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Testimony  
Before the Committee on Finance,  
United States Senate

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# INTERNATIONAL TRADE

## The United States Needs an Integrated Approach to Trade Preference Programs

Statement of Loren Yager  
Director, International Affairs and Trade





Highlights of [GAO-08-907T](#), a testimony before the Committee on Finance, U.S. Senate

### Why GAO Did This Study

U.S. trade preference programs promote economic development in poorer nations by providing duty-free export opportunities in the United States. The Generalized System of Preferences, Caribbean Basin Initiative, Andean Trade Preference Act, and African Growth and Opportunity Act unilaterally reduce U.S. tariffs for many products from over 130 countries. However, two of these programs expire partially or in full this year, and Congress is exploring options as it considers renewal.

This testimony describes the growth in preference program imports since 1992, identifies policy trade-offs concerning these programs, and evaluates the overall U.S. approach to preference programs. The testimony is based on two recent studies on trade preference programs, issued in September 2007 and March 2008. For those studies, GAO analyzed trade data, reviewed trade literature and program documents, interviewed U.S. officials, and did fieldwork in six trade preference beneficiary countries.

### What GAO Recommends

In the March 2008 report, GAO made a number of recommendations to the U.S. Trade Representative, including to review beneficiary countries that have not been considered under the regional programs, and periodically consider preference programs jointly. In response, USTR indicated that it would undertake an interagency review of the programs and consolidate discussion of them in its annual report.

To view the full product, including the scope and methodology, click on [GAO-08-907T](#). For more information, contact Loren Yager at (202) 512-4347 or [yagerl@gao.gov](mailto:yagerl@gao.gov).

## INTERNATIONAL TRADE

### The United States Needs an Integrated Approach to Trade Preference Programs

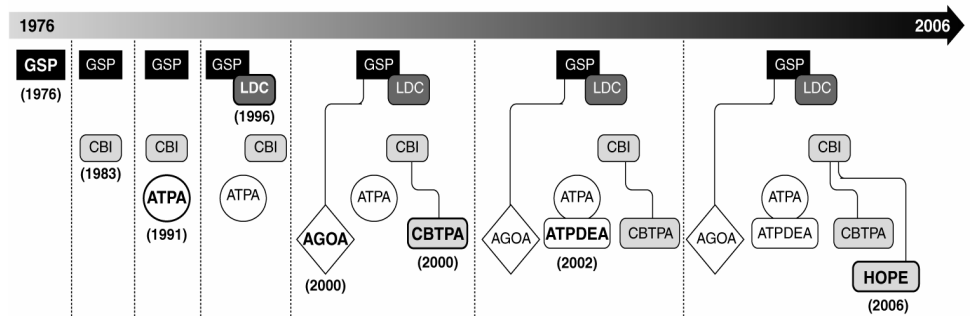
#### What GAO Found

Total U.S. preference imports grew from \$20 billion in 1992 to \$92 billion in 2006, with most of this growth taking place since 2000. The increases from preference program countries reflect legislation passed by Congress in 1996 and 2000 that enhanced preference programs and added new eligible products.

Preference programs give rise to three critical policy trade-offs. First, preferences entail a trade-off to the extent opportunities for beneficiary countries to export products duty free must be balanced against U.S. industry interests. Some products of importance to developing countries, notably agriculture and apparel, are ineligible by statute as a result. Secondly, certain developing countries have been given additional preferential benefits for such import-sensitive products under regional programs. But some of the poorest countries, outside targeted regions, do not qualify. Third, Congress faces a trade-off between longer program renewals, which may encourage investment and undermine support for the likely greater economic benefits of broader trade liberalization, a key U.S. goal, and shorter renewals, which may provide opportunities to leverage the programs to meet evolving priorities.

Trade preference programs have proliferated over time, becoming more complex (as shown below), but neither Congress nor the administration formally considers them as a whole. Responsive to their legal mandates, the Office of the U.S. Trade Representative (USTR) and other agencies use different approaches to monitor compliance with program criteria, resulting in disconnected review processes and gaps in addressing some countries and issues. Disparate reporting makes it difficult to determine progress on programs' contribution to economic development in beneficiary countries.

Growth of Trade Programs over Time



- AGOA African Growth and Opportunity Act
- ATPA Andean Trade Preference Act
- ATPDEA Andean Trade Promotion and Drug Eradication Act
- CBI Caribbean Basin Initiative
- CBTPA Caribbean Basin Trade Partnership Act
- GSP Generalized System of Preferences
- HOPE Haitian Hemispheric Opportunity through Partnership Encouragement Act
- LDC Expanded GSP for Least-developed Country

Source: GAO analysis of official U.S. trade statistics.



United States Government Accountability Office  
Washington, DC 20548

Mr. Chairman and Members of the Committee:

I am pleased to be here today to discuss our work on U.S. trade preference programs. Since the committee's hearing last year on this subject, GAO has completed two in-depth studies of U.S. preference programs for the Finance Committee and the Committee on Ways and Means.<sup>1</sup> Our findings suggest that these programs do provide benefits to recipient nations, but it is more challenging to determine programs' contribution to economic development in those nations. Our findings in those studies also support the need to consider whether a more integrated approach would better ensure programs meet shared goals.

This hearing is particularly timely, as a number of the preference programs were or are still scheduled for expiration during the current calendar year. We believe that this provides an opportunity for Congress and the administration to review the progress and performance of these programs as a group and begin to address some of the difficult questions that you posed in the last hearing. In order to contribute to that discussion, I will address three topics today. First, I will describe preference import trends. Second, I will outline key policy trade-offs between various domestic and foreign interests that are inevitable in the design of preference programs. Finally, I will summarize our recent findings and recommendations regarding the importance of considering the preference programs as a group.

My remarks are based on the two studies of the preference programs that we have published in the last year. In conducting the work for Congress, we consulted with the Office of the U.S. Trade Representative (USTR) and other executive agencies involved in implementing the programs, as well as representatives from trade and development organizations who have expertise and interest in the programs. In addition, we met with government representatives from a number of the beneficiary nations, including some of the larger beneficiaries such as Brazil, as well as poorer nations such as Haiti and Ghana. We conducted this performance audit

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<sup>1</sup>GAO, *International Trade: U.S. Trade Preference Programs Provide Important Benefits, but a More Integrated Approach Would Better Ensure Programs Meet Shared Goals*, [GAO-08-443](#) (Washington, D.C.: Mar. 7, 2008), and GAO, *International Trade: An Overview of Use of U.S. Trade Preference Programs by Beneficiaries and U.S. Administrative Reviews*, [GAO-07-1209](#) (Washington, D.C.: Sept. 27, 2007).

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from March 2007 to February 2008 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

In an effort to promote and achieve various U.S. foreign policy objectives, trade preference programs have expanded in number and scope over the past 3 decades. The purpose of these programs is to foster economic development through increased trade with qualified beneficiary countries while not harming U.S. domestic producers. Trade preference programs extend unilateral tariff reductions to over 130 developing countries. Currently, the United States offers the Generalized System of Preferences (GSP)<sup>2</sup> and three regional programs, the Caribbean Basin Initiative (CBI),<sup>3</sup> the Andean Trade Preference Act (ATPA),<sup>4</sup> and the African Growth and Opportunity Act (AGOA). Special preferences for Haiti became part of CBI with enactment of the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act in December 2006. The regional programs cover additional products but have more extensive criteria for participation than the GSP program. Eight agencies have key roles in administering U.S. trade preference programs. Led by USTR, they include the Departments of Agriculture, Commerce, Homeland Security, Labor, State, and Treasury, as well as the U.S. International Trade Commission (ITC).

GSP—the longest standing U.S. preference program—expires December 31, 2008, as do ATPA benefits. At the same time, legislative proposals to provide additional, targeted benefits for the poorest countries are pending. U.S. trade preference programs are widely used, but some economists and others have raised questions about them. Their concerns include the potential for diversion of trade from other countries that these programs can cause; the complexity, scope of coverage, duration, and conditionality

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<sup>2</sup>In 1996, the number of duty-free tariff lines offered under GSP was expanded to provide additional benefits to beneficiary least-developed countries (LDC).

<sup>3</sup>In 2000, CBI was expanded by the Caribbean Basin Trade Partnership Act (CBTPA).

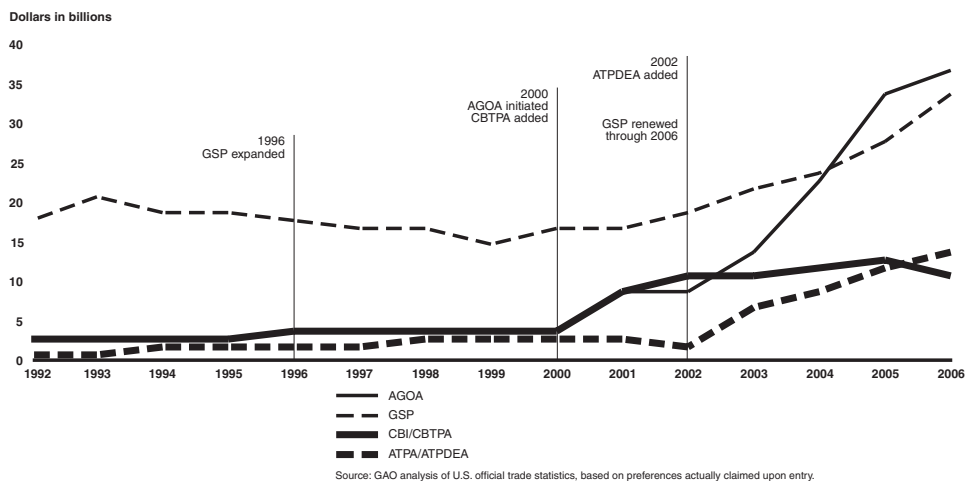
<sup>4</sup>In 2002, ATPA was expanded by the Andean Trade Promotion and Drug Eradication Act (ATPDEA).

of these programs; and the potential opposition to multilateral and bilateral import liberalization preferences can create.

## U.S. Preference Imports Have Increased Sharply

U.S. imports from countries benefiting from U.S. preference programs have increased significantly over the past decade. Total U.S. preference imports grew from \$20 billion in 1992 to \$92 billion in 2006. Most of this growth in U.S. imports from preference countries has taken place since 2000. Whereas total U.S. preference imports grew at an annual rate of 0.5 percent from 1992 to 1996, the growth quickened to an annual rate of 8 percent from 1996 to 2000, and 19 percent since 2000. This accelerated growth suggests an expansionary effect of increased product coverage and liberalized rules of origin for LDCs under GSP in 1996 and for African countries under AGOA in 2000.

**Figure 1: Trends in U.S. Preference Import Levels (1992-2006)**



Note: Values of imports are expressed in nominal dollars, not adjusted for inflation.

There is also some evidence that leading suppliers under U.S. preference programs have “arrived” as global exporters. For example, the 3 leading non-fuel suppliers of U.S. preference imports—India, Thailand, and Brazil—were among the top 20 world exporters and U.S. import suppliers

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in 2007, and their exports in 2007 grew faster than world exports, according to the World Trade Organization (WTO).<sup>5</sup>

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## Critical Policy Trade-offs among U.S. Consumers, Producers, and Foreign Beneficiaries Are Inherent in Preference Programs

Preference programs entail three critical policy trade-offs. First, the programs are designed to offer duty-free access to the U.S. market to increase beneficiary trade, but only to the extent it does not harm U.S. industries. U.S. preference programs provide duty-free treatment for over half of the 10,500 U.S. tariff lines, in addition to those that are already duty-free on a most favored nation basis. But, they also exclude many other products from duty-free status, including some that developing countries are capable of producing and exporting. GAO's analysis showed that notable gaps remain, particularly in agricultural and apparel products. For 48 GSP-eligible countries, more than three-fourths of the value of U.S. imports that are subject to duties (i.e., are dutiable) are left out of the programs. For example, just 1 percent of Bangladesh's dutiable exports to the United States and 4 percent of Pakistan's are eligible for GSP. Although regional preference programs tend to have more generous coverage, they sometimes feature "caps" on the amount of imports that can enter duty-free, which may significantly limit market access. Imports subject to caps under AGOA include certain meat products, a large number of dairy products, many sugar products, chocolate, a range of prepared food products, certain tobacco products, and groundnuts (peanuts), the latter being of particular importance to some African countries.

The second trade-off is related and involves deciding which developing countries can enjoy particular preferential benefits. A few LDCs in Asia are not included in the U.S. regional preference programs, although they are eligible for GSP-LDC benefits. Two of these countries—Bangladesh and Cambodia—have become major exporters of apparel to the United States and have complained about the lack of duty-free access for their goods. African private-sector spokesmen have raised concerns that giving preferential access to Bangladesh and Cambodia for apparel might endanger the nascent African apparel export industry that has grown up under AGOA. Certain U.S. industries have joined African nations in opposing the idea of extending duty-free access for apparel from these

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<sup>5</sup>For additional information, see WTO, World Trade 2007, Prospects for 2008: Developing, Transition Economies Cushion Trade Slowdown, Press Release No. 520, Apr. 17, 2008, p. 19.

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countries, arguing these nations are already so competitive in exporting to the United States that in combination they surpass U.S. FTA partners Mexico and CAFTA, as well as the Andean/AGOA regions, which are the major export market for U.S. producers of textiles.

This same trade-off involves decisions regarding the graduation of countries or products from the programs. It relates to the original intention that preference programs would confer temporary trade advantages on particular developing countries, which would eventually become unnecessary as countries became more competitive. Specifically, the GSP program has mechanisms to limit duty-free benefits by “graduating” countries that are no longer considered to need preferential treatment, based on income and competitiveness criteria. Since 1989, 28 countries have been graduated from GSP, mainly as a result of “mandatory” graduation criteria such as high income status or joining the European Union. Five countries in the Central American and Caribbean region were recently removed from GSP and CBI/CBTPA when they entered free trade agreements with the United States.

In the GSP program, the United States also pursues an approach of ending duty-free access for individual products from a given country by means of import ceilings—Competitive Needs Limitations (CNL). Over one-third of the trade from GSP beneficiaries—\$13 billion in imports in 2006—is no longer eligible for preferences because countries have exceeded CNL ceilings for those products. Although the intent of country and product graduation is to focus benefits on those countries most in need of the competitive margin preferences provide, some U.S. and beneficiary country officials observe that remaining GSP beneficiaries will not necessarily profit from another country’s loss of preference benefits. We repeatedly heard concerns that China would be most likely to gain U.S. imports as a result of a beneficiary’s loss of preferences. In 2007, the President revoked eight CNL waivers as a result of legislation passed in December 2006. Consequently, over \$3.7 billion of trade in 2006 from six GSP beneficiaries—notably Brazil, India, and Thailand—lost duty-free treatment. Members of the business community raised concerns that revocation of these waivers would harm U.S. business interests while failing to provide more opportunities for poorer beneficiaries. GAO’s analysis showed that China and Hong Kong were the largest suppliers of the precious metal jewelry formerly eligible under GSP for duty-free

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import by India and Thailand; Canada, Mexico, Japan, and China were the leading competitors to Brazil's motor parts.<sup>6</sup>

Policymakers face a third trade-off in setting the duration of preferential benefits in authorizing legislation. Preference beneficiaries and U.S. businesses that import from them agree that longer and more predictable renewal periods for program benefits are desirable. Private-sector and foreign government representatives have complained that short program renewal periods discourage longer-term productive investments that might be made to take advantage of preferences, such as factories or agribusiness ventures. Members of Congress have recognized this argument with respect to Africa and, in December 2006, Congress renewed AGOA's third-country fabric provisions until 2012 and AGOA's general provisions until 2015. However, some U.S. officials believe that periodic program expirations can be useful as leverage to encourage countries to act in accordance with U.S. interests such as global and bilateral trade liberalization. Furthermore, making preferences permanent may deepen resistance to U.S. calls for developing country recipients to lower barriers to trade in their own markets. Global and bilateral trade liberalization is a primary U.S. trade policy objective, based on the premise that increased trade flows will support economic growth for the United States and other countries. Spokesmen for countries that benefit from trade preferences have told us that any agreement reached under Doha round of global trade talks at the WTO must, at a minimum, provide a significant transition period to allow beneficiary countries to adjust to the loss of preferences.<sup>7</sup>

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## Proliferation of Preference Programs Has Led to a Need for a More Integrated Approach

Preference programs have proliferated over time. In response to differing statutory requirements, agencies pursue different approaches to monitoring the various criteria set for programs. The result is a lack of systematic review and little to no reporting on impact.

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<sup>6</sup>For GAO's analysis of the scope and impact of the CNL waiver terminations, see pp. 38-41 of [GAO-07-1209](#).

<sup>7</sup>For additional information on these issues see [GAO-08-443](#) and [GAO-07-1209](#).



**Trade Preferences Have Proliferated, Creating a Complex Array of Programs, but Congress Still Considers Each Program Separately**

U.S. trade preferences have evolved into an increasingly complex array of programs. Congress generally considers these programs separately, partly because they have disparate termination dates.<sup>8</sup>

**Table 1: Growth of Trade Preference Programs**

Program	Enactment date	Number of eligible countries, 2007
GSP	January 1975 Several amendments	131
CBI		
• Caribbean Basin Economic Recovery Act	• August 1983	19
• Caribbean Basin Economic Recovery Expansion Act	• Amended August 1990	
• CBTPA	• May 2000	9
• HOPE	• December 2006	1
ATPA	December 1991	4
• ATPDEA	• Amended August 2002	4
AGOA	May 2000 Several amendments	39

Source: GAO.

Many countries participate in more than one of these programs. Of the 137 countries and territories eligible for preference programs, as of January 1, 2007, 78 benefit from more than one program, and 34 were eligible for more than two programs.<sup>9</sup>

While there is overlap in various aspects of trade preference programs, each program is currently considered separately by Congress based on its

<sup>8</sup>For example, the Caribbean Basin Trade Partnership Act was to expire on September 30, 2008, while GSP and ATPA expire December 31, 2008.

<sup>9</sup>For a listing of beneficiary countries and the programs for which they are eligible, see p. 48 of [GAO-08-443](#).

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distinct timetable and expiration date. Typically the focus has been on issues relevant to specific programs, such as counternarcotics cooperation efforts in the case of ATPA, or phasing out benefits for advanced developing countries in the case of GSP. As a result, until last year's hearing before this committee, congressional deliberations have not provided for cross-programmatic consideration or oversight.

The oversight difficulties associated with this array of preference programs and distinct timetables is compounded by different statutory review and reporting requirements for agencies. Reflecting the relevant statutory requirements, two different approaches—a petition process and periodic reviews—have evolved to monitor compliance with criteria set for various programs. We observed advantages to each approach, but individual program reviews appear disconnected and result in gaps.

The petition-driven GSP reviews of country practices and product coverage have the advantage of adapting the programs to changing market conditions and the concerns of businesses, foreign governments, and others.<sup>10</sup> However, the petition process can result in gaps in reviews of country compliance with the criteria for participation:

- From 2001 to 2006, three-quarters of the countries eligible only for GSP did not get examined at all for their conformity with eligibility criteria.
- Long periods passed between overall reviews of GSP. USTR completed an overall review of the GSP program in fall 2006. USTR completed the last general review of the program approximately 20 years earlier, in January 1987.
- The petition-driven review process also fails to systematically incorporate other ongoing monitoring efforts. For example, the lack of review under GSP provisions of any of the 26 preference beneficiary countries cited by USTR in 2006 for having problems related to the adequate and effective

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<sup>10</sup> In the annual GSP review process, petitions may be filed by interested parties (for example, governments, businesses, or nongovernmental organizations) to request actions allowed under the statutes and regulations governing the GSP program, including adding or removing a product from overall GSP eligibility, waiving the competitive-need-limit for a product from a specific beneficiary. Any person may file a petition requesting that the status of any eligible beneficiary be reviewed with respect to any of the designation criteria listed in the statute governing the GSP program, including worker rights and intellectual property rights. For a summary of GAO's analysis of the product and country petitions filed in recent years, see pp. 42-44 and p. 72 of [GAO-07-1209](#).

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protection of U.S. intellectual property rights (IPR) makes it appear no linkage exists between GSP and ongoing monitoring of IPR protection abroad.

The periodic reviews under the regional programs offer more timely and consistent evaluations of country performance against the criteria for participation, but may still miss important concerns. For example, 11 countries that are in regional programs were later subject of GSP complaints in the 2001 to 2006 period:

- Although AGOA has the most intensive evaluation of country performance against the criteria for participation, the GSP process later validated and resulted in further progress in resolving concerns with AGOA beneficiaries Swaziland and Uganda on labor issues.
- The African country of Equatorial Guinea has been reviewed for AGOA eligibility and found to be ineligible. Yet, Equatorial Guinea has not been subject to a GSP country practice petition or reviewed under GSP. As a result, Equatorial Guinea remains eligible for GSP and exported more than 90 percent of its \$1.7 billion in exports duty free to the United States under that program in 2006.<sup>11</sup>

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### Only One Preference Program Directly Links to Capacity Building Efforts

Many developing countries have expressed concern about their inability to take advantage of trade preferences because they lack the capacity to participate in international trade. Sub-Saharan Africa has been the primary focus of U.S. trade capacity-building efforts linked to the preference programs, with the United States allocating \$394 million in fiscal year 2006 to that continent. Although AGOA authorizing legislation refers to trade capacity assistance, USTR officials noted that Congress has not appropriated funds specifically for that purpose. However, USTR has used the legislative language as leverage with U.S. agencies that have development assistance funding to target greater resources to trade

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<sup>11</sup> AGOA requires countries to be eligible for GSP, but the reverse is not true; AGOA's criteria are more extensive than GSP. For example, AGOA requires countries to have or be making progress toward political pluralism and the rule of law and prohibits participation of countries that undermine U.S. national security and foreign policy, commit gross violations of human rights, or support international terrorism. GAO's analysis showed that all (100 percent of the value) of Equatorial Guinea's exports to the United States were eligible for GSP in 2006. Equatorial Guinea exported approximately \$1.6 billion in fuel products to the United States under GSP in 2006.

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capacity building. In other regions of the world, U.S. trade capacity building assistance has less linkage to preference programs.

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### Separate Reporting and Examination Hinder Measuring Progress on Programs' Contribution to Economic Development

Separate reporting for the various preference programs makes it difficult to measure progress toward achieving the fundamental and shared goal of promoting economic development. Only one program (CBI) requires agencies to directly report on impact on the beneficiaries. Nevertheless, in response to statutory requirements, several government agencies report on certain economic aspects of the regional trade preference programs. However, different approaches are used, resulting in disparate analyses that are not readily comparable. Agencies do not regularly report on the economic development impact of GSP. Moreover, there is no evaluation of how trade preferences, as a whole, affect economic development in beneficiary countries.

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## GAO Recommendations and Agency Response

To address the concerns I have summarized today, in our March 2008 report, GAO recommended that USTR periodically review beneficiary countries that have not been considered under the GSP or regional programs. Additionally, we recommended that USTR should periodically convene relevant agencies to discuss the programs jointly. In response, USTR is undertaking two actions. First, USTR will conduct a review of the operation and administration of U.S. preference programs to explore practical steps that might improve existing communication and coordination across programs. Second, beginning with the *Annual Report of the President of the United States on the Trade Agreements Program* to be issued on March 1, 2009, the discussion of the operation of all U.S. trade preference programs will be consolidated into its own section.

We also suggested that Congress should consider whether trade preference programs' review and reporting requirements may be better integrated to facilitate evaluating progress in meeting shared economic development goals. We believe that the hearings held by the committee last year and again today are responsive to the need to consider these programs in an integrated fashion and are pleased to be able to contribute to this discussion.

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Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions that you or other members of the committee may have.

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## GAO Contact and Staff Acknowledgments

For further information on this testimony, please contact Loren Yager at (202) 512-4347, or by e-mail at [yagerl@gao.gov](mailto:yagerl@gao.gov). Juan Gobel, Assistant Director; Kim Frankena, Assistant Director; R. Gifford Howland; Karen Deans; Ernie Jackson; and Ken Bombara made key contributions to this statement.

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