

# WebMemo



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## Congress Should Extend Developing Country Trade Preferences

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Two critical trade programs, the Generalized System of Preferences and the Andean Trade Preference Act, are set to expire at the end of 2006. In addition, new legislation that would grant trade preference benefits to Haiti and improve the existing Africa Growth and Opportunity Act are before Congress for consideration. These trade programs make important contributions to the economies of the countries that they favor and bring benefits to American businesses and consumers. Congress should fit the debate about these programs into the lame-duck schedule and work to approve extending trade preferences before the end of this year.

### **U.S. Trade Preferences**

Tariff and trade preferences granted under the Generalized System of Preferences (GSP), the Andean Trade Preference Act (ATPA), and the African Growth and Opportunity Act (AGOA) provide nonreciprocal market access to countries that are struggling to develop and reform their economies. Domestic subsidies and other barriers undermine the competitiveness of entrepreneurs and farmers in developing countries, preventing them from competing in world markets. U.S. trade preference programs give these countries' entrepreneurs improved access to the American market, promoting exports and fostering economic growth. These policies promote self-reliance and are therefore critical elements of any meaningful strategy to aid eligible developing countries.

The developing countries do benefit from these programs. In 2005, developing countries exported

roughly \$27 billion worth of goods through the GSP program.<sup>1</sup> Also in 2005, the four Andean countries of Bolivia, Colombia, Ecuador, and Peru were able to export \$11.5 billion worth of goods through the ATPA, roughly 57 percent of the value of their total exports to the U.S.<sup>2</sup> AGOA-eligible countries exported \$50.3 billion to the U.S. in 2005, with over 98 percent of the goods benefiting from duty-free access to the U.S. market.<sup>3</sup> Exports of oil, jewelry, equipment and parts, chemicals, wood, metals, and agriculture products help these countries develop their economies and reduce poverty.

Beyond simply lowering tariffs, AGOA also motivates governments to improve political and economic governance because sound policy in these areas is necessary for economic development and growth. For example, sub-Saharan African countries are not automatically eligible for AGOA benefits. Instead, the U.S. president grants eligibility based on countries' progress toward establishing market-based economies and representative government, strengthening the rule of law, combating corruption, eliminating barriers to U.S. trade and investment, protecting intellectual property, reducing poverty, expanding health care and educational opportunities, and adopting labor standards. By

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rewarding countries for good economic policy, AGOA strengthens the chance that trade preferences will have a real impact.

Moreover, these programs benefit the U.S. For example, a recent U.S. Chamber of Commerce report shows how GSP impacts the U.S. economy:

- GSP has become a meaningful factor in U.S. manufacturing competitiveness, providing American businesses with low-cost sources for raw materials and unfinished goods. Small U.S. firms have especially benefited from these low-cost inputs, becoming more competitive against larger companies.
- Roughly 25 percent of GSP imports are consumer goods. American households benefit from a wider variety of items to purchase at competitive prices, freeing income for additional consumption or savings.
- GSP imports supported nearly 82,500 U.S. jobs in 2005.<sup>4</sup>

Free trade or market access alone is no panacea for the all of the problems that developing countries face. However, freer trade in conjunction with sound economic policy does go a long way to bolster long-term development.

### Pending Legislation

Congress should consider four key trade proposals during its lame-duck session:

- **Generalized System of Preferences Extension:** This proposal would extend the GSP program—now set to expire at the end of 2006—for 2 years and tighten the rules that define country and product eligibility. Even the more advanced developing countries, such as India and Brazil, could suffer significant competitive disadvantages if these preferences were eliminated.

if these preferences were eliminated. This, in turn, could jeopardize the many laborers and farmers that are able to survive because of GSP. The existing GSP structure has been effective in evaluating countries' competitive need for preferential market access. GSP should be extended, and Congress should take care to ensure that any new rules promote, rather than inhibit, poverty-reducing market access.

- **Africa Growth and Opportunity Act:** Congress should modify AGOA to provide a new tax credit for investment in eligible African countries and extend the third-country fabric provision. The tax credit would offset current U.S. taxes on income from non-oil and -mining investments in AGOA countries and would promote further investment, promoting real development, poverty alleviation, and long-term growth. The fabric provision would allow AGOA countries to continue using fabric from outside the U.S. or Africa in apparel exported under the preference program. By allowing African firms to use the cheapest inputs, this provision boosts African firms' viability and supports jobs in a highly competitive sector.
- **The Haitian Hemispheric Opportunity Through Partnership Encouragement Act (HOPE Act):** This act, similar in design and intent to AGOA, would promote development in one of the world's most fragile economies by rewarding good policy with trade preferences. Like other U.S. preference programs, the Act imposes strict product eligibility requirements, especially with regard to textiles. Even so, the program would support the many workers who depend on the struggling Haitian industry for their livelihoods and promote opportunity in other sectors.

1. U.S. Chamber of Commerce, "Estimated Impacts of the U.S. Generalized System of Preferences to U.S. Industry and Consumers," October 2006.
2. U.S. International Trade Commission, "Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution, Twelfth Report 2005," Investigation No. 332-352, September 2006.
3. Office of the U.S. Trade Representative, "2006 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act," May 2006.
4. U.S. Chamber of Commerce, "Estimated Impacts of the U.S. Generalized System of Preferences to U.S. Industry and Consumers," October 2006.

- **Andean Trade Preference Act Extension:** The goal of ATPA is to promote development and long-term economic viability by providing sustainable alternatives to drug production. According to the latest assessment by the U.S. International Trade Commission, in 2005 the ATPA had a small and indirect effect on drug-crop eradication and crop substitution efforts. Net coca cultivation in the ATPA region remained at roughly its lowest level in two decades, and ATPA was an important source of job creation for many who might otherwise have grown illicit coca or entered the drug trade.<sup>5</sup> While free trade agreements (FTAs) with Peru and Colombia have been concluded, Congress will probably not approve them before APTA expires at the end of the year. Extending ATPA would bridge the gap until these FTAs can be enacted, help the people of these countries cope in a difficult economic environment, and advance FTA negotiations with Bolivia and Ecuador.

## Conclusion

Trade preferences are often criticized for providing special access to U.S. markets to the detriment of the U.S. economy and without promoting U.S. interests. In fact, preference programs play an integral role in supporting U.S. business and increasing America's living standards. Moreover, these programs play a real role in promoting development, encouraging economic reform, and alleviating poverty. Congress should move on the expiring trade preference programs before time runs out and consider new or expanded trade preferences such as an AGOA expansion and HOPE. Congress should not let the developing world and American consumers and businesses lose the benefits these programs currently provide.

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5. U.S. International Trade Commission, "Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution, Twelfth Report 2005," Investigation No. 332–352, September 2006.