



# Taking the Lead on Trade and Development

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## Introduction

American presidents, beginning with Harry S. Truman, have led the way in creating a rules-based trade system to avoid tit-for-tat trade wars like those that deepened the Great Depression. That system has overseen a remarkable reduction in trade barriers around the world, and while it did not prevent every beggar-thy-neighbor response during this century's Great Recession, it has largely held. Another remarkable feature of this system is that it has become truly global over the years. The General Agreement on Tariffs and Trade began in 1948 with 23 countries; its successor, the World Trade Organization (WTO), now has 160 members.

The WTO's core mission is to promote open and nondiscriminatory markets, and it is the *only* protection against predatory trade practices that smaller, poorer countries have. The system is under considerable stress, however, and developing countries are particularly vulnerable to its erosion. The WTO's core mission is to promote open and nondiscriminatory markets, and it is the only protection against predatory trade practices that smaller, poorer countries have. Yet, since 2008 when the latest round of WTO negotiations stalled out, 70 new regional trade agreements have come into force. The global total was nearly 230 as of early September 2014.<sup>1</sup> Frustration with the long-stalled Doha Round is understandable, but the proliferation of these regional trade agreements is worrisome. They are diverting negotiating attention and resources away from the WTO and making the global system more, rather than less, complex.

American negotiators are also increasingly focused on regional initiatives, notably the Trans-Pacific Partnership (TPP) with 11 other countries and the Transatlantic Trade and Investment Partnership (TTIP) with the European

## POLICY RECOMMENDATIONS

- Reinvalidate the multilateral rules-based trading system.
- Ensure that regional trade agreements explicitly support development outcomes.
- Strengthen unilateral trade preference programs for poor countries.
- Create a Joint Trade Policy Unit to address the nexus of trade and development.

Union. Unlike multilateral agreements, the terms of these regional and bilateral agreements are typically set by the larger, richer partners involved. As a result, key provisions often ignore the concerns of developing countries.

There are other ways that the United States is not using trade as effectively as it might to promote development. The executive and legislative branches of the US government have long recognized that trade can be an important tool to help poorer countries generate resources, create jobs, and reduce poverty. They also recognize that growth in developing countries contributes to global prosperity and growing markets for US exporters as well. Despite that, the few significant US trade barriers that remain often target agricultural and labor-intensive products in which developing countries have a comparative advantage.



### Challenge 1: Fraying Multilateralism

The United States did not join the trend of negotiating trade agreements outside the multilateral system until 1984. That first agreement, with Israel, was more about foreign policy than economics. The next US negotiations were with neighboring Canada (1988) and Mexico (the tripartite North American Free Trade Agreement in 1994). The number of bilateral trade agreements then surged (figure 1). After a review and some tweaking, President Barack Obama submitted agreements negotiated by President George W. Bush with Colombia, Panama, and Korea for Congress’s approval in 2011. President Obama also decided to continue with negotiations launched by the Bush administration for the TPP among 12 nations (including Japan).<sup>2</sup> And in 2013, US and EU policymakers launched talks aimed at establishing the TTIP.

The two “mega-regional” agreements, if concluded, would be the first wherein large, advanced economies have negotiated preferentially with one another. That would take regionalism to a new level, and it could pose significant new risks for the multilateral system if the result is reduced commitment to the WTO. These agreements also exclude the large, and rapidly growing, emerging markets (Brazil, China, India), and there is a risk of ending up with competing trade blocs that increase trade frictions and even exacerbate political tensions. Ensuring that these agreements remain embedded in a strong multilateral system would mitigate those risks.

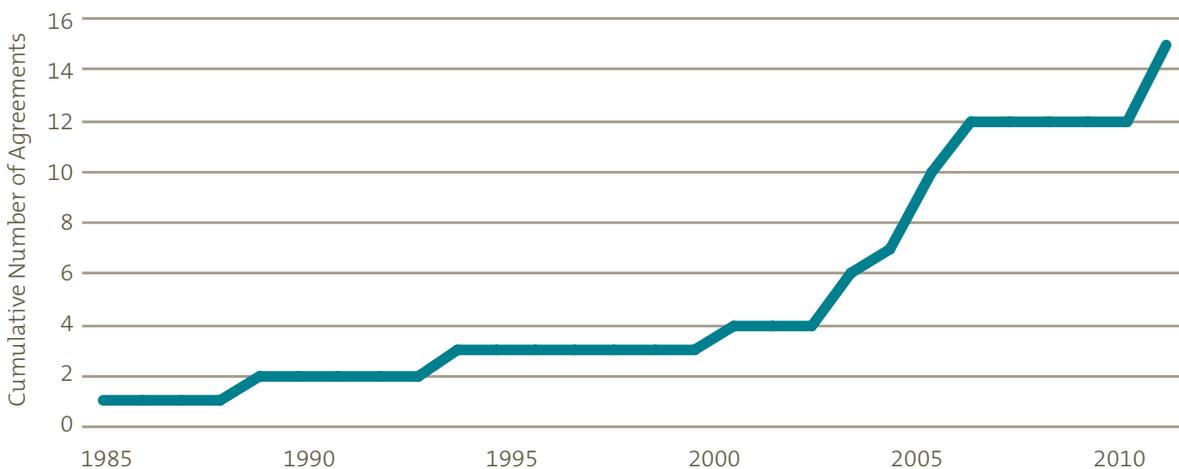
### Challenge 2: Development-Unfriendly Provisions in Regional Trade Agreements

Whatever happens multilaterally, or with the TPP or TTIP, it is too late to put the regionalism genie back in the bottle. Thus, it is important to examine the specific features of US regional and bilateral trade agreements that pose risks for developing countries. This discussion would apply to the TPP and TTIP negotiations, if they are still ongoing in 2017, as well as any new regional negotiations the next president may choose to undertake.

For developing countries negotiating with the United States, key provisions in the current trade agreement template that raise concerns include the following:

- protections for foreign investors that constrain the use of capital controls and an investor-state dispute settlement process that some firms have used to challenge nondiscriminatory health and environmental regulations<sup>3</sup>
- WTO+ protections for intellectual property, including drug patents
- liberalization of certain service sectors, for example finance, where governments may lack the capacity for appropriate oversight and regulation
- complex rules of origin that often restrict the market access that would otherwise be provided via tariff cuts

Figure 1 US Regional Trade Agreements Have Surged Since the 1990s



Source: Author’s calculations from World Trade Organization, Regional Trade Agreements Information System, online at <http://rtais.wto.org/UI/PublicAllRTAList.aspx>. Accessed September 9, 2014



The US Trade Representative's job is to promote and protect US interests in trade negotiations, not to promote development. US trade negotiators may genuinely believe that stronger intellectual property protections are good for development, or they may believe that these protections are necessary to get trade agreements through Congress, or both. But there is substantive, as well as political, disagreement over these provisions and whether countries at very different levels of development should have to adhere to universal standards in these areas.

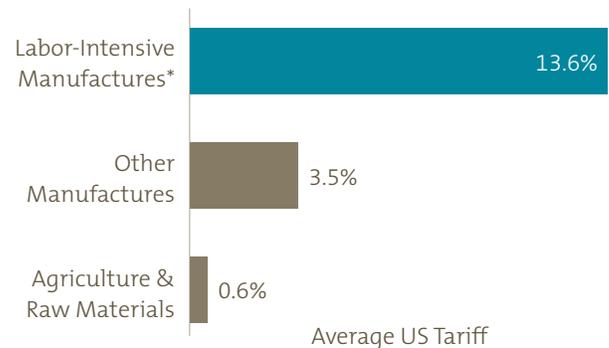
For the majority of developing countries that are excluded from regional trade agreements, the key concern is how the discrimination that results will affect them. While preferential trade agreements can lead to overall net trade creation, they often divert some trade and investment to insiders at the expense of outsiders. The risk that TTIP tariff reductions would divert trade away from poor countries is probably not large. Both the US and EU markets are relatively open and their export baskets are quite different from those of poor developing countries. In contrast, if the United States and Japan agree to open their markets for footwear, apparel, and agricultural products as part of the TPP, Vietnam could benefit greatly, but partly at the expense of poorer countries in the region.

In addition to the potential for traditional trade diversion, regulatory cooperation measures could put outsiders at an additional competitive disadvantage. In this area, it is the TTIP that poses greater risks. Traditional US and EU trade barriers are already low, so regulatory cooperation is a more central element in the TTIP negotiations. If US and EU negotiators agree to harmonize regulations in some sectors, that could be a benefit for developing countries because they would no longer have to comply with two different sets of standards. Alternatively, negotiators might agree to recognize the equivalence of one another's standards in certain sectors. That type of agreement would not necessarily be open to outsiders, and it could put those countries' exporters at an additional competitive disadvantage.

### Challenge 3: Weaknesses in Unilateral Preference Programs

Finally, the United States lags most other advanced economies in its openness to imports from the poorest countries. Developing countries tend to be competitive in labor-intensive manufactured goods (textiles, apparel,

**Figure 2 US Tariff Rates Burden Labor-Intensive Goods from Poor Countries**



\*Textiles, apparel, footwear, and travel goods (Standard International Trade Classification categories 65, 83, 84, and 85)

Source: United States International Trade Commission's Trade Dataweb <http://dataweb.usitc.gov/>

footwear, and travel goods). Those are also the sectors in which US tariffs tend to be the highest (figure 2). Even when average tariff rates are low, as in the case of most agricultural products, poor countries can face quantitative restrictions on their exports to the US market. Sugar, dairy, and peanuts are notable examples.

The United States has programs that provide preferential access for developing countries by waiving some import duties. But these programs only partially mitigate the regressive profile of US trade policy because they often exclude those goods with the highest barriers. The US preference program with the broadest access is through the African Growth and Opportunity Act (AGOA). AGOA includes apparel and covers 98 percent of potential exports overall, but even it restricts key agricultural commodities.

The relatively brief statutory life of preference programs further undermines their development potential by increasing uncertainty and discouraging long-term investments. Congress has to reauthorize these programs every few years and is often tardy in doing so. In a stark example of the problem, the Generalized System of Preferences program, which applies to all developing countries, expired in July 2013 and had not been renewed as of mid-2015.<sup>4</sup> The AGOA program expires in September 2015 and, while key policymakers have been talking about a "seamless renewal" for months, there have been no concrete signs of that, as of the time of writing.



Most other rich countries provide duty-free, quota-free market access for most or all products exported by all UN-designated least developed countries (LDCs). Moreover, these preference programs are authorized for much longer periods, thereby reducing uncertainty. For example, the EU's Everything But Arms program lifted restrictions on all LDC imports indefinitely. In addition, after criticism that the rules of origin were too restrictive, EU policymakers simplified them for key products, including apparel.<sup>5</sup>

Concerns about US job losses drive most of the limitations in trade preference programs. Moreover, the traditionally protectionist textile industry receives important political cover from the few African countries that are exporting apparel under AGOA. Those countries oppose duty-free, quota-free access for other LDCs because it could erode the value of the preferences they currently receive. Given that US imports from LDCs constitute less than 1 percent of total US imports, the job concerns seem exaggerated. Empirical research supports that conclusion.<sup>6</sup>

### Four Steps toward a Coherent Trade and Development Policy

Here are four things the next US president could do to address the challenges posed above. Taking these steps would support American interests in a strong multilateral trading system and make trade policy a more effective tool for development and global prosperity. Modifying the process by which the executive branch develops trade-for-development strategies would also help to make policy more coherent.

#### 1 Revive multilateralism.

The WTO will need to undergo institutional reform if it hopes to remain a credible force for trade liberalization in the 21st century, and US leadership will be critical. Reform will take time, however. In the interim, WTO members should work to revive the negotiating function that has lagged so badly in recent years. The current US position seems to be to stick with the Doha Round's negotiating agenda as it is, while negotiating separately with self-selected WTO members to liberalize trade in services, information technology, and environmental goods and services. But the Doha Round approach is not working, and sticking with it is blocking negotiations in other areas of more interest to developing countries.

It is past time to bury the Doha Round once and for all. That does not mean that members can simply forget about the issues it aimed to address, however. Over at least the next year, WTO members will attempt to negotiate a narrow agreement on food security. The impetus is India's concern that another WTO member will challenge its public stockholding scheme as a violation of international rules.<sup>7</sup> Whatever happens with those discussions, the next president should ask the US Trade Representative's office to take a fresh look at negotiating a broader food security package that includes both old and new issues:

- commitments to further reduce and bind trade-distorting subsidies and import barriers in advanced economies that undermine incentives to invest in developing-country agriculture and contribute to global food price volatility
- provisions that clarify the scope for developing countries to protect food security, including via public stocks, while channeling *producer* subsidies toward less distorting investments in infrastructure and rural public goods, such as roads, (sustainable) irrigation, and extension services
- disciplines on export competition that eliminate export subsidies, reform in-kind food aid, and create ground rules that minimize the costs to others when developing countries feel compelled to use export restrictions.

#### 2 Ensure that regional agreements support both trade and development priorities.

It is unclear whether US negotiators will conclude the TPP or TTIP talks by the end of 2016. If there are ongoing negotiations that involve developing countries, the next US president should ensure that

- efforts to protect American investors and intellectual-property owners are not at the expense of developing-country needs to protect public health, financial stability, or other key priorities;
- the template is relaxed when regional trade agreements involve developing countries, and all provisions are appropriate for the partner countries' level of development;
- countries can effectively regulate tobacco for public health purposes and that nondiscriminatory



tobacco control measures are explicitly exempt from challenge,<sup>8</sup> and,

- rules of origin are reformed so they are less complex and less restrictive.

On intellectual property rights, the 2008 book *The White House and the World* offered recommendations for US trade agreements that are still relevant.<sup>9</sup> The recommendations called on the US government to respect the more flexible rules for developing countries embedded in the WTO agreement on trade-related intellectual property, to initiate a dialogue on fair burden sharing for global innovation, and to support research and development into remedies for developing-country diseases.

The next US president should also order a White House study to examine how US negotiators approach trade and development issues in trade agreements and to ensure they reinforce one another. For example, is the language allowing regional trade agreement parties to restrict capital flows for prudential reasons sufficiently flexible for developing countries to protect themselves from financial instability? Do provisions for investor-state dispute settlement under international auspices promote or undermine improvements in rule of law?

### 3 Make unilateral preferences meaningful for all poor countries.

The next US president, working closely with Congress, should strengthen trade preferences by means including the following:

- extending duty-free, quota-free market access to all LDCs, but with narrowly drawn exceptions for competitive LDC exporters<sup>10</sup>
- renewing and extending the Generalized System of Preferences; AGOA; special preferences for Haiti; and the new duty-free, quota-free provisions for at least a decade
- providing specific quota allocations for AGOA-eligible exporters of restricted agricultural products when full market access is not politically possible<sup>11</sup>

### 4 Change the process to promote policy coherence.

Finally, the next president should consider creating something like the United Kingdom's Joint Trade Policy Unit. This unit brings together policymakers from the Department for International Development and the Department for Business, Innovation, and Skills to address the nexus of issues related to trade and development. Similar to the way this unit operates in the United Kingdom, the US Trade Representative would still negotiate international trade agreements, but with higher-level and more regular input from the US Agency for International Development. The new unit would take the lead when it comes to implementing unilateral preference programs that do not involve negotiations.

## Conclusion

The world has changed enormously since 1948 when the United States launched the General Agreement on Tariffs and Trade with 22 other countries. With the rise of global value chains, production is more fragmented and the rules-based global trading system is more important than ever, especially for developing countries. At the same time, regional trade agreements are here to stay. The next US president should ensure that regional and bilateral agreements remain embedded in a multilateral framework and that any new agreements balance narrow trade interests with the broader US development and foreign policy interest in having more prosperous and politically stable trading partners. Moreover, the next president should work with Congress to make unilateral trade policies toward poor countries more effective in promoting development. US presidents have long supported trade as a tool of development, at least rhetorically. The next president can contribute to a more stable and prosperous world by matching rhetoric with reality.



## Further Reading

Global Trade Preference Reform Working Group. *Open Markets for the Poorest Countries: Trade Preferences That Work* (Washington: Center for Global Development, 2010).

Uri Dadush. "WTO Reform: The Time to Start Is Now." Policy Brief 80, Carnegie Endowment for International Peace, Washington, 2009.

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Pascal Lamy. "The World Trade Organisation: New Issues, New Challenges." Policy Paper 117, Notre Europe and Jacques Delors Institute, Paris, 2014.

Ricardo Melendez-Ortiz, Christophe Bellman, and Miguel Rodriguez Mendoz. *The Future and the WTO: Confronting the Challenges* (Geneva: International Centre for Trade and Sustainable Development, 2012).

## Notes

<sup>1</sup> Though not all of these trade agreements meet a definition of regional as commonly understood, that is the terminology that the WTO uses in the database on its website at <http://rtais.wto.org/UI/publicsummarytable.aspx>, accessed September 5, 2014.

<sup>2</sup> In addition to the United States and Japan, the TPP also includes Australia, Brunei, Canada, Chile, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam.

<sup>3</sup> Even when not successful, these challenges raise the costs of regulating and could deter some poorer developing countries from doing so in some cases.

<sup>4</sup> In expectation that Congress will eventually renew the program, importers must post a deposit but they do not have to pay the full amount of the tariff that would be owed without the Generalized System of Preferences.

<sup>5</sup> The report of the Center for Global Development's Global Trade Preference Reform Working Group (see Global Trade Preference Reform Working Group 2010 in further reading) called for EU rules-of-origin reform, among other things. See also Kimberly Ann Elliott, "Why Is Opening the US Market to Poor Countries So Hard?" CGD Note, Center for Global Development, Washington, 2012.

<sup>6</sup> 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," *Journal of Globalization and Development* 3(1): 1–27.

<sup>7</sup> Under the program, India buys grain (mainly rice) from farmers at guaranteed prices and then sells or distributes those stocks at subsidized prices to poor consumers. WTO rules permit public stockholding for food security purposes, but the amount of subsidy for farmers is capped. See also Kimberly Ann Elliott, "Food Security in Developing Countries: Is there a Role for the WTO?" CGD Essay, Center for Global Development, Washington, 2015.

<sup>8</sup> For specific suggestions on how US negotiators should approach tobacco in the TPP context, see Thomas Bollyky, "Forging a New Trade Policy on Tobacco Policy Innovation," Memorandum No. 7, Council on Foreign Relations, Washington, 2011.

<sup>9</sup> For a detailed critique of the US approach to intellectual property rights in trade agreements with developing countries, see Kimberly Ann Elliott and Carsten Fink, "Tripping over Health," in *The White House and the World*, ed. Nancy Birdsall (Washington: Center for Global Development, 2008), 215–240.

<sup>10</sup> For further details, see Kimberly Ann Elliott, *Getting to Yes on Expanded US Markets for the Poorest Countries*, Rethinking US Development Policy Report (Washington: Center for Global Development, 2013).

<sup>11</sup> For ideas on how to do this, see Kimberly Ann Elliott, "AGOA's Final Frontier: Removing US Farm Trade Barriers," CGD Note, Center for Global Development, Washington, 2014.

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