Export Diversification, *The World Economy*, 39(1):16–53.

<sup>38</sup> Dutt P, Mihov I and Van Zandt T, 2008, Trade Diversification and Economic Development, INSEAD.

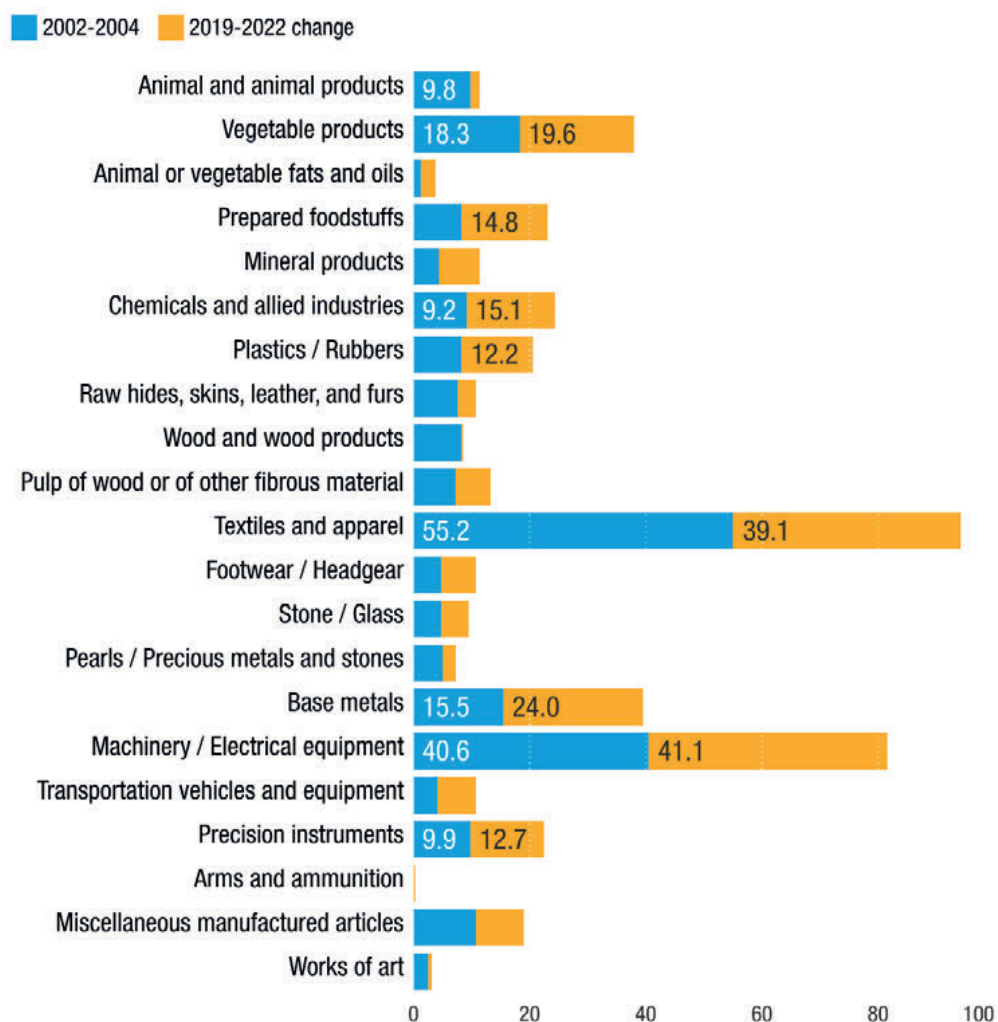
<sup>39</sup> Due to the impact of COVID 19 pandemic on trade figures, end period includes four-year averages instead of three.





Figure 2

### Average number of products exported by least developed countries to 25 preference-granting markets by product group



Source: UNCTAD calculations, based on TRAINS/WITS.

Note: The 3-year average (2002–2004 and 2019–2021) number of products at HS 6-digit level are used in calculations. Includes 46 LDCs' exports to the 25 LDC preference-granting economies. Figures are per-year and per-country changes in exported product counts.

centrifuges, electrical switches, taps, cocks and valves for pipes, and insulated wires and cables. At the other end of the spectrum lie works of art and agricultural products. With the exception of vegetables, agricultural products have so far not contributed much to export diversification.

In general, export diversification of LDCs in the 25 preference-granting markets has increased. Most of the diversification happened through extensive margin, that is, the export of new products. Nevertheless, export diversification has

not happened at the same speed among LDCs. A few countries, such as Bangladesh and Myanmar, almost doubled their number of exported products – reaching more than 1,500 products – while some others remained highly concentrated. The difference in diversification between the high (top 5) and low performing (bottom 10) country groups is evident in their extensive margin performances. The top group outperformed the latter group in creating trade in new products by about 5 to 1.

Export diversification has not happened at the same speed among LDCs



#### 4. Probit model estimates

The Probit model was used to estimate the significance of LDC preference schemes on beneficiary countries' export

diversification in new products and to understand whether trade preferences increase the chances of diversification through the extensive margin (box 2).



#### Box 2

#### Methodological notes

The Probit model is a type of regression where the dependent variable has only two possible outcomes (no=0 or yes=1). In this analysis, the product lines that were not previously exported to the GSP markets (no=0 in the 2004–2006 period) but exported at the end of the period (yes=1 in the 2019–2021 period) are considered. This is considered as export growth through an extensive margin. The latter is regressed on a variable called “product GSP eligibility.” If the variable is significant, then one can say that preferential treatment is promoting product diversification or export growth over an extensive margin.

Due to the availability of detailed data, the estimation in this part is based on preferential import data available for the Quad LDC schemes. LDC schemes were used in the empirical results as country coverages are rather similar, in contrast with general GSP and regional trade preferences, making cross-scheme comparison easier.

The data sample used in the probit regressions includes products that were not exported at the beginning of the period. The exports that were lost from first to second period or exported in both periods were excluded from the data sample as they do not constitute new exports. New product dummy, which gets the value one when the product is exported in the end but not in the beginning period and the value zero when a product is not exported in both periods, is used as the measure of export diversification or, in other words, extensive margin of exports.

The main empirical question of this exercise is to test whether trade preferences increase chances of diversifying through extensive margin. As diversification into new products is measured by a dummy variable, the probit method is employed. The results will show whether the probability of exports expanding to new products is higher in products that receive preferential treatment.

GSP-granting economies often grant reduced duties or duty-free access to eligible products. Yet, some of those products also have zero MFN rates, providing no trade preferences compared to the MFN rate. Therefore, instead of the official eligible product list, positive preference margin dummy (products having preferential rate lower than the MFN rate) is used to measure the effect of the trade preferences on export diversification.

Products that have positive preferences had higher chances (4.4 per cent) to be exported over time

Table 1 presents the results when pooled data for all four Quad economies are used. In column one (model 1), the coefficient of preference dummy is positive and statistically significant at 5 per cent level, showing the positive impact of trade preferences on export diversification. Nevertheless, due to the binary form of the dependent variable (dummy variable taking values of zero and one), interpreting probit coefficient estimates is

not as straightforward as ordinary linear regressions. They need to be converted into probabilities of switching from zero to one by using normal distribution. When converted into probabilities, results indicated that products that have positive preferences had higher chances (4.4 per cent) to be exported over time by the beneficiary countries compared to the ones that do not (2.3 per cent).



 **Table 1**
**Probit regression results**

|  | Model 1           | Model 2           | Model 3           |
|--|-------------------|-------------------|-------------------|
| <b>Scheme coverage</b>                   | LDC-only          | LDC-only          | LDC-only          |
| <b>Dependent variable</b>                | New product dummy | New product dummy | New product dummy |
| <b>Intercept</b>                         | -1.82554**        | -1.68758**        | -1.71455**        |
| <b>Positive Margin Dummy</b>             | 0.282353**        | 0.114659**        | 0.332384**        |
| <b>European Union Dummy</b>              |                   | 0.384715**        | 0.562087**        |
| <b>Japan Dummy</b>                       |                   | -0.91181**        | -0.8332**         |
| <b>United States Dummy</b>               |                   | -0.38955**        | -0.35321**        |
| <b>Positive Margin *EU Dummy</b>         |                   |                   | -0.36442**        |
| <b>Positive Margin *Japan Dummy</b>      |                   |                   | -0.23003**        |
| <b>Positive Margin *USA Dummy</b>        |                   |                   | -0.11272**        |
| <b>Number of observations</b>            | 1,106,466         | 1,106,466         | 1,106,466         |
| <b>Pseudo R2</b>                         | 0.1054            | 0.1864            | 0.1888            |
| <b>Chi2</b>                              | 44,229.79         | 78,174.16         | 79,219.68         |
| <b>Prob &gt; Chi2</b>                    | 0.0000            | 0.0000            | 0.0000            |
| <b>Log Likelihood</b>                    | -187,634.06       | -170,661.88       | -170,139.12       |
| <b>Beneficiary country fixed effects</b> | YES               | YES               | YES               |
| <b>Product group fixed effects</b>       | YES               | YES               | YES               |

Source: UNCTAD estimations.

Note: Probit estimations for all Quad economies (2004/2006 versus 2019/2022). Beneficiary country (46) and HS product group (21) fixed effects were added to control cross-beneficiary country and product group differences. Pseudo R-Squared measures goodness-of-fit in logistic models; Chi2 is the Likelihood Ratio Chi-Square test that at least one of the predictors' regression coefficient is not equal to zero; Prob signifies probability. Prob>Chi2 is the test of joint null hypothesis that all of the regression coefficients are simultaneously equal to zero.

\* and \*\* indicate significance at 10 and 5 per cent levels, respectively.

### a. Asymmetric performance across schemes

The Probit model can also be used to analyze the overall performance of the programmes in promoting beneficiary countries' export diversification (table 2). For example, each NRTP scheme has its own characteristics in terms of product and country coverage, preferential tariffs, RoO, duration and other administrative formalities. These differences across Quad markets

were captured through economy dummies (model 2). Canada is the base country, and its effect is captured by the intercept term. The coefficients of the European Union, Japan and the United States dummies represent additional impacts (marginal impacts) of these country programmes on top of the intercept (Canada's impact). All coefficients were found statistically significant at the 5 per cent level. As Canada is the base country, and coefficients





**Table 2****Probability of new exports in Quad markets**

Percentage

|                       | All products | Preferential products export advantages |
|-----------------------|--------------|---|
| <b>Canada</b>         | 3.1          | 2.5                                     |
| <b>European Union</b> | 4.1          | -0.4                                    |
| <b>Japan</b>          | 1.6          | 0.1                                     |
| <b>United States</b>  | 2.9          | 0.7                                     |

Source: UNCTAD estimations.

Note: Probabilities are calculated at mean values of positive margin dummy, beneficiary country dummies and product group dummies.

are negative for Japan and the United States, and positive for the European Union, the European Union's programme stands out among the Quad economies for promoting export diversification. Of these four markets, the European Union scheme has the highest probability of new exports with 4.1 per cent on average, followed by Canada and the United States, while Japan has the lowest probability.

The differences in the likelihood of LDC export diversification under these programmes may be attributable to the manner in which the programmes are structured and reformed over this period. Both the European Union and Canada programmes – the programmes with highest probability – underwent reforms to provide tariff advantages to LDCs over UMICs and to simplify RoO. On the other hand, the United States offers overlapping eligibilities across different programmes, such as AGOA and CBI, which might decrease the effectiveness of the LDC programme, as some LDCs may rather use these alternative programmes.

A related question is whether the tariff structure of individual schemes promotes diversification or not. To estimate that, preference margin and Quad market interaction dummies (e.g., "Positive Margin \*European Union Dummy" in the case of the European Union) were added (table 1,

third column, model 3). As in the case of model 2, Canada is the base economy and the coefficient for the positive margin dummy represents the impact of preference margins on diversification in Canada. The interaction dummies measure whether preference margins are significantly different from the base country in the remaining Quad economies or not. All coefficients, including interaction dummies, are statistically significant at 5 per cent level. Negative interaction dummy coefficients signify smaller impact of preference margins in the Quad economies other than Canada.

These coefficient estimates can be converted into probabilities of exporting new products as well. The second column in table 2 shows that Canada's preferential tariff structure provides the greatest additional boost to diversification in eligible products (products with positive margin) followed by the United States and Japan, while the European Union's preferential tariff structure does not provide additional boost to diversification. This could be due to the non-discriminating nature of the EBA programme, which covers all products except arms at zero rate. Therefore, the European Union's tariff preference margins reflect their MFN tariff structure. Japan and Canada also have similarly high duty-free product coverage for LDCs. However, the European Union has a smaller share of (about 20 per cent) MFN duty-free tariff lines

Preferential tariffs provide the additional boost to diversification in eligible products



compared to Japan (about 40 per cent) and Canada (about 70 per cent). As MFN duty-free products are not included in the eligible products, a larger proportion of data observations can be used to contrast and identify the effect of product coverage in the European Union's programme than in Canada's and Japan's programmes. Another possible factor is the differences in NTM structures among donor markets at product level. Due to lack of detailed data on cost of these measures it is challenging to fully capture non-tariff costs of preferential trade.

### b. Asymmetric performance across products

Model 3 can be used to estimate the probability of new exports by product group, identifying specific product groups in which preferences are more successful than others. To study the impact of the preferences on different products, average diversification probabilities were computed for 21 product sections of the Harmonized Commodity Description and Coding System (HS). In so doing, mean values of each independent variable used in model 3 regressions for each of the 21 product groups was used.<sup>40</sup>

The results of the analysis show heterogeneous probabilities of diversification for different product groups (figure 3). The footwear / headgear group has the highest probability with more than 7 per cent, possibly due to potential comparative advantages certain LDCs have in these products when trade preferences are granted. Moreover, LDCs receive one of the most generous preference margins in this group, especially in Canada, the European Union, and Japan. This group is followed by the “pearls, precious metals, and stones” group, which also includes

some jewellery items, indicating potential for some LDCs to diversify through creative industries. The “miscellaneous manufactured articles” group, the group with the third highest probability of diversification, also includes some creative products such as toys and games. The preference margins are mediocre in these groups, yet their higher position on the list underlines the potential of creative industries to promote diversification in LDCs.

At the bottom of the list are animal products. LDCs often receive significant tariff preference margins in these product groups as well, but NTMs are widely used for these products and often imply high costs. According to UNCTAD and World Bank (2018), the prevalence of NTMs is the highest in the animal and animal products, vegetable products and prepared foodstuffs.<sup>41</sup> Two of those product groups are among the sectors with the lowest probability to diversify.

Base metals and minerals are also at the end of this list, indicating the limited room for diversification in commodity exports.

#### *The role of preference margin*

The NRTP schemes' preference margin hardly contributed to the diversification of the beneficiary countries. Table 3 shows product groups ranked from high to low preference margins as compared to diversification probabilities. Product groups that receive higher average preference margin are not necessarily associated with high diversification probability. For example, the top ten (upper half) of the product groups record the average preference margin of 4.6 per cent as compared with the average diversification probability of 2.4 per cent. The lower half, with the average

The footwear / headgear group has the highest probability with more than 7 per cent

<sup>40</sup> In the probit regressions marginal effects of independent variable are estimated through calculating probabilities of dependent variable switching from zero to one. These probabilities are not constant and depend on the value of independent variable. The common approach in the literature is to compute the probabilities when independent variables are at their sample mean. As sample average of positive margin and economy dummies vary by product group, these averages are multiplied by their respective coefficient estimates to compute the product group probabilities.

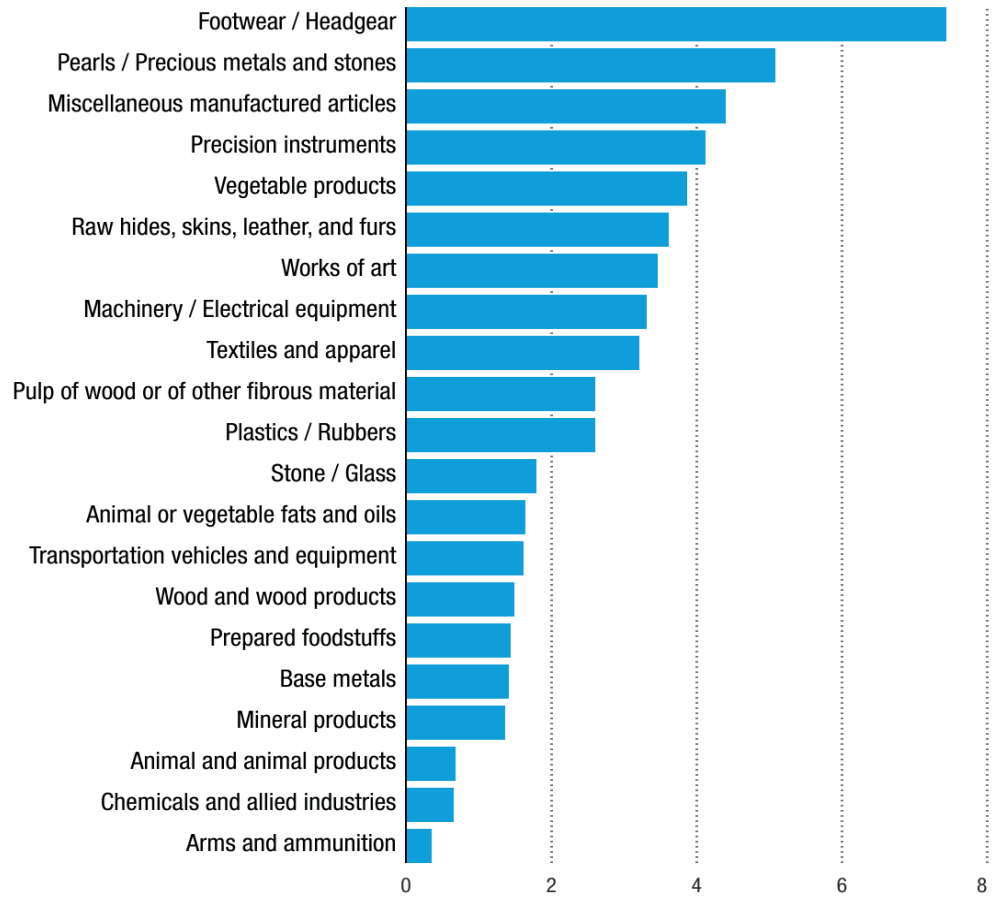
<sup>41</sup> UNCTAD and World Bank, 2018, *The Unseen Impact of Non-Tariff Measures: Insights from a new database* (United Nations publication, Geneva).





**Figure 3**  
**Probability of new exports by product group**

Percentage



Source: UNCTAD estimations.

Note: Probabilities are calculated at mean values of positive margin dummy, Quad market dummies and interaction dummies.



**Table 3****Preference margin and diversification probability by product group**

Percentage

|   | Preference margin | Diversification probability |
|---|-------------------|-----------------------------|
| Prepared foodstuffs                       | 8.9               | 1.4                         |
| Footwear / Headgear                       | 6.8               | 7.4                         |
| Animal and animal products                | 5.3               | 0.7                         |
| Textiles and apparel                      | 5.1               | 3.2                         |
| Raw hides, skins, leather, and furs       | 4.5               | 3.6                         |
| Animal or vegetable fats and oils         | 4.1               | 1.7                         |
| Vegetable products                        | 4.1               | 3.9                         |
| Transportation vehicles and equipment     | 3.1               | 1.6                         |
| Arms and ammunition                       | 3.0               | 0.4                         |
| Plastics / Rubbers                        | 2.8               | 2.6                         |
| Stone / Glass                             | 2.8               | 1.8                         |
| Chemicals and allied industries           | 2.7               | 0.7                         |
| Miscellaneous manufactured articles       | 2.6               | 4.4                         |
| Wood and wood products                    | 2.0               | 1.5                         |
| Base metals                               | 1.3               | 1.4                         |
| Pearls/precious metals and stones         | 1.3               | 5.1                         |
| Precision instruments                     | 1.1               | 4.1                         |
| Machinery / Electrical equipment          | 0.9               | 3.3                         |
| Mineral products                          | 0.5               | 1.4                         |
| Works of art                              | 0.1               | 3.5                         |
| Pulp of wood or of other fibrous material | 0.0               | 2.6                         |
| Average                                   | 3.0               | 2.7                         |
| Top half average                          | 4.6               | 2.4                         |
| Bottom half average                       | 1.5               | 3.0                         |

High preference margins are not always leading to high diversification probabilities.

Source: UNCTAD calculations, based on probit results and TRAINS/WITS.

Note: Preference margin is based on the 2021 tariffs excluding specific tariffs and refers to simple average for four Quad schemes.



preference margin of 1.7 per cent, however, shows the higher average probability of diversification at 3 per cent. Scatter plots in figure 4 confirm this: The correlation line between diversification probabilities and preference margins is rather flat.

*The role of non-tariff measures*

One of the possible explanations for the weak correlation between preference margins and diversification is the impact of NTMs as these measures add to the trade cost due to administrative burden and compliance with standards. Although NTMs concern all products, they are more common in agricultural and food products than in manufactured goods. The main agricultural and food product groups (animal and animal products, vegetable products, animal or vegetable

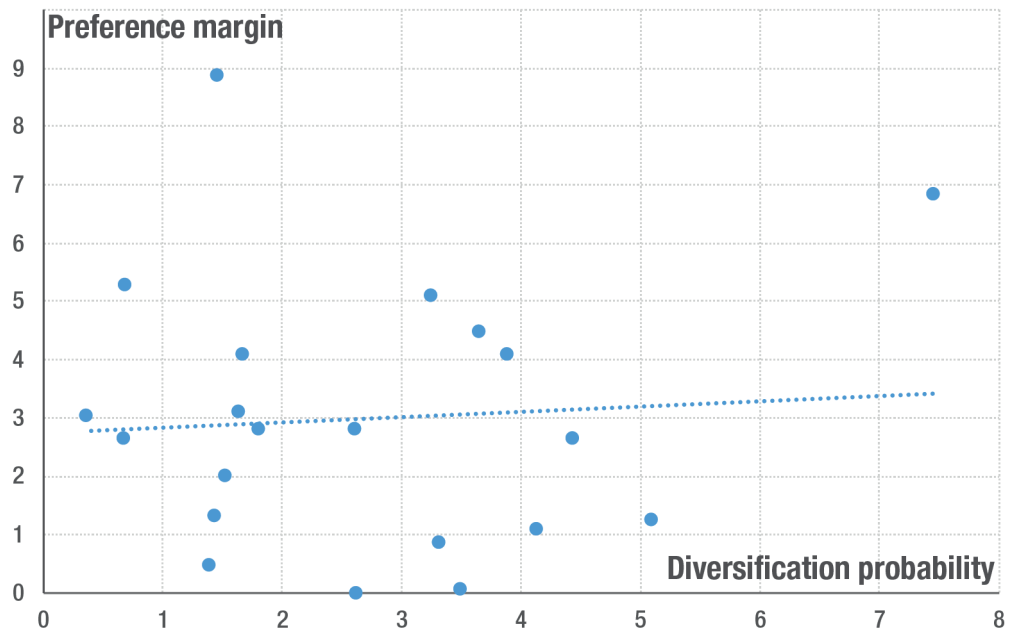
fats and oils, and prepared foodstuffs) account for 67 per cent of the total number of sector specific NTMs notified to the WTO, which is equivalent to about 22,000 NTMs (table 4). In contrast, footwear / headwear group includes only 109 NTMs.

Figure 5 plots the number of NTMs by product group as compared to diversification probability. It shows that those product groups with a higher number of NTMs tend to be associated with lower probability of diversification. For example, the footwear / headwear group with the lowest number of NTMs shows the highest probability to diversify. Similarly, the animal and animal products group, which has the highest number of NTMs, registers the second lowest diversification probability after arms and ammunition.<sup>42</sup>

Product groups with a higher number of NTMs show lower probability of diversification



**Figure 4**  
**Relationship between diversification probability and preference margin under Quad preference schemes**  
 Percentage



Source: UNCTAD calculations, based on probit results and TRAINS/WITS.  
 Note: Preference margin is based on the 2021 tariffs excluding specific tariffs and refers to simple average for four Quad schemes.

<sup>42</sup> European Union's EBA program excludes arms and ammunition from preferences.



**Table 4**

**Number of sanitary and phytosanitary measures, non-tariff measures and diversification probability by product group**

|   | Diversification probability (Percentage) | SPS   | NTMs  |
|---|--|-------|-------|
| Animal and animal products                | 0.7                                      | 6 889 | 8 161 |
| Vegetable products                        | 3.9                                      | 6 302 | 7 542 |
| Animal or vegetable fats and oils         | 1.7                                      | 1 088 | 1 336 |
| Prepared foodstuffs                       | 1.4                                      | 3 508 | 4 663 |
| Mineral products                          | 1.4                                      | 73    | 362   |
| Chemicals and allied industries           | 0.7                                      | 1 419 | 2 862 |
| Plastics / Rubbers                        | 2.6                                      | 245   | 886   |
| Raw hides, skins, leather, and furs       | 3.6                                      | 94    | 226   |
| Wood and wood products                    | 1.5                                      | 229   | 442   |
| Pulp of wood or of other fibrous material | 2.6                                      | 30    | 289   |
| Textiles and apparel                      | 3.2                                      | 143   | 594   |
| Footwear / Headgear                       | 7.4                                      | 12    | 109   |
| Stone / Glass                             | 1.8                                      | 32    | 340   |
| Pearls/precious metals and stones         | 5.1                                      | 14    | 155   |
| Base metals                               | 1.4                                      | 94    | 1 679 |
| Machinery / Electrical equipment          | 3.3                                      | 481   | 1 088 |
| Transportation vehicles and equipment     | 1.6                                      | 94    | 372   |
| Precision instruments                     | 4.1                                      | 27    | 274   |
| Arms and ammunition                       | 0.4                                      | 55    | 223   |
| Miscellaneous manufactured articles       | 4.4                                      | 41    | 388   |
| Works of art                              | 3.5                                      | 31    | 142   |

Source: UNCTAD calculation, based on probit results and WTO.

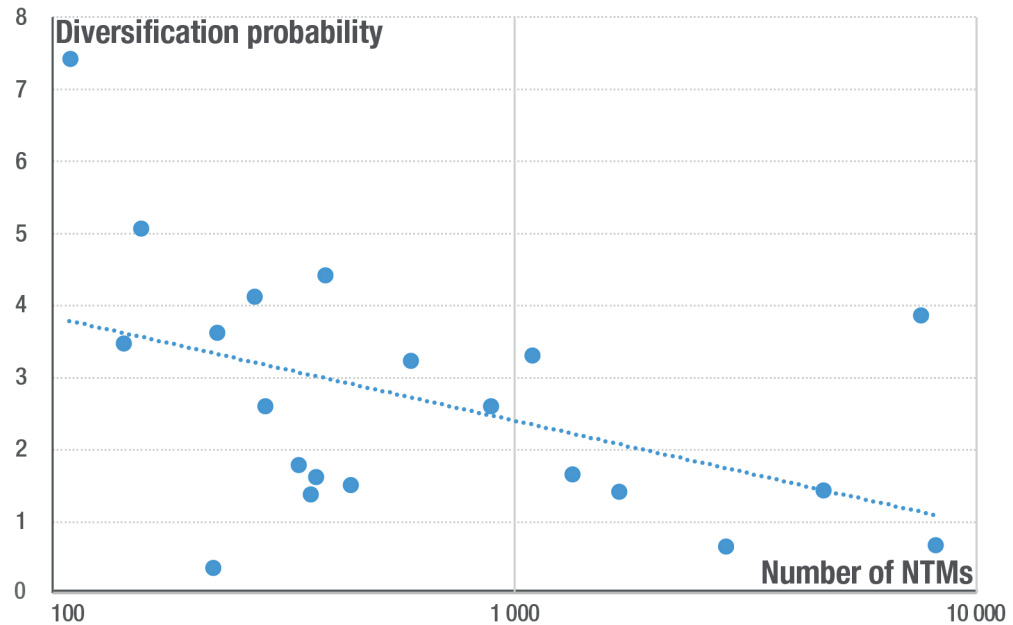
Note: NTM figures include sum of all types of NTMs notified to the WTO as of 31 December 2023. Available at <https://i-tip.wto.org/goods/Forms/ProductViewNew.aspx?data=default>



**Figure 5**

### Relationship between the number of non-tariff measures and diversification probability by product group

Logarithm (X-axis) and percentage (Y-axis)



Source: UNCTAD calculations, based on probit results and WTO.

Note: NTM figures include sum of all types of NTMs notified to the WTO as of 31 December 2023. Available at <https://i-tip.wto.org/goods/Forms/ProductViewNew.aspx?data=default>

#### *The role of creative industries*

Creative industries may have played a role in advancing trade growth and diversification in developing countries. Table 5 shows the number of creative products in 21 product groups. Textiles and apparel top the list with 69 products followed by the miscellaneous manufactured products group with 22 products. When plotted against the diversification probabilities by product, product groups with higher number of creative products tend to show higher diversification probabilities (figure 6). This may suggest possible contribution of creative industries to export diversification although these results are preliminary. Further research is warranted to firmly establish such a relationship.

#### **c. Asymmetric performance across exporters**

One of the key observations of trade preferences is that export diversification did not happen at a same speed and in a same scale among beneficiary countries. While some countries diversified successfully during the last two decades, many others showed, at best, a very minor change over this period.

Asymmetric performance in export growth among NRTP beneficiary countries is well documented in the literature. For example, Dutt et al. (2008) found that institutional quality played a role in the extent to which developing countries benefited from NRTPs.<sup>43</sup> In a related study, Ornelas and Ritel (2020) found that the WTO membership of the beneficiaries plays a significant role in the effectiveness of the preferences for

<sup>43</sup> Dutt P, Mihov I and Van Zandt T, 2008, Trade Diversification and Economic Development, INSEAD.




**Table 5**
**Number of creative products and diversification probability by product group**

| SITC Sections                             | Number of creative products | Diversification probability (Percentage) |
|---|-----------------------------|--|
| Textiles and apparel                      | 69                          | 3.2                                      |
| Miscellaneous manufactured articles       | 22                          | 4.4                                      |
| Pulp of wood or of other fibrous material | 20                          | 2.6                                      |
| Wood and wood products                    | 19                          | 1.5                                      |
| Works of art                              | 19                          | 3.5                                      |
| Stone / Glass                             | 18                          | 1.8                                      |
| Precision instruments                     | 18                          | 4.1                                      |
| Raw hides, skins, leather, and furs       | 12                          | 3.6                                      |
| Pearls / Precious metals and stones       | 11                          | 5.1                                      |
| Machinery / Electrical equipment          | 8                           | 3.3                                      |
| Base metals                               | 6                           | 1.4                                      |
| Footwear / Headgear                       | 4                           | 7.4                                      |
| Chemicals and allied industries           | 3                           | 0.7                                      |
| Plastics / Rubbers                        | 1                           | 2.6                                      |
| Arms and ammunition                       | 0                           | 0.4                                      |
| Animal and animal products                | 0                           | 0.7                                      |
| Mineral products                          | 0                           | 1.4                                      |
| Prepared foodstuffs                       | 0                           | 1.4                                      |
| Transportation vehicles and equipment     | 0                           | 1.6                                      |
| Animal or vegetable fats and oils         | 0                           | 1.7                                      |
| Vegetable products                        | 0                           | 3.9                                      |

Source: UNCTAD calculations, based on probit results and UNCTAD (2024c).

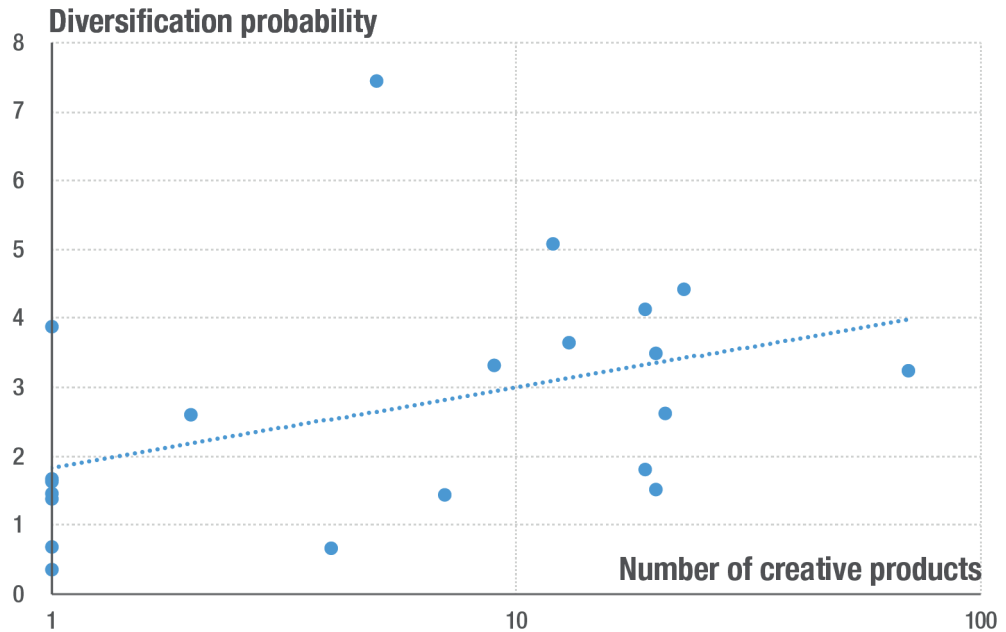
Note: Creative products are defined at HS 6-digit level (2022) and contain a total of 230 products.





**Figure 6****Relationship between the number of creative products and diversification probability**

Logarithm (X-axis) and percentage (Y-axis)



Source: UNCTAD calculations, based on probit results and UNCTAD (2024c).

Note: Creative products are defined at HS 6-digit level (2022) and contain a total of 230 products.

While a few countries show a high likelihood for diversification, most others remained undiversified during this period

LDCs.<sup>44</sup> Becoming a WTO member is usually followed by institutional reforms and better allocation of resources. Therefore, improved institutional quality, triggered by the WTO membership, helps LDCs take advantage of the preferences. In a similar study, Cuyvers and Soeng (2013) found regional differences in the size of benefits from the European Union's GSP scheme during the 1994–2007 period. The study found that benefits gained by ASEAN members and China from the scheme's industrial and textile preferences were significantly higher than those of Latin American countries.<sup>45</sup>

Fernandes et al. (2019) found complementary domestic reforms to be an important factor in benefiting from preferential access based on 1992–2017

period data on the United States GSP and AGOA schemes. In particular, they identified enhanced connectivity, reduced regulatory burden and tariff liberalization as necessary complementary policies in beneficiary countries.<sup>46</sup>

Probit estimates (model 3) can also be used to calculate average probabilities of new exports by beneficiary country (figure 7). While a few countries show a high likelihood of diversification, most of the countries remained undiversified during this period. Among the LDCs included in the analysis, Bangladesh is the country with the highest probability of new product exports, recording a probability of over 12 per cent, followed by Cambodia and Myanmar. While diversification probabilities are above 8 per

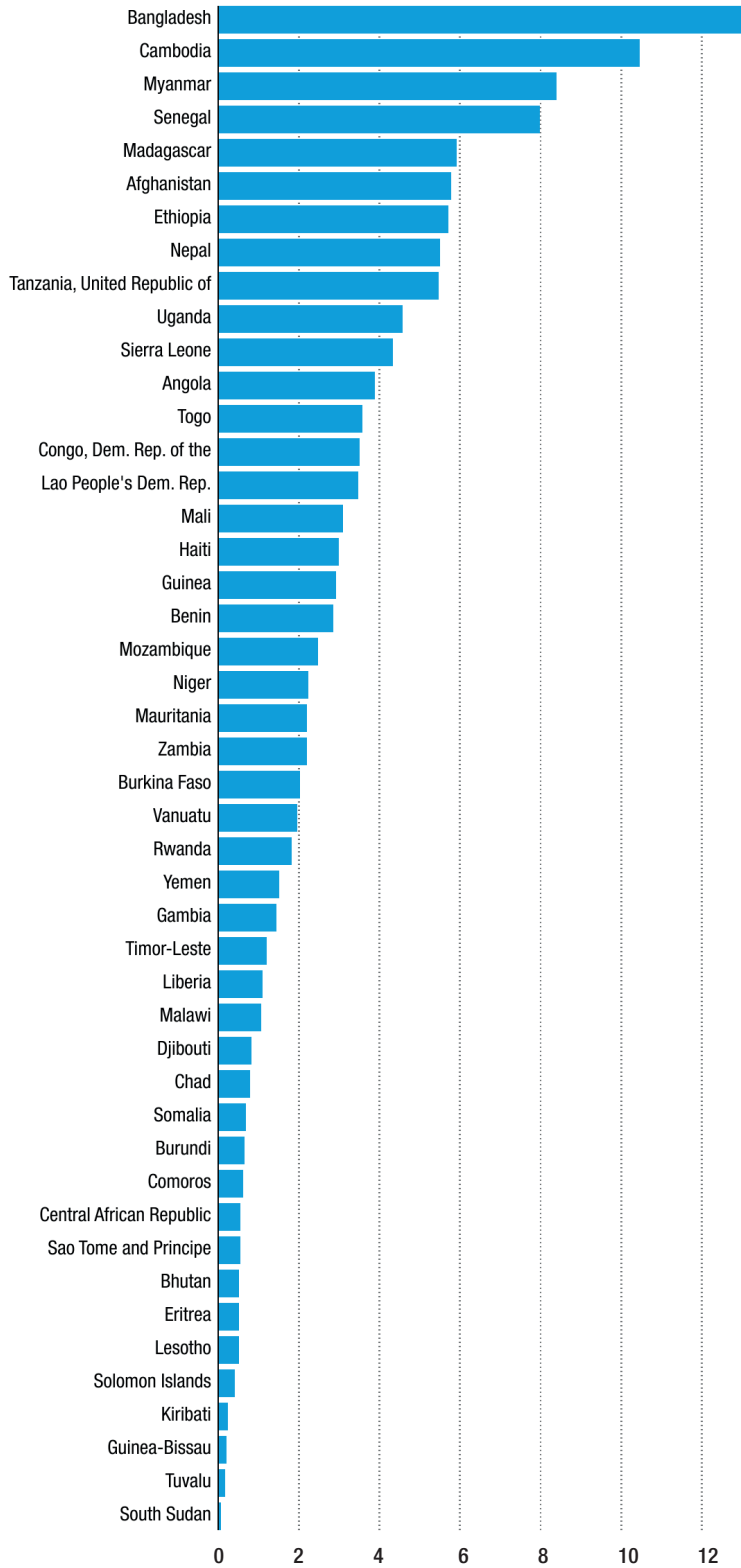
<sup>44</sup> Ornelas E and Rittel M, 2020, The not-so-generalized effects of the Generalized System of Preferences, *The World Economy*, 43(7):1809–1831.

<sup>45</sup> Cuyvers L and Soeng R, 2013, The Impact of the EU Generalized System of Preferences on Exports and GSP Utilization by Asian and Latin American Countries, *Journal of International Trade Law and Policy*, 12(1):80–97.

<sup>46</sup> Fernandes AM, Maemir H, Mattoo A and Forero A, 2019, Are trade preferences a panacea? The African Growth and Opportunity Act and African exports, CESifo Working Paper No: 7672, Center for Economic Studies and ifo Institute (CESifo), Munich.



**Figure 7**  
**Probability of exports in new products by exporter**  
 Percentage



Source: UNCTAD estimations.

Note: Probabilities are calculated at mean values of positive margin dummy, quad market dummies and interaction dummies. Countries that lost the LDC status before 2019 are excluded.

cent for the top four economies, for about half of the LDCs, the probability is below 2 per cent. Accumulated over time and over a few thousand products, such a gap can lead to significant divergence among LDCs.

### *The role of domestic industrial capacities*

The estimation results presented above show large differences in diversification probability among LDCs. Even though these economies benefited from similar preferences, product coverage and RoO, they performed differently. While exports of a few countries such as Bangladesh and Cambodia diversified under these programmes, exports of many others remained highly concentrated, even after two decades.

This is in part due to the ease of diversifying into apparel and textile varieties once domestic productive capacities are established. Diversification is more difficult in commodities and resource-based products.

Different rates of “success” among LDCs in terms of diversification may be attributable to different levels of productive capacities. The countries with stronger foundations in domestic manufacturing and technology absorption capacities, more diverse and skilled labour force, and stronger innovation capacity, are better positioned in diversifying their exports.

Figures 8–12 present how diversification probabilities at the country level correlate with various dimensions of domestic productive capacities, including industrial capacity (share of manufacturing in GDP), technology and innovation capacity (human capital, R&D share and ICT index), and FDI (share of FDI stock in GDP). In general, there is a positive correlation between domestic productive capacity indicators and diversification probability. One of the strongest correlations is found with the share of manufacturing in GDP (figure 8). The manufacturing sector represents 18 per cent of the GDP in the three economies with the highest

probability of export diversification (i.e., Bangladesh, Cambodia and Myanmar) as compared to the LDCs’ average share of below 10 per cent. Beyond these top performers, the link becomes weaker.

### *The role of foreign direct investment, human capital and technology*

The FDI stock of a country shows how much foreign capital investment a country has accumulated over time. The correlation between this indicator and diversification probability is even weaker than for human capital index (figure 9). FDI figures are often distorted by a few countries demonstrating significant value of FDI inflows, creating outliers in the data sample. Top three countries, apart from Bangladesh, had received significant foreign capital inflows. In addition to the overall level of FDI stock, sectoral distribution of FDI inflows may determine their impact on export diversification.

Countries’ performances in human capital development are varied (figure 10). Top three performing countries strongly outperformed the LDCs average both in average human capital and improvements in labour skills. The correlation between diversification probability and human capital is less evident when other country groups are compared. What is striking is that the highest performing group also registered the highest improvement in the human capital index.

Technology-related indicators in general, particularly R&D figures, show that countries that invested in technological and innovation capacities performed better in diversification (figures 11 and 12). Economies with high diversification probability also exhibit the highest average share of R&D in GDP and improvement over the last two decades. In terms of ICT index, the top three economies, again, performed better than the other groups. For the other country groups, however, the picture is less clear. The results show that countries with a high ICT index do not always lead to high diversification probabilities.

There is a positive correlation between domestic productive capacity indicators and diversification probability

Top three performing countries strongly outperformed the LDCs average both in average human capital and improvements in labour skills

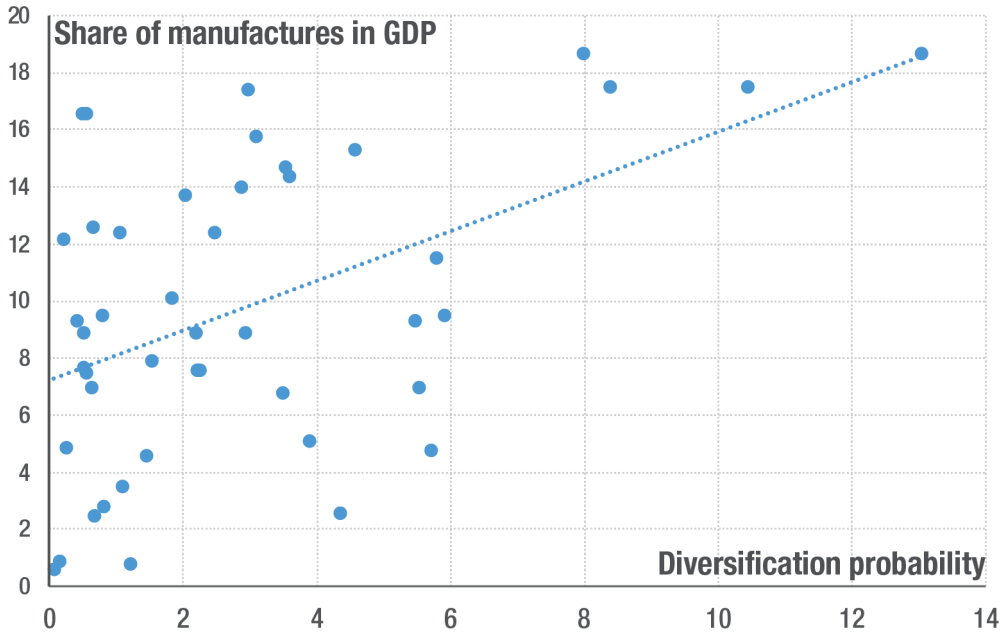




**Figure 8**

**Relationship between diversification probability and the share of manufactures in gross domestic product**

Percentage



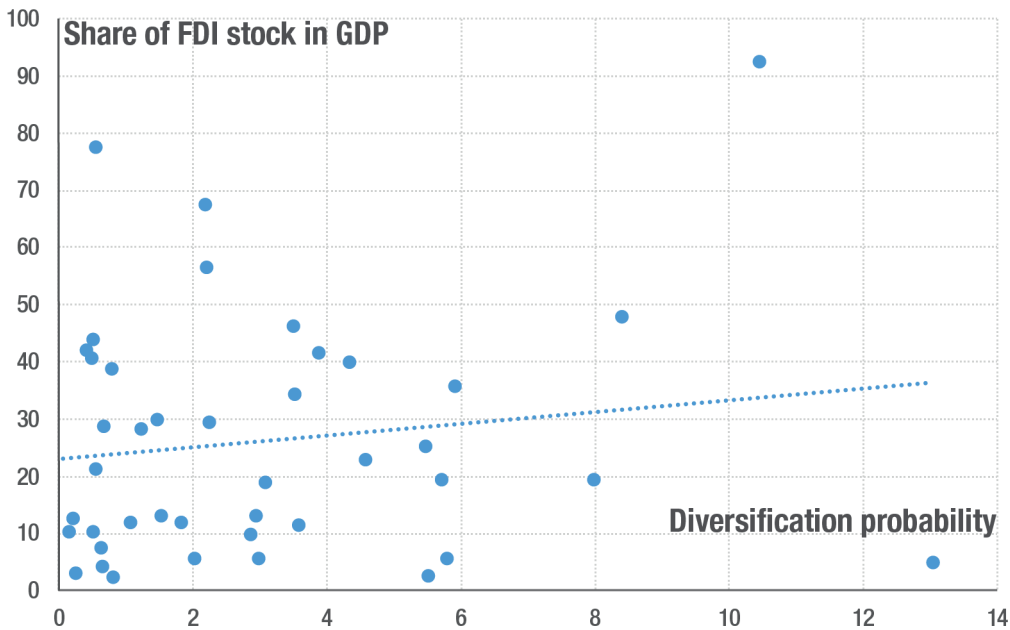
Source: UNCTAD calculations, based on probit results and UNCTADstat.



**Figure 9**

**Relationship between diversification probability and the share of foreign direct investment stock in gross domestic product**

Percentage



Source: UNCTAD calculations, based on probit results and UNCTADstat.

Note: Mozambique and Liberia are outliers to the sample with an average FDI stock of 121 and 541 per cent, respectively. They are excluded from FDI figures of the group of economies with medium probability.

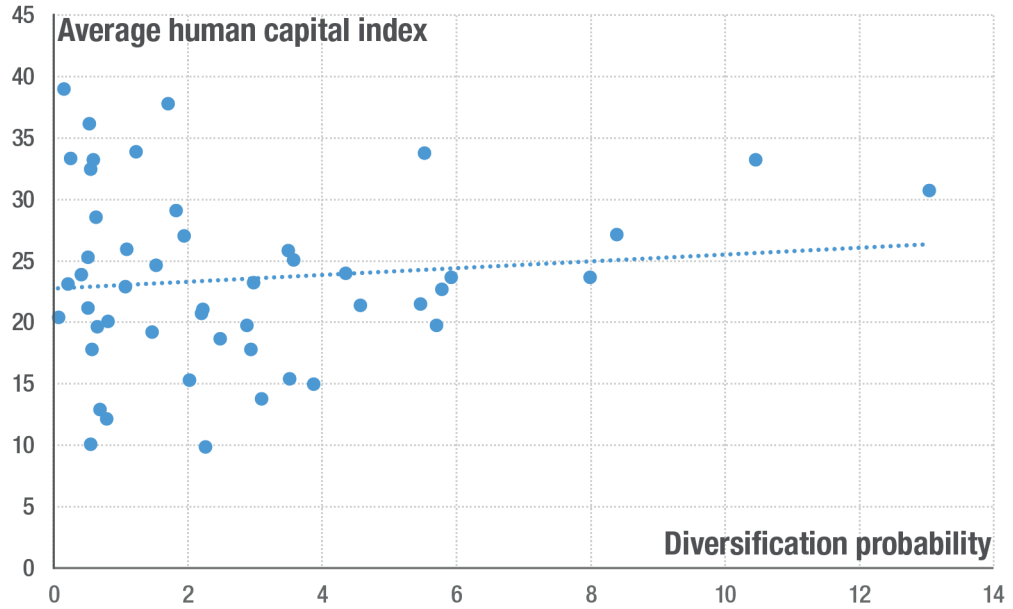




**Figure 10**

**Relationship between diversification probability and the average human capital index**

Percentage (X-axis) and index (Y-axis)



Source: UNCTAD calculations, based on probit results and UNCTADstat.

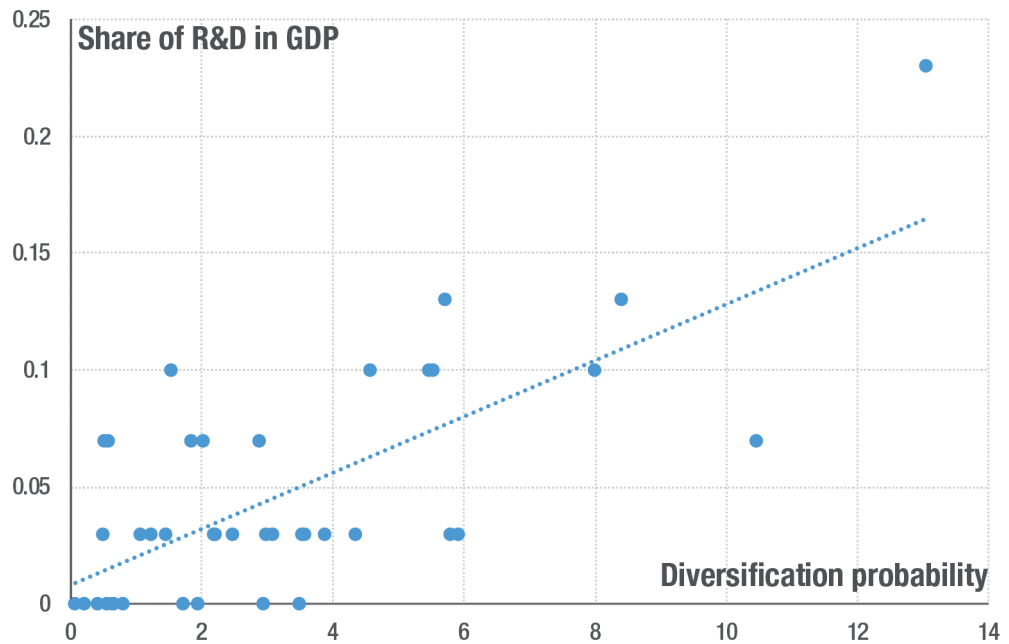


**Figure 11**

**Relationship between diversification probability and the share of research and development in gross domestic product**

Percentage

Countries that invested in developing their technological and innovation capacities, performed better in diversification



Source: UNCTAD calculations, based on probit results and UNCTADstat.

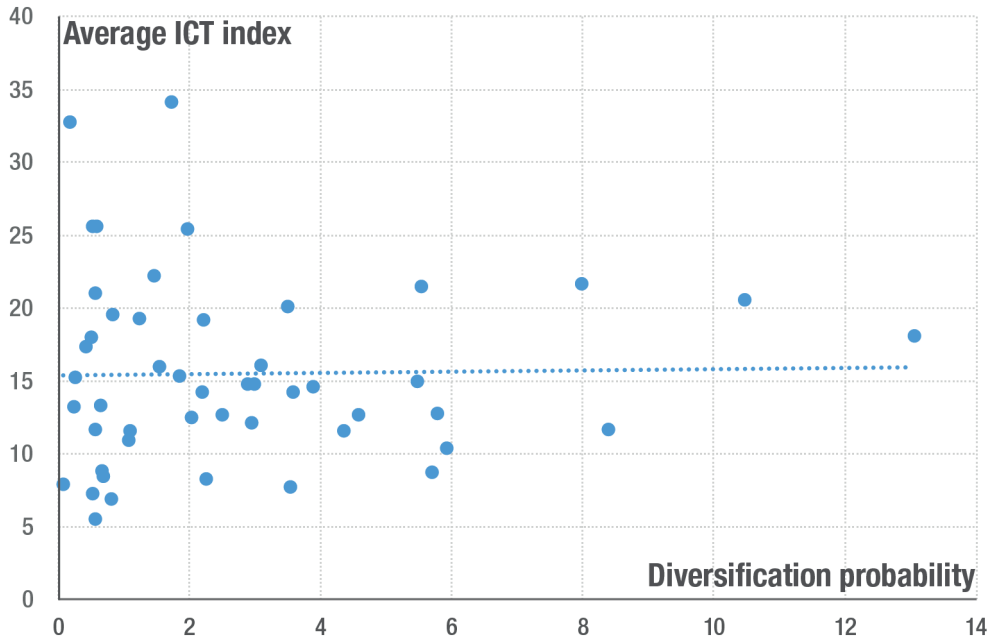




**Figure 12**

**Relationship between diversification probability and information and communication technology index**

Percentage (X-axis) and index (Y-axis)



Source: UNCTAD calculations, based on probit results and UNCTADstat.







Chapter II

# Trade preferences today: A reality check







# Trade preferences today: A reality check

**While trade preferences have supported beneficiaries' export expansion particularly in labour-intensive products, the scope for preferential tariff advantages is shrinking with the fall of MFN and applied tariffs globally. Although LDCs still enjoy sizable tariff advantages, these are not providing strong competitive edge over their direct competitors. In the meantime, tariffs no longer represent the largest source of trade cost, and the advance of GVCs has made it harder for exporting countries to reap commercial benefits from preferential tariffs. New sources of competitiveness such as FDI, technology, skills and services are gaining importance for developing countries' export diversification.**

Trade preferences were conceived as a trade policy response to the major development challenges of the 1960s and 1970s. The trading environment has evolved significantly since then and today, the rationale for tariff preferences is not so evident. While NRTP schemes underwent significant modernization and reforms, the effect of NRTP may be disappearing as MFN tariffs are falling, FTAs are proliferating, and trade is driven by international fragmentation of production through value chains. FDI, technology and skills play a greater role in building comparative advantages in international trade. How effective are trade preferences today in facilitating developing countries' exports?

## A. Preference-granting markets as export destination

The relative size of developed countries as export destination has decreased over time in favour of developing countries.

When GSP started in the 1970s, developed economies absorbed 82 per cent of world exports and 71 per cent of developing country exports. The 27 countries that currently form the European Union accounted for 39 per cent of world imports, and the United States, 14 per cent. Five decades later, the share of world exports and developing country exports absorbed by developed economies fell to 60 per cent and to 46 per cent, respectively.

In 2022, the 16 developed markets providing GSP schemes absorbed 47 per cent of the combined exports of low-income countries (LICs) and lower middle-income countries (LMICs) (excluding LDCs), the likely beneficiaries of many standard GSP schemes (figure 13). Their share in LDC exports fell even more and halved from 77 per cent in 1970 to 38 per cent in 2022. In other words, the relative size of market demand developed countries can offer to NRTP beneficiaries has decreased.

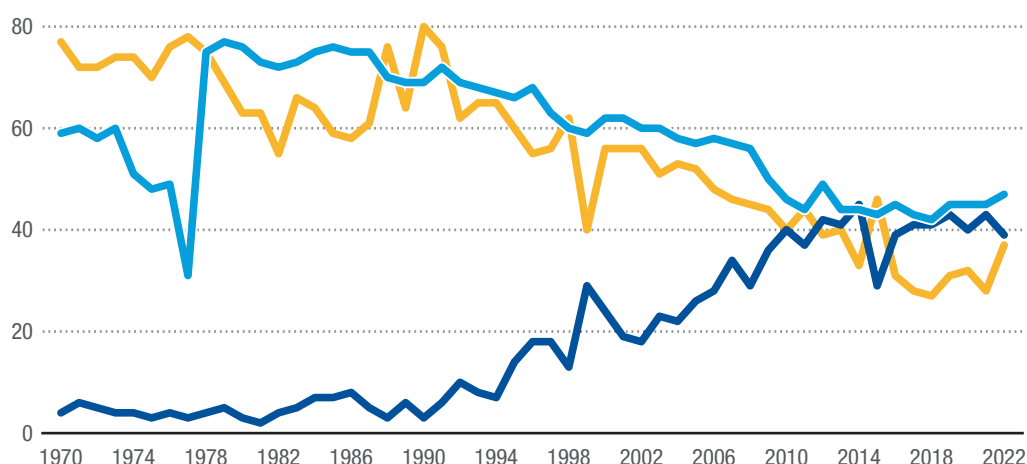
The relative size of developed countries as export destination has decreased over time in favour of developing countries



**Figure 13****Share of preference-granting markets in beneficiaries' exports**

Percentage

— 16 developed markets in non-LDC exports — 16 developed markets in LDC exports  
 — 9 developing markets in LDC exports



Source: UNCTAD calculations, based on COMTRADE/WITS.

Note: Non-LDCs among LICs and LMICs are taken as a proxy for GSP beneficiaries. Income groups are World Bank definition.

By contrast, the importance of developing country markets has increased. Today, developing countries as a group receive 41 per cent of world exports and 48 per cent of developing countries' exports. The share of 9 developing countries offering LDC-specific preferences in LDC exports surged from just 4 per cent in 1970 to 38 per cent in 2022. While 16 developed countries were sufficient to absorb three-quarters of LDC exports in 1970, today, it requires 25 developed and developing markets.<sup>47</sup>

(figure 14). Preference-inclusive effectively applied rates also declined at a similar pace. The main causes of this trend are the implementation of the GATT Uruguay Round results between 1995–2005, as well as the expansion of bilateral and regional FTAs, that lowered both MFN and applied rates globally. Today, the average MFN rate stands at 8.9 per cent and the applied rate, 5.4 per cent, one third of their respective levels in 1990. The magnitude of market opening is more pronounced when measured in trade-weighted terms. The average MFN tariff rate has fallen to 6.6 per cent, and the applied rate to 3.8 per cent, as trade tends to take place in products with lower tariffs.

Developed countries maintained a simple average MFN tariff of 5.7 per cent in 2021, lower than 9.6 per cent in developing countries (figure 15). Developing countries saw faster market opening, however, with the initial tariff level as high as 50 per cent in 1990. The decline in the MFN and applied

The scope for preferential tariff advantages is shrinking

## B. Scope for tariff advantages

### 1. “Nominal” preference margin

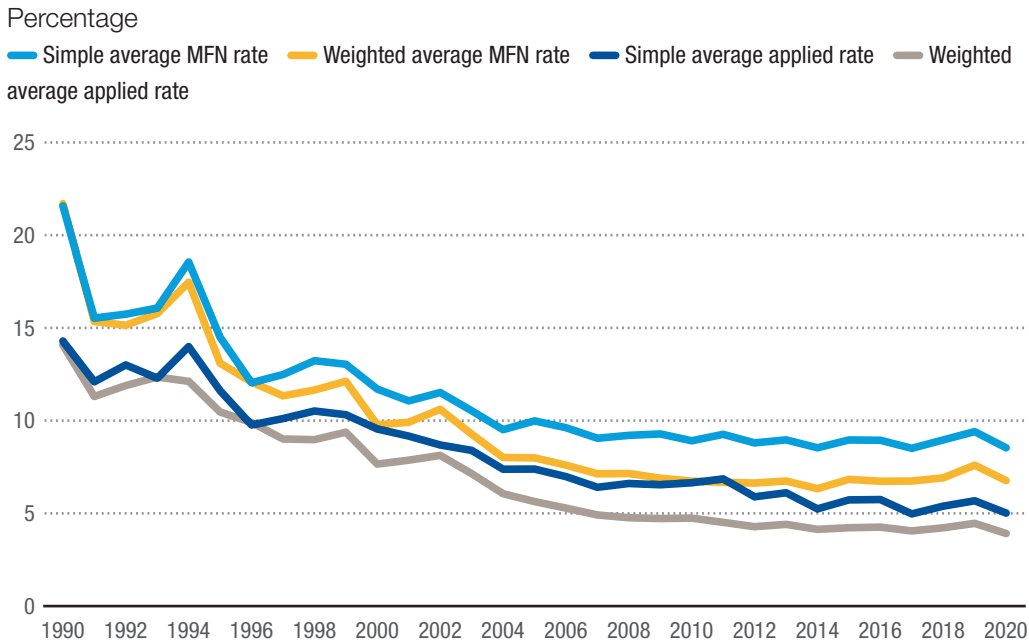
The scope for preferential tariff advantages is shrinking. The global average MFN tariffs declined over the past three decades to squeeze the scope for tariff preferences

<sup>47</sup> World trade shares are from UNCTADstat database, bilateral trade shares are UNCTAD calculations based on COMTRADE/WITS.





**Figure 14**  
**World average most-favoured nation and applied tariff rates**



Source: TRAINS/WITS.

rates stalled after 2006, short of broad-based market opening at the multilateral level despite the proliferation of FTAs.

The “nominal” preference margin as measured by the difference between the MFN rate and the applied rate faced by LDCs in the 16 GSP granting markets has been sizable and remained roughly constant at around 5 per cent between 1990 and 2021 (figure 16). With the beginning of special LDC preferences in the 2000s, LDC market access conditions improved significantly, with their average applied rate falling from 5.9 per cent in 1995 to 1.5 per cent by 2021. As MFN rates also declined at a similar pace, the nominal preference margin remained roughly constant. As the MFN rates are expected to remain at a similar level, LDCs are likely to continue to enjoy the current level of preference margins.

For non-LDCs among LICs and LMICs for which tariff preferences are shallower under the standard GSP schemes, the nominal preference margin was lower and stood at below 2 per cent in 2010. The margin saw a noticeable increase by 2021 with the extension of preferential tariffs under new GSP schemes and FTAs involving preference-granting countries and a group of non-LDCs that started in the 2010s.

Figure 17 shows that, for LDCs, the decline in MFN tariffs mostly happened in industrial products, while residual tariffs in agricultural goods remained relatively high. The higher MFN rates applied to agricultural products led to significantly high preference margins while the margin for industrial products remained roughly constant. As of 2021, LDCs possess 10.1 per cent and 4.1 per cent nominal tariff margins in agricultural and industrial products, respectively.

The “nominal” preference margin as measured by the difference between the MFN rate and the applied rate faced by LDCs has been roughly constant at around 5 per cent



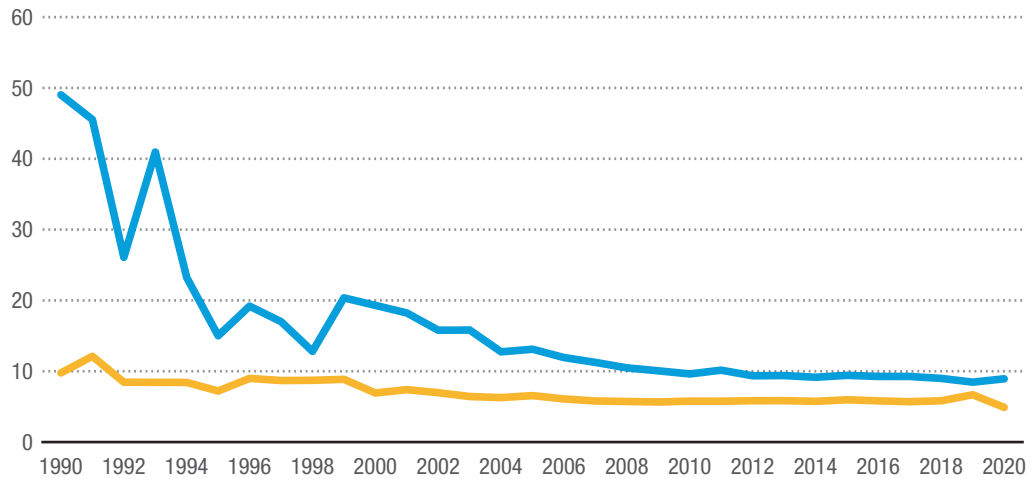


**Figure 15**

**Most-favoured nation tariffs in 16 developed and 9 developing markets**

Percentage

— 9 developing countries offering LDC preferences — 16 developed countries offering GSP preferences



Source: TRAINS/WITS.

Note: Simple average.

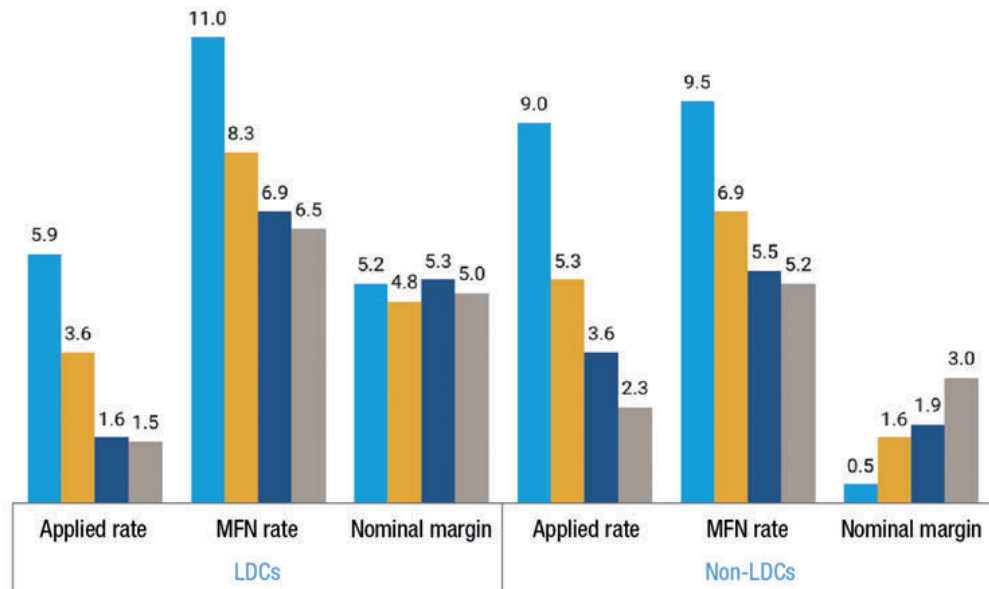


**Figure 16**

**Applicable tariff rates and “nominal” preference margins faced by least developed and other developing countries in 16 developed markets**

Percentage

■ 1995 ■ 2000 ■ 2010 ■ 2021



Source: UNCTAD calculations, based on TRAINS/WITS.

Note: Simple average. UNCTAD method is used for estimating ad valorem equivalents (AVEs) of specific tariffs. Non-LDCs refer to LICs and LMICs that are not LDCs.

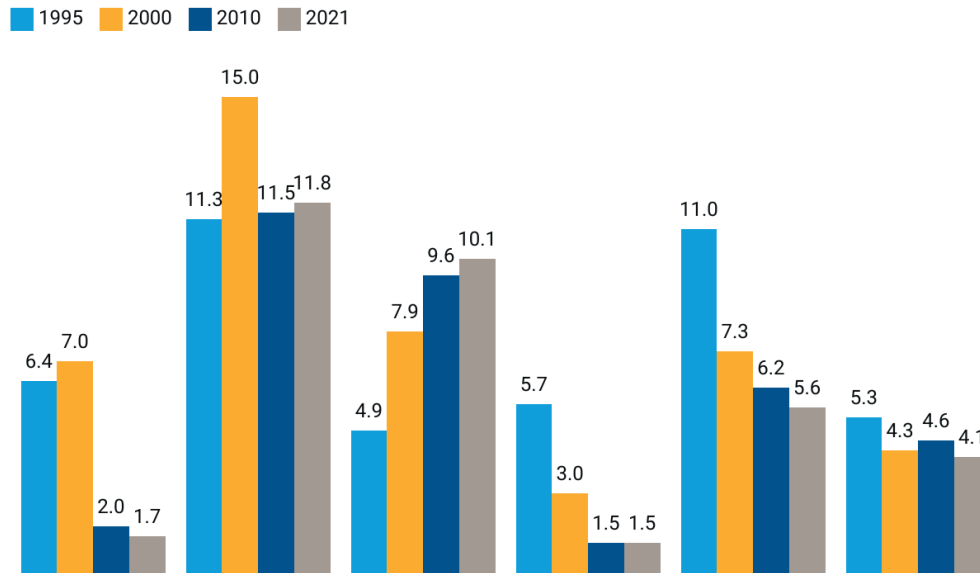




Figure 17

### Applicable tariff rates and “nominal” preference margins by sector faced by least developed countries in 16 developed markets

Percentage



Source: UNCTAD calculations, based on TRAINS/WITS.

Note: Simple average. UNCTAD method is used for estimating AVEs of specific tariffs.

A similar pattern can be observed also for non-LDC while their preference margins are smaller than LDCs in agricultural (6.2 per cent) and industrial products (2.5 per cent). Applied rates on agricultural products are much higher for these countries than for LDCs.

## 2. “Effective” preference margin

While there remain sizable “nominal” preference margins for LDCs (of 5 percentage points in 2021), the same preferential tariffs may not be giving them price advantages over their direct competitors. The main competitors of developing countries in international markets are often other developing countries, which may also be receiving some preferential treatment, including under reciprocal FTAs.<sup>48</sup>

The difference between applied rates faced by LDCs and by their competitors, which may be termed as “effective preference margin”, can provide a more realistic measure of preferential tariff advantages enjoyed by preference beneficiaries.<sup>49</sup>

Figure 18 shows that LDCs have a small effective margin of preferences over other developing countries as applied rates declined in both groups of countries during the last three decades. LDCs saw their tariffs fall with the initiation of major LDC preferences in the 2000s, but since the applied tariffs to other groups also continued to fall, this led to a slim effective margin of preferences for LDCs of 1.3 percentage points as of 2021. The effective margin is much smaller in the case of non-LDCs, about 0.5 per cent in 2021. For non-LDCs, the effective margins remained negative for most of the last two

While there remain sizable “nominal” preference margins for LDCs, the same preferential tariffs may not be giving them price advantages over their direct competitors

<sup>48</sup> Cambodia, Ethiopia, Guyana and Iraq reported middle-income countries and/or LDCs as their main competitors (UNCTAD Survey).

<sup>49</sup> Throughout this exercise, effective margin is measured as the difference between the applied rates faced by developing countries and by LDCs or non-LDCs respectively.

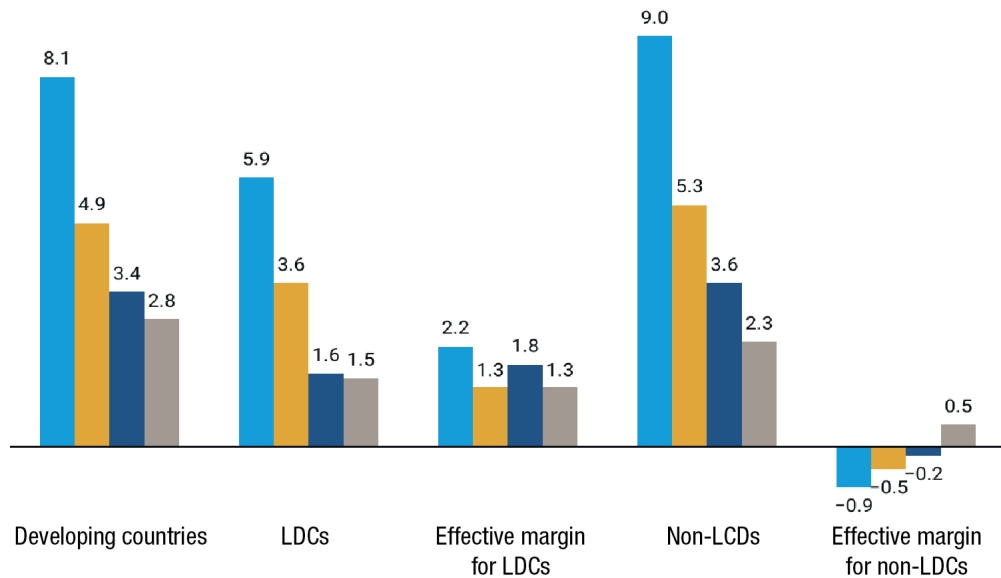


**Figure 18**

### Applicable tariff rates and “effective” preference margins faced by least developed and other developing countries in 16 developed markets

Percentage

■ 1995 ■ 2000 ■ 2010 ■ 2021



Source: UNCTAD calculations, based on TRAINS/WITS.

Note: Simple average. UNCTAD method is used for estimating AVEs of specific tariffs. Non-LDCs refer to LICs and LMICs that are not LDCs.

and a half decades. The small or non-existent effective margins in the presence of sizable nominal margins, particularly for LDCs, suggest that existing LDC preferences serves to safeguard their relative competitive positions in granting markets, rather than giving them significant price advantages over their direct competitors.

At the sectoral level, the effective margins of LDCs for industrial products are as low as 0.7 per cent, compared to 5.5 per cent in agriculture, hence barely representing competitive advantage (figure 19). In contrast to LDCs, non-LDCs do not possess effective margin in agricultural products either. The margin in both agricultural and industrial products is between 0.5 and 0.6 per cent.

### 3. Preference margins in developing markets

Initiation of DFQF schemes in major markets such as India in 2008 and China in 2010 improved LDCs' access to major

developing markets. Applied rates declined to 5.5 per cent in 2021, about one fifth of their level in 1995 (figure 20). This has boosted LDCs' nominal preference margin from 1.2 per cent to 7.2 per cent during this period, surpassing the level of margin available in the 16 GSP-granting markets (5 per cent). Improvement is stronger in agricultural products as the preference margin increased to 13 per cent as of 2021 (figure 21). The margin is smaller, 6.2 per cent, in industrial products.

As to the effective margin, the improvement in LDCs' access conditions thanks to DFQF schemes was matched by similar declines in tariffs imposed on their competitors in developing markets. Thus, DFQF programmes fell short of generating significant effective preference margins for LDCs and only helped eliminate the negative relative preferences LDCs were facing in 2010.

Initiation of DFQF schemes in major markets such as India in 2008 and China in 2010 improved LDCs' access to major developing markets



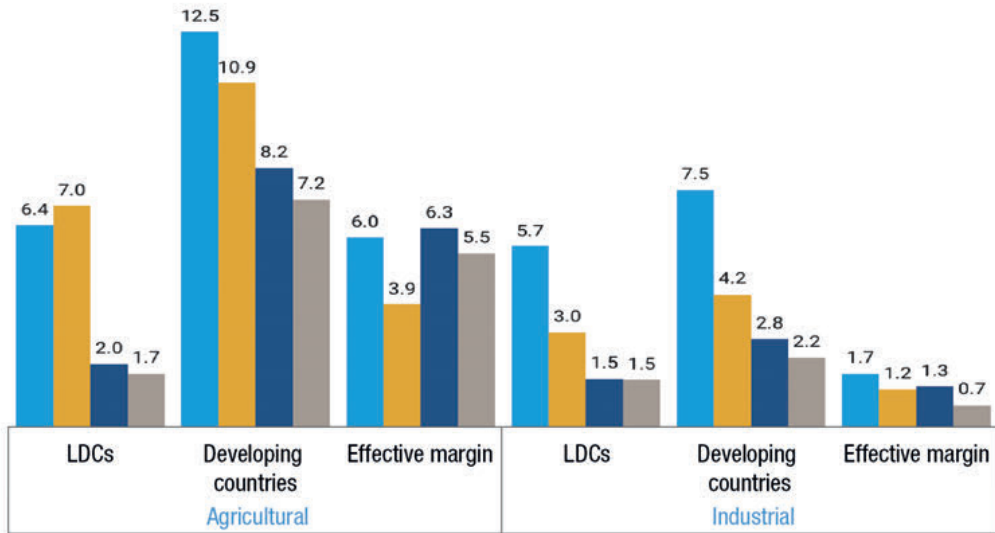


**Figure 19**

**Applicable tariff rates and “effective” preference margins by sector faced by least developed countries in 16 developed markets**

Percentage

■ 1995 ■ 2000 ■ 2010 ■ 2021



Source: UNCTAD calculations, based on TRAINS/WITS.

Note: Simple average. UNCTAD method is used for estimating AVEs of specific tariffs.

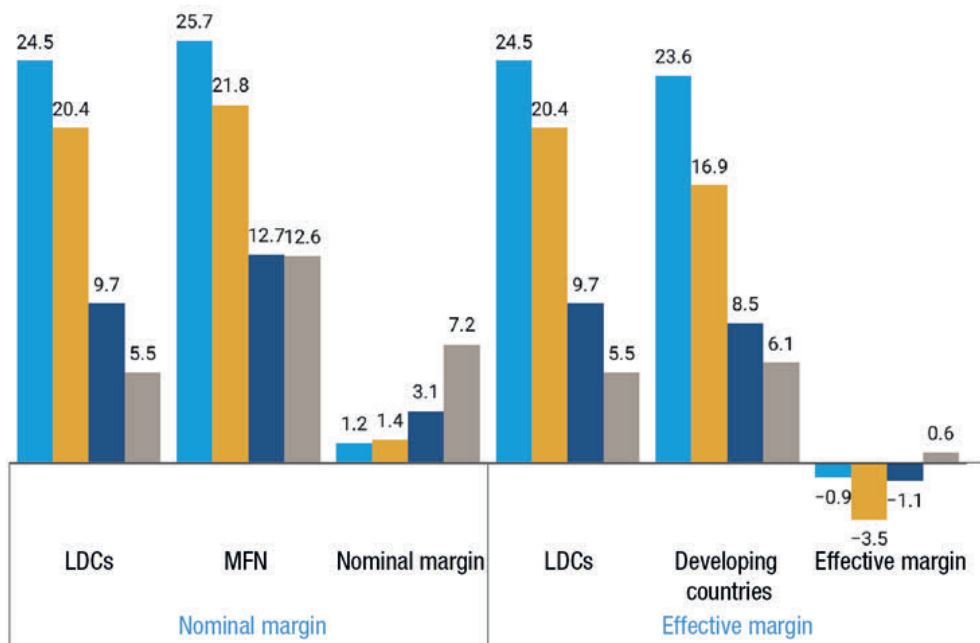


**Figure 20**

**Applicable tariff rates and "nominal" and "effective" preference margins faced by least developed countries in 9 developing markets**

Percentage

■ 1995 ■ 2000 ■ 2010 ■ 2021



Source: UNCTAD calculations, based on TRAINS/WITS.

Note: Simple average. UNCTAD method is used for estimating AVEs of specific tariffs.

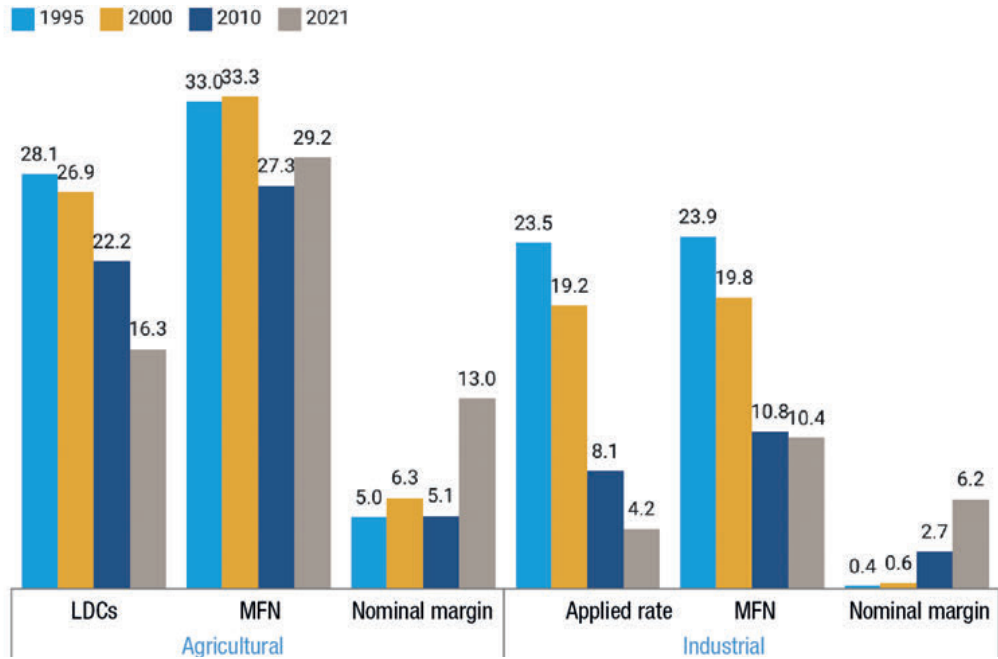






**Figure 21**  
**Applicable tariff rates and “nominal” preference margins by sector faced by least developed countries in 9 developing markets**

Percentage



Source: UNCTAD calculations, based on TRAINS/WITS.

Note: Simple average. UNCTAD method is used for estimating AVEs of specific tariffs.

### C. Utilization of preferential tariffs

North-South FTAs diverge traders away from non-reciprocal preferences as they offer similar market access but often with lower administrative burdens

One of the consequences of low nominal preference margin is that some traders cease to apply for preferential tariffs as the cost of compliance in meeting RoO and other administrative requirements outweighs perceived benefits. The level of preference margin is found to be positively associated with preference utilization rates.<sup>50</sup> Indeed, the utilization rates of standard GSP schemes for non-LDCs, where the average preference margin is smaller, tend to be lower than those of LDC schemes.

Part of the reasons why the average applied tariff rates fell in the absence of multilateral market opening since 2006 is the proliferation of FTAs. Some North-South

FTAs diverge traders away from non-reciprocal preferences as they offer similar or better market access conditions, often with lower administrative burdens. Those FTAs concluded between preference-granting countries and some developing countries have diluted tariff preferences available under NRTP programmes, thereby reducing effective preference margins.

Globally, the number of RTAs increased from three in 1970 to 354 in 2022. The average number of RTAs concluded by LDCs as of 2022 is 2.6 (1.6 for other LICs and 5.8 for LMICs), as compared to 9.3 for UMICs and 9.4 for HICs. For the European Union members, the average number of RTAs concluded is 23 where LDCs, for instance, face similar tariff levels as other income groups without significant effective preference margins. As noted, the existing

<sup>50</sup> UNCTAD, 2023, The Generalized System of Preferences: How much does it matter for developing countries? (United Nations publication, Sales No. 23.II.D.8, Geneva).



non-reciprocal preferential access serves LDCs at least to level the playing field vis-à-vis non-LDCs, rather than conferring them significant competitive advantages. The increase in FTAs has also led to a decrease in the utilization of existing GSP preferences for those GSP-eligible countries that signed parallel FTAs with GSP-granting markets, as traders switch to the more advantageous FTA preferences (figures 22 and 23). FTAs generally offer larger product coverage and greater preference margins than GSP schemes, as is the case for FTAs concluded by ASEAN members with preference-granting markets.<sup>51</sup> The phenomenon

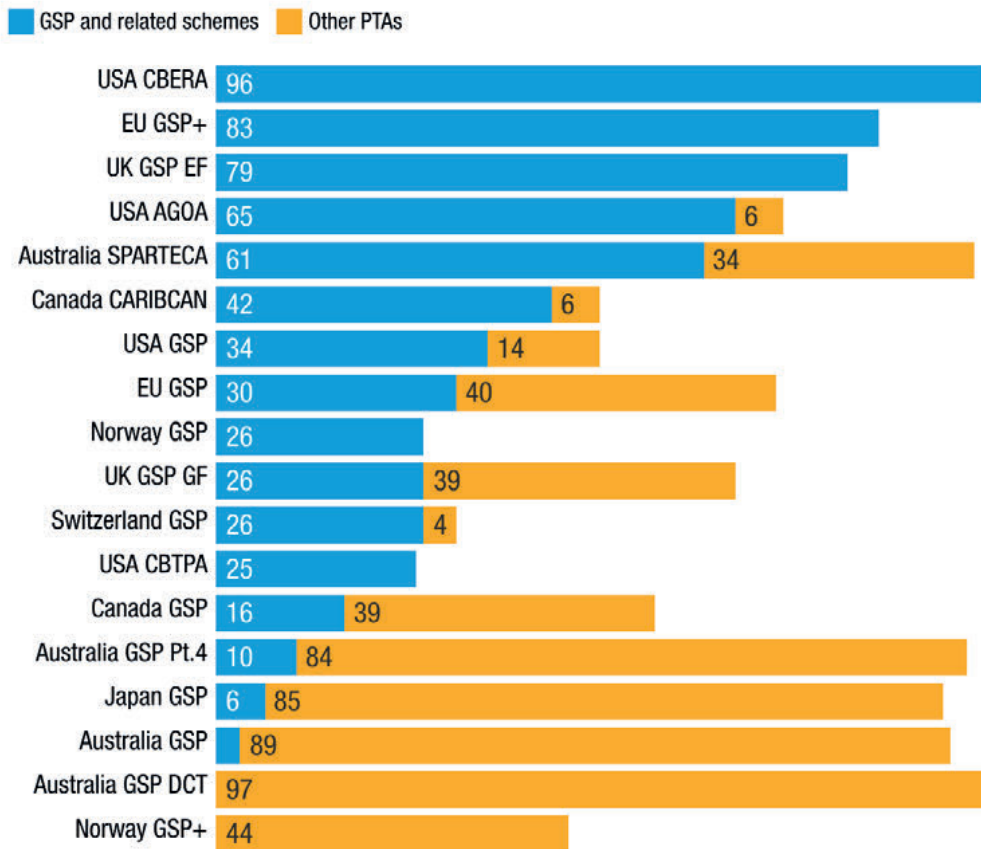
affects more heavily non-LDCs and is responsible for the relatively low utilization rates of the standard GSP schemes of Australia, Canada, Japan and Norway. Short of reciprocal FTAs, LDCs are concerned only in exceptional circumstances.

### D. Concentration of benefits

Preferential tariffs impact trade in a few products in specific markets for a few exporters. Despite the falling average MFN tariffs, there remain significant preference margins available or potentially



**Figure 22**  
Utilization rate of preferential schemes for non-least developed countries  
Percentage



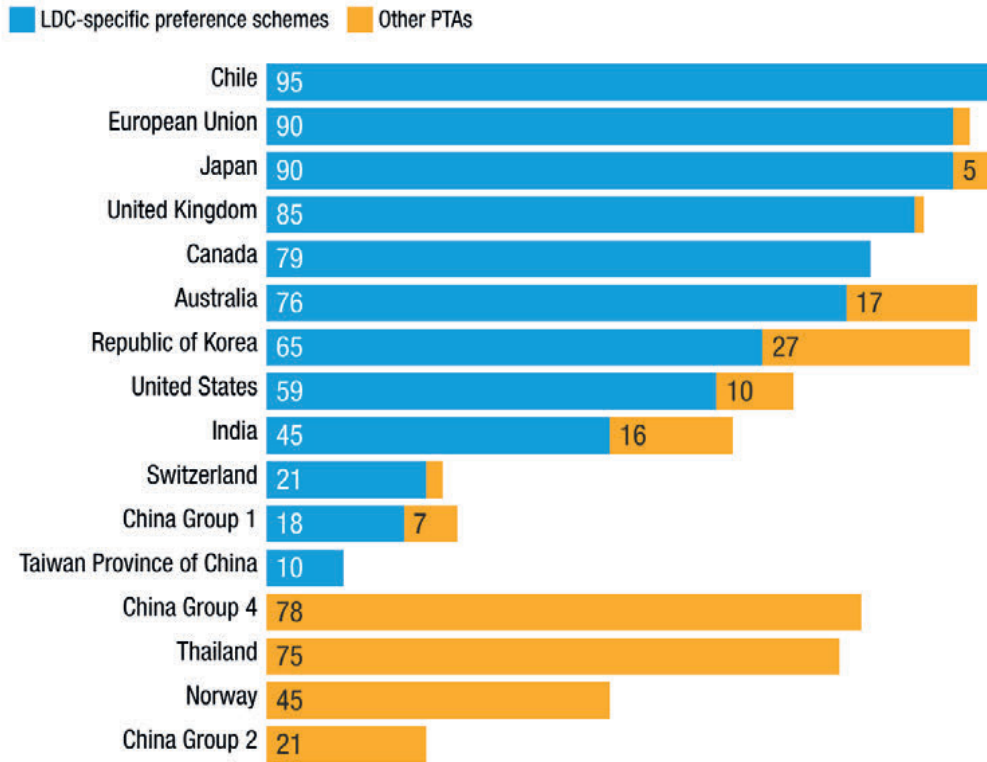
Source: UNCTAD calculations, based on WTO PTA database.

<sup>51</sup> For discussion, see WTO, 2019, Utilization Rates Under Preferential Trade Arrangements for Least Developed Countries under the LDC Duty Scheme, G/RO/W/185, Geneva. 9 May.





**Figure 23**  
**Utilization rate of preferential schemes for least developed countries**  
 Percentage



Source: UNCTAD calculations, based on WTO PTA database.

Export expansion through trade preferences in labour intensive sectors contributed to job creation in beneficiary countries

available in some specific markets and products, which benefit a limited number of developing countries and LDCs.

The simple average MFN tariffs are particularly high in some developing and developed country markets (figure 24). Preference margins higher than 5 percentage points are available only in five out of a total of 21 product categories in developed country markets, namely prepared food stuffs, animals and vegetable fats and oils, animal products, vegetable products, and textile and apparel. For developing country markets, seven product categories enjoy high preference margins, including footwear and

headgear, miscellaneous manufactured articles, and wood and wood articles.

Many of these sectors attracting high tariff protection, hence large preference margins, are labour intensive, as in agriculture and light manufacturing such as textiles and apparel. Export expansion through trade preferences in labour-intensive sectors contributed to job creation in some beneficiary countries with relevant productive capacities, including competitive labour force. In Bangladesh and Viet Nam, for instance, the garment, textiles and footwear sectors employed nearly five million workers per country between 2017–2019, with the majority of workforce being female workers.<sup>52</sup> In Africa, an estimated 240,000–290,000 workers were employed in apparel

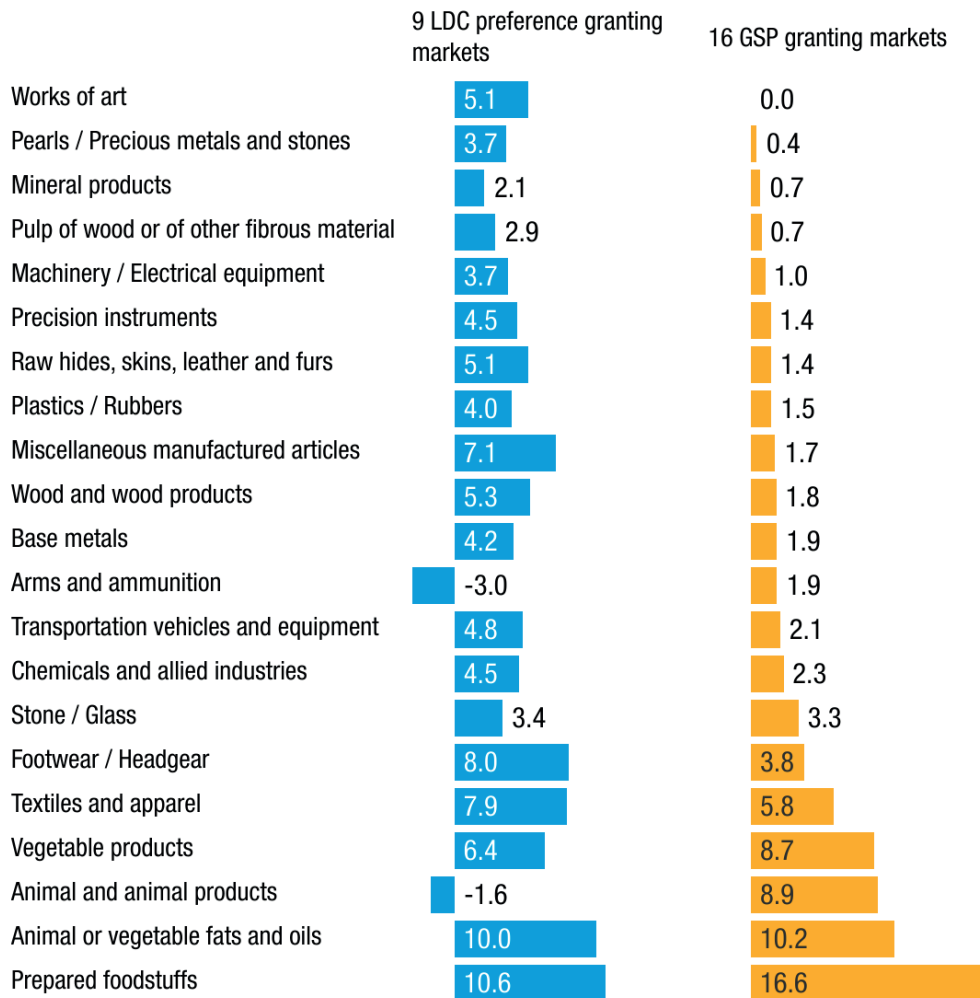
<sup>52</sup> ILO, 2022, Employment, wages and productivity trends in the Asian garment sector. Data and policy insights for the future of work.



**Figure 24**

### Preference margins by product group faced by least developed countries in 16 developed and 9 developing markets

Percentage



Source: UNCTAD calculations, based on TRAINS/WITS.

Note: Simple average. UNCTAD method is used for estimating AVEs of specific tariffs.

sectors in the eight largest AGOA beneficiary countries in 2021.<sup>53</sup> Women represent 70–90 per cent of this workforce, with apparel jobs, relatively well-paid, representing an entry point to the formal economy.<sup>54</sup>

## E. Trade preferences and the global value chains

The dynamic trade growth in the 2000s was driven by the expansion of GVCs, which are estimated to involve 70 per cent of

Global value chains have made it harder to take advantage of preferential tariffs

<sup>53</sup> The eight countries included are Kenya, Lesotho, Madagascar, Ethiopia, Mauritius, Tanzania, Ghana, and South Africa.

<sup>54</sup> United States International Trade Commission, 2023, African Growth and Opportunity Act (AGOA): Program Usage, Trends, and Sectoral Highlights, Publication number 5419, Washington, D.C.



world trade – particularly in manufacturing, such as electronics – and orchestrated by leading multinational enterprises (MNEs) with a network of FDIs. This phenomenon is particularly evident in intra-Asian trade dynamics where inputs are traded several times before assembled into a final product.

Over the last two and a half decades, the foreign value-added (input) content of exports has increased considerably. ASEAN recorded the highest proportion with 31 per cent in 2020, suggesting extensive use of imported inputs for its exports (figure 25). Developing countries in Asia indeed hosts one fourth of the world total FDI stock in 2022, which shows a significant improvement over the last three decades.<sup>55</sup>

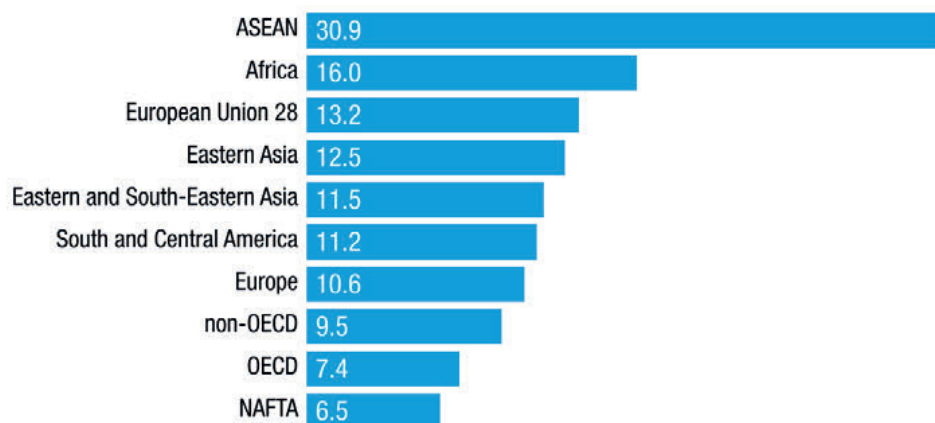
As GVC trade requires imported inputs more intensively, it has become more difficult for traders to fulfil the RoO requirements for preferential tariff treatment, even for those products where significant preference margins exist. Existing research finds that the higher the degree of processing, the more binding the RoO are, and the more

complex keeping track of inputs to prove origin becomes, thereby increasing the cost of claiming GSP benefits. In this context, thanks to economies of scale, the higher the export volume of a firm, the lower the share of fixed costs of claiming benefits in the total value of exports will be. Thus, export size is also a factor in alleviating the cost of claiming GSP benefits. Countries with greater local value added and those that are part of a regional trade arrangement would be more likely to use preferential tariffs.<sup>56</sup> GSP utilization decreases with the degree of processing and increases with the availability of regional cumulation.

Rules of origin that inhibit the use of competitive foreign inputs or regional inputs have emerged as binding constraints for developing country exporters. High thresholds for local value-added, or the requirement to conduct certain specific processing activities locally, have limited the use of preferential tariffs by those LDCs with an insufficient domestic industrial base. Rules that prohibit the cumulation of inputs among members of regional



**Figure 25**  
**Share of foreign value added in exports by region**  
Percentage



Source: UNCTAD calculations, based on OECD TiVA database. Available at <https://www.oecd.org/sti/ind/measuring-trade-in-value-added.htm>

Note: OECD TiVA country group definitions are used.

<sup>55</sup> UNCTADstat.

<sup>56</sup> Hakobyan S, 2015, Accounting for Underutilization of Trade Preference Programs: U.S. Generalized System of Preferences, *Canadian Journal of Economics*, 48(2).



groupings to which different RoO apply (GSP or FTA rules), such as ASEAN or regional economic communities (RECs) in sub-Saharan Africa, have impeded the use of preferences and development of regional value chains (box 3). Furthermore,

certain procedural requirements concerning origin administration and verification are a burden on those countries with institutional capacity constraints and raise the cost of compliance for small traders.

### Box 3

#### Rules of origin within the global value chains – The case of apparel

In GVCs, the increased use of imported inputs and reduced local value-added make it difficult to meet RoO requirements. Adapting RoO to the realities of the production process within GVCs has been the focus of RoO reforms implemented by several preference-granting countries, particularly in the apparel sector. Many manufacturers in LDCs undertake cut-and-sew operations using imported textile fabric due to a lack of capacity in upstream milling activities, which are capital intensive. Yet, the rule prevailing before reforms required processing of imported yarn into fabric and then into clothing (“double transformation”).

A series of preferential RoO reforms for LDCs were introduced to ease the use of imported competitive inputs (fabrics). In the United States, AGOA introduced in 2000 the third country fabric provision for “lesser developed countries” eligible for AGOA apparel benefits, subject to quantitative limits. Canada and the European Union introduced the “single transformation” requirement (from fabrics to clothing) for LDCs in 2003 and 2011, respectively. Similarly, Japan reformed its GSP RoO in 2015 by introducing single transformation for HS Chapter 61. These reforms led to a significant increase in the use of preferences and imports from beneficiary countries in the subsequent years.

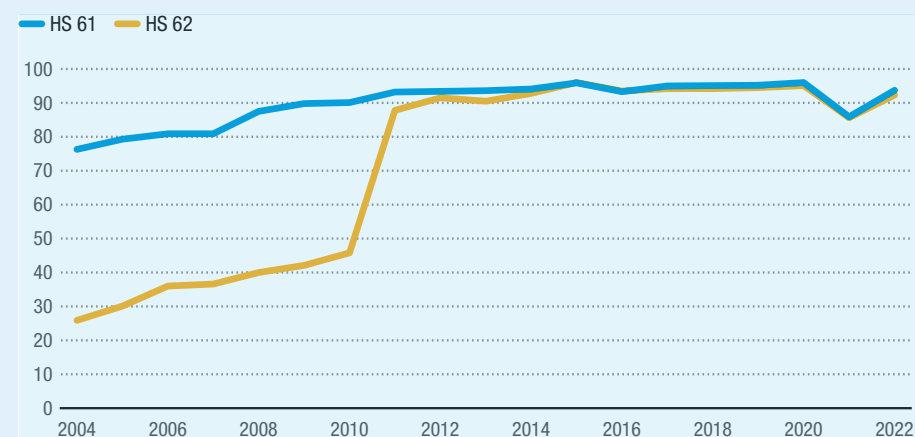
For instance, the European Union RoO reform in 2011 resulted in a significant increase in LDCs’ preference utilization of “not knotted or crocheted” garments (HS62), whereby the utilization rate increased from 46 to 88 per cent between 2010 and 2011 (figure 26). The improvements continued to enhance LDCs’ apparel exports in the following years triggering new investment, and remained around 95 per cent. The value of exports increased from \$2.9 billion in 2010 to \$16.1 billion in 2022 (figure 27). This represents almost doubling of these products’ share in LDCs’ exports to the European Union from 12 to 21 per cent.

The European Union RoO reform in 2011 resulted in a significant increase in preference utilization and LDCs’ exports of garments

Figure 26

#### Preference utilization rates of least developed countries in apparel products in the European Union

Percentage



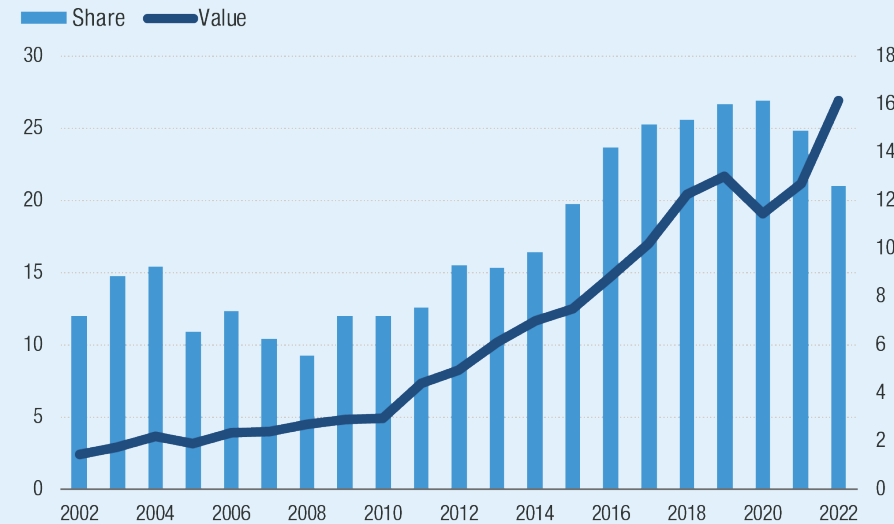
Source: UNCTAD calculations, based on UNCTAD GSP database.



**Figure 27**

**Value and share of apparel imports into the European Union from least developed countries**

Billion dollars (right axis) and percentage (left axis)



Source: UNCTAD calculations, based on TRAINS/WITS.

Note: The import figures of the European Union exclude those of the United Kingdom.

Cambodia was among those LDCs whose supplies responded to the change in the RoO requirements. In 2010, Cambodia's total apparel exports to the world stood at \$3.2 billion, 25 per cent of which was destined to the European Union markets. The majority of Cambodian manufacturers make garments from imported fabrics from the ASEAN and China, and therefore did not fulfil the European Union's RoO requirements prior to 2011. Following the reform introducing the single transformation rule, Cambodia's apparel exports to the world increased to \$4.2 billion, 30 per cent of which to the European Union market in 2011. The reform led to the growth of domestic production capacity, product diversification and an increase in Cambodia's participation in regional and global value chains. The number of apparel factories (including footwear and travel goods) increased significantly, from 432 in 2008 to 883 in 2013.<sup>57</sup>

GVC trade has revealed the importance of developing countries' own domestic trade and industrial policies to obtain competitive inputs

Trade associated with GVCs further reduced the cost-saving effect of preferential tariffs applied on final products. GVC trade entails multiple cross-border activities in the processing stage throughout the value chain. Cost saving from preferential duty-free treatment of final products may easily be nullified if tariffs are applied on intermediate goods several times when crossing the border at each stage of production process, including when imported into the exporting beneficiary country. This has revealed the importance of developing countries' own domestic trade and industrial policies to obtain access to

competitive inputs, by conducting tariff reforms, engaging in regional integration, introducing duty-draw back system for exporters, building special economic zones (SEZs) or industrial parks, including to attract FDI and build productive capacities.

For instance, apparel exports of sub-Saharan African countries under AGOA performed quite differently even under the same trade preference programme. Despite the advantages provided within AGOA, Central and Western African countries performed poorly in apparel exports while East African countries, particularly Mauritius, Kenya and Ethiopia, saw significant export

<sup>57</sup> Cambodia's response to UNCTAD survey.



growth.<sup>58</sup> A study finds that favourable domestic conditions explain the success of the East African countries. Interestingly, however, in neither of these three countries there is evidence of significant growth of exports by incumbent firms. The sustained dynamism of Kenya and Ethiopia was driven largely by new firms that entered the market after 2010 rather than those that had

benefitted from large preference margins during the early AGOA period. Industrial and trade policies such as easy access to imported inputs, the establishment of effective SEZs, together with liberal trade regimes, ease of doing business, and improved infrastructure, explain the success of these East African countries (box 4).



#### Box 4

### Two tales of export diversification

In Mauritius, sugar and textiles and clothing together accounted for over 90 per cent of the country's exports in the 1980s and 1990s. The preferential arrangement in the sugar sector granted by the European Union included quotas of sugar exports at a guaranteed price that were above the market price by about 90 per cent on average between 1977 and 2000. These high returns from sugar exports not only acted as a subsidy to domestic production of sugar but were used to invest in other export sectors as well. Mauritius also enjoyed preferential access on its textiles and clothing exports under AGOA and FDI into the clothing sector, which was flowing largely from Hong Kong, China. FDI was diverted to Mauritius not only due to the Multifibre Agreement (MFA), then in force, which imposed quotas on textiles exports from competitive developing countries, but was also attracted by strong institutions and the stable trading environment. Export sectors were supported by export processing zones, where there were tax incentives for investors and lower wages in place compared to import-competing sectors. Preferential market access for textiles and clothing played an important role in ensuring the profitability of the export sector before the country started to lose competitiveness in the 2000s, including as a result of rising wages, and saw factories relocate to Madagascar and Bangladesh

Viet Nam, a major traditional user of GSP preferences, has attracted FDI due to economic reforms, low labour cost, ease of doing business and its strategic location at the interface between China and ASEAN productive platform. Viet Nam has become one of the most FDI-heavy economies in Asia. Robust FDI inflows have led to export growth over the years, export diversification and gradual upgrading into higher value sectors. Viet Nam's share of global goods exports has increased from 0.1 per cent in 1996 to 1.7 per cent in 2022, surpassing most of the ASEAN members. Viet Nam's economy has been transformed from one mainly exporting agriculture and textiles products to a services-driven one exporting mostly electronics. The contribution of the manufacturing sector to GDP more than doubled increasing from 12.4 per cent to 25.8 per cent between 1990 and 2022.<sup>59</sup> In 2023, Viet Nam has transitioned from GSP to FTA in its trade relationship with the United Kingdom and the European Union.

## F. Non-tariff measures as a major trade cost

Customs duties no longer represent the most important component of trade costs, but NTMs do. As the incidence of tariffs declines over time, NTMs have emerged as a major trade cost. NTMs can act as

quantitative restrictions if the required standards are not met and can significantly curb developing country exports even in the absence of tariffs. Every year, increasingly more NTMs are implemented at global scale. According to the WTO, while 587 SPS measures and technical barriers to trade (TBT) notifications were made in

NTMs, not tariffs, are the major trade cost today

<sup>58</sup> Fernandes AM, Forero A, Maemir H and Mattoo A, 2023, Are trade preferences a Panacea? The export impact of the African Growth and Opportunity Act, *World Development* 162.

<sup>59</sup> Oxford Economics, 2023, The miracle growth story has further to unfold, Research Briefing, Viet Nam, 16 November.





1995, 6,062 notifications were made in 2023 (figure 28). This represents a more than tenfold increase in the notifications. Although part of the increase is due to increased propensity to report by member States, there is a significant increase in the total number of NTMs at global level. In terms of costs, the average ad valorem equivalent (AVE) of NTMs is about 11 per cent for technical measures, and about 9 per cent for other types of measures.

Developed economies are among the main markets imposing relatively stringent NTMs. The United States and the European Union are among the top ten SPS and TBT notifiers to the WTO, affecting the beneficiaries of their preferential trade schemes. Nevertheless, the proliferation of NTMs is a global phenomenon. An increasing number of notifications are coming from developing countries. In 2023, for example, these countries accounted for 4,564 or 75 per cent of the new notifications.<sup>60</sup>

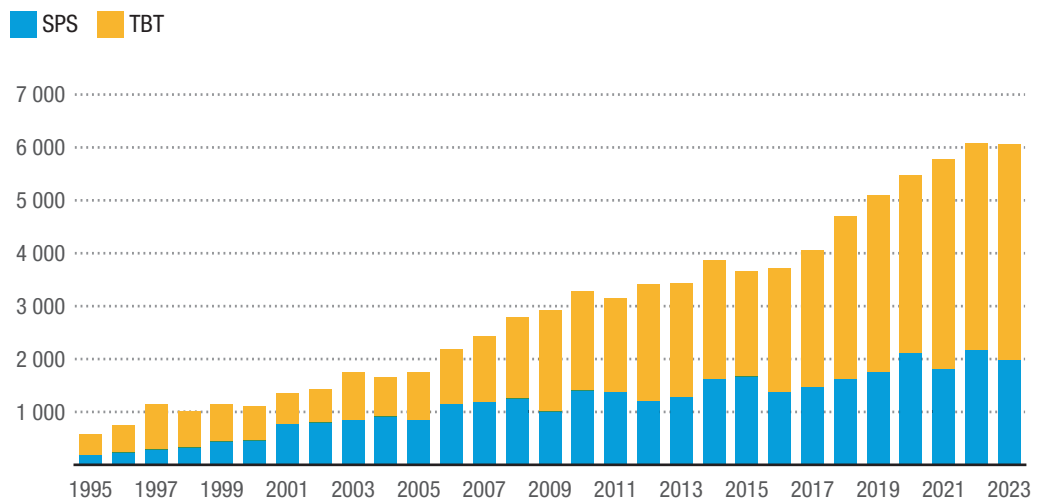
Non-tariff measures are posing heavier costs on imports than tariffs in developed markets. Estimates show that while

simple average tariffs are about 3.9 per cent (2017) in the high-income countries, AVE of NTMs in these markets is 7.5 per cent.<sup>61</sup> The cost of NTMs on agriculture is much higher than manufacturing and natural resources, creating an asymmetrically heavier and invisible burden on agricultural product exporters. AVE of NTMs in agriculture is about 21 per cent on average (simple average) while this figure is about four and one per cent in manufacturing and natural resources, respectively. These additional costs can be higher for firms in developing countries due to challenges they face in complying with these measures. Therefore, NTM compliance costs can easily nullify any cost advantages that may result from preferential tariffs in many developing countries.

The cost of certification has proven to be particularly significant, adversely affecting small exporters and LICs disproportionately. Estimates suggest that the AVE costs of border measures



**Figure 28**  
**Number of sanitary and phytosanitary measures and technical barriers to trade notified to the World Trade Organization**



Source: ePing SPS&TBT Platform at [www.epingalert.org](http://www.epingalert.org).

<sup>60</sup> See WTO ePing website: <https://eping.wto.org/en/FactsAndFigures/Notifications>.

<sup>61</sup> UNCTAD and World Bank, 2018, *The Unseen Impact of Non-Tariff Measures: Insights from a new database* (United Nations publications, Geneva).



– which include certification requirements, quarantines, quotas and other border formalities – amount to less than 1 per cent in developed countries but increase to almost 4 per cent in Africa and to more than 2 per cent in Latin America, due to, among other reasons, weak infrastructure for product certification.<sup>62</sup> Small exporters often consider NTMs as the largest barrier to access developed country markets.

The prevalence of trade-restrictive NTMs is set to rise further as many countries start to implement climate-related tariffs and NTMs on imported products. For instance, the European Union's Carbon Border Adjustment Mechanism (CBAM) is currently estimated to impose additional costs equivalent to an average import tariff of 2 per cent. If carbon prices further increased to \$75 per ton of CO<sub>2</sub>, as suggested by some estimates as the amount required to keep the rise in global temperature below 2 degrees, tariff equivalent cost of CBAM could increase up to 6 per cent.<sup>63</sup> A recent study on the impact of the European Union's CBAM on African countries estimates a reduction in Africa's GDP up to 0.91 per cent. If CBAM is applied to all imports, then the effect rises to 1.1 per cent decline in GDP and about 6 per cent decline in the continent's exports to the European Union.<sup>64</sup>

## G. Traditional and emerging sources of diversification

Preference dependence is a double-edged sword for diversification. Trade preferences can support job creation in labour-intensive export sectors in developing countries. Yet, it may also delay diversification as

beneficiary economies reorient towards sectors enjoying preferential tariffs at the expense of diversifying into other sectors. Trade competitiveness is increasingly driven by other elements of production function, such as FDI, technology adoption, innovation, participation in GVCs, and trade networks than price competitiveness enabled by abundant unskilled labour or natural resources. Diversification occurs when countries build competitiveness in new products. Trading creates a learning process that can improve competitiveness of exporters through backward and forward linkages.

Advances in new technologies and increase in skilled labour force have transformed the global production structures over the last decades. During most of the 20<sup>th</sup> century technological change has been skill-biased and some evidence even shows that skill bias is accelerating in the more recent years.<sup>65</sup> Skill-biased technological change means that relatively high levels of skills are required to utilize the technology; and productivity of and demand for high-skilled workers increase more compared to low-skilled workers.<sup>66</sup>

Trade and employment figures over the last two decades are also confirming steady increase in skilled labour and more advanced technology use in production (figure 29). Since 1995, the share of high-skill and technology-intensive manufactured products in exports increased by more than 6 percentage points, from 38 per cent to 44 per cent. The transformation is more visible among the developing countries in which the same share has increased by 7 percentage points to almost 46 per cent. LDCs faced challenges in keeping up

Trade competitiveness is increasingly driven by other elements of production function, such as FDI, technology adoption, innovation, participation in GVCs, and trade networks

Preference dependence is a double-edged sword for diversification

<sup>62</sup> UNCTAD, 2024, *Key Statistics and Trends in Trade Policy 2023: The importance of unilateral preferences* (United Nations publication, Geneva).

<sup>63</sup> Lowe S, 2021, *The EU's carbon border adjustment mechanism: How to make it work for developing countries*, Centre for European Reform, Policy Brief.

<sup>64</sup> The African Climate Foundation and the London School of Economics and Political Science, 2023, *Implications for African Countries of a Carbon Border Adjustment Mechanism in the EU*.

<sup>65</sup> Acemoglu D, 2002, Technical change, inequality, and the labor market, *Journal of Economic Literature*, 40(1):7–72.

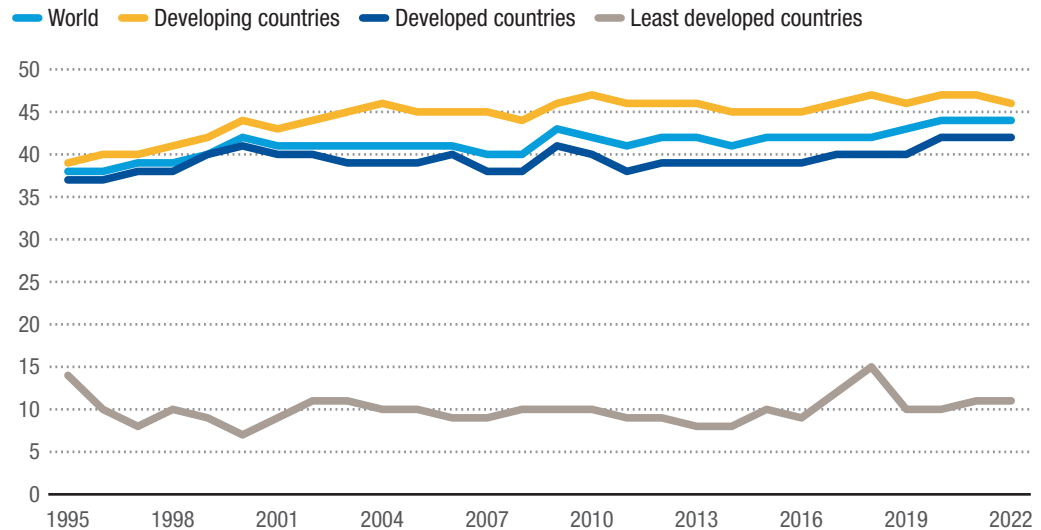
<sup>66</sup> UNCTAD, 2022, *Industry 4.0 for Inclusive Development*, STI Current Studies (United Nations publication, Sales No. E.22.II.D.8, Geneva).



**Figure 29**

### Share of high-skill and technology-intensive products in total manufactured goods exports by development status

Percentage



Source: UNCTAD calculations, based on UNCTADstat.

with these trends, as their share not only remained low (about 10 per cent in 2022) but also muted throughout this period.

More skilled labour is used in production over the last two and a half decades (figure 30). The share of advanced skilled labour in employment is almost one third of the world employment in the 2020s, 11 percentage points higher than what it used to be in the 2000s. Similarly, advanced and intermediate skills account for two thirds of employment, significantly higher than their share in the 2000s. The increase is also across the board, observed both in the developing and developed countries. Yet, the skill gap between the developed and developing countries persists.

## H. Services and economic diversification

While GSP and other trade preference programmes target trade in goods, services trade is growing faster than merchandise trade, and developing countries' participation in services trade is increasing. Fast-growing services offer diversification opportunities. The services sector has been

capturing an increasing share of national incomes in the last five decades (figure 31). Its share has increased from about 53 per cent to 67 per cent during this period. Today, services' share is as high as 75 per cent in developed countries. Developing countries and LDCs register lower shares of around 54 per cent and 46 per cent, respectively, compared to developed countries. Yet, the sector's secular increase as a share of GDP has been seen across the board.

The increase in services' share in GDP can be attributed in part to the increasing importance of certain services in conferring competitiveness in manufacturing and agriculture. Better research and development activities, product design, coordination of production processes, logistical systems, e-commerce channels, marketing as well as after sale services could give valuable competitive advantage to companies. The producers need to invest heavily in these processes not only to gain cost advantages but also to build their brand and customer loyalty and facilitate access to their products in a more and more competitive international e-commerce landscape. These services also help firms develop unique product designs and achieve

The increase in services' share in GDP can be attributed in part to the increasing importance of certain services in conferring competitiveness in manufacturing and agriculture

Fast-growing services offer diversification opportunities



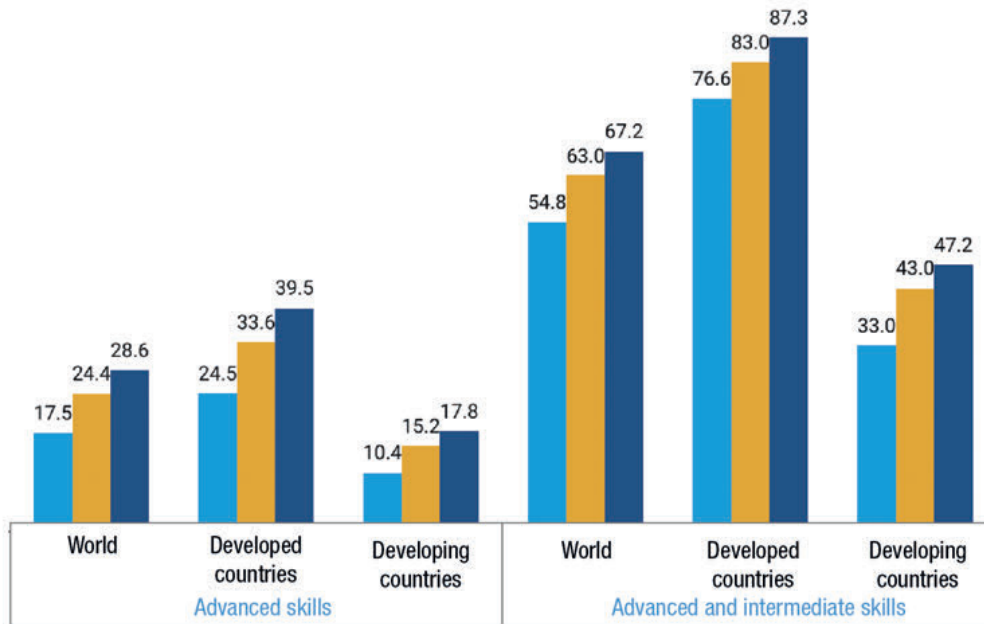


**Figure 30**

**Share of labour force with advanced and intermediate skills in total employment by development status**

Percentage

2000s 2010s 2020s



Source: UNCTAD calculations, based on ILO.

Note: Averages of 18 developed and 48 developing countries. Figures include only countries with continuous data series (having at least one observation per decade) for the period.

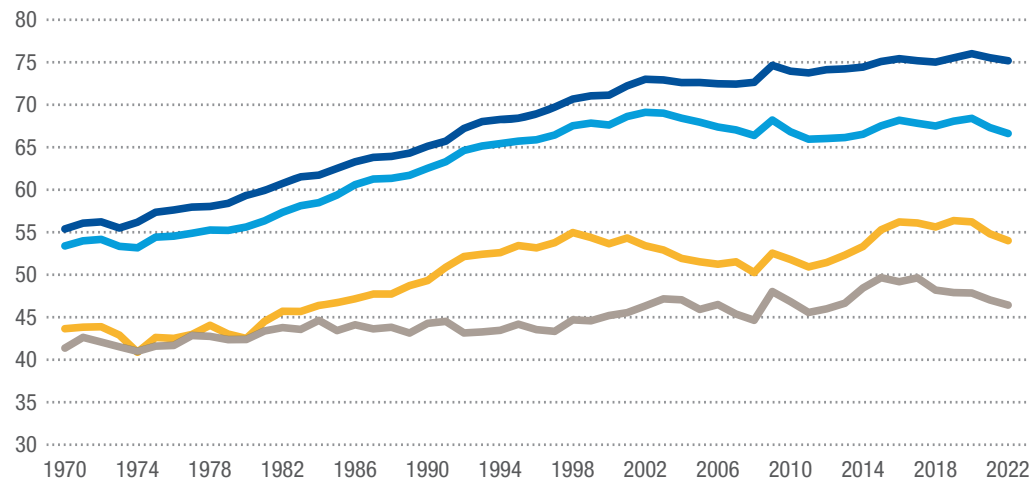


**Figure 31**

**Share of services in gross domestic product by development status**

Percentage

World Developing countries Developed countries Least developed countries



Source: UNCTADstat.



technological advantages in products, which allow them to enjoy higher profit margins in the market. Most of these services use skills, capital and technology intensively. The race to gain competitiveness in the market would drive the skill and technology content of products up over time.

In the context of the current digitalization trend, the split between services and goods has become increasingly blurry. In fact, the importance of services as a component of value added in goods exported is growing. Therefore, they are becoming indispensable for the production of many goods. Manufacturing firms are more and more often buying, producing and selling such services. Such “servicification” is evident when looking at the share of services’ value-added in international goods and services exports. A study by Heuser and Mattoo (2017) estimates that the share of services’ value added in the world total exports (merchandise plus services) has increased from about 31 per cent in 1980 to 43 per cent in 2009.<sup>67</sup> Similarly, Miroudot and Cadestin (2017) reports that, when services activities within manufacturing firms are considered, the contribution of services increases up to two-thirds of manufacturing exports.<sup>68</sup>

As a consequence, manufacturing firms are increasingly exporting services that are bundled with material goods in an effort to create more value along the whole product life cycle (i.e., through installation to maintenance services).<sup>69</sup> A high value added of services incorporated in an exported good could ensure competitive advantages and make imitation more difficult due to the high technological know-how included in these goods. The use of services both

provided in-house and purchased from outside suppliers seems to be positively correlated to export intensity for firms in specific industries and to total factor productivity in high skill-intensive industries.<sup>70</sup>

In parallel to the rise in services’ share in economic activity, the sector has been capturing increasing share of world trade. Global trade in services reached \$7.1 trillion in 2022, after registering 4.7 per cent annual growth since 2005. Services export growth has surpassed the merchandise trade growth of 3.4 per cent in this period. In developing countries and LDCs alike, the sector is a very dynamic part of international trade flows. Overall, the share of services has increased up to one fourth of global trade before the COVID-19 pandemic. As of 2022, the services sector accounts for 20.9 per cent of world trade.<sup>71</sup>

Even though the value of services exports has exhibited a similar increasing trend in both developed and developing countries, the drivers of services trade have been different between these groups (table 6). Transport and travel services together account for more than 55 per cent of services exports of the LDCs in the 2020–2022 period, whereas the share of these services is about half of that of LDCs in developed countries. The shares of some of the key services categories that often require skilled labour, advanced technological and digital services infrastructure and R&D activities, such as financial and insurance services, telecommunications services and professional, technical, and business services (often included in other business services), are much smaller in the LDCs compared to developed countries.

Manufacturing firms are increasingly exporting services that are bundled with material goods in an effort to create more value along the whole product life cycle

<sup>67</sup> Heuser C and Mattoo A, 2017, Services Trade and Global Value Chains, Policy Research Working Paper No. 8126, World Bank, Washington D.C.

<sup>68</sup> Miroudot S and Cadestin C, 2017, Services In Global Value Chains: From Inputs to Value-Creating Activities, OECD Trade Policy Papers, No. 197, OECD Publishing, Paris. For more information, see UNCTAD website: Measurement of services value-added in exports and analysis of related services and trade policies. Based on mostly OECD member 31 countries.

<sup>69</sup> Cernat L and Kutlina-Dimitrova Z, 2014, Thinking In a Box: A Mode 5 Approach to Services Trade, Chief Economist Note, 1.

<sup>70</sup> Lodefalk M, 2014, The role of services for manufacturing firm exports. Review of World Economics. 1:59–82.

<sup>71</sup> UNCTADstat database.



**Table 6****Share of services sub-categories in total services exports by development status**

Percentage

|   | Developed countries |           | Developing countries |           | Least developed countries |           |
|---|---------------------|-----------|----------------------|-----------|---------------------------|-----------|
|   | 2005–2009           | 2020–2022 | 2005–2009            | 2020–2022 | 2005–2009                 | 2020–2022 |
| Goods-related services                        | 2.9                 | 3.6       | 4.1                  | 3.8       | 1.9                       | 5.0       |
| Transport                                     | 20.5                | 16.4      | 23.9                 | 25.3      | 15.6                      | 30.8      |
| Travel  | 21.8                | 11.0      | 34.9                 | 15.5      | 41.7                      | 24.7      |
| Other services                                | 54.8                | 69.0      | 37.1                 | 55.3      | 40.8                      | 39.6      |
| Construction                                  | 2.1                 | 1.3       | 1.9                  | 2.5       | 2.5                       | 3.6       |
| Insurance and pension services                | 2.8                 | 2.6       | 1.5                  | 3.3       | 0.6                       | 0.7       |
| Financial services                            | 10.9                | 11.6      | 3.9                  | 5.7       | 1.5                       | 1.7       |
| Intellectual property charges                 | 7.8                 | 9.0       | 0.4                  | 1.9       | 0.9                       | 0.3       |
| Telecommunications, computer, etc.            | 7.4                 | 14.2      | 7.4                  | 14.5      | 6.5                       | 6.9       |
| Other business services                       | 20.5                | 26.8      | 18.6                 | 24.3      | 10.4                      | 11.2      |
| Personal, cultural, and recreational services | 1.4                 | 1.8       | 1.1                  | 1.2       | 0.2                       | 0.7       |
| Government goods and services                 | 1.8                 | 1.2       | 2.3                  | 1.4       | 18.1                      | 14.6      |

Source: UNCTADstat.

Note: Simple average.







Chapter III

# Future of trade preferences







# Future of trade preferences

**Trade preferences, as currently designed, risk losing their relevance in the future. It is time to reflect on the future form that trade preferences might take to enhance benefits for beneficiary countries. A new form of market access cooperation beyond tariffs might be conceived to facilitate export diversification in developing countries. Such an approach would complement trade preferences in fostering developing countries' productive and technological capabilities. In the footsteps of UNCTAD II, policy coordination through an intergovernmental forum involving both preference-granting and benefitting countries could be considered.**

Since the 1970s, NRTPs have sought to support developing countries' export growth and diversification. However, in an era of proliferating FTAs, lower MFN tariffs in general compared to the 1970s, and prominence of GVCs, the effectiveness of traditional trade preference schemes has eroded. While preferential tariffs continue to play a role in sustaining developing country exports, the long-term trend of diminishing importance of tariffs as a trade cost could persist. It is time to ask the question on the future form that trade preferences might take. In particular, it may be necessary to start reflecting on possible areas other than tariffs in which potential trade cooperation for better market access might be conceived to facilitate developing countries' exports, and the ways in which such new "preferences" could be put into practice.

## A. Trade preferences – Design and operation

Tariff preferences can exist so long as positive MFN tariffs remain. The global average MFN tariff rates have declined but stopped falling since 2006. At this rate, positive MFN duties will stay in place in the medium terms, leaving room for tariff preferences. The average preference margin has remained sizable and constant for LDCs

over the past two decades even though the effective margin is slim. LDCs' DFQF access to preference-granting markets will continue to provide some benefits to beneficiary countries. For non-LDCs, preference margin is diminishing. Against this backdrop, what changes and adaptation may be warranted in the design and operation of trade preference schemes?

### 1. Schemes for least developed countries

Tariff advantages for LDCs became more comprehensive and effectively used by exporting LDCs, generating larger tariff savings in most of these countries. Some LDCs still fail to use existing tariff advantages. The utilization of preferences is more common in products that offer higher tariff advantages in the form of preference margins. However, already low MFN rates and significant share of MFN duty-free products in major developed markets effectively limit further improvements in preference margins particularly for the LDCs.

**Maximize the utilization of existing preferences.** For those relatively well-established LDC schemes, there remains little scope for expanding product coverage or increasing preference margins. The major avenue through which to enhance

It is time to ask the question on the future form that trade preferences might take



Rules of origin reform, comprehensive product coverage and improved information dissemination and availability of preferential trade and tariff data can be instrumental for better preference utilization by LDCs

preference benefits is by improving the utilization of existing preferences via RoO reform and facilitation. Experience in RoO reforms in apparel products in Canada, AGOA, European Union and Japan, for instance, suggest that reform in substantive origin rules can facilitate greater utilization.

**Improve coverage, utilization and transparency.** Some LDC schemes are yet to achieve full coverage and provide meaningful preferences or full transparency on product coverage. There are product mismatches, compromising the utility of DFQF market access offer when some products of particular relevance to LDCs are not covered by the programme. Furthermore, despite the efforts to attain comprehensive product coverage, the utilization of some schemes remains rather low. Improved information dissemination and the availability of preferential trade and tariff data could be instrumental for a better use of existing preferences.

**Increase the number of DFQF granting countries.** The expansion of preferential benefits could pass through the increase in the number of preference-granting countries. Currently, 25 markets offer LDC preferences under GSP schemes or special DFQF schemes, jointly representing some 75 per cent of LDCs' exports. The remaining economies could also consider providing LDCs with preferential treatment, while some may already be doing so, in the context of existing RTAs for those LDCs in their regions.

**Share preferential benefits more equitably.** There is a high concentration of benefits in a limited number of eligible countries and products. Moreover, while some LDCs fared well in developing competitiveness and domestic productive capacities, others have become highly dependent on the preferences and thus are vulnerable to the risk of preference

termination across the board or on a product-specific basis. This highlights the importance of better understanding the factors affecting the ability of exporting countries to take advantage of preferential tariffs over a larger range of products. At the same time, even having full preference utilization does not mean LDCs are exporting at their full potential and their exports cannot be increased further through other trade-facilitating measures.

**Prepare better and in advance for LDC graduation.** The expected graduation of LDCs has made it urgent to put in place a transitional arrangement to mitigate the possible loss of preferential benefits.<sup>72</sup> The need for a smooth transition mechanism for graduating LDCs was brought to the forefront of special and differential treatment (SDT) discussions at the WTO.<sup>73</sup> Currently, several schemes provide three years of transitional period for such graduating LDCs to remain eligible for LDC preferences. Several preference-giving countries have taken further steps to reform enhanced preferences, such as under the European Union's GSP+ and the United Kingdom's Enhanced Framework, to cater for the needs of graduating LDCs so that they could continue to benefit from deeper preferences. At the same time, the graduation of Asian LDCs will raise the profile of LDCs in Africa. Given that GSP benefits tended to fall on a few products of export interest to Asian LDCs, finetuning preferential schemes to cater for the needs of sub-Saharan Africa would become important.

## 2. Schemes for developing countries

The standard GSP schemes for non-LDCs have become less impactful in providing tariff incentives for their exports. Extending product coverage and reducing further GSP tariffs would increase preference benefits.

<sup>72</sup> LDCs that are expected for graduation are Angola and São Tomé and Príncipe (2024), Bangladesh, Lao People's Democratic Republic and Nepal (2026) and Solomon Islands (2027). Bhutan graduated from the LDC category in 2023.

<sup>73</sup> WTO, 2023, General Council Decision on extension of unilateral duty free and quota free preferences in favour of countries graduated from the LDC category, WT/L/1172, Geneva, 23 October.



Better product matches and deeper margins should lead to improved preference utilization. However, there is a trade-off between increasing preferences under the standard schemes for non-LDCs on the one hand, and strengthening preferential benefits for LDCs on the other. Favouring the former objective may diminish the competitiveness of LDCs in the major markets.

#### **Addressing the concerns of non-LDC developing countries in special needs.**

Benefits of GSP preferences for non-LDCs are set to diminish in the long run. This is due to preferences that are increasingly focusing on LDCs. Some LICs and LMICs, as well as countries with special needs (SIDS, LLDCs, post-conflict, post-disaster countries) are at a comparable level of poverty or vulnerability and face associated development challenges (e.g., climate change, conflicts and high indebtedness). Focused attention may be given to such countries with special needs, especially those which do not maintain alternative FTAs with GSP-granting economies. For instance, European Union, United Kingdom, Norway, Türkiye (and Canada from January 2025) offer enhanced preferences for vulnerable countries in the form of GSP+ or Enhanced Framework.

**Finetuning product coverage.** Expansion of product coverage and deepening preference margins could also address non-LDC developing countries, although such possibility would need to be weighed against the loss of benefits conferred to LDCs. Given that preference benefits tend to fall on limited product categories, there is room for adjusting preference coverage and depth by targeting products of particular interest to non-LDCs. Various GSP schemes include ex-post safety valves to protect the domestic industry, such as through product-specific graduation and suspension, coupled with potential safeguard measures. This creates uncertainty for producers in non-LDC beneficiary countries and may impede further investment in relevant product sectors. These instruments

could be designed in a way not to hinder key developing country exports.

**Adopting a coordinated approach to FTAs and GSP.** More and more non-LDC developing countries, be they eligible for a given GSP scheme or not, are expected to transition to FTAs with preference-giving countries. This may lead to divergent RoO between FTAs and GSP schemes, which may prevent the possibility of regional cumulation between GSP beneficiaries and FTA members.

## **B. Process – Domestic and international coordination**

The central attribute of NRTPs is that they are essentially voluntary trade measures taken by preference-giving countries at their discretion. There are no criteria or minimum requirements on the scope of tariff concessions, depth of preferences or definition of procedural rules. The essentially uncoordinated nature of preference schemes suggests that beneficiary countries have little say in the formulation of preferential trade programmes. Can a coordinated approach be envisaged to improve the design and operation of NRTP programmes?

#### **Internal donor-beneficiary coordination.**

The process of designing trade preferences schemes could be made more participative. Only beneficiary countries' participation can guarantee that the schemes are fit-for-purpose and that along with their needs, concerns of domestic producers and importers in the donor markets are also taken into account. Such internal consultative mechanisms exist in many GSP-granting countries. For instance, in the United States, the GSP Subcommittee of the Trade Policy Staff Committee, chaired by the United States Trade Representative, conducts annual reviews and receive petitions from interested parties, including beneficiary countries, for the inclusion or exclusion of new products and countries. The AGOA Forum, an

Benefits of GSP preferences for non-LDCs are set to diminish in the long run

Focused attention may be given to such countries with special needs, especially those which do not maintain alternative FTAs with GSP-granting economies



In the footsteps of UNCTAD II, policy coordination through an intergovernmental forum comprising government representatives from GSP granting and benefiting countries could be considered

annual high-level meeting between officials of the United States Government and officials of AGOA beneficiary countries, aims to foster close economic ties with the participation of private sector actors. Broad-based consultations also take place in the periodic renewal of GSP programmes in the European Union, United Kingdom and Canada.<sup>74</sup> It would be useful to identify good practices and lessons learned in these areas.

**International coordination.** A coordinated approach between preference-granting countries and beneficiary countries, as well as among granting countries, could be considered in enhancing the benefits of trade preference programmes at the international level. The lack of policy coordination might have led to sub-optimal results globally despite the optimal designs of individual schemes from a national perspective. In the footsteps of UNCTAD II, consideration could be given to promoting such policy coordination through an intergovernmental forum comprising government representatives from both the granting and benefitting countries.<sup>75</sup> Reducing cross-country diversity in trade regulations should, in itself, facilitate trade and improve welfare.

**International governance of preferential schemes.** In the past, the Special Committee on Preferences that was established at UNCTAD II aimed at hosting discussions on trade preferences, identifying the basic principles governing rules for determination of origin of goods, and conducting needs assessment activities with beneficiary countries as necessary, to guarantee the alignment between the schemes and the development priorities of beneficiaries. Today, a similar body could support the coordination of different preferential schemes towards more unified rules for beneficiaries, thereby reducing the costs of compliance and increasing benefits for beneficiary countries. The body could

also review the functioning of the system of preferences periodically and introduce necessary improvements, particularly for the benefit of the LDCs, which have not satisfactorily benefited from the preferences.

## C. Trade preferences for global value chains

The expansion of GVC trade has challenged the traditional form of trade preferences as conceived in the 1960s. Today, developing countries use more imported inputs in production than in the past to remain competitive both in terms of price and quality. This has exposed the binding constraints that may be posed by outdated RoO requirements, which may hinder the use of competitive inputs. Establishing long-term business relationships within the value chain and supporting long-term investment decisions also call for predictability and security of preferential trade schemes. What kind of adaptation is required to make trade preferences supportive of GVC trade?

**Rules of origin reform.** Adapting substantive RoO to the realities of production processes through value chains deserves exploration. Making origin requirements more realistic in the light of beneficiaries' productive capacities, such as the introduction of "single transformation rule" in the apparel sector, has indeed facilitated the use of preferences. Harmonizing such rules across different preferential schemes (standard GSP, LDC schemes and FTAs), as well as aligning rules with those implemented by other preference-granting countries as was done by Canada, could significantly reduce transaction costs for traders.

**Regional cumulation.** Economic development hardly happens in isolation and by disregarding countries' interaction and synergies with neighbouring economies. Trade preference schemes can become

<sup>74</sup> Based on the UNCTAD survey on non-reciprocal preferential trade arrangements.

<sup>75</sup> UNCTAD, 1968, *Proceedings of the United Nations Conference on Trade and Development, Second Session, Vol. I. Report and Annexes* (United Nations publication, Sales No. E.68. II.D.14, New York).

Adapting substantive RoO to the realities of production processes through value chains deserves exploration



more effective if they target a region or continent through development of regional value chains. Regional cumulation could be an effective tool in achieving this goal. It is available under various schemes but often, the application of different RoO among RTA members (GSP RoO vs. FTA RoO), and graduation of some members of RTAs from GSP, have prevented the uniform application of cumulation rules across RTA partners. This has been the case among ASEAN members or different RECs in Africa. Modernizing the cumulation facility to the evolving regional configurations may be explored.

**Compliance cost.** Origin administration and verification also matter in reducing the compliance cost, hence in facilitating the use of preferential tariffs. Proof of origin is particularly costly for lower-income countries and small firms, and this penalizes their take-up of preferential tariffs. There has been a shift from third-party certification to self-certification in some preference-granting markets based on a system of pre-established registered exporters (e.g., European Union,

Norway, Switzerland). Reducing the cost of certification particularly for micro-, small- and medium-sized enterprises (MSMEs) and facilitating their use of trade preferences could deserve further attention.

**Predictability and stability.** The heightened uncertainties stemming from the short duration of individual GSP schemes, as well as country-product eligibility, have hindered the formation of long-term trade links between the GSP-granting economies and beneficiary countries. Studies have found that uncertainty in international contractual arrangements can lead to underutilization of preferential trade opportunities by preventing importers and exporters from establishing long-term commercial relationship, essential for the formulation of GVCs.<sup>76</sup> Furthermore, moving up value chains takes time, and requires stability and predictability of preferential schemes. Dissipating such uncertainties is amenable for increasing the use of existing preferences by traders. Box 5 provides further discussion on how preferences may be adapted to trade associated with GVCs.



## Box 5

### Global value chains for least developed countries?

Under GVC trade, cross-border trade occurs at all stages of processing. Preferences should therefore be given ideally to goods produced in a developing country within GVCs and sold to lead MNEs, regardless of where they are located, and not necessarily only when goods are exported from the developing country to the preference-giving country. This would facilitate cross-border division of production. Yet, GSP preferences are granted when imported into granting economies, and the direct consignment rule usually does not allow transshipment through a third country. To overcome such constraints, could global preferences be provided to all inputs coming from LDCs? Such a scheme, dubbed “GVCs for LDCs”, would extend the preferential duty-free treatment to products originating in any non-LDC in proportion to the value of LDCs’ input content embodied in their exports. Antimiani and Cernat (2021) estimate that all countries would gain from such a scheme and the increase in GDP for LDCs would be equivalent to \$2.7 billion or 0.2 per cent.<sup>77</sup> The share of LDCs in world trade could increase by 0.1 per cent while the domestic value added of their exports could increase by around \$5 billion. The sectors that would capture most of the benefits would be textiles, energy mineral sectors, metal products, chemicals and machinery.

<sup>76</sup> See Borchert I and Di Ubaldo M, 2020, Go Ahead and Trade: The Effect of Uncertainty Removal in the EU’s GSP Scheme, Robert Schuman Centre for Advanced Studies Research Paper No. RSCAS 2020/15; and Hakobyan S, 2020, GSP expiration and declining exports from developing countries, *Canadian Journal of Economics*, 53(3): 1132–1161, on impact of uncertainty regarding GSP programme continuity and eligibilities on beneficiary country exports.

<sup>77</sup> Antimiani A and Cernat L, 2021, Untapping the full development potential of trade along global supply chains: A ‘GVCs for LDCs’ proposal, *Journal of World Trade*, 11 April.



Preference-granting countries may consider designing their own industrial policies in such a way as to create demand for beneficiary country exports

NRTPs could be used to foster trade in critical minerals that have already gone through certain processing

## D. Trade preferences for new industrial policy?

Participation in GVCs is often seen as a first step on the industrialization ladder as countries can specialize in specific tasks in the value chains. However, studies have shown that when increasing participation in GVCs leads to a reduction of domestic sourcing, it may even delay structural transformation in developing countries.<sup>78</sup> A number of countries have turned to new industrial policy, leveraging the advantage of lower labour costs and steadily building up capacity in more skill-intensive and higher value-added activities, to exploit trade opportunities arising from decarbonization, digitalization and trade shift through de-risking.

**Trade preferences have the potential to support new industrial policy in developing countries** (e.g., critical minerals) by incentivizing exports of high value-added environmental products from developing countries. Indonesia, for example, moved from exporting nickel ore, a critical mineral used in electric vehicles, to developing a nickel processing industry through the combination of a raw nickel export ban, industry incentives, foreign investments, and technology transfer in processing.<sup>79</sup> NRTPs could be used to foster trade in critical minerals that have already gone through certain processing. Under a win-win scenario, while the preference-granting countries could secure supplies of critical minerals through the preference programmes, developing countries would climb up the value chains and increase local

value addition.<sup>80</sup> The programmes could also be used to support global efforts for energy transition, particularly by facilitating and incentivizing trade in inputs, parts and components used in green technologies and in renewable energy production.

**Preference-granting countries may consider designing their own industrial policies in such a way as to create demand for beneficiary country exports and facilitate their industrial transition.** For instance, the Inflation Reduction Act (IRA) of the United States provides tax credits for inputs used in the production of batteries for electric vehicles. To qualify for such credits, the percentage of critical minerals in the battery that must be extracted or processed in the United States or a country with which the United States has an FTA is determined, which will increase up to 80 per cent in 2027. Some observers have argued that it might be possible to allow United States companies to source inputs from AGOA beneficiaries and still qualify for IRA tax credits.<sup>81</sup>

## E. Beyond tariffs

### 1. Non-tariff measures

Non-tariff measures have emerged as a major component of trade costs. They represent a cost of about 2 per cent to total imports of high and middle-income countries, and about 3.5 per cent for low-income countries.<sup>82</sup> NTMs' cost is less for industrial goods (about 3–6% AVE) than for agricultural goods (10–30% AVE). Despite the legitimate public policy purposes, the

<sup>78</sup> See, UNCTAD, 2016, *Trade and Development Report 2016: Structural transformation for inclusive and sustained growth* (United Nations publication, Sales No. E.16.II.D.5, New York and Geneva).

<sup>79</sup> See Huber I, 2021, *Indonesia's Nickel Industry Strategy*, Commentary, 8 December, Centre for Strategic and International Studies; Uren D, 2024, *Indonesia harnesses Chinese capital and innovation to dominate world nickel production*, Australian Strategic Policy Institute, 26 February; Setiani H, Valennia R and Rusni NK, 2024, *Nickel export ban policy in Indonesia – a path to sustainable economic development?*, *EcoProfit: Sustainable and Environment Business*, 1(2):120–130.

<sup>80</sup> Usman Z and Csanadi A, 2023, *How Can African Countries Participate in U.S. Clean Energy Supply Chains?*, *Climate Change Notes*, October, Carnegie Endowment for International Peace.

<sup>81</sup> Center for Strategic and International Studies, 2024, *Adding a Critical Minerals Agreement to the AGOA Reauthorization*, Critical Questions by Gracelin Baskaran, Published February 5, 2024.

<sup>82</sup> UNCTAD and World Bank, 2018, *The Unseen Impact of Non-Tariff Measures: Insights from a new database* (United Nations publication, Geneva).



higher level of technical regulations and standards in preference-giving countries tend to dissuade developing country exports even when tariff preferences exist under preferential schemes. Can some form of “preferential” regulatory harmonization and cooperation on NTMs be integrated in preferential trade programmes to reduce trade costs for beneficiary countries?

**Non-tariff measures are often uniformly applied to imports regardless of their origin.** Differential treatment of developing countries in NTMs is highly unlikely. Regulatory cooperation – harmonization and mutual recognition of technical regulations and standards – is possible and mutual recognition agreements (MRAs) can reduce the trade restrictive effect of given NTMs. However, such an arrangement calls for agreement by both sides, and presumes a comparable level of development that translates into equivalent regulations. Even countries at similar levels of development find it difficult to harmonize or mutually recognize their regulations. Challenges are higher for countries at different levels of development.

**The high costs associated with NTMs relate also to the (often unnecessary) differences in regulations** and the way these are implemented in major markets, i.e. the multiplicity of incompatible regulatory systems. Regulatory cooperation among donors can significantly reduce compliance costs resulting from different regulations at similar levels of stringency. The potential benefits from regulatory cooperation are significantly higher than those from tariff liberalization. The cost to trade may also be reduced when governments cooperate at the regional and international levels towards harmonization of standards, procedures, and requirements.

In this regard, it remains important that the principles and procedures on development of international standards, guides and recommendations agreed at the WTO in

2000 be observed in elaborating NTMs. These principles call for, among others, transparency, openness, impartiality and consensus while taking into account the concerns of developing countries.<sup>83</sup>

**Non-tariff measures may still have greater effects that are often harsher for small firms and lower-income countries.** First, the cost of compliance with many types of NTMs is generally higher for exporters in lower-income countries due to weaker infrastructural, organizational, administrative and technical capabilities. Second, NTMs tend to be more widespread in sectors of export interest to developing countries, such as agriculture and textiles, where there is a lower ability by exporters to comply with these requirements.

**Conformity verification costs are higher for small countries and small producers,** as they are often fixed costs, and many smaller and lower-income countries lack accredited laboratories. Tariffs, on the contrary, are proportionate to the value of exports. The cost of NTMs is more difficult to measure, but is arguably higher than tariffs, and relatively independent from the price of goods. Conformity assessment cooperation would reduce redundant testing and certification costs, streamlining market access for exporters. Yet, quality infrastructure (test, quality, certification/proof that standards are met, etc.) requires costly investments.

**Article 9 of the WTO SPS Agreement provides for facilitating the provision of technical assistance to exporting developing country Members,** where substantial investments are required to fulfil the SPS requirements of importing Members, so that developing countries can maintain and expand their market access opportunities for the products involved. Such assistance may be in the areas of processing technologies, research and infrastructure, including in the establishment of national regulatory

Regulatory cooperation among donors can significantly reduce compliance costs

Conformity assessment cooperation would reduce redundant testing and certification costs, streamlining market access for exporters

<sup>83</sup> See WTO website on Principles for the Development of International Standards, Guides and Recommendations: <https://www.wto.org/english/>.





bodies. Likewise, Article 11 of the WTO TBT Agreement provides for technical assistance, if requested, to developing countries in establishing institutions and regulatory frameworks that are needed to fulfil technical requirements and conduct conformity assessment needed to access developed countries' markets.

## 2. Services

Some developing countries are highly reliant on services trade (e.g., tourism, digitally delivered services) with limited manufacturing capacity and potential. Others require competitive services inputs for their manufacturing exports. As services is an important contributor to GDP, employment and trade, and are a major and growing component of international trade, services trade may be considered in the redesign of trade preference schemes.<sup>84</sup> How can trade preferences schemes integrate services to enhance competitiveness in beneficiary countries? What preferential treatment can be provided for LDC services exports in a commercially meaningful manner?

### **The LDC services waiver adopted at the 8<sup>th</sup> WTO Ministerial Conference in 2011 does provide a basis for services trade preferences, or “GSP for services”.**<sup>85</sup>

The LDC services waiver allows WTO members to grant preferential treatment to services and service suppliers from LDC members until 2030. To date, more than 50 WTO members representing almost 90 per cent of global services trade have notified preferential treatment under the waiver.<sup>86</sup>

**The countries that notified the waiver provided more than 2000 preferential offers to LDCs as part of the waiver, with most of them in the business and transport sectors across all modes of supply.**<sup>87</sup> Other sectors offered included communication, tourism and travel, distribution, financial services, recreational, cultural and sporting services, construction and related engineering services, environmental services, educational services and health related services. Tourism, which represents a priority services sector for LDCs, has been mostly covered only through preferential market access to travel agencies and operators from LDCs through modes 1, 2 and 3, and only rarely through mode 4.<sup>88</sup> Preferences in the construction services sector are currently limited, with barriers such as local content requirements for mode 3. To facilitate trade in construction services through mode 4, some countries have extended offers in limited construction subsectors.

**The extent to which such services trade preferences have been effectively used by LDC services and services providers and brought commercial benefits is a matter of research and debate.** LDCs have called for addressing those barriers affecting them on a preferential basis, including the following:<sup>89</sup>

- *Tourism and travel* (e.g., by reducing visa restrictions)
- *Information and communication technology services* (e.g., by reducing visa and work permit restrictions, as well as equity caps for mode 3)

<sup>84</sup> Wolfmayr Y, 2008, Producer services and competitiveness of manufacturing exports, FIW–Research Reports No. 009, FIW – Research Centre International Economics, Vienna.

<sup>85</sup> WTO, 2011, Preferential treatment to services and service suppliers of least–developed countries: Decision of 17 December 2011, WT/L/847, Geneva, 19 December.

<sup>86</sup> For more information, see: [https://www.wto.org/english/tratop\\_e/serv\\_e/ldc\\_mods\\_negs\\_e.htm](https://www.wto.org/english/tratop_e/serv_e/ldc_mods_negs_e.htm).

<sup>87</sup> Sharma S, 2023, Improving the Operationalisation and Implementation of the WTO’s LDC Services Waiver: A Commonwealth Perspective, International Trade Working Paper 2023/01, Commonwealth Secretariat, London.

<sup>88</sup> GATS defines four modes of supply of services: Cross-border supply of services (mode 1); consumption abroad (mode 2) (e.g. tourism); commercial presence (mode 3) (e.g. FDI); and temporary movement of natural persons (mode 4).

<sup>89</sup> WTO, 2014, Submission by the Delegation of Uganda on Behalf of the LCD Group. Collective Request Pursuant to the Bali Decision on the Operationalization of the Waiver Concerning Preferential Treatment to Services and Service Suppliers of Least–Developed Countries, S/C/W/356, Geneva, 23 July.



- *Education services* (e.g., by granting scholarships, waive mode 2 restrictions and mutual recognition of institutions and courses)
- *Health services* (e.g., by guaranteeing portability of medical insurance and recognition of qualifications), (e.g., by waiving national quotas)
- *Temporary movement of natural persons (mode 4)*. Addressing the administrative barriers related to visa applications and easing entry requirements for LDC contractual services suppliers or independent professionals in all service sectors represent a priority for LDCs.

**LDCs in general are not competitive in services trade and face severe supply constraints with limited regulatory and institutional capacities.**

Services are also notorious for lacking reliable, regular and internationally comparable data that is granular enough to support services policy making. There is a scope to advancing the “services trade facilitation” agenda, by collecting and developing data on services trade in LDCs, providing capacity building support, including in building firm-level competitiveness, increasing preference awareness among LDCs, and monitoring and assessing the implementation of preferences.

**Some of the major preference-granting economies see a high potential for LDCs in digital services exports,**

to support participation in GVCs and economic inclusion, including for MSMEs and women. Affordable mobile services, provided that there is appropriate internet infrastructure, can foster these transformations.<sup>90</sup> Some sectors, such as the health sector, may be considered by preferential trade programmes to provide for the exchange of nationals to promote transfer of knowledge and skills.

### 3. Foreign direct investment

Foreign direct investment is a key driver in the expansion of GVCs. GVC trade has raised the bar higher for developing countries to take effective advantage of trade preferences. The expansion of GVC trade has exposed the importance of developing countries’ own trade and industrial policies to gain access to competitive inputs while building required manufacturing and services capacities to add value locally. This has required them to conduct tariff reforms, engage in regional integration, introduce duty-draw back system for exporters, build SEZs or industrial parks. These policies could attract FDI, facilitate access to technology, and build productive capacities in beneficiary countries. Can preference-granting countries provide incentives to their firms to stimulate FDI into preference-receiving countries?

**The availability of preferential market access to preference-granting markets in itself can act as an incentive for their firms to invest in beneficiary countries.**

The existing literature finds a positive relationship between the exports by MNEs to the home country and preferential market access.<sup>91</sup> Trade preferences are indeed influenced by the importing country’s FDI decisions. More FDI leads to more generous trade preferences for goods originating from the country and industry towards which FDI is directed.

**Most developed countries (79 per cent of them) already provide incentives to promote outward FDI (OFDI).**<sup>92</sup>

These promotion and facilitation policies have been pursued primarily to promote the internationalization of domestic businesses, particularly small- and medium-sized enterprises (SMEs), as well as to promote international cooperation efforts. OFDI promotion in developed countries typically

There is a scope to advancing the “services trade facilitation” agenda, by collecting and developing data on services trade in LDCs, providing capacity building support

Consideration may be given to directing such OFDI promotion activities in line with preferential trade benefits.

<sup>90</sup> For more information, see [https://www.wto.org/english/tratop\\_e/serv\\_e/3\\_velasco\\_030621.pdf](https://www.wto.org/english/tratop_e/serv_e/3_velasco_030621.pdf).

<sup>91</sup> Blanchard EJ and Matschke X, 2012, U.S. Multinationals and Preferential Market Access, CESifo Working Paper Series No. 3847, June 26.

<sup>92</sup> UNCTAD, 2024, Outward FDI Policies: Promotion and Facilitation – Regulation and Screening, Investment Policy Monitor, Issue No 27, February.



involves credit insurance companies, export credit agencies, development banks, and enterprise development or trade and export promotion agencies. Consideration may be given to directing such OFDI promotion activities in line with preferential trade benefits.

**Fiscal and financial support, investment guarantees, investment facilitation services, and direct capital participation are the four principal means for OFDI promotion.**

Fiscal or financial support encompasses loans, grants, and tax incentives for companies. Loans are usually provided by home country export promotion agencies or development banks. Foreign investment insurance or guarantees secure some level of political risk protection for firms. Facilitation services assist domestic businesses in establishing and maintaining a presence abroad. Direct capital participation through State-sponsored programmes enables domestic firms to invest abroad with direct equity participation and private enterprise funds.

**While OFDI promotion initiatives often do not differentiate between destination countries, a growing number of countries use OFDI to support development objectives.** A number of countries have put in place some instruments specifically designed to promote OFDI in developing countries. In addition, numerous developed economies have integrated OFDI promotion schemes into their broader development assistance strategies. OFDI promotion schemes often incorporate criteria that emphasize the benefits to the host country, particularly regarding investments targeting developing countries.

**Incentives given by host countries normally take the form of fiscal benefits for priority sectors or establishment of SEZs.** Promotion and facilitation of investment could as well take the form of one-stop shops for foreign investors, insurances for investors, improved access to capital, market research and business networking, fast-tracked procedures for

approval of permits or licenses, cooperation frameworks on innovation in key sectors, exceptions for climate change and energy transition related investment, and obligations about corporate social responsibility.

#### 4. Access to technology

Improving beneficiary countries' access to technologies is key to economic diversification. Trade is a vehicle for technology transfer. International trade allows access to technologies and knowledge embedded in imported products and services. Imports of machinery, equipment, and components contain embodied knowledge and technologies, and have been important in technological development. These imports increase the productivity of local firms, improve their technological capabilities, and facilitate technological learning by doing and trading, through reverse engineering and imitation. How can technology transfer be incentivized as a new element of trade preferences?

**Today, participation in GVCs can boost technology diffusion by increasing market access and importing intermediate goods and services.**

Increased services value-added and digitalization in modern economies means that services trade is intrinsically associated with technology transfer and diffusion. A country's technology absorption capacity plays a crucial role in fully benefiting from formal or informal technology transfer through trade. The absorption capacity depends, among others, on how educated and trained the workforce is, how much investment in R&D is done, and how effectively the innovation system works.

**Technology transfer through formal channels occurs when there is a business interest in transferring technology, and when partner countries possess sufficient absorptive and productive capacities.** An OECD study examining data covering 93 MNEs in eight high-technology sectors shows that the most common forms of direct technology transfer adopted by MNEs are research



collaborations (more than half) and licensing agreements (one fourth), while joint ventures represent only one eighth.<sup>93</sup> However, these market-based voluntary transfers are possible only between private right holders and firms in countries that already have technology absorptive capacity.

**TRIPS Article 66.2 does provide a basis for “preferential” transfer of technology in favour of LDCs.** It calls upon developed country WTO Members to “provide incentives to enterprises and institutions in their territories for the purpose of promoting and encouraging technology transfer to least-developed country Members in order to enable them to create a sound and viable technological base.” Yet, the effective implementation of the provisions has left much to be desired to date. A survey on technology transfer identified agriculture and food, environment and climate change, ICT, and public health and pharmaceuticals as priority areas for LDCs.<sup>94</sup>

**Reducing tariffs and regulatory barriers on green goods and services, for instance, could facilitate access to those technologies embedded in environmentally-sound goods and services.** For instance, rules of origin may be designed in a manner to give incentives to use advanced technology, including environmentally-sound goods and services, such as through bilateral cumulation with granting countries and/or regional cumulation with regional partners with advanced technological capabilities.

**Services trade may also allow for technology transfer,** particularly through Mode 4 in the form of movement of personnel and Mode 3 in the form of commercial presence (i.e., FDI) abroad. Preference-granting countries could consider integrating services trade preferences

to promote technology transfer through such modes of supply in services trade.

**“Preferences” may encompass measures to strengthen technology absorptive capacity in beneficiary countries,** including through provision of technical assistance, investment finance for infrastructure, and technology transfer mechanisms in certain critical technologies, such as clean technology. For instance, a potential avenue through which to facilitate technology transfer is by establishing partnerships such as patent pooling. Patent pooling was put into practice by UNITAID in 2010 with the foundation of the Medicines Patent Pool, the first voluntary licensing and patent-pooling mechanism in public health. Consideration may be given to replicating such a public-private partnership in other areas where access to technology is essential, such as green technologies used to decarbonize production processes or produce low-carbon products and services.

## 5. Development cooperation

Trade preferences have provided improved market access to developing countries. Despite their positive impact, benefits have been uneven, favouring those with more developed export sectors and greater productive capacity. Countries facing supply-side constraints, such as low levels of domestic investment in basic infrastructure (e.g., transport, energy and irrigation), low levels of education and skill development, could benefit less from trade preferences. The lack of built-in development assistance programmes to address these supply-side constraints in beneficiary countries has been identified as a key bottleneck in translating preferential market access into development gains. Can development assistance be combined with preferential market access to

Modernizing trade preference programmes could be explored as a key home-country measure to promote technology transfer

The lack of built-in development assistance programmes to address supply-side constraints is a key bottleneck in translating market access into development gains

<sup>93</sup> Andrenelli A, Gourdon J and Moisé E, 2019, International Technology Transfer Policies, OECD Trade Policy Papers, No. 222, OECD Publishing, Paris; South Centre, 2022, Technology Transfer and Climate Change: A developing country perspective, Climate Policy Brief No. 28, 14 November.

<sup>94</sup> Van Weelde J, Wu X, Chiang TW and Khazin BP, 2023, Reflection on the Implementation of Decision on Implementation of Article 66.2 of the TRIPS Agreement: Incentive for Technology Transfer to Least-Developed Countries, Research ERSD-2023-12, 13 December.



help developing countries reap commercial benefits from market access opportunities?

**A precedent to such a combined approach can be found in the trade and development cooperation between the ACP States and the European Union.**

Since 1975, the ACP-EU trade and development cooperation has taken place under a succession of four Lomé Conventions and the Cotonou Partnership Agreement (currently regulated under the Samoa Agreement). The approach combined contractual non-reciprocal preferential market access with comprehensive development cooperation programmes, backed by 5-year financing arrangements under the European Development Fund (currently, under “the Neighbourhood, Development and International Cooperation Instrument – Global Europe” with a total financial envelope of around €79.5 billion under the 2021–2027 budget).<sup>95</sup>

**While not directly tied with market access benefits, Aid for Trade (Aft) supports developing countries, particularly LDCs, in building productive capacities and reducing trade costs**

to allow them to reap effective benefits from trade. In 2020, the most recent year for which data are available, global Aft disbursement" stood at \$48.7 billion out of the committed amount of \$64.6 billion. In total, 98 per cent of disbursements in 2020 went towards building productive capacity and economic infrastructure.<sup>96</sup>

Studies have shown the potential of Aft to promote export diversification and to advance economic growth through lower trade costs and higher diversification.<sup>97</sup> Aft has also had a positive impact on FDI inflows<sup>98</sup> and could enhance the diversification of FDI inflows.<sup>99</sup> Preference-granting countries could consider aligning development support with preferential market access under their NRTP schemes.

**Trade-related development assistance could also address trade finance, which plays a key role in facilitating international trade.**

The WTO estimates that 80 per cent or more of global merchandise trade depends on the provision of trade financing.<sup>100</sup> Developing countries, especially SMEs and women-led exporting companies, often encounter difficulties in obtaining trade finance due to high risk perceptions. Estimates indicate the current trade finance gap of \$2.5 trillion annually.<sup>101</sup> The average amount of goods trade covered by trade finance in Africa is 40 per cent as compared to 60 per cent in advanced economies. Enhancing the availability of trade finance for developing country exporters could go a long way in facilitating their exports.

Preference-granting countries could consider aligning development support with preferential market access under their NRTP schemes

<sup>95</sup> Council of the European Union, 2023, Partnership Agreement between the European Union and its Member States, of the one part, and the Members of the Organisation of the African, Caribbean and Pacific States, of the other part, 8372/1/23 REV 1, Brussels, 19 July.

<sup>96</sup> OECD/WTO, 2022, Aid for Trade at a Glance 2022: Empowering Connected, Sustainable Trade, OECD Publishing, Paris.

<sup>97</sup> Nathoo R, Salim R, Ancharaz V and Kabir M, 2021, Does Aid for Trade diversify sub-Saharan Africa's exports at the intensive and extensive margins?, *Applied Economics*, 53(55):6412–25.

<sup>98</sup> Lee SL, 2018, An empirical analysis of the effects of aid for trade on foreign direct investment: International evidence, Graduate School of International Studies and Seoul National University, February.

<sup>99</sup> Gnanon SK, 2022, Aid for Trade, export product diversification, and foreign direct investment, *Review of Development Economics*, 26:534–561.

<sup>100</sup> International Finance Corporation/World Trade Organization, 2019, Trade finance and the compliance challenge, A showcase of international cooperation.

<sup>101</sup> Kim K, Beck S, Tayag MC and Latoja MC, 2021, 2021 Trade Finance Gaps, Growth, and Jobs Survey. ADB Briefs No. 192, October, Asian Development Bank.



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## Annex 1

## List of preferential trade schemes

| Preferential scheme                                       | Category | Start date | Valid until                        | Number of beneficiaries                                 | Of which LDCs                     |
|---|----------|------------|------------------------------------|---|-----------------------------------|
| Australia GSP   | GSP      | 01/01/1974 | –                                  | 177   | 50                                |
| Australia and New Zealand SPARTECA                        | Other    | 01/01/1981 | –                                  | 13  | 3                                 |
| Canada General Preferential Tariffs (GPT)                 | GSP      | 01/07/1974 | 31/12/2034                         | 106   | 49                                |
| Canada CARIBCAN   | Other    | 15/06/1986 | –                                  | 18  | 0                                 |
| Chile LDC   | LDC only | 28/02/2014 | –                                  | 48  | 48                                |
| China LDC   | LDC only | 01/07/2010 | –                                  | 44  | 44                                |
| EAEU GSP  | GSP      | 10/10/2016 | –                                  | 77 <sup>3</sup>   | 48                                |
| European Union GSP  | GSP      | 01/07/1971 | 31/12/2027<br>(Indefinite for EBA) | 65 (GSP 10; GSP+ 8)                                     | 47                                |
| Iceland GSP   | GSP      | 29/01/2002 | –                                  | 48  | 48                                |
| India LDC   | LDC only | 13/08/2008 | –                                  | 46  | 46                                |
| Japan GSP   | GSP      | 01/08/1971 | 31/03/2031                         | 130   | 45                                |
| Montenegro LDC  | LDC only | 20/01/2016 | –                                  | 46  | 46                                |
| Morocco LDC   | LDC only | 01/01/2001 | –                                  | 34  | 34                                |
| New Zealand GSP   | GSP      | 01/01/1972 | –                                  | 140   | 50                                |
| Norway GSP  | GSP      | 01/10/1971 | –                                  | 121<br>(GSP+ 25)  | 50                                |
| Republic of Korea LDC                                     | LDC only | 01/01/2000 | –                                  | 47  | 47                                |
| Switzerland GSP   | GSP      | 01/03/1972 | Indefinite                         | 123   | 46                                |
| Taiwan Province of China LDC                              | LDC only | 17/12/2003 | –                                  | 46  | 46                                |
| Tajikistan LDC  | LDC only | 25/10/2003 | –                                  | 48  | 48                                |
| Thailand LDC  | LDC only | 09/04/2015 | –                                  | 47  | 47                                |
| Türkiye GSP   | GSP      | 01/01/2002 | –                                  | 66<br>(special incentive arrangement 3)                 | 48                                |
| United Kingdom Developing Countries Trading Scheme (DCTS) | GSP      | 01/01/2021 | –                                  | 65<br>(Standard Preferences 2; Enhanced Preferences 16) | 47<br>(Comprehensive preferences) |
| United States GSP   | GSP      | 01/01/1974 | 31/12/2020                         | 119<br>countries and territories                        | 45                                |
| United States AGOA  | Other    | 18/05/2000 | 30/06/2025                         | 35  | 25                                |
| United States CBERA                                       | Other    | 01/01/1984 | 30/09/2030                         | 17  | 1                                 |

Source: WTO Preferential Trade Arrangements Database and UNCTAD compilation.

Note: The number of beneficiaries" in 2024 or the latest year available.





## Annex 2

### Trade preferences today – A snapshot

#### Overview of preferential trade

- As of 2024, 16 developed economies offer GSP schemes, encompassing standard preferential tariffs for non-LDCs and special preferences for LDCs. These markets imported slightly more than half of total exports of LICs and LMICs (excluding LDCs) in 2022 with the European Union (22.5 per cent) and the United States (18 per cent) being the largest GSP-granting markets.<sup>102</sup>
- In addition, 9 developing countries grant LDC-specific tariff preferences aimed at DFQF market access.
- In total, the 25 developed and developing economies offering LDC-specific preferences absorb more than three quarters of total LDC exports. China (24.9 per cent) is the largest market destination for LDCs exports, followed by the European Union (19.5 per cent), the United States (7.8 per cent) and India (7.5 per cent).
- Out of the total imports worth \$1.3 trillion from the beneficiaries, \$690 billion entered preference-granting markets MFN duty free.<sup>103</sup> The rest (around \$620 billion) was subject to positive MFN duties, \$392 billion of which were eligible for preferential tariffs under one of the NRTP programmes. Out of these \$392, \$165 billion indeed claimed and received preferential tariffs. Out of the total preferential imports of \$165 billion, LDCs exported about \$74 billion and other GSP beneficiaries \$79 billion. The remaining \$12 billion is exports under other regional trade preference programmes such as CARIBCAN, SPARTECA and AGOA.
- The GSP is not a harmonized system, showing substantial differences across the different schemes implemented by preference-granting countries. While GSP emerged from intergovernmental negotiations under UNCTAD in the 1960s, and LDC-specific DFQF schemes from the WTO discussions in the 2000s, GSP and DFQF have no legally-binding thresholds or minimum requirements in terms of product/country coverage, level of tariff advantages, or design of rules of origin.
- In addition, preference-giving countries have been increasingly focused on LDCs, often excluding HICs and UMICs from the list of GSP-eligible countries. In this case, North-South FTAs such as EPAs are replacing former unilateral preferences. As a result of these conditions, the benefits of trade preferences appear to be highly concentrated in a few countries and product categories.

#### Preferential tariffs and margin

- On average, LDCs enjoy lower preferential tariffs and larger preference margins than non-LDCs. Average preferential tariff rates on LDC exports are zero or nearly zero in several markets (Australia, Switzerland, New Zealand, Chile, Montenegro, Iceland and Japan) while there remain sizable tariffs in others.<sup>104</sup>
- The level of preference margin differs across markets as the initial MFN tariff rates, which form the basis of tariff cuts, as well as the level of tariff cuts, differ. In fact, the preference margin is larger when the average MFN tariff rate of a preference-granting market is higher.

<sup>102</sup> UNCTAD calculations based on COMTRADE.

<sup>103</sup> UNCTAD calculations based on WTO PTA database. Figures excludes Russian Federation, Tajikistan and Kyrgyzstan due to lack of trade data. Preferential trade figures are missing for some programmes of Armenia, Australia, Kazakhstan, New Zealand, Türkiye, Norway, China, Morocco, and Montenegro assumed to have the same preference utilization and product coverage rate as the average of remaining programmes of the same type.

<sup>104</sup> UNCTAD calculations based on TRAINS/WITS.



Average margins are particularly high in markets such as India, Thailand, Republic of Korea, and Switzerland,<sup>105</sup> reflecting the higher level of initial MFN rates.

- The level of preference margin also differs across products. The differences in average preference margins across product groups reflect the existing MFN tariff structure. For example, in the selected developed country (“Quad”) markets, food products, textile and footwear often record the highest preference margins particularly in the LDC-only schemes, as these tend to be highly protected by importing countries through relatively high MFN rates.
- The highest preference margin is found in footwear and textile in Canada’s LDC scheme, scoring respectively 13.4 and 14.7 per cent. Similarly, the European Union’s GSP+ scheme provides about 12.8 per cent margin in food products. In contrast, ores and minerals often face lower import protection in these markets, due to sustained demand and insufficient domestic production in preference-granting countries.

## Product Coverage

- The number of products receiving preferential tariff treatment depends on how many tariff lines attract positive (i.e., non-zero) MFN duties. For some markets such as Norway and Canada, the bulk of tariff lines are already duty free on an MFN basis, thereby limiting the scope for preferential tariff treatment. On the other hand, some developing country markets maintain a higher share of tariff lines with positive MFN duties.
- Along with those tariff lines that are MFN duty-free, products exported by LDCs can be expected to enter many of the preference-granting markets free of duty. However, the share of the tariff lines receiving preferential treatment varies strongly across schemes. In some developing countries’ LDC-specific schemes, the share exceeds 80 per cent of tariff lines (Chile, India, Tajikistan and China) while under some GSP-LDCs schemes the share of preference-covered products can be around 10 per cent or less (Norway, Iceland, Australia), in part due to the bulk of products that receive duty-free treatment on an MFN basis.
- In general, the number of tariff lines with preferential tariffs under the standard GSP schemes is usually lower than LDC schemes. The European Union GSP and GSP+ registered the largest share of preferential tariff lines (64 per cent), with Switzerland, Türkiye and Australia registering a share of over 50 per cent. In the case of general GSP schemes, the covered products do not necessarily receive duty-free treatment, as preferential tariff may only consist of reduced positive rates (lower than MFN but still higher than zero).

## Imports by tariff regime

- In terms of the value of imports that fall under each tariff regime, LDC schemes register a higher share of preferential imports entering through these schemes compared to non-LDC ones. In five markets (United Kingdom, European Union, Canada Japan, Republic of Korea), the share of preferential imports from LDCs exceeds 50 per cent of the total and reaches 90 per cent in the United Kingdom.<sup>106</sup> The disproportionately high share of preferential imports indicates the significance of these trade preferences for LDCs in these markets.
- In contrast, despite the sizable share of tariff lines subject to preferential tariffs, the bulk of imports of non-LDCs enter the markets under the MFN duty-free tariff regime. In the two largest GSP schemes (European Union and the United States) in terms of preferential import value, preferential imports accounted for less than 20 per cent and 10 per cent

<sup>105</sup> Switzerland figures include AVEs of specific tariffs while others only include ordinary ad valorem tariffs.

<sup>106</sup> UNCTAD calculations based on WTO PTA database.



respectively. Only in the European Union's GSP+ scheme does the share of preferential imports exceed 50 per cent of total imports.

### Coverage rate and utilization rate

- The coverage rate represents the share of import value of products eligible for preferential tariffs (covered imports) in the total value of imports of products subject to positive (non-zero) MFN rate (dutiabale imports).
- The utilization rate represents the share of import value of products that received preferential tariffs (preferential imports) in the total value of imports of products eligible for preferential tariffs (covered imports).
- The global average coverage rate of preferential trade conducted under NRTP programmes is estimated at 55 per cent for the standard GSP scheme and 91 per cent for LDC-specific schemes, indicating the extensive product coverage achieved for LDCs under the schemes.<sup>107</sup> LDC schemes, offering more generous terms, registered a higher utilization rate of 60 per cent, almost double the rate of the standard GSP programmes.
- GSP-LDC schemes implemented by developed countries – apart from the United States – and those of China and India generally present a coverage rate greater than 90 per cent, providing duty-free access to almost all dutiable imports from LDCs.<sup>108</sup> Several GSP-LDC schemes, including the United Kingdom, European Union, Japan, and Canada, register particularly high utilization rates of over 80 per cent.
- As to the general schemes for non-LDCs, the highest utilization rates are registered by United Kingdom Enhanced Preferences and European Union GSP+, the schemes providing duty-free treatment for all covered products. These are followed by those region-specific PTAs that offer also duty-free treatment, namely AGOA, SPARTECA and CARIBCAN.
- The low utilization rate of many GSP schemes is grounded in lower preference margins or other difficulties – such as stringent RoO – discouraging the use of existing preferential market access opportunities.
- When the coverage rate is low, schemes are more likely to be affected by product mismatches (beneficiary countries' export composition and GSP scheme product coverages do not match well), tending to result in lower utilization of preferences.

### Trade preferences in selected Quad markets – Time-series<sup>109</sup>

- In recent years, the overall value of imports from beneficiary countries decreased in Canada and European Union due to a decrease in eligible non-LDC developing countries, a consequence of changes in eligibility criteria of both schemes in 2014 and 2015.
- The share of preferential imports is generally limited, accounting on average for only 17 per cent of total imports in 2022 among Quad markets. However, this share showed substantive growth since 2004, where it accounted for only 9 per cent on average. In all Quad countries except Japan, the share of preferential imports peaked in 2019, accounting for 30 per cent of total imports from eligible countries in Canada, 38 per cent in the European Union, 13 per cent in the United States and only 2 per cent in Japan.
- The majority of imports from beneficiary countries enter duty free on an MFN basis. The average share of imports entering MFN-duty free decreased slightly from 2004 to 2022,

<sup>107</sup> UNCTAD calculations based on WTO PTA database. Figures excludes Russian Federation, Tajikistan and Kyrgyzstan due to lack of trade data. Preferential trade figures are missing for some programmes of Armenia, Australia, Kazakhstan, New Zealand, Türkiye, Norway, China, Morocco, and Montenegro assumed to have the same preference utilization rate as the average of remaining programmes of the same type. For Armenia Thailand, Kyrgyzstan and Morocco, 2016, 2020, 2019 and 2018 figures are used respectively.

<sup>108</sup> UNCTAD calculations based on WTO PTA database.

<sup>109</sup> UNCTAD calculations based on UNCTAD GSP Database.



passing from 61 per cent to 59 per cent. While in Canada and in the European Union this share decreased by around 10 percentage point between 2004 and 2022, it greatly increased in Japan – where it passed from 52 per cent to 74 per cent between 2004 and 2021 – and remained fairly constant in the United States, at around 56 per cent.

- Those imports that face positive duties – either because products are not covered by preferences (“not covered”) or because products failed to claim preferential treatment (“not used”) – accounted for some 24 per cent on average in 2022. This value decreased over time since 2004, when such imports accounted for 30 per cent on average among Quad markets. This share is higher in the United States (33 per cent in 2022) as the bulk of imports from beneficiary countries are not covered by GSP scheme, fundamentally stable since 2004.
- Looking into trade under individual preferential schemes, in all Quad markets except the United States, the value of preferential imports under the standard GSP schemes saw substantial drops in 2014–2015, following the exclusion of UMICs in Canada and the European Union and, in the case of Japan, as a consequence of the decrease in use of standard GSP schemes by eligible countries in favour of parallel PTAs.
- Imports under LDC-specific schemes overtook imports from non-LDC specific schemes in the three markets. United States imports have been marked by a decline in AGOA imports between 2012 and 2020, in contrast with stable imports under the standard GSP.
- The distribution of preferential import values is highly concentrated in a small group of exporters in Asia and in a handful of products. Five major exporters – Bangladesh, India, Indonesia, Cambodia and Pakistan – represent about 65 per cent of total preference imports in the Quad markets as a group. In the case of the relatively small markets of Canada and Japan, the value reaches 95 per cent and 83 per cent respectively.
- As far as the LDC schemes are concerned, only three largest exporters – Bangladesh, Cambodia and Myanmar – account for about 89.7 per cent of the total preferential imports in the Quad markets.
- Major middle-income countries such as India and China were among the main beneficiaries in 2004, which has changed after the major reforms in the early 2010s. Among the LDCs, only Bangladesh was among the top ten beneficiaries in Canada and the European Union. The only African country that made the list then was South Africa.
- Similarly, the largest five exported product groups at the HS chapter (2–digit) level, represent between 45 and 89 per cent of total preferential imports under the Quad GSP schemes, concentrating in apparel categories (HS61 and HS62), footwear (HS64), leather (HS42), and fish (HS03). The product composition is more diversified for the United States schemes, with the top five exports accounting for 45 per cent and, as different from other markets, mineral fuels topping the list of most traded product under the scheme, alongside some technology-intensive items such as vehicles and electrical materials.
- The composition of major products changed significantly since 2004. At that time, a diverse set of products including vehicles, electrical machinery and plastics were among the main export products of the GSP beneficiaries. With the major changes in the programmes coverage that excludes UMICs and HICs, the level of concentration increased recently.





## Annex 3

### Beneficiaries of preferential trade schemes

| Economy  | Category | Australia   | Canada |      | Chile | China | Eurasian Economic Union | European Union |      |     | Iceland | India | Japan |     | Montenegro | Morocco |
|--|----------|-------------|--------|------|-------|-------|-------------------------|----------------|------|-----|---------|-------|-------|-----|------------|---------|
|  |          |             | GPT    | LDCT |       |       |                         | GSP            | GSP+ | EBA |         |       | GSP   | LDC |            |         |
|  |          | Afghanistan | LDC    | X    | X     | X     | X                       | X              |      |     | X       | X     | X     | X   | X          | X       |
| Albania  |          | X           |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Algeria  |          | X           |        |      |       |       | X                       |                |      |     |         |       | X     |     |            |         |
| American Samoa   |          | X           |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Angola   | LDC      | X           | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          |         |
| Anguilla   |          | X           | X      |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Antigua and Barbuda  |          | X           |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Argentina  |          | X           |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Armenia  |          |             | X      |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Azerbaijan   |          |             |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Bahamas  |          | X           |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Bahrain  |          | X           |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Bangladesh   | LDC      | X           | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          |         |
| Barbados   |          | X           |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Belarus  |          |             |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Belize   |          | X           | X      |      |       |       |                         |                |      |     |         |       | X     |     | X          |         |
| Benin  | LDC      | X           | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          |         |
| Bermuda  |          | X           |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Bhutan   |          | X           | X      | X    | X     |       | X                       |                | X    | X   | X       | X     | X     |     |            |         |
| Bolivia, Plurinational State of  |          | X           | X      |      |       |       | X                       |                | X    |     |         |       | X     |     |            |         |
| Bosnia and Herzegovina   |          | X           |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Botswana   |          | X           |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Brazil   |          | X           |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| British Indian Ocean Territory   |          | X           | X      |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| British Overseas Territory of Saint Helena, Ascension and Tristan da Cunha |          | X           | X      |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| British Virgin Islands   |          |             | X      |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Brunei Darussalam  |          | X           |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Bulgaria   |          | X           |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Burkina Faso   | LDC      | X           | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          |         |
| Burundi  | LDC      | X           | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          |         |
| Cabo Verde   |          | X           | X      | X    |       |       | X                       |                | X    | X   |         |       | X     |     | X          |         |
| Cambodia   | LDC      | X           | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          |         |
| Cameroon   |          | X           | X      |      |       |       | X                       |                |      |     |         |       | X     |     |            |         |
| Canary Islands   |          |             | X      |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Cayman Islands   |          | X           |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Central African Republic   | LDC      | X           | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          |         |
| Ceuta and Melilla  |          |             | X      |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Chad   | LDC      | X           | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          |         |
| Chile  |          | X           |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| China  |          | X           |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Taiwan, Province of China  |          | X           |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Christmas Island   |          |             | X      |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Cocos (Keeling) Islands  |          |             | X      |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Colombia   |          | X           |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Comoros  | LDC      | X           | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          |         |
| Congo, Republic of   |          | X           | X      |      |       |       | X                       | X              |      | X   |         |       | X     |     |            |         |
| Congo, Democratic Republic of  | LDC      | X           | X      | X    | X     | X     | X                       |                | X    |     | X       |       | X     | X   | X          |         |
| Cook Islands   |          | X           | X      |      |       |       |                         | X              |      |     |         |       |       |     |            |         |
| Costa Rica   |          | X           |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Côte d'Ivoire  |          | X           | X      |      |       |       | X                       |                |      |     |         |       | X     |     |            |         |



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| Economy  | Category | New Zealand | Norway |      | Republic of Korea | Switzerland | Taiwan, Province of China | Tajikistan | Thailand | Türkiye | United Kingdom |    |    | United States of America |      |
|--|----------|-------------|--------|------|-------------------|-------------|---------------------------|------------|----------|---------|----------------|----|----|--------------------------|------|
|  |          |             | GSP    | GSP+ |                   |             |                           |            |          |         | CP             | EP | SP | GSP                      | AGOA |
|  |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Afghanistan  | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  |                          |      |
| Albania  |          | X           |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Algeria  |          | X           | X      |      |                   |             |                           |            |          |         | X              |    | X  |                          |      |
| American Samoa   |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Angola   | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Anguilla   |          | X           |        |      | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| Antigua and Barbuda  |          | X           |        |      | X                 |             |                           |            |          |         |                |    |    |                          |      |
| Argentina  |          | X           | X      |      | X                 |             |                           |            |          |         |                |    |    |                          |      |
| Armenia  |          |             |        | X    | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| Azerbaijan   |          |             | X      |      | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| Bahamas  |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Bahrain  |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Bangladesh   | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    |    |                          |      |
| Barbados   |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Belarus  |          |             | X      |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Belize   |          | X           |        | X    | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| Benin  | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Bermuda  |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Bhutan   |          | X           | X      |      | X                 |             | X                         |            | X        |         |                |    | X  |                          |      |
| Bolivia, Plurinational State of  |          | X           |        | X    | X                 |             |                           |            | X        |         | X              |    | X  |                          |      |
| Bosnia and Herzegovina   |          | X           |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Botswana   |          | X           | X      |      |                   |             |                           |            |          |         |                |    | X  | X                        |      |
| Brazil   |          | X           | X      |      | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| British Indian Ocean Territory   |          | X           |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| British Overseas Territory of Saint Helena, Ascension and Tristan da Cunha |          | X           | X      |      | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| British Virgin Islands   |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Brunei Darussalam  |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Bulgaria   |          | X           |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Burkina Faso   | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  |                          |      |
| Burundi  | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  |                          |      |
| Cabo Verde   |          | X           |        | X    | X                 |             |                           |            | X        |         | X              |    | X  | X                        |      |
| Cambodia   | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  |                          |      |
| Cameroon   |          | X           |        | X    | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| Canary Islands   |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Cayman Islands   |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Central African Republic   | LDC      | X           | X      |      | X                 | X           |                           | X          | X        | X       |                |    | X  | X                        |      |
| Ceuta and Melilla  |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Chad   | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Chile  |          | X           |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| China  |          | X           | X      |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Taiwan, Province of China  |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Christmas Island   |          | X           |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Cocos (Keeling) Islands  |          | X           |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Colombia   |          | X           |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Comoros  | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Congo, Republic of   |          | X           |        | X    | X                 |             |                           |            | X        |         | X              |    | X  | X                        |      |
| Congo, Democratic Republic of  | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Cook Islands   |          |             | X      |      | X                 |             |                           |            | X        |         | X              |    | X  |                          |      |
| Costa Rica   |          | X           |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Côte d'Ivoire  |          | X           |        | X    | X                 |             |                           |            |          |         |                |    | X  | X                        |      |





Trade Preferences Outlook 2024

| Economy                                | Category | Australia | Canada |      | Chile | China | Eurasian Economic Union | European Union |      |     | Iceland | India | Japan |     | Montenegro | Morocco |
|--|----------|-----------|--------|------|-------|-------|-------------------------|----------------|------|-----|---------|-------|-------|-----|------------|---------|
|  |          |           | GPT    | LDCT |       |       |                         | GSP            | GSP+ | EBA |         |       | GSP   | LDC |            |         |
|  |          |           |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Croatia                                |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Cuba                                   |          | X         |        |      |       |       | X                       |                |      |     |         |       | X     |     |            |         |
| Cyprus                                 |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Czechia                                |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Djibouti                               | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          | X       |
| Dominica                               |          | X         |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Dominican Republic                     |          | X         |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Ecuador                                |          | X         |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Egypt                                  |          | X         | X      |      |       |       | X                       |                |      |     |         |       | X     |     |            |         |
| El Salvador                            |          | X         | X      |      |       |       | X                       |                |      |     |         |       | X     |     |            |         |
| Equatorial Guinea                      |          | X         |        |      |       |       |                         |                |      | X   | X       | X     |       |     |            | X       |
| Eritrea                                | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          | X       |
| Eswatini                               |          | X         | X      |      |       |       | X                       |                |      |     |         |       | X     |     |            |         |
| Ethiopia                               | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          | X       |
| Falkland Islands (Islas Malvinas)      |          | X         | X      |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Fiji                                   |          | X         | X      |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| French Polynesia                       |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| French Southern Territories            |          | X         | X      |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Gabon                                  |          | X         |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Gambia (The)                           | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          | X       |
| Georgia                                |          |           | X      |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Ghana                                  |          | X         | X      |      |       |       | X                       |                |      |     |         |       | X     |     |            |         |
| Gibraltar                              |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Grenada                                |          | X         |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Guam                                   |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Guatemala                              |          | X         | X      |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Guinea                                 | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          | X       |
| Guinea-Bissau                          | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          | X       |
| Guyana                                 |          | X         | X      |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Haiti                                  | LDC      | X         | X      | X    | X     |       | X                       |                | X    | X   | X       |       | X     | X   | X          |         |
| Heard Island and McDonald Islands      |          |           |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Honduras                               |          | X         | X      |      |       |       | X                       |                |      |     |         |       | X     |     |            |         |
| Hong Kong, China                       |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Hungary                                |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| India                                  |          | X         |        |      |       |       |                         | X              |      |     |         |       | X     |     |            |         |
| Indonesia                              |          | X         |        |      |       |       |                         | X              |      |     |         |       | X     |     |            |         |
| Iran                                   |          | X         |        |      |       |       | X                       |                |      |     |         |       | X     |     |            |         |
| Iraq                                   |          | X         | X      |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Israel                                 |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Jamaica                                |          | X         |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Jordan                                 |          | X         |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Kazakhstan                             |          |           |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Kenya                                  |          | X         | X      |      |       |       | X                       | X              |      |     |         |       | X     |     |            |         |
| Kiribati                               | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          |         |
| Korea, Democratic People's Republic of |          | X         |        |      |       |       | X                       |                |      |     |         |       |       |     |            |         |
| Kosovo (UNMIK)                         |          |           |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |
| Kuwait                                 |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Kyrgyzstan                             |          |           | X      |      |       |       |                         | X              |      |     |         |       | X     |     |            |         |
| Lao People's Democratic Republic       | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       |       | X     | X   | X          |         |
| Lebanese Republic                      |          | X         |        |      |       |       |                         |                |      |     |         |       | X     |     |            |         |



Trade Preferences Outlook 2024

| Economy                                | Category | New Zealand | Norway |      | Republic of Korea | Switzerland | Taiwan, Province of China | Tajikistan | Thailand | Türkiye | United Kingdom |    |    | United States of America |      |
|--|----------|-------------|--------|------|-------------------|-------------|---------------------------|------------|----------|---------|----------------|----|----|--------------------------|------|
|  |          |             | GSP    | GSP+ |                   |             |                           |            |          |         | CP             | EP | SP | GSP                      | AGOA |
|  |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Croatia                                |          | X           |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Cuba                                   |          | X           | X      |      |                   | X           |                           |            |          |         |                |    |    |                          |      |
| Cyprus                                 |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Czechia                                |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Djibouti                               | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Dominica                               |          | X           | X      |      |                   | X           |                           |            |          |         |                |    | X  |                          |      |
| Dominican Republic                     |          | X           | X      |      |                   | X           |                           |            |          |         |                |    |    |                          |      |
| Ecuador                                |          | X           |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Egypt                                  |          | X           |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| El Salvador                            |          | X           |        | X    |                   | X           |                           |            |          |         |                |    |    |                          |      |
| Equatorial Guinea                      |          | X           | X      |      |                   | X           |                           | X          | X        |         |                |    |    |                          |      |
| Eritrea                                | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  |                          |      |
| Eswatini                               |          | X           |        | X    |                   |             |                           |            |          |         |                |    | X  | X                        |      |
| Ethiopia                               | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  |                          |      |
| Falkland Islands (Islas Malvinas)      |          | X           |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Fiji                                   |          | X           | X      |      |                   | X           |                           |            |          |         |                |    | X  |                          |      |
| French Polynesia                       |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| French Southern Territories            |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Gabon                                  |          | X           | X      |      |                   | X           |                           |            |          |         |                |    | X  | X                        |      |
| Gambia (The)                           | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Georgia                                |          |             |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Ghana                                  |          | X           |        | X    |                   | X           |                           |            |          |         |                |    | X  | X                        |      |
| Gibraltar                              |          | X           |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Grenada                                |          | X           | X      |      |                   | X           |                           |            |          |         |                |    | X  |                          |      |
| Guam                                   |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Guatemala                              |          | X           |        | X    |                   | X           |                           |            |          |         |                |    |    |                          |      |
| Guinea                                 | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  |                          |      |
| Guinea-Bissau                          | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Guyana                                 |          | X           | X      |      |                   | X           |                           |            |          |         |                |    | X  |                          |      |
| Haiti                                  | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  |                          |      |
| Heard Island and McDonald Islands      |          |             |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Honduras                               |          | X           |        | X    |                   | X           |                           |            |          |         |                |    |    |                          |      |
| Hong Kong, China                       |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Hungary                                |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| India                                  |          | X           | X      |      |                   | X           |                           |            |          |         |                | X  | X  |                          |      |
| Indonesia                              |          | X           |        |      |                   |             |                           |            |          |         |                | X  | X  |                          |      |
| Iran                                   |          | X           | X      |      |                   | X           |                           |            |          |         |                |    |    |                          |      |
| Iraq                                   |          | X           | X      |      |                   | X           |                           |            |          |         |                |    | X  |                          |      |
| Israel                                 |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Jamaica                                |          | X           | X      |      |                   | X           |                           |            |          |         |                |    | X  |                          |      |
| Jordan                                 |          | X           |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Kazakhstan                             |          |             | X      |      |                   | X           |                           |            |          |         |                |    | X  |                          |      |
| Kenya                                  |          | X           |        | X    |                   | X           |                           |            | X        |         |                |    | X  | X                        |      |
| Kiribati                               | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  |                          |      |
| Korea, Democratic People's Republic of |          |             | X      |      |                   | X           |                           |            |          |         |                |    |    |                          |      |
| Kosovo (UNMIK)                         |          |             |        | X    |                   | X           |                           |            |          |         |                |    | X  |                          |      |
| Kuwait                                 |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Kyrgyzstan                             |          |             |        | X    |                   | X           |                           |            | X        |         | X              |    | X  |                          |      |
| Lao People's Democratic Republic       | LDC      | X           | X      |      | X                 | X           | X                         | X          | X        | X       |                |    | X  |                          |      |
| Lebanese Republic                      |          | X           |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |



Trade Preferences Outlook 2024

| Economy                         | Category | Australia | Canada |      | Chile | China | Eurasian Economic Union | European Union |      |     | Iceland | India | Japan |     | Montenegro | Morocco |
|---------------------------------|----------|-----------|--------|------|-------|-------|-------------------------|----------------|------|-----|---------|-------|-------|-----|------------|---------|
|                                 |          |           | GPT    | LDCT |       |       |                         | GSP            | GSP+ | EBA |         |       | GSP   | LDC |            |         |
|                                 |          |           |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Lesotho                         | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   | X          |         |
| Liberia                         | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   | X          |         |
| Libya                           |          | X         |        |      |       |       |                         |                |      |     |         | X     |       |     |            |         |
| Macao, China                    |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Madagascar                      | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   | X          |         |
| Malawi                          | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   | X          |         |
| Malaysia                        |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Maldives                        |          | X         |        |      |       |       |                         |                |      | X   | X       | X     |       |     |            |         |
| Mali                            | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   | X          |         |
| Malta                           |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Marshall Islands                |          | X         | X      |      |       |       | X                       |                |      |     |         | X     |       |     |            |         |
| Mauritania                      | LDC      | X         | X      | X    | X     | X     | X                       |                | X    |     | X       | X     | X     | X   | X          |         |
| Mauritius                       |          | X         |        |      |       |       |                         |                |      | X   |         | X     |       |     |            |         |
| Mexico                          |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Micronesia, Federated States of |          | X         | X      |      |       |       | X                       | X              |      |     |         | X     |       |     |            |         |
| Moldova, Republic of            |          |           | X      |      |       |       |                         |                |      |     |         | X     |       |     |            |         |
| Mongolia                        |          | X         | X      |      |       |       | X                       | X              |      |     |         | X     |       |     |            |         |
| Montenegro                      |          |           |        |      |       |       |                         |                |      |     |         | X     |       |     |            |         |
| Montserrat                      |          | X         | X      |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Morocco                         |          | X         | X      |      |       |       | X                       |                |      |     |         | X     |       |     |            |         |
| Mozambique                      | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   | X          |         |
| Myanmar                         | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   |            |         |
| Namibia                         |          | X         |        |      |       |       |                         |                |      |     |         | X     |       |     |            |         |
| Nauru                           |          | X         | X      |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Nepal                           | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   |            |         |
| Netherlands Antilles            |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| New Caledonia                   |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Nicaragua                       |          | X         | X      |      |       |       | X                       |                |      |     |         | X     |       |     |            |         |
| Niger                           | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   | X          |         |
| Nigeria                         |          | X         | X      |      |       |       | X                       | X              |      |     |         | X     |       |     |            |         |
| Niue                            |          | X         | X      |      |       |       |                         | X              |      |     |         | X     |       |     |            |         |
| Norfolk Island                  |          |           | X      |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| North Macedonia                 |          | X         |        |      |       |       |                         |                |      |     |         | X     |       |     |            |         |
| Northern Mariana Islands        |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Oman                            |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Pakistan                        |          | X         | X      |      |       |       | X                       | X              |      |     |         | X     |       |     |            |         |
| Palau                           |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Palestine                       |          | X         |        |      |       |       | X                       |                |      |     |         | X     |       |     |            |         |
| Panama                          |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Papua New Guinea                |          | X         | X      |      |       |       | X                       |                |      |     |         | X     |       |     |            |         |
| Paraguay                        |          | X         | X      |      |       |       |                         |                |      |     |         | X     |       |     |            |         |
| Peru                            |          | X         |        |      |       |       |                         |                |      |     |         | X     |       |     |            |         |
| Philippines                     |          | X         | X      |      |       |       | X                       | X              |      |     |         | X     |       |     |            |         |
| Pitcairn Islands                |          | X         | X      |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Poland                          |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Qatar                           |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Republic of Korea               |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Romania                         |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Rwanda                          | LDC      | X         | X      | X    | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   | X          |         |
| Saint Kitts and Nevis           |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |
| Saint Lucia                     |          | X         |        |      |       |       |                         |                |      |     |         | X     |       |     |            |         |
| Saint Pierre and Miquelon       |          | X         |        |      |       |       |                         |                |      |     |         |       |       |     |            |         |



Trade Preferences Outlook 2024

| Economy                         | Category | New Zealand | Norway |      | Republic of Korea | Switzerland | Taiwan, Province of China | Tajikistan | Thailand | Türkiye | United Kingdom |    |    | United States of America |      |
|---------------------------------|----------|-------------|--------|------|-------------------|-------------|---------------------------|------------|----------|---------|----------------|----|----|--------------------------|------|
|                                 |          |             | GSP    | GSP+ |                   |             |                           |            |          |         | CP             | EP | SP | GSP                      | AGOA |
|                                 |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Lesotho                         | LDC      | X           | X      |      | X                 |             | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Liberia                         | LDC      | X           | X      |      | X                 |             | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Libya                           |          | X           | X      |      | X                 |             |                           |            |          |         |                |    |    |                          |      |
| Macao, China                    |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Madagascar                      | LDC      | X           | X      |      | X                 |             | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Malawi                          | LDC      | X           | X      |      | X                 |             | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Malaysia                        |          | X           | X      |      | X                 |             |                           |            |          |         |                |    |    |                          |      |
| Maldives                        |          | X           | X      |      | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| Mali                            | LDC      | X           | X      |      | X                 |             | X                         | X          | X        | X       |                |    | X  |                          |      |
| Malta                           |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Marshall Islands                |          |             | X      |      | X                 |             |                           |            |          |         |                |    |    |                          |      |
| Mauritania                      | LDC      | X           | X      |      | X                 |             | X                         | X          | X        | X       |                |    | X  |                          |      |
| Mauritius                       |          | X           | X      |      | X                 |             |                           |            |          |         |                |    | X  | X                        |      |
| Mexico                          |          | X           |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Micronesia, Federated States of |          | X           | X      |      | X                 |             |                           |            | X        |         | X              |    |    |                          |      |
| Moldova, Republic of            |          |             | X      |      | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| Mongolia                        |          | X           | X      |      | X                 |             |                           |            | X        |         | X              |    | X  |                          |      |
| Montenegro                      |          |             |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Montserrat                      |          | X           | X      |      | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| Morocco                         |          | X           |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Mozambique                      | LDC      | X           | X      |      | X                 |             | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Myanmar                         | LDC      | X           | X      |      | X                 |             | X                         | X          | X        | X       |                |    | X  |                          |      |
| Namibia                         |          | X           | X      |      |                   |             |                           |            |          |         |                |    | X  | X                        |      |
| Nauru                           |          |             | X      |      | X                 |             |                           |            | X        |         |                |    |    |                          |      |
| Nepal                           | LDC      | X           | X      |      | X                 |             | X                         | X          | X        | X       |                |    | X  |                          |      |
| Netherlands Antilles            |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| New Caledonia                   |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Nicaragua                       |          | X           | X      |      | X                 |             |                           |            |          |         |                |    |    |                          |      |
| Niger                           | LDC      | X           | X      |      | X                 |             | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Nigeria                         |          | X           | X      |      | X                 |             |                           |            | X        |         | X              |    | X  | X                        |      |
| Niue                            |          |             | X      |      | X                 |             |                           |            | X        |         | X              |    | X  |                          |      |
| Norfolk Island                  |          | X           |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| North Macedonia                 |          | X           |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Northern Mariana Islands        |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Oman                            |          | X           |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Pakistan                        |          | X           | X      |      | X                 |             |                           |            | X        |         | X              |    | X  |                          |      |
| Palau                           |          | X           | X      |      | X                 |             |                           |            |          |         |                |    |    |                          |      |
| Palestine                       |          |             |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Panama                          |          | X           |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Papua New Guinea                |          | X           | X      |      | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| Paraguay                        |          | X           | X      |      | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| Peru                            |          | X           |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Philippines                     |          | X           |        |      |                   |             |                           |            | X        |         | X              |    | X  |                          |      |
| Pitcairn Islands                |          | X           |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Poland                          |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Qatar                           |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Republic of Korea               |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Romania                         |          | X           |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Rwanda                          | LDC      | X           | X      |      | X                 |             | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Saint Kitts and Nevis           |          | X           |        |      | X                 |             |                           |            |          |         |                |    |    |                          |      |
| Saint Lucia                     |          | X           | X      |      | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| Saint Pierre and Miquelon       |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |



## Trade Preferences Outlook 2024

| Economy                                      | Category | Australia | Canada |     | Chile | China | Eurasian Economic Union | European Union |      |     | Iceland | India | Japan |     | Montenegro | Morocco |
|--|----------|-----------|--------|-----|-------|-------|-------------------------|----------------|------|-----|---------|-------|-------|-----|------------|---------|
|  |          |           | GPT    | LDC |       |       |                         | GSP            | GSP+ | EBA |         |       | GSP   | LDC |            |         |
|  |          |           |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| Saint Vincent and the Grenadines             |          | X         |        |     |       |       |                         |                |      |     |         | X     |       |     |            |         |
| Samoa  |          | X         | X      | X   |       |       |                         |                |      | X   | X       | X     |       |     |            |         |
| Sao Tomé and Príncipe                        | LDC      | X         | X      | X   | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   | X          |         |
| Saudi Arabia, Kingdom of                     |          | X         |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| Senegal                                      | LDC      | X         | X      | X   | X     | X     | X                       |                | X    |     | X       | X     | X     | X   | X          |         |
| Serbia                                       |          | X         |        |     |       |       |                         |                |      |     |         | X     |       |     |            |         |
| Seychelles                                   |          | X         |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| Sierra Leone                                 | LDC      | X         | X      | X   | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   | X          |         |
| Singapore                                    |          | X         |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| Slovakia                                     |          | X         |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| Slovenia                                     |          | X         |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| Solomon Islands                              | LDC      | X         | X      | X   | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   |            |         |
| Somalia                                      | LDC      | X         | X      | X   | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   | X          |         |
| South Africa                                 |          |           |        |     |       |       |                         |                |      |     |         | X     |       |     |            |         |
| South Georgia and the South Sandwich Islands |          | X         |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| South Sudan                                  | LDC      |           | X      | X   | X     | X     | X                       |                | X    |     |         |       |       | X   |            |         |
| Sri Lanka                                    |          | X         | X      |     |       |       | X                       |                | X    |     |         | X     |       |     |            |         |
| Sudan  | LDC      | X         | X      | X   | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   | X          |         |
| Suriname                                     |          | X         |        |     |       |       |                         |                |      |     |         | X     |       |     |            |         |
| Syrian Arab Republic                         |          | X         | X      |     |       |       | X                       | X              |      |     |         | X     |       |     |            |         |
| Tajikistan                                   |          |           | X      |     |       |       |                         | X              |      |     |         | X     |       |     |            |         |
| Tanzania, Republic of                        | LDC      | X         | X      | X   | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   | X          |         |
| Thailand                                     |          | X         |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| Timor-Leste                                  | LDC      | X         | X      | X   | X     | X     | X                       |                | X    |     | X       | X     | X     | X   |            |         |
| Togo   | LDC      | X         | X      | X   | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   | X          |         |
| Tokelau                                      |          | X         | X      |     |       |       |                         |                |      |     |         | X     |       |     |            |         |
| Tonga  |          | X         | X      |     |       |       |                         |                |      |     |         | X     |       |     |            |         |
| Trinidad and Tobago                          |          | X         |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| Tunisia                                      |          | X         |        |     |       |       | X                       |                |      |     |         | X     |       |     |            |         |
| Türkiye                                      |          | X         |        |     |       |       |                         |                |      |     |         | X     |       |     |            |         |
| Turkmenistan                                 |          |           | X      |     |       |       |                         |                |      |     |         | X     |       |     |            |         |
| Turks and Caicos Islands                     |          | X         |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| Tuvalu                                       | LDC      | X         | X      | X   | X     |       | X                       |                | X    | X   | X       | X     | X     | X   |            |         |
| Uganda                                       | LDC      | X         | X      | X   | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   | X          |         |
| Ukraine                                      |          |           | X      |     |       |       |                         |                |      |     |         | X     |       |     |            |         |
| United Arab Emirates                         |          | X         |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| United States Minor Outlying Islands         |          | X         |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| Uruguay                                      |          | X         |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| Uzbekistan                                   |          |           | X      |     |       |       |                         | X              |      |     |         | X     |       |     |            |         |
| Vanuatu                                      |          | X         | X      | X   |       | X     | X                       |                | X    | X   | X       | X     | X     | X   |            |         |
| Venezuela, Bolivarian Republic of            |          | X         |        |     |       |       | X                       |                |      |     |         | X     |       |     |            |         |
| Viet Nam                                     |          | X         | X      |     |       |       |                         |                |      |     |         | X     |       |     |            |         |
| Virgin Islands, British                      |          |           |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| Virgin Islands, United States                |          | X         |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| Wallis and Futuna Islands                    |          | X         |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| Western Sahara                               |          |           |        |     |       |       |                         |                |      |     |         |       |       |     |            |         |
| Yemen  | LDC      | X         | X      | X   | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   |            |         |
| Zambia                                       | LDC      | X         | X      | X   | X     | X     | X                       |                | X    | X   | X       | X     | X     | X   | X          |         |
| Zimbabwe                                     |          | X         | X      |     |       |       | X                       |                |      |     |         | X     |       |     |            |         |

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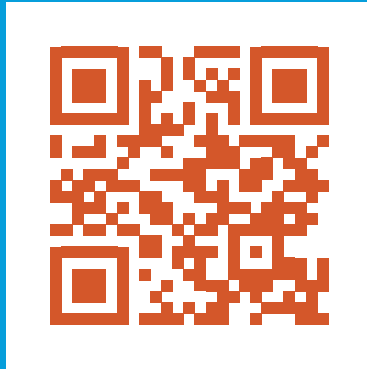


## Trade Preferences Outlook 2024

| Economy                                      | Category | New Zealand | Norway |      | Republic of Korea | Switzerland | Taiwan, Province of China | Tajikistan | Thailand | Türkiye | United Kingdom |    |    | United States of America |      |
|--|----------|-------------|--------|------|-------------------|-------------|---------------------------|------------|----------|---------|----------------|----|----|--------------------------|------|
|  |          |             | GSP    | GSP+ |                   |             |                           |            |          |         | CP             | EP | SP | GSP                      | AGOA |
|  |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Saint Vincent and the Grenadines             |          | X           | X      |      | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| Samoa  |          | X           | X      |      | X                 |             | X                         |            | X        |         |                |    | X  |                          |      |
| Sao Tomé and Príncipe                        | LDC      | X           | X      | X    | X                 | X           | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Saudi Arabia, Kingdom of                     |          | X           |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Senegal                                      | LDC      | X           | X      | X    | X                 | X           | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Serbia                                       |          |             |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Seychelles                                   |          | X           | X      |      | X                 |             |                           |            |          |         |                |    |    |                          |      |
| Sierra Leone                                 | LDC      | X           | X      | X    | X                 | X           | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Singapore                                    |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Slovakia                                     |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Slovenia                                     |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Solomon Islands                              | LDC      | X           | X      | X    | X                 | X           | X                         | X          | X        | X       |                |    | X  |                          |      |
| Somalia                                      | LDC      | X           | X      | X    | X                 | X           | X                         | X          | X        | X       |                |    | X  |                          |      |
| South Africa                                 |          |             | X      |      |                   |             |                           |            |          |         |                |    | X  | X                        |      |
| South Georgia and the South Sandwich Islands |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| South Sudan                                  | LDC      |             | X      | X    | X                 | X           | X                         | X          | X        | X       |                |    | X  |                          |      |
| Sri Lanka                                    |          | X           | X      |      | X                 |             |                           |            | X        |         | X              |    | X  |                          |      |
| Sudan  | LDC      | X           | X      | X    | X                 | X           | X                         | X          | X        | X       |                |    |    |                          |      |
| Suriname                                     |          | X           | X      |      | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| Syrian Arab Republic                         |          | X           | X      |      | X                 |             |                           |            |          |         | X              |    |    |                          |      |
| Tajikistan                                   |          |             | X      |      | X                 |             |                           |            | X        |         | X              |    |    |                          |      |
| Tanzania, Republic of                        | LDC      | X           | X      | X    | X                 | X           | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Thailand                                     |          | X           | X      |      | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| Timor-Leste                                  | LDC      | X           | X      | X    | X                 | X           | X                         | X          | X        | X       |                |    | X  |                          |      |
| Togo   | LDC      | X           | X      | X    | X                 | X           | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Tokelau                                      |          |             | X      |      | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| Tonga  |          | X           | X      |      | X                 |             |                           |            | X        |         |                |    | X  |                          |      |
| Trinidad and Tobago                          |          | X           |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Tunisia                                      |          | X           |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Türkiye                                      |          | X           |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Turkmenistan                                 |          |             | X      |      | X                 |             |                           |            |          |         |                |    |    |                          |      |
| Turks and Caicos Islands                     |          | X           |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Tuvalu                                       | LDC      | X           | X      | X    | X                 | X           | X                         | X          | X        | X       |                |    | X  |                          |      |
| Uganda                                       | LDC      | X           | X      | X    | X                 | X           | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Ukraine                                      |          |             |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| United Arab Emirates                         |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| United States Minor Outlying Islands         |          | X           |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Uruguay                                      |          | X           |        |      | X                 |             |                           |            |          |         |                |    |    |                          |      |
| Uzbekistan                                   |          |             | X      |      | X                 |             |                           |            | X        |         | X              |    | X  |                          |      |
| Vanuatu                                      |          | X           | X      |      | X                 |             | X                         |            | X        |         |                |    | X  |                          |      |
| Venezuela, Bolivarian Republic of            |          | X           | X      |      | X                 |             |                           |            |          |         |                |    |    |                          |      |
| Viet Nam                                     |          | X           | X      |      | X                 |             |                           |            |          |         |                |    |    |                          |      |
| Virgin Islands, British                      |          | X           |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Virgin Islands, United States                |          |             |        |      |                   |             |                           |            |          |         |                |    |    |                          |      |
| Wallis and Futuna Islands                    |          | X           | X      |      | X                 |             |                           |            |          |         |                |    | X  |                          |      |
| Western Sahara                               |          |             |        |      |                   |             |                           |            |          |         |                |    | X  |                          |      |
| Yemen  | LDC      | X           | X      | X    | X                 | X           | X                         | X          | X        | X       |                |    | X  |                          |      |
| Zambia                                       | LDC      | X           | X      | X    | X                 | X           | X                         | X          | X        | X       |                |    | X  | X                        |      |
| Zimbabwe                                     |          | X           | X      |      | X                 |             |                           |            |          |         |                |    | X  |                          |      |

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