

Why Is Opening the U.S. Market to Poor Countries So Hard?

Kimberly Ann Elliott

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CGD Notes

Trade has long been an effective way to move millions of people out of poverty around the world. The Obama Administration views trade as a critical component of an integrated approach to development policy.

—Office of the U.S. Trade Representative
Fact Sheet, December 2011

The rhetorical link between trade and development is strong, but the reality leaves something to be desired. On paper, the world's poorest countries receive preferential access to the U.S. market; in practice, many do not. The United States is rightly praised for giving Haiti preferential access for most of its exports and for the African Growth and Opportunity Act (AGOA), which provides eligible poor countries duty-free access for everything but sugar, peanuts, and a few other products. But least developed countries (LDCs) in Asia—including Afghanistan, Bangladesh, Cambodia, Nepal, and Yemen—are effectively excluded from U.S. preference programs. In 2010, three-quarters of dutiable exports from AGOA countries received preferential treatment while only 0.7 percent of imports from Asian LDCs did. And the average tariff on the remaining AGOA exports was 0.3 percent (mostly oil); the average tariff on Asian LDC exports was 15 percent.

Elsewhere, things are different. The European Union phased out restrictions on sugar and rice in 2009 and fully opened its market to exports from all LDCs. In 2011, it changed the rules governing product origin to ensure they are not de facto barriers. Australia, New Zealand, Norway, and Switzerland also

provide duty-free, quota-free market access to LDCs. Canada and Japan retain restrictions on sensitive agricultural products (and Japanese leather products) but still reach 98 percent product coverage or better. At the G-20 summit in Cannes, China announced that it would open its markets to 97 percent of products for LDCs with whom it has diplomatic relations.¹

What Are U.S. Policymakers Afraid Of?

American excuses for not improving market access for all LDCs range from the impact on the Doha Round of international trade negotiations to lost jobs in the United States and Africa. These excuses, however, do not stand up to scrutiny. On the first, U.S. negotiators insisted for years that they could only agree to the LDC market access initiative as part of an overall Doha Round agreement. But LDC access was never going to be “bound” as part of the agreement, and it could not be a bargaining chip since the LDCs were not being asked to open their markets as part of the bargain. The utter lack of progress at the December 2011 World Trade Organization ministerial meeting effectively marks the end of the Doha Round and should be the end of any linkage with the LDC market access initiative.

Second, despite the small size of LDC exporters—collectively they account for just over one-half of one

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¹ Kimberly Elliott, “Opening Markets for the Poor: Are We There Yet?” CGD Working Paper 184 (Washington: Center for Global Development, 2009); “China’s Zero-Tariff Treatment Gains Wide Acclaim,” China Daily USA, November 24, 2011, http://usa.chinadaily.com.cn/business/2011-11/24/content_14153735.htm, last accessed December 16, 2011.

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percent of nonoil U.S. imports—U.S. policymakers are concerned about the potential impact on American jobs. Rigorous empirical research, however, suggests that opening the U.S. market to all LDCs could provide significant benefits to those countries at little or no cost to American workers, including those in the textile industry. Also, Asian LDCs compete more with other Asian exporters, especially China, than they do with American producers, further limiting the negative impact of improved access.²

What About Africa?

Another concern is that expanded market access for all LDCs would harm AGOA-eligible exporters.³ Two of the Asian LDCs, Bangladesh and Cambodia, are significant clothing exporters (though both pale in comparison to China); removing tariffs on their exports could mean increased competition for AGOA beneficiaries. Paul Collier, for example, argues that sub-Saharan Africa needs to be shielded from competition with other developing countries if it is to stimulate its manufacturing sector.⁴

There is an argument for spreading the benefits of LDC preferences by putting some restrictions on other exporters, but the restrictions should apply only for competitive LDC exporters, perhaps those accounting for 2 percent or more of total U.S. imports in a sector.⁵ And, if a major aim is to protect AGOA beneficiaries, then the focus should be on specific items they export. Because African clothing exports are highly concentrated, it would be possible to shelter 70 percent of AGOA-eligible exports by exempting just

two dozen clothing items (at the detailed, 10-digit tariff line level) from LDC preferences for competitive exporters. That would provide benefits for more than half of Bangladeshi and Cambodian exports, both of which are above the 2 percent threshold in clothing, and would give other Asian LDCs an opportunity to access the U.S. market.

The United States could also improve the AGOA program. It could provide additional benefits to African LDCs by emulating the EU initiative and providing access for *all* products, including sensitive agricultural commodities. That would mean, for example, that Malawi, Mozambique, and Zambia would gain access for their currently excluded sugar, peanut, and tobacco exports. In addition, extending the AGOA program is important because it provides regional benefits for lower income countries that are not designated as LDCs. While the overall program is scheduled to expire in 2015, a key eligibility rule for clothing exports expires at the end of 2012 and. Extending both of those indefinitely, and as soon as possible to avoid uncertainty, should be part of any package providing improved trade preferences for LDCs.

Conclusions

With the Doha Round dead if not buried, the United States has no excuse for not acting on its rhetoric and providing improved market access for all of the world's least developed countries. It is true that Bangladesh and Cambodia are efficient producers, but the fact is that their clothing exporters have created hundreds of thousands jobs for poor, mostly female, workers. Moreover, they are still among the poorest countries in the world, as are Nepal and other Asian LDCs. A reasonable compromise is possible that expands trade benefits for poor countries, protects existing African exporters, and poses little or no threat to American workers. President Obama should ask Congress to act on it in 2012.

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2 Antoine Bouët, 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 206 (Washington: Center for Global Development, 2010).

3 Kimberly Elliott, "Reviving AGOA," CGD Brief (Washington: Center for Global Development, 2010).

4 Paul Collier, *The Bottom Billion: Why the Poorest Countries are Failing and What Can be Done About It* (New York: Oxford University Press, 2007).

5 For more details on the problem and potential solutions, see Kimberly Ann Elliott, "Breaking the Deadlock on Market Access for Least Developed Countries," prepared for the 2011 Trade and Development Symposium (Geneva: International Center for Trade and Sustainable Development, December 2011), available at www.ictsd.com/Docs/Symposium/Book_14_Elliott.pdf, last accessed January 4, 2012.