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Trade Policy for Development: Reforming U.S. Trade Preferences

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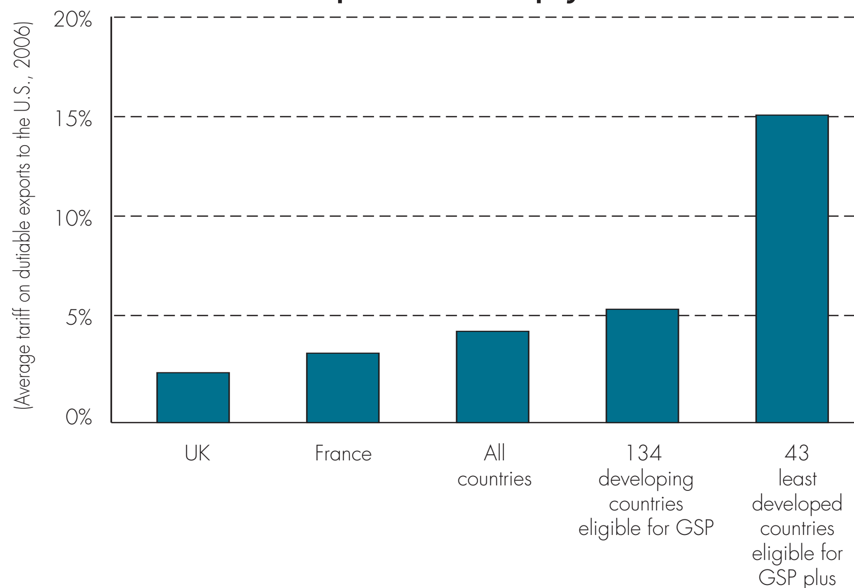
By any measure, the United States is one of the most open economies in the world. The Center for Global Development's Commitment to Development Index, which measures barriers against developing country exports, found in 2006 that the American market ranks just behind New Zealand as the most open on this score.[1]

Nevertheless, U.S. trade policy is regressive, with the highest tariffs hitting mainly a handful of the world's poorest countries (Figure 1). Not only is this unfair, it also undermines U.S. interests by hindering growth in the poorest countries, thereby making them more vulnerable to epidemic diseases, terrorists and transnational criminal organizations, all of which can have direct negative impacts on the United States.

The most important thing that the United States can do to address this problem—for itself and for the world's poorest people—is to redouble efforts to negotiate a Doha Round agreement that reduces tariffs on textiles, apparel and footwear, and liberalizes agriculture. But regardless of the outcome of those negotiations, the U.S. Congress ought to take the lead and reform programs that give preferential access to developing countries, especially the least-developed. Key elements of such a reform would include:

- 100% duty-free, quota-free market access for all least-developed countries
- Simplification of the current maze of programs with less onerous rules of origin
- Making the program permanent

Figure 1: Regressive U.S. trade policy means poor countries pay more



[1] http://www.cgdev.org/cdi.

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Current U.S. Trade Policy: The Poorest Pay More, Despite Preferences

Six decades of trade liberalization negotiations have resulted in zero tariffs on many U.S. imports, and in 2006, two-thirds of U.S. imports entered duty-free. In addition, trade preference programs, including the Generalized System of Preferences (GSP), allow developing countries to export many more products duty-free to the United States. The 43 countries designated by the United Nations as Least Developed Countries (LDCs) for their extreme economic vulnerability are also eligible for extra benefits under the Generalized System of Preferences, and most LDCs in sub-Saharan Africa receive additional benefits through another preferences program, the African Growth and Opportunity Act (AGOA), including for apparel. Haiti also has special access under new provisions passed last year, as do other Caribbean and Andean nations under their own regional programs.

Yet, as shown in Table 1, the Generalized System of Preferences provides limited benefits, and some poor nations pay much higher tariff rates than rich countries overall—an average 15 percent tariff on a quarter of their imports, compared to 2-5 percent for rich countries. Why is this happening? There are 16 LDCs that are not eligible for the more generous regional preference programs, mostly small island states that export little to the United States. But four very poor countries pay high average tariff rates on most of their exports. Two of these countries, Bangladesh and Cambodia, are responsible for virtually all of the duties paid by the LDC group (see Table 1). These countries pay as much in duties as the United Kingdom and France on less than a tenth as much in export value.[2] They are also extremely poor, with per capita incomes well under $500 per year and with 70 to 80 percent of their people living on less than $2 a day. Stunningly, the duties the United States collects dwarfs the $120 million in aid it gave these countries in 2006.

This happens because the U.S. tariff structure discriminates against products that the poorest countries can produce competitively: textiles, apparel and agriculture. Three-quarters of U.S. apparel imports are subject to duty, and the average tariff rate is 15 percent. Virtually all U.S. imports from Bangladesh, Cambodia and Laos are in apparel categories that are taxed at high rates. Even the more generous regional programs impose tight restrictions on sugar, dairy, tobacco and peanuts. The potential for U.S. trade preferences to help developing countries is further undermined because they have to be renewed every few years, which creates uncertainty, increases risk, and discourages investment. Preference programs also have restrictive rules of origin and are complicated and difficult to use.

Table 1 U.S. Imports and Duties Collected, By Source, 2006

	Total imports	Dutiable value of imports	Import duties collected	Dutiable imports as share of total	Duties as share of dutiable value
	(million US dollars)			(percent)	
From all countries	1,845,053	557,675	25,159	30.2	4.5
From GSP beneficiaries	310,494	95,999	5,315	30.9	5.5
From GSP-eligible LDCs[a]	23,203	5,683	872	24.5	15.3
From AGOA-eligible countries	56,010	793	16	1.4	2.0
Selected LDCs outside Africa[b]:					
Bangladesh	3,268	3,011	487	92.1	16.2
Cambodia	2,188	2,158	366	98.6	17.0
Nepal	99	56	8	56.2	14.3
Laos[c]	9	8	1	93.6	15.9
Apparel, all sources	79,058	58,711	8,899	74.3	15.2
Addendum:					
From United Kingdom	53,502	18,911	430	35.3	2.3
From France	36,837	11,186	367	30.4	3.3

GSP = Generalized System of Preferences
LDC = Least-developed country

a. 43 UN-designated LDCs are eligible for duty-free access for an additional 1400 products, beyond the 3400 products that receive duty-free treatment under normal GSP.

b. 16 of the 50 UN-designated LDCs are outside of Sub-Saharan Africa and therefore ineligible for AGOA benefits. Burma and the Maldives are ineligible for political reasons and Haiti has its own program providing GSP+ benefits; the other nine are very small and less dependent on apparel or other exports facing high tariffs.

c. Laos is not currently eligible for GSP but is included because it is similar to the others in relying heavily on apparel exports.

Sources: US International Trade Commission, Dataweb; World Bank, World Development Indicators.

[2] The comparison was highlighted previously by Ed Gresser in Progressive Policy Institute, Trade Fact of the Week, February 21, 2007 http://www.ppionline.org/ppi_ci.cfm?contentid=254199&knlgAreaID=108&subsecid=900003.

A Trade Policy for Development

The Generalized System of Preferences, as well as regional preference programs for Caribbean and Andean countries, expire in 2008, offering an opportunity for change. A meaningful reform would include three key elements:

- Providing duty-free, quota-free market access for all eligible LDCs
- Simplifying the various programs by bringing them together under a single umbrella with common eligibility conditions and less restrictive rules of origin
- Making the program permanent (though individual countries would continue to be graduated from it as they develop)[3]

There are two principal objections to undertaking these reforms. U.S. policymakers are concerned about the impact of preference reform on American producers. But, as shown in Table 1, dutiable imports from the LDCs that are eligible only for the Generalized System of Preferences account for less than 1 percent of total U.S. imports and less than 7 percent of apparel imports. Researchers at the International Food Policy Research Institute (IFPRI) estimate that extending duty-free, quota-free access to all LDCs might lower U.S. production of textiles, apparel and sugar, but by less than 1 percent.[4]

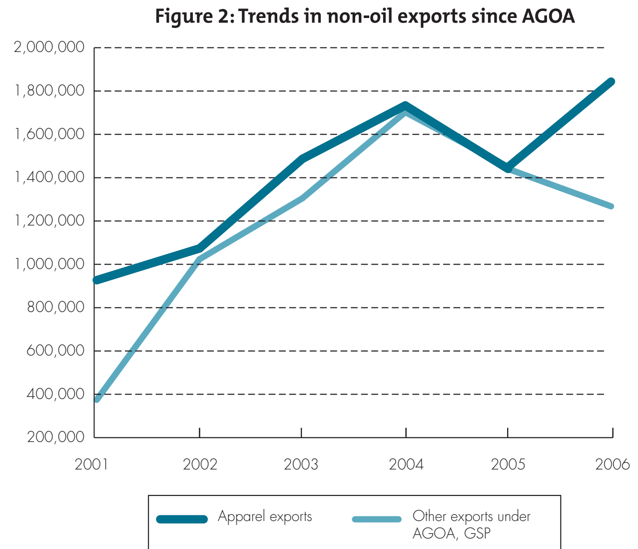
The second objection expressed by some is that the African countries that currently benefit from extensive trade preferences under AGOA would lose market share to the beneficiaries of an enhanced program. But this concern ignores two key weaknesses in the current AGOA program:

- The concentration of benefits in a few countries and products
- The failure to address the home-grown competitiveness problems that make African exporters vulnerable.

First, oil accounts for over 90 percent of exports under AGOA and Nigeria and Angola account for 90 percent of that. And, while apparel exports have also grown rapidly, albeit from a much lower base, just five countries—Lesotho, Madagascar, Kenya, Swaziland and Mauritius—account for nearly 90 percent of those exports. Comprehensive duty-free, quota-free market access for all LDCs, including those covered by AGOA, could help to address the current concentration of benefits by removing exclusions under the program that restrict exports of sugar, tobacco and other agricultural products (see Box 1). Indeed, IFPRI's research suggests that extending duty-free, quota-free access to all LDCs would have little effect on African exports overall and several African agricultural exporters would gain from the enhanced access of bumping their AGOA preferences up to 100 percent of products.

Second, African apparel exporters, the sector of greatest concern to those wary of enhancing access for all LDCs, face more fundamental challenges. In 2005, the Multi-Fiber Arrangement, which managed global textile and apparel trade through a maze of bilateral quota arrangements, expired, allowing emerging economies such as China and India to expand their exports far beyond their previously low quota limits.[5] African exporters are already feeling the effects of this change; figure 2 shows that gains after AGOA's passage in 2001 were partially reversed for apparel exports in 2005-06.

Figure 2: Trends in non-oil exports since AGOA



While the most recent data suggest that the apparel export decline may have bottomed out, African exporters, with U.S. assistance, need to address inadequate infrastructure, weak regional integration, and other core competitiveness concerns if they hope to hold on to any of their gains under AGOA. U.S. preferences reform could help by loosening onerous rules of origin and by providing the targeted capacity-building assistance promised in the original AGOA legislation but never delivered.

Conclusion: Trade Preferences That Work

U.S. trade policy is far less generous toward the poorest countries in the world than it might be. Africa, where two-thirds of the population lives in rural areas, faces severe restrictions on exports of key agricultural products. Bangladesh and Cambodia face tariffs that are five times as high as those faced by our richest trading partners. Preferences are also not contributing as much as they might to alleviating poverty and promoting U.S. foreign policy goals because they are not coordinated with aid and capacity-building that would ensure that beneficiary countries can take advantage of the trade opportunities created. Fixing the regressive elements in U.S. trade policy would demonstrate America's commitment to promoting growth and reducing poverty around the world, and would give the Doha Round of global trade negotiations a much-needed boost.

[3] CGD joined with several other organizations in submitting a comment to the U.S. Trade Representative in March that included a detailed analysis and proposals for reform, available at http://www.cgdev.org/doc/commentary/Market_Access.pdf.

[4] Valdete Berisha-Krasniqi, Antoine Bouet, Simon Mevel, Devesh Roy, and A. Sode, 2007, Africa's Participation in World Trade, IFPRI, forthcoming.

[5] See Debapriya Bhattacharya and Kimberly Elliott, Adjusting to the MFA Phase-Out: Policy Priorities, CGD Brief, April 2005, Washington.

Box 1: Duty-free, quota-free access would expand AGOA countries' access to sugar and other agricultural export markets

A U.S. reform expanding preferences to include full duty-free, quota-free access for all LDCs would build on AGOA and broaden its coverage to new products. This would also spread the benefit to countries whose exports are not covered under the program: Malawi, with many agricultural exports, pays an average tariff of nearly 13 percent on a fifth of its exports to the United States. While Malawi would particularly benefit from elimination of the 350 percent over-quota tariff on tobacco, it would also join Ethiopia, Mozambique and Zambia in gaining from duty-free, quota-free access for sugar.

Most African sugar currently goes to the European Union because of the high domestic price and will continue to do so, even after EU reforms, because of existing trade relationships and lower transportation costs. In addition, the EU's Everything But Arms program will provide duty-free, quota-free access to LDC sugar beginning in 2009. Nevertheless, having the option of increased market access in the U.S. market would provide more confidence to investors in the sugar sector and would be useful as a back-up market for African producers.[6] The IFPRI analysis suggests there could be significant gains from eliminating the remaining restrictions on agriculture, especially for Malawi, Mozambique, Uganda and Zambia.

[6] Some have expressed the view that this would deliver little gain to African exporters because duty-free, quota-free would allow countries to import sugar cheaply from Brazil and then export high-cost domestic production to the U.S. But recent U.S. bilateral trade agreements that permitted increased sugar exports required that the exporting country have a trade surplus in sugar in order to use the increased quota.

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