

## ECOSOC High-level Segment – 2004

### Issues Paper for ECOSOC Investment Forum Roundtable C: “The Role of Trade Preferences for LDCs in Promoting Investment”

Hosted by OHRLLS

28 June 2004

3:35 p.m. – 5:30 p.m.

Conference Room 5

#### Background

Bilateral and multilateral agreements designed to provide trade preferences to exports from developing countries have been part of the international trading system for a number of years, starting with the Generalized System of Preferences (GSP) which granted duty-free entry for imports from developing countries. However, over the years, the implementation of the GSP grew to be more and more restrictive, eroding the scheme gradually.

In recent years however, because of the growing concern over the dire economic prospects for accelerated growth, industrialized countries, bilaterally or as groupings, have adopted trade preference regimes that grant more favorable treatment to products originating particularly from the LDCs, in some cases quota-free and duty-free.

Preferential market access regimes for LDCs exports include the US “African Growth and Opportunity Act” (AGOA)<sup>1</sup>, the EU’s “Everything But Arms” (EBA) and similar schemes adopted by Japan, Canada, Australia and other industrial countries. Some LDCs have been able to boost their exports to the United States and the European markets since the introduction of these market access measures.

Implementation of the AGOA regime shows that while there were almost no US imports in 2000 when the AGOA law came into being, at the end of 2003, AGOA exports of textiles and apparel to the US market had jumped to \$1.2 billion, up from \$800 million in 2002. In the case of Madagascar for example AGOA exports increased from almost \$80 million in 2002 to close to \$190 million at the end of 2003, or an almost 140 percent increase. Malawi AGOA exports continued to grow in 2003 and reached \$58 million, with the number of jobs directly linked to AGOA regime reaching 7,500 workers in 2003. AGOA exports of textiles from Uganda have increased from \$0 in 2002 to \$812,000 in the first 8 months of 2003. While data of export performance of LDCs as correlated to market access privileges are not yet widely available for all the regimes, the implementation of the AGOA regime shows that a number of LDCs have already started to benefit from this regime. Unfortunately, there is scant data available on other similar schemes and monitoring the performance of such regimes remains a challenge. The expansion of LDC exports to the United States and the European Union and other industrial countries greatly benefited from domestic and foreign investments attracted by the prospect of market access preferences. Countries such as Lesotho, Madagascar, Uganda, Mozambique and Malawi have seen their rates of investment significantly increased including from other developing countries such as Mauritius and Asian countries.

#### Issues

- 1) How can trade preferences accorded to LDCs (i) increase the level of domestic investment and (ii) attract foreign direct investment in order to take advantage of these market access privileges?

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<sup>1</sup> Even though AGOA coverage goes beyond LDCs, many of the AGOA eligible African countries are LDCs.

- 2) To what extent can (i) ODA, (ii) trade preferences and (iii) FDI be part and parcel of the policy dialogue between LDCs and development partners, including the active participation of the LDC private sector?
- 3) What measures would improve the rate of utilizing trade preferences? In addition to market access measures, how can donors use ODA to further stimulate FDI flows to LDCs, as well as domestic investments in local SMEs, through, for example, investments guarantee and risk mitigation mechanisms and funds. ODA-financed pre-investment feasibility studies and ODA-financed economic infrastructure that pave the way for investment?
- 4) To what extent do trade preferences accorded to LDCs by industrialized countries provide incentives for expanded flows of investments to LDCs from other developing countries, including in triangular relationship?

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