

Introduction

In a nonreciprocal preferential trade arrangement, trade concessions, such as lower tariff rates, are offered unilaterally by one or more countries to another country or group of countries, typically by a developed country to a group of developing countries. An example is the Caribbean Basin Economic Recovery Act (CBERA) program between the United States and the Central American and Caribbean countries. This report focuses on the nonreciprocal preferential trade arrangements of the two largest donors, the United States and the European Union (EU). Reciprocal preferential trade arrangements, in which two or more countries mutually offer trade concessions to each other that they do not offer to other countries in the world, will not be covered here. The North American Free Trade Agreement (NAFTA) among the United States, Canada, and Mexico is an example of a reciprocal preferential trade arrangement.

The theory of nonreciprocal preferential trade programs is that when a developed country opens its market to a developing country, the volume and value of that developing country's exports are increased, which leads to greater economic growth in the developing country. Over the longer term, this would provide investment to expand existing export industries and attract resources to foster development of new ones. The new investment would result in the adoption of new technologies and management practices, promote industrialization, provide employment opportunities, and lead to higher rates of productivity and national income.

Critics of nonreciprocal preferential trade programs point out that the programs have numerous shortcomings. Perhaps the most detrimental aspect of the programs is the possibility that beneficiaries may develop a dependency on one or a relatively few commodities as a result of the trade preferences. When program beneficiaries are given duty-free access to developed-country product markets that are protected by high "most favored nation" (MFN) tariffs, their exports to those markets benefit from the same protectionist umbrella provided to domestic producers in the developed country. When MFN tariffs are cut or eliminated, as they will be as a result of the Doha negotiations, developing countries will have to adjust to increased competition in those markets where they were receiving preferences.

Nonreciprocal preferential trade programs affect a large number of developing countries, but not all recipients of preferences benefit from these programs. Questions addressed in this study include: How extensive are the preferences offered under these programs in terms of country and product coverage? How large are the margins of preference—measured as the extent to which the preferential tariff is below the MFN tariff? How important are they for developing countries—what proportion of recipient country exports to the United States and EU occur at preferential versus MFN tariffs? Do preferences increase exports from recipient countries?