

Preferential Trade Arrangement in the Light of East Asian Experience

July 10, 2008

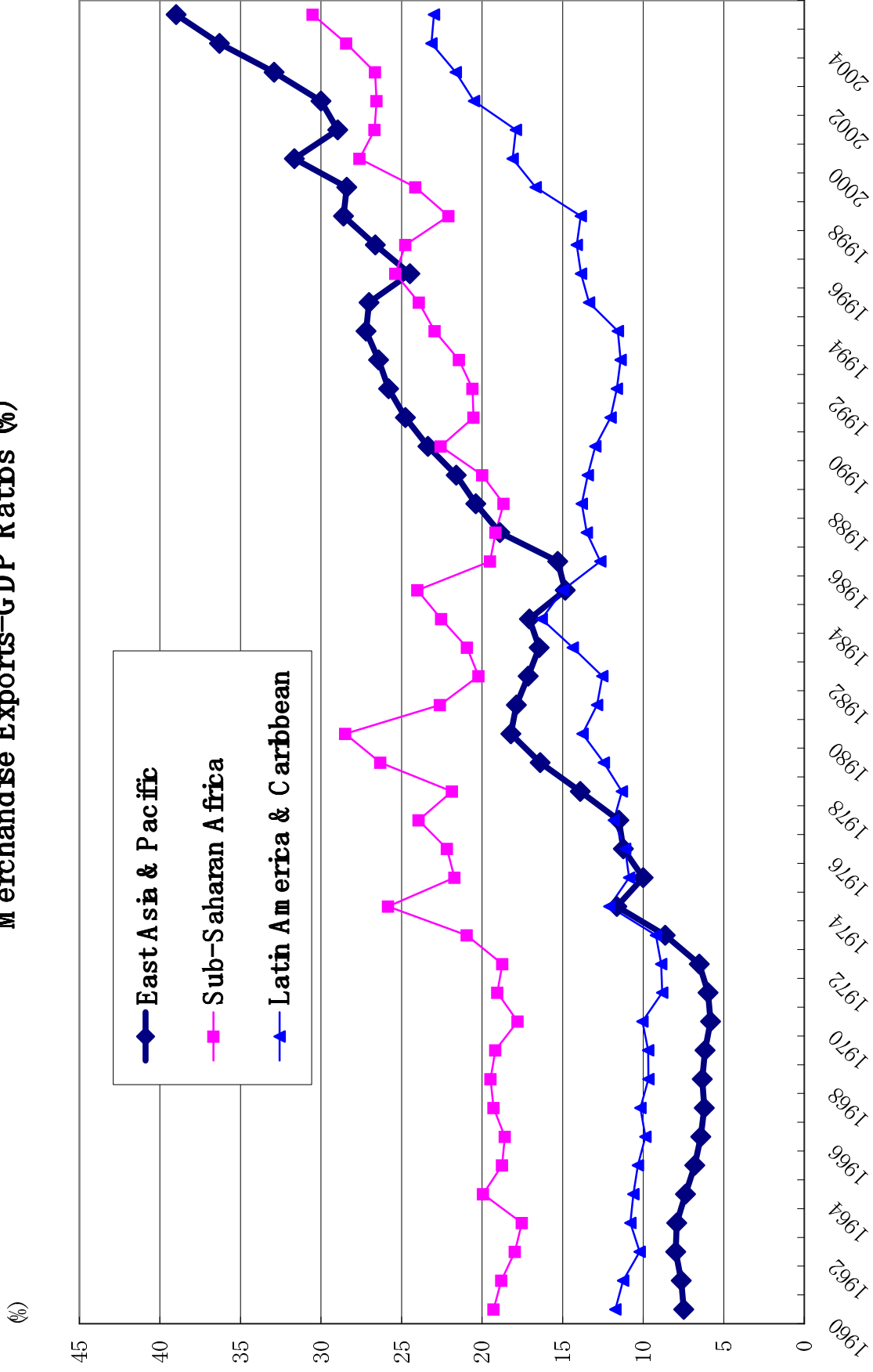
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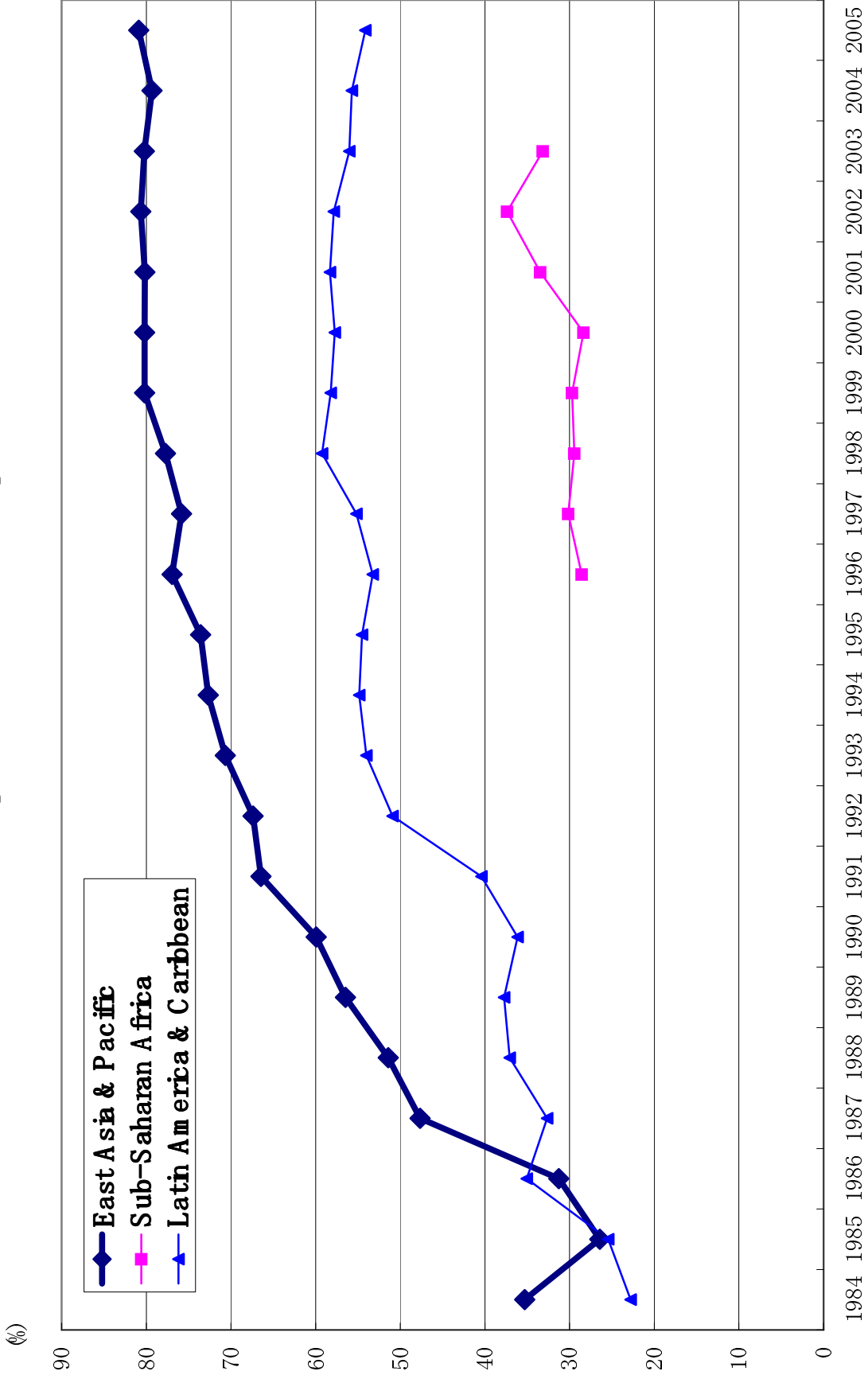
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I. East Asia's Export-Driven Economic Growth

Merchandise Exports-GDP Ratios (%)



M anufactured Exports-M erchandise Exports Ratio (%)



Factors Leading to Export-Driven Economic Growth in East Asia

- Stable macroeconomic environment:
avoided overvalued exchange rate
- Export oriented trade policies (export credit, preferential tax treatment to exporters, export processing zones, duty draw back system, etc)
- Favorable export market conditions
- Generalized System of Preferences (GSP)

II. Generalized System of Preferences (GSP)

Generalized System of Preferences (GSP)

- System: the generalized, non-reciprocal, non-discriminatory system of preferences in favor of the developing countries, including special measures in favor of the least advanced among the developing countries
- Objectives:
 - (a) to increase developing countries' export earnings;
 - (b) to promote their industrialization
 - (c) to accelerate their rates of economic growth

Preference Giving Countries (GSP)

- EEC (6 countries) 1971
- Japan 1971
- Norway 1971
- UK other 6 European countries and NZ 1972
- Australia 1974
- Canada 1974
- US 1976
- Currently, EU, US, Japan, and 10 other countries

Preference Giving Countries and Beneficiaries

- Preferential giving countries (GSP):
Australia, Belarus, Bulgaria, Canada, Estonia, the European Union (+Everything But Arms [EBA] and African, Caribbean and Pacific countries [ACP]), Japan, New Zealand, Norway, the Russian Federation, Switzerland, Turkey and the USA (+African Growth and Opportunity Act [AGOA]).
- Beneficiaries: 205 countries and territories

III. Impacts of GSP on East Asia's
Economic Growth:
An Analysis of the Experiences in
the 1970s and 1980s

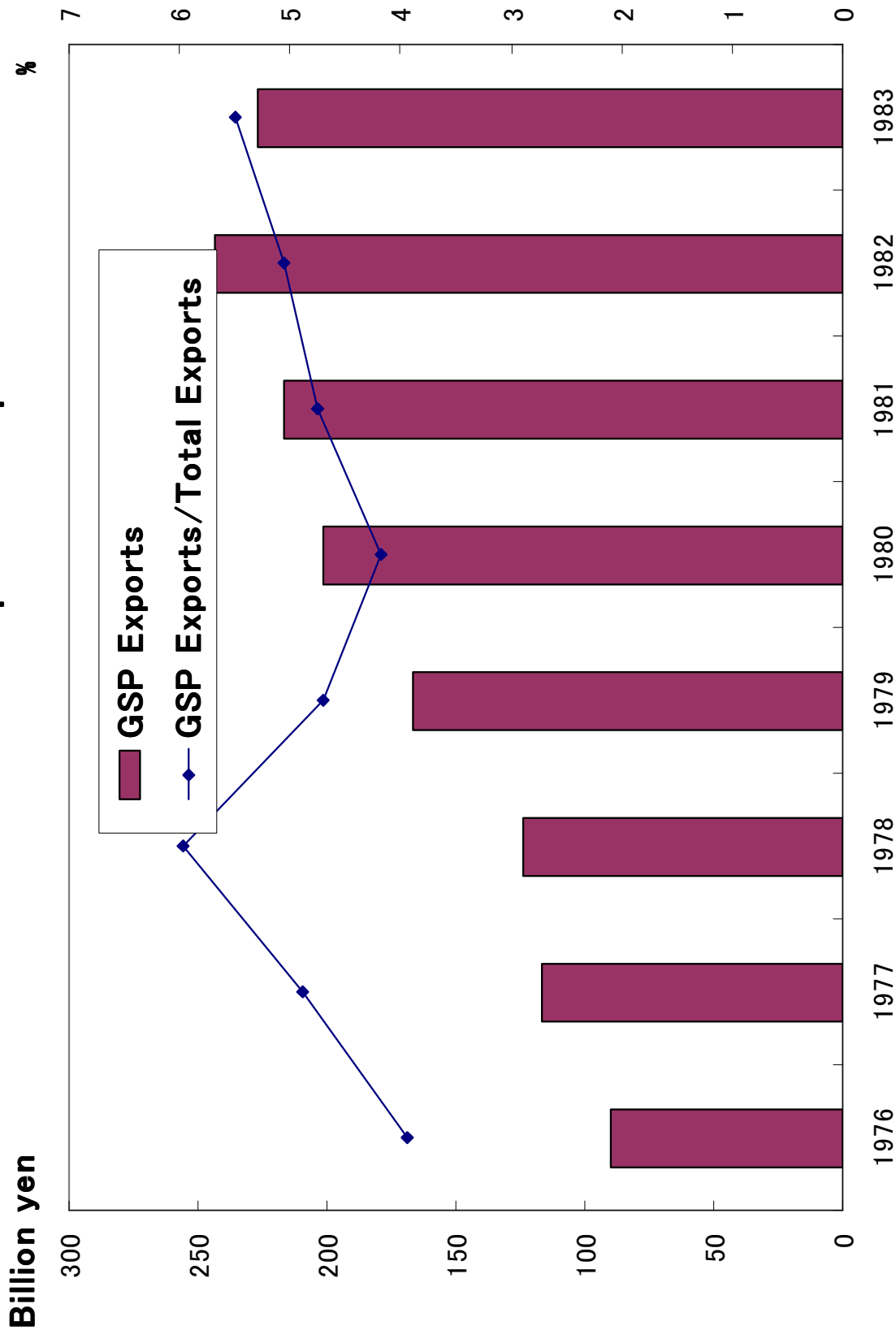
Benefits of GSP for East Asian Countries

- Increase exports
- Increase foreign direct investment
- Promote industrialization
- Promote economic growth
- Benefits appear to be substantial for Newly Industrializing Economies (Korea, Taiwan, Hong Kong and Singapore)

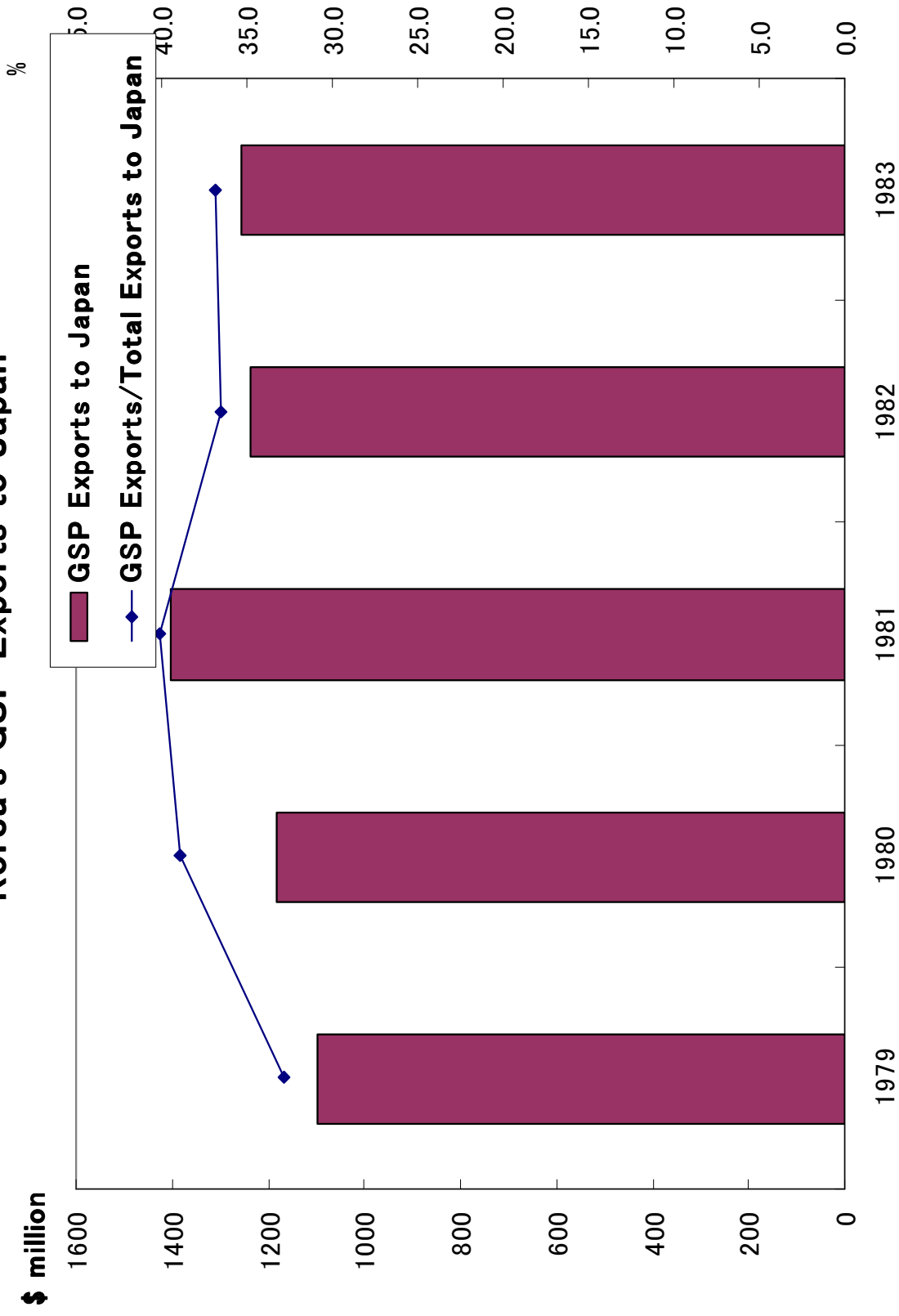
**Beneficiaries of GSP
OECD Imports from the Beneficiaries (%)**

	Annual Growth Rates (1976-80)		GSP Imports/ Total imports
	Total	GSP	
Total Beneficiaries	20.2	26.7	8.3
Top 10 Beneficiaries (1980)	22.2	25.6	18.9
Korea	17.5	25.3	30.1
Taiwan	24.8	29.5	31.2
Hong Kong	20.6	26.2	20.5
Brazil	18.2	27.8	13.8
India	11.5	25	25.3
Singapore	29.2	25.6	16.7
China	na	na	13.4
Yugoslavia	15.6	11.4	27.6
Mexico	35.9	22.8	6.1
Philippines	23.8	36.1	18.3

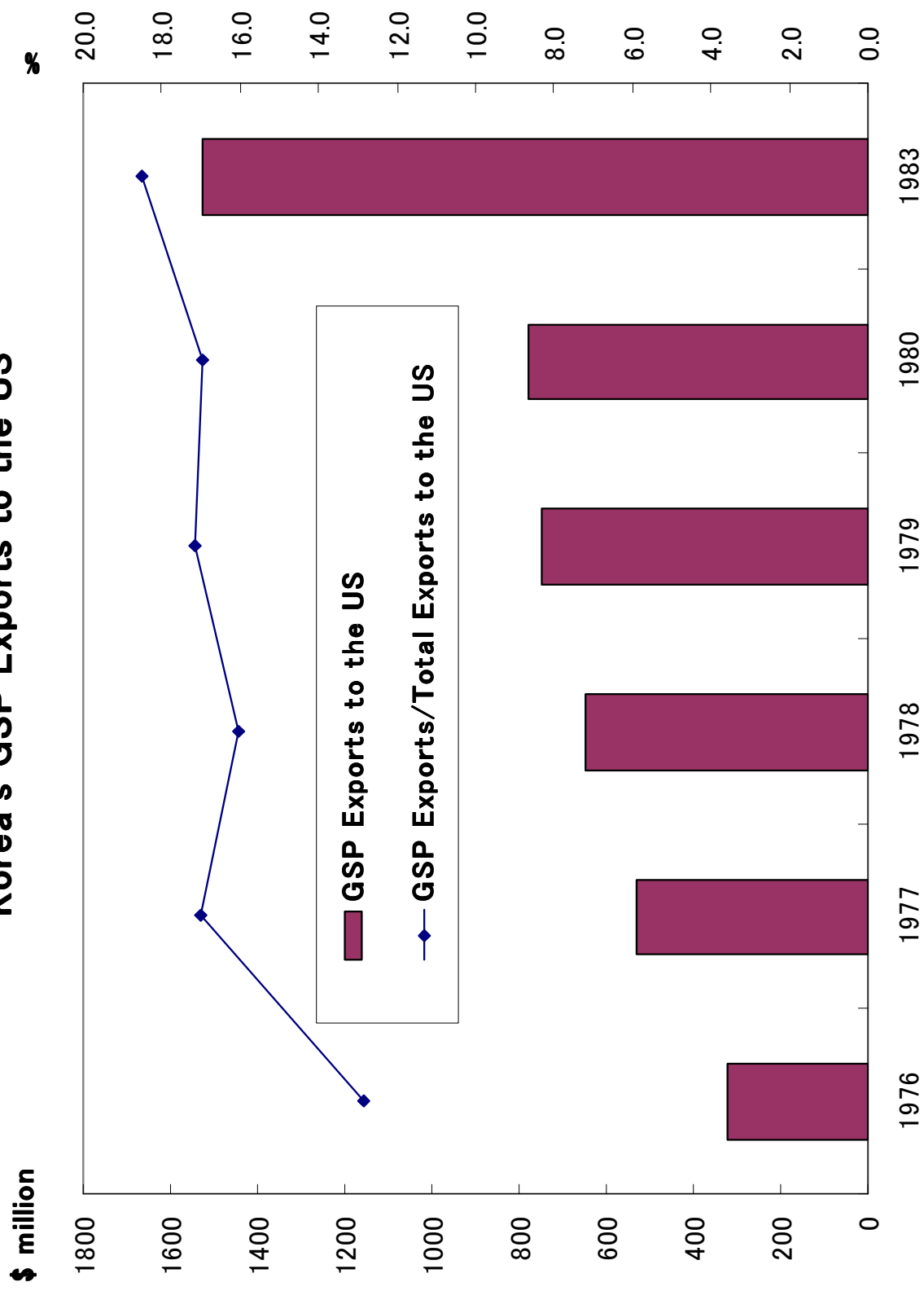
ASEAN's GSP Exports to Japan



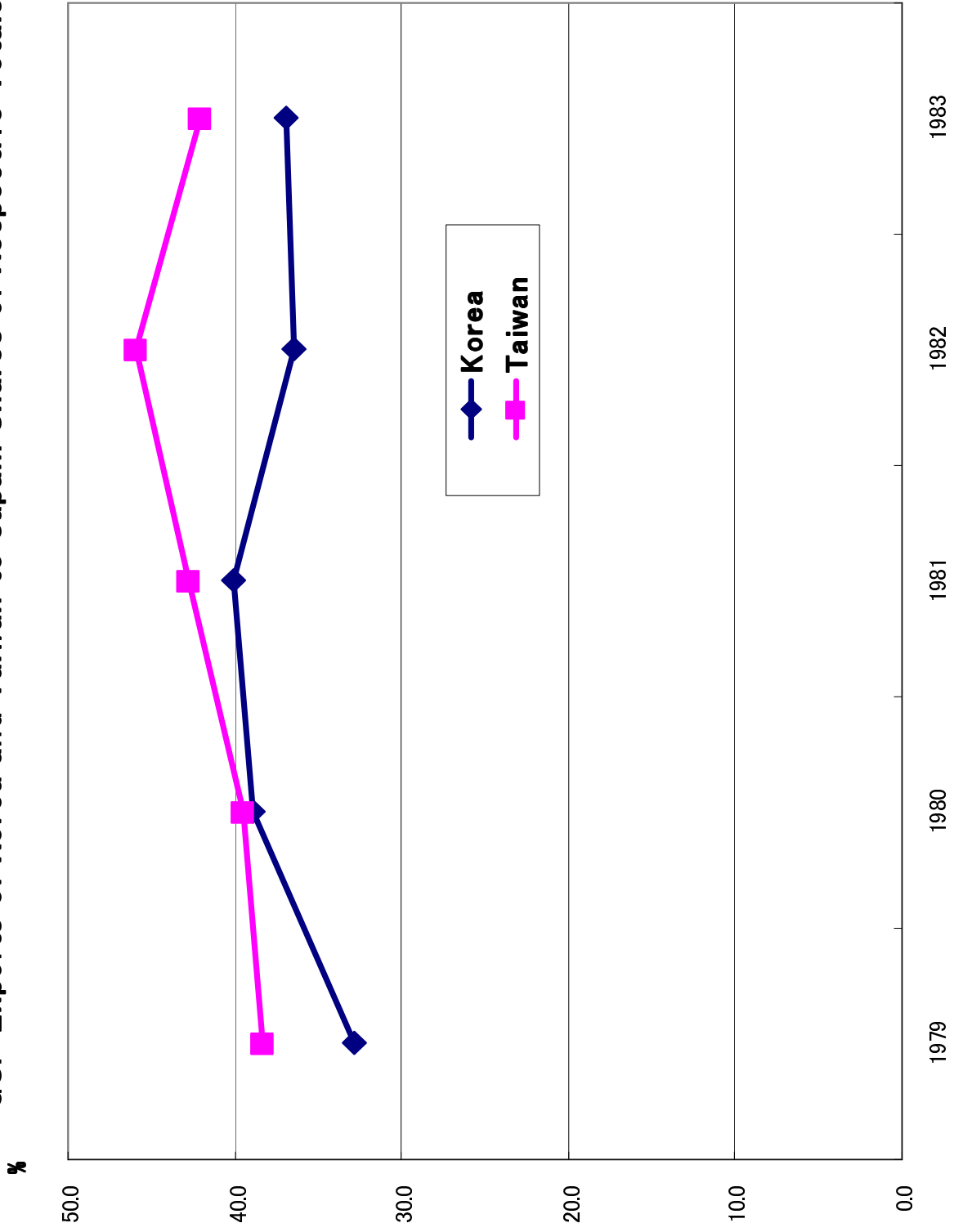
Korea's GSP Exports to Japan



Korea's GSP Exports to the US



GSP Exports of Korea and Taiwan to Japan: Shares of Respective Totals



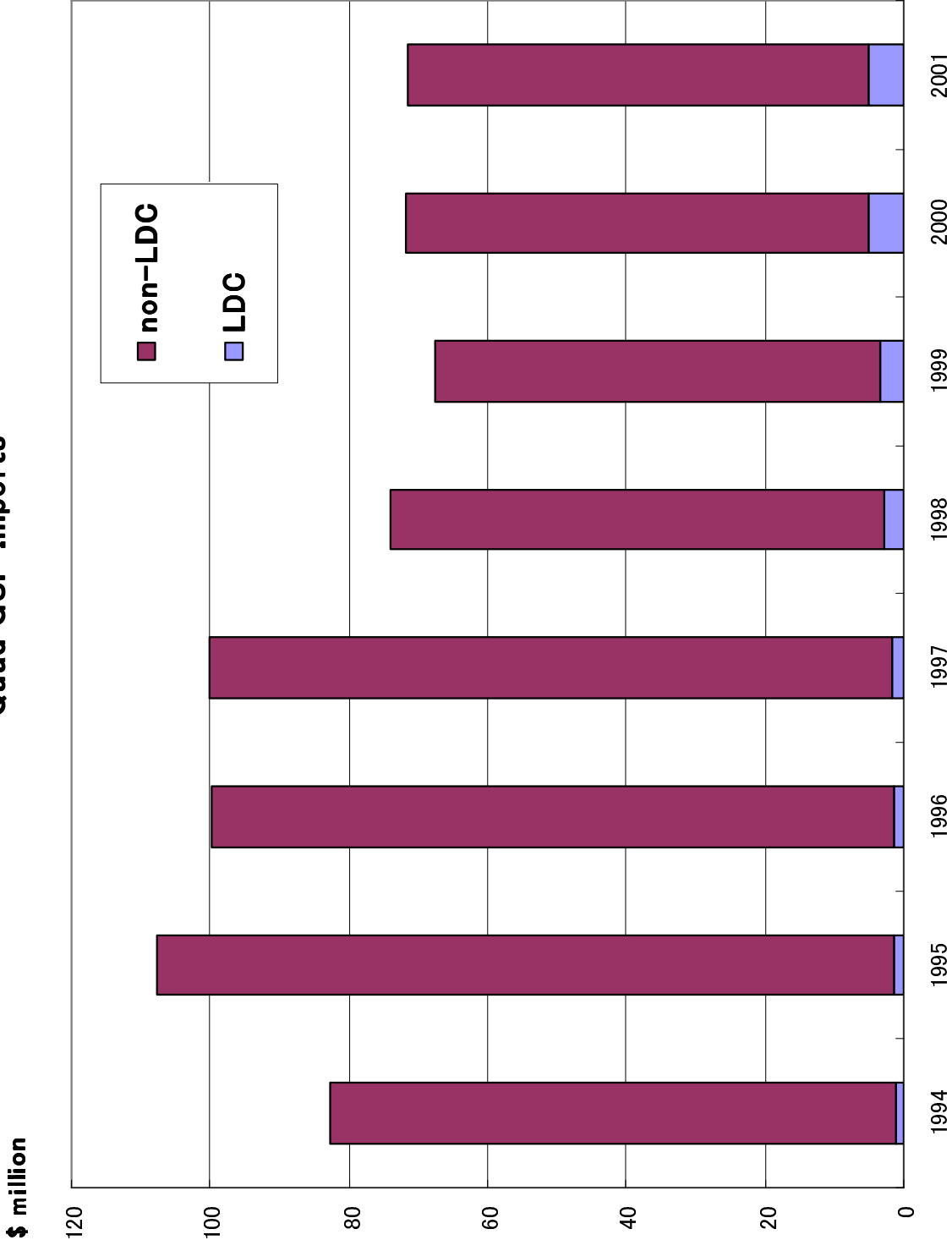
Contribution of GSP Exports for Korea's Economy: 1981

- GSP Exports to OECD Countries: \$ 21.2 billion
- Share of Total Exports: 16%
- Ratio to GNP: 5%

OECD (1983) The Generalized System of Preferences, Review of the First Decade

IV. GSP in Recent Years

Quad GSP Imports



Quad Imports and Utilization of GSP Schemes: 2001 (%)

	Covered rate	Utilization rate	Utility rate	Utility rate*2
All	62.2	38.9	24.2	12.1
LDC	63.4	67.3	42.7	38.3
Non-LDC	62.1	37.8	23.4	11.6

Quad: the US, EU, Canada and Japan

LDC: least developed countries

Covered rate = Covered GSP Imports / Dutiable Imports

Utilization rate = GSP Receiving Imports / Covered GSP Imports

Utility rate = GSP Receiving Imports / Dutiable Imports

Utility rate*2 = GSP Receiving Imports / Total Imports

Source: UNCTAD, Trade Preferences for LDCs: An Early Assessment of Benefits and Possible Improvements, 2003

Quad Imports and Utilization of GSP Schemes: 2001 (%)

	Covered rate	Utilization rate	Utility rate	Utility rate*2
US	All	44.1	95.8	42.2
EU	LDC	99.4	46.9	46.7
Japan	LDC	52.7	57.4	30.3
Canada	LDC	12.1	70.2	8.5
				39.3
				42.3
				22.8
				3.3

Quad: the US, EU, Canada and Japan

LDC: least developed countries

Covered rate = Covered GSP Imports / Dutiable Imports

Utilization rate = GSP Receiving Imports / Covered GSP Imports

Utility rate = GSP Receiving Imports / Dutiable Imports

Utility rate*2 = GSP Receiving Imports/Total Imports

Source: UNCTAD, Trade Preferences for LDCs: An Early

Assessment of Benefits and Possible Improvements, 2003

Assessment of GSP

UNCTAD (2003)

- Efforts have been made to improve the scope and operation of GSP
- Low coverage and low utilization rates (Collier (2007) “Growth Strategies for Africa” Prepared for the Spence Commission on Economic Growth)
- Beneficiaries are concentrated in a few country/product pairs

Stiglitz and Charlton (2005) *Fair Trade For All*, Oxford University Press

- Benefits in terms of trade expansion have not been significant

Assessment of GSP (continued)

Notable Characteristics (Product coverage)

- US: high concentration in mineral products from Angola, low coverage in textiles and apparel
- Japan: high concentration in low-tariff rate items such as shrimp (1%)
- EU: EBA, fresh bananas, rice, sugar are not subject to immediate liberalization

Ways to Improve Preferential Trade System

- Increase product coverage rate
- Increase utilization rate
- *Simplification and harmonization of definition of rules of origin
- *Increase administrative capacity for issuing the certificate of origin
- *Improve knowledge of the system by exporters
- *Increase quota

Additional Issues

- Preference erosion resulting from reductions in MFN tariffs → provision of assistance to deal with adjustment problem (Stiglitz and Charlton (2006) *Aid for Trade, A report for the Commonwealth Secretariat*)
- Importance of developing supply capabilities in order to utilize preferential schemes → provision of assistance for capacity building