

# WebMemo



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## Congress Should Renew Expiring Trade Preferences

*Daniella Markheim*

Unless Congress acts now, two important trade programs—the Generalized System of Preferences (GSP) and the Andean Trade Preference Act (ATPA)—will expire at the end of 2009. Because these trade programs make essential contributions to the economies of the countries that they favor while benefiting American businesses and consumers, the renewal process should be easy. However, due to growing pressure to both reform these programs and restrict certain nations' participation, the fate of these initiatives is uncertain.

The need to reform U.S. trade preferences is clear: The U.S. has a number of trade programs that could be consolidated, streamlined, made more transparent, and ultimately made less costly for all eligible developing countries to navigate. However, holding trade preferences up on the eve of their expiration over eligibility criteria impacting nations like India, Brazil, and Ecuador is counterproductive for all other beneficiary nations, as well as the U.S. Rather than eliminating these trade preferences in general, Congress should act now to reduce uncertainty over the life of the programs and take a measured approach to refining the system in 2010.

**The Benefits of U.S. Trade Preferences.** Tariff and trade preferences granted under the GSP, ATPA, and other programs provide nonreciprocal market access to countries that are struggling to develop and reform their economies.<sup>1</sup> 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, thereby promoting exports and fostering economic growth. These policies encourage self-reliance and are critical elements of any meaningful strategy to aid eligible developing countries.

And make no mistake: Developing countries do benefit from these programs. In 2008, developing countries exported roughly \$31 billion worth of goods through the GSP program.<sup>2</sup> Also in 2008, the four Andean countries of Bolivia, Colombia, Ecuador, and Peru were able to export \$28.5 billion in petroleum, agricultural goods, cut flowers, apparel, and other goods to the U.S. While approximately 90 percent of U.S. imports from ATPA countries enter the U.S. market duty-free under ATPA/ATPDEA, GSP, or normal trade relations tariff rates, in 2008 the bulk of the regions exports—60 percent—entered under ATPA/ATPDEA, demonstrating the program's impressive ability to boost trade.<sup>3</sup>

Beyond simply lowering tariffs, these programs also motivate governments to improve political and economic governance because sound policy in these areas is necessary for economic development and growth. For example, Andean countries are not automatically eligible for ATPA benefits—as demonstrated by the suspension of Bolivia's eli-

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This paper, in its entirety, can be found at:  
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gibility in December 2008 for lack of cooperation in counter-narcotics efforts.<sup>4</sup> Instead, the U.S. President grants eligibility based on each country's 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 rewarding countries for good economic policy, ATPA improves the chance that trade preferences will have a real impact.

Free trade or market access alone is no panacea for all of the problems that developing countries face. However, freer trade in conjunction with sound economic policy—as promoted by U.S. trade preference programs—goes a long way to bolster long-term development.

**What Congress Should Do.** These programs benefit the U.S. as well. Imports under the GSP boost U.S. manufacturing competitiveness and job creation and provide American businesses with low-cost sources for raw materials and unfinished goods. U.S. households also benefit from a wider

variety of items to purchase at competitive prices, freeing income for additional consumption or savings.<sup>5</sup> Moreover, the benefits extend well beyond economics—America's reputation abroad and bilateral relationships with beneficiary nations also get a boost.

Consequently, these programs need careful consideration before they are eliminated or modified. In this regard, Congress should:

- *Extend the GSP for One Year.* Extend the GSP program for one year to reduce business uncertainty for both foreign and U.S. companies. Even the more advanced developing countries, such as India and Brazil, could suffer significant competitive disadvantages if these preferences were eliminated.

The existing GSP structure has been effective in evaluating a country's competitive need for preferential market access. The GSP should be extended, and Congress should ensure that any new rules promote, rather than inhibit, poverty-reducing market access.

- *Extend ATPA for One Year.* Rather than failing to renew ATPA in protest of Ecuador receiving benefits, Congress should renew this preference arrangement and determine whether, per existing guidelines, Ecuador should still participate in the program.

Bolivia's ongoing suspension from ATPA benefits demonstrates that existing rules work to address concerns with beneficiary countries and

1. The ATPA is also referred to as the ATPA/ATPDEA. The Andean Trade Promotion and Drug Eradication Act (ATPDEA) renewed and expanded the ATPA, which had expired in 2001. ATPDEA provides Bolivia, Colombia, Ecuador, and Peru duty-free access to the U.S. market for any product not specifically excluded and as long as the President maintains each country's eligibility.
2. Office of the U.S. Trade Representative, "Obama Administration Completes 2008 Annual Review of the Generalized System of Preferences," June 2009, at <http://www.ustr.gov/about-us/press-office/press-releases/2009/june/obama-administration-completes-2008-annual-review-gen> (December 10, 2009).
3. U.S. Trade Representative, "Fourth Report to the Congress on the Operation of the Andean Trade Preference Act as Amended," April 30, 2009, at <http://www.ustr.gov/sites/default/files/USTR%202009%20ATPA%20Report%20Final.pdf> (December 11, 2009). Values are for ATPA/ATPDEA trade.
4. Press release, "To Provide for Duty-Free Treatment Under the Earned Import Allowance Program, and for Other Purposes," the White House, November 26, 2008, at <http://georgewbush-whitehouse.archives.gov/news/releases/2008/11/20081126-8.html> (December 10, 2009). Bolivia remains suspended from receiving of ATPA/ATPDEA benefits at this time.
5. U.S. Chamber of Commerce, "Estimated Impacts of the U.S. Generalized System of Preferences to U.S. Industry and Consumers," October 2006, at <http://www.uschamber.com/publications/reports/0610gsp.htm> (December 10, 2009).

should be applied with the same transparency to Ecuador.

- *Consolidate and Simplify U.S. Preference Programs.* Over the course of the one-year extension for GSP and ATPA, Congress should move forward with substantial reform of the entire U.S. preference system. Such reform should make the system easier and less expensive to use. In turn, reform will allow these programs' benefits to transmit more effectively.

Often, the poorest countries find it difficult to manage the complex eligibility criteria, differing rules of origin, and bureaucracy associated with administering the preference programs. The U.S. would achieve a more effective pro-development agenda—and reap the benefits of freer trade with the developing world—if the system were streamlined and more transparent.

**Time Is Running Out.** Preference programs play an integral role in supporting U.S. business and increasing America's standard of living. Moreover, these programs are critical for promoting development, encouraging economic reform, and alleviating poverty.

Congress should renew the expiring trade preference programs before time runs out and consider improving the system through 2010. Congress should not let the developing world and American consumers and businesses lose the benefits these programs currently provide.

—Daniella Markheim is Jay Van Andel Senior Trade Policy Analyst in the Center for International Trade and Economics at The Heritage Foundation and a contributor to *ConUNdrum: The Limits of the United Nations and the Search for Alternatives* (Rowman & Littlefield Publishers, 2009).