The WTO's Empty Hong Kong "Development Package":

How the World Trade Organization's 97% Duty-Free Proposal Could Leave Poor Countries Worse Off

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Executive Summary

This report reviews what the terms of the "Development Package" announced at the Hong Kong World Trade Organization (WTO) Ministerial would mean in reality by examining the actual scenarios regarding the promises of: duty-free market access – least developed countries, or LDCs, were promised that 97 percent of their exports to rich countries by tariff line would be given duty-free access if and once the Doha Round is completed – and "aid-for-trade" that could result from the package's terms.

Among our key findings are:

- Of the 32 LDC WTO signatory nations, 27 already have (or could have under current policy) duty-free access to the United States on more than 97 percent of their exports under WTO most-favored nation (MFN) rules or various unilateral preference programs.

- Only four LDCs – Bangladesh, Cambodia, Maldives and Nepal – are not already eligible for duty-free treatment on more than 97 percent of their exports to the United States. However, the textile and apparel exports of these four countries are precisely the categories that the United States seeks to exclude in the three percent of tariff lines on which it would not be required under the "Development Package's" terms to provide duty-free entry.

- The "Development Package's" provision that allows the United States to decide what products would be excluded from duty-free access "defined at the tariff line level" means that the United States could select products to exclude so that minimal *additional* market access would be provided under this proposal. Already, of 1,538 products worth $16.3 billion that LDCs export to the U.S. market, 1,007 worth nearly $11 billion are automatically duty free under either WTO MFN rates or preference programs such as the African Growth and Opportunity Act (AGOA), the Caribbean Basin Initiative (CBI), or the Generalized System of Preferences (GSP). Of the remaining 531 exports, nearly $1.3 billion also enters duty free by meeting the rules of origin conditions of preference programs such as AGOA and CBI, while the remaining $4.4 billion pays a duty. By focusing the three percent exclusion on the tariff lines under which the greatest value of LDC exports enter the U.S. market, the United States could maintain tariffs on the 27 percent of total LDC exports that now face tariffs.

- While many poor countries export a variety of products to the United States, their export earnings may be concentrated in only one or two products. For example, the LDC members of the WTO as a group exported 1,538 products worth a collective $16.3 billion to the U.S. market in 2005. Under the three percent carve-out of the Hong Kong deal, as many as 46 of these products could be excluded from coverage. The top-selling 46 items (i.e. the top three percent of tariff lines among the 1,538 different products) accounted for 92 percent of the total value of the LDC exports, or $15 billion!

- Furthermore, a 97 duty-free offer that focuses solely on the products that LDCs *currently* export to the U.S. market, as the "Development Package" proposal is written to do, would leave intact the majority of U.S. tariff peaks. For example, LDCs currently export 1,538 products to the United States. Many of the additional products that would be easy for poor countries to export to the U.S. market – for instance, textiles and apparel, sugar and tobacco – are precisely those products for which the United States has high tariffs. Since U.S. tariff rates are generally low, just over three percent of U.S. tariffs are at or above peak levels. There are over 300 *additional* products that many LDCs *could* but do not now export to the United States (if they were to change their productive and export structure) that would face tariff peaks that are excluded from the terms of the development package.

- Finally, the promises made at Hong Kong for $2.8 billion in "aid-for-trade" funding by 2010 double count some commitments that were already made by developed countries, and use "fuzzy math" that arbitrarily counts some government expenditures as "trade capacity building." Furthermore, countries such as Japan are actually offering loans rather than "aid," and even the U.S. commitment is contingent on U.S. congressional approval, which is unlikely in the current climate of war and other budgetary pressures.

Introduction

The WTO's decade has not been a good one for the LDCs' economic development. The world's poorest countries have seen few if any benefits from the WTO while some have seen actual deterioration in economic conditions, with poverty rising while economic growth rates have stagnated or fallen. Sadly, these outcomes are not a surprise, as a 1993 report by the Organization for Economic Cooperation and Development predicted that many LDCs and Sub-Saharan Africa specifically would be net losers from the Uruguay Round.[1] Now, recent studies are revealing that the likely outcomes of the WTO's Doha Round agenda, cynically dubbed the "Doha Development Agenda," would result in further net losses for many LDCs.

A widely-cited World Bank study, released before the WTO's 2005 Hong Kong Ministerial, showed that developing countries as a whole will be net losers from the Doha Round proposal to eliminate agricultural export subsidies, while the meager gains from increased market access will disproportionately go to rich countries.[2] More recently, a study by the Carnegie Endowment for International Peace found that under virtually all possible Doha scenarios, LDCs would be net losers – with subsistence farmers in poor countries particularly negatively impacted.[3]

Since the WTO was established in 1995, the minority of large, wealthy nations that had overcome deep developing country opposition to the establishment of a new global commerce agency with terms extending beyond the trade-only remit of the General Agreement on Tariffs and Trade (GATT) have sought to further expand the WTO's scope and powers. At the 1999 Seattle WTO Ministerial, the era of the United States and Europe dictating rather than negotiating the terms of global commercial negotiations abruptly ended when blocs of developing country representatives unified to reject the launch of a proposed "Millennium Round" WTO expansion, and the Seattle Ministerial collapsed.

At issue then, and now, are deeply divergent views about the future course of WTO negotiations. A minority representing mainly developed countries seeks to expand the WTO's scope. The majority of WTO signatory nations seek to remedy existing WTO provisions that have proved, as feared prior to the WTO's formation, to be detrimental to development. In 2001, the launch of negotiations on the same Millennium Round package was forced through a Doha, Qatar WTO Ministerial with a threatening "you're either with us or against us" campaign exploiting the shaky global politics immediately following the 9/11 attacks to steamroll developing country opposition. The Seattle-rejected agenda was simply renamed the "Doha Development Agenda" even as the developing countries' alternative Doha Ministerial agenda, dubbed the Implementation Agenda, was sidelined. Not surprisingly, this forced march did not end as planned in a conclusion of a Doha Round of WTO negotiations in 2004.

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[1] Ian Goldin and Dominique van der Mensbrugghe, "Trade Liberalization: What's At Stake?" OECD Development Center Policy Brief No. 5, Second Edition, 1993, at 19.
[2] Kym Anderson and Will Martin et. al. "Agricultural Trade Reform and the Doha Development Agenda," World Bank Report, Nov. 1, 2005. For succinct analyses of the Anderson report, *see* Mark Weisbrot, "Costs of WTO 'Development Round' Could Outweigh Benefits for Developing Countries," Center for Economic and Policy Research, Dec. 15, 2005; and Timothy Wise, "The WTO's Development Crumbs," *Foreign Policy in Focus*, Jan. 23, 2006.
[3] Sandra Polaski, "Winners and Losers: Impact of the Doha Round on Developing Countries," Carnegie Endowment for International Peace, March 2006.

While the United States and Europe retain the power to set the WTO agenda demanded by the many powerful global corporations headquartered in their countries, including by using the non-neutral WTO Secretariat as an ally, these few countries cannot force the majority of countries to agree to proposals that are foreseeably damaging to the latter's interests. Thus, in 2003, attempts to force agreement to move the Doha Round were derailed as the WTO Cancún Ministerial collapsed.

With the United States and Europe desperate to revive their agenda, in July 2004 they agreed to jettison some agenda items most strenuously opposed by developing countries. However, in parallel the United States and Europe also launched a multi-pronged divide-and-conquer strategy aimed at breaking developing country unity. A few large developing countries with mercantilist goals overlapping with some of the developed country aims were invited into a new informal leadership group. As well as using some large developing countries to legitimate the developed countries' agenda, the United States and Europe launched efforts to break the LDCs away from other developing nations. One tactic was to propose that LDCs not be required to make trade concessions so as to minimize the number of countries opposed to extreme proposals on Non-Agricultural Market Access (NAMA). The Europeans called this the "round-for-free" proposal.

Yet, with World Bank and other studies showing that much if not all of the Doha Round would cause net losses for most LDCs, talks remained deadlocked leading into the 2005 Hong Kong WTO Ministerial. Thus, the United States and Europe sought to create the impression that they were offering new benefits – a so-called "Development Package" – to the LDCs. This cynical effort, designed to pull LDCs away from the unified block of developing countries opposing certain Hong Kong proposals, was also aimed at creating the illusion that the Hong Kong Ministerial was focused on development, not ramming through the long-opposed agenda.

Close review of the actual contents of the "Development Package" proposal show that once again, the U.S. and EU initiative was about changing the optics, not the substance, of the negotiations. Despite the rhetorical flourishes, it pretty much says it all when a "*Development* Package" is needed to get *developing* countries not to walk out of a summit putatively designed to promote a *development* round of trade talks.

The "Development Package" proposal – which would only go into effect if and when a Doha Round agreement did – included an "aid-for-trade" package, and duty-free access into developed countries for LDCs' exports, although with the loophole that not 100 percent but 97 percent of LDC products would obtain such treatment. Many criticized the package as merely continuing what has proved a failure – providing "market access" to countries with little capacity to export, rather than focusing on building such countries' domestic productive capacity, food sovereignty and basic infrastructure.

However, even assuming the concept works, what is actually being offered? The promise to eliminate all duties on LDC exports contains a massive loophole, which may render it meaningless. Meanwhile, the "aid-for-trade" package – termed by some observers as a "debt-for-imports" scheme – seems to offer little or no new money to LDCs. This brief analyzes the empty "Development Package" proposed at the Hong Kong WTO Ministerial, and shows that the promised development benefits are not likely to be realized. This conclusion should give developing countries pause before assuming the costs of further WTO-style trade liberalization, which are well known after a decade of the lived failures of the model.

The 97% Duty-Free Imports Loophole

An item that captured significant news coverage during and after the WTO's Hong Kong Ministerial Conference was the proposal included in the Hong Kong Ministerial Declaration that was advertised as providing LDCs with certain new duty-free access to rich countries' markets if the Doha Round were completed. The LDC designation includes a group of 50 countries that meet United Nations' criteria regarding per capita income and other indicators.[4] Currently, 32 LDCs are WTO members:[5] Angola, Bangladesh, Benin, Burkina Faso, Burundi, Cambodia, Central African Republic, Chad, Congo (DR), Djibouti, Gambia, Guinea, Guinea Bissau, Haiti, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Senegal, Sierra Leone, Solomon Islands, Tanzania, Togo, Uganda, and Zambia. The WTO's Hong Kong Ministerial Declaration's text states:

> *"Building upon the commitment in the Doha Ministerial Declaration, developed-country Members, and developing-country Members declaring themselves in a position to do so, agree to implement duty-free and quota-free market access for products originating from LDCs as provided for in Annex F to this document."*[6]

The relevant section of Annex F reads,

> *"We agree that developed-country Members shall, and developing-country Members declaring themselves in a position to do so* ***should:*** *... (i) Provide duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs by 2008 or no later than the start of the implementation period in a manner that ensures stability, security and predictability. (ii)* ***Members facing difficulties at this time to provide market access as set out above shall provide duty-free and quota-free market access for at least 97 per cent of products originating from LDCs, defined at the tariff line level, by 2008 or no later than the start of the implementation period.*** *In addition, these Members shall take steps to progressively achieve compliance with the obligations set out above, taking into account the impact on other developing*

[4] "At the time of the 2003 review of the list, the following three criteria were used by the UN: low income, in the light of a three-year average estimate of the gross national income per capita (under $750 for cases of addition to the list, above $900 for cases of graduation); weak human assets, as measured through a composite Human Assets Index; and economic vulnerability, as measured through a composite Economic Vulnerability Index." *See* "UN Recognition of the LDCs," United Nations Conference on Trade and Development, website, accessed March 2, 2006.

[5] Unless otherwise noted, all subsequent mentions of LDCs in this report apply only to the 32 countries within this group that are WTO members. For a complete list of the 50 countries sorted by WTO membership status, *see* "Least-developed countries," World Trade Organization, website, accessed March 2, 2006.

[6] WTO, Ministerial Conference, Sixth Session, "Doha Work Programme: Ministerial Declaration," WT/MIN(05)/DEC, Dec. 22, 2005, at 9(47).

> *countries at similar levels of development, and, as appropriate, by incrementally building on the initial list of covered products"* [emphasis added].[7]

While the press coverage described the LDC duty-free offer as significant, in fact the actual Ministerial Declaration provisions are packed with caveats and contain an enormous loophole that will allow rich countries to avoid providing meaningful, new duty-free market access to poor countries, and that could even roll back *existing* duty-free access for some countries.

The text's actual language is rife with tricks. First, there is no obligation to provide duty-free access to all LDC products, as the only commitment is that countries "should" do so (not "shall" do so), and this exemption from providing duty-free treatment to all LDC products extends *for an indefinite period of time* for any developed country if the developed country self-designates as "facing difficulties at this time" [sic]. What is binding is the obligation that countries "shall" provide duty-free access to 97 percent of LDC products, "defined at the tariff line level," and therein lays the major loophole, as described below. Meanwhile, the offer – even so qualified – is only guaranteed at the "start of the implementation period," meaning that the offer is conditional on the Doha Round coming to conclusion – an outcome that could impose significant new costs on LDCs if efforts to convince these countries to voluntarily offer to reduce their industrial tariffs are successful.[8]

Third, while there is a requirement – subject to the conditions above – that developed countries "shall take steps to progressively achieve compliance" with the full, duty-free proposal, there is no deadline by which this has to be done. Fourth, there is a caveat that "the impact on other developing countries at similar levels of development" be taken into account before further liberalization for LDCs is offered, meaning that the varied interests of non-LDC countries – presumably referring to "developing countries," an expansive and self-designated group of nearly 100 WTO members – may pose a barrier to further LDC market access.[9] Fifth, the final clause specifies that only "as appropriate" – a vaguely and presumably self-defined condition – the initial list of items receiving duty-free market access will be incrementally built upon, which raises the question of by what other means such an expansion of preferences could be granted.

However, these significant caveats seem modest relative to the clause that gives rich countries the ability to carve out from duty-free coverage three percent of the "*products originating*

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[7] WTO, Ministerial Conference, Sixth Session, "Doha Work Programme: Ministerial Declaration," WT/MIN(05)/DEC, Dec. 22, 2005, at F-1, (36(a)).

[8] Various members of Congress are pressuring that the LDC duty-free initiative not go forward "without getting meaningful market access for U.S. exporters in return." (*See* "Senate Ag Chair, House Members Warn Administration On LDC Demands," *Inside U.S. Trade,* Dec. 9, 2005.) In fact, the "July Package" from 2004 exempts LDCs from having to participate in most aspects of the NAMA negotiations, but says that they are "expected to substantially increase their level of binding commitments." (*See* WTO, "Doha Work Programme: Decision Adopted by the General Council on 1 August 2004," WT/L/579, Aug. 2, 2004, at B-2 (9).) What this means is that LDCs that might consider raising tariffs as a way of protecting their local industries from import competition or to increase government revenue would be restricted in the maximum tariff rate that they would be able to apply to whatever their "bound" commitment at the WTO were to look like. At the moment, LDCs have relatively low rates of tariff binding. The "July Package" and the Hong Kong Ministerial Declaration does not require any further agricultural policy change in LDCs and the Declaration notes that LDCs "are not expected to undertake new commitments" in the services negotiations. *See* WTO, Ministerial Conference, Sixth Session, "Doha Work Programme: Ministerial Declaration," WT/MIN(05)/DEC, Dec. 22, 2005, at 5(26.)

[9] This is just one of the many ways in which the WTO's Ministerial Declaration attempts to undermine developing country unity by putting a wedge between the LDCs and other developing countries.

from LDCs, defined at the tariff line level." While three percent may seem like a small number of products, in practice it could be massively discriminatory to LDCs' interests. First, while many poor countries export a variety of products to the United States, their export earnings may be concentrated in only one or two products.[10] For example, the LDC members of the WTO as a group exported 1,538 products worth a collective $16.3 billion to the U.S. market in 2005. Under the three percent carve-out of the Hong Kong deal, as many as 46 of these products could be excluded from coverage. The top-selling 46 items (i.e. the top three percent of tariff lines among the 1,538 different products) accounted for 92 percent of the total value of the LDC exports, or $15 billion![11] These top 46 products include natural resources like petroleum and diamonds (which are currently duty free for most LDCs to export to the U.S. market), but also include value-added exports such as sweaters and t-shirts that are subject to high duties if they come from countries that are ineligible for or fail to meet preference program rules of origin.

Second, already, a significant amount of LDC exports come into the United States duty free under various preference programs such as AGOA, CBI, or GSP, or under the WTO's MFN treatment. Already, for many of the 32 WTO LDC countries, over 97 percent of their products do or could enter the United States duty free. Of 1,538 products worth $16.3 billion that LDCs export to the U.S. market, 1,007 worth nearly $11 billion are automatically duty free under either WTO MFN rates or the various preference programs. Of the remaining 531 exports, nearly $1.3 billion enters duty free by meeting the rules of origin conditions of preference programs such as AGOA and CBI, while the remaining $4.4 billion pays a duty. Thus, real new market access would have to provide new duty-free access in those categories under which a significant value of LDC exports is possible, while not rolling back existing duty-free access in the other categories.

Former U.S. Trade Representative (USTR) Rob Portman (who was USTR when the "Development Package" was proposed) has suggested that the products that will be excluded from duty-free coverage would be selected according to whether a country is globally competitive in such a product.[12] In other words, anything that an LDC is good at exporting would be excluded. However, the WTO's Hong Kong Ministerial Declaration actually doesn't specify how the tariff lines of the 97 percent proposal would be determined.

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[10] This possibility was noted by the Zambian trade minister, Dipak Patel, who wrote that, "To the uninitiated there may be little difference between 97 per cent and 100 per cent but the three percentage point difference could mean exclusion of the entire range of exports of LDCs, which are concentrated in certain items." *See* Dipak Patel, "The rich are still cheating developing countries," *Financial Times,* March 29, 2006. For the U.S. response to Patel, s*ee* Rob Portman, "Once-in-a-generation opportunity to improve global economy," *Financial Times,* April 6, 2006. Portman wrote that "for the substantial majority of LDCs [the duty-free offer] will now cover 100 per cent of their exports to the US." This is a loose interpretation of, rather than a direct reading of, the Hong Kong Ministerial Declaration, and suggests that the three percent carve-out could be applied to LDCs as a group, rather than on a country-by-country basis.

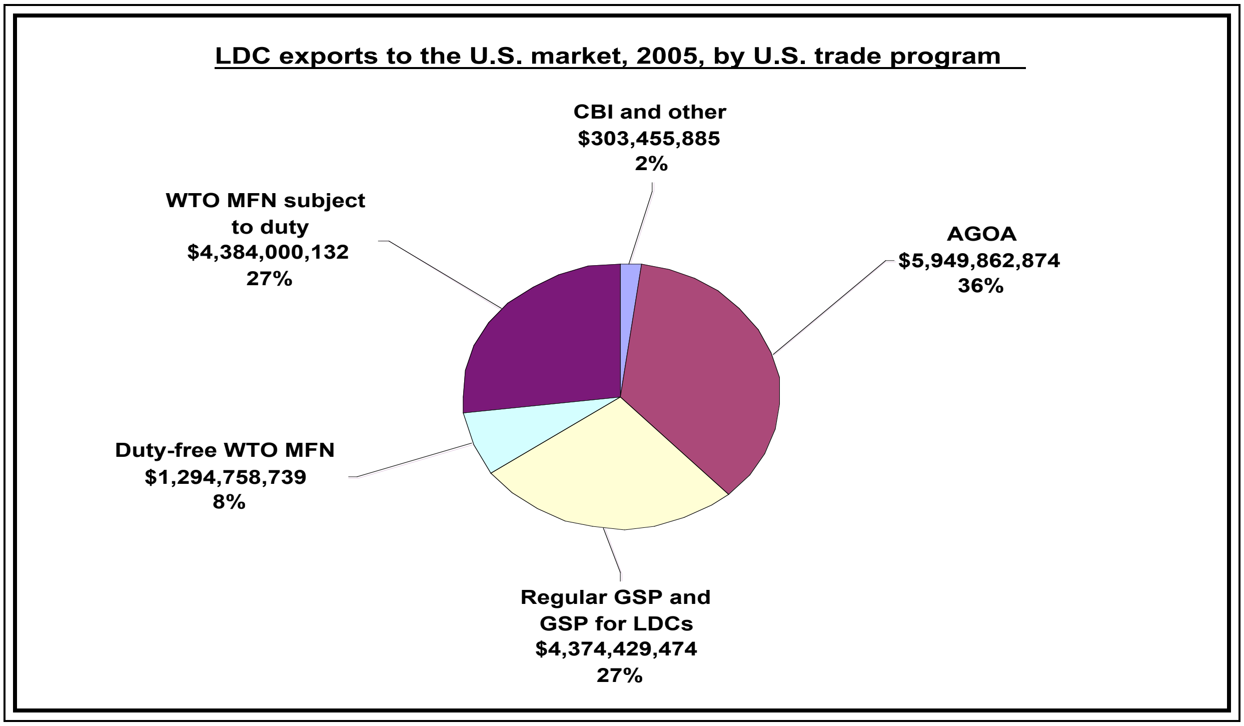
[11] Unless otherwise indicated, all numbers are for 2005, a year during which all the relevant preference programs were in effect, but when the Multi-Fiber Arrangement (MFA) – the WTO-administered system of textile and apparel quotas – had already been phased out. Consequently, this textile quota-free period is the most reflective of the future trade prospects for the LDCs.

[12] "Portman said the basis for making exceptions to the duty-free, quota-free treatment would be whether a country is 'globally competitive' on a tariff line." *See* "Signs of Progress Emerge On Duty-Free, Quota-Free LDC Access," *Inside U.S. Trade,* Dec. 16, 2005.

By defining the three percent carve-out by product – rather than by total export value –most of LDCs' exports by value and/or by volume could be excluded from duty-free treatment. Indeed, if duty-free access were denied to LDCs' top exports under the 97 percent duty-free Hong Kong "Development Package," and rich countries changed their various unilateral preference programs as some have threatened,[13] LDCs could see a rolling back of their existing, pre-"Doha Deal" access.

As Figure 1 shows, nearly 75 percent of LDC exports to the U.S. market enters duty free under WTO MFN benefits or various preference programs.

Figure 1



Source: Public Citizen analysis of data accessed from the U.S. International Trade Commission.

The largest single category of LDC exports to the U.S. market is under AGOA, the U.S. preference program created in 2000, and extended in 2004, which covers 21 of the 32 LDC WTO members. Another large category of LDC exports to the U.S. market enter under the GSP and its specific provisions for LDCs, which cover 30 and 28 of the countries, respectively. Finally, Haiti alone among the LDCs benefits from the provisions of the CBI. Myanmar, also known as Burma, is currently under a U.S. trade embargo, which means there is no reported U.S. trade with that country. Table 1 shows the preference program qualification by WTO LDC country.

[13] *See* "Grassley Reluctant To Take Up GSP Renewal, Ties It To Doha Talks," *Inside U.S. Trade,* Feb. 17, 2006.

Table 1: LDC Eligibility for Other U.S. Preference Programs

Country	GSP Eligible?	GSP for LDC Eligible?	AGOA Eligible?	CBI Eligible?
Angola	X	X	X	
Bangladesh	X	X		
Benin	X	X	X	
Burkina Faso	X	X	X	
Burundi	X	X		
Cambodia	X	X		
Central African Rep.	X	X		
Chad	X	X	X	
Congo (DR)	X	X	X	
Djibouti	X	X	X	
Gambia	X	X	X	
Guinea	X	X	X	
Guinea Bissau	X	X	X	
Haiti	X	X		X
Lesotho	X	X	X	
Madagascar	X	X	X	
Malawi	X	X	X	
Maldives				
Mali	X	X	X	
Mauritania	X	X	X	
Mozambique	X	X	X	
Myanmar				
Nepal	X	X		
Niger	X	X	X	
Rwanda	X	X	X	
Senegal	X		X	
Sierra Leone	X	X	X	
Solomon Is.	X			
Tanzania	X	X	X	
Togo	X	X		
Uganda	X	X	X	
Zambia	X	X	X	

Source: Public Citizen analysis of data accessed from the U.S. International Trade Commission.

Even if rich countries were to commit to only exclude from the "Development Package's" duty-free coverage those products that do not currently receive duty-free access – in other words, not to exclude products that currently enter duty free under various unilateral trade preference programs – the U.S. three percent exclusion could be designed so as to offer little new meaningful market access. As shown in Table 2, because of the discretion provided by the exact language of the Hong Kong Ministerial Declaration, the "Development Package" could be implemented in a way that excludes between 23 and 92 percent of LDC export sales to the U.S. market.

Table 2:
Least Developed Countries' Exports to the U.S. Market, 2005

	Number of LDC exports by product category (tariff lines)[14]		Dollar value of LDC exports to the U.S. market (customs value, 2005)
LDCs' total U.S. exports	**1,538**		**$16,306,507,104**
LDCs' U.S. exports that are already eligible for duty-free access under various trade and preference programs[15]	**1,007/1,538**		**$10,939,462,533**
- Under WTO MFN benefits, for the 32 LDCs	523/1,538		$834,156,091
- Under GSP, for 30 qualifying LDCs	379/1,538		$39,240,705
- Under "GSP for LDCs," for 28 qualifying LDCs	65/1,538		$4,147,783,796
- Under AGOA, for 21 qualifying LDCs	104/1,538		$3,989,621,522
LDCs' U.S. exports that benefit from duty-free access by meeting rules of origin requiring U.S. or regional inputs, for 22 LDCs qualifying under AGOA/CBI	**135/1,538[16]**		**$983,044,439**
LDCs' U.S exports not eligible for duty-free access	**531/1,538**		**$4,384,000,132**
WHAT WOULD A 3% TARIFF LINE EXCLUSION LOOK LIKE…	**Number of tariff lines**	**Maximum Dollar Value**	**% of total U.S. exports excluded from duty-free status**
If applied to LDCs' top 46 exports? (i.e. top 3% of 1,538 tariff lines)	46 tariff lines	$14,936,462,363	92%
If applied to the top 46 exports (i.e. top 3% of 1,538 tariff lines) among only the 531 LDC exports not currently receiving duty-free access?	46 tariff lines	$3,774,409,415[17]	23%

Source: Public Citizen analysis of data accessed from the U.S. International Trade Commission.

Furthermore, as currently worded, the United States and other rich countries would seem to have the option of defining their exclusions at the country level, rather than at the level of LDCs as a group, meaning that rich countries could use the decision-making over exclusions from duty-free status as a threat against those LDCs that fail to support U.S. negotiating stances in the months ahead. Thus, an LDC with the majority of its exports in a few categories could be told that unless the country breaks from say the Africa Group and supports the U.S.

[14] Tariff lines are specified at the HTS-8 level. *Inside U.S. Trade* reports that, "According to industry sources, USTR is envisioning applying this so-called competitive needs limit to individual tariff lines at the 10-digit level." While the caveat has not been officially confirmed, analysis of products at the HTS-8 level provides an approximation of the changes in LDCs' market access under the "Development Package." *See* "Signs of Progress Emerge On Duty-Free, Quota-Free LDC Access," *Inside U.S. Trade,* Dec. 16, 2005.

[15] For simplicity, Haiti's exports that enjoy preferences under CBI, which largely overlap with the benefits of other LDC exports under other preference programs, are not represented by a line item in this subcategory. The total value of exports under CBI and other programs represents approximately 2 percent of total LDC exports to the U.S. market.

[16] Because the same products are treated differently depending on their country of origin and whether they meet AGOA/CBI rules of origin, there is some overlap in the tariff lines enumerated among the 135 products referenced here and the 531 products referenced immediately below.

[17] This figure looks at only those exports that are not duty free which entered under WTO MFN benefits.

positions in the General Agreement on Trade in Services (GATS) or NAMA on tariff cut numbers, the United States will exclude their few hard currency-earning export categories. As the following tables show, the "development loophole" conceived in Hong Kong could severely damage LDCs' export prospects. Table 3 shows the percentage of LDC exports to the U.S .market that are eligible for duty-free market access under the WTO's MFN benefits or under various preference programs. The final column makes an adjustment for those countries that enjoy preferential benefits by meeting rules of origin that require U.S. or regional inputs.

Table 3
LDCs by percentage of dollar value of exports eligible for duty-free treatment

Country	Total U.S. exports, 2005	Percent with unconditional duty-free access	After duty adjustment is made for select countries
Angola	$8,466,134,125	100.0%	
Bangladesh	$2,692,443,030	8.6%	
Benin	$513,184	98.9%	
Burkina Faso	$2,084,203	99.3%	
Burundi	$4,423,229	100.0%	
Cambodia	$1,767,086,372	2.2%	
Central African Rep.	$5,696,947	99.9%	
Chad	$1,472,053,000	100.0%	
Congo (DR)	$246,134,201	100.0%	
Djibouti	$1,101,206	99.1%	
Gambia	$427,153	94.2%	
Guinea	$74,734,136	100.0%	
Guinea Bissau	$113,899	100.0%	
Haiti	$447,103,788	9.4%	73.6%
Lesotho	$403,470,611	3.2%	99.4%
Madagascar	$323,877,195	14.5%	98.8%
Malawi	$82,444,177	72.4%	99.8%
Maldives	$6,040,341	9.0%	
Mali	$3,588,117	98.1%	
Mauritania	$825,319	84.7%	
Mozambique	$10,816,508	76.7%	100.0%
Myanmar	N/A		
Nepal	$111,064,220	42.1%	
Niger	$65,510,642	99.8%	
Rwanda	$6,301,468	100.0%	
Senegal	$3,662,962	98.2%	
Sierra Leone	$9,389,437	98.6%	
Solomon Is.	$1,351,564	100.0%	
Tanzania	$34,065,983	87.8%	96.1%
Togo	$6,439,273	98.2%	
Uganda	$25,851,149	81.3%	100.0%
Zambia	$31,698,165	99.9%	

Source: Public Citizen analysis of data accessed from the U.S. International Trade Commission.

As shown in Table 3, 18 countries *already* have greater than 97 percent unconditional duty-free access for their exports to the U.S. market. When an adjustment is made to account for those countries that obtain duty-free access conditioned on meeting rules of origin under AGOA, an additional five countries – Lesotho, Madagascar, Malawi, Mozambique and Uganda – join the list of countries that have greater than 97 percent duty-free access to the U.S. market. For example, Lesotho exported 61 items to the U.S. market in 2005 worth $403 million. Roughly $13 million (3.2 percent of Lesotho's total exports to the U.S. market) of this consisted of items such as diamonds that are duty free under WTO MFN benefits, or such as plastic packing materials, which are duty free under GSP benefits. Nearly $390 million however, or 96 percent of total imports from Lesotho, are items such as overcoats and t-shirts, which would pay a tariff of around 15 percent under WTO MFN rules, but which obtain exemption from duties through the use of U.S. or regional inputs.[18] Thus, a total of 99.4 percent of Lesotho's exports enter the U.S. market duty free. This means that a WTO package that only committed to 97 percent duty-free treatment of Lesotho's imports into the U.S. market is not an improvement over the status quo, where 99.4 percent of Lesotho's products enter the U.S. market duty free. Indeed, if the United States rolled back its current preference programs – as some have threatened – Lesotho could actually see a reduction in its duty-free access under the "Development Package."

An additional four countries *could* have nearly 100 percent duty-free access, except that exporting firms in those countries *choose* not to obtain duty-free access for their textile and apparel exports to the U.S. market through meeting special preference programs' rules of origin. These countries are Gambia, Haiti, Mauritania, and Tanzania.[19] (Note that Mauritania enjoyed AGOA benefits in 2005, the year under consideration, but these were revoked in December of that year.)[20] Taking Haiti as an example, a mere 9.4 percent ($42 million) of Haiti's total $447 million in exports to the U.S. market receive automatic, unconditional duty-free access. Items benefiting from this treatment include nativity souvenirs and shells, which are duty free under WTO MFN benefits. But an additional $287 million (64 percent of the total) of Haiti's exports to the U.S. market (primarily textile and apparel items) receives duty-free treatment by meeting CBI rules of origin requiring the use of U.S. inputs. In some instances, the same item (say knitted t-shirts of manmade fibers) enters the U.S. market duty-free under CBI ($7.6 million) *and* paying a tariff under WTO MFN rules ($3 million, paying a 32 percent tariff.) Items such as this show that Haiti *could* qualify for much more expansive duty-free market access than it currently takes advantage of, but that firms are *choosing* not to qualify, perhaps in order to buy cheaper inputs from China or elsewhere and not be bound by

[18] In some cases, the same Lesotho export (say knitted cotton t-shirts) enters the U.S. market both duty-free under the AGOA preference program (over $16 million worth) *and* paying a tariff under WTO MFN rules (nearly $1 million worth, paying a 16.5 percent tariff).

[19] Gambia is the smallest country in Africa, and its economy is characterized by high levels of subsistence agriculture. The only reason Gambia's exports are not more than 97 percent duty free is because of $8,760 of what were perhaps incorrectly-labeled exports of beads and other trinkets that could have enjoyed duty-free access under GSP. The same is true for Mauritania, which paid a tariff on some sunglasses shipped to the U.S. market (perhaps accidentally) even though it would have been duty free under GSP. Finally, Tanzania, like Haiti, could have taken more advantage of preferential benefits, but firms in the country chose not to.

[20] The Bush administration removed Mauritania from AGOA eligibility effective Jan. 1, 2006. In 2005, however, Mauritania had not used its AGOA access anyway. *See* George W. Bush, "Proclamation by the President: To Take Certain Actions Under the African Growth and Opportunity Act, 2005," White House Proclamation, Dec. 22, 2005.

CBI rules of origin. Therefore, a WTO "Development Package" that gave 97 percent duty-free access to Haiti's products might not yield any change in trade flows from the status quo, because Haiti's producers have the option currently to export to the U.S. market duty free in nearly all tariff lines, but despite having the option, choose not to do so. So a WTO "Development Package" could prove empty for these four countries as well.

Only four LDCs – Bangladesh, Cambodia, Maldives and Nepal – are not already eligible for duty-free treatment on more than 97 percent of their exports to the United States. And, the four countries which could be most affected by the 97 percent duty-free package are those whose major exports are most targeted for exceptions. Countries such as Bangladesh, Cambodia, and to lesser extent, Nepal, are world-class textile and apparel exporters who are more competitive with China and India (the countries widely predicted by economists to claim ever-greater shares of the U.S. and world market for textile and apparel products) than the vast majority of other developing nations that once exported textile and apparel products. Bush administration officials, along with members of the U.S. Congress, have made a point of singling these countries out by name as exceptions to the development proposal. One study conducted by Innovators, a Bangladeshi research institute, calculates that even if these countries were not treated by the Bush administration as exceptions to the development proposal, they would still stand to lose rather than gain market access under the three percent exclusion, depending on how the tariff lines are eventually defined.[21]

A bipartisan letter from 24 members of Congress to the Bush administration in early December 2005 urged "the president to oppose an effort … to give duty-free and quota-free market access to developing countries such as Bangladesh and Cambodia."[22] Senate Agriculture Committee Chairman Saxby Chambliss (R-Ga.) also has stated that development concessions should not come at the expense of key U.S. interests, such as cotton.[23] During the Hong Kong Ministerial, this theme was echoed by former USTR Portman, who contemplated how Bangladesh might be denied the WTO "development promises":

> *"Last year Bangladesh imports to the United States were $2.5 billion, textiles and apparel … The question is whether each one of those lines would receive now duty free treatment, which they do not receive now … I told [the Bangladeshi trade minister] in some of those cases it's going to be very very difficult for me to make the argument when obviously Bangladesh is incredibly competitive … We want to help make that happen but as a practical matter, some of those tariff lines – it may be tough to describe why they should receive duty free treatment when they are so competitive."*[24]

[21] Rashed Al Mahmud Titumir and M. Iqbal Ahmed, "Slippery Slopes: How Hong Kong Empowers Rich Countries to Choke LDCs; A Rapid Assessment of Effectiveness of Market Access," Innovators (Unnayan Onneshan) Report, December 2005, at 10.
[22] Donald W. Patterson, "President is urged to protect textiles," *Greensboro News & Record* (N.C.), Dec. 9, 2005. An *Inside U.S. Trade* article said that Haiti was also of concern to the textile industry. *See* "Signs of Progress Emerge On Duty-Free, Quota-Free LDC Access," *Inside U.S. Trade,* Dec. 16, 2005.
[23] "Senate Ag Chair, House Members Warn Administration On LDC Demands," *Inside U.S. Trade,* Dec. 9, 2005.
[24] USTR Rob Portman, "Remarks by U.S. Trade Representative Rob Portman, World Trade Ministerial, Hong Kong Convention and Exhibition Center," Dec. 15, 2005.

In a separate news conference, Portman mentioned sugar as another product that might be affected by the carve-out in a hypothetical WTO "Development Package."[25]

A few case studies can help to show how different countries could be affected differently by the Hong Kong development loophole. Table 4 shows how the Hong Kong "Development Package" could affect Bangladesh. Bangladesh exports 600 products to the U.S. market. Two hundred and forty-one of these items, representing $233 million in sales and less than 10 percent of Bangladesh's total sales, currently receive duty-free treatment under WTO MFN or GSP rules. Shrimp and urea (a chemical compound used in plastics and fertilizer) are among the top-selling items, which accounted for $134 million and $34 million in 2005 sales respectively, both of which enter the U.S. market duty free under WTO MFN benefits. Three hundred and fifty-nine items, representing over $2.4 billion in sales or over 90 percent of Bangladesh's total sales to the U.S. market, do not currently receive duty-free treatment. These items are largely textile and apparel-related: men's cotton trousers and men's cotton t-shirts were among the top-selling items in 2005, earning $302 million and $331 million respectively, paying tariffs of 16.6 percent and 19.7 percent respectively.

Because Bangladesh is not currently eligible for preference programs such as AGOA or CBI that provide duty-free access based on special rules of origin, its textile and apparel exports to the U.S. market are charged a tariff. Nonetheless, like China and India and other countries that have been able to claim growing shares of the world market for textile and apparel products following the expiration of the textile and apparel quotes in the WTO's Multi-Fiber Arrangement, Bangladesh is able to profitably export its textile and apparel items to the U.S. market while paying the tariffs, due largely to the low cost of labor. The terms of the Hong Kong "Development Package" would allow the United States to keep tariffs on at least 18 items currently exported by Bangladesh to the U.S. market, and the United States would seem to have the discretion to apply this to the top 18 items either among all of Bangladesh's exports, or among only those items that do not currently enjoy duty-free access. Finally, as shown in Table 2, the United States might also decide to implement the "Development Package" in a way that keep tariffs on Bangladesh's exports that are among the top 46 exports of LDCs as a group. Depending on which scenario is chosen, Bangladesh might still pay tariffs on 65 to 79 percent of its products.

[25] "U.S. Accepts Duty-Free, Quota-Free Initiative for LDCs after Changes," *Inside U.S. Trade*, Dec. 19. 2005.

Table 4:
Bangladesh's Exports to the U.S. Market, 2005

	Number of Bangladeshi exports by product category (tariff lines)	**Dollar value of Bangladeshi exports to the U.S. market (customs value, 2005)**	
Bangladesh's total U.S. exports	**600**	**$2,692,443,030**	
Bangladesh's U.S. exports that are already eligible for duty-free access under various trade and preference programs	**241/600**	**$230,666,988**	
- Under WTO MFN benefits	112/600	$202,356,479	
- Under GSP	101/600	$22,245,108	
- Under GSP for LDCs	28/600	$6,065,401	
Bangladesh's U.S exports not eligible for duty-free access	**359/600**	**$2,461,776,042**	
WHAT WOULD A 3% TARIFF LINE EXCLUSION LOOK LIKE…	**Number of tariff lines**	**Maximum Dollar Value**	**% of total U.S. exports excluded from duty-free treatment**
If applied to Bangladesh's top 18 exports? (i.e. top 3% of Bangladesh's 600 tariff lines)	18 tariff lines	$1,776,458,484	66%
If applied to Bangladesh's top 18 exports (i.e. top 3% of Bangladesh's 600 tariff lines) among only the 359 items not currently receiving duty-free access?	18 tariff lines	$1,607,968,536	65%
If applied to Bangladesh's exports that are among the top 46 money-making exports of LDCs (i.e. top 3% of 1,538 tariff lines of LDCs as a whole)?	37 tariff lines[26]	$2,115,794,456	79%

Source: Public Citizen analysis of data accessed from the U.S. International Trade Commission.

[26] Bangladesh only exports to the U.S. market in 37 of the 46 top tariff lines of LDCs as a whole.

BOX:
The United States only has 3.2 percent of its tariffs at peak levels – meaning virtually all U.S. tariff peaks could be excluded from cuts under a three percent carve-out...

The Bush administration never tires of saying that the United States is already a very "open" economy, and has very low tariffs for the vast majority of imported products. This is accurate. Since U.S. tariff rates are on average low, just over three percent of U.S. tariffs are at or above peak levels.[27] Thus, a 97 duty-free offer that focuses solely on the products that LDCs *currently* export to the U.S. market, as the "Development Package" is written to do, would leave intact the majority of U.S. tariff peaks. For example, LDCs currently export 1,538 products to the United States. Many of the products that would be easy for poor countries to export to the U.S. market – for instance textiles and apparel, sugar and tobacco, which face tariffs of 10 to a whopping 350 percent in the case of tobacco – are precisely those products for which the United States has high peak tariffs. But even just considering those products that LDCs *currently* export to the U.S. market, 127 products representing nearly 25 percent of the total dollar value ($4 billion out of $16 billion) of LDC exports to the U.S. market face tariff peaks.[28] There are over 300 *additional* products that many LDCs *could* export to the United States (if they were to change their productive and export structure) that would also face tariff peaks if they ever made it to the U.S. market. A Hong Kong "Development Package" that defines its way out of having to offer duty-free access to products that LDCs *could but do not currently* export would thus leave in place high tariffs on many products of future interest to these countries. Moreover, given the total number of peaks is limited, a three percent exclusion would allow most high U.S. tariffs to remain in place.

U.S. Tariff Peaks

	Number of tariff lines	**Percent of total 13,561 U.S. tariff lines**	**Number of tariff lines that LDCs export to the U.S. in these lines**	**% of U.S. imports from LDCs in these lines**
Ad valorem U.S. tariffs above 15%	436	3.2%	127 *(8% of LDC total of 1,538)*	$3,972,328,262 *(24% of LDC total of $16 b)*

Source: Public Citizen analysis of data accessed from the U.S. International Trade Commission.

[27] The United States has approximately 13,561 tariff lines, and its average *ad valorem* duty is 3.6 percent. Tariff peaks are defined as any tariff that is more than three times the average tariff rate, which for the United States would be 10.8 percent. More generally, developed country tariff peaks are sometimes defined as any tariff over 15 percent. *See* "United States: Trade Profile," World Trade Organization, March 2006.
[28] In the absence of a preference program.

Table 5:
Malawi's Exports to the U.S. Market, 2005

	Number of Malawian exports by product category (tariff lines)	Dollar value of Malawian exports to the U.S. market (customs value, 2005)	
Malawi's total U.S. exports	**53**	**$82,444,177**	
Malawi's U.S. exports that are eligible for duty-free access under various trade and preference programs	**All are eligible**		
- Under WTO MFN benefits	12/53	$8,080,000	
- Under GSP	11/53	$2,949,247	
- Under GSP for LDCs and unconditional AGOA[29]	3/53	$40,304,617	
- Under AGOA's rules of origin	26/53	$22,648,410	
WHAT WOULD A 3% TARIFF LINE EXCLUSION LOOK LIKE…	**Number of tariff lines**	**Maximum Dollar Value**	**% of total U.S. exports excluded**
If applied to Malawi's top 2 exports? (i.e. top 3% of Malawi's 53 tariff lines)	2 tariff lines	$42,180,589	51.2%
If applied to Malawi's top 2 exports (i.e. top 3% of 53 Malawi's tariff lines) among the 26 exports not currently eligible for duty-free access without AGOA rules of origin?	2 tariff lines	$9,262,178	11.2%
If applied to Malawi's top exports that are among the top 46 money-making exports of LDCs (i.e. top 3% of 1,538 tariff lines of LDCs as a whole?	18 tariff lines[30]	$21,086,310	25.6%

Source: Public Citizen analysis of data accessed from the U.S. International Trade Commission.

Table 5 shows that Malawi, another leader among LDCs at the WTO that currently is eligible for nearly 100 percent duty-free access to the U.S. market,[31] could face a massive *reduction* in duty-free access if the Bush administration pushes for a three percent duty-free exclusion on its exports – for instance under a scenario in which AGOA or GSP benefits are reduced. If a three percent exclusion were defined at the Malawi-specific level, then two tariff lines would be excluded from duty-free treatment. If these two products were selected according to Malawi's top two exports or according to the top two exports among those products for which Malawi does not currently enjoy automatic duty-free access outside of AGOA's rules of

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[29] In 2005, Malawi exported to the U.S. market $3,208 of "travel, sports and similar bags with outer surface of plastic sheeting" (HTS 42029245) – the only Malawian export eligible for automatic AGOA benefits but not for "GSP for LDCs." Interestingly, Malawi exported the entirety of this under WTO MFN benefits (and paid a 20 percent tariff) rather than under the AGOA benefits for which it would have been eligible.

[30] Malawi only exports to the U.S. market in 18 of the 46 top tariff lines of LDCs as a whole.

[31] Despite the fact that all 53 of Malawi's exports are *eligible* for duty-free access, Malawi does in fact export three products to the U.S. market outside of the GSP and AGOA preference programs for which they are eligible. These are two forms of Malawian tobacco not commonly grown in the U.S. market (HTS 24012083 and 24012085) and one form of nuts (HTS 08029098). Eight to 25 percent of the total Malawian exports to the U.S. market in these categories pays tariffs despite their AGOA/GSP eligibility. For more background on Malawi's tobacco trade, *see* Kennedy M. Mbekeani, "Malawi: Studies on Past Industrial Trade Reforms; Experience and Economic Implications," in Santiago Fernandez de Cordoba and Sam Laird, *Coping with Trade Reforms: A Developing Country Perspective on the WTO Industrial Tariff Negotiations,* (New York: United Nations Conference on Trade and Development, 2005), at 220.

origin, this would mean 11 to 52 percent of Malawi's exports could be excluded from duty-free coverage. If the Bush administration were to pick the three percent from among the top 46 exports of LDCs as a whole, then as much as 25.6 percent of Malawi's exports could be excluded from duty-free coverage.

Table 6:
Zambia's Exports to the U.S. Market, 2005

	Number of Zambian exports by product category (tariff lines)	Dollar value of Zambian exports to the U.S. market (customs value, 2005)	
Zambia's total U.S. exports	**38**	**$31,698,165**	
Zambia's U.S. exports that are eligible for duty-free access under various trade and preference programs	**25/38**	**$31,657,295**	
- Under WTO MFN benefits	18/38	$31,488,039	
- Under GSP[32]	6/38	$119,405	
Zambia's U.S exports not eligible for duty-free access	**13/38**	**$37,270**	
WHAT WOULD A 3% TARIFF LINE EXCLUSION LOOK LIKE…	**Number of tariff lines**	**Maximum Dollar Value**	**% of total U.S. exports excluded**
If applied to Zambia's top export? (i.e. top 3% of Zambia's 38 tariff lines)	1 tariff line	$29,926,993	94.4%
If applied to the top export (i.e. top 3% of Zambia's tariff lines) among Zambia's 13 exports not currently eligible for duty-free access?	1 tariff line	$14,240	0.04%
If applied to Zambia's exports that are among the top 46 money-making exports of LDCs (i.e. top 3% of tariff lines of LDCs as a whole)?	1 tariff line[33]	$7,945	0.03%

Source: Public Citizen analysis of data accessed from the U.S. International Trade Commission.

Finally, Table 6 shows that Zambia, another leader among LDCs at the WTO that has virtually total duty-free access to the U.S. market under WTO MFN benefits and GSP, has little to gain from the Hong Kong development promises. (Zambia, which is eligible for AGOA benefits, did not utilize these at all in 2005.) It also shows that Zambia's exports to the U.S. market are incredibly concentrated in just one tariff line – cobalt (HTS 81052060) – with nearly 95 percent of all of Zambia's U.S. exports in that one natural resource alone, which is duty free under WTO MFN benefits. Development economists acknowledge that the outcome of the WTO NAMA negotiations could well undermine the effective use of industrial policies, such as infant industry protection, which allow countries to diversify their manufacturing and

[32] In 2005, Zambia exported to the U.S. market $3,600 of "Dials for watches and clocks, exceeding 50 mm in width" (HTS 91143080) – the only Zambian export eligible for AGOA benefits *and* "GSP for LDCs" benefits but not regular GSP. Interestingly, Zambia exported the entirety of this under WTO MFN benefits (and paid a 4.4 percent tariff) rather than under the preferential benefits for which it would have been eligible.
[33] Zambia only exports to the U.S. market in one of the 46 top tariff lines of LDCs as a whole.

export base into more value-added products.[34] A country like Zambia – if the Doha Round negotiations were to move forward and they ceded to demands that they voluntarily undertake greater reductions and/or binding of its tariffs – would find itself not only with little additional market access under the Hong Kong "Development Package," but could find itself locked into a situation in which its exports are not at all diversified and the country's economic well-being is overly tied to fluctuations in primary commodity markets.

"Aid-for-Trade" or "Debt-for-Imports"?

Another widely-reported aspect of the so-called "Development Package" announced at the Hong Kong Ministerial was an "aid-for-trade" initiative, in which rich countries proposed to offer grants or loans to LDCs. "Aid for Trade should aim to help developing countries, particularly LDCs, to build the supply-side capacity and trade-related infrastructure that they need to assist them to implement and benefit from WTO Agreements and more broadly to expand their trade,"[35] noted the Hong Kong Ministerial Declaration. What is unclear in this text is whether new money is being offered or if just a new name is being attached to previously-promised aid. Furthermore, the text leaves unresolved whether this program is aid or loans or what strings would be attached to such funds. Finally, it does seem clear that such funds would be conditional on the Doha Round being finished.

> **"Trade capacity building is a tool for opening markets."**
> - U.S. Secretary of Agriculture Mike Johanns

Given the "aid-for-trade" funding proposal is contingent on a Doha Round being completed, effectively, the proposal involves short term *quantitative* offers of money to "buy" permanent *qualitative* policy changes on trade that may not be in the long-term interest of the poor countries involved.

Indeed, in a moment of candor, U.S. Secretary of Agriculture Mike Johanns admitted that, "**Trade capacity building is a tool for opening markets**."[36] Not only is this proposal seen as facilitating the overriding goal of liberalization, but according to the USTR "aid-for-trade" announcement documents circulated in Hong Kong, such funding is explicitly conditioned on poor countries prioritizing trade liberalization at home.[37] Conditioning "aid-for-trade" on domestic trade liberalization within LDCs is a way for the United States to undermine the language in 2004's "July Package" and the Hong Kong Ministerial Declaration that exempts LDCs from having to undertake most forms of agriculture, services and industrial tariff liberalization.

Meanwhile, similar initiatives, such as the World Bank's trade capacity building portfolio, have been failures even on their own terms. A recent report by the bank's internal

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[34] Ha-Joon Chang, "Why Developing Countries Need Tariffs: How WTO NAMA Negotiations Could Deny Developing Countries' Right to a Future," South Centre / Oxfam International Briefing Paper, November 2005.
[35] WTO, Ministerial Conference, Sixth Session, "Doha Work Programme: Ministerial Declaration," WT/MIN(05)/DEC, Dec. 22, 2005, at 11(57).
[36] Secretary of Agriculture Mike Johanns, "Johanns Urges EU To Match Ambitious U.S. Farm Proposal," U.S. Agricultural Trade Coalition Conference WTO Ministerial, Hong Kong, Dec. 15, 2005.
[37] *See* "U.S. Trade Representative Rob Portman Plenary Remarks WTO Hong Kong Ministerial," USTR, Dec. 14, 2005, as prepared for delivery; and assorted USTR handouts from Hong Kong.

Independent Evaluation Group found that some $38 billion in World Bank trade capacity building over two decades has not been very successful in "promoting growth and reducing poverty," and even "less successful in generating sustained export growth, particularly in Africa"[38] – which is the explicit goal of such lending.

Meanwhile, the Bush administration's announcement in Hong Kong on December 14, 2005 that it hopes to double "aid-for-trade" levels from $1.3 billion in 2005 to $2.7 billion in grants annually by 2010 double-counts money previously promised at the G-8 meetings. On December 3, 2005, former USTR Portman applauded the G-7 commitment to increase "aid-for-trade" funding to $4 billion annually.[39] The December 14 announcement that received much press attention was just the first time the Bush administration had specified what *its share* of the December 3 money would be, as the December 3 press release did not mention how much the United States planned to increase its own aid-for-trade share beyond the $1.3 billion that they claimed to have spent in 2005.[40]

Furthermore, even the $1.3 billion figure is an instance of "fuzzy math." The actual appropriation in the 2005 budget for "aid-for-trade" facilitation is just over $500 million.[41] The USTR's estimate of $1.3 billion in 2005 is based on data provided by the U.S. AID's Trade Capacity Building Database. This database makes U.S. government contributions to trade capacity building appear larger than the amounts actually appropriated for that purpose by Congress, as the database expands the definition of "trade capacity building" and includes funds expended by various government bureaucracies that *self-report* that certain activities they undertook could be said to be linked to trade – whether or not the funds involved actually were spent in other countries or granted out.[42] What makes this aid-inflation claim yet more cynical is that in the context of overall U.S. spending, even an honest $2.7 billion in grants would be a relatively small amount in the context of the U.S. budget. This amount is about one-tenth what the U.S. government paid out to U.S. farmers in 2003,[43] less than half what the U.S. government spent on a single contract with Lockheed Martin to develop a satellite system (a project which is still not near completed after nine years of work),[44] and about half what the United States is spending on a one-pit facility for nuclear weapons.[45]

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[38] Diana I. Gregg, "World Bank Open Trade Initiative Fell Short of Boosting Exports, Growth," *BNA Report for Executives,* March 23, 2006.
[39] "USTR Portman Applauds G-7 Commitment to Ambitious Doha Round Lauds $4 billion in 'Aid for Trade' to Developing Countries," USTR Press Release, Dec. 3, 2005.
[40] "U.S. Agrees to More Than Double Contributions to Aid for Trade by 2010 - Already the Largest Single-Country Provider, U.S. Will Help Least Developed Realize Potential of Doha Round," USTR Press Release, Dec. 14, 2005.
[41] H.R. 4818 from the 108th Congress, known as the "Consolidated Appropriations Act, 2005," appropriated $507 million for trade capacity building in FY2005. The 109th Congress appropriated $522 million for FY2006 for trade capacity building. *See* "Making Appropriations For Foreign Operations, Export Financing, And Related Programs For The Fiscal Year Ending September 30, 2006, And For Other Purposes," House-Senate Conference Report 109-265, Sec. 570 Trade Capacity Building, Nov. 2, 2005.
[42] *See* U.S. AID, Trade Capacity Building Database, available online at http://qesdb.cdie.org/tcb/method.html; accessed April 23, 2006.
[43] Some portion of this $24 billion in farm payments can lead to depression of world prices and/or facilitate dumping of U.S. agricultural abroad, either of which can be harmful to farmers in LDCs. This number is taken from the Organization for Economic Cooperation and Development's Producer Support Estimates database. It represents the sum of U.S. government payments to farmers based on output, area planted/ animal numbers, historical entitlements, input use, and input constraints.
[44] Taxpayers for Common Sense, "Outerspace Waste," *Waste Basket: A Weekly Bulletin on Government Waste,* Vol. X, No. 28, Aug. 18, 2005.
[45] Taxpayers for Common Sense, "The Modern Pit Facility: A $4 Billion Boondoggle Being Sold on Alarmist Rhetoric and Dated Data," TCS Press Release, May 2, 2005.

Furthermore, some observers have taken to calling the "aid-for-trade" initiative a "debt-for-imports" initiative, since Japan's "pledge" is for loans[46] and the involvement of the World Bank and other international lending bodies virtually ensures that the "aid" referenced also will have at least some loan (rather than grant) component, and could thus add to LDCs' already significant indebtedness.

Even accounting for the fact that the Hong Kong-announced money is not new, a close review of the U.S. documents reveals that the U.S. "offer" that it might double its "aid-for-trade" funding is "subject to the President's budget request being approved" for such larger amounts in future years. Such congressional support for increasing this budget is extremely unlikely to happen. The U.S. government is in a deep budget crisis. The likelihood that *any* increase in foreign aid of any form will be approved by the U.S. Congress is at best highly uncertain. Indeed, Congress delayed its adjournment in December 2005 because it could not agree on a budget, in part because of the massive and growing costs of the Iraq war (already $272 billion).[47] On April 7, Congress was abruptly adjourned when a planned budget vote was on the verge of defeat.[48] Under any circumstances, the concept would mean trading a locked-in Doha Round for an annual gamble that the U.S. Congress *might* fund "aid-for-trade."

Worse, the recent massive tax cuts pushed by President Bush cut U.S. government revenues by nearly $100 billion by 2010.[49] Amidst this fiscal strain, popular U.S. domestic social programs are being gutted, and increased foreign aid is highly unlikely in this climate. Even the most internationalist-minded members of Congress cannot support more foreign aid at a time when they are being attacked by voters at home for domestic budget cuts that throw the elderly off health care and cut education spending. Among the cuts in the most recent version of the budget: tens of billions cut from Medicaid, the largest source of health services for the poor, which will limit services for millions of people and throw hundreds of thousands off the system altogether.[50]

Finally, even if the money offered were real and guaranteed, the foundational assumption behind the "aid-for-trade" agenda has been demonstrably false. As Nobel Prize-winning economist Joseph E. Stiglitz has noted, rich country claims that aid-for-trade will solve development problems have "been exposed as fundamentally inaccurate as liberalization fails to result in either export growth or development for the poorest countries." Stiglitz has also noted that, "Adjustment to a post-Doha trading regime will be disproportionately costly and difficult for developing countries because of the loss of preference margins, the loss of revenue from trade taxes, institutional weaknesses including the absence of adequate safety nets, implementation costs, lack of finance required to restructure the economy, and the limited ability of poor populations to manage short term unemployment."

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[46] Emad Mekay, "More Aid-for-Trade Carrots Offered Poor Nations," Interpress Service, Dec. 13, 2005.
[47] National Priorities Project, Cost of War Calculator, NPP website, accessed April 11, 2006.
[48] Ryan J. Donmoyer, "Republicans in U.S. Congress Suspend Talks on Budget," Bloomberg, April 7, 2006.
[49] Joel Friedman, "Senate and House Reconciliation Tax Packages: Nearly $100 Billion in Tax Cuts Are On the Table," Center on Budget and Policy Priorities Report, Jan. 10, 2006.
[50] Robert Greenstein, Sharon Parrott, and Isaac Shapiro, "CBO Information Shows Passed House Budget Bill Would Hit The Poor Hard," Center on Budget and Policy Priorities Report, Dec. 5, 2005. Updates on the ongoing budget debates are constantly updated at www.cbpp.org.

Stiglitz and Andrew Charlton have laid out the principles that would be necessary to create an "aid-for-trade" program that would help boost development. These principles include that the aid should be additional, and not be simply a reallocation of other pre-existing aid; that aid should be predictable and preferably bound into WTO commitments; that LDCs should have "ownership" over the aid flows and that the aid should cohere with a county's overall development strategy.[51] It is clear that this notion of what a real "aid-for-trade" package would look like is very far from the recycled money and policies that are currently being proposed by rich countries at the WTO to try to buy LDCs' sign-off on damaging new WTO NAMA, agricultural and services terms.

Conclusion

Least-developed countries that are considering going along with the U.S. and EU Doha Round liberalization and privatization proposals, in exchange for the "Development Package" proposal made by these countries, are likely to be left with pain not gain to show for it. As the Hong Kong Ministerial Declaration is currently worded, most LDCs would obtain no new market access under the 97 percent duty-free proposal, and might even lose some under the so-called "Development Package." Countries such as Bangladesh and Cambodia that do not currently benefit from U.S. trade preference programs could in theory see new market access for their textile and apparel products under the 97 percent duty-free proposal… but precisely because they are "globally competitive" suppliers, the three percent exception will be used to continue to exclude duty-free treatment for the products that they export.

Meanwhile, the "aid-for-trade" proposals are unlikely to be funded and/or approved by the U.S. Congress in a period when the U.S. budget is increasingly strained. Time and again, in trade and other international negotiations, what U.S. negotiators "promise" is later rejected by the U.S. Congress, which has the final say.

Given these realities, LDCs would do well to abide by the precautionary principle, and "first, do no harm" to their countries' interests by not trusting empty U.S. government "Development Package" promises in the Doha Round trade negotiations. These are designed to divide the developing countries so as to ease the completion of a Doha Round that has been broadly predicted to harm developing countries even more than the decade of existing WTO damage.

[51] Joseph E. Stiglitz and Andrew Charlton, "Aid For Trade," Commonwealth Secretariat Report, March 2006.