U.S. TRADE PREFERENCE PROGRAMS: OPTIONS FOR REFORM

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Mr. Chairman, Ranking Member Grassley, Members of the Committee, thank you for inviting me to testify today on America's trade preference programs. I direct the Trade and Global Markets Project at the Democratic Leadership Council. My testimony reflects personal views but draws on discussions conducted last year through an informal Trade Preferences Working Group, joining experts, development advocates, union and business representatives, and others hoping to create a more effective preference system.

INTRODUCTION & MAIN POINTS

Trade preference programs have been part of American trade policy since creation of the Generalized System of Preferences in 1974. We now have six: GSP, the Caribbean Basin Initiative, the Andean Trade Preference and Drug Eradication Act, Qualifying Industrial Zones in the Middle East, the African Growth and Opportunity Act, and HOPE II for Haiti. Each aims to help poor countries succeed in trade, ease inequities in our trade regime, and meet American humanitarian, economic, and security goals. My testimony makes three main points about this system:

- First, the preference programs are a valuable part of American trade policy. Covering only 1.6 percent of America's non-oil imports, but about a sixth of non-oil imports from beneficiaries, they encourage development and job creation in poor nations; assist some of our foreign policies; and encourage respect for labor standards, intellectual property, and other good-government policies.

- Second, the preferences have weaknesses. Their conditionalities, product coverage, and rules of origin are often confusing and sometimes incompatible or antiquated. They offer little to many large majority-Muslim countries and least-developed Asian countries – Pakistan, Cambodia and Bangladesh are examples – and so do less than they should to alleviate poverty and support American security goals. Several programs, in particular the African Growth and Opportunity Act and the Andean Act, are losing effectiveness. And Haiti faces an emergency and needs a coordinated effort in which trade preference has a place.

- Third, the preferences have inherent limits and face new challenges. They are neither substitutes for broad multilateral liberalization nor guarantees of export success for beneficiaries, and should not be asked to assume these roles. And the world economy has changed since their creation, with our tariff system somewhat less effective as a tool to direct or limit trade and large developing countries

playing greater roles as exporters and markets for their neighbors. Preferences need to respond and adapt to these shifts to remain successful.

With these points in mind, I believe the Committee's title for this hearing – Options for Reform – is well-chosen. A simpler and more integrated (but not uniform) program which offers wider benefits, has more effective links to aid programs, and asks more of some beneficiaries could do more for both the preferences' core mission of development and poverty alleviation, and for American policy goals.

I. TRADE AS DEVELOPMENT TOOL

America is the world's largest trading nation, conducting $3.5 trillion in goods and services trade last year. Over the decades, the Committee has designed an array of policies to ensure that these flows of trade meet America's needs: market-opening negotiations, enforcement at the WTO and in FTAs, export promotion, trade remedy laws, Trade Adjustment Assistance, unilateral preferences and more. Ideally, these policies mesh to create an open economy at home for efficiency, competitiveness and living standards; open foreign markets to U.S. goods and services to support growth and quality jobs; ensure fair treatment for American workers, businesses and farmers; defend the American and global economies against uncontrolled trade restrictions in crises; help workers and communities manage competition; and assist the poorest and weakest at home and abroad.

Debate on these policies usually focuses on our major trading partners – Europe, China, Canada, Mexico and Japan – and our FTA relationships. But trade with lower-income countries is significant as well, on both ethical and practical grounds. For dozens of countries in Africa, Asia, Latin America and the Middle East, trade with America is essential to alleviation of poverty, economic stability and national development. Three brief examples illustrate this fact:

Haiti: Until January's earthquake, Haiti was becoming a manufacturing center for T-shirts and other clothes. International provision of security through the UN's blue-helmet force, and a reviving government under President Rene Preval, had given the U.S. HOPE II preference program space to work. About 24,000 Haitians worked in the country's 27 garment factories in 2008; by January, HOPE II had helped raise this total to 39,000 and lifted exports above $500 million for the first time since 1987. Paid roughly $5 per day – about four times Haiti's $1.20-per-day per capita income – each garment-worker was thought to feed and house an extended family of 10, meaning HOPE II had likely enabled 150,000 more people to afford regular meals. As most factories seem to have survived the earthquake, the garment industry is now one Haiti's main hopes for recovery.

Ethiopia: Ethiopia is America's top foreign source of high-quality birdseed. Since 2000, American petshops and big-box retailers (like the Wheaton, MD, Home Depot at which I buy garden rakes and grass seed) have been importing 16,000 to 48,000 tons of "noug" or "niger seed" per year to sell to American bird-

watchers. A small black oilseed traditionally grown for cooking oil, noug is attractive to songbirds and duty-free under America's permanent tariff system. Noug exports now bring Ethiopia about $40 million in export revenue last year, two-fifths of total exports to the United States. This means additional cash income for thousands of upland farmers, who at annual earnings often around $200 a year are among the poorest people in the world and not long ago lived under constant threat of famine.

Cambodia: Cotton and polyester pajamas, blouses and other garments sold in American malls make up almost 60 percent of Cambodia's exports to the world. In 1996, as the Finance Committee marked up the bill lifting the post-1975 embargo, Cambodia's main urban employers were government agencies, the army, and foreign relief groups. By 2008 – one turn of Asia's traditional twelve-year calendar – Cambodia was home to 343 garment factories, which exported about $2.4 billion worth of clothes to the United States a year and employed 333,000 young women as sewing-machine operators. Analysts I interviewed in Phnom Penh believed that on average, each of these workers saved enough money, often in the form of silver jewelry, to raise her rural family's food security from two months to a year. These workers also benefit from a unique experiment in labor standards, in which the International Labor Organization monitors exporting factories for compliance with laws on child labor, minimum wage, sexual harassment, rights to organize and other issues. And apart from production workers, Cambodian garment plants also employed about 5,000 young urban high-school and college graduates as middle managers responsible for marketing, payroll and other tasks. These people are the nucleus of a future national business class able to replace the one the Khmer Rouge destroyed in the 1970s.

These are representative rather than exceptional cases. In total, exports to the United States often bring the 139 preference beneficiaries five times the capital they receive from direct investment by American companies, remittances, charitable donations and foreign aid combined. In human terms, success in trade creates jobs which pay regular wages and are usually subject to inspections and regulations. Such conditions are a sharp contrast to the experience of the 60 percent of developing-world workers who earn livelihoods in informal fields like day-labor on construction sites, domestic service, and small-scale peddling, which rarely offer either reliable wages or legal protections.[1]

For the United States, successes like these have practical as well as humanitarian implications. Haiti, Ethiopia and Cambodia were all once considered 'failed states,' unable to support themselves and posing security challenges for their neighbors and the United States. Their success in trade is helping them – and dozens of countries in less dire circumstances – diversify economies, raise income, and develop the capacity to resist radicalism and transnational crime. This in turn creates markets for our own sophisticated manufactures and value-added farm products. Cambodia is a significant importer of U.S.-made cars, Haiti of farm products, and Ethiopia of aircraft; as a group, preference beneficiaries buy almost a sixth of our manufacturing and farm exports.

II. THE U.S. TARIFF SYSTEM

Our trade regime, however, is in some ways badly designed to help such countries succeed. The nine tariff-cutting agreements from 1947 to 1997 helped create an American trade regime largely open for high-tech goods, natural resource products and most heavy-industry goods. But they preserved most tariffs on clothes, home textiles, shoes, some other household goods and a few foods. Table 1 summarizes the system in 2009, excluding goods imported under free trade agreements and preference programs.

TABLE 1: THE U.S. TARIFF SYSTEM BY PRODUCT, 2009

PRODUCT	IMPORTS	TARIFF PENALTY	RATE
All NTR Goods	**$1.257 trillion**	**$21.1 billion**	**1.7%**
High-Tariff Manufactures	**$97.6 billion**	**$12.0 billion**	**12.3%**
Clothes	$56.6 billion	$8.3 billion	14.7%
Leather/Luggage	$6.3	$0.83	13.2%
Shoes	$17.2	$1.70	10.0%
Costume Jewelry	$1.3	$0.11	8.7%
Silverware/tableware	$1.3	$0.11	8.2%
Household linen	$8.5	$0.64	7.5%
Watches	$2.4	$0.11	4.4%
Sports & Fishing Equipment	$4.4	$0.15	3.3%
Two Agricultural Products	**$1.06 billion**	**$0.13 billion**	**12.3%**
Orange juice	$0.17	$0.05	26.8%
Cheese	$0.89	$0.08	9.4%
Other	**$1158 billion**	**$9.0 billion**	**0.8%**
Cars	$49	$1.2	2.5%
Audiovisual	$28	$0.3	1.6%
Other agriculture	$52	$0.5	1.0%
Other low-moderate tariff	$271	$6.6	0.9%
Energy	$158	$0.2	0.1%
Pharmaceuticals/medicines	$56	$0.003	0%
Computers & semiconductors	$70	$0.01	0%
Other zero/minimal tariff	$525	$0.1	0%

Source: ITC Dataweb. Excludes all goods imported from FTA partners and under preferences.

The light or nonexistent duties on high-tech goods and resource products make America's market relatively open for wealthy economies and oil producers. In 2009, about 66 percent of goods from the European Union arrived duty-free. This included medicines, artwork, scientific and medical equipment, information technologies, aircraft, military ordinance and so on. Large, diversified emerging economies too find a relatively open market: 57 percent of Chinese goods arrived duty-free, including toys, telephones, digital cameras, furniture, personal computers and computer accessories. Treatment of oil from Saudi Arabia, Venezuela and other energy producers is gentler still.

But high tariffs on clothes, shoes, other light goods and some farm products make American trade policy much tougher on low-income countries lacking large natural resource endowments. As Table 2 shows, even with the preference programs in place,

goods from Cambodia, Pakistan and Bangladesh face average tariff rates 10 or 20 times those imposed on products from rich countries, and often higher actual tariff penalties than those on goods from countries like Britain, France, Brazil, Russia and Saudi Arabia.

TABLE 2: THE U.S. TARIFF SYSTEM, WORLD AND 20 SELECTED PARTNERS, 2009

COUNTRY	IMPORTS	TARIFF PENALTY	RATE
Cambodia+	$1.92 billion	$318 million	16.6%
Bangladesh+	$3.70	$563	15.2%
Pakistan+	$3.16	$315	10.0%
Indonesia+	$12.9	$807	6.2%
China	$295.0	$9,512	3.2%
India+	$21.2	$683	3.2%
Thailand+	$19.0	$390	2.1%
WORLD, NTR only	**$1.257 trillion**	**$21.1 billion**	**1.7%**
Japan	$96 billion	$1,543 million	1.6%
Germany	$70 billion	$930	1.3%
Brazil+	$19.6 billion	$207	1.1%
France	$34	$285	0.8%
Malaysia	$23	$156	0.7%
United Kingdom	$47	$281	0.6%
Russia+	$17.4	$51	0.3%
Egypt*	$2.1	$8	0.2%
Jamaica*	$0.5	$0.2	0.1%
South Africa*	$5.9	$7	0.1%
Saudi Arabia	$21	$33	0.1%
Haiti*	$0.55	$0.3	0.1%
Ghana*	$0.13	$0.04	0.05%

*+ GSP Beneficiary; * GSP and Regional Preference Beneficiary. All data from ITC Dataweb.*

Thus we have a policy challenge. America benefits in practical ways from development in poor countries. Ethics suggest that as the world's wealthiest and most powerful nation, we ought to treat poor countries at least as well as our richer partners. But our trade regime often does the reverse.

III. THE SIX PREFERENCE PROGRAMS

The six preference programs help us solve this challenge by waiving some (and in a few cases most) tariffs for poorer countries. They also help achieve some policy goals by asking beneficiaries to meet a set of conditions. These differ by program, but include a ceiling on per capita income, cooperation against terrorism, respect for human rights, equal treatment for American exporters, progress toward respect for internationally recognized worker rights, implementation of intellectual property rights and other issues. In chronological order the programs are as follows:

- *GSP:* The Generalized System of Preferences, our oldest preference, dates to 1974. It waives tariffs on low- and middle-tariff manufactured goods from 111 countries and 19 dependent territories, with a simple rule of origin requiring 35 percent of a good's value to originate in the beneficiary country, but excludes such high-tariff products as clothes, shoes, luggage, home linens, watches, and many glass and ceramic goods. In 2009, GSP covered $20.2 billion in imports, including $6.6 billion in oil. GSP imports of

jewelry, automobile and bus parts, radial tires and ferro-alloys totaled respectively $1.1 billion, $0.7 billion, $0.6 billion and $0.3 billion; other important GSP imports included insulated wiring, cut stone, chemicals, aluminum, copper, zinc, electric motors and tanned leather. Leading beneficiaries (setting aside oil exporters) included Thailand, India, Brazil, Indonesia, South Africa, the Philippines, Turkey, Argentina and Russia.

These tariff waivers have human impact: Thailand's silver jewelry makers, competing successfully with larger Chinese firms through the GSP waiver of NTR tariffs ranging from 5 to 13.5 percent, employ not only a full-time workforce in Bangkok and Chiang Mai, but tens of thousands of rural women and artisanal workers. Often these are part-time jobs that provide some autonomy for women workers, and some income stability for farm families relying for most of their income on unpredictably priced rice crops and rubber-tapping. Turkey's stone-cutting industry and Indonesia's decorative wooden painting- and photograph-frames do the same.

Regional Preferences: The five regional preference systems also waive tariffs on clothing and some other high-tariff goods. In chronological order, they are:

- *Caribbean Basin Initiative (CBI)* – CBI and its Caribbean-island counterpart CBERA, dating to 1985, exempt 19 countries and territories from tariffs on clothes and other goods, and covered about $1.4 billion in non-oil trade excluding HOPE trade with Haiti in 2009. With Central America and the Dominican Republic phasing into CAFTA, the main users are Haiti, Jamaica and Trinidad.

- *Andean Trade Preference and Drug Eradication Act (ATPDEA)* – The Andean program dates to 1991. Created to help Peru, Colombia, Bolivia and Ecuador find alternatives to narcotics production, it now includes clothes too but remains important in rural areas. Its waiver of the 6.5 percent NTR tariff on flowers helps support as many as 182,000 jobs in flower-growing operations around Bogota, and allows Colombia to supply most of our Valentine's Day roses. With the U.S.-Peru Trade Promotion Agreement now in effect and Bolivia's benefits suspended, ATPDEA's only two long-term beneficiaries are Colombia and Ecuador, and Colombia's membership depends on Congress' ultimate decision on the US-Colombia Trade Promotion Agreement.

- *Qualifying Industrial* Zones (QIZ) – The QIZ program, technically a modification of the U.S.-Israel Free Trade Agreement, waives tariffs on goods made in Jordan, Egypt, and the West Bank and Gaza Strip by joint Israeli-Arab industrial projects, or in factories whose goods use Israeli inputs. Launched in 1996 after the Israel-Jordan peace treaty, it still covers much US-Jordan trade. However, as the U.S.-Jordan FTA replaces QIZ tariff policy, Egypt is now its largest user. Egypt in 2009 exported $850 million worth of clothes from 15 QIZs – nearly half of our $2.1 billion in Egyptian imports – and employed about 200,000 people in Cairo, Alexandria, Port Suez and Upper Egypt.

- *African Growth and Opportunity Act (AGOA)* – Dating to 2000, AGOA enrolls 37 of the 48 sub-Saharan African states. (Non-participants are Cameroon, Central African Republic, Cote d'Ivoire, Eritrea, Mauritania, Somalia, Sudan, Zimbabwe and as of late

2009 Madagascar, Guinea and Niger.) AGOA is unusual in allowing African garment producers to use 'third-country' fabrics – that is, cloth and yarn from India, Pakistan, China and other developing-world producers – rather than solely locally- or American-made cloth, and also offers beneficiaries additional technical assistance. However, oil accounted for $25.5 billion of $28 billion in AGOA imports last year; the remaining $2.6 billion included clothes sewn in Kenya, Lesotho, Madagascar, and Swaziland; fresh flowers from Kenya and Ethiopia; and cars, steel, citrus and wine from South Africa.

- *Haitian Hemispheric Opportunity Through Partnership (HOPE)* – Haiti's HOPE act dates to 2006 and was revised as "HOPE II" in 2008. Before the January earthquake, it had raised imports from Haiti to above $500 million in 2009, surpassing for the first time the peak levels before the collapse of the Duvalierist governments. This industry appears to remain viable, and can be a driver of Haiti's recovery, as the garment factories, most new and often built to international standard, seem to have survived relatively well. Port infrastructure however has been badly damaged, and quick provision of both rebuilding assistance and longer-term benefits will be essential.

3. Scale of Preference Trade

Altogether, the six programs waived tariffs on $62 billion in imports last year – about 4 percent of America's $1.55 trillion in merchandise imports, and 26 percent of the $244 billion in imports from beneficiaries. Oil and other fuels, though, accounted for two-thirds of the $62 billion and are usually covered only by small specific duties of a dime or quarter per barrel. Excluding oil, preferences waived tariffs on $21 billion in manufactured goods and farm imports, or 1.6 percent of U.S. non-energy imports and 15 percent of non-energy imports from beneficiaries.

TABLE 3: IMPORTS UNDER NTR, FTAS, AND PREFERENCES, 2009

PROGRAM	ALL GOODS	ALL GOODS EXCLUDING ENERGY
TOTAL	**$1.549 trillion**	**$1.287 trillion**
NTR (MFN)	**$1.247 trillion**	**$1.090 trillion**
FTAs	**$241 billion**	**$176 billion**
NAFTA	$220	$156
Other FTA partners	$21	$20
Preferences	**$62 billion**	**$21 billion**
GSP	$20.2	$13.6
CBI/CBTPA	$1.9	$1.0
ATPDEA	$9.7	$2.3
AGOA	$28.1	$2.6
QIZ	$1.5	$1.4
Haitian HOPE	$0.4	$0.4

Source: ITC Dataweb

Preferences do not, finally, waive all tariffs. Apart from the preference imports, about $90 billion in imports from beneficiaries – diamonds, computer accessories, rubber,

sulfur, shrimp, coffee, ammonia, cocoa beans, cameras – are duty-free under NTR tariffs. Tariffs applied in full to the remaining $86 billion in imports from beneficiaries last year, including such products as Pakistani towels, Brazilian chemicals and Indonesian shoes. Thus about 64 percent of the goods Americans bought from preference beneficiaries arrived duty-free, meaning preferences ease American tariffs enough to give beneficiaries treatment comparable to that European or Chinese goods receive under NTR rates.

IV. WEAKNESSES: SOME INHERENT, SOME SOLUBLE

In many ways the preferences are a success. In the 1980s and 1990s, CBI helped Central American countries diversify their economies and ease creation of a stable peace. The Andean program provides employment for rural Colombians and Ecuadorans as well as offering Americans a modest Valentine's Day tax-cut. The QIZ program is a unique experiment in economic integration between Israel and its peace partners; AGOA has given several African states a start in the garment business. Many friendly middle- and lower-middle income states – Paraguay, Armenia, and other small countries, as well as larger users – rely on GSP for competitiveness vis-à-vis China, while American manufacturers use it to reduce input costs. But the preferences also have weaknesses – some inherent and difficult to solve, but others which reform can fix.

1. Trade Diversion and Concerns on Preference Erosion

First, preferences (like free trade agreements) have at least two inherent weaknesses. These are their potential to create unwanted trade diversions, and the risk that they may create psychological and political obstacles to larger trade initiatives.

FTAs and preferences set different tariff rates for different countries on identical products. This complicates the U.S. trade regime and can divert trade away from competitive producers. At times the preferences' goals outweigh the disadvantages. If diversion affects large, wealthy economies – if we buy insulated wiring from Thailand under GSP rather than from China, or a bottle of olive oil from Tunisia rather than Italy or Spain – this is economically "inefficient" but may have compensating developmental benefit. If diversion affects poorer countries, the preference or FTA can do unintended harm. In practice, the harmful effects are likely difficult to predict and may go unnoticed.

Beneficiaries can also overrate the importance of preferences. Fear of "preference erosion" – i.e. worries about falling tariff margins vis-à-vis competitors – has become a concern in the WTO's Doha Round and America's preference debate. But preference margins are mostly small, often require complex rules of origin that raise cost, and can fade over time as regions without preference invest in efficient logistics and worker productivity. Poor countries should view preferences as helpful in exporting to America and other rich countries, but not as guarantees. They should also seek the opportunities in large emerging economies like China, India, Egypt, South Africa and Brazil which ideally would come from a successful Doha Round; and in the interim, these large countries can reasonably be expected to begin their own preference programs.

2. Complex System, Sometimes Antiquated Conditions and Product Exclusions

Second, the preference system has become complex as individual programs have multiplied. Their different rules of origin, eligibility requirements and product exclusions add paperwork and complexity. This makes preferences less attractive to importers, and can create policy contradictions in which countries are disqualified from one program but eligible for others offering more benefits. Zimbabwe is a striking example: barred from AGOA for human rights violations, it nonetheless receives GSP waivers of tariffs on metals and tobacco covering half of its exports to the United States.

Further, several GSP conditionalities and limits are antiquated. One, barring countries "controlled by international communism" unless they have MFN status, applies only to Cuba and North Korea, both of which are covered by separate embargos. Another excludes luggage, handbags, glass, tableware, home linens and clothes from GSP. In 1974 these industries were large if fragile employers in the United States, providing about 1.7 million jobs in a labor market of 65 million jobs. Today, despite the preservation of tariffs, they employ roughly 0.2 million people in a 109-million job labor market. Magnified by retail markups and sales taxes, tariffs on these goods likely cost American families $25 billion to $30 billion per year. Several especially high-tariff clothing, luggage and shoe products excluded from GSP – usually goods made of cheap and simple materials, where tariff rates can rise to 48 percent – are no longer made in the U.S. at all.

3. Geographical Gaps: Muslim World and Least-Developed Asia

Third, the preferences have important geographical gaps. They do little to assist least-developed Asian-Pacific states or the large majority-Muslim countries which lack oil wealth. Thus they do far less to reduce poverty than they could, and contribute little to our effort against radicalism and fundamentalism in the Middle East and South Asia.

More specifically, no geographic program applies to least-developed countries Afghanistan, Bangladesh, Cambodia, East Timor, Laos, Nepal, the Pacific island states and Yemen, or to low-income states like Pakistan, Mongolia and Sri Lanka. Though all these countries are GSP beneficiaries, they have not yet developed the sophisticated mid-range manufacturing industries whose products would be eligible for GSP tariff waivers, and the clothes and textiles at which they are proficient are excluded. With GSP offering them little benefit, most of their exports face NTR tariffs.

One example is Pakistan's leading export to the United States: towels. Each container of towels exported to the U.S., according to Pakistan's towel-industry trade association, employs 485 Pakistani men and women. This means stable, wage-earning employment for young women seeking self-reliance in a conservative society, enables both men and women to care for families, and helps the Pakistani public see the U.S. not as a looming political and military presence or threat to religion, but as a customer and job-provider. Pakistani towels face a 9.1 percent tariff under the NTR system and are excluded by statute from GSP; but towels made in 78 FTA partners and regional preference beneficiaries are duty-free. The same applies to Pakistan's clothes and home

linens. In total, Pakistani exporters see a $315 million penalty on $3.2 billion in exports, more than the $281 million penalty imposed on $47 billion in British goods. How does this square with the pledge at last September's "Friends of Democratic Pakistan" summit to "positively consider Pakistan's call for enhanced market access and trade development?"[2] Or with the more basic American view, embodied in last year's large foreign aid increase, that success in a battle against violent fundamentalism requires a strong civil society, private-sector employment and sustainable economic growth in Pakistan?

Cambodia's case is similar and urgent. Since GSP excludes clothing, Cambodia's pajamas, pullover shirts, cotton pants and other clothes face full NTR tariff penalties. Cambodian goods suffered a $318 million tariff penalty on $1.9 billion in goods in 2009, well above the $281 million penalty on our $47 billion in British pharmaceuticals, airplane parts, artwork and other sophisticated goods. Inequitable at best, with Cambodia suffering more (as the World Bank reports) from the financial crisis than any other Asian country such treatment endangers the industry and Cambodia's development. The ILO has reported, and Cambodia's Commerce Minister Cham Prasidh highlighted in testimony, that last year 54 of 343 exporting factories closed and 54,000 of 333,000 young women working as sewing machine operators lost their jobs.[3]

If we grant Cambodia the benefits most least-developed countries now receive, many will be able to return to dignified work, support themselves, and again contribute to the stability of their rural villages. Should we choose not to do so, Cambodia's progress toward recovery from the Vietnam War and Khmer Rouge era will be set back, the credibility of America's support for international labor standards will be damaged, and a chance to show the world a high-road path out of poverty will recede into the future.

Like Cambodia and on a larger scale, Bangladesh has used garment exports (to Europe as well as the US) to develop a modern industrial base. Nobel laureate Dr. Mohammad Yunus observed in his 2007 testimony to the Committee that a successful garment industry is joining micro-credit programs to create a "social revolution,"[4] in which poverty rates are falling and millions of young women becoming wage-earners and supporters of families. Dismissed a generation ago as a "basket case" doomed to perpetual instability, poverty, and radicalism, Bangladesh now has a realistic hope to escape least-developed status in this decade. Preferences could contribute to this goal but offer little. Bangladeshi products are mostly mass-market clothes (plus shrimp, duty-free under the NTR tariff schedule), facing tariff rates as high as those on Cambodian goods. GSP covered only four of Bangladeshi's top 100 exports to the United States last year (tobacco, golf equipment and plastic packaging) and reduced tariffs on Bangladeshi goods by an insignificant $1.5 million out of $563 million – a penalty well above that imposed on much larger volumes of British, French, Russian or Saudi goods.

Afghanistan is also an important potential user of trade preferences. Security makes this a long-term challenge, but should this winter's NATO/Afghan offensives and civilian-government policies succeed, Afghanistan might focus on traditional products such as temperate-climate fruits, carpets, handicraft leather and stonework.

4. African and Andean Programs Weakening

Fourth, two programs have lost momentum. The Andean program's difficulties have an obvious cause – Peru is an FTA partner, Colombia may become one, Bolivia has been suspended, there are some controversies over Ecuador's participation as well, and it has never been clear why Paraguay is not eligible. Here the challenge is less immediate revision of the program than development of a general policy for the Andean region, including support for democratic and friendly governments, human rights, and response to the spread of virulent populism, with an appropriate role for trade including a decision on the US-Colombia FTA and a preference program designed for non-FTA partners.

AGOA's challenges are more complex. AGOA, which will mark its 10th anniversary in May, oversaw $28 billion in imports in 2009. But oil made up nearly 90 percent of this total. Despite favorable rules of origin, Africa's share of the U.S. clothing market in 2009 was barely above the level it held in 2000, as the program went into effect. And with Madagascar suspended, only four of the 38 AGOA beneficiaries – Kenya, Lesotho, Mauritius[5] and Swaziland – are significant clothing-benefit users. AGOA-based import growth in value-added agriculture and sophisticated manufactures remains confined to South Africa, and most African farm exports to the United States are instead in permanently duty-free goods like coffee, tea, vanilla, cocoa beans and birdseed.

TABLE 4: AGOA SHARE OF U.S. FARM AND CLOTHING IMPORTS, 2000-2009

	2000	**2004**	**2009**
AGRICULTURE			
Imports from World	$39.0 billion	$54.0 billion	$65.4 billion
From Africa	$791	$1.126	$1.222
From AGOA members	$508	$620	$698
AGOA member share	1.3%	1.1%	1.1%
CLOTHING			
Imports from World	$64.1 billion	$72.2 billion	$69.3 billion
From AGOA members	$0.73 billion	$1.76 billion	$0.92 billion
AGOA member share	1.2%	2.4%	1.3%

Source: ITC Dataweb for clothing, USDA Global Agricultural Trade System for farm trade.

These trends reflect logistical weaknesses relative to competitors in other regions. The World Bank's "Doing Business Across Borders" report finds that to export a container of goods from Africa requires 33 days and costs on average $1,942. East Asia requires 23 days and costs $909; Latin America, 19 days and $1,244.[6] The data in turn illustrate problems in infrastructure and governance. A report last fall in Kenya's *New Times*, for example, found 24 police checks, 14 road blocks and 13 weighbridges for trade on the Northern Corridor from Kigali to Mombasa.[7] If such internal obstacles make African businesses less able than Asian or Latin rivals to supply goods to buyers rapidly and in volume, tariff margins will not be enough to make up the difference.

We can also, however, draw on successes – especially in farm products – for ideas on strengthening trade policy for Africa. AGOA's waiver of flower tariffs is helping

Kenya and Ethiopia adapt existing supply-chains meant for Europe to supply American florists. In shea butter, coffee, tea and niger seed, America's NTR tariffs are zero and Africa has succeeded by providing unique or especially high-quality products. The NGO "LightYear IP" provides an example of creative use of intellectual property, as it helps Ethiopia develop brand recognition to add value to its coffee.[8]

V. RECOMMENDATIONS

In sum, the preferences' core mission remains valid. But they have clear weaknesses reform can help address. Let me make three specific recommendations.

Recommendation 1: Simplify and Unify Preferences

First, the programs are too numerous and complex – and many programs with conflicting rules and eligibility criteria make a less effective system. With one exception, they should be replaced with a simpler, unified program. I suggest three steps:

A. Combine five existing preferences into one. The QIZ program would remain a branch of the US-Israel FTA, but GSP, AGOA, ATPA, CBI and HOPE would be merged into a single program. This would retain special rules of origin for Africa and Haiti; continue to give Africa special incentives for integration; and make least-developed countries like Cambodia and Bangladesh, and selected very low-income countries like Pakistan and Mongolia, eligible for similar full duty-free and quota-free treatment.

B. Add the manufactured goods excluded from GSP to this program. Clothing benefits remain most appropriate for least-developed countries and selected low-income and security-sensitive countries. Luggage, leather and similar goods would be open to all beneficiaries, and all beneficiaries would be able to cumulate value-added across borders to meet rule-of-origin requirements. However, tariffs on products no longer made in the United States have simply evolved into taxes, and should (as Senator Cantwell suggests in the Affordable Footwear Act proposal) be scrapped on an MFN basis to assist the low-income American families who they affect most.

C. Create uniform eligibility criteria for all beneficiaries, based on AGOA's two mandatory and five discretionary conditionalities. These would encourage rule of law, anti-corruption and poverty alleviation, and remove benefits for countries involved in activities that undermine American national security. An environmental clause requiring participation in any climate-change agreement may also be appropriate, as would a discretionary clause evaluating the willingness of large and advance beneficiaries to open markets for poorer and smaller neighbors. Finally, a new program would drop the outdated condition banning countries "dominated by international communism," and replace it with a clause excluding countries which provide 5 percent or more of America's total merchandise imports, to ensure that the preferences remain focused on small and poorer states. Embassies in beneficiary countries should report regularly on compliance with these conditions, with the U.S. Trade Representative in consultation with Congress responsible for final decisions on withdrawal of benefits.

Recommendation 2: Refocus AGOA and Mesh with Technical Support[9]

Second, AGOA needs revitalization and refocusing, centered on a better meshing of trade benefits with technical assistance programs to improve logistics and supply-chains. A revitalized AGOA should also ask Africa's leading economies and natural-resource exporters for some financial support in developing African infrastructure.

AGOA's special textile features – encouragement of regional integration through liberal eligibility for wealthy countries as well as LDCs, and liberal rules of origin – remain valuable and should be preserved. But experience shows that this is a long-term objective, which depends on developing logistical infrastructure and internal integration. In the interim, better information about market opportunities and regulatory requirements in the United States can help Africans develop trade in products that are not import-sensitive and sometimes not covered by any tariff. One important and more or less cost-free part of this should be assignments to U.S. Embassies to find options for adapting existing supply-chains to U.S.-African trade, and to encourage (as the ONE campaign has suggested) use of USAID's Trade Hubs to build awareness among African businesses and farmers about market opportunities and link Africans with American experts on customs procedures, sanitary and phytosanitary requirements and other regulatory issues.

These policy steps should come together with support for African efforts to ease logistical problems and deepen development around corridors already in use for natural-resource industries. These "Development Corridors" reflect Nelson Mandela's vision for adapting trade and transport routes now linking mines to ports to give landlocked states access to the outside world, encourage intra-African farm trade, and speed industrial integration. NEPAD, the New Economic Partnership for African Development, identifies 26 corridors around the continent. The World Bank's *Doing Business in Landlocked Countries* report highlights a successful example, in which border cooperation agreements signed by Mali and Senegal in 2008 cut the number of checkpoints from 25 to 4, and reduced average transport time from the Sahel to Dakar port from over a week to a day or two.[10] Their completion is as much an aid and assistance issue as a trade policy issue, and the projects need support from the World Bank, the African Development Bank and bilateral donors including the United States. They also, and primarily, need sustained commitment from resource-rich African states. Nigeria earned $20 billion to $70 billion a year through energy exports in the last decade, and South Africa's earnings from metals were comparable. If a small but meaningful share of this goes to continent-wide development, they will earn the money back.

3. Recommendation 3: Upgrade Haitian HOPE, Expand QIZ

Finally, two specific recommendations. The Committee is working quickly to provide trade support for Haiti during its recovery from the earthquake. I applaud these efforts and view the garment industry as a likely central contributor to Haiti's revival. A long-term guarantee of tariff waivers with especially generous rules, combined with a focused effort to repair the port and ensure that workers can travel easily to their

factories, will be essential in the coming months. Meanwhile, Egypt, Israel and Jordan are seeking additional QIZ designations and rule-changes to encourage further economic integration. This would be welcome at any time, but is probably especially valuable given the tensions in the region and the blocked Israel-Palestinian negotiating process.

CONCLUSION

Beyond these specific recommendations, and in conclusion, a few final thoughts. Tariff policy is a complex topic. Preferences add to it equally complex questions of conditionalities, rules of origin and competition among beneficiaries. But a few relatively simple observations can be a guide as we look toward reform.

They begin with our own responsibility as the world's wealthiest and most powerful nation. A trade policy built upon a foundation of ethics and enlightened self-interest enables America to do more than any other country to support poor-country farmers and young women seeking autonomy and dignified work; and help weak nations alleviate poverty, combat radicalism and fundamentalism, and emerge as peaceful, stable and self-supporting states. We should fulfill this responsibility for its own sake; and as we do so, we draw some practical benefit in economics and security.

But as important as America and its policies are, we are not the world's sole recourse. Our share of world imports dropped over the past decade. The European Union is close behind, China is rising fast, Japan remains a major market, and large developing countries like India, Brazil, Egypt and South Africa are rapidly growing importers. Beneficiary countries should see exporting to the United States (or the rich world in general) as one among several options, not their only hope for success in trade. As we reform and improve our preference programs, we should look to other wealthy states to do the same, and to the large and fast-growing developing nations to open their own markets to their poorer and smaller neighbors.

And trade policy itself has limits. The best-designed trade policy – preference, FTA, multilateral agreement or other option – will fail as a development tool without peace and political stability, universal education, an effective rule of law, and functioning internal markets and safety nets. Here aid can often help, but responsibility lies ultimately with the governments of developing countries.

With these limits understood, however, trade preferences are an important and valuable part of American trade policy. Since 1974 they have been a good-faith effort to promote development and better lives in poor countries. In this time they have done much good. With continued commitment and careful reform, they can do the same in this new decade.

Thank you very much.

[1] Marc Bacchetta, Ekkehard Ernst and Juana Bustamante, *Globalization and Informal Jobs in Developing Countries*, ILO/WTO, pp. 17 and 127, at http://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/documents/publication/wcms_115087.pdf

[2] Leaders Statement at "Friends of Democratic Pakistan Summit," September 24, 2009, at http://www.state.gov/p/sca/friends/131015.htm

[3] International Labour Organization, BetterFactories baseline report August 2009, at http://www.betterfactories.org/resourcedet.aspx?z=7&iddoc=117&c=1

[4] Testimony of Dr. Muhammad Yunus, Senate Committee on Finance, May 16, 2007, at http://finance.senate.gov/hearings/45809.pdf

[5] Note: Mauritius's clothing exports to the United States have dropped by about half since passage of AGOA.

[6] World Bank "Doing Business" database, at http://www.doingbusiness.org/ExploreTopics/TradingAcrossBorders

[7] Barigye, Tony, "Stakeholders Decry Rampant Barriers to Trade in EAC," *New Times* (Rwanda), September 20, 2009, http://allafrica.com/stories/200909210739.html.

[8] See Light Years IP, at http://www.lightyearsip.net/projects/ethiopiancoffee/ for review of Ethiopia's trademarking of distinctive coffees.

[9] I am grateful to Katrin Kuhlmann of the German Marshall Fund's office in Washington for her contribution and advice on African logistical issues and Development Corridors.

[10] World Bank, *Doing Business in Landlocked Countries, 2009*, pg. 9, at http://www.doingbusiness.org/documents/DB09_landlocked.pdf