



# Rethinking US Development Policy

## Getting to Yes on Expanded US Market Access for the Poorest Countries

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### Summary

Opening markets to trade with poor countries was a key part of the eighth Millennium Development Goal and its global partnership for development. Countries recognized that development is about more than aid and that the poorest countries needed to be more integrated with the global economy to help them create jobs and opportunities for growth. In 2005, the World Trade Organization embraced this goal and developing country members agreed that those of them “in a position to do so” should also open their markets to the least developed countries (LDCs). Since then, most developed countries have removed barriers on at least 98 percent of all goods for LDC exporters, while China and India adopted less expansive programs to improve market access for these countries.

This paper explores how the United States could open its market to Asian LDCs while protecting current trade preference beneficiaries and US jobs. Support from the Obama administration for a compromise along these lines would help to ensure a positive outcome at the upcoming World Trade Organization (WTO) ministerial meeting in Bali. That, in turn, would provide key support for the multilateral trade system at a time when so much attention is on the regional negotiations across the Pacific and Atlantic oceans.



## **Getting to Yes on Expanded US Market Access for the Poorest Countries**

Opening markets to trade with poor countries was a key part of the eighth Millennium Development Goal and its global partnership for development. Countries recognized that development is about more than aid and that the poorest countries needed to be more integrated with the global economy to help them create jobs and opportunities for growth. In 2005, the World Trade Organization embraced this goal and developing country members agreed that those of them “in a position to do so” should also open their markets to the least developed countries (LDCs). Since then, most developed countries have removed barriers on at least 98 percent of all goods for LDC exporters, while China and India adopted less expansive programs to improve market access for these countries.

The United States also increased its commitment to trade as a tool of development and lowered barriers to imports from developing countries in Africa and the Caribbean, including 35 LDCs in those regions. Under the African Growth and Opportunity Act (AGOA) and various special programs for Haiti, trade in newly liberalized sectors increased sharply. With the 2015 deadline for achieving the Millennium Development Goals looming just over the horizon, however, the United States is the only developed country that is well short of the goal of duty-free, quota-free market access for *all* LDCs. As a result, there are 14 Asian LDCs that fall outside these regional preference programs and they face high trade barriers on particular products.

This paper explores how the United States could open its market to Asian LDCs while protecting current trade preference beneficiaries and US jobs. Support from the Obama administration for a compromise along these lines would help to ensure a positive outcome at the upcoming World Trade Organization (WTO) ministerial meeting in Bali. That, in turn, would provide key support for the multilateral trade system at a time when so much attention is on the regional negotiations across the Pacific and Atlantic oceans.

### **The Challenge of Extending Trade Preferences to All LDCs**

Clothing is an important sector for many poor countries because it is labor-intensive and most of them have an abundance of labor. And trade preferences are particularly important for clothing exports because tariffs in this sector remain stubbornly high. In the United States, the average tariff on apparel is 15 percent, which is more than 10 times higher than the average for all imports. The AGOA program and special preferences for Haiti under the Caribbean Trade Partnership Act include duty-free access for apparel exports from eligible “lesser developed” countries. GSP does not. Lesotho and Kenya were big beneficiaries of AGOA, realizing three-fold increases in exports to the United

States from 2000 to 2012, while Haitian apparel exports in 2012 were 60 percent higher than in 2000 as a result of expanded preference programs.<sup>1</sup>

Bangladesh and Cambodia are also LDCs and they are important apparel exporters to the American market, despite having to face the 15 percent import tax. The major apparel exporters under AGOA, as well as Haiti, fear that expansion of duty-free, quota-free market access to all LDCs, including Bangladesh and Cambodia, would negatively affect their exports. The US textile industry is concerned that increased imports from Asia would reduce demand for US fabrics and yarn among Western Hemisphere trading partners. That is because US trade agreements with Mexico, the Central American countries, and others in the region grant duty-free access for many apparel imports only if producers use US inputs. But Bangladesh and Cambodia remain very poor and reducing or eliminating high US tariffs on exports from these countries would create many more jobs for poor people. Moreover, there are 12 other Asian LDCs, including Afghanistan, Laos, Nepal, and Yemen, that are caught in the middle.

This compromise I propose is rooted in the fact that exports from AGOA and Haiti are relatively concentrated in a few clothing categories. Excluding those categories for competitive exporters under the duty-free, quota-free initiative would open important opportunities for Asian LDCs while addressing the concerns about potential job loss in the United States, Africa, and Haiti.

## **Details of the Proposal**

A first step towards compromise is to establish clear criteria to identify competitive exporters that would accept some limits under the LDC market access initiative. There are two main apparel sectors under the Harmonized Tariff System—apparel that is knitted or crocheted (HTS 61), and woven apparel, such as denim jeans or men’s tailored shirts (HTS 62). China is by far the largest foreign supplier of these goods, accounting for roughly 40 percent of US apparel imports overall. The market shares of other suppliers are dramatically smaller and only two LDCs, Bangladesh and Cambodia, account for as much as 2 percent of US imports in these two apparel categories. Therefore, 2 percent offers a feasible threshold for defining competitive exporters that would not receive full duty-free, quota-free market access under the initiative.

The second step is to identify particular apparel items that are important for AGOA countries and Haiti that might be excluded for competitive exporters—in this case, Bangladesh and Cambodia. There are 38 detailed (10-digit) tariff lines that account for at least 85 percent of Lesotho and Haitian clothing exports to the United States, 70 percent of Kenyan exports, and 88 percent of those from Mauritius. Table 2 lists these “safeguard” items, which are dominated by t-shirts, sweatshirts, jeans, and certain other shorts and trousers. In US dollar terms, these tariff lines account for all items with

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<sup>1</sup> Calculated from US trade data on the USITC Trade Dataweb online, <http://dataweb.usitc.gov/>.

exports greater than \$10 million for Haiti and \$5 million for Kenya, Lesotho, and Mauritius. A lower threshold is used for AGOA exporters because each has apparel exports that are less than half the value of Haiti's (table 3a).<sup>2</sup>

US producers do not compete directly with any of these countries, as more than 97 percent of apparel in the US market is imported.<sup>3</sup> Rather, US textile producers want to protect the captive markets for their fabric, yarn and other inputs that US negotiators created through complex rules of origin under free trade agreements in the region. The 38 tariff categories in table 2 also shield more than half of US imports from Mexico and the DR-CAFTA countries.

Even though the list is at the detailed, 10-digit tariff line level, the items designated for the safeguard are in most cases very different from the items that would be opened to competition from Asian LDCs. For example, the protected t-shirt categories are mostly crew-neck and other short-sleeve shirts, while the newly duty-free items are tank tops, singlets, and thermal shirts. In the woven garments sector, denim trousers (jeans) are protected while some corduroy pants not produced in Africa and overalls would be open to other LDCs. That means it would be difficult for Bangladesh or Cambodia to make slight adjustments to items on the safeguard list to get them reclassified as duty-free and, potentially, displace similar exports from current beneficiaries. Moreover, as shown in table 4, Bangladesh and Cambodia export a range of products that are not exported at all from Haiti or Africa.

Excluding the selected tariff lines from duty-free, quota-free market access for competitive LDC exporters would still allow roughly half of clothing exports from Bangladesh and almost 60 percent from Cambodia to receive duty-free access in the US market (table 4).<sup>4</sup> The other Asian LDCs might also see new opportunities open up. If concerns about close substitutes and the possibility of tariff reclassification persist, the excluded categories could be defined at the 8-digit tariff line level, which would cover more products. That expansion of the safeguard list would raise the share of AGOA exports covered to 96 percent for Lesotho and 86 percent and 94 percent, respectively, for Kenya and Mauritius (table 3b). However, the expanded coverage would come at

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<sup>2</sup> The analysis focuses on these three because they account for 87 percent of all AGOA apparel exports. Arguably Mauritius should not influence the choice of safeguard lines as it is a middle-income country. But the US Trade Representative chooses to classify Mauritius as a "lesser developed beneficiary country" for purposes of AGOA and it is the third largest apparel exporter under the program. For pragmatic reasons, I include two lines that are important for Mauritius but not the others, one of which accounts for two-thirds of Mauritius' exports. Note, however, that these two lines are also relatively important for Bangladesh and the benefits to that country would be enhanced by focusing the exemptions on just low-income countries.

<sup>3</sup> "U.S. Textile Plants Return, With Floors Largely Empty of People," *The New York Times*, September 19, 2013, available online at <http://www.nytimes.com/2013/09/20/business/us-textile-factories-return.html?pagewanted=all>.

<sup>4</sup> To ensure its eligibility, however, Bangladesh would also have to take credible and sustainable steps to improve working conditions in the garment sector.

substantial cost to Bangladesh and Cambodia, lowering the share of exports with duty-free access to a third for the former and 40 percent for the latter.

## Conclusions

The WTO ministerial meeting in December is the last chance to salvage something meaningful from the long, frustrating Doha Round experience.<sup>5</sup> The WTO would survive a failure in Bali, but it would be significantly weaker as a result. US willingness to open its market to the poorest countries in the world could contribute importantly to a positive outcome, which in turn would contribute to strengthening the rules-based trade system for everyone. And, of course, it would also create opportunities for increased growth and job creation in some very poor countries. A bit of compromise would be a win-win all around.

**Table 1 Identifying Competitive Exporters to the United States**

HTS 61, Articles of Apparel or Clothing Accessories, Knitted or Crocheted			HTS 62, Articles of Apparel or Clothing Accessories, Not Knitted or Crocheted		
<i>Exporter</i>	<i>Million dollars</i>	<i>Share of total US imports in sector</i>	<i>Exporter</i>	<i>Million dollars</i>	<i>Share of total US imports in sector</i>
China	14,948	36.41%	China	14,655	40.03%
Vietnam	4,141	10.09%	Bangladesh	3,304	9.02%
Indonesia	2,832	6.90%	Vietnam	2,867	7.83%
Honduras	2,147	5.23%	Mexico	2,528	6.91%
Cambodia	1,788	4.35%	Indonesia	2,122	5.80%
El Salvador	1,591	3.88%	India	1,823	4.98%
Mexico	1,316	3.21%	Italy	918	2.51%
India	1,249	3.04%	Sri Lanka	751	2.05%
Bangladesh	1,019	2.48%	Cambodia	725	1.98%
Pakistan	977	2.38%			
Nicaragua	947	2.31%			
Guatemala	914	2.23%			

Note: LDCs are highlighted  
Source: US International Trade Commission, Trade Dataweb at <http://dataweb.usitc.gov/>.

<sup>5</sup> In this policy memo to US Trade Representative, I also point to food aid reform as an issue that could expand the package that might be agreed in Bali, <http://www.cgdev.org/publication/supporting-multilateralism-and-development-us-trade-policy-duty-free-quota-free-market>.

**Table 2 Tariff Categories Covered by Compromise Proposal**

6102302010 W coats, jackets	6109901007 M t-shirts,	6203434010 M trousers,
6103431520 M trousers,	MMF	MMF
MMF	6109901050 W t-shirts,	6204624006 W corduroy
6103431540 B trousers,	MMF	trousers, cotton
MMF	6110202040 M/B	6204624011 W jeans
6103431550 M shorts, MMF	sweatshirts, cotton	6204624021 W trousers,
6104622006 W trousers,	6110202069 M/B pullovers,	cotton
cotton	cotton	6204624041 G jeans
6104622026 G trousers,	6110202079 W/G pullovers,	6204624051 G trousers,
cotton	cotton	cotton
6104622030 W shorts, cotton	6110303053 M/B pullovers	6204633510 W trousers,
6104632006 W trousers,	6110303059 W/G pullovers,	MMF, not knitted
MMF	MMF	6205202051 M shirts,
6104632011 W trousers,		cotton
MMF	6203319020 M/B suit-type	6205202066 M shirts,
6105100010 M shirts, cotton	jacket and blazer, wool	cotton
6105202010 M shirts, MMF	6203424011 M jeans	6209203000 Babies'
6108229020 W panties,	6203424016 M trousers,	trousers, cotton
MMF	cotton	
6109100004 M t-shirts,	6203424036 B jeans	
cotton	6203424046 B trousers,	
6109100012 M/B t-shirts,	cotton	
cotton, except underwear	6203424061 B shorts, cotton	
6109100014 B cotton t-shirts		
except underwear, other		

NB: W = women's; G = girls'; M = men's; B = boys'.

**TABLE 3a US APPAREL IMPORTS FROM HAITI, AGOA BENEFICIARIES, 2012 (thousand dollars)**

**Top 15 tariff lines at 10-digit level for each beneficiary with "safeguard" lines marked in yellow**

Haiti		Lesotho		Kenya		Mauritius	
HTS #	Value	HTS #	Value	HTS #	Value	HTS #	Value
6110202069	187,973	6104632006	36,090	6110303059	13,814	6105100010	2,153
6109100012	130,321	6105202010	26,202	6104622006	13,439	6109100012	1,830
6109100004	105,479	6104622006	19,785	6110202079	7,312	6110202079	1,664
6109100014	22,675	6110303053	17,607	6110202040	7,035	6109100040	1,603
6109901007	19,016	6105100010	10,228	6104622026	5,705	6110202069	1,220
6110303053	13,915	6110303059	8,716	6110303053	4,983	6110110015	1,051
6108229020	12,772	6102302010	8,389	6103431540	4,554	6106100010	701
6104622006	11,472	6110202079	7,153	6103431550	4,462	6110303053	658
6110202079	10,725	6103431550	6,097	6105202010	4,256	6106202010	489
6109100007	9,216	6103431520	4,443	6109901050	3,919	6110303059	423
6109100027	3,601	6104622011	3,834	6104622060	3,808	6110202040	337
6109901050	3,601	6104622030	3,645	6105100010	3,329	6110202020	286
6109901009	3,570	6109901075	3,312	6104632011	2,623	6104520010	270
6108110010	3,432	6109901065	2,956	6109901007	2,391	6108310020	246
6110303059	3,099	6109901050	2,816	6104622028	2,317	6110202077	245
6203424011	29,744	6203424011	45,495	6204624021	19,549	6205202051	110,343
6203424016	24,596	6203424036	23,674	6204624011	17,952	6205202066	11,999
6203434010	18,594	6204624041	18,082	6203424046	17,278	6203424011	5,745
6204633510	12,535	6204624011	10,255	6204633510	8,671	6204624011	3,765
6203319020	10,284	6203424016	4,097	6209203000	8,196	6205202061	2,209

6203119000	9,226	6209203000	2,991	6203424061	7,894	6204624021	2,189
6205302070	9,207	6203424061	1,947	6204624051	7,255	6203424016	1,910
6205302050	8,532	6203424051	1,755	6204624006	5,916	6206303011	1,513
6203424046	6,757	6203434030	1,375	6204624056	4,648	6203424051	1,446
6211430091	4,898	6203424046	960	6211420081	4,052	6204624056	641
6203411810	4,389	6204633510	625	6203434010	3,987	6205202026	616
6203434020	4,078	6204624021	564	6203424051	3,813	6206303041	293
6201110010	2,847	6212109020	488	6203424016	3,432	6203422010	281
6211430060	2,663	6204624066	270	6205302070	3,384	6204692510	237
6205202066	2,537	6204624051	141	6204692510	2,825	6204522030	171
<i>"Safeguard" lines</i>	619,395		260,002		177,952		142,406
<i>Total imports</i>	729,971		300,930		254,461		162,680
<i>"Safeguard" share</i>	84.9		86.4		69.9		87.5

**Table 3b Top Imports from Above at 8-digit Tariff  
Line Level\***

	<b>Haiti</b>	<b>Lesotho</b>	<b>Kenya</b>	<b>Mauritius</b>
61023020	0	8,389	610	31
61034315	2,313	11,352	10,546	117
61046220	14,562	27,736	27,386	29
61046320	3,219	38,583	5,346	202
61051000	302	10,498	3,329	2,157
61052020	52	26,219	4,808	223
61091000	276,660	4,995	5,132	3,961
61099010	26,909	11,392	9,582	705
61102020	198,705	12,619	15,593	4,029
61103030	17,015	26,741	19,310	1,412
62034240	61,766	77,929	34,926	9,304
62046240	3,105	29,418	60,336	6,595
62046335	12,621	626	8,712	93
62052020	2,537	0	3,402	125,225
62092030	0	2,991	8,196	21
<i>"Safeguard" lines</i>	619,766	289,488	217,214	154,104
<i>Total imports</i>	729,971	300,930	254,461	162,680
<i>"Safeguard" share</i>	84.9	96.2	85.4	94.7

\* Excludes 61082290, 62033190, and 62034340 because adding other 10-digit lines in these categories penalizes other exporters while providing little additional protection for existing beneficiaries.

**TABLE 4 US APPAREL IMPORTS FROM BANGLADESH, CAMBODIA, 2012 (million dollars)**

**Top 15 tariff lines at 10-digit level for each beneficiary with "safeguard" lines marked in yellow**

Bangladesh				Cambodia			
HTS 61	Value	HTS 62	Value	HTS 61	Value	HTS 62	Value
6110202069	88.42	6203424011	139.21	6110202079	291.44	6204624021	75.77
6109100012	65.32	6203424016	330.68	6110303059	102.95	6204624011	72.91
6108210010	54.71	6203424036	118.17	6110202069	69.75	6203424016	65.10
6110202079	52.87	6203424046	109.30	6104622011	58.86	6203424011	52.20
6105100010	41.28	6203424051	322.82	6112410010	49.17	6204624056	30.32
6108210020	39.89	6203424061	141.08	6102200010	45.92	6203424051	26.96
6107110010	36.02	6204624011	89.50	6104622006	43.44	6203434010	17.21
6107110020	34.74	6204624021	192.07	6114200010	41.62	6203424046	16.86
6108229020	24.10	6204624041	50.52	6108310010	41.46	6204633532	16.11
6105100030	22.13	6204624056	103.94	6105100010	38.13	6203434030	15.71
6109100040	21.74	6205202051	236.19	6106100010	37.14	6201933000	14.90
6110303020	19.33	6205202061	48.49	6108320010	33.91	6208913010	13.64
6110303059	18.78	6205202066	135.16	6109100040	32.07	6208220000	11.66
6109100004	17.91	6206303041	50.29	6109100060	31.83	6211430091	11.24
6108310010	17.17	6209203000	76.51	6108320025	31.45	6208210020	10.62
6110303053	15.49	6203434010	42.65	6110303053	30.32	6204624051	10.20
6103431550	14.58	6204624006	16.10	6104632006	26.22	6204633510	8.85
6104622006	9.61	6204624051	44.82	6105202010	21.26	6204624006	8.11
6102302010	9.40	6204633510	8.91	6104622030	17.12	6203424036	7.81
6104632006	7.59	6203191020	0.35	6104622026	12.24	6203424061	5.46
6103431540	7.23			6103431520	10.88	6205202066	5.40
6105202010	7.21			6102302010	9.34	6209203000	5.10
6104622026	5.31			6110202040	9.20	6204624041	3.31
6103431520	4.06			6108229020	7.39	6203319020	1.23
6110202040	3.74			6104632011	7.27	6205202051	0.71
6104622030	1.86			6103431550	6.79		
6104632011	1.79			6109901050	6.51		
6109901007	1.38			6109100012	6.21		
6109901050	0.82			6103431540	4.39		
				6109100004	4.25		
				6109100014	0.92		
				6109901007	0.88		
<b>Excluded</b>	407		1,731		727		356
<b>Total imports</b>	1,019		3,304		1,788		725
Excluded share	40.0%		52.4%		40.7%		49.1%

## Additional Reading

Bouët, Antoine, David Laborde Debucquet, Elisa Dienesch, and Kimberly Ann Elliott. March 2010. “The Costs and Benefits of Duty-Free, Quota-Free Market Access for Poor Countries: Who and What Matters.” CGD Working Paper 206. Washington: Center for Global Development.

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