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Strategies to Enhance Preference Utilization

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Strategies to Enhance Preference Utilization

Paolo Giordano

Principal Economist
Integration and Trade Sector

APEC Senior Official Dialogue on FTA's/RTA's
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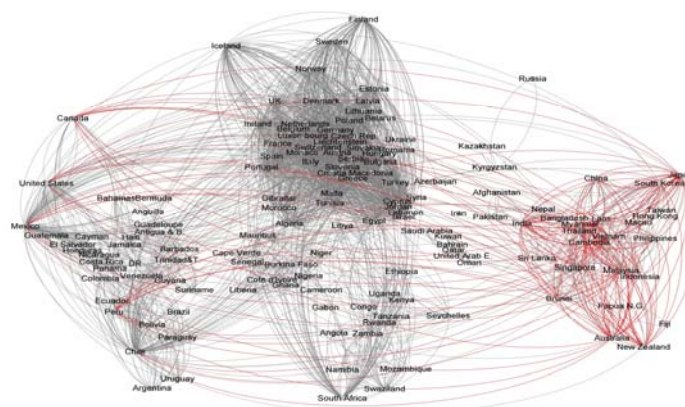


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What is the Problem?

Global RTA “Spaghetti Bowl”



- Over 160 separate agreements in force
- ~ 50% world trade occurs with an RTA



What is the Problem?

- **Opportunity** - RTA are a major vehicle for duty free access
- **Evidence** - positive impact on trade
- **Knowledge gap** - little is known about preference utilization (firms/markets/products)



Can we actually measure utilization?

- Access to data is a major challenge
 - ✓ Statistics by regime applied (few countries make data public)
 - ✓ Firm- or transaction-level data are more useful
 - ✓ Sensitivity due to policy and confidentiality
 - ✓ USA, EU, Canada, Australia, Korea publish data to some degree
- Alternative sources: Surveys and CoO data
 - ✓ Indirect measurements give less precise indicators
- Methodological issues make studies difficult to compare
 - ✓ Treatment of trade with no margin of preference (MFN is 0 or products excluded from preferences)



What do the data say?

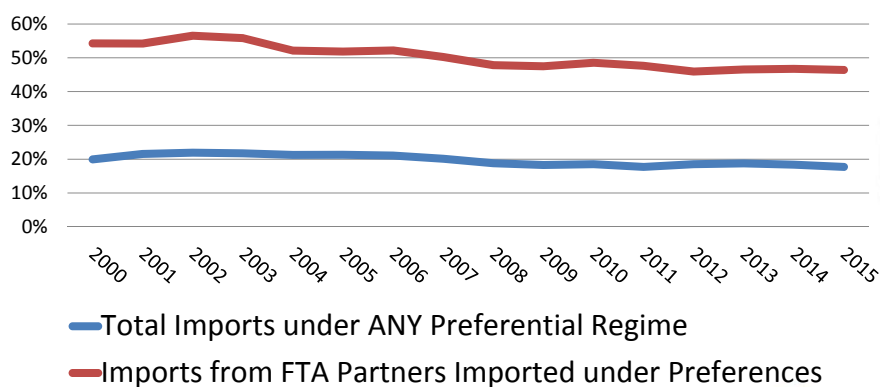
- Existing literature finds utilization rates that vary from 3% to 90%, in different agreements at different times.
- In the USA, GSP utilization estimated at around 60%. Utilization by ACP countries in EU around 50%.
- In LAC, intra-regional preference utilization is high, where data are available.
 - IDB Firm surveys indicate >80% of exporters use preferences, often under multiple agreements
 - Some countries show near-100% preference utilization.
- In Asia, utilization has increased over the years.
 - Australia shows FTA utilization in imports >80%
 - 28% of firms surveyed by the ADB were using preferences.
 - ASEAN utilization has increased from around 3% to over 70% in some countries in 10 years.



Overall Numbers for the USA

- Less than a third of total USA imports enter under preferences
- Only half of total imports from FTA partners enter under preferences

United States Preferential Imports

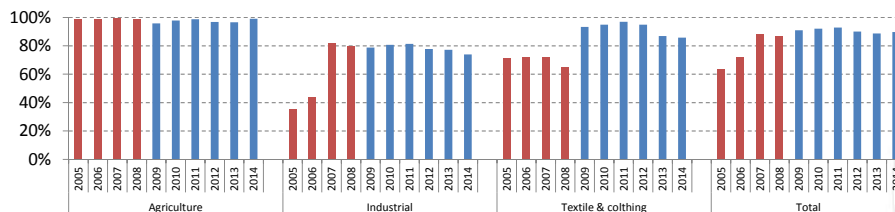


Source: IDB calculations based on USITC Dataweb

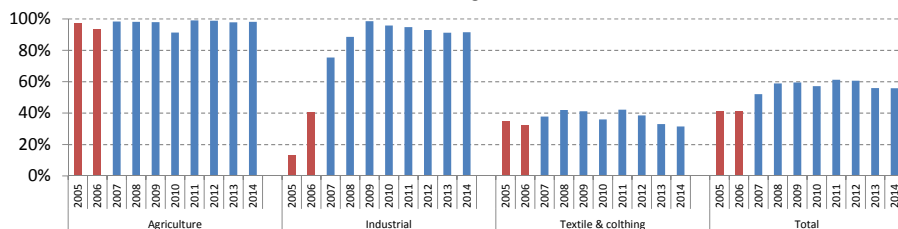
The case of the DR-CAFTA

- DR-CAFTA preference utilization in the US is high
- Utilization is the lowest in textiles and clothing (strictest RoO)

Costa Rica

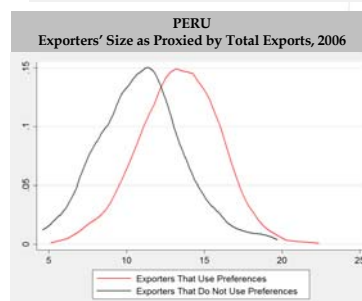
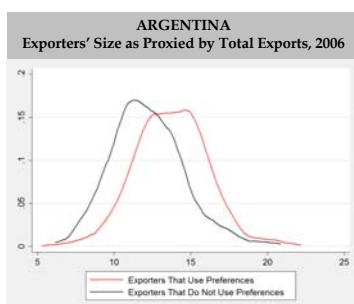
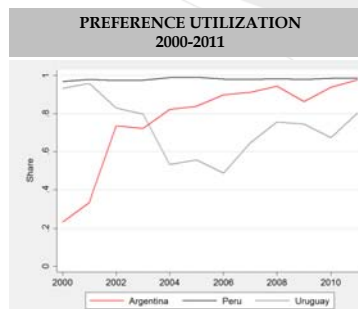


Nicaragua



The Case of Colombia

- CO transaction-level data (imports from PE, AR, and UR)
- Utilization increased as margin of preference grew
- Preference-using firms larger than non-utilizing firms



Source: Cadot et al (2014)

Why aren't preferences used?

- Lack of knowledge about preference availability
 - Surveys find a greater gap in Asia than in LAC, perhaps due to a shorter history of preferential trade.
- Low margin of preference (<5-10%)
 - Due either to low MFN rates or partial tariff reduction
- Rules of Origin
 - Rules can be difficult or costly to comply with
 - Administrative costs and uncertainty
- Multiplicity of agreements with different rules
 - Absence of cumulation provisions
 - Administrative and supply-chain challenges
- Low utilization is not necessarily bad: firms may be finding a more efficient trade regime.



Preference utilization by SME's

- Difficult to measure directly without detailed data
- Analysis of data for Colombia show higher usage by larger firms (both in total sales and number of employees).
- ADB Surveys indicate that MNC's report more difficulty with RoO, which is consistent with more complex supply chains.
 - Often suppliers of MNCs are SMEs, which need to provide supporting documentation of originating goods.



What can be done ?

- Communication, capacity building, and promotion of RTA utilization through TPOs and other agencies
 - Identify firms with potential to use preferences and provide technical support
 - Support SME's in documenting origin of materials supplied to MNC's to boost competitiveness.
- Online access to information on RoO and preference utilization procedures
- Better data for analysis of non-utilization
 - APEC may promote publication of data in partnership with regional development bodies



THANK YOU

Paolo Giordano

Principal Economist

Integration and Trade Sector

paolog@iadb.org

