Center for Global Development

U.S. Trade Policy and Global Development

by Kimberly Ann Elliott

Polls show that many Americans increasingly see the country's trade openness as more of a threat than an opportunity, and the bipartisan political consensus in favor of open markets is badly frayed. The rules-based trade system that U.S. statesmen helped to create after World War II to encourage American and global prosperity is also grappling with new challenges, particularly the rise of large emerging markets that want a say in how the World Trade Organization (WTO) is run. The risks of this situation are greatest for the smallest and poorest countries, which would be even more marginalized if support for openness and a nondiscriminatory trade system erode further.

The new president will have both the opportunity and the responsibility to reshape American trade policy so that it continues to support economic prosperity without leaving the most vulnerable behind. The starting point for such a policy must be to rebuild broad support for open U.S. trade and investment policies. Over the long run, this can only be achieved by providing American workers and families with the tools needed to grasp globalization's opportunities and a more effective safety net for those who fall behind. It will require a long-term commitment by both the president and Congress to improve the education, pension, and health care systems. In the meantime, they need to work together to update the unemployment insurance and Trade Adjustment Assistance programs to reflect realities of the twenty-first century.

As he rebuilds the domestic foundation for openness, the new president also will need to address the near-term foreign policy and development implications of U.S. trade policies. Trade and investment are important tools for helping poor countries to generate resources, create jobs, and reduce poverty, but the United States does not employ them as effectively as it might to promote development. This is important because recent history has shown that Americans cannot isolate themselves from what happens in poorer parts of the globe—the health, prosperity, and stability of people in those regions are linked with our own.

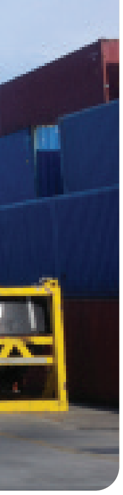
Soon after inauguration, the president will have an opening to change U.S. trade policies in modest but significant ways to be more supportive of development and to clearly demonstrate a renewed American commitment to multilateral cooperation. The president should begin by treating market access for the poorest countries as development policy rather than trade policy and by rejuvenating the U.S. commitment to multilateralism and nondiscrimination.

Broaden market access

Current U.S. trade policy discourages developing countries from exporting goods from precisely the sectors in which they have a natural advantage. Many developing countries are competitive in labor-intensive manufactured goods (textiles, apparel, footwear, and travel goods), but the average U.S. tariff for such products is more than three times the average tariff on all imports (see Figure 1, next page). Even when average tariff rates are low, as in the case of raw materials and agricultural products, poor countries often face restrictions on the amount they can export to the U.S. market. Sugar, dairy, and peanuts are notable examples.

The United States does have programs that provide preferential access for developing countries by waiving duties on some of their exports. But these programs only partially mitigate the regressive profile of U.S. trade policy because they often exclude those products where the barriers are highest:

- The Generalized System of Preferences (GSP), which waives tariffs on many products from more than 140 developing countries, excludes any product designated as "sensitive," including most of the labor-intensive manufactures shown in Figure 1 as well as key agricultural products.
- More generous GSP benefits are granted to eligible countries designated as "least-developed" by the United Nations, but important exclusions, especially on apparel and agriculture, remain.[1]
- The broadest access is provided under regional programs such as the African Growth and Opportunity Act (AGOA)—that allow apparel exports to enter tariff-free under certain circumstances, but even these agreements restrict key agricultural commodities.



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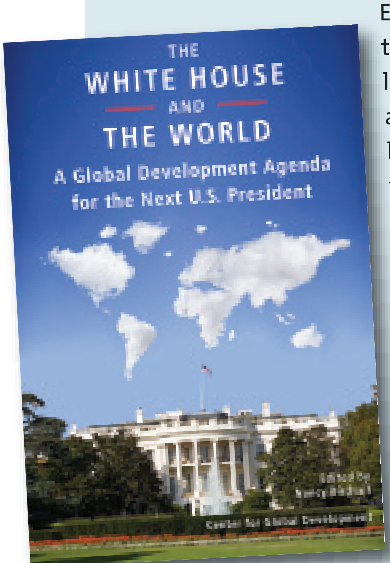
The White House and The World



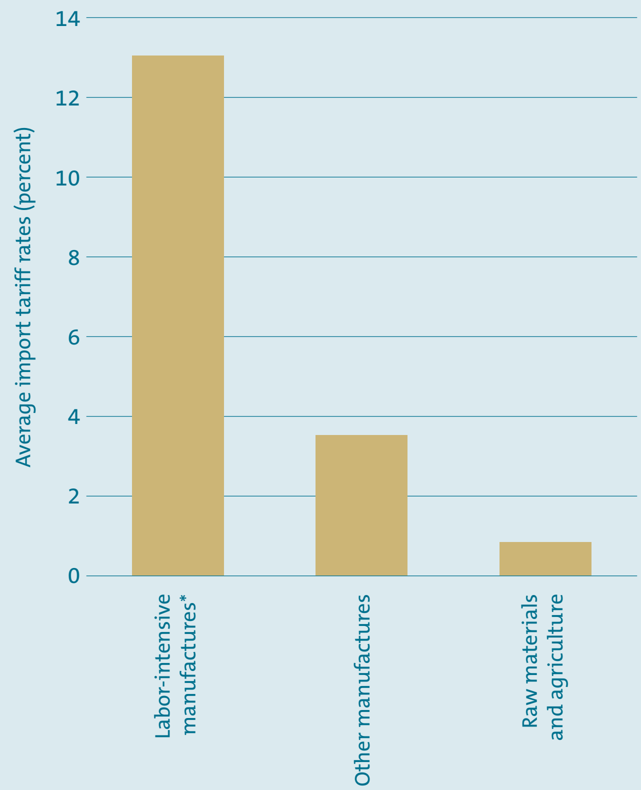
Each day brings fresh evidence that Americans' well-being is linked to the lives of others around the world as never before. Accelerating advances in technology and the creation of new knowledge offer undreamed-of opportunities. Yet global poverty, inequality, disease and the threat of rapid climate change threaten our hopes. How will the U.S. president elected in November 2008 tackle these global challenges?

The White House and the World: A Global Development Agenda for the Next U.S. President shows how modest changes in U.S. policies could greatly improve the lives of poor people in developing countries, thus fostering greater stability, security, and prosperity globally and at home. Center for Global Development experts offer fresh perspectives and practical advice on trade policy, migration, foreign aid, climate change and more. In an introductory essay, CGD president Nancy Birdsall explains why and how the next U.S. president must lead in the creation of a better, safer world.

The White House and the World Policy Briefs present key facts and recommendations drawn from the book in a succinct form designed for busy people, especially senior policymakers in the executive and legislative branches of government. This brief is drawn from "U.S. Trade Policy and Global Development" by CGD senior fellow Kimberly Ann Elliott.

The White House and the World Policy Briefs were made possible by the Connect US Fund of the Tides Foundation, by Edward Scott Jr., the chairman of CGD's board, and by others whose unrestricted funding makes such collaborative and cross-cutting work possible.

Figure 1. The United States places high tariffs on imports of labor-intensive goods



*textiles, apparel, footware, and travel goods

The development potential of U.S. trade preferences is further undermined because they are subject to periodic review and renewal by Congress, which creates uncertainty for importing and exporting businesses and for their workers. The risk that existing preferences may be withdrawn, thus raising tariffs and business costs, discourages the investment that developing countries need to take advantage of the preferences. In addition, "rules of origin," which are meant to ensure that products made elsewhere are not transshipped through preference-receiving countries to take advantage of duty-free treatment, are often onerous and, intentionally or not, can undermine the goal of expanding market access.

The GSP program, extended in 2006, was renewed again in 2008, along with the Caribbean and Andean regional programs. Since the programs were extended for just another year, the next president will have the opportunity to implement broad reforms.

Since the GSP is open to large emerging countries such as Brazil and India (but not China), it is likely to remain riddled with exceptions because of political pressure from domestic economic sectors that compete with imports. The result is a policy shaped by trade interests that undermine its effectiveness as a tool of development. But the least-developed countries are in desperate need of opportunities and assistance to help them create jobs and reduce poverty. Moreover, they account for only 1 percent of total U.S. imports and less than 10 percent of clothing imports, posing little threat to U.S. businesses. For these countries, U.S. national interests are better served by treating preferences as development policy rather than trade policy and providing the broadest possible market access.

There are thirty-four U.N.-designated least-developed countries in sub-Saharan Africa that receive nearly complete access to the U.S. market under AGOA (as does Haiti under the HOPE Act). But even AGOA imposes tight restrictions on imports of sugar, dairy, tobacco, and peanuts. Moreover, there are fourteen least-developed countries that receive only GSP benefits, and two of them, Bangladesh and Cambodia, bear a particularly heavy burden (Figure 2). In dollar terms, these countries, with average per capita incomes of less than $2 per day, pay as much in tariffs as do France and the United Kingdom on a fifteen-fold larger value of imports. Indeed, the $850 million in import duties that these countries jointly paid to U.S. customs agents in 2006 dwarfs the $120 million that they received in foreign aid.

The next president should work with Congress to reform the various preference programs in three key areas to maximize their development potential:[2]

- Simplify the various programs by bringing GSP and the regional programs together under a single umbrella with common eligibility conditions and less restrictive rules of origin.
- Make the consolidated program permanent (though individual countries would continue to graduate from the program as they developed).
- Provide full duty-free, quota-free market access for all least-developed and sub-Saharan African countries.

In addition, to address concerns that the value of the benefits currently received by African countries under AGOA would be reduced if duty-free, quota-free treatment were to be extended to other least-developed countries, especially Bangladesh and Cambodia, African low-income countries should be eligible for even simpler rules of origin and should receive targeted “aid for trade” to address supply-side challenges that retard export competitiveness.

Commit to multilateralism

In the wake of the failed trade ministers’ meeting in Geneva at the end of July, almost no one expects that the Doha Round of WTO trade negotiations can be substantially completed before the end of the current administration. That means that the new president will have to decide whether to allow the round to languish for several years or to move expeditiously to conclude the round by early 2010, with implementation starting in 2011. Focusing on a traditional negotiating agenda, based primarily on reducing the remaining barriers to trade in agricultural and

Trade policy and the rice crisis

The global food price crisis spread to the world rice market in 2008 as some countries, such as India, imposed export restrictions and others purchased large orders. As a result, world rice prices soared threefold. Meanwhile, Japan held 1.5 million tons of surplus imported rice, mostly purchased from the United States under the Uruguay Round Agreement on Agriculture. Japan feeds a significant amount of its surplus to chickens, pigs, and other livestock and largely limits Japanese consumers to using only domestically grown rice. Under normal circumstances, large-scale exports of the imported rice would be regarded as a violation of the Uruguay Round agreement and would have the potential of unfairly displacing commercial exports in third markets.

In the midst of the food price crisis, however, the Center for Global Development released a paper calling for Japan to be allowed to export this rice, which attracted congressional interest and press coverage.[1] Given the special circumstances, the United States signaled that it would be acceptable to release this rice back onto global markets. Japan began active negotiations with the Philippines, helping to prick the speculative bubble and lower global rice prices by about a third.

Still, as of early October 2008, Japan had yet to reach agreement with the Philippines or to release a significant amount of the stockpiled rice into the world market, and global rice prices remained nearly twice as high as they had been at the start of the year. If this situation persists in early 2009, the new U.S. administration should pursue quiet but persistent diplomacy to persuade Japan to quickly release high-quality, stock-piled U.S. rice either directly to global markets or by donating it to the World Food Programme, thereby helping people of rice-importing countries in Asia, Africa, and elsewhere escape severe hunger and malnutrition.

–Tom Slayton, visiting fellow, Center for Global Development

[1] Tom Slayton and C. Peter Timmer, “Unwanted Rice in Japan Can Solve the Rice Crisis—if Washington and Tokyo Act,” (Washington, D.C.: Center for Global Development, 2008), http://www.cgdev.org/content/publications/detail/16028. Congressional testimony was also provided by Arvind Subramanian, a joint senior fellow at the Center for Global Development and the Peterson Institute for International Economics in Washington, D.C.

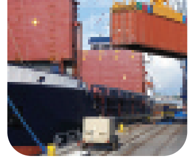
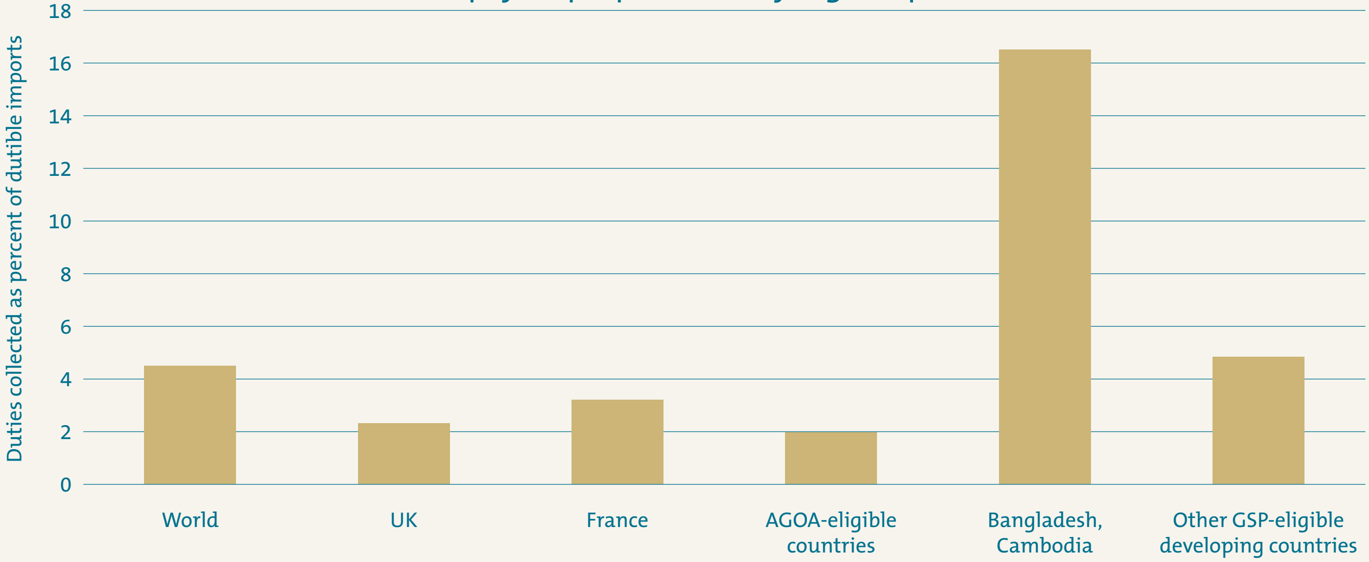


Figure 2. Many developing countries, especially Bangladesh and Cambodia, pay disproportionately high import tariffs



other goods, would deliver tangible benefits and, equally important, would clear the table for discussion of new and emerging issues that are critical to the future of the trading system. Concluding an agreement that builds on the progress made in Geneva in July would include the following benefits:

- Elimination of the European Union's agricultural export subsidies
- Lower levels of the most trade-distorting subsidies that the U.S. government can provide to farmers when prices fall
- A cut in agricultural tariffs in rich countries of over 50 percent and at least minimum access even for "sensitive products"
- A cap on rich-country tariff peaks on manufactured products no higher than 10 percent, and a cap of around 20 percent for tariffs in major developing countries

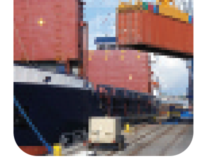
A successful negotiation could also constrain the fishing subsidies that are contributing to crashing fish stocks around the world, eliminate barriers to imports of environmental technologies to help abate climate change, and help developing countries facilitate trade by providing a common framework for customs procedures and documentation requirements.

As demonstrated clearly in Geneva in July, the political will does not currently exist in any of the major countries—developed or developing—to conclude a more ambitious Doha Round. Almost all of the statistical models suggest that the immediate economic benefits from a feasible bargain will be relatively small, especially if little is done on services (as expected). Nevertheless, an agreement would bring about important reforms in some areas and also generate significant systemic benefits. For example, a multilateral agreement is the only way that export subsidies and domestic support for agriculture in rich countries will come under the discipline of international rules. Even in the face of the current food crisis, this remains important in the long term to provide incentives to increase production in developing countries. Nor would this agreement exacerbate the current crisis because the price effects will be modest and will not take effect for many years.

A multilateral round is also the most effective way to address barriers among developing countries themselves, which is increasingly important as South-South trade grows. Most fundamentally, concluding the round would signal the continued commitment of the United States and so shore up the credibility of a rules-based system that provides smaller, poorer countries some protection against the whims of their larger trading partners.

Finally, even though multilateralism in trade creates broader global and systemic benefits and is less politically sensitive in the Congress, it is unlikely that the bilateral trade agreement track will be abandoned completely. The agreements concluded by President Bush with Colombia, Panama, and Korea were negotiated in good faith by our trading partners, including in the former two cases by amending them to address Democratic concerns about labor and environmental issues. While their benefits for the U.S. economy would be small, they would help to support important foreign policy goals. If not already approved by early 2009, the next president should press Congress to pass them expeditiously.

Going forward, if new bilateral negotiations are launched, the president should ensure that the interests of developing



countries, as well as those of American exporters, are considered, for example, by not insisting on stronger rules to protect intellectual property than are required by the WTO. The president should also avoid agreements that would divert trade from smaller, poorer neighbors, and provide technical and financial assistance to help poorer trading partners build capacity to take advantage of trade and cope with its challenges.

Conclusion

Until Americans feel that they have the tools to cope with globalization, trade policy will remain on shaky ground. The president should begin work immediately on providing this assurance by implementing policies in education, health care, pensions, and safety nets to support American workers in the face of rapid economic change. This task will likely take several years to accomplish.

The president should also take steps to ensure that trade policy supports America's broader foreign policy and development goals. The new president should propose an overhaul of all U.S. preference programs to make them permanent, simplify the rules of origin, and expand product coverage. Most important, the president should address the stark inequities in the U.S. tariff structure by providing full duty-free, quota-free access for exports from the least-developed countries and sub-Saharan Africa. This should be accompanied by broadly defined "aid for trade," including aid for infrastructure, to ensure that poor countries are able to take advantage of market access opportunities. The Doha Round should also be concluded as quickly as possible. Together, these policies would help to sustain American prosperity and spread it more widely in the poorest parts of the world.

Further Reading

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Endnotes

[1] There are fifty U.N.-designated least-developed countries with per capita incomes below $750 and other features of vulnerability, such as small size or volatile exports (www.un.org/special-rep/ohrlls/ldc/ldc%20criteria.htm). Not all are currently eligible for U.S. preferences because of their failure to meet other eligibility criteria such as human rights and democracy conditions, as in Burma.

[2] This proposal would not apply to countries such as Burma that are subject to sanctions for foreign policy reasons.

[3] Tom Slayton and C. Peter Timmer, "Unwanted Rice in Japan Can Solve the Rice Crisis—if Washington and Tokyo Act," (Washington, D.C.: Center for Global Development, 2008), http://www.cgdev.org/content/publications/detail/16028. Congressional testimony was also provided by Arvind Subramanian, a joint senior fellow at the Center for Global Development and the Peterson Institute for International Economics in Washington, D.C.