



Operation, Impact and Future of U.S. Preference Programs

Statement for the Record for the House Ways and Means Subcommittee on Trade

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The Center for Global Development (CGD) is an independent, nonprofit policy research organization that is dedicated to reducing global poverty and inequality and to making globalization work for the poor. This focus on pro-poor globalization is at the heart of my research on trade preference reform. Trade has been a part of economic development for centuries. It has the potential to be a significant force for reducing global poverty by spurring economic growth, creating jobs, reducing prices, and helping countries acquire new technologies. U.S. trade policies can have an enormous impact—for good or ill—on developing countries, our own economy, and global security. The U.S. has one of the most open markets in the world, but remaining trade barriers hit poorer countries especially hard. The special needs of the poorest countries should be front and center as Congress debates preference reform.

And preference reform is not just about doing good for others, it would be good for U.S. economic and security interests as well. By opening opportunities for growth and development, improved access for exports from poor countries contributes to political stability and, over time, expanded markets for U.S. exports.

Why U.S. Trade Preference Programs Matter for Poor Countries

Increased trade and market access help poor countries generate resources, stimulate investment, create jobs, participate in the global economy, and reduce poverty. While the U.S. has improved and expanded programs that provide preferential market access for developing countries, notably for Haiti and sub-Saharan Africa, important gaps in product and country coverage remain. For example:

- Despite broad coverage under the African Growth and Opportunity Act (AGOA), important agricultural products, including sugar, dairy, and peanuts, are still subject to

¹ The Center actively engages policymakers and the public, through a combination of research and strategic outreach, to influence the policies of the United States, other rich countries, and such institutions as the World Bank, the IMF, and the World Trade Organization to improve the economic and social development prospects in poor countries. CGD was recently ranked among the world's top think tanks (number 15 out of several thousand such research organizations) in an independent survey-based ranking published in *Foreign Policy* magazine.

quantitative restrictions. As a result, Ethiopia and Zambia have zero access to the U.S. sugar market.

- Least-developed countries (LDCs) in Asia that export labor-intensive manufactured goods, particularly apparel, face an average tariff that is more than three times higher than the average tariff on all U.S. imports.
- For all beneficiaries, frequent, short-term renewals—and occasional lapses—in trade preference programs undermine the incentives for firms to invest in potential export sectors in poor countries.

Leveraging U.S. Reform to Promote Global Preference Reform

Recognizing the potential for trade to create jobs and reduce poverty, the international community enshrined the objective of duty-free, quota-free (DFQF) market access for LDCs in developed countries in the United Nation's Millennium Declaration in 2000. While substantial progress has been made since then, no country has fully delivered on that commitment. The European Union often touts its "Everything But Arms" program, which provides *nominal* access for 100 percent of exports from LDCs, but its rules of origin are far more restrictive than the U.S. AGOA program and they often block access in practice. No rich country outside Europe has achieved 100 percent product coverage, though Canada has arguably the best overall program because it reformed its rules of origin while also expanding coverage to roughly 99 percent of imports.²

Congressional action on preference reform in early 2010 would strengthen U.S. leadership in promoting global change to make trade work for the poorest countries. With a strong U.S. reform in hand, President Obama could press his colleagues at the G-20 summit in Canada to implement the goal of full market access for LDCs prior to the UN Summit's progress review of the Millennium Development Goals in September.

Recommendations for Reforming U.S. Trade Preferences

The following policy recommendations for reforming U.S. trade preference programs for LDCs and other small poor countries reflect my own research³ and the proposals endorsed by a broad coalition of U.S. business, labor, NGO and research groups last spring⁴ as well as the legislation recently introduced by Congressman James McDermott (D-WA)⁵:

- Implement 100 percent duty-free, quota-free (DFQF) market access.
- Use the Generalized System of Preferences (GSP) rule of origin requiring 35 percent domestic value-added with the following amendments:

² Kimberly Ann Elliott, *Opening Markets for Poor Countries: Are We There Yet?* CGD Working Paper No. 184 Washington: Center for Global Development, October 2009. While AGOA comes out relatively well in this international comparison, the basic U.S. GSP for LDCs lags far behind other high-income OECD members and is ahead of only South Korea's limited program. To encourage early delivery on the MDG commitment to provide DFQF for LDCs, CGD created a working group on global trade preference reform earlier this year. For information on the activities of this group, which expects to issue its final report early next year, go to http://www.cgdev.org/section/initiatives/_active/reformingtradepreferences/global_trade_preference_reform.

³ See Elliott op cit., and Antoine Bouet, David Laborde, Elisa Dienesch, and Kimberly Ann Elliott, *The Costs And Benefits Of Duty-Free, Quota-Free Market Access For Poor Countries: Who And What Matters*, CGD Working Paper, Washington: Center for Global Development, forthcoming.

⁴ http://www.igdleaders.org/sections/newsmedia/newsmedia_headlines_4-22-09.asp

⁵ <http://www.house.gov/mcdermott/pr091120.shtml>

- as long as there is substantial transformation, allow LDC beneficiaries to count inputs sourced from other developing countries, or FTA partners, toward the 35 percent threshold;
- define substantial transformation for apparel as cutting and sewing operations.
- Make all preference programs permanent and predictable, beginning with DFQF reform.

These critical reforms could be implemented either by amending the existing GSP program for LDCs, consistent with the U.S. reform coalition proposals noted above, or by amending AGOA and creating a new program for LDCs, as recommended in Congressman McDermott's bill. And, as noted above, the international impact of reform would be greatest if this is done in the first six months of next year.

Preference Reform and American National Interests

Recent joint research with colleagues at the International Food Policy Research Institute (IFPRI) shows that full DFQF market access would have important benefits for LDCs.⁶ In addition, increased trade with LDCs would have important benefits for U.S. foreign policy by strengthening the development leg of the emerging U.S. national security strategy. By increasing investment and creating jobs in poor countries, it would contribute to political stability and, over time, expand markets for U.S. exports as incomes rise.

In the United States, the traditional consumer benefits and the adjustment costs for U.S. firms and workers would be small. The 49 UN-designated LDCs account for approximately one percent of total U.S. imports and only one half of one percent of non-oil imports (see attached table). The joint CGD-IFPRI research confirms what these numbers suggest: The impact of implementing 100 percent DFQF for LDCs would be indiscernible for the U.S. economy as a whole and the effects on competing U.S. production would be small, ranging from essentially no impact on sugar production to a reduction of roughly one-half of one percent for textiles and less than that for apparel. Assuming that the number of jobs falls proportionately with the estimated decline in production, and even doubling the estimated decline, DFQF for LDCs would result in fewer than 8,000 job losses in these industries. Moreover, while a small number of jobs might be lost in those sectors, jobs would be gained in other sectors. For example, while sugar cane and beet production is mostly mechanized and creates very few jobs, thousands of jobs in the confectionary industry have been lost in recent years due to plant closures blamed on high sugar prices.

Another concern about expanded access for Asian LDCs is that it would reduce benefits for existing AGOA beneficiaries. The agricultural sector, however, which employs the majority of poor Africans, would gain from a DFQF reform that removes remaining restrictions, especially if it is coupled with increased support for infrastructure development and technical assistance to help African producers meet U.S. food, plant, and animal safety standards. Concerns about expanded preferences for non-African LDCs usually center on apparel, while ignoring potential gains from improved agricultural access. Moreover, 90 percent of AGOA apparel exports come from five countries and are highly concentrated in a relatively small number of tariff lines. If any

⁶ Bouet et al., op cit.

restrictions are placed on the exports of major apparel suppliers, as in the McDermott legislation, they should be drawn as narrowly as needed to shelter core African exports.

In sum, expanded market access for LDCs would offer opportunities for thousands of people, mostly young women, to pull themselves and their families out of extreme poverty. Because these countries are small and poor, the short-run impact on the U.S. economy would be small. In the long run, however, the benefits of better integrating trade with our broader development policies and helping to lift these countries out of poverty would be far greater.

U.S. Imports 2007 - General Customs Value in 1,000 dollars and Share of Total and Non-Fuel Imports

TOTAL US IMPORTS	TOTAL IMPORTS		NON-OIL IMPORTS		GROSS NATIONAL INCOME (\$ billions)	GROSS NATIONAL INCOME \$ per
	1,942,862,938	% Share 100%	1,602,401,276	% Share 100%		
LDC	22,897,495	1.2%	8,203,581	0.5%		
Afghanistan	74,618	0.0%	74,618	0.0%	10.1	-
Angola	12,210,961	0.6%	87,369	0.0%	43.6	2,560
Bangladesh	3,429,219	0.2%	3,429,219	0.2%	75.1	470
Benin	5,076	0.0%	5,076	0.0%	5.1	570
Bhutan	817	0.0%	817	0.0%	1.2	1,770
Burkina Faso	1,466	0.0%	1,466	0.0%	6.4	430
Burundi	1,111	0.0%	1,111	0.0%	0.9	110
Cambodia	2,463,921	0.1%	2,463,921	0.2%	7.9	540
Cape Verde	2,193	0.0%	2,193	0.0%	1.3	2,430
Chad	2,238,277	0.1%	19,185	0.0%	5.8	540
Comoros	485	0.0%	485	0.0%	0.4	680
Congo (DROC)	206,404	0.0%	164,703	0.0%	8.6	140
Djibouti	4,484	0.0%	4,484	0.0%	0.9	1,090
East Timor	323	0.0%	323	0.0%	1.6	1,510
Ethiopia	88,236	0.0%	88,236	0.0%	17.6	220
Gambia	148	0.0%	148	0.0%	0.5	320
Guinea	95,748	0.0%	75,084	0.0%	3.7	400
Guinea-Bissau	38	0.0%	38	0.0%	0.3	200
Haiti	487,588	0.0%	487,588	0.0%	5.4	560
Kiribati	1,206	0.0%	1,206	0.0%	0.1	1,170
Lesotho	443,018	0.0%	443,018	0.0%	2.0	1,000
Liberia	115,303	0.0%	115,280	0.0%	0.6	150
Madagascar	337,895	0.0%	337,895	0.0%	6.3	320
Malawi	69,007	0.0%	69,007	0.0%	3.5	250
Mali	9,712	0.0%	9,712	0.0%	6.1	500
Mozambique	5,356	0.0%	5,356	0.0%	6.8	320
Nepal	89,866	0.0%	89,866	0.0%	9.7	340
Niger	9,082	0.0%	9,051	0.0%	4.0	280
Rwanda	12,675	0.0%	12,675	0.0%	3.1	320
Samoa	5,422	0.0%	5,422	0.0%	0.4	2,430
Sao Tome & Principe	393	0.0%	393	0.0%	0.1	870
Senegal	18,734	0.0%	14,189	0.0%	10.2	820
Sierra Leone	48,104	0.0%	48,104	0.0%	1.5	260
Solomon Islands	1,117	0.0%	1,117	0.0%	0.4	730
Tanzania	46,196	0.0%	46,196	0.0%	16.3	400
Togo	5,039	0.0%	5,039	0.0%	2.4	360
Tuvalu	28	0.0%	28	0.0%	-	-
Uganda	26,622	0.0%	26,622	0.0%	10.5	340
Vanuatu	885	0.0%	885	0.0%	0.4	1,840
Yemen	291,942	0.0%	7,676	0.0%	19.4	870
Zambia	48,780	0.0%	48,780	0.0%	9.5	800

¹ Excludes SITC 3 (1 digit-level).

NB: When last checked, Central African Republic, Equatorial Guinea, Eritrea, Laos, Maldives, Mauritania, Myanmar, Somalia, and Sudan were ineligible for some U.S. preferences for political reasons. Cape Verde is still listed here, although it recently graduated from LDC status.