



**U.S. Trade Preference Programs: How well do they work?
Written Testimony by Katrin Kuhlmann
Senior Vice President, Global Trade Program
Women's Edge Coalition
Before the U.S. Senate Finance Committee**

May 16, 2007

Good Morning Chairman Baucus, Ranking Member Grassley and honorable members of the Senate Finance Committee. Thank you for the invitation to participate in today's hearing on U.S. trade preference programs. My name is Katrin Kuhlmann. I am the Senior Vice President for Global Trade at the Women's Edge Coalition. Prior to assuming this position, I worked for six years as the Director for Eastern Europe and Eurasia at the Office of the U.S. Trade Representative (USTR) and as a trade attorney in private practice. It is a particular honor to testify before this Committee, which has been instrumental in creating and preserving the preference programs.

As the leading nonpartisan organization shaping U.S. policy to benefit poor women worldwide, the Women's Edge Coalition is in a unique position to comment on how U.S. trade preference programs have helped impoverished women in the developing world and, more importantly, to analyze what can be done to improve these programs so that the poorest and most vulnerable populations may take full advantage of them. Women constitute the majority of those living in poverty in the developing world, and jobs for women translate into support for entire families. Decades of research and experience have shown that women reinvest their income in better health, education and nutrition for their families. A job for one woman actually supports an entire household.¹ For example, it is estimated that one woman's job in the apparel sector supports up to 15 people.

Trade holds enormous potential to create economic opportunities for impoverished men and women, and preference programs are a shining example of this principle in practice. In my travels working for USTR and the Women's Edge Coalition, I have gone to developing countries and seen firsthand the results of America's worthy efforts to spur development in places of desperate need. I have met a craftswoman in Tajikistan with beautiful wares but no market to sell them in and factory workers in Sri Lanka fearful that low cost production in China will send them back to gripping poverty. For these women, secure access to the U.S. market can literally mean the difference between surviving and starving.

I would like to highlight how trade preference programs have helped women, and developing countries more broadly, around the world, touch upon two points of immediate concern, and outline four areas in which we believe legislative modifications can make these valuable programs even more effective.

¹ Progressive Policy Institute, Trade Fact of the Week, February 21, 2007, available at http://www.ppionline.org/ppi_ci.cfm?contentid=254199&knlgAreaID=108&subsecid=900003, accessed on March 14, 2007.

U.S. Trade Preference Programs Benefit Poor Women Worldwide

Increased Trade Contributes to Economic Growth

Research shows that increased trade contributes to economic growth in a number of ways. First, international trade gives developing countries access to larger and wealthier markets. Demand for developing country goods, in turn, creates new, much-needed opportunities for employment. Increased trade also stimulates investment, which has a strong positive effect on growth and contributes to increased productivity.²

Trade is essential to the development of lesser-developed economies around the world, and preferential market access, as embodied in U.S. preference programs, is critical to actually increasing trade. Equally important, the preference programs established by Congress promote economic and legal reforms in countries around the world, to the benefit of stakeholders in the United States and abroad. The 1974 GSP legislation was a landmark in U.S. trade policy with its focus on helping poorer countries take advantage of the development benefits trade can offer.³ Since then, other region-specific unilateral preference programs, including the African Growth and Opportunity Act (AGOA), the Caribbean Basin Initiative/Caribbean Basin Trade Partnership Act (CBI/CBTPA) program, and the Andean Trade Promotion and Drug Eradication Act (ATPDEA), have expanded on GSP's goal of promoting economic growth, poverty alleviation, and reform in poorer countries through increased trade.

Overall, evidence shows that preference programs are achieving the intended result of promoting development. One study of U.S. preference programs shows that GSP beneficiary countries increased exports of products eligible for GSP treatment by about 8 percent annually.⁴ The current GSP program helps support jobs in manufacturing of electrical equipment, plastics, wood products, and jewelry in Indonesia (income per capita \$1280); plastics and ceramics in Bangladesh (per capita income \$470); rubber, plastics and ceramics in Sri Lanka (per capita income \$1160); and electrical equipment in Afghanistan.⁵ An analysis of U.S. preferences extended to countries in Central America under the Caribbean Basin Economic Recovery Act (CBERA) reveals several positive impacts. First, increased access to the U.S. market has had a significant positive impact on investment in Central America, which, in turn, has contributed to income growth in the region.⁶ Second, preferences have played an important role in promoting export diversification.⁷

² See Judith M. Dean, "Do Preferential Trade Agreements Promote Growth: An Evaluation of the Caribbean Basin Economic Recovery Act," USITC Office of Economics Working Paper, No. 2002-07-A (Washington, DC: USITC, July 2002).

³ For a brief history of the Generalized System of Preferences (GSP), see Assessment of the Generalized System of Preferences, General Accounting Office, Report 95-9 (November 1994), Chapter 1.

⁴ See Samuel Laird and Andre Sapir, "Tariff Preferences," in *The Uruguay Round: A Handbook on Multilateral Trade Negotiations*, eds. Michael J. Finger and Andrzej Olechowski (Washington, DC: World Bank, 1987), cited in William H. Cooper, *Generalized System of Preferences*, CRS Report for Congress, (March 30, 2006).

⁵ See USITC Tariff and Trade Dataweb; World Bank World Development Indicators, 2005.

⁶ Dean, *supra note 2*, at 19.

⁷ See *id.*, at 5.

Women's Jobs Depend Upon Global Trade

Throughout the developing world, women face the greatest challenges to participating in global trade. Women are among the most impoverished, most vulnerable economic participants, precisely those whom the preference programs should help most. In certain sectors, including many types of manufacturing and agricultural production, women do the bulk of the world's work. The current system of preference programs has led to job creation for impoverished women in sectors such as apparel in Africa, jewelry production in Asia, and agricultural production in the Andean, African, and Asian countries.

The development of the apparel sector in certain countries in sub-Saharan Africa, such as Lesotho where women comprise 75 percent of the apparel workforce, illustrates the potential for preference programs to create economic opportunities. AGOA has generated thousands of apparel jobs in sub-Saharan Africa — 45,000 in Swaziland, 26,000 in Lesotho, and 30,000 in Kenya — and 75 percent to 90 percent of these jobs have gone to impoverished women who had few other economic opportunities.⁸

Jewelry production has also led to economic development and job creation in countries such as India, Indonesia, Thailand, and Turkey. In India, for example, industry experts estimate that the export-oriented jewelry making industry has created 325,000 jobs since GSP benefits were extended in 2001. About 90 percent of the industry's employees come from the lowest income groups in India, and at least twenty percent of these workers are women. The export-oriented jewelry industry also helps support an estimated 600,000 related workers involved in gem cutting and finishing. While the gem cutting industry existed prior to the development of the export-oriented jewelry industry (and, in fact, was one of the reasons the new industry could be so quickly established), the gem industry has flourished and expanded as the new jewelry-making industry has taken root. The Indian jewelry sector has raised the standard of living for workers and their families, with guaranteed salaries, sustained employment, access to loans and insurance, and improvements in healthcare and education.

Thailand's most important export market is the United States, including for gems and jewelry, and exports of these products have helped relieve poverty and unemployment. According to industry experts, the Thai gem and jewelry industry, made up of mostly small and medium-sized businesses, generates more than \$3 billion annually and employs an estimated one million workers, many of whom come from the rural poor that make up over half of the country's 65 million population. As in India, a number of these workers are women struggling to lift themselves out of poverty.

U.S. Trade Preference Programs Promote Legal Reform

Notably, all U.S. preference programs include eligibility criteria aimed at promoting legal reforms in beneficiary countries. In many cases, these programs have provided an impetus for domestic reform and improvements in the rule of law. The mandatory and discretionary criteria in the preference program statutes, particularly the requirements that workers' rights be protected, have served as important leverage to bring about legal reform in beneficiary countries.

⁸ UN Integrated Regional Information Network

The threat of losing benefits under one of the preference programs has often prompted countries to implement critical legal reforms, such as improvements to commercial laws or labor reform. Legal reforms are in the interest of both beneficiary countries and the United States. These are essential components of the preference programs that ensure that the benefits derived from reduced tariffs are spread beyond the normal distribution patterns and also reach the poorest members of society.

Importantly, U.S. preference programs have further helped promote the interests of women in developing countries through required labor criteria. While not comprehensive enough, these have encouraged governments to improve labor standards to the benefit of some of the poorest economic participants in these countries. Other eligibility criteria regarding protection of intellectual property, investor's rights, and affording equitable access to U.S. goods and services have also provided leverage in achieving positive change in beneficiary countries.

U.S. Trade Preference Programs Promote U.S. Business Interests

In addition to protections afforded under the eligibility criteria, trade preference programs also lower costs for many small and large U.S. importers and retailers. For example, GSP, which is estimated to have saved U.S. businesses \$923 million in 2005,⁹ has been the key to the success of a number of smaller companies that import fertilizers and herbicides for farmers and households; it is also key to the sourcing strategies for a number of nationwide U.S. retailers of household wares. Enhanced market access for developing countries would only increase these gains.

Immediate Challenges to the Current System of Trade Preference Programs

We are encouraged by the passage of the miscellaneous trade bill (H.R. 6406) in December 2006 and respectfully urge Congress to maintain existing U.S. trade preference programs. Allowing programs to expire would hurt the world's poorest and would deprive developing countries of opportunities to become competitive in industries necessary for economic development. ATPDEA, which is set to expire at the end of June 2007, has created many of the same benefits for poor women as AGOA and GSP have. In Colombia, ATPDEA renewal and expansion has promoted key exports for apparel, non-traditional agriculture and ceramic products.¹⁰ Importantly, Colombia's textiles and apparel sector, which accounts for 21 percent of that country's manufacturing jobs and 9 percent of manufacturing output, is showing a strong recovery helped by exports to the United States.¹¹ If ATPDEA is not renewed, women's jobs in these industries will be at risk.

In addition, India and Thailand, along with the Philippines and Brazil, are in danger of losing benefits under GSP for products like jewelry where, as discussed above, export-led growth has generated just the kind of positive impact GSP was created to achieve. Because exports of these products exceeded a certain dollar threshold for 2006 (\$187.5 million), the competitive need

⁹ The Trade Partnership, LLC. "The U.S. Generalized System of Preferences: An Update." March 2006, available at http://www.tradepartnership.com/pdf_files/2006_GSP_update.pdf.

¹⁰ See <http://www.colombiaemb.org/opencms/opencms/trade/atpa.html>.

¹¹ *Id.*

limit (CNL) waivers that allow these countries to continue to export free of duties may be terminated at the end of June, putting hundreds of thousands of jobs in these countries in jeopardy. Many in these countries remain very poor, without other economic opportunities to take their place if these jobs are lost. Maintaining these waivers is critical to the livelihoods of several million people and their families.

Contrary to popular perceptions of how CNLs function, terminating these waivers would not open up job possibilities for other, lesser developed countries. The type of jewelry produced by India and Thailand is not produced in the United States but is currently produced in China, Italy, Hong Kong, Turkey, Mexico, the Dominican Republic, France and Canada. Leading U.S. importers of this type of jewelry have indicated that if India or Thailand were to lose GSP benefits, sourcing would move to China because only it has the immediate capacity to meet demand at a highly competitive price. Sourcing from another GSP beneficiary would be unrealistic due to lack of capacity and the uncertainty of training a new workforce.

Elements of the Current System of U.S. Trade Preference Programs That Have Limited Potential for the World's Poorest Countries

Notwithstanding the positive impact of existing preference programs, they can and should be improved. While poverty reduction through increased trade is the primary goal of all of the U.S. preference programs, the programs do not fully achieve this aim because some very poor countries do not receive preferences for the products in which they have export potential. This is true of all countries covered by regional preference programs, including sub-Saharan Africa which receives the most comprehensive benefits under AGOA, and is especially true for the 15 least developed countries (LDCs) like Bangladesh and Cambodia that are eligible only for GSP and not for one of the regional preference programs. Despite AGOA's successes, sub-Saharan Africa continues to have poverty levels that warrant further special attention to ensure that sustainable development occurs. In addition, all programs are temporary in duration and include different and onerous rules and eligibility requirements that make it difficult for small and large producers to navigate successfully. Finally, many countries simply lack the technical capacity to take advantage of potential benefits.

Limitations on product coverage are a major factor affecting the ability of the preference programs to create opportunities for those living in poverty. Preference coverage for developing countries that are eligible only for GSP and not under one of the regional preference programs is, on average, only about 44 percent.¹² Nearly half of the countries eligible for GSP only have less than one third of their exports covered.¹³ Of the 15 LDCs eligible only under the GSP program, half have coverage rates near or below 25 percent,¹⁴ even though the GSP-plus LDC program offers greater product coverage than the regular GSP program.

¹² Judith M. Dean and John Wainio, "Quantifying the Value of US Tariff Preferences," (January 2006), revision of a paper presented at Preference Erosion: Impacts and Policy Responses, WTO International Symposium, Geneva, June 12-14, 2005, at 10.

¹³ *Id.*

¹⁴ Dean, *supra note* 12, at 10.

Exclusions under GSP and the other preference programs primarily result from statutory mandates. Textiles, apparel and certain agricultural products — key products for many low-income and least developed countries — are largely excluded from the system of preference programs or face restrictive rules of origin or quotas when eligible for duty-free coverage. Although AGOA, unlike the GSP program, provides duty-free access for eligible clothing exports, particularly from LDCs eligible to use the third country fabric rule that permits sourcing from countries other than the United States and African countries, agricultural exports subject to tariff-rate quotas, including sugar and peanuts, remain restricted and some labor-intensive products, including some textiles, footwear, and luggage, as well as a few other products, remain excluded. Paradoxically, the products excluded by statute include many products no longer produced in the United States, such as watches, certain glass products, and many types of footwear.¹⁵ Many of the sectors that are excluded from the preference programs are those that tend to be dominated by vulnerable populations, including women and low-skilled workers, precisely the people preference programs should be designed to help.

These exclusions can have absurd results. One calculation shows that Bangladesh pays more in import duties (nearly \$500 million) on its \$3.3 billion in exports to the United States, than does the United Kingdom (\$430 million) on its \$54 billion in exports.¹⁶ These duties add up to an amount that is higher than the total U.S. bilateral aid to Bangladesh. Cambodia pays as much (\$367 million) on \$2 billion in exports, as does France on \$37 billion in exports.¹⁷ These countries are extremely poor, with per capita incomes of less than \$500, making these disproportionate tariff burdens impossible to justify.

For both Bangladesh and Cambodia, textiles and apparel are the bulk of trade with the United States, totaling 89 percent and 98 percent of exports, respectively¹⁸. The global apparel sector has become even more volatile following the demise of the global quota system under the Multi-Fiber Arrangement (MFA), and the smaller, least developed countries like Bangladesh and Cambodia that produce apparel are under constant threat of losing their business to larger developing countries like China that have better infrastructure and more integrated supply chains. Women in these countries are particularly vulnerable to economic swings and very dependent on trade, as they comprise approximately 90 percent of the global apparel workforce.

Beyond product exclusions, several other aspects of the preference programs impede their effectiveness in promoting trade with and development in less-industrialized developing countries. Short extensions and frequent expirations under preference programs create disincentives for long-term investment. Over the last 12 years, GSP has been allowed to lapse periodically and has usually been renewed for periods of less than one year. This has greatly undermined the effectiveness of the program in promoting trade and investment in marginal, developing countries. Simply put, investors and importing firms attracted by the opportunity of preferences will not invest in or source from countries if the status of the preferences is in doubt.

¹⁵ United States Trade Representative, The U.S. System of Generalized Preferences (GSP), available at http://www.ustr.gov/Trade_Development/Preference_Programs/GSP/Section_Index.html, accessed on May 2, 2007.

¹⁶ Progressive Policy Institute, *supra note* 1.

¹⁷ *Id.*

¹⁸ See <http://tse.export.gov>

In contrast, where preferences are stable, trade and investment have flourished. For example, U.S. preferences for the Caribbean and Central American countries, which are permanent and have been in effect continuously since 1984, have had a significant impact on investment.¹⁹

In addition, as the cases of jewelry from India and Thailand illustrate, countries that enjoy export success to the United States quickly risk losing all benefits created by GSP due to the program's competitive needs limit (CNL). The CNL was put into place to help less competitive GSP beneficiaries — once a country reached the CNL, it was assumed to be a competitive exporter, and revoking benefits was assumed to provide less competitive beneficiaries with the opportunity to export. Unfortunately, the CNL has not had that effect. Data show that enforcement of the CNL causes imports to drop by 10 percent to 17 percent, with no shift of trade in favor of less developed producers.²⁰ Moreover, the CNL has an unintended effect of chilling investment due to fear of exceeding the CNL as soon as an investment succeeds.

Proposed Changes to Broaden the Benefits of U.S. Trade Preference Programs

We reiterate our strong support for the objective of promoting international economic development through trade. The current preference programs have promoted economic development and growth in low-income and least developed countries, and these programs and their benefits should be preserved. More could be done, however, to meet the challenges described above and ensure that these initiatives reduce poverty to the greatest extent possible. We, therefore, believe that a more generous, comprehensive, and certain U.S. trade preference program would increase opportunities for developing countries.

In order to achieve the objective of broadening the use of preference programs, we propose that future legislation should include the following elements: (1) grant 100 percent access to the U.S. market (duty-free quota-free) for all sub-Saharan African countries currently covered by AGOA, LDCs and low-income countries vulnerable to natural disaster and other shocks; (2) address Africa's unique needs through special benefits for sub-Saharan Africa ("AGOA Plus"); (3) consolidate current U.S. trade preference programs into one simple, permanent program with one set of comprehensive eligibility criteria and rules; and (4) provide for integrated and targeted trade capacity building assistance.

Provide 100 Percent Duty-Free, Quota-Free Access for the Poorest Countries

For the poorest countries, complete preferential market access would produce the greatest gains at very little cost. Comprehensive (i.e. 100 percent) access to the U.S. market, free of both duties and quotas ("duty-free quota-free"), would be of great significance, both in the context of ongoing World Trade Organization (WTO) Doha Development Round talks and as an improvement to the current system of U.S. preference programs. Careful research by the International Food Policy Research Institute (IFPRI) shows that if the United States were to extend 100 percent duty-free quota-free market access to LDCs, significant gains in export volume and real income would result for several countries, including

¹⁹ Dean, *supra note 2*, at 5.

²⁰ James Devault, "Competitive Need Limits and the U.S. GSP," *Contemporary Economic Policy* (Huntington Beach: Oct 1996), Vol.14, Iss. 4.

Bangladesh, Madagascar and Malawi.²¹ IFPRI's study also shows that 100 percent duty-free quota-free treatment for all LDCs would overall result in *increased*, not reduced, export volume and real income gains for sub-Saharan African LDCs and would have almost no negative impact on U.S. producers of sensitive products, with some U.S. producers, such as cotton producers, showing gains through this increased access for LDCs.²²

Further, IFPRI has found that if duty-free quota-free preferential market access moves forward multilaterally, and if all OECD countries were to implement a Doha package that included 100 percent duty-free quota-free access (instead of 97 percent), real income gains for all countries could increase by as much as 26 percent, with over half of these supplemental gains, or a seven-fold increase in real income, experienced by LDCs.²³ Realizing these gains, however, depends upon multilateral leadership and a clear commitment to implement 100 percent duty-free quota-free market access for the poorest countries in the world.

WTO discussions of duty-free quota-free have focused on LDCs, yet non-LDC sub-Saharan African countries and other impoverished countries such as Sri Lanka that are only marginally better off and remain vulnerable to economic shocks or natural disasters also remain in dire need of the economic development that preferential market access can generate. Accordingly, duty-free quota-free treatment should apply not only to all LDCs, but to vulnerable countries and all of AGOA-eligible sub-Saharan Africa as well.

Africa

Africa continues to warrant special attention. Women, in particular, continue to suffer from ongoing conflicts and the AIDS pandemic, with 12.2 million women infected in sub-Saharan Africa. Barriers in accessing other markets and supply-side constraints are particularly pronounced in Africa, limiting economic opportunities for women. Given the particular situation facing sub-Saharan Africa, additional market access should be created for sub-Saharan Africa in order to build on the successes of AGOA to create lasting, sustainable change in the African economy.

Under special provisions for sub-Saharan Africa ("AGOA-PLUS"), AGOA countries should receive market access free of quotas and duties for all products and additional benefits beyond those available to other LDCs and vulnerable countries, including a special rule of origin with a lower value-added threshold. Apparel-producing AGOA LDCs should be allowed to continue to use the existing third country fabric rule. AGOA Plus also should include a base amount of targeted aid for trade funding for eligible sub-Saharan African countries, with a special emphasis on trade-related infrastructure deficiencies. U.S. trade and development agencies should be required to implement procedures to ensure that their activities have a positive effect on industry, growth and employment in sub-Saharan African beneficiary countries.

²¹ Saswati Bora, Antoine Bouët and Devesh Roy, International Food Policy Research Institute, *Research Brief: Marginalization of Africa in World Trade* (May 2007).

²² *Id.*

²³ *Id.*

Consolidate U.S. Trade Preference Programs Into One Permanent Program With One Set of Clearly Defined Eligibility Criteria

Current U.S. preference programs — GSP and regional programs targeted at the Caribbean and Central American countries (CBI/CBTPA), Andean countries (ATPDEA), and African countries (AGOA) — are a confusing, inefficient jumble of terms and rules. These programs are difficult for both beneficiary countries and American businesses to navigate on an individual basis, and are increasingly cumbersome as businesses operating internationally seek to invest in and source from multiple countries and regions. AGOA, for example, has successfully led to the creation of desperately-needed jobs, many of which went to impoverished women, through a permissive rule of origin on which many of the AGOA apparel exporters rely (the third country fabric rule). These jobs, however, were threatened when the third country fabric rule was nearing expiration. As industries like the African apparel industry struggle to grow, permissive rules of origin, permanence and certainty will be essential if much-needed investment is to be attracted.

Further, the success of the preference programs in creating opportunities for the poor is undermined by the temporary nature of the programs, inconsistent criteria for termination of benefits, and inconsistent and restrictive rules of origin. Such difficulties impair the ability of beneficiary countries to promote long-term investment. One set of comprehensive, clearly defined eligibility criteria, with comprehensive protections for workers including protection against discrimination in the workplace, would help ensure that the benefits of the preference programs reach all members of society and that the jobs created under these programs are good jobs.

Provide Targeted Trade Capacity Building Assistance

Lastly, due to trade capacity constraints in poor countries, many developing countries, and the poorest within those countries, cannot take advantage of the opportunities created by U.S. preference programs. To date, U.S. preference programs have not adequately tied specific trade capacity building to the types of market access opportunities provided. This directly undermines the utility of the preferences. LDCs and countries with special circumstances or needs, therefore, should receive targeted capacity building in order to help these countries fully realize the benefits the preference programs provide. Training programs to develop management skills and technical expertise and workshops and other tools to navigate the complex rules and regulations of international trade and the preference programs should be developed so that impoverished women and men can benefit from market access opportunities. Further investment in human capacity development is also needed, and, along with comprehensive labor standards in preference programs, could greatly contribute to improvements in quality of life for workers around the world. Trade capacity building assistance would also help implement improvements to customs and trade facilitation, technical standards and sanitary and phytosanitary standards (SPS), all of which are necessary for economic growth. Improving trade-related infrastructure, including access to financial services and telecommunications, and hard infrastructure, including roads, in a manner consistent with addressing the different needs of women and the rural poor would enable many to access larger markets and a greater range of economic opportunities.

Conclusion

In closing, I thank the Committee again for the opportunity to present this testimony on such an important issue. The situation of women around the world highlights the potential of trade preference programs and provides an illustrative case study for reforming and improving these programs as well. U.S. preference programs have helped create millions of jobs, both directly and in related industries and services, promoted rule of law, and fostered a more skilled and better protected workforce. These positive results would be made even more significant through the establishment of a more generous, comprehensive, and certain system of U.S. trade preferences that enabled developing countries to benefit as much as possible from global trade. Implementing such a program could provide potential life-changing benefits for the world's poorest, including impoverished women in the developing world. Ultimately, it is in the interest of global stability and economic development to ensure that the benefits of trade and globalization are spread more equitably throughout the world.