United States Government Accountability Office

GAO

Report to the Chairman, Committee on Finance, U.S. Senate, and the Chairman, Committee on Ways and Means, House of Representatives

March 2008

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

Highlights of GAO-08-443, a report to the Chairman, Committee on Finance, U.S. Senate, and Committee on Ways and Means, House of Representatives

March 2008

INTERNATIONAL TRADE

U.S. Trade Preference Programs Provide Important Benefits, but a More Integrated Approach Would Better Ensure Programs Meet Shared Goals

Why GAO Did This Study

U.S. trade preference programs promote economic development in poorer nations by providing export opportunities. 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, three of these programs expire partially or in full this year, and Congress is exploring options as it considers renewal.

GAO was asked to review the programs' effects on the United States and on foreign beneficiaries' exports and development, identify policy trade-offs concerning these programs, and evaluate the overall U.S. approach to preference programs. To address these objectives, we analyzed trade data, reviewed trade literature and program documents, interviewed U.S. officials, and did fieldwork in six countries.

What GAO Recommends

GAO recommends that USTR periodically review beneficiary countries that have not been considered under the regional programs. Additionally, USTR should periodically convene relevant agencies to discuss the programs jointly.

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.

To view the full product, including the scope and methodology, click on GAO-08-443. For more information, contact Loren Yager at (202) 512-4347 or yagerl@gao.gov.

What GAO Found

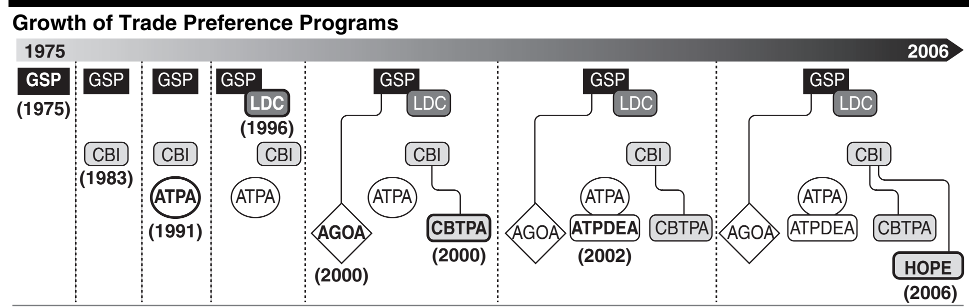
Overall, trade preference programs have a small effect on the U.S. economy. Some U.S. industries have shared-production arrangements with foreign producers that depend on preference benefits, while others compete with preference imports. Preference programs are used to advance U.S. goals, such as intellectual property rights protection.

Developing countries extensively use preferential access to boost exports to the United States. Preference imports have grown faster than overall U.S. imports, and recent changes in product coverage have expanded beneficiaries' export opportunities. Gaps in duty-free access continue for sectors such as agriculture and apparel. Preference exports remain concentrated in a few countries and products, but trends indicate greater diversification and increased use by the poorest countries. Those GAO interviewed in beneficiary countries also stressed the benefits derived from preferences.

Preference programs balance two key policy trade-offs. First, programs offer duty-free access to the U.S. market to increase beneficiaries' trade, while attempting not to harm U.S. industries. Second, Congress faces a trade-off between longer program renewals, which may encourage investment, and shorter renewals, which may provide more opportunities to change the programs to meet evolving priorities. Finally, some beneficiary countries' concerns over the eroding value of preferences must be weighed against the likely greater economic benefits of broader trade liberalization.

Trade preference programs have proliferated over time, becoming more complex (as shown below), but neither Congress nor the interagency Trade Policy Staff Committee that manages the programs has formally considered 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 reporting on some countries and issues. Separate reporting and examination also hinder measuring programs' contribution to economic development.

Growth of Trade Preference Programs



Source: GAO analysis of USTR documents on Generalized System of Preferences, African Growth and Opportunity Act, Andean Trade Preference Act, and Caribbean Basin Initiative.

Contents

Letter 1

Results in Brief 2
Background 5
Preference Programs Have Some Economic Effects on the United States and Provide an Opportunity to Advance U.S. Foreign Policy 9
By Providing New Opportunities, Preferences Can Increase U.S. Imports from Developing Countries and Thus Promote Economic Development 15
Fundamental Program Trade-offs Balance Foreign and Domestic Benefits 35
Separate Approaches to Preference Programs Impede Assessing Whether They Are Meeting Shared Goals 45
Conclusions 58
Matters for Congressional Consideration 59
Recommendations for Executive Action 59
Agency Comments and Our Evaluation 60

Appendixes

Appendix I: Scope and Methodology 61
Appendix II: Additional Information on GAO Data Analysis 64
Appendix III: Coverage, Utilization, and Limitations of Preference Programs 70
Appendix III: U.S. Imports and Global Exports from Least-Developed Countries 92
Appendix IV: Preference Imports by Program and Product Group, 2006 93
Appendix V: GAO Contact and Staff Acknowledgments 94

Tables

Table 1: U.S. Trade Preference Programs 6
Table 2: U.S. Preference Imports, 2006 10
Table 3: Leading LDC Exporters to the United States and Their Share under Preference Programs, 2006 24
Table 4: Key Administrative Aspects of Trade Preferences Programs 50
Table 5: Countries Selected for GAO Field Research 63
Table 6: Coverage and Utilization Rates by Beneficiary Country and Preference Program, 2006 82

Figures

Figure 1: Product Groups with Most Dutiable Product Lines in U.S. Tariff Schedule, Taking Into Account All U.S. Preference Programs 16
Figure 2: The Top 25 Partners of U.S. Preference Programs, 2006 21
Figure 3: U.S. Preference Imports by Beneficiary Income Levels in 2006 23
Figure 4: Key Products in U.S. Preference Imports, 1992-2006 26
Figure 5: U.S. Preference Imports: Nonfuel, Nonapparel Sectors 27
Figure 6: Diversification Index of U.S. Imports from Preference-Eligible Countries, 1992-2006 29
Figure 7: Growth of Trade Preference Programs 46
Figure 8: Countries Benefiting from Various Trade Preferences Programs, 2006 48
Figure 9: Cumulative Duty-free Tariff Lines in the U.S. Tariff Schedule, by Preference Program 71
Figure 10: Dutiable and Duty-free Lines in U.S. Tariff Schedule by Product Group 72
Figure 11: Utilization Rates of U.S. Preference Program Partners, 2006 79

Abbreviations

AGOA	African Growth and Opportunity Act
ATPA	Andean Trade Preference Act
ATPDEA	Andean Trade Promotion and Drug Eradication Act
CAFTA-DR	Dominican Republic-Central America-United States Free Trade Agreement
CBERA	Caribbean Basin Economic Recovery Act
CBI	Caribbean Basin Initiative
CBO	Congressional Budget Office
CBTPA	Caribbean Basin Trade Partnership Act
CNL	competitive need limitation
GATT	General Agreement on Tariffs and Trade
GSP	Generalized System of Preferences
HOPE	Haitian Hemispheric Opportunity through Partnership Encouragement Act
HTS	Harmonized Tariff Schedule
IPR	intellectual property rights
ITC	U.S. International Trade Commission
LDC	least-developed country
MFN	most favored nation
NAFTA	North American Free Trade Agreement
NGO	nongovernmental organization
TCB	trade capacity building
TPSC	Trade Policy Staff Committee
UNCTAD	United Nations Conference on Trade and Development
USAID	U.S. Agency for International Development
USTR	Office of the U.S. Trade Representative
WTO	World Trade Organization

This is a work of the U.S. government and is not subject to copyright protection in the United States. The published product may be reproduced and distributed in its entirety without further permission from GAO. However, because this work may contain copyrighted images or other material, permission from the copyright holder may be necessary if you wish to reproduce this material separately.

United States Government Accountability Office
Washington, D.C. 20548

March 7, 2008

The Honorable Max Baucus
Chairman
Committee on Finance
United States Senate

The Honorable Charles B. Rangel
Chairman
Committee on Ways and Means
House of Representatives

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 three decades. The purpose of these programs is to foster economic development through increased trade in qualified beneficiary countries while not harming U.S. domestic producers. The trade preferences, which reduce tariffs, or duties, for many products from eligible countries, are "nonreciprocal"—they are granted unilaterally, without requiring reciprocal liberalization for U.S. goods for countries receiving them. Currently, the United States offers the Generalized System of Preferences (GSP) and three regional programs, the Caribbean Basin Initiative (CBI), the Andean Trade Preference Act (ATPA), and the African Growth and Opportunity Act (AGOA).

As we noted in our previous report on U.S. trade preference programs,[1] these programs represent a small share of total U.S. imports, but they constitute a significant share of many beneficiary countries' exports to the United States. Imports under U.S. preference programs have grown sharply since 2002. In 2006, imports through U.S. trade preference programs totaled approximately $92 billion—about 5 percent of total U.S. goods imports.

However, while U.S. preference programs are widely used, concerns exist about perceived shortcomings in these programs. For example, frequent program lapses and renewals have created uncertainty about program availability, and questions have been raised about effectiveness. This year, three preference programs expire partially or in full; as a result, Congress is

[1]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).

exploring options for improvements as it considers program renewal. At your request, in this report, we (1) describe how U.S. preference programs affect the United States, (2) review the effects of U.S. preference programs on foreign beneficiaries' exports and development, (3) identify the trade-offs policymakers face with respect to U.S. preference programs, and (4) evaluate the overall U.S. approach to preference programs.

To address these objectives, we reviewed and analyzed U.S. laws and regulations and authoritative international trade documents. We analyzed official U.S. trade data and we spoke with officials from agencies participating in the Trade Policy Staff Committee (TPSC)—including the Office of the U.S. Trade Representative (USTR)—and reviewed and analyzed documentation we received from the agencies. We conducted a literature search on the impacts of U.S. preference programs on the United States and on foreign beneficiaries. We attended the sixth AGOA Forum in Accra, Ghana, in July 2007. We also traveled to Brazil, Colombia, Haiti, Kazakhstan, and Turkey to meet with U.S. embassy officials, foreign officials, and industry groups using U.S. preference programs. We selected at least one country from each of the preference programs based on income levels according to the World Bank and United Nations and the spectrum of issues related to usage and capacity of each of the programs in-country (for more information on the how we selected these countries, see the full scope and methodology in app. I). We conducted this performance audit 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.

Results in Brief

Overall, the effect of trade preference programs on the U.S. economy is small. Nevertheless, preference programs have economic effects on U.S. businesses, consumers, and the federal budget, and they provide an opportunity to advance U.S. trade and foreign policy. Effects on U.S. industries and individual businesses vary, as some have shared-production arrangements with foreign producers that depend heavily on duty-free preference benefits, while others compete with imports benefiting from preferences. U.S. consumers benefit to the extent that tariff savings result in lower prices on some products. Program costs include the loss of tariff revenues that would otherwise accrue to the U.S. Treasury. Preference

programs have been used to advance U.S. foreign policy goals in areas such as intellectual property, labor, and human rights, as well as on broader market-oriented and democratic governance reforms. Periodic reviews under some of the programs provide the United States leverage to engage with governments and motivate policy change.

By providing new opportunities, preferences can increase U.S. imports from developing countries and thus promote their economic development. Our analysis of U.S. tariff and trade data shows that U.S. trade preference programs now offer relatively extensive opportunities to many developing countries to increase their sales to the United States and have resulted in increased and somewhat more diversified U.S. imports from them. Gaps in product and associated duty-free coverage persist, continuing to limit beneficiaries' export options, in sectors such as agriculture and apparel; however, some key products that would otherwise face high tariffs have been added to regional programs, increasing their likely benefit to development. Available preferences are highly used by most partners, particularly countries that have access to regional programs. Fuel now accounts for more than half of the value of preference trade, but expansion of programs also appears to have helped the poorest countries increase their share of total preference exports. Nevertheless, some countries lack capacity to take advantage of the available preference opportunities. For example, 34 of the 46 beneficiaries designated as "least-developed" barely used U.S. preferences in 2006. Nevertheless, those we met in the varied range of beneficiary countries visited stressed the benefits they derive from preferences and the importance of continuing them to their trade and development.

The nature and evolution of the U.S. trade preference programs require trade-offs among competing policy goals. One key trade-off balances the programs' goals of aiming to expand U.S. imports from developing countries and of not harming U.S. industries. Balancing this tension has, in some cases, resulted in products of importance to developing countries being excluded from preference programs. Attempts to target preferential trade opportunities to the poorest countries, while phasing out benefits to more competitive countries, may benefit countries other than those targeted. A second trade-off concerns the periodic renewal of program benefits. Private sector representatives have indicated that giving programs longer renewal periods or making them permanent would help beneficiaries attract the investment necessary to derive significant development benefits from the programs. However, program renewals offer an opportunity to engage with beneficiary countries on broader policy

goals. Finally, the balancing of these trade-offs takes place against a backdrop of increasing global trade liberalization—a primary U.S. trade objective—which makes the benefits of preference programs less consequential to beneficiaries. Some developing countries have cited this concern in resisting liberalization, even though evidence suggests that, in many cases, there are greater economic benefits from trade openness compared with the costs associated with erosion of preferences.

Separate approaches to preference programs impede assessing whether they are meeting their collective goal of economic development for beneficiary countries. Over time, trade preference programs have increased in number and complexity, but Congress and the interagency TPSC that manages the programs consider them separately. While following statutory requirements, agencies' approaches to monitoring compliance with program criteria nevertheless result in disconnected review processes that are separate from ongoing U.S. efforts to protect intellectual property rights, such as the Special 301 Review, and to combat trafficking in persons; they also result in gaps in reporting on some countries. For example, the TPSC may not review countries under the preference programs that are not beneficiaries of a regional program against the eligibility criteria for a long period of time. Based on statutory directions and available resources, the U.S. government also pursues different approaches to trade capacity building in conjunction with the various trade preference programs, with AGOA having the clearest statutory direction. Different approaches agencies use to report on these programs impede an integrated assessment of progress made under U.S. trade preferences to foster development in beneficiary countries.

As Congress deliberates on whether to renew the ATPA, Caribbean Basin Trade Partnership Act (CBTPA), and GSP programs this calendar year, it should consider whether a more integrated approach would better ensure programs meet shared goals. Specifically, Congress should consider which elements of the approaches used by agencies to administer these programs, such as petition-initiated compliance reviews or periodic assessment of all countries under certain programs, have benefits that may be applied more broadly to trade preference programs in general. Congress should consider streamlining various program reporting requirements to facilitate evaluating the programs' progress in meeting their shared economic development goal.

We are recommending in this report that USTR periodically review preference beneficiaries that have not otherwise been reviewed by virtue of

their membership in the regional programs. Additionally, USTR should periodically convene the TPSC to discuss the programs jointly to determine what lessons can be learned from the various provisions concerning matters such as linkages to trade capacity building. USTR should also work through the TPSC and its associated agencies to consider ways to administer, evaluate, and report on preference programs in a more integrated manner to ensure the programs, as a whole, meet their shared goals.

We provided draft copies of this report to USTR, the U.S. International Trade Commission (ITC), the Department of Homeland Security's U.S. Customs and Border Protection Agency, the U.S. Agency for International Development (USAID), and the Departments of Agriculture, Commerce, Labor, State, and Treasury. USTR and the Departments of Agriculture, Labor, Commerce, Treasury, and State provided extensive technical comments on an interagency basis. Customs, Labor, State, and ITC also provided separate technical comments. We have incorporated these comments where appropriate. USTR indicated that it would report on the actions taken in response to the recommendations in a letter, within 60 days of public issuance of this report, as required under U.S. law.

Background

The United States extends unilateral tariff reductions to over 130 developing countries through one general trade preference program (GSP) and three regional programs—CBI, ATPA, and AGOA (see table 1). The preference programs are tools that the U.S. government uses to assist countries in the developing world.

Table 1: U.S. Trade Preference Programs

Program	Enactment date	Number of eligible countries, 2007
GSP	January 1975 • Several amendments	131
CBI[a]		
• Caribbean Basin Economic Recovery Act (CBERA)	• August 1983	19
• Caribbean Basin Economic Recovery Expansion Act	• Amended August 1990	
• Caribbean Basin Trade Partnership Act (CBTPA)	• May 2000	9
• Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act	• December 2006	1
ATPA[b]	December 1991	4
• Andean Trade Promotion and Drug Eradication Act (ATPDEA)	• Amended August 2002	4
AGOA[c]	May 2000 • Several amendments	39

Source: GAO.

[a]CBI is a collection of several trade preference programs. It was initially established in 1983 through CBERA, Pub. L. No. 98-67, Title II, 97 Stat. 384 (1983) and expanded in 1990 by the Caribbean Basin Economic Recovery Expansion Act, Pub. L. No. 101-382, Title II, 104 Stat. 655. It was substantially expanded in 2000 by CBTPA, Pub. L. No. 106-200, Title II, 114 Stat. 275 (2000). The most recent change to CBI was made by the HOPE Act of 2006, Pub. L. No. 109-432, Div. D., Title V, 120 Stat. 3181 (2006). In this report, we at times describe HOPE separately from CBI to illustrate the key characteristics of HOPE.

[b]Pub. L. No. 102-182, Title II, 105 Stat. 1236, as amended. ATPA was substantially expanded in 2002 by ATPDEA, Pub. L. No. 107-210, Div. C. Title XXXI, 116 Stat 1023 (2002) and amended in 2006 by the Andean Trade Preferences Extension Act, Pub. L. No. 109-432, Div. D, Title VII, 120 Stat. 3194 (2006).

[c]Pub. L. No. 106-200, Title I, 114 Stat. 252 (2000), as amended.

At the United Nations Conference on Trade and Development (UNCTAD) in 1964, developing countries asserted that one of the major impediments to their accelerated economic growth and development was their inability to compete with developed countries in the international trading system; the developing countries argued that preferential tariffs would allow them to increase exports and foreign exchange earnings necessary to diversify their economies and reduce dependence on foreign aid. The rationale for trade preferences was that poorer countries need to develop industrial capacity for manufacturing in order to move away from dependence on imports and production of traditional commodities that could be subject to declining prices in the long term. It was argued that poorer countries also needed time to retain some protection to develop their "infant industries," but that

increases in exports would be necessary to help countries capture economies of scale in production and earn foreign exchange. In addition, it was evident that some provision for the elimination of preferences once the industries were firmly established was necessary. The argument was that trade preferences should be temporary, introduced for a period of no less than 10 years with respect to any given industry in any developing country. At the end of the 10-year period, preferences would be withdrawn unless it could be shown that special circumstances warranted their continuation.

At the second UNCTAD conference in New Delhi in 1968, the United States joined other participants in supporting a resolution to establish a mutually acceptable system of preferences. In order to permit the implementation of the generalized preferences, in June 1971 the developed countries, including the United States, were granted a 10-year waiver from their obligations under the global trading system, now embodied in the World Trade Organization (WTO), to trade on a most favored nation (MFN)[2] basis. Following the granting of this waiver, developed countries created their GSP programs, and Congress enacted the U.S. GSP program in January 1975. The United States maintained that GSP was a temporary program to advance trade liberalization in the developing world, but it recognized the need to address the legal basis for granting these preferences, in anticipation of the expiration of the waiver in 1981. An agreement was reached at the 1979 conclusion of the Tokyo Round of Multilateral Trade Negotiations, known as the "Enabling Clause," which has no expiration date and replaces the waiver. Because the Enabling Clause applies to preference regimes that are "generalized, non-reciprocal, and non-discrimatory," separate waivers have been sought for U.S. regional preference programs.[3]

The GSP program seeks to accelerate economic growth and development in developing countries by providing access to the U.S. market. GSP establishes a basic level of product coverage common to all the preference programs. Over the years, Congress has also enacted a series of regional

[2]MFN trade is a concept promulgated in Article I of the General Agreement on Tariffs and Trade (GATT). The article provides that contracting parties to GATT must grant each other treatment as favorable as they give to any country in the application and administration of import duties.

[3]See the Decision on Differential and More Favourable Treatment Reciprocity and Fuller Participation of Developing Countries, Nov. 28, 1979, GATT Doc. L/4903, known as the Enabling Clause, paras. 3(a) and (b).

trade preference programs that have evolved to address U.S. foreign policy objectives beyond the shared general objective of promoting economic development. The regional programs expand on GSP to cover additional products that are not covered by GSP, including some apparel, footwear, and certain leather-related products. While regional programs may generally have more liberal conditions for product entry than GSP, these differences are more likely to affect products for which countries cannot receive GSP benefits (e.g., textiles and apparel). CBI was created to promote economic and political stability in the Central America and Caribbean region, to diversify exports, and to expand trade between those countries and the United States. ATPA was established to combat drug production and trafficking by providing sustainable economic alternatives to beneficiary countries in the Andean region of South America. AGOA was set up to facilitate Sub-Saharan Africa's integration into the global economy.

The regional preference programs have some eligibility criteria that overlap with GSP, but the regional programs also set forth additional eligibility criteria that are not part of the GSP statute. In order to be eligible for AGOA, a country must also be eligible for GSP. In addition, all preference programs contain certain common eligibility requirements, such as having national policies to ensure workers' rights and protect intellectual property. Regional program beneficiary countries are subject to more extensive eligibility criteria than GSP beneficiary countries. For example, ATPA requires cooperation with U.S. counternarcotics and antiterrorism efforts, and AGOA requires that countries be making progress toward political pluralism and not commit gross violations of human rights.

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 ITC. USTR utilizes an interagency mechanism, the TPSC, and its associated subcommittees to consult and coordinate with these and other agencies such as USAID.

This year, ATPA,[4] CBTPA,[5] and GSP[6] expire, and Congress will need to explore the option of renewing these programs. At the same time, legislative proposals to provide additional, targeted benefits for the poorest countries are pending. In addition to examining the benefits trade preference programs provide, Congress will need to consider concerns by beneficiary and other developing countries, industry groups, and economic experts surrounding these programs. Such concerns include the potential for diversion of trade from other countries that these programs can cause; the complexity, scope of coverage, certainty, and conditionality of these programs; and the potential opposition to multilateral and bilateral import liberalization that preference programs can create.

Preference Programs Have Some Economic Effects on the United States and Provide an Opportunity to Advance U.S. Foreign Policy

The overall effects of trade preference programs on the U.S. economy are small, but preference programs have direct effects on U.S. businesses, consumers, and the federal budget. Effects on U.S. industries and individual businesses vary; some have shared-production arrangements with preference beneficiaries, while a few U.S. industries compete with imports benefiting from preferences. U.S. consumers have benefited from lower prices resulting from duty-free imports under trade preference programs, while tariff revenues to the U.S. Treasury have been lower because of foregone tariff revenues. In addition, preference programs serve as a tool to advance U.S. foreign policy objectives.

The Overall Effect of Trade Preference Programs on the U.S. Economy Is Small

Imports under preference programs represent a small share of total U.S. imports. As shown in table 2, U.S. preference imports across all programs accounted for about 5 percent of U.S. imports in 2006.

[4]ATPA expires Dec. 31, 2008.

[5]Certain CBI countries receive enhanced benefits under CBTPA on previously excluded products, such as apparel, footwear, handbags, etc. These enhanced benefits expire on Sept. 30, 2008. Other CBI benefits are permanent.

[6]GSP expires Dec. 31, 2008.

Table 2: U.S. Preference Imports, 2006

Dollars in billions

Total U.S. imports	Total preference imports[a]	Percentage of U.S. imports
	$36 (AGOA)	2%
	33 (GSP)	1.8
	13 (ATPA)	0.7
	10 (CBI)	0.5
Total: $1,845	**$92**	**5%**

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

[a]CBI includes CBTPA imports, and ATPA includes ATPDEA imports. Shares are based on dollar value of imports. Program values are based on preferences actually claimed upon entry.

In general, studies of the effects of preference programs on the U.S. economy find that the overall impact is small. For example, the ITC consistently finds in its biennial reports on ATPA[7] and CBI[8] that the impact of imports from these programs on the U.S. economy is minor. In the most recent ITC reports on ATPA and CBI, ITC reported again that the overall effect of imports from these programs on the U.S. economy continued to be negligible, representing only 0.09 percent and 0.10 percent, respectively, of the U.S. gross domestic product in 2005. Similarly, in January 2008, the Congressional Research Service concluded that the overall effects of GSP on the U.S. economy are relatively small and that the rate of increase of imports entering under GSP in the past 10 years is relatively flat, indicating that there may be little impact on the U.S. market as a whole by extending these preferences.[9]

[7]Section 206 of ATPA requires ITC to prepare a biennial report assessing the actual and the probable future effects of ATPA on U.S. industries and U.S. consumers. The most recent is: ITC, *The Impact of the Andean Trade Preference Act*, 12th Report 2005, Investigation No. 332-352 (Washington, D.C., ITC Publication 3888, September 2006).

[8]Section 215 of CBI requires ITC to report biennially to Congress with an assessment of the actual and probable future effects of CBI on U.S. consumers and U.S. industries. The most recent is: ITC, *The Impact of the Caribbean Basin Economic Recovery Act*, 18th Report 2005-2006, Investigation No. 332-227 (Washington, D.C.: ITC Publication 3954, September 2007).

[9]Congressional Research Service, *Generalized System of Preferences: Background and Renewal Debate* (Washington, D.C., January 2008).

Trade Preference Programs Have Direct Effects on Some U.S. Businesses, Consumers, and the Federal Budget

Businesses

Some U.S. industries and individual businesses have shared-production arrangements with foreign producers that depend heavily on duty-free preference benefits. Over the last two decades, U.S. producers of apparel have come to rely on "outward processing arrangements." In such arrangements, U.S. factories focus on relatively capital-intensive operations, such as fabric production. Fabrics and components are then shipped to CBI, ATPA, or AGOA countries, where factories conduct the relatively labor-intensive business of assembling the finished garments.

In addition, U.S. manufacturers and importers benefit from the lower cost of consumer goods and raw materials imported under preference programs, such as jewelry, leather, and aluminum imported through GSP. Furthermore, U.S. manufacturers also rely on and benefit from intermediate goods from preference beneficiary countries. For example, Brazil is a major user of GSP. In 2006, 10 percent of all nonfuel imports to the United States from all preference programs came from Brazil.[10] Much of what Brazil ships to the United States under GSP are intermediate goods produced by U.S.-affiliated multinational companies. Once exported to the United States, these goods are further processed or incorporated into U.S.-manufactured goods such as cars and power generators. Given the importance of these intermediate goods to domestic manufacturers, the Congressional Research Service reported that an expiration or modification of GSP would directly affect them, at least in the short term. Smaller U.S. businesses that regularly import inputs under a preference program may be especially affected by a lapse or expiration of the program because they rely on GSP's duty savings to compete with much larger companies, and they are less able to adjust to increased costs. A wide range of U.S. companies submitted official comments to USTR on several countries during an overall review of GSP in 2006.[11] For example, concerning GSP imports from Thailand, U.S. companies' comments were

[10]GAO-07-1209.

[11]For more information on the overall review, see p. 41.

overwhelmingly positive and supported continued preferential treatment for imports that included items such as jewelry, bottle-grade polyethylene terephthalate resin, motor vehicle tires, microwave ovens, ophthalmic lenses, televisions, cookware, golf equipment, and tuna.

On the other hand, certain other U.S. industries compete with imports benefiting from preferences. For example, ITC estimates that U.S. methanol producers may have experienced displacement of between 5.2 percent and 10.1 percent of production, valued at $27.6 million to $54.2 million in 2006, because of methanol imports from CBI countries. ITC also found that U.S. asparagus, fresh cut roses, chrysanthemums, carnations, and anthuriums may have experienced displacement of more than 5 percent of the value of production in 2005 because of imports that receive ATPA preferences. However, product coverage of the preference programs is dynamic, based on statutory provisions. Based on thresholds added by the legislation passed by Congress in December 2006 when it extended the GSP program, the President removed GSP duty-free treatment for methanol from Venezuela.

Consumers

U.S. consumers benefit to the extent that tariff savings result in lower prices on final products, as well as from the lower costs of intermediate goods. U.S. importers of goods who import duty-free components, parts, or materials under GSP maintain that the preference results in lower costs for these intermediate goods that, in turn, can be passed on to consumers. In a May 1, 2006, letter to the House Ways and Means and Senate Finance committees, a coalition of importers and retailers stated that if GSP were allowed to expire or its benefits were reduced, it "would impose a costly hardship on not only beneficiary countries but their American customers as well." As part of biennial reviews of CBI and ATPA, ITC assessed the effects of these programs on the U.S. economy, industries, and consumers.[12] Following are illustrative (not comprehensive) single-year examples extracted from the most recent ITC reports on CBI and ATPA, highlighting products where U.S. consumers benefited:

[12]See ITC, CBI 18th Report (Investigation No. 332-227) and ATPA 12th Report (Investigation No. 332-352), analytical approach section.

- ITC found that, in 2006, knitted cotton T-shirts provided the largest gain in consumer surplus[13] ($63.7 million to $68.5 million) resulting exclusively from CBI tariff preferences. The price U.S. consumers would have paid for imports of such T-shirts from CBI countries would have been 12 percent higher without CBI. Men's and boys' woven cotton trousers or shorts provided the second-largest gain in consumer surplus ($56.7 million to $62.3 million). Without CBI, the import price of such woven cotton trousers or shorts from CBI countries would have been 15 percent higher.

- ITC found that, in 2005, men's or boys' knitted shirts provided the largest gain in consumer surplus ($30 million to $34 million) from lower prices and higher consumption resulting exclusively from ATPA tariff preferences.

Federal Budget

In December 2006, the Congressional Budget Office (CBO) issued cost estimates associated with the extension of GSP, ATPA, and AGOA and the enactment of HOPE under the Tax Relief and Health Care Act of 2006,[14] including the loss of tariff revenues that would otherwise accrue to the U.S. Treasury. In the multiyear review, CBO came to the following conclusions:

- Changes to the GSP program will result in an estimated reduction in revenues of $297 million in 2007 and of $992 million over the 2007 to 2009 period. This estimated reduction of revenue is due to the extension of GSP to December 31, 2008, and the new provisions concerning competitive need limit waivers. In addition, CBO estimated in its "Budget Outlook" for fiscal years 2007 to 2016 that revenue losses would amount to about $3.1 billion if GSP were extended to 2011.

- The extension of ATPA to June 30, 2007, was estimated to result in a decrease in revenues of $25 million in 2007. The most recent ATPA extension to December 31, 2008, will result in $119 million in reduced revenues in 2008 and 2009, according to a February 2008 CBO cost estimate.

[13]ITC defines consumer surplus as a dollar measure of gains (or losses) to consumers resulting from lower (higher) prices.

[14]Title V of Pub. L. No. 109-432, Dec. 20, 2006.

- AGOA will result in an estimated reduction in revenues of about $2 million in 2007, $127 million over the 2007 to 2011 period, and $180 million over the 2007 to 2016 period.

- The enactment of HOPE will result in an estimated reduction of $4 million in 2007, and $28 million over the 2007 to 2011 period.

Without econometric analysis, it may be difficult to determine whether, absent preferences, the same volume of goods would still be exported to the United States. If no or a reduced volume of exports occurs without the preferences, less tariff revenue would be foregone.

Preference Programs Have Significance as a Tool to Advance U.S. Foreign Policy

Preference programs have been used to advance U.S. foreign policy goals in areas such as intellectual property protection, labor, and human rights, as well as on broader market-oriented and democratic governance reforms. Some supporters of GSP and other nonreciprocal preferences believe that the country practice criteria that developing countries must meet if they are to qualify for GSP provide the United States with political leverage that can be used to support U.S. foreign and commercial interests. Periodic and petition-initiated reviews under the programs provide the United States the opportunity to engage with governments and motivate policy change. As we noted in our previous report,[15] these reviews serve to encourage beneficiary countries to comply with country eligibility criteria, such as the extent to which the country is providing adequate and effective protection of intellectual property rights (IPR), taking steps to afford internationally recognized worker rights, and implementing its commitments to eliminate the worst forms of child labor. For example, GSP has annual reviews of country and product eligibility, based on petitions (requests) filed with USTR concerning GSP beneficiary countries and products by U.S. industry groups, governments, and nongovernmental organizations (NGOs) such as labor unions.[16] According to USTR, the United States works with a beneficiary country during a country practice review before removing it

[15] GAO-07-1209.

[16] In the annual GSP review process, petitions may be filed by interested parties to request actions allowed by the statute and regulations governing the GSP program, including adding or removing a product from overall GSP eligibility and waiving the CNL for a product from a specific beneficiary. In addition, 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.

from eligibility. Our review of agency records and meetings with officials and interest groups indicate that the leverage associated with preferences creates an opportunity to secure improvements in IPR and labor protections.

Regional trade preference programs also serve important foreign policy interests. For example, ATPA complements counternarcotics efforts by providing opportunities for legal crops to be exported to the U.S. market, thus encouraging farmers to shift away from coca and heroin poppy production. Similar to GSP, ATPA also has an annual review of country eligibility practices, based on petitions filed against beneficiary countries by the public; this review has not resulted in the withdrawal or suspension of benefits from any ATPA country.

By Providing New Opportunities, Preferences Can Increase U.S. Imports from Developing Countries and Thus Promote Economic Development

In assessing the effects of trade preferences on beneficiary country development, economists note that preferences are just one element of a complex economic development process and that isolating their direct impact is difficult. However, there is fairly wide agreement among economists that expanding trade promotes growth and development. If trade preferences lead to increased exports, and export earnings are used to expand industrialization and promote a more diverse economy, then preferences can contribute to the economic development of beneficiary countries.[17] To shed light on the question of whether U.S. trade preference programs are helping countries develop, we look at the fundamental link between the programs and the trade activity of beneficiary countries, focusing on three key elements: (1) the extent and nature of the new opportunities provided under U.S. preference programs, (2) whether countries are fully using the available opportunities, and (3) whether U.S. imports from beneficiaries have grown and diversified. We also report countries' perspectives on the benefits they derive from U.S. preferences,

[17]In principle, a country granted duty-free access under U.S. trade preference programs would see demand for its exports grow, relative to exporting countries still facing MFN (normal) tariffs. If the exporter is a "price taker" on world markets for its goods—i.e., if its share of world supply is so small that it does not change world prices—it may also be able to keep the difference between the prevailing world market price and what it is able to charge as a result of duty savings, thereby transferring the foregone duties to the exporting country. The increase in exports and the duty transfer both would benefit the exporting country. Quantifying these effects and isolating them from other forces influencing countries' growth and development has proven difficult. As a result, economists tend to look at descriptive data on program coverage, use, and trade to analyze the likely effect of preferences on countries' development.

based on fieldwork. Overall, we find that U.S. trade preference programs have contributed to increased and more diverse trade for many developing country partners.

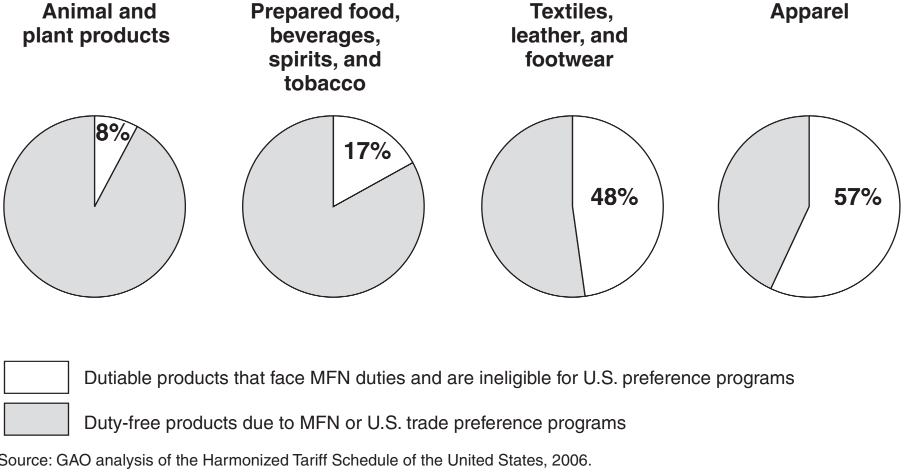
Opportunities Offered Beneficiaries under U.S. Preferences Have Expanded

To assess the opportunities provided to beneficiary countries by U.S. preference programs, we examined the scope of programs' coverage by beneficiary and product, the size of tariff cuts (or margins of preference), and some eligibility conditions that can affect the ability of beneficiaries to access program opportunities. Overall, we found that the opportunities for beneficiaries to export under preferences have expanded, but still have gaps (see detailed data and further discussion in app. III).

Coverage

As detailed in appendix III, product coverage, as measured by tariff lines eligible for duty-free treatment, is extensive for most U.S. preference programs, products, and partners. In 1996, the number of duty-free tariff lines offered under GSP was expanded to provide additional benefits to beneficiary least-developed countries (LDC). Enactment of the regional programs continued this expansion. But, as figure 1 shows, notable gaps remain in tariff lines available for duty-free import under preference programs, particularly in agricultural and textile and apparel products.

Figure 1: Product Groups with Most Dutiable Product Lines in U.S. Tariff Schedule, Taking Into Account All U.S. Preference Programs



Source: GAO analysis of the Harmonized Tariff Schedule of the United States, 2006.

Moreover, in examining coverage by beneficiary countries' trade with the United States in 2006, using the ratio of eligible to dutiable imports[18] for each partner, we find wide variation in coverage even within programs. Our analysis finds that: (1) countries eligible for only GSP or GSPLDC have the least coverage of partners' dutiable imports—approximately 25 percent, (2) regional programs and GSPLDC have much higher coverage of partners' dutiable imports, and (3) country variations in coverage are wide. For example, 35 GSP or GSPLDC beneficiaries, including Lebanon, Paraguay, Somalia, and Zimbabwe, have high coverage rates, exceeding 75 percent of the value of their dutiable imports. Yet, 54 GSP or GSPLDC beneficiaries such as Bangladesh, Egypt, Pakistan, and Uzbekistan have low coverage rates (less than 25 percent of dutiable imports).

Preference Margins

The expansion of U.S. program coverage since 1996 appears to have increased the benefit of U.S. preferences by adding some key products under GSP-LDC and the regional programs that otherwise would face relatively high U.S. tariffs. A recent effort[19] to quantify margins of preference (the difference between the preference rate and the otherwise-applicable tariff rate) across all U.S. preference programs, including GSP, by staff economists at ITC and the World Bank finds that preference margins are relatively high for apparel products, as well as certain agricultural goods (melons, cut flowers, frozen orange juice, raw cane sugar, and asparagus);[20] they tend to be relatively low for other products and fairly uniform among programs.

Program Conditions

Conditions on product entry are also a significant factor affecting opportunities and trade under U.S. preference programs. While the data on

[18]See appendix II for a discussion of our definition of eligible and dutiable, and our methodology for calculating country trade coverage.

[19]Judith Dean and John Wainio, "Quantifying the Value of U.S. Tariff Preferences for Developing Countries," World Bank Policy Research Working Paper 3977 (2006), forthcoming in C. Braga, B. Hoekman, and W. Martin, eds., *Trade Preference Erosion: The Terms of the Debate* (New York: The World Bank and Palgrave Macmillan). The authors develop and use detailed tariff rate data for all U.S. imports, and estimate ad valorem (by value) tariff rates for goods such as agriculture and apparel that face complex tariffs and tariff-rate quotas, as well as the overall tariff savings from preferences by country. Such analysis is beyond the scope of GAO's present study.

[20]Despite relatively low MFN tariffs, petroleum-related products, chemicals, jewelry, and electrical machinery were also significant products in the duty savings of countries. Regarding cut flowers, ITC staff note that with duty rates of some 6.8 percent and high shipping costs, the effective duty rate (margin of preference) is somewhat lower.

coverage and margins of preference suggest a degree of success in improving the benefits of U.S. preference programs, in general, recent assessments of the literature express some skepticism as to whether trade preferences, and GSP in particular, have had more than a very modest impact on the export performance, and hence the development, of eligible countries. In discussing factors that underlie the performance of preference programs, researchers Ozden and Reinhardt, for example, not only indicate that GSP often fails to cover products in which beneficiary countries have the greatest comparative advantage, such as agricultural products, but cite administrative features of the programs—notably, export ceilings and rules of origin—as key constraints on benefits.[21] Nevertheless, conformity with such requirements can be vital to ensuring that benefits flow to the intended country—that is, the designated beneficiary country or countries, rather than countries that are ineligible for preferences.

Two specific conditions—"competitive need limitations" and "rules of origin"—illustrate how administrative implementation of statutory provisions, although addressing important policy considerations, may affect the ability of beneficiary countries to fully access the opportunities otherwise offered by U.S. preference programs. GSP places export ceilings, or competitive need limitations (CNL), on eligible products from GSP beneficiaries that exceed specified value and import market share thresholds (LDCs and AGOA beneficiaries are exempt). Rules of origin for U.S. trade preference programs typically specify a minimum percentage value-added to the entering product that must come from the beneficiary country. However, more complex rules apply to some products, notably textiles and apparel. Our fieldwork revealed examples where complex rules-of-origin requirements appear to be complicating preference trade, for example, in Haiti and in Ghana. On the other hand, liberalizing quotas and rules of origin have been the principal means by which the regional programs have been liberalized or made more likely to permit imports in recent years, particularly on apparel products.

[21]Caglar Ozden and Eric Reinhardt, "Unilateral Preference Programs: The Evidence"; chapter 6 in Simon J. Everett and Bernard Hoekman, eds., *Economic Development and Multilateral Trade Cooperation* (Washington, D.C.: The World Bank and Palgrave Macmillan, 2006), 197-199. For another review of the research on trade preferences, see chapter 1, Bernard Hoekman and Caglar Ozden, eds., *Trade Preferences and Differential Treatment of Developing Countri*es (Cheltenham, U.K., and Northampton, MA: Edward Elgar, 2006), xi-xlii.

Utilization of Regional Programs Is Fairly High Compared with GSP but Varies by Partner

The effectiveness of trade preference programs in expanding trade is also dependent on beneficiaries' actual use of the preference opportunities offered. The utilization rate indicates the extent to which beneficiaries are taking advantage of the opportunities offered.[22]

Our analysis shown in appendix III finds that U.S. preference programs have fairly high utilization rates, but utilization varies by program and beneficiary. Although utilization of the regional preference programs is higher than utilization of GSP, to some extent, this lower utilization of GSP reflects the fact countries that have access to both GSP and regional programs often opt to use the regional programs. Our analysis of utilization across programs by beneficiary country finds substantial variation. For example, under AGOA, a number of countries, such as Nigeria, Angola, Chad, and Gabon have high utilization rates, but 12 of the 38 AGOA eligible countries did not export under the program.[23]

Overall U.S. Imports from Developing Countries Have Risen, and Preference Imports Have Risen Even Faster

The improved opportunities for market access provided by U.S. preference programs appear to have contributed to the rapid growth in U.S. imports from developing countries in recent years. The total dollar value of U.S. imports from both developed and developing countries has steadily grown since 1992, but developing countries have witnessed much faster growth since 2000. The developing countries' share of total U.S. imports has increased, while the developed (high-income) countries' share has declined. The overall gains by developing countries are mostly attributable to middle-income developing countries. The share of low-income and LDCs remains small.[24]

[22]The ratio of the actual imports entering the United States that claim a preference, to the total imports that are eligible to do so, is termed the "utilization rate." See appendix III for data and further discussion.

[23]Some of the 12 did export under GSP.

[24]The United Nations currently designates 50 countries as "Least Developed Countries." Least Developed Countries (LDC) are countries which according to the United Nations meet certain specific criteria, including a low-income criterion, a human resource weakness criterion, and an economic vulnerability criterion. To be added to the list, a country must satisfy all three criteria. To qualify for graduation, a country must meet the thresholds for two of the three in two consecutive reviews. Also, the list does not include countries whose population exceeds 75 million. There is thus not a one-to-one correspondence between the level of income of countries and their LDC designation.

Turning to preference imports specifically, we also find that preference programs have generally contributed to the increasing shares of developing countries in U.S. imports, particularly imports from low-income developing countries. However, imports under U.S. preference programs only accounted for about 5 percent of total U.S. imports in 2006. 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, when preference imports grew faster than overall U.S. imports. 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, which also suggests an expansionary effect of program changes that increased product coverage and liberalized rules of origin for LDCs under GSP in 1996 and African countries under AGOA in 2000.

A Few Countries Dominate U.S. Preference Imports, but Lower-Income Countries Have Garnered a Growing Share

While U.S. preference imports remain concentrated in a few countries, overall the poorer countries' share of preference imports has risen recently. As can be seen from figure 2, the top 5 suppliers under preference programs in 2006 accounted for 58 percent of preference imports, and the top 10 suppliers accounted for 77 percent of preference imports. Among the top 10 suppliers, two countries—Nigeria and India—are low-income, and six countries—Angola, Ecuador, Colombia, Thailand, Peru, and the Dominican Republic—are lower middle-income countries.[25] The top 25 preference beneficiaries accounted for over 95 percent of U.S. preference imports.

[25]With the entry into force of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR), the Dominican Republic was no longer a U.S. preference program beneficiary as of Feb. 28, 2007.

Figure 2: The Top 25 Partners of U.S. Preference Programs, 2006

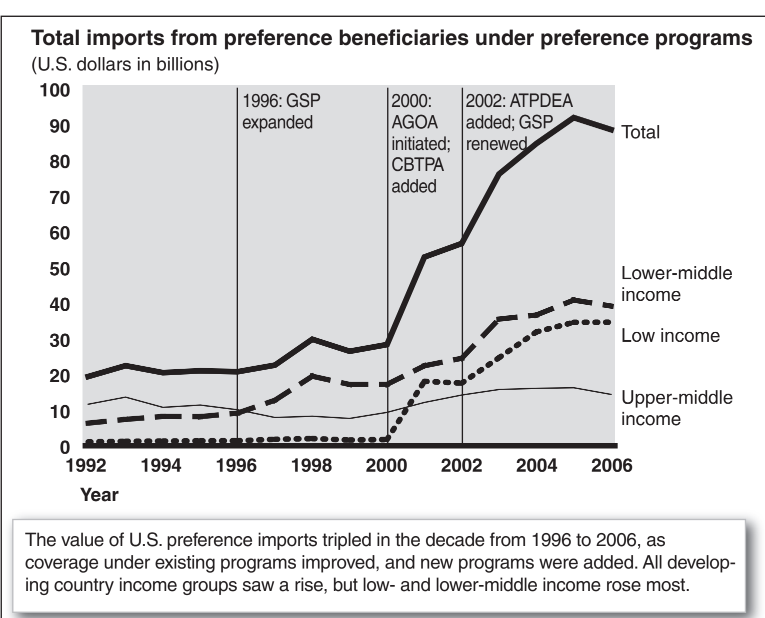
- Top 10 countries comprise the top 77 percent of the preferences import market.
- Of the top 25 preference suppliers, more than half (14) are low or lower middle income.

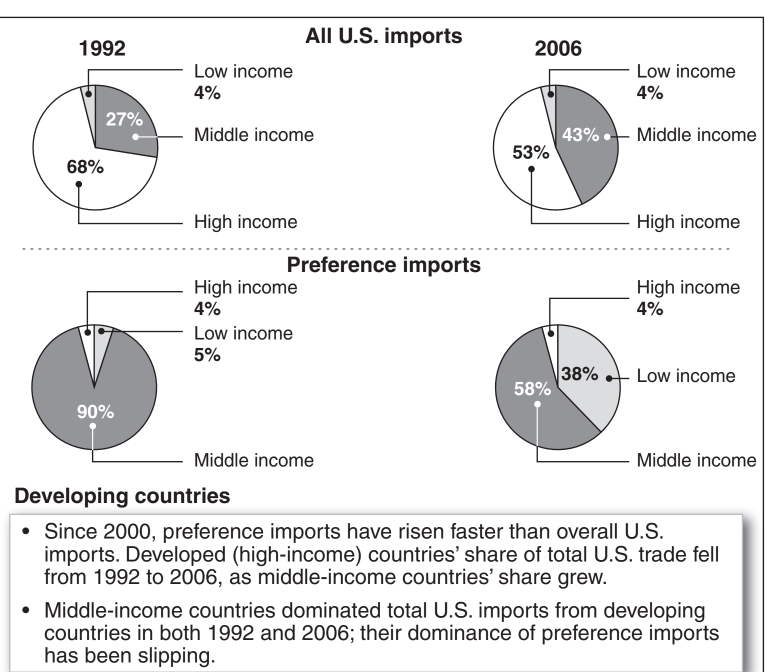
		U.S. preference imports in 2006		Income level			
	Partner	Preference imports U.S. dollars in billions	Share of country and total U.S. preference imports	Low	Low middle	Upper middle	High
1	Nigeria	$25.8	28 %	●			
2	Angola	11.3	12		●		
3	India	5.7	6	●			
4	Ecuador	5.4	6		●		
5	Colombia	5.0	5		●		
6	Thailand	4.3	5		●		
7	Brazil	3.7	4			●	
8	Trinidad and Tobago	3.7	4				●
9	Peru	3.4	4		●		
10	Dominican Republic	2.6	3		●		
	Subtotal	**$70.8**	**77 %**				
	Indonesia	1.9	2		●		
	South Africa	1.8	2			●	
	Chad	1.7	2	●			
	Equatorial Guinea	1.6	2			●	
	Costa Rica	1.5	2			●	
	Gabon	1.3	1			●	
	Philippines	1.1	1		●		
	Turkey	1.1	1			●	
	Congo	0.8	1	●			
	Guatemala	0.7	1	●			
	Venezuela	0.7	1		●		
	Argentina	0.7	1		●		
	Honduras	0.6	1	●			
	Russia	0.5	1		●		
	Kazakhstan	0.5	1		●		
	All others	4.9	5				
	Total	**$92.1**	**100 %**				

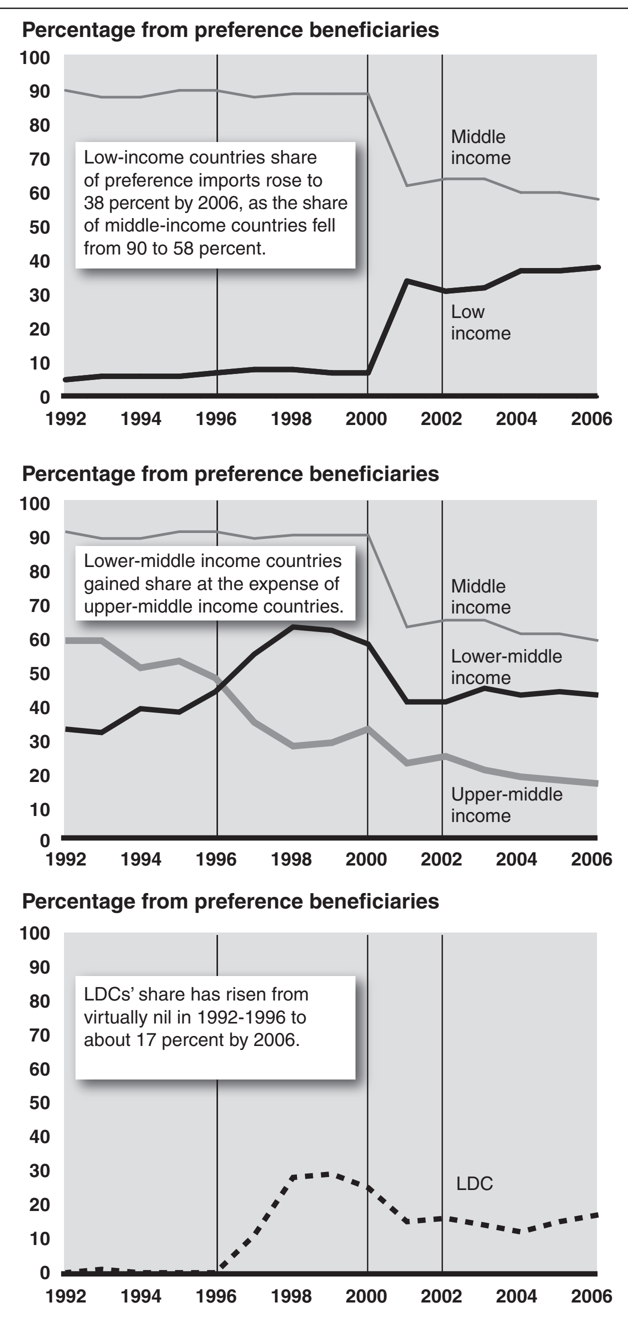
Source: GAO analysis of official U.S. trade statistics.

Nevertheless, as figure 3 shows, the poorest countries have been more successful in increasing their shares in total U.S. imports under preferences than they have been in increasing their share of overall U.S. imports. The year 2000 marks the beginning of gains in preference imports for low-income countries and declines in the share of middle-income developing countries. By 2006, imports from low-income countries had risen to 38 percent of U.S. preference imports. Within the middle-income grouping, the share of upper middle-income countries has generally declined since 1992, while that of lower middle-income countries rose, then moderated; in 1996, lower middle income countries share surpassed that of the upper middle income countries. The share of U.S. preference imports from the least-developed countries was 17 percent in 2006, versus nearly zero until 1996—the year of major revisions in GSP.

Figure 3: U.S. Preference Imports by Beneficiary Income Levels in 2006







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

Note: The data presented in this figure is for the current set of beneficiary countries. Income categories were assigned based on 2006 rankings by the World Bank or the United Nations. Each country's income group remained constant for the period. In other words, if a country's present income status was higher in 2006 than it was previously, it is not captured here.

Reliance on Preference Programs among Least-Developed Countries Varies Considerably

While our analysis shows that the LDC's share of U.S. preference imports has risen, the extent of their trade and reliance on preferences (as measured by the share of preference imports in total imports) varies considerably. Three LDCs—all oil exporters—rank among the leading suppliers of total imports into the United States under preference programs (Angola, Chad, and Equatorial Guinea) as shown in table 3. Other LDC exporters to the United States, such as Lesotho, Madagascar, and Haiti are also extensive users of preference programs and have the opportunity to export apparel under AGOA or an expanded CBI. In contrast, several of the top 10 LDC exporters such as Bangladesh, Cambodia, Liberia, Niger, Nepal, and Guinea do not have the opportunity to export textiles and apparel under GSP and do not rely on preferences to support their exports to the United States. Overall, 34 of the 46 eligible LDCs barely used preference programs for their exports to the United States.[26]

Table 3: Leading LDC Exporters to the United States and Their Share under Preference Programs, 2006

Dollars in millions

Country	Total U.S. imports	Ratio of preference program imports to total U.S. imports from country or country group
Angola	$11,514	98.2%
Bangladesh	3,268	0.6
Cambodia	2,188	0.2
Chad	1,905	89.1
Equatorial Guinea	1,718	90.7
Haiti	496	76.7
Lesotho	408	94.2

[26]For further information comparing the distribution of total U.S. preference imports in 2006 to the distribution of total LDC exports to the world, see appendix IV. Forty-six of the 50 countries identified by the United Nations as LDCs are U.S. preference program beneficiaries.

(Continued From Previous Page)

Dollars in millions

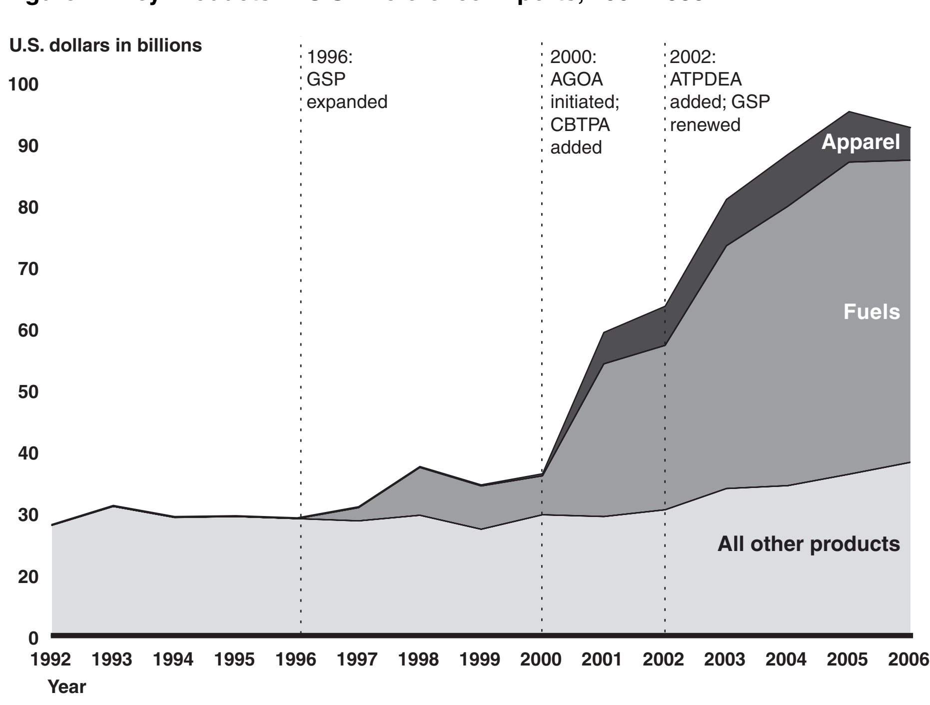
Country	Total U.S. imports	Ratio of preference program imports to total U.S. imports from country or country group
Madagascar	281	82.4
Liberia	140	0.0
Niger	124	0.0
Nepal	99	4.0
Guinea	92	0.2
Others	568	24.4
Total LDC group	**$22,800**	**69.0%**

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

Fuels and Apparel Dominate Preference Imports, but Overall Imports Have Diversified Somewhat

The growth in imports from developing countries is accompanied by significant changes in the product mix of U.S. imports from preference-eligible countries. Notably, the rapid rise in fuel imports since 1996 is the defining feature of U.S. imports under preference programs. Fuels were less than 1 percent of U.S. imports from preference countries in 1996 but, in 2006, account for nearly 60 percent of U.S. preference imports from preference-eligible countries. Figure 4 also highlights the importance of apparel in the growth of U.S. preference imports up to 2005. After the phase out of global quotas on textiles and apparel in 2005 and the entry into force of the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) for several CBI nations during 2006, however, these imports under preference programs declined somewhat.

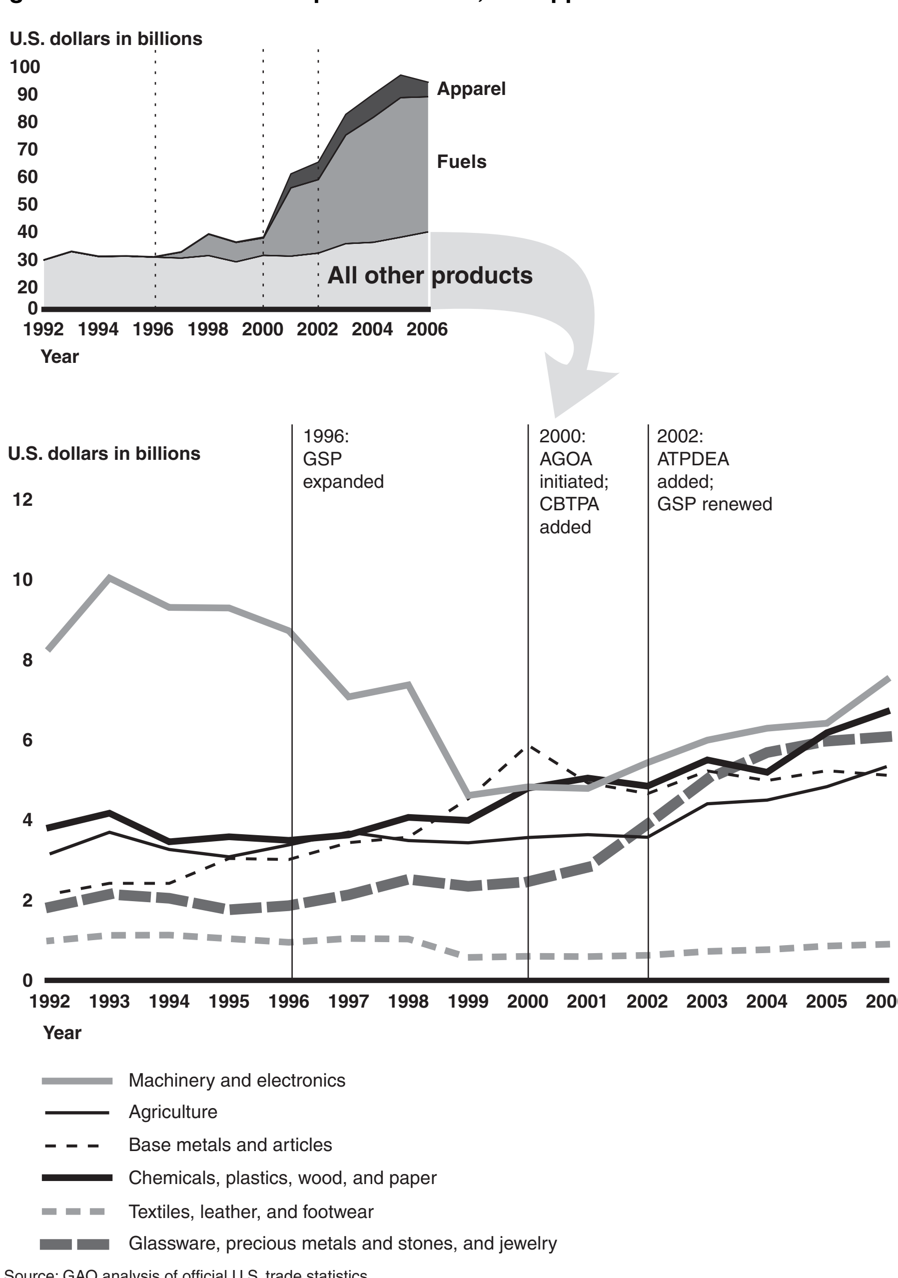
Figure 4: Key Products in U.S. Preference Imports, 1992-2006



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

In 2006, fuels comprised 94 percent of all imports under AGOA, nearly 70 percent of ATPA/ATPDEA imports, but only 27 percent each of GSP and CBI/CBTPA imports. Apparel imports represent about 6 percent of total preference imports but represent over 30 percent of U.S. imports under CBI, 10 percent of ATPA imports, and just 3 percent of AGOA imports (see app. V). Figure 5 further breaks down trends in nonfuel, nonapparel imports under preference programs. Notably, after 1993, when the North American Free Trade Agreement (NAFTA) was implemented, Mexico lost GSP eligibility, and global agreements to eliminate tariffs in certain sectors such as electronics and information technology were effectuated by the United States, imports under preferences of machinery and electronics—initially the largest product category—declined, but increased somewhat after 2000. Four product areas show increases. The year 2000 changes in U.S. preference programs (the implementation of AGOA, CBTPA, and enhancements in ATPA) appear to have contributed to growing imports of agriculture; textiles, leather, and footware; glassware, precious metals and stones, and jewelry; and chemicals, plastic, wood, and paper.

Figure 5: U.S. Preference Imports: Nonfuel, Nonapparel Sectors



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

Diversification of Products Imported from Some Beneficiary Countries Has Increased Modestly

An important goal of trade preferences concerns helping developing countries diversify the range of products that they produce and export. Our analysis shows that total U.S. imports from all preference-eligible countries remain quite concentrated when countries are grouped by their preference program eligibility. However, when viewed over time, imports from preference-eligible countries appear to have become somewhat more diversified since 1992.

Our analysis of diversification of total U.S. imports from preference-eligible countries is shown in figure 6. Using a widely used measure of trade and commodity concentration, we constructed an index to show a value of 0 when products are extremely concentrated and a value of 1 when products are most diversified.[27] Consequently, a high value of this index indicates a relatively diversified import/export product mix. In figure 6, the relative *level* of diversification among the programs is indicated by the *height* of the line, and the *change* in the level of diversification over time is shown by the *trend* in the line from 1992 to 2006.

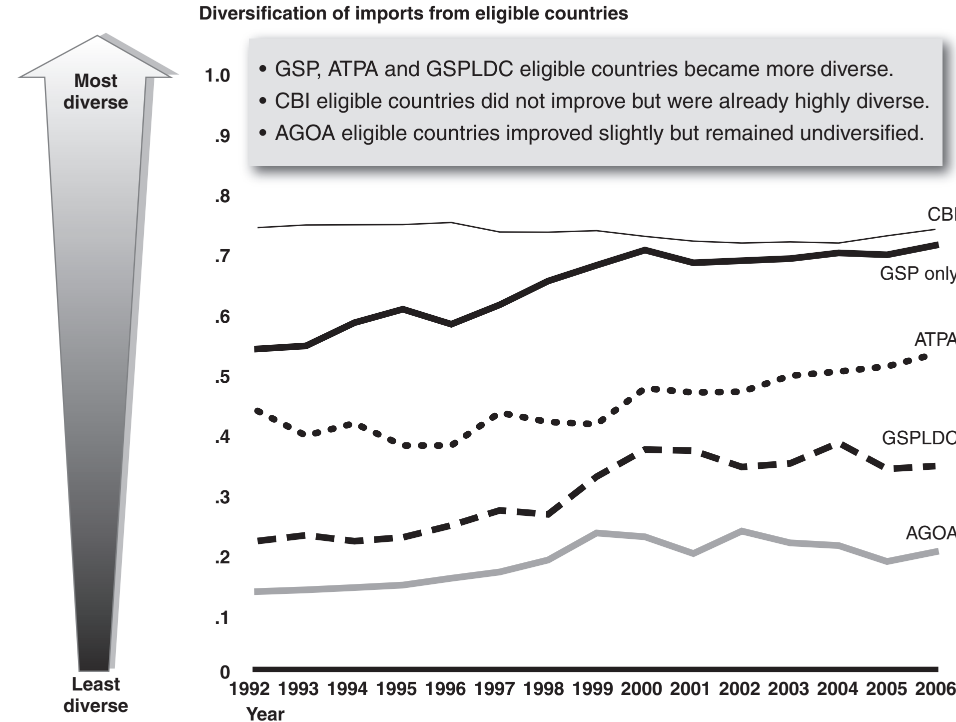
Looking first at the diversification level of each program, we see that U.S. imports from those countries that qualify for GSP only, and those that import to the United States under CBI, have the most diverse profile. Conversely, imports from countries eligible for the AGOA, GSP-LDC, and ATPA show a relatively less diverse profile. This finding can be seen as broadly consistent with the concentration of imports under these preference programs in fuels and apparel products.

Second, looking at the trend in the diversification index over time, we find that all country groups, except CBI, which already was the most diversified, show a modest increase in diversification over time. The highest rate of increase in diversification (as measured by the rate of increase of the lines in fig. 6), is noticeable for imports from countries eligible only for GSP. AGOA countries, which are the least diversified, have

[27]See appendix II for further information on methodology. We conducted the analysis at a fairly high level of product aggregation—that is, at the two-digit level of product classification in the Harmonized Tariff System.

shown relatively little change over time.[28] It is also important to note that determination of diversification at such a high level of aggregation still allows for significant diversification within each broad product group.

Figure 6: Diversification Index of U.S. Imports from Preference-Eligible Countries, 1992-2006



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

[28]It should be noted that the data are for total U.S. imports for the relevant countries (present U.S. beneficiaries) over the period. Our more detailed analysis showed that products such as fuel, which have come to dominate U.S. preference imports in the AGOA program, were imported by the United States prior to the advent of the AGOA program in 2000 and their designation as preference imports. Therefore, fuels could be considered as a "traditional" import product by the United States and would not generally change the diversification profile of U.S. imports from AGOA countries.

Developing Countries' Ability to Use Preference Opportunities May Be Constrained by Limited Trade Capacity

A key factor that can determine the impact of trade preference programs on economic development is the ability of developing countries to take advantage of global trading opportunities.[29] The existence of a preferential tariff is of little use in countries without the ability to produce goods desired by importers, at competitive prices. This ability to produce and trade competitively on world markets, which is termed "trade capacity," is generally related to having the appropriate economic conditions and institutions that help to attract investment and enhance efficiency. Yet, many developing countries lack of trade capacity prevents them from taking full advantage of opportunities to export goods and services.

The lack of trade capacity is due to inadequate economic, legal, and governmental infrastructure. Poor networks of roads, small and outdated ports, inadequate supplies of energy and other utilities, rigid financial institutions, inefficient or corrupt customs bureaus, and poorly educated citizens are some of many obstacles that can make production and exporting difficult and more costly. For example, in Haiti, an apparel manufacturer located in a government-owned industrial park told us they did not have reliable public sources of electricity or water. Therefore, they had to pay for backup electricity generators and trucked-in water to operate their factories. In addition, entrepreneurs in developing countries may have little access to information about markets and export standards or to affordable financing that would enable them to set up a successful export business.

Even countries that have developed industries to produce items with strong global markets, with or without the assistance of preferences, may need to improve their trade capacity. For example, mineral commodities such as oil, or agricultural products such sugar and soybeans, are an important source of export income to many developing countries. However, developing a greater diversity of export industries requires new skills, technologies, and investment.

[29]For additional background, see GAO, *Foreign Assistance: U.S. Trade Capacity Building Extensive, but Its Effectiveness Has Yet to be Evaluated*, GAO-05-150 (Washington, D.C.: Feb. 11, 2005).

Country Visits Highlight Importance Attached to Preferences, Despite Diversity of Recipients

While the impact of trade preferences on the development of beneficiary countries remains a subject of debate among economists and other analysts, our fieldwork in several beneficiary countries indicates the diverse range of countries being served, and most countries emphasized their view that U.S. trade preferences are important to their trade and development objectives. The countries include several whose efforts to use U.S. preferences are at nascent stages and several that achieved notable success.

We chose to visit Haiti and Ghana because they are among the poorest beneficiaries and ones where mechanisms to take advantage of recently expanded benefits under newer preference programs—HOPE and AGOA—are being put in place. Overall, the people we met in Haiti and Ghana expected their countries will increase their use of the preferential access to the U.S. market, but urged continued U.S. commitment and patience. Following are illustrative observations from our fieldwork in these countries:

- In-country officials and business representatives in Haiti see preferences as a much-needed engine for creating jobs in the short-term, attracting investment in the medium-term, and fostering growth over the longer-term. Haitian officials recognize Haiti must confront the daunting challenges of repairing its damaged infrastructure and international image and improving security in order to be able to effectively take advantage of the opportunities offered by the HOPE program. Haiti's base of entrepreneurs with experience in the apparel industry and geographic proximity to the United States are assets that may help the country use the new access provided by HOPE and thereby convince Congress to reenact it in 2011.
- Ghanaian authorities have put in place policy reforms and are pursuing trade promotion initiatives to encourage the private sector to take advantage of export opportunities provided under AGOA. Authorities noted that hosting the annual AGOA forum among government, private sector, and civil society increased the program's visibility in the country. However, many of the Ghanaian business people we met were still in the initial stages of exporting to the United States. Additionally, Ghana National Chamber of Commerce officials told us many potential beneficiaries of the program, particularly agricultural producers, are still unfamiliar with the full range of opportunities available under AGOA, and see the program as being primarily targeted to the textile and apparel industry. Like Haiti, Ghana lacks such essential capacity as

reliable energy supply and cost-competitive transportation. Yet, both governments were mobilizing and were receiving considerable on-site and other resources from various U.S. government and multilateral agencies to develop customs and port facilities, and navigate U.S. rules and requirements, etc.

We picked Brazil and Turkey to visit because these countries have successfully used U.S. trade preferences to export a diverse range of relatively sophisticated manufactured goods. The two countries were also of interest because both Brazil and Turkey rely on their own government and government-affiliated business associations to promote awareness of GSP, with limited assistance from U.S. agencies such as USAID.[30] Both expressed a continued need for preferences, even though their overall economies are growing, and they are among the leading developing country users of U.S. preferences. Following are illustrative observations from our fieldwork in these countries:

- The government and private sector officials we met in Brazil emphasized that GSP benefits both nations. Information provided GAO shows that more than 90 percent of the value of what Brazil ships to the United States under GSP are raw materials and intermediate or capital goods, some produced by U.S.-affiliated multinationals.[31] Upon arrival in the United States, these intermediate goods are destined for further processing and/or incorporation into U.S. manufactured goods such as cars and power generators. Officials at Brazil's Commerce and Development agencies have stepped up efforts to promote awareness and use of GSP, seeing it as a valuable tool for helping its poorest regions and boosting participation by smaller businesses in export markets. An analysis by Brazil's Commerce Ministry shows that Brazil has had more success in exporting manufacturing goods under GSP and that more than 80 percent of the products Brazil exports to the United States under GSP would otherwise face relatively low tariffs (facing

[30]USTR has provided training and outreach to producers in the government and business associations in Turkey to promote GSP awareness and continues to assist U.S.-based Turkish-American business associations. Other than that, Brazil and Turkey receive little or no assistance from U.S. agencies, such as USAID.

[31]An analysis provided GAO by the Federation of Industry of Sao Paolo, for example, shows that inter-company trade accounted for (depending on the sector) roughly 25 percent to 50 percent of Brazil's GSP exports to the United States and is particularly prevalent in the machinery, auto part, agrichemical, and glass industries.

MFN tariffs set at or below 5 percent).[32] Yet, the loss of such privileges in competitive need limitations (CNL) decisions has caused actual or likely business contraction and layoffs at two companies on GAO's schedule of visits (in the automotive part and copper wire industry). The people we met said such preferences are particularly important now as they face intense competition from China, which has displaced them in traditional industries such as leather footwear (which is excluded by statute from the GSP program). Ironically, China's rise has also coincided with a run-up in demand and prices for Brazil's commodities, boosting the country's total exports but disadvantaging its manufactured goods because the Brazilian currency has appreciated.

- Turkey also has been buffeted by rising commodity prices in sectors such as jewelry. It has been successful in exporting a diverse range of manufactures to the United States under GSP, ranging from stone slabs to steel, and says continuing to do so is vital to its competitiveness. As in Brazil, the Turkish business representatives we met with said that profit margins are so thin in the highly competitive U.S. market they serve that even small preference margins make the difference between being able to sell or being forced to exit entirely. Indeed, Turkey wishes to widen the list of eligible products (e.g., hazelnuts) and expressed concerns over losing GSP access for products such as jewelry and marble that officials indicate have exceeded, or are likely to exceed, CNLs. They attributed exceeding CNLs in part to rising commodity prices, levels of aggregation in the U.S. tariff schedule that are too high for certain products, and the related issue of importer use of broader versus more specific categories to enter goods to avoid complications in customs classification and clearance.

Colombia and Kazakstan were selected for high use, as well as their involvement in ongoing liberalization: Colombia, through a free trade agreement with the United States, and Kazakstan, as a result of its efforts to join the WTO. Following are illustrative observations from our fieldwork in these countries:

[32]Brazil Ministry of Commerce, GSP presentation to GAO, shows that nearly 95 percent of the value of Brazil's exports to the United States were manufactured goods and that 33 percent of the value of Brazil exports to the United States under GSP would otherwise face tariffs ranging up to 2.5 percent, whereas an additional 51 percent would otherwise face tariffs of greater than 2.5 percent but equal or less than 5 percent, meaning that 84 percent of Brazil's preference exports would otherwise face tariffs of 5 percent or less.

- Colombia dominates the ATPA program, and exports to the United States accounted for 20 percent of Colombia's overall exports in 2006. Relying on ATPA for more than half (54 percent) of its exports to the United States that year, Colombia has attained success in steadily increasing its exports in all but 2 years since the program's inception in 1991, particularly since the program was expanded in 2002. Yet the range of products it exported under preferences is considerably narrower than that supplied by Brazil or Turkey. To diversify away from coca production and spur participation in international trade, Colombia has pursued improved security, political stabilization, and economic diversification in the years since Plan Colombia was implemented in 2000 and the Andean Trade Preference Program was expanded in 2002. The Department of State and USTR credit Colombia's efforts and these programs, as well as strong internal and external demand, with revitalizing Colombia's economy. Colombian business sector spokesmen and government officials with whom we met generally underscored the important role trade preferences have played in allowing certain sectors, notably cut flowers, to compete in the U.S. market; however, they also noted that their country needs to move beyond trade preferences. In March 2007, Colombia's trade minister publicly stated that his country has effectively exhausted the utility of U.S. trade preferences and is eager to consummate a comprehensive free trade agreement with the United States. This not only will assure continued preferential access to the U.S. market for Colombia's exports, on which it depends, but provide additional access and involve reciprocal liberalization and rule-of-law changes in such areas as investment and IPR that may help it attract additional investment and innovation.

- Kazakhstan's resource-driven economy is also booming based largely on its vast oil, gas, and minerals reserves, which together make up about two-thirds of its economic output. Its exports to the United States reached $1 billion in 2006, of which half was imported using GSP preferences. The country's development goals include managing its mineral wealth, integrating into the world economy, and diversifying its exports. Despite its goal of becoming a hub for East-West business, Kazakhstan faces many challenges associated with the legacy of the Soviet era, such as legal structures that make business formation and trade difficult and a business mentality of dependence on government subsidies. Geographically, Kazakhstan is challenged in trading with the United States, although opportunities for integrating regionally with the European Union are great. The major goal of Kazakhstan's trade policy at present is WTO accession. Awareness and interest in the U.S. GSP

program was rather limited. In fact, exports of several major products reached CNL limits, and the country did not seek a waiver for its producers. The major GSP export in 2006, copper cathodes, turned out to be more likely a one-time event prompted by factors other than GSP preferences (the normal or MFN tariff rate on this product is just 1 percent). A major producer of the country's leading preference export told us he sells the commodity at world prices and does not depend on preferences or focus on the U.S. market, due to strong demand and transportation linkages elsewhere.

Fundamental Program Trade-offs Balance Foreign and Domestic Benefits

Preference programs balance two key trade-offs. First, programs offer duty-free access to the U.S. market to increase beneficiary trade, to the extent that it does not harm U.S. industries. Product exclusions, country graduation, and product import limits are tools to make this trade-off, although their use has raised concerns that nonbeneficiary countries may gain U.S. market share from a beneficiary's loss of preferences. Second, policymakers face a trade-off between longer or permanent program duration, which may encourage investment, and shorter renewal periods, which may provide leverage to achieve other policy goals. Finally, the preference programs balance these trade-offs against a backdrop of increasing global trade liberalization. Although multilateral trade liberalization is a primary U.S. trade objective and would be beneficial to most developing countries, liberalization dilutes the marginal value of the preferences to beneficiaries. This may affect their willingness to participate in reciprocal trade liberalization. However, economic studies suggest that the negative effects of preference erosion are outweighed by other factors, most notably the benefits for developing countries associated with open markets.

Product Exclusions Shield Domestic Industries but Limit Magnitude of Preferences to Beneficiaries

Statutory Product Exclusions Affect Products of Importance to Developing Countries

A basic policy trade-off is the extent to which preference programs benefit businesses in beneficiary countries versus those in the United States. As described in appendix III, U.S. preference programs provide duty-free treatment for a little over half of the 10,500 U.S. tariff lines, in addition to those that are already duty-free on an MFN basis for all countries. But, they

also exclude many other products from duty-free status, including some that developing countries are capable of producing and exporting. The extent of product exclusions, therefore, may directly affect the ability of some developing countries to use and benefit from the preferences.

Some product exclusions were established in preference legislation to protect sensitive U.S. industries from import competition. The GSP statute, for example, prohibits various "import-sensitive" categories of products from being designated as eligible. These include most textiles, apparel, watches, footwear, handbags, luggage, flat goods, work gloves, and leather apparel; import-sensitive electronics, steel, and glass products; and "any other articles which the President determines to be import-sensitive in the context of the Generalized System of Preferences."[33] In addition, agricultural products subject to a tariff-rate quota are not eligible under GSP for duty-free treatment if such imports exceed the in-quota quantity. The regional preference programs exclude some of these products as well. U.S. tariffs on a number of these excluded products tend to be high.

The GSP statutes provide some discretion for the administration to determine which items within some of these product categories are not import-sensitive. Specifically, for electronic, steel, and manufactured and semimanufactured glass products, USTR and ITC officials told us that the President may determine which of these items are eligible for GSP benefits, based on advice from the ITC about import sensitivity. The administration has at times self-initiated such a determination for individual products, but the officials told us it has reexamined eligibility for large numbers of products only within the context of extending new benefits to subsets of countries, namely for LDCs in 1996 and for AGOA suppliers in 2000. More often, it makes determinations for individual products based on petitions filed by interested parties. There is no discretion for administrative product additions for the other product categories specifically excluded by law from GSP eligibility. However, the statutory language for each of these

[33]The legal exclusion applies to all textile and apparel articles that were not eligible articles on Jan. 1, 1994; all watches, except those entered after June 30, 1989, that the President specifically determines will not cause material injury to watch or watch band, strap, or bracelet manufacturing and assembly operations in the United States or its insular possessions; and all footwear, handbags, luggage, flat goods, work gloves, and leather wearing apparel that were not eligible articles on Jan. 1, 1995. Electronic articles, steel articles, and semimanufactured and manufactured glass products that are considered import-sensitive are also excluded. USTR indicated that these categories of articles could be considered for GSP eligibility based on a petition by an interested party and an ITC study of the impact of such a designation on the relevant domestic producers and on consumers.

other product categories is based on business conditions as of specific dates—January 1, 1994, for textiles and apparel; June 30, 1989, for watches; and January 1, 1995, for footwear, handbags, luggage, flat goods, work gloves, and leather apparel. We note that U.S. industries have changed in the intervening years, and these statutory provisions may not be up-to-date. For example, in comments to USTR on the GSP program in 2006, the Footwear Distributors and Retailers of America stated that imports now account for 99 percent of U.S. footwear sales and urged that the footwear exclusion be removed from the GSP legislation.

According to USTR officials, the initial GSP statute provided that the President could not designate as eligible those "textile and apparel articles which are subject to textile agreements." Certain handcrafted wall hangings, clothing, and other hand-loomed articles were not covered by the Multi-Fiber Arrangement.[34] In the late 1970s, the agencies administering GSP sought to provide commercial opportunities for handicraft producers of nonimport-sensitive items in interested beneficiary countries. Based on an interagency review, the President determined in 1981 that U.S. imports of certain wall hangings, pillow covers, and carpets and textile floor coverings that had been certified as handmade by the beneficiary country could enter under GSP. USTR officials told us that since that time 15 GSP beneficiaries have entered into such certified textile handicraft agreements; however, by 2007, all but two of the items originally covered by the presidential determination have become MFN duty-free. As noted above, no textile and apparel items can be added to GSP eligibility if they were not on the GSP-eligible tariff list as of January 1, 1994.

Studies indicate that even when GSP product exclusions have been liberalized within the context of GSP for LDCs or the regional programs, remaining limits on product eligibility can affect the ability of beneficiary countries to use and benefit from U.S. preference programs. One recent study[35] examined the expansion of tariff lines under AGOA. In agriculture, the study noted, AGOA appears to have liberalized nearly all products, altlhough a substantial portion of agricultural tariff lines are still subject to

[34]Under this multilateral agreement, which was in effect from 1974 to 1994, countries whose markets were disrupted by increased imports of textiles and apparel from another country were able to negotiate quota restrictions.

[35]Paul Brenton and Takako Ikezuki, "The Initial and Potential Impact of Preferential Access to the U.S. Market under the African Growth and Opportunity Act," World Bank Policy Research Working Paper No. 3262, April 2004.

tariff-rate quotas and, as a result, are not, in effect, fully liberalized. Products not fully liberalized 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 study noted that, in manufacturing, AGOA liberalized additional tariff lines, but the increase is most notable for those countries granted apparel benefits. According to the study, key products that remain excluded are textile products, certain glass products, and certain headwear.

A related trade-off involves deciding which developing countries can enjoy additional preferential benefits for products excluded for most preference recipients. One controversy concerns a few LDCs in Asia that 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 producers and exporters of apparel to the United States and have complained about the lack of duty-free access to this country for their goods. For example, Cambodian trade and industry officials argue that it is not fair that many LDCs enjoy preferential access to the U.S. apparel market through the regional preference programs, while Cambodia does not.[36] In comments filed with USTR on possible U.S. proposals at WTO to provide duty-free, quota-free access to least-developed countries, some African and other beneficiary countries, as well as certain U.S. industries, have opposed the idea. 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, while other non-LDC developing countries have expressed similar concerns about their own industries. U.S. textile manufacturers have also protested that the possible expansion of apparel benefits to these countries would threaten their textile sales to Latin American clothing producers under the regional preference programs and free trade agreements. However, numerous U.S. importing industries, such as retail groups, are strongly in favor of these proposals.

[36]Of the 46 LDC preference beneficiaries, 18 enjoy some form of duty-free access for apparel in the U.S. market under AGOA or CBI/CBTPA.

Country and Product Graduation Aim to Focus Benefits on Poorest Countries but May Not Achieve That Objective

Over the 30-year life of the GSP program, questions about which countries should benefit and how more benefits could be directed to poorer countries have been raised repeatedly. The concerns relate to the original intention that preference programs would confer temporary trade advantages on developing countries, which would eventually become unnecessary as the countries became more competitive. 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. The U.S. government has used two approaches to graduation: outright removal of a country from GSP eligibility, and the more gradual approach of ending duty-free access for individual products from a country.

Once a country's economy reaches a "high income" level, as indicated by World Bank measures of gross national income per capita, the statute governing GSP requires that the country be graduated from this program. Fifteen countries have been graduated since 1995 on that basis, including, most recently, Antigua and Barbuda, Bahrain, and Barbados in January 2006.[37] Since 1995, nine other countries at high and upper-middle income levels were removed from GSP eligibility because they joined the European Union—most recently, Bulgaria and Romania in December 2006.[38] Program regulations also allow the United States to remove a country from GSP after a review has found it to be "sufficiently developed or competitive." Four countries or customs territories were graduated on this basis in 1989—Singapore, South Korea, Taiwan, and Hong Kong. Under the regional programs, there are no mechanisms to graduate countries that have reached a more advanced level of development. However, in the last 2

[37]In addition, Aruba, Bahamas, Cayman Islands, Cyprus, French Polynesia, Greenland, Israel, Macau, Malta, Netherlands Antilles, New Caledonia, and Slovenia were graduated between 1995 and 2002, based on high income. Some of these countries remain eligible for CBI and CBTPA.

[38]The GSP statute states that European Union members are ineligible for GSP. The Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, and the Slovak Republic were also removed from GSP in 2004.

years, five Central American/Caribbean countries were removed from GSP and CBI/CBTPA when they entered free trade agreements with the United States.[39]

More commonly, the United States uses import ceilings—CNLs—to end GSP duty-free status for individual products from individual countries if imports reach a certain level.[40] The rationale given by USTR for these limits is that they indicate a country has become a "sufficiently competitive" exporter of the product and that ending preferential benefits in such a case may allow other GSP-eligible countries to expand their access to the U.S. market. The value of trade from GSP beneficiaries that is ineligible for duty-free entry because of the CNL ceiling is substantial. We identified $13 billion in imports in 2006 that could not enter duty-free under GSP due to CNL exclusions—over one-third of the trade from GSP beneficiaries potentially subject to the CNL ceiling.[41]

Although the intent of country and product graduation is to redistribute preference benefits more widely among beneficiary countries, some U.S. and country officials with whom we met observe that GSP beneficiary countries will not necessarily benefit from another country's loss of preference benefits. The benefits cannot be "transferred" directly from one country to another; rather, preferences are a marginal advantage that can make a country's product competitive only if other factors make it nearly competitive. In fact, the loss of a tariff preference to a given country may give an advantage to a country that is not a beneficiary of U.S. trade preference programs. In the countries we visited, we repeatedly heard concerns that China, or sometimes other countries, would be most likely to gain U.S. imports as a result of a beneficiary's loss of preferences.

[39]The Dominican Republic, El Salvador, Guatemala, and Honduras were removed from eligibility for all these programs, and Nicaragua only from CBI/CBTPA, as it was not eligible for GSP. Upon entering a free trade arrangement with the United States, a country gains phased duty-free access for virtually all its exports while providing duty-free treatment for U.S. imports. Thus, trade preferences are no longer necessary.

[40]The CNL caps—$135 million in GSP imports of one product from a single country in 2008, or 50 percent of all U.S. imports of the product—are set by legislation. When GSP imports of a product reach one of these limits, the country is denied GSP benefits for that product unless imports fall below the CNL level in a subsequent year and it seeks renewed designation for GSP eligibility. However, an interested party could petition for a waiver of the CNL before imports reach the CNL cap.

[41]A significant portion of GSP-eligible trade is not subject to the CNL ceiling because LDCs and AGOA beneficiaries are exempt from the CNL review.

As part of an overall review of the GSP program in 2005 and 2006, USTR officials reviewed trade and development indicators for large users of the GSP program to determine whether they could be considered sufficiently competitive in terms of trade in eligible products and, therefore, should no longer be designated as GSP beneficiaries.[42] USTR officials said there are inherent tensions between the program's statutory economic development and export competitiveness goals. They noted that some of the beneficiaries USTR reviewed were very competitive in certain industries but nevertheless had large numbers of poor people.[43] Agency officials told us that it was important to conduct the overall review in a manner consistent with U.S. WTO obligations under the GATT's Enabling Clause, which enables developed WTO members to give differential and more favorable treatment to developing countries.[44]

Efforts to Remove Preferences for Competitive Products Have Raised Concerns

Efforts to target benefits to the poorest countries have resulted in the removal of preferences from products important to some U.S. businesses. In 2007, the President revoked eight CNL waivers as a result of legislation passed in December 2006.[45] Consequently, over $3.7 billion of trade in 2006 from six GSP beneficiaries lost duty-free treatment. Members of the business community and members of Congress raised concerns that the revocation of these waivers would harm U.S. business interests while failing to provide more opportunities to poorer beneficiaries. A bill regarding sanctions on Burmese gems, which passed the House of Representatives in December 2007, had included a GSP provision that would have reinstated the CNL waivers for gold jewelry from Thailand and India and would have required the President to review the other revoked waivers. The bill also would have provided for the President to reinstate the other waivers unless ITC determined that the loss of a waiver would

[42]The purpose of the review was to determine whether the program should be modified to expand participation by GSP-eligible countries that were not major users of the program.

[43]A large developing country, such as India, may have more competitive export industries than smaller least-developed countries, but it also may have many more people living in poverty, who may benefit from the economic opportunities provided under trade preferences.

[44]Officially called the "Decision on Differential and More Favorable Treatment, Reciprocity, and Fuller Participation of Developing Countries," the Enabling Clause applies as part of GATT under the WTO.

[45]A CNL waiver can be revoked, after it has been in effect for 5 years or more, when imports of the product from that country reach a ceiling equal to 1.5 times the CNL ($202.5 million in 2008), or 75 percent of all U.S. imports of the product.

neither reduce the current level of U.S. imports of the article from the beneficiary nor benefit countries that are not part of GSP.[46]

Periodic Program Renewal Preserves U.S. Leverage but May Discourage Long-term Investments

Policymakers also face a 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. 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.

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. They would like to see preference programs become permanent or have a longer duration. The private sector Coalition for GSP (Coalition) cites the frequent lapses in GSP between 1993 and 2001, with authorization periods ranging from 10 to 27 months (and gaps between expiration and legislative renewal of 1 to 15 months), as hindering long-term investment in beneficiary countries. Both USTR and the Coalition have attributed the relatively greater growth in GSP use after 2002 to the stability provided by a 5-year program reauthorization at that time. Business people say that predictable program rules and a longer program renewal period are important to them in making business plans and investment decisions in developing countries with confidence when they are based on preference benefits. For example, officials in the Colombian flower industry told us that ATPA's short time frame and frequent renewals made it difficult to attract investment needed to enable them to compete with other international cut-flower producers. They said investors need certainty about preference benefits for at least 10 years to amortize and project return on investment. 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; AGOA's general provisions had previously been renewed until 2015.

On the other hand, short-term program renewals give Congress more opportunities to respond to changing events and political priorities.

[46]H.R. 3890, 110th Cong., 1st Sess. The related Senate bill (S. 2257, 110th Cong., 1st Sess.), which is currently pending before the Senate Foreign Relations Committee, does not include the GSP provision.

Threatening to let benefits lapse can be used as a way to pressure countries to act on an issue. While acknowledging the need for U.S. vigilance in pursuit of its commercial interests, officials at USTR and Labor told us short-term program renewal can have other adverse consequences, such as creating uncertainty for investors and importers interested in using the program. From their perspective, the discretion the administration exercises over continuation of program benefits offers sufficient leverage to achieve policy goals, based on the country's desire to maintain benefits and the possibility of removing benefits administratively through reviews of country conformity with eligibility requirements.

Nevertheless, a recent instance involving ATPA has provided U.S. officials an opportunity to engage with beneficiary countries in the context of program expiration. ATPA was extended for 6 months in December 2006, again for 8 months in June 2007, and for 10 more months on February 29, 2008. These short renewal periods reflected interest in hastening congressional consideration of the free trade agreements with Peru and Colombia and concern about policies adopted by Bolivia and Ecuador that have negatively affected foreign investors. After the most recent ATPA extension, the administration said the extension would provide time to implement the Peru free trade agreement and for Congress to pass the Columbia free trade aggreement. The administration also said it expected to see significant progress with respect to Bolivia and Ecuador's treatment of foreign investors.

Global and Bilateral Trade Liberalization Diminishes Margin of Preferences but Is Valuable in Its Own Right

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. However, international movement toward lowering tariffs and other trade barriers has an unavoidable effect on the marginal value of trade preferences to beneficiaries. Because of this, beneficiary countries' desire to keep their preferential advantages may generate some internal resistance to multilateral liberalization. As some countries make unilateral decisions to liberalize their national trade policies, and as others enter into bilateral and regional trade agreements that result in lower tariffs among trading partners, countries that rely on preferential margins find the advantages they gain from preferences fading away.

The erosion of the value of trade preferences poses yet another trade-off. All of the preference programs include provisions to encourage countries to move into reciprocal and liberalized trading relationships. Indeed, a

number of countries that were former beneficiaries of preference programs have gone on to conclude free trade agreements with the United States, and some have joined the ranks of newly industrialized nations. However, members of Congress and some administration officials have raised concerns that some preference beneficiaries are placing their interests in trade preference programs above the broader interest in multilateral liberalization, which the United States has traditionally advocated. They note that, in an effort to maintain their preference benefits, some beneficiary countries have created roadblocks at WTO in the Doha Round of negotiations. This was confirmed by U.S. agency officials we interviewed. The assurance of continued preferential access to the U.S. market has at times, created a disincentive to negotiation of reciprocal free trade agreements. For example, officials at Commerce and Labor told us that the extension of AGOA preferences during the negotiations toward a free trade agreement with members of the Southern African Customs Union[47] may have contributed to the suspension of those negotiations since countries were already granted broad access to the U.S. market. In the past, spokesmen for countries that benefit from trade preferences have told us that any agreement reached under the Doha framework must, at a minimum, provide a significant transition period to allow beneficiary countries to adjust to the loss of preferences. Additionally, they questioned whether it is even fair to expect certain countries, such as small-island states, to survive without some trade preference arrangements under any deal that may be reached through WTO negotiations.

As we have noted in previous reports, economic studies predict that global trade liberalization, such as might be achieved in a new WTO agreement from the Doha negotiations, would generally benefit most developing countries.[48] Moreover, with regard to preference erosion and its impact on developing countries, some research has suggested that the negative effects of preference erosion may be outweighed by other factors—in particular, the benefits generated by more open trade on the part of developing countries.[49] For example, one recent study estimates that while a small number of countries, particularly those that currently receive very large benefits under existing preference schemes, could experience a loss

[47]Members of the Southern African Customs Union are Botswana, Lesotho, Namibia, South Africa, and Swaziland.

[48]See GAO-05-150, appendix IV, and GAO, *World Trade Organization: Congress Faces Key Decisions as Efforts to Reach Doha Agreement Intensity*, GAO-07-379 (Washington, D.C.: Mar. 5, 2007).

of market access, most countries would benefit from the expanded market access due to reduced tariffs under the Doha Round.[50] Another recent study of the impact of preference erosion on development in the CBI countries notes that preference erosion occurred steadily over the 15 years of the study (1984 to 1998).[51] While preference erosion was shown to have a small negative impact on investment and growth in some countries in the CBI region over the period studied, this effect may have been outweighed by the positive effects of increased utilization of preferences. In addition, the author finds the countries' own trade reforms (openness) may have had a larger impact on development than the trade preferences did.

Separate Approaches to Preference Programs Impede Assessing Whether They Are Meeting Shared Goals

Trade preference programs have proliferated over time, but Congress has not considered U.S. trade preferences as a whole. In response to statutory requirements, agencies pursue different approaches to monitoring compliance with the various criteria set for programs, resulting in a lack of systematic review. There are other differences in key aspects of the preference programs, such the use of trade capacity building in conjunction with opportunities provided under trade preference programs, which is currently most prominent in AGOA. Finally, distinct approaches to reporting and examining the programs limit the United States' ability to determine the extent to which U.S. trade preferences foster development in beneficiary countries.

[49]Selected studies include: Mary Amiti and John Romalis, "Will the Doha Round Lead to Preference Erosion?" *National Bureau of Economic Research Working Paper*, No. 12971, March 2007; Yongzheng Yang, "Africa in the Doha Round: Dealing with Preference Erosion and Beyond," *IMF Policy Discussion Paper*, PDP/05/8, November 2005; Caglar Ozden and Eric Reinhardt, "The Perversity of Preferences: GSP and Developing Country Trade Policies, 1976-2000," *Journal of Development Economics*, vol. 78 (2005), 1-21; R.E. Baldwin and T. Murray, "MFN Tariff Reductions and Developing Country Trade Benefits Under the GSP," *The Economic Journal*, vol. 87, no. 345, March 1977, 30-46.

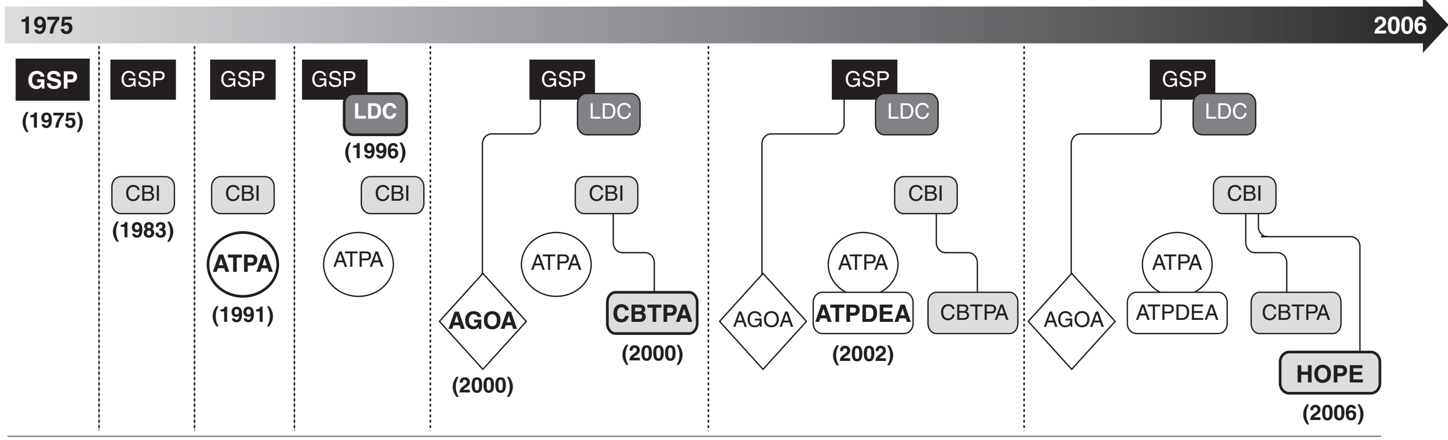
[50]Amiti and Romalis (2007). See also: Dean and Wainio (2006); Patrick Low, Roberta Piermartini, and Jurgen Richtering, "Multilateral Solutions to the Erosion of Non-Reciprocal Preferences in NAMA," *WTO Economic Research and Statistics Division Working Paper*, ERSD-2005-05, October 2005; Low, Piermartini, and Richtering, "Non-Reciprocal Preference Erosion Arising from MFN Liberalization in Agriculture: What Are the Risks?" *WTO Economic Research and Statistics Division Working Paper*, ERSD-2006-02, March 2006.

[51]Judith Dean, "Is Trade Preference Erosion Bad for Development?" *ITC Office of Economics Working Paper*, No. 2006-11-A, November 2006.

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

Over the years, Congress has set up a number of trade preference programs to meet the overall goal of development, as well as specific regional objectives. As a result, U.S. trade preferences have evolved into an increasingly complex array of programs, with many countries participating in more than one of these programs (see fig. 7). Congress generally considers these programs separately partly because these programs have disparate termination dates, and Congress has focused on issues pertaining to individual programs when they have come up for renewal. Proposals from the administration and members of Congress suggest further additions to the preference programs are possible.

Figure 7: Growth of Trade Preference Programs



Source: GAO analysis of USTR documents on Generalized System of Preferences, African Growth and Opportunity Act, Andean Trade Preference Act, and Caribbean Basin Initiative.

Note: In this figure, we use CBI to refer to CBERA, the legislation initially establishing CBI. See note [a] to table 1.

Of the 137 countries and territories eligible for preference programs, as of January 1, 2007, 78 benefit from more than one (see fig. 8). The reason that many countries benefit from more than one program is that the regional preference programs have been added, as noted above, to further various U.S. foreign policy objectives. The regional programs in effect expand the preferences offered by GSP, but they result in overlap, with various combinations of program eligibility for certain countries. Thus, of the 48 countries to which the President may grant AGOA eligibility, 39 are eligible for AGOA, while 47 are eligible for GSP. The African country of Equatorial Guinea, for example, is ineligible for AGOA, but eligible for GSP, and it

exported approximately $1.6 billion in fuel products to the United States under that program in 2006. The 59 countries eligible for only the basic GSP program, such as Argentina or Egypt, are neither LDCs nor part of a regional preference scheme.

In the case of ATPA and CBI beneficiary countries, importers may choose whether to enter products eligible for the regional program and GSP under either one.[52] Those importing goods from the Andean or Caribbean areas tend to use ATPA or CBI instead of GSP, due to the more liberal rules of origin and expanded product coverage for these programs. To a certain extent, this has mitigated the uncertainty associated with GSP program lapses.

[52]Products coming from CBI or ATPA countries are eligible to enter under either the GSP program or the regional program. In contrast, AGOA simply made all AGOA countries eligible for GSP (with certain enhancements) but did not duplicate the product coverage of the GSP program.

Figure 8: Countries Benefiting from Various Trade Preferences Programs, 2006

Countries benefiting from three or four programs

Country	GSP	GSP-LDC	AGOA	CBI	CBTPA
Angola	■	■	■		
Benin	■	■	■		
Burkina Faso	■	■	■		
Burundi	■	■	■		
Cape Verde	■	■	■		
Chad	■	■	■		
Congo (Kinshasa)	■	■	■		
Djibouti	■	■	■		
Ethiopia	■	■	■		
Gambia	■	■	■		
Guinea	■	■	■		
Guinea Bissau	■	■	■		
Lesotho	■	■	■		
Liberia	■	■	■		
Madagascar	■	■	■		
Malawi	■	■	■		
Mali	■	■	■		
Mauritania[a]	■	■	■		
Mozambique	■	■	■		
Niger	■	■	■		
Rwanda	■	■	■		
Sao Tome & Principe	■	■	■		
Sierra Leone	■	■	■		
Tanzania	■	■	■		
Uganda	■	■	■		
Zambia	■	■	■		
Barbados[b]	■			■	■
Belize	■			■	■
Costa Rica	■			■	■
Dominican Republic[c]	■			■	■
El Salvador[c]	■			■	■
Guatemala[c]	■			■	■
Guyana	■			■	■
Honduras[c]	■			■	■
Jamaica	■			■	■
Panama	■			■	■
St. Lucia	■			■	■
Trinidad & Tobago	■			■	■
Haiti[e]	■	■		■	■

Countries benefiting from two programs

Country	GSP	GSP-LDC	AGOA	CBI	CBTPA	ATPA
Afghanistan	■	■				
Bangladesh	■	■				
Bhutan	■	■				
Cambodia	■	■				
Central African Republic	■	■				
Comoros	■	■				
Equatorial Guinea	■	■				
Kiribati	■	■				
Nepal	■	■				
Samoa	■	■				
Somalia	■	■				
Togo	■	■				
Tuvalu	■	■				
Vanuatu	■	■				
Yemen	■	■				
Botswana	■		■			
Cameroon	■		■			
Congo (Brazzaville)	■		■			
Gabon	■		■			
Ghana	■		■			
Kenya	■		■			
Mauritius	■		■			
Namibia	■		■			
Nigeria	■		■			
Senegal	■		■			
Seychelles	■		■			
South Africa	■		■			
Swaziland	■		■			
Antigua and Barbuda[b]	■			■		
British Virgin Islands	■			■		
Dominica	■			■		
Montserrat	■			■		
St. Kitts and Nevis	■			■		
St. Vincent & the Grenadines	■			■		
Grenada	■			■		
Peru	■					■
Bolivia	■					■
Colombia	■					■
Ecuador	■					■
Nicaragua[c]				■	■	

Countries benefiting from one program

Country	GSP
Albania	■
Algeria	■
Anguilla	■
Argentina	■
Armenia	■
Bahrain[b]	■
Bosnia and Herzegovina	■
Brazil	■
British Indian Ocean Terr.	■
Bulgaria[d]	■
Christmas Island	■
Cocos (Keeling) Islands	■
Cook Islands	■
Cote d'Ivoire	■
Croatia	■
Egypt	■
Eritrea	■
Falkland Islands	■
Fiji	■
Gaza Strip/West Bank[f]	■
Georgia	■
Gibratar	■
Heard Isl. & McDonald Isl.	■
India	■
Indonesia	■
Iraq	■
Jordan	■
Kazakhstan	■
Kyrgystan	■
Lebanon	■
Macedonia	■
Moldova	■
Mongolia	■
Norfolk Island	■
Niue	■
Oman	■
Pakistan	■
Papua New Guinea	■
Paraguay	■
Philippines	■

Country	GSP
Pitcaim Islands	■
Romania[d]	■
Russia	■
Serbia/Montenegro	■
Solomon Islands	■
Sri Lanka	■
St. Helena	■
Suriname	■
Thailand	■
Tokelau	■
Tonga	■
Tunisia	■
Turkey	■
Turks and Caicos Islands	■
Ukraine	■
Uruguay	■
Uzbekistan	■
Venezuela	■
Wallis and Futuna	■
Zimbabwe	■

Country	CBI
Aruba	■
Bahamas	■
Netherlands Antilles	■

Source: GAO analysis of the Harmonized Tariff Schedule of the United States, 2006.

Note: In the figure above, the CBTPA program is broken out because not all CBI countries are eligible for it.

[a]Mauritania lost AGOA eligibility on Jan. 1, 2006, and regained AGOA eligibility on June 28, 2007.

[b]Antigua and Barbuda, Bahrain, and Barbados were removed from GSP eligibility in January 2006 due to high per capita income. The United States–Bahrain Free Trade Agreement was implemented in July 2006.

[c]The following countries were removed from eligibility for GSP, CBI, and CBTPA as Free Trade Agreements went into force: the Dominican Republic (March 2007), El Salvador (March 2006), Guatemala (July 2006), Honduras (April 2006), and Nicaragua (April 2006).

[d]Bulgaria and Romania were removed from GSP eligibility in December 2006 when they became members of the European Union.

[e]Haiti is also eligible for the Haitian Hemispheric Opportunity through Partnership Encouragement Act.

[f]Under GSP, the Gaza Strip and the West Bank are listed as a single entity, although they are separately identified in U.S. trade data.

While there is overlap in various aspects of trade preference programs, each program is currently considered separately by Congress based on its distinct timetable and expiration date. Typically, when Congress has considered these programs for renewal, the focus has been on particular 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. The oversight difficulties associated with this array of preference programs and distinct timetables is compounded by different statutory review and reporting requirements for agencies. As explained in detail in the next section, in practice, these entail distinct administrative structures and approaches that leave gaps in assessment and use of tools known to be necessary to helping developing countries participate in trade. Congressional deliberations have not provided for cross-programmatic consideration or oversight. However, key congressional leaders appear to want to use this year's coincidence of expiration dates for ATPA, CBI, and GSP to look more systematically at preference programs and how they can be updated and improved.[53]

Different Approaches Agencies Use to Monitor Compliance with Program Criteria Result in Disconnected Reviews

Two different approaches—a petition process and periodic reviews—have evolved to monitor compliance with criteria set for various trade preference programs. USTR officials explained that the mechanisms for monitoring compliance with the criteria under specific programs reflect the relevant statutory requirements for each. We observed advantages associated with each approach, but individual program reviews appear disconnected and result in gaps. The petition process under GSP and ATPA offers certain benefits over the periodic reviews of all beneficiary countries

[53]On May 16, 2007, the Senate Committee on Finance held a hearing to assess U.S. trade preference programs. U.S. Preference Programs: How Well Do They Work? Hearing before the Senate Committee on Finance, 110th Congress (2007).

that take place under AGOA and CBI. These regional programs' periodic reviews, on the other hand, provide an opportunity to engage beneficiary countries on areas of concern in a more consistent manner. Table 4 illustrates key administrative aspects of the trade preference programs, including the type of reviews followed to determine compliance.

Table 4: Key Administrative Aspects of Trade Preferences Programs

	Administrative mechanism	Product addition review	Country review	Reporting	Trade capacity building and related assistance tied to program
GSP	GSP subcommittee of the TPSC	Petition process developed by regulation	Annual petition process	Reporting in GSP done via the USTR annual report	Outreach missions to encourage greater beneficiary use of program
ATPA	Andean subcommittee of the TPSC	No	Annual petition process and biennial general review	Biennial operational report	None
CBI	Caribbean subcommittee of the TPSC	No	Biennial general review	Biennial operational report	None
AGOA	AGOA implementation subcommittee of the TPSC	GSP petition process to determine product additions	Annual eligibility determination	Annual report on U.S. Trade and Investment Policy toward Sub-Saharan Africa and Implementation of AGOA[a]	Multiple legislative directions to trade capacity building with specific program linked to AGOA eligibility

Source: GAO analysis of official USTR documents.

[a]The 2007 Annual Report on AGOA was the sixth of eight required by law.

Petition Process Responds to Concerns but Does Not Ensure Consistent Review or Systematically Incorporate Other U.S. Government Efforts

GSP reviews of product and country practice petitions have the advantage of adapting the programs to changing market conditions and the concerns of businesses, foreign governments, and others. Most petitions originate outside the government, and agency officials, and NGO and private sector representatives cited the value of the petition process in bringing forward concerns related to intellectual property rights and workers' rights. The process also brings to bear the knowledge of NGOs and others about problems in these areas and helps the government pursue credible cases. Private sector and labor representatives also said that they appreciated the petition process because it compels a formal decision from the government on the merits of a complaint and draws public attention to an issue. The process allows U.S. petitioners to seek and obtain resolution of trade-

related concerns. For example, from 2001 through 2006, USTR conducted an investigation on copyright piracy and enforcement in Brazil in response to a petition filed under GSP by a coalition of seven trade associations concerned about IPR violations in that country. The investigation resulted in an agreement between the U.S. and Brazilian governments, hailed by the petitioner, to increase antipiracy raids in well-known marketplaces, establish antipiracy task forces at the state and local level in Brazil, and enhance deterrence through criminal prosecutions, among other actions.

However, a petition-driven process also can result in a long time passing between reviews of country compliance with the criteria for participation. From 2001 to 2006, when the number of GSP beneficiaries ranged from 146 to 132, USTR considered petitions against 32 countries. While some of these nations are reviewed under the regional preference programs, approximately three-quarters of the countries eligible only for GSP did not get examined at all for their conformity with eligibility criteria from 2001 through 2006. Long periods of time passed between overall reviews of GSP as well. As mentioned earlier, USTR initiated an overall review of the GSP program in October 2005. USTR completed the last general review of the program more than 18 years earlier in January 1987. A U.S. official told us that some of the countries reviewed frequently are not necessarily those that perform the worst relative to the criteria for participation, but rather those countries of most concern to particular groups, such as businesses or NGOs. In this sense, U.S. government resources may be unduly invested in performing repeated reviews of a country that is of particular concern to a given interest group, while other countries with potential problems receive substantially less scrutiny.

A second weakness is that the petition-driven review fails to systematically incorporate other U.S. efforts in areas such as IPR protection and efforts to counter trafficking in persons. The centerpiece of U.S. policy efforts to increase IPR is the annual Special 301 process.[54] USTR cites the GSP process as a key part of its mission to promote IPR overseas. Moreover, GAO reviewed the 2006 Special 301 report and found that over half of the 48 countries cited by USTR for concerns with respect to the provision of adequate and effective protection of IPR in 2006 were U.S. preference

[54]"Special 301" refers to certain provisions of the Trade Act of 1974, as amended, that require USTR to annually identify foreign countries that deny adequate and effective IPR protection or deny fair and equitable market access for U.S. entities or individuals who rely on IPR protection.

program beneficiaries. However, USTR did not accept any new petitions to review beneficiaries against the IPR criteria for participation in 2006**.** USTR officials observed to us that the placement of a country on the Watch List or Priority Watch List did not constitute a USG finding that the country failed to provide adequate and effective IPR protection. Rather, placement of a country on these lists indicates that particular problems exist in the country with respect to IPR protection, enforcement, or market access for persons relying on intellectual property. Additionally, industry officials told us that the administration has been reluctant to threaten removal of countries from GSP for lack of compliance with IPR protection in recent years, calling into question whether the leverage provided by the trade preferences is put to effective use. While it is possible that the administration may choose not to remove countries as a result of Special 301 designations, the lack of review, under the GSP provisions, of any of the 26 countries cited makes it appear that no linkage exists between these issues.

U.S. efforts to combat trafficking in persons is another area where criteria for participation in trade preferences programs may have some bearing, although USTR officials noted that there is not a specific link between the preference program criteria and the Trafficking and Victims Prevention Act of 2000. Both State and the Department of Justice cite Labor's *Findings on the Worst Forms of Child Labor* as among the U.S. government's efforts to combat trafficking in persons.[55] State issues an annual report that analyzes and ranks foreign governments' compliance with minimum standards to eliminate trafficking in persons.[56] State also prepares an annual report that discusses the status of internationally recognized worker rights within each GSP beneficiary.

Twenty-seven of the 48 countries on the Tier 2 Watch List or in Tier 3 in the June 2007 *Trafficking in Persons* report are preference beneficiaries. In congressional hearings, members and a witness have cited concerns that countries in Tiers 2 and 3 receive trade benefits. Preference beneficiaries

[55]The requirement for the Labor report is in the GSP statute.

[56]Countries placed on the Tier 2 Watch List are those countries whose governments do not fully comply with the minimum standards but are making significant efforts to do so; and have a very significant or increasing number of victims; fail to show increasing efforts to combat trafficking from previous year or have been assessed as making significant efforts to comply based on commitments to take steps over the next year. Countries placed in Tier 3 are those whose governments do not comply with minimum standards and are not making significant efforts to do so.

on the Tier 2 watch list include Argentina, Armenia, South Africa, Ukraine, and India, and beneficiaries on the Tier 3 list include Algeria, Equatorial Guinea, Uzbekistan, and Venezuela. At times, concerns in some of these countries may have been addressed through the regional programs. For example, the country reports contained in the 2007 *Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act* cite concerns in beneficiary countries with respect to child labor and trafficking in persons, showing consideration of these issues in the eligibility determinations. In other countries such as Venezuela, Algeria, and Uzbekistan, the U.S. government has not received any petitions to initiate an examination of performance against any of the GSP eligibility criteria related to trafficking in persons in the last 5 years. Consequently, these countries have not been reviewed against those criteria for participation. As noted above, it is possible that the administration might choose not to remove countries as a result of these reviews, but it appears that no linkage between these issues exists, given the lack of official reviews.

Regional Program Reviews Ensure a More Systematic Look at Criteria for Participation but Are Resource-Intensive and Sometimes Miss Important Concerns

The periodic reviews under the regional programs offer more timely and consistent evaluations of country performance against the criteria for participation. Among the regional programs, AGOA has the most intensive evaluation of country performance against the criteria for participation. AGOA requires the President to determine annually whether Sub-Saharan African countries are, or remain, eligible for the program. GAO found that, between 2001 and 2007, the President terminated eligibility four times and conferred eligibility eight times. Between 2001 and 2006, one country was removed and reinstated for GSP, and another country was reinstated after being removed in 1990. No country lost eligibility under the ATPA or CBI programs.[57]

The key difference between the AGOA review and the CBI and ATPA reviews is that only AGOA requires a determination periodically as to whether a country should remain a beneficiary. A USTR official testified that AGOA's annual review process has resulted in improved country performance under the eligibility criteria. In July 2007, a senior USTR official testified before the Subcommittee on Africa and Global Health of the House Foreign Affairs Committee that the President had removed, or threatened to remove, AGOA beneficiaries that did not meet the criteria for

[57]CBI benefits were withdrawn for a limited number of products from Honduras in 1997 and restored in 1998.

participation. This official noted that some of these countries had taken action to meet the criteria, and countries such as Liberia and Mauritania, which had been ineligible, were now eligible. However, U.S. officials also commented that the AGOA review is extremely time-consuming and demands a considerable investment of staff resources, since each beneficiary country must be reviewed on its performance on a range of criteria, such as respect for the rule of law and poverty reduction efforts. Moreover, these reviews must be updated on an annual basis.

Despite more regular and comprehensive reviews, 11 countries that are in regional programs were later subject of GSP complaints in the 2001 to 2006 period. In several cases, the petition-based examination associated with the GSP process validated and resulted in further progress in resolving concerns with regional partners such as Guatemala, Swaziland, and Uganda on labor issues. For example, in 2005, the American Federation of Labor and Congress of Industrial Organizations filed a petition regarding Uganda's performance against workers' rights criteria under GSP and AGOA. The petition led to an interagency investigation that was closed after Uganda enacted new legislation facilitating organization of unions, among other things. A Labor official told us that these issues had not been remedied under the AGOA review.

Only One Preference Program Links to Capacity Building Efforts but No Funding Provided

Many developing countries have expressed concern about their inability to take advantage of global trading opportunities because they lack the capacity to participate in international trade. The United States considers the ability of these countries to participate in and benefit from the global trading system key factors in promoting economic development, and has provided trade capacity building (TCB) assistance, to help developing countries more effectively take advantage of trade preferences, among other purposes. However, we found agencies pursue different approaches with regard to using TCB in conjunction with trade preference programs, with AGOA having the strongest link.

AGOA requires the administration to produce an annual report on the U.S. trade and investment policy for Sub-Saharan Africa and the implementation of AGOA. The report includes information about trade capacity building efforts undertaken in the region by U.S. agencies such as the Department of Agriculture and USAID. Sub-Saharan Africa has also been the primary focus of U.S. TCB efforts linked to the preference programs, with the United States allocating $394 million in fiscal year 2006 to that continent. A USTR official noted that linkage to TCB in AGOA's authorizing legislation

was useful for USTR as leverage with U.S. agencies that have development assistance funding to target greater resources that help developing countries take advantage of opportunities provided by trade preferences. In our field work and research, we observed USAID efforts to improve the business and regulatory environments in Sub-Saharan Africa, including preparing private sector enterprises to navigate U.S. import regulations, coaching small businesses on access financial services for trade and investment, and facilitating investments in trade-related infrastructure.

Several U.S. officials said that the annual AGOA Forum (Forum) also contributed to the stronger linkage between TCB and trade opportunities offered under the program.[58] A USTR official told us that the Forum brings USAID, Millennium Challenge Corporation, and other U.S. officials together to focus on the program and that having agency leaders attend the Forum makes a big difference in generating business interest in the region. A USAID official told us that the Forum also provided the opportunity for African entrepreneurs to interact directly with senior members of the U.S. government. Although AGOA authorizing legislation refers to trade capacity building assistance, USTR officials noted that Congress has not appropriated funds specifically for that purpose.

In other regions of the world, U.S. trade capacity building assistance has less linkage to trade preferences. For example, none of the other trade preference programs direct the relevant agencies to convene regularly to discuss how the program's implementation affects trade opportunities. Some agencies refer to trade programs in developing their assistance efforts to non-African regions and countries. For example, USAID notes the need for more resources in its strategic plan to improve the business environment and enable local businesses to take advantage of HOPE. Further, other U.S. trade initiatives link market access opportunities with trade capacity building assistance, such as CAFTA-DR.

[58]AGOA requires the President to convene annual high-level meetings between appropriate officials of the U.S. government and officials of the governments of Sub-Saharan African countries to foster close economic ties between the United States and Sub-Saharan Africa.

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

Separate reporting for the various preference programs, while consistent with statutory requirements, makes it difficult to measure progress toward achieving the fundamental and shared goal of trade preferences, namely economic development of beneficiaries. The effect of trade preferences on beneficiary countries' economic development is not assessed in a cross-programmatic manner that would examine progress made under preference programs. U.S. agencies do prepare reports that attempt to measure the effects on economic development of certain trade preference programs, but not all. The law requires only one program to directly report on impact on the beneficiaries. In addition, even when agencies report on the economic effect of some of these programs, different approaches are used, resulting in disparate analyses that are not readily comparable.

As noted earlier in this report, trade preferences are fundamentally intended to promote development in beneficiary countries by providing enhanced opportunities for their products to access the U.S. market. In its 2006 to 2011 strategic plan, USTR notes that one of its objectives is to apply "U.S. trade preference programs in a manner that contributes to economic development in beneficiary countries." However, there is no formal cross-programmatic examination of the preference programs collectively. As shown in table 4, USTR pursues different approaches to administering these programs, and does not consider the preference programs jointly, with respect to their performance. Moreover, there is no evaluation of how trade preferences, as a whole, affect economic development in beneficiary countries.

In response to statutory requirements, several government agencies report on certain economic aspects of the regional trade preference programs and their effects on specific countries or groups of countries, but these agencies do not report on the economic development impact of GSP. Agency officials noted that they strive to comply with statutory reporting requirements and, through the TPSC, they coordinate with each other on various aspects of administering these programs, including reporting. This reporting, nevertheless, is done on a program-by-program basis. For example, USTR has produced three reports to Congress on the operation of ATPA. The ITC also issues biennial reports on ATPA's impact on U.S. industries and consumers and on drug crop eradication and crop substitution. Additionally, USTR prepares a biennial report for Congress on CBI that highlights increases in overall U.S. imports from the countries in the program. Similarly, ITC reports on the CBI program's impact on beneficiaries on a biennial basis, the only report required by statute to address the impact on the beneficiaries. Finally, USTR produces an annual

report on the implementation of AGOA that highlights trade and investment trends in Sub-Saharan Africa. However, there is no comparable periodic reporting on the effect of GSP on the economic development of countries covered by that program. USTR officials told us that the vehicles they use for reporting on the GSP program are the annual *Report of the President of the United States on the Trade Agreements Program* and the annual *Trade Policy Agenda*. Discussion of the GSP program in these documents focuses on product coverage and country conformity with eligibility criteria, not on the impact of benefits to beneficiary developing countries in terms of trade growth or economic development.

Different approaches used to measure the effects of trade preference programs on beneficiary countries, while consistent with statutory reporting requirements, produce disparate data and analysis that are not readily comparable to evaluate how these programs advance economic development—their fundamental goal. For instance,

- USTR's report on the ATPA provides some examples that illustrate the role of the program in promoting exports and development in each of the four beneficiary countries and refers to analyses by the ITC and Labor on some aspects of the economic impact of ATPA. On the other hand, ITC reporting on the ATPA provides some material on exports and economic diversification for countries under the program.

- USTR's reporting on CBI highlights overall and country-specific increases in U.S. imports from countries in the CBI program. The report includes discussions on individual countries, which generally do not evaluate the impact of CBI on the exports or development of the beneficiaries. The ITC reports on the impact of CBI examine how that program affects those countries that have relatively large trade flows with the United States. The trade profile for the region presented in this report has shifted over time, with certain countries receiving more emphasis in earlier reports while later iterations focus on others.

- USTR's comprehensive report on trade and investment in Sub-Saharan Africa and the implementation of AGOA provides an overview of trade and investment trends in participating Sub-Saharan countries, reviews economic integration efforts at the regional and subregional level, and discusses participation by AGOA countries in the WTO.

- Finally, while there is no regular reporting on the economic impact of GSP on beneficiary countries, in 1980, the administration prepared a

statutorily required report to Congress on the first 5 years of operation of the GSP program. That report included an analysis of the impact of the GSP on developing country economies. This appears to have been a one-time report, and USTR officials confirmed that no further such reports were prepared.

Thus, while there is an abundance of reporting on various aspects of the economic effects of trade preference programs on beneficiary countries, the analyses and data presented in these reports is typically quite dissimilar and does not lend itself for use in evaluating the overall effects of trade preferences.

Conclusions

Congress created these programs over the years to address compelling trade and foreign policy objectives. The programs are important to individual businesses and industries, both domestically and internationally. Additionally, the criteria for participation associated with the programs have served as an important tool to advance U.S. foreign and trade policy objectives. The preference programs have evolved over time to accommodate not only the general goal of trade-led development, but regional interests, such as counternarcotics efforts in ATPA. Changes to the preferences programs in the past have had an impact on beneficiaries' trade profiles with the United States, by stimulating export growth to this country. Much of the increased exports coincided with congressional expansions of the programs in 2000 and 2002 to cover key products.

However, U.S. trade preferences are neither administered nor evaluated on a cross-programmatic basis. A lack of systematic evaluation limits any judgment about the extent to which the collection of U.S. trade preference programs has increased trade and fostered development in beneficiary countries. While evaluations may occur to determine whether countries should retain eligibility for preferences, such inquiries have not been made regularly or in a consistent manner across the programs or beneficiary countries. Two different approaches have evolved to monitor compliance with criteria set for various trade preference programs, and we observed advantages associated with each approach, but individual program reviews result in gaps and appear disconnected from other on-going U.S. government efforts, such as the Special 301 process. Further, the petition-driven process can result in a long time passing between reviews of country compliance with the criteria for participation. There are also certain practices, such as stronger links between preference benefits and trade capacity building efforts in the AGOA program, that may be advantageous

to some of the other programs. A distinct reporting approach for each program limits the United States' ability to determine the extent to which U.S. trade preference programs as a whole foster development in beneficiary countries. However, the programs' positive impact on developing economies may be attenuated because the United States does not extend preferential access to products that are important exports of beneficiary countries and because the United States imposes complex entry requirements for some products.

Matters for Congressional Consideration

As Congress deliberates on whether to renew the ATPA, CBTPA, and GSP programs this calendar year, it should consider whether a more integrated approach would better ensure programs meet shared goals. Specifically, Congress should consider which elements of the approaches used by agencies to administer these programs, such as petition-initiated compliance reviews or periodic assessment of all countries under certain programs, have benefits that may be applied more broadly to trade preference programs in general. Congress should also consider streamlining various program reporting requirements to facilitate evaluating the programs' progress in meeting their shared economic development goal.

Recommendations for Executive Action

To ensure that these programs, as a whole, meet their shared goals, we recommend USTR undertake the following two actions:

- work through the TPSC and its associated agencies to consider ways to administer, evaluate, and report on preference programs in a more integrated manner, and

- periodically convene the TPSC to discuss the programs jointly to determine what lessons can be learned from the various provisions concerning matters such as linkages to trade capacity building.

Additionally, to ensure that beneficiary countries are in compliance with program criteria, we recommend that USTR should also periodically review preference beneficiaries that have not otherwise been reviewed by virtue of their membership in the regional programs.

Agency Comments and Our Evaluation

We provided a draft of this report to USTR; the Departments of Agriculture, Commerce, Homeland Security, Labor, State, and Treasury; USAID and ITC. USTR, and the Departments of Agriculture, Labor, Commerce, Treasury, and State provided extensive technical comments on an interagency basis. The Departments of Homeland Security, Labor, and State, and ITC also provided separate technical comments. We have incorporated these comments where appropriate. USTR indicated that it would report on the actions taken in response to the recommendations in a letter, within 60 days of public issuance of this report, as required under U.S. law.

As agreed with your offices, unless you publicly announce the contents of this report earlier, we plan no further distribution until 30 days from the report date. At that time, we will send copies of this report to interested congressional committees; the U.S. Trade Representative; the Secretaries of Agriculture, Commerce, Homeland Security, Labor, State, and the Treasury; the Administrator of USAID; and the Chairman of ITC. We also will make copies available to others upon request. In addition, this report will be available at no charge on the GAO Web site at http://www.gao.gov.

If you or your staff have any questions about this report, please contact me at (202) 512-4347 or yagerl@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made major contributions to this report are listed in appendix VI.

Loren Yager
Director, International Affairs and Trade

Scope and Methodology

In this report, we (1) describe how U.S. preference programs affect the United States, (2) review the effects of the programs on exports and development of foreign beneficiaries, (3) identify trade-offs facing the programs, and (4) evaluate the overall approach to preference programs.

We followed the same overall methodology to complete objectives 1, 3, and 4. We reviewed and analyzed U.S. laws and regulations, authoritative international trade reports/documents describing the impact of trade preference programs on the United States, such as the biennial impact studies from the U.S. International Trade Commission (ITC) on the Caribbean Basin Initiative (CBI) and the Andean Trade Preference Act (ATPA), and periodicals. We interviewed officials from agencies participating in the Trade Policy Staff Committee—including the Office of the U.S. Trade Representative (USTR); the Departments of Agriculture, Commerce, Labor, State, and the Treasury; U.S. Customs and Border Protection; and ITC— regarding the impact of preferences on the U.S. economy. We also interviewed representatives of businesses that used the preference programs and nongovernmental organizations (NGOs) that have filed petitions under the programs. We reviewed academic, World Trade Organization, and other research studies, on the effects of preference erosion on developing countries. In addition, we analyzed the 2006 U.S. government reports on the Special 301 process, the August 2007 report on the *Worst Forms of Child Labor*, and finally, the 2007 State Department report on *Trafficking in Persons*. For information on key features and use of U.S. preference programs, we drew from findings from a previous GAO report on U.S. preference programs, *International Trade: An Overview of Use of U.S. Trade Preference Programs by Beneficiaries and U.S. Administrative Reviews* (GAO-07-1209).

To review the effects of U.S. preference programs on exports and development of foreign beneficiaries, we reviewed relevant academic, government and other literature. Particularly useful were recent broad reviews of the trade preferences literature found in (1) Bernard Hoekman and Caglar Ozden, *Trade Preferences and Differential Treatment of Developing Countries* (Cheltenham, UK, and Northampton, MA: Edward Elgar Publishing, 2006) and (2) Caglar Ozden and Eric Reinhardt, "Unilateral Preference Programs: The Evidence," chapter 6, in Simon J. Everett and Bernard Hoekman, eds., *Economic Development and Multilateral Trade Cooperation* (Washington, D.C.: The World Bank and Palgrave Macmillan, 2006). We also conducted extensive analysis of the U.S. tariff schedule and U.S. trade data published by the ITC. Our analysis focuses on 2006 data except where we engaged in analysis of historical

trends. We relied on the 2006 edition of the official U.S. tariff schedule from the ITC to identify products (tariff lines) eligible for duty-free treatment under one or more U.S. trade preference programs, as well as the countries designated as eligible for each program. We also used ITC data to analyze Census data trends in overall U.S. imports, imports from preference beneficiaries, and imports actually entered under U.S. trade preference programs and to compute measures such as program coverage and utilization and the diversification of U.S. preference imports. More detailed information about our data analysis is contained in appendix II. Furthermore, we interviewed officials from the Office of the U.S. Trade Representative; the Departments of Agriculture, Commerce, Labor, State, and the Treasury; U.S. Customs and Border Protection; and ITC regarding the effects of preferences on foreign beneficiaries.

In addition, we attended the sixth AGOA Forum in Accra, Ghana, in July 2007. We also traveled to Brazil, Colombia, Haiti, Kazakhstan, and Turkey to meet with U.S. embassy officials, foreign officials, and industry groups using U.S. preference programs to discuss the issues mentioned above. We selected these countries based on representation on preference program eligibility and income levels according to the World Bank and United Nations (see table 5). Additionally, we chose to visit Haiti and Ghana because they are among the poorest beneficiaries and ones where mechanisms to take advantage of recently expanded benefits under newer preference programs—Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) and African Growth and Opportunity Act (AGOA)—are being put in place. Also, Ghana was the site of the annual AGOA Forum. We selected Brazil and Turkey to visit because these countries have successfully used U.S. trade preferences to export a diverse range of relatively sophisticated manufactured goods. We chose Colombia and Kazakhstan because they are large users of preference programs and are both undertaking broader liberalization efforts. Colombia has completed a free trade agreement with the United States, and Kazakhstan is trying to join the WTO.

Table 5: Countries Selected for GAO Field Research

Beneficiary country	Program	Income levels
Brazil	GSP	Upper-middle
Colombia	ATPA	Lower-middle
Ghana	AGOA	Low
Haiti	CBI/HOPE	Low
Kazakhstan	GSP	Upper-middle
Turkey	GSP	Upper-middle

Source: GAO.

In addition, we selected these countries to gain perspective on the spectrum of issues related to usage and capacity of each of the programs in country. Brazil is a top user of the Generalized System of Preferences (GSP) program since the 1970s; Colombia is an extensive user of ATPA; Ghana represents the African countries under AGOA that are dealing with internal infrastructure issues that can limit their use of the preference programs; Haiti is an historic user of CBI and is in the beginning stages of implementing HOPE; Kazakhstan is an extensive user of GSP and is undergoing high liberalization; and Turkey is also another high user of GSP and exports sophisticated manufactured goods to the United States.

We conducted this performance audit 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.

Additional Information on GAO Data Analysis

This appendix provides additional information relevant to the data analysis contained in this report. It includes information about the data used, definitions of program, product and country groupings, and definitions relevant to various program measures used.

Data

We relied on the 2006 edition of the official U.S. tariff schedule (Harmonized Tariff Schedule [HTS]) from the ITC to identify products (tariff lines) eligible for duty-free treatment under one or more U.S. trade preference programs, as well as the countries designated as eligible for each program (beneficiaries or beneficiary countries). We considered any country designated for benefits for all or part of 2006 to be beneficiaries.

We relied on official U.S. trade statistics for imports to analyze trends in overall U.S. imports, imports from preference beneficiaries, and imports actually entered under U.S. trade preference programs. Data for time series are in constant 2006 U.S. dollars.

We made an adjustment for program and product groupings primarily pertaining to apparel such that those apparel items normally classified under HTS Chapters 61-63 eligible to enter duty-free under regional preference programs if they meet specified rules of origin, as specified in HTS Chapter 98, were identified and marked with a # sign. This accounts for the R#, J#, and D# in the program groupings below.

Program Groupings

GSP: In terms of products, we defined products covered by GSP as the sum of all tariff lines designated as A or A* in the 2006 U.S. tariff schedule. In terms of countries, all countries that were designated as eligible for GSP at any point in 2006 were considered beneficiaries.

GSP-least developed countries (LDC): In terms of products, we defined products covered by GSP-LDC as all tariff lines designated as A+. In terms of countries, all countries that were designated as eligible for GSP-LDC at any point in 2006 were considered beneficiaries.

CBI: We defined this category to include products covered by CBI as E or E*, and products covered by CBTPA as R or R#. In terms of countries, all countries that were designated as eligible at any point in 2006 were considered beneficiaries. It should be noted that some of the countries in the 2006 sample have now lost eligibility for benefits under CBI due to the entry into force of the Dominican Republic-Central America-United States

Free Trade Agreement (CAFTA-DR) as follows: Dominican Republic (March 2007), El Salvador (March 2006), Guatemala (July 2006), Honduras (April 2006), and Nicaragua (April 2006).

ATPA: We defined products covered by ATPA as J, J*, and products covered by Andean Trade Promotion and Drug Eradication Act (ATPDEA) as J#, J+. We defined countries as Bolivia, Colombia, Ecuador, and Peru.

AGOA: We defined products covered by AGOA as D, D#. We defined countries covered by AGOA as all countries eligible for the program at any point in 2006.

Product Groupings

In order to examine broad groups of products, we organized the HTS product chapters into 12 sectors as follows:

1. Animal and plant products (HTS, chapters 1-15)
2. Prepared food, beverages, spirits, and tobacco (HTS, chapters 16-24)
3. Chemicals and plastics (HTS, chapters 25, 26, 28-40)
4. Wood and paper products (HTS, chapters 44-49)
5. Textiles, leather, and footwear (HTS, chapters 41-43, 50-60, 64-66)
6. Glassware, precious metals and stones, jewelry (HTS, chapters 68-71)
7. Base metals and articles of base metals (HTS, chapters 72-81 and 83)
8. Machinery, electronics, and high-tech apparatus (HTS, chapters 82, 84, 85, 90)
9. Aircraft, autos and other transportation (HTS, chapters 86-89)
10. Miscellaneous manufacturing (HTS, chapters 91-97)

11. Fuels (HTS, chapter 27)

12. Apparel (HTS, chapters 61-63)[1]

With the exception of textiles and apparel, for figure 5, we use the more aggregated groupings presented in our last report.[2]

Country Groupings

We used the same sample of countries for analysis of import trends over time. Specifically, we assigned each country to a country group based on their eligibility and country income category in 2006. When time series analysis was done, it is thus for "2006 program beneficiaries" and "2006 country income group" rather than the actual program beneficiaries or actual income groups at earlier points in time. Numerous countries have been removed from programs over the 1992-2006 period, mostly due to attaining high-income status (e.g., Cyprus and Aruba), attaining overall competitiveness (Malaysia), joining the European Union (e.g., Hungary and Poland), or entering into a free trade agreement with the United States (e.g., Mexico and Morocco). For additional information on eligibility for programs by country, see appendix III of GAO-07-1209.

[1]The U.S. Census Bureau lists imports that qualify for regional preference programs under chapter HTS98 (certain textiles and apparel) under the original tariff line. Importers must provide the original tariff line between HTS1 and HTS97 plus the HTS98 code that shows they are eligible for trade preferences. The ITC tariff schedule only lists the HTS98 tariff lines as eligible for preferences. Therefore, trade data show imports under tariff lines that don't appear eligible for trade preferences. We confirmed that this is the case with ITC. We marked the original tariff lines as being eligible for trade preferences under the relevant regional program with a # sign and excluded HTS98 to avoid double counting.

[2]It should be noted that these classifications are slightly more disaggregated than those presented in our September 2007 report. Notably, in that report:

Agriculture includes what we present in this report under animal and plant products and prepared food, beverages, spirits, and tobacco;

Chemicals, plastics, paper includes both chemicals and plastics and wood and wood products;

Textiles and apparel includes both what we report under textiles, leather, and footwear and what we report under apparel; and

Machinery and electronics includes what we report under the three categories of machinery, electronics, and high-tech apparatus; aircraft, autos, and other transportation; and miscellaneous manufacturing.

AGOA countries: Those countries designated as eligible for the AGOA program at any point in 2006. All of these countries are eligible for GSP, and some of these countries are eligible for GSP-LDC.

ATPA countries: Those countries eligible for ATPA at any point in 2006. All of these countries are also eligible for ATPDEA and GSP.

CBI: Those countries designated as eligible for the Caribbean Basin Economic Recovery Act (CBERA) at any point in 2006. Some of these countries are also eligible for the Caribbean Basin Trade Partnership Act (CBTPA) and GSP.

GSP-only countries: Those countries only designated as eligible for the GSP program.

Country income groupings: We relied on World Bank data on country income levels. We relied on United Nations designations of least-developed countries and for data on country income when World Bank data was unavailable.

Definitions

Covered products: We defined covered products as all items identified in the 2006 U.S. tariff schedule as eligible for a preference program. We defined products covered by GSP as the sum of all tariff lines designated as A or A* in the U.S. tariff schedule. We defined products covered by GSP-LDC as all tariff lines designated as A+. We defined products covered by CBI as E, E* and products covered by CBTPA as R, R#. We defined products covered by ATPA as J, J*, and products covered by ATPDEA as J#, J+. We defined products covered by AGOA as D, D#.

Eligible beneficiary(ies): We used the term eligible beneficiary for any countries designated as eligible for a particular preference program. The term eligible beneficiaries is used for all countries designated as eligible for a particular program.

Country income category: We relied on World Bank data on country income levels. We relied on UN designations of least-developed countries.

Dutiable products/imports: We defined dutiable products as all products that were subject to most favored nation (MFN) tariffs that are greater than zero in 2006. We defined the value of dutiable imports as total U.S. imports minus total imports of MFN duty-free products.

Preference eligible imports: We defined preference eligible imports as the value of imports of covered products from eligible beneficiaries.

Preference imports: We defined preference imports as the value of imports actually entered under a given preference program or programs.

Preference margins: The difference between the otherwise applicable or MFN tariff rate and the rate at which the product is eligible to enter under U.S. preference programs. Most products covered by preferences enter duty-free, but some products enter at reduced (nonzero) duties. We relied on others' estimates of U.S. preference margins, specifically those by a team of ITC and World Bank economists given responsibility for preparing estimates for U.S. programs as part of a multicountry study organized by the World Bank.

Program Measures

Coverage: We considered coverage relative to two metrics: (1) the number of lines in the U.S. tariff schedule and (2) the total value of imports of covered products divided by the total value of imports of dutiable products (i.e., dutiable imports) from each preference partner. (See above for definitions of "covered products" and dutiable products.)

Utilization: We calculated this as a ratio of the value of preference imports (imports actually entering under U.S. preferences) relative to (divided by) the value of imports of covered products.

Program averages for these measures were calculated by:

For *coverage*, summing the value of preference-eligible imports from all partners and then dividing it by the sum of the value of dutiable imports from all partners.

For *utilization*, summing the total value of preference imports from all partners, and then dividing it by the total value of imports of covered products from all partners, that is, the sum of each partner's covered products.

Country averages related to total preference program coverage and utilization measures were calculated by:

For *coverage*, summing the value of preference-eligible imports under all programs for each partner, including adjusting to avoid double counting

where a product is covered by more than one program, and then dividing by the value of dutiable imports from that partner.

For *utilization*, summing the value of preference imports from that country actually entering under preferences, adjusting to avoid double counting, and then dividing by the value of imports of covered products from that country.

Diversification

Our analysis of diversification examines the distribution of total U.S. imports from preference-eligible countries at the two-digit level of product classification (i.e., at the "chapter level" or broad product grouping level of the HTS of the United States, the U.S. tariff schedule). We grouped preference-eligible countries according to the program(s) for which they were eligible in 2006. We then calculated a measure of diversification based on a normalization of a commonly used indicator of industry concentration known as the Herfindahl-Hirschman Index.[3] For purposes of exposition and intuitive appeal, we re-based the index by subtracting it from one to show lower values as indicating lower diversification (more concentration) and values closer to one as indicating higher diversification (less concentrated). Specifically, the formula used to calculate the index is:

$$H^{*}=1-\frac{\sqrt{\sum_{i=1}^{N}\left(x_i / X\right)^2}-\sqrt{1/N}}{1-\sqrt{1/N}}$$

where x_i represents the import/export value of the ith commodity, X is the country's total imports/exports to the United States in 2006, where N is the number of products. The index value (H*) ranges from 0 to 1. For example, if the products are evenly distributed the value of the index would be 1, and the more concentrated the product distribution, the closer the value is to 0. It is observed that the index is a function of the mean and variance of the value of imports/exports share in different commodity groups.

[3]According to Hirschman (1964), the index is designed as a measure when concentration is a function of both unequal distribution and fewness. Albert O. Hirschman, "The Paternity of an Index," *The American Economic Review*, vol. 54, no. 5, Sept. 1964, 761.

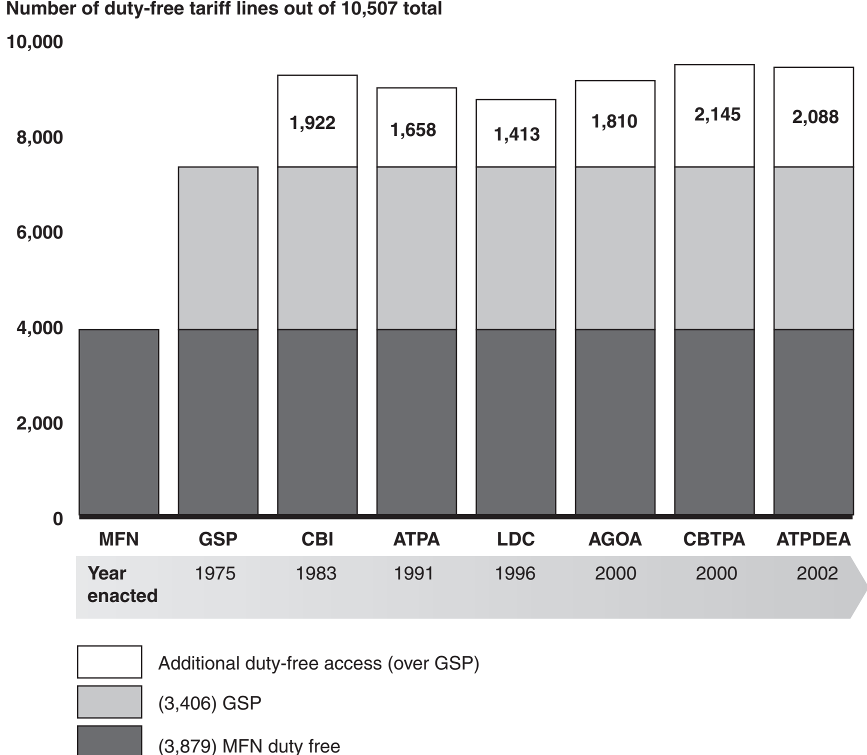
Coverage, Utilization, and Limitations of Preference Programs

To assess the opportunities extended to developing countries under U.S. preference programs, we examined the scope of programs' coverage by beneficiary and product, the size of tariff cuts (or margins of preference), and some eligibility conditions that can affect the ability of beneficiaries to access program opportunities. We also examined the extent to which countries are using the available opportunities.

Coverage of U.S. Preference Programs

Our analysis of U.S. tariff and trade data shows that duty-free coverage under U.S. trade preference programs has increased over time. Considered in combination, U.S. preference programs now extend duty-free status to most of the product lines in the U.S. tariff schedule. However, coverage varies notably by program, beneficiary, and product. Because eligibility for duty-free status is cumulative in that countries eligible for one preference program may also be granted additional preferences depending on their income and regional memberships, the potential duty-free access for particular countries can vary substantially. Figure 9 shows that, as of 2006, the countries eligible for GSP only were accorded duty-free access to 69 percent of the total number of tariff lines in the U.S. tariff schedule or 7,285 lines, composed of 3,879 MFN duty-free lines, and 3,406 additional lines that are duty-free under GSP. All three of the subsequently enacted regional programs, and their enhancements, improve upon GSP to varying degrees. The expansion of GSP for LDCs in 1996 also increased the number of duty-free lines for LDC partners.

Figure 9: Cumulative Duty-free Tariff Lines in the U.S. Tariff Schedule, by Preference Program



Source: GAO analysis of the Harmonized Tariff Schedule of the United States, 2006.

The proportion of tariff lines accorded duty-free status also varies by product. Figure 10 shows the distribution of dutiable and duty-free lines by product group. GSP alone offers relatively extensive duty-free coverage to certain manufactured goods, such as chemicals and plastics; glassware, precious metals, and jewelry; and machinery and electronics; where coverage exceeds 40 percent of tariff lines. However, duty-free coverage is much more limited for other product groups. Textiles, footwear, leather, and apparel are product groups where duties still apply to the most and highest percentage of lines, but where regional programs offer notable improvements in coverage over GSP. For example, with AGOA's enactment and the enhancements of CBI and ATPA offered since 2002, 33 percent of apparel lines are eligible to enter duty-free under regional programs, and 43 percent of apparel lines altogether (including MFN and GSP) have duty-free access.

Figure 10: Dutiable and Duty-free Lines in U.S. Tariff Schedule by Product Group

Product group	Duty-free[a]					Dutiable[b]	
	Total number of tariff lines in group	MFN duty-free	Duty-free under GSP	Additional duty-free under GSP for LDC	Additional duty-free for AGOA, ATPA, and CBI partners		
Animal and plant products	1,096	304	282	402	16	92	8%
Prepared food, beverages, spirits, and tobacco	741	137	267	200	11	126	17%
Chemicals and plastics	2,211	742	1,021	441	6	1	
Wood and paper products	481	407	60	10	4		
Textiles, leather, and footwear	1,320	257	176	30	223	634	48%
Glassware, precious metals and stones, jewelry	388	144	177	51	6	10	
Base metals and articles of base metals	855	491	321	41	2		
Machinery, electronics, and high-tech apparatus	1,893	988	810	85	10		
Aircraft, autos, and other transportation	240	123	77	40			
Miscellaneous manufacturing	543	201	186	89	66	1	
Fuels	72	41	7	24			
Apparel	667	44	22		223[c]	378	57%
Total	**10,507**	**3,879**	**3,406**	**1,413**	**567**	**1,242**	

Dutiable   Duty-free

Source: GAO analysis of the Harmonized Tariff Schedule of the United States, 2006.

[a]Dutiable products face MFN duties and are ineligible for U.S. preference programs.

[b]Duty-free products are eligible to enter duty-free due to MFN or U.S. trade programs.

[c]Although some of these HTS lines are not listed as generally qualifying for these preference programs, items are eligible for duty free import under the regional programs if they meet the rules of origin.

Coverage can also be examined relative to imports from beneficiary countries using the ratio of preference eligible imports to total dutiable imports from beneficiaries eligible for particular programs. Our analysis (see table 6) shows that: (1) countries eligible for only GSP have the least coverage of partners' dutiable imports—approximately 25 percent, (2) regional programs and GSP for LDC's have much higher coverage of partners' dutiable imports, and (3) country variations in coverage are wide. For example, 35 GSP beneficiaries including Lebanon, Paraguay, Somalia, and Zimbabwe have high coverage rates, exceeding 75 percent of the value of their dutiable imports. Yet, 48 GSP beneficiaries such as Bangladesh, Egypt, Pakistan, and Uzbekistan have low coverage rates (less than 25 percent of dutiable imports).

Preference Margins

The value and effectiveness of tariff preferences depends on the magnitude of the tariff that would otherwise be imposed on imported products, often referred to as the preference margin. Preferences can have an impact only if there is a nonzero tariff that otherwise would apply in the U.S. market. Moreover, if the MFN (normally applicable) tariff on a product is negligible, the advantage provided by preferences can be so small as to become an insignificant factor in trade decisions. A recent effort to quantify margins of preferences across all U.S. preference programs by staff economists at the ITC and the World Bank shows that preference margins are relatively high for apparel products, as well as certain agricultural goods (melons, cut flowers, frozen orange juice, raw cane sugar, and asparagus);[1] they tend to be relatively low for other products and fairly uniform among programs.[2] Specifically, the authors found the following:

[1]Despite relatively low MFN tariffs, petroleum-related products, chemicals, jewelry, and electrical machinery were also significant products in the duty-savings of countries.

[2]Judith Dean and John Wainio, "Quantifying the Value of U.S. Tariff Preferences for Developing Countries," World Bank Policy Research Working Paper 3977 (2006), forthcoming in C. Braga, B. Hoekman, and W. Martin, eds., *Trade Preference Erosion: The Terms of the Debate* (New York: The World Bank and Palgrave Macmillan). The authors develop and use detailed tariff rate data for all U.S. imports, and estimate ad valorem (by value) tariff rates for goods such as agriculture and apparel that face complex tariffs and tariff-rate quotas, as well as the overall tariff savings from preferences (including GSP) by country. Such analysis is beyond the scope of GAO's present study.

- Across member countries and all eligible U.S. nonagricultural imports, AGOA preference margins were the highest on average (14 percent) in 2003. CBTPA preference margins ranked second with an average of 9 percent, and ATPA preference margins third with an average of 8 percent.

- Nonapparel preference margins average 3 percent to 5 percent for ATPA, CBTPA, and CBERA countries and show little variation across countries within each program. AGOA nonapparel preference margins are much higher—5 percent to 10 percent for more than half the countries, and 10 percent to 20 percent for a few.

- Average apparel margins under AGOA, CBTPA, and ATPA are two or three times as high as those for nonapparel for nearly all preference beneficiary countries.

- Despite its importance in AGOA trade, average petroleum preference margins by country did not exceed 2 percent, and most were well below 1 percent.

All in all, the authors conclude, while "the potential duty savings from all U.S. preference programs represent a very small share of beneficiaries' dutiable exports to the United States, countries in the CBTPA and those in the AGOA-LDC program show duty savings exceeding 10 percent of their dutiable exports to the United States."[3] In fact, the potential duty savings for 35 countries—all but 3 of whom qualify for regional programs—exceed 5 percent of the value of their dutiable exports to the United States. As a result, they find that preferences are sufficiently important to 29 countries' exports to warrant concern over the impact of preference erosion due to multilateral and bilateral liberalization. At the same time, they note that some of this liberalization has since occurred, with the phase-out of global textile quotas in 2005.[4]

[3]Dean and Wainio (2006), 18.

[4]The data used in the Dean and Wainio analysis was for 2003.

Product Caps and Rules of Origin May Limit Use and Benefits

Conditions on product entry are also a significant factor affecting opportunities and trade under U.S. preference programs. Two specific conditions, “competitive need limits” and “rules of origin,” illustrate how administration of program provisions, although addressing important policy considerations, may affect the ability of beneficiary countries to fully access the opportunities otherwise offered by U.S. preference programs.[5] GSP places export ceilings or “competitive need limits” (CNL) on eligible products for certain beneficiaries that exceed specified value and import market share thresholds. (LDCs and AGOA beneficiaries are exempt.) Our analysis of 2006 data shows that some 37 percent of the value of imports of GSP products from non-LDC, non-AGOA GSP beneficiaries—or $13 billion of the $35 billion—were excluded from entering duty-free under GSP largely due to CNLs. Researchers also warn that rules of origin and related paperwork are often complex and can raise costs. As a result, it may not be worth incurring the expense of compliance to use preferences.

Rules of origin for U.S. trade preference programs typically specify a minimum percentage value-added to the entering product that must come from the beneficiary country in order to qualify for duty-free treatment. However, some programs allow countries to “cumulate” inputs from other countries or regions. More complex rules apply to some products, notably apparel. The fact that U.S. Customs and Border Protection—the U.S. agency charged with enforcing such rules when goods enter the United States—used a 70-page PowerPoint presentation to train its officers on the conditions associated with apparel access under U.S. preference programs is illustrative of the complexity of such rules. For example, our meetings with CBP and statements by Haitian textile industry groups indicate that some of the rules of origin for HOPE are highly complex to administer and use. Indeed, as recently as late November, 2007 industry sources had

[5]While the data on coverage and margins of preference suggest a degree of success in improving the benefits of U.S. preference programs, in general, recent assessments of the literature express some skepticism as to whether trade preferences, and GSP in particular, have had more than a very modest impact on the export performance, and hence the development, of eligible countries. (See Hoekman and Ozden (2006) and Caglar Ozden and Eric Reinhardt, “Unilateral Preference Programs: The Evidence,” chapter 6, in Simon J. Evenett and Bernard M. Hoekman, eds., *Economic Development and Multilateral Trade Cooperation* (Washington, D.C.: The World Bank and Palgrave Macmillan, 2006). For example, Ozden and Reinhardt (Ozden and Reinhardt (2006) 197-199) not only indicate that GSP often fails to cover products in which beneficiary countries have the greatest comparative advantage, such as agricultural products, but cite administrative features of the programs—notably export ceilings and rules of origin—as key constraints on benefits.

indicated to us that HOPE has yet to become fully operational for Haiti to benefit because of delays in issuing export visas, and the complicated nature of HOPE rules of origin. Another possible indication of the impact of rules of origin are the "fill rates" for each region's quotas (known as "tariff preference levels"). Within Africa, the LDCs that qualify for liberalized rules of origin allowing "third country" (non.-U.S., non-AGOA) fabric and yarn to be used in apparel and still qualify for duty-free entry under AGOA had achieved a relatively high 43.3 percent "fill rate" for their quotas in 2006, versus other African suppliers, which must use domestic African or U.S. inputs, whose fill rate stood at 1.8 percent. Recent economic literature also suggests that AGOA had some success in increasing export activity for some countries, but the increased exports are mainly associated with the liberalized apparel provisions."[6] Yet others are concerned that without requiring more Sub-Saharan African value-added (e.g., through local sourcing and production), the trade, investment, and supply linkages to the local economy that foster development and diversification may not accrue

[6]Early assessments of the AGOA program, based on simulation work, suggested that the program would benefit many African countries. One study that focused on the possible gains from apparel exports and the relaxation of the rules of origin estimated that AGOA could raise nonoil exports by 8-11 percent (Mattoo, Aaditya, Devesh Roy and Arvind Subramanian, "The Africa Growth and Opportunity Act and its Rules of Origin: Generosity Undermined?" *World Economy*, 26 (6), 829-51). This study further asserted that the estimated benefits of AGOA would be much greater, up to fivefold, after 2005, if more liberal rules of origin were to continue to be applied to apparel and the program had wider coverage. Another study reiterated these points that apparel preferences and liberal rules of origin were key to AGOA's impact but also noted that "with the exception of clothing most of the products liberalized under AGOA had been liberalized under GSP for LDCs." The study indicated that AGOA is mainly about LDCs and clothing, and that for nonoil exporters and LDCs not eligible for the clothing provisions, the benefits of AGOA would be small (Paul Brenton and Takako Ikezuki, "The Initial and Potential Impact of Preferential Access to the U.S. Market under the African Growth and Opportunity Act," *World Bank Policy Research Working Paper* 3262 (April 2004).

More recent studies allow an assessment of AGOA based on historical data and subsequent to the extension of the special rules of origin for apparel to 2012. One study uses updated empirical techniques and finds that the apparel provisions of AGOA are associated with a 53 percent increase in imports to the United States, and for GSP products, AGOA accounts for a 14 percent increase. The positive effect of AGOA grew over time and despite the dismantling of the Multi-fiber Agreement in 2005. This study also finds that AGOA also had a positive impact on the growth of U.S. imports of GSP agricultural and manufacturing products (Garth Frazer and Johannes Van Biesebroeck, "Trade Growth Under the African Growth and Opportunity Act," *National Bureau of Economic Research Working Paper* 13222 (July 2007). Another recent study estimates an even larger effect from the liberalized apparel provisions of AGOA (Paul Collier and Anthony J. Venables, "Rethinking Trade Preferences: How Africa Can Diversify its Exports," *World Economy,* August 2007, 1,326-1,345).

to AGOA beneficiaries. As a result, the recent long-term extension of the third country fabric provision was accompanied by a new requirement to use fabrics deemed widely available for commercial use (i.e., in “abundant supply”) in Africa. However, at a recent ITC hearing, a major U.S. jeans manufacturer expressed concern that the limitations the law places on their flexibility to source fabric is making them reluctant to continue purchasing from African producers.

Our fieldwork revealed examples where complex rules-of-origin requirements appear to be complicating preference trade. In Ghana, for example, we met with a firm that decorates T-shirts with original designs, using traditional African decorative techniques. This firm had been importing plain white T-shirts from Honduras to decorate in Ghana and then exporting them to the United States. We were surprised to learn that the firm had to pay duty on the finished product exported to the United States, since the inputs were exempt from tariffs under U.S. preferences programs. For example, the plain white T-shirts manufactured in Honduras would have entered the United States duty-free under CBI. The value-added through the decorative process in Ghana would also be exempt from duties under AGOA. However, because the T-shirt manufactured in Honduras did not meet the rules of origin requirements for the AGOA program this company was obliged to pay duty on the finished decorated shirts. The company is now seeking to shift its T-shirt purchases to South Africa, or another AGOA beneficiary, since this sourcing would enable them to qualify for duty-free treatment under AGOA.

On the other hand, liberalizing quotas and rules of origin have been a principal means by which the regional programs have been improved in recent years. For example, CBTPA was enacted in 2000 to enhance the CBI program, and temporarily eliminates tariffs and most quantitative restrictions on certain products. The CBTPA liberalized rules of origin for certain textiles and apparel in an effort to mitigate adverse effects on CBI suppliers caused by diversion of production and U.S. trade to Mexico when the North American Free Trade Agreement (NAFTA) entered into force. The change in rules appears to have benefited CBI suppliers somewhat. Notably, items entering under the CBTPA, such as cotton T-shirts and trousers had become leading imports from Central America and the Dominican Republic at the time the ITC assessed the impact of CAFTA-DR in 2005. Yet, apparel and footwear were also the Central American sectors expected to benefit most from further liberalization of U.S. access under CAFTA-DR. Notably, CAFTA-DR attempted to sustain and encourage subregional integration within the Americas by further loosening rules of

origin to allow "cumulation" (adding together the value) of inputs from United States, CAFTA-DR, NAFTA, and CBI suppliers to meet its rules of origin. Bringing such attempted improvements in opportunities to fruition remains complex. In our visit to Haiti, for example, there was uncertainty as to how CAFTA-DR will interact with Haiti's new HOPE program. In particular, concern was expressed over whether existing production-sharing operations between the Dominican Republic and Haiti would be eligible for duty-free entry.

Utilization of Regional Programs Is Fairly High Compared with GSP but Varies by Partner

Our analysis of the share of preference eligible imports actually entering under each preference program shows that the benefit of U.S. preference programs may vary considerably by program and partner. Figure 11 shows the 2006 utilization of U.S. preference programs where the "utilization rate" is defined as the ratio of actual preference imports under each program to eligible imports. As Figure 11 indicates, the utilization rate for the regional preference programs offered by the United States is high, particularly relative to the utilization of GSP. To some extent, low utilization of GSP may reflect the fact that coverage across programs is relatively uniform for many products, whereas program conditions and rules of origin vary. As a result, countries that have access to both GSP and regional programs may opt to use the regional programs.

The utilization rate for GSP or GSPLDC imports from all eligible partners was 61 percent. The utilization rate for imports from countries eligible for only GSP or GSPLDC was slightly higher, at about 75 percent. Countries eligible for GSPLDC, with enhanced duty-free access, had a utilization rate of 58 percent. Countries that were eligible for AGOA and CBI/CBTPA had utilization rates of 77 percent and 47 percent, respectively. The four Andean countries eligible for ATPA/ATPDEA had the highest utilization rate of 90 percent.

Figure 11: Utilization Rates of U.S. Preference Program Partners, 2006

AGOA: 38 countries
ATPA/ATPDEA: 4 countries
CBI/CBTPA: 24 countries
All regional: 66 countries
All programs: 143 countries

GSP or GSPLDC: 139 countries
GSPLDC: 42 countries
GSP or GSPLDC and regional: 62 countries
Only GSP or GSPLDC: 77 countries

Source: GAO analysis of official U.S. trade statistics and tariff schedule.

Note: The four CBI/CBTPA countries that lost preference eligibility in 2006 are included in the CBI and regional averages.

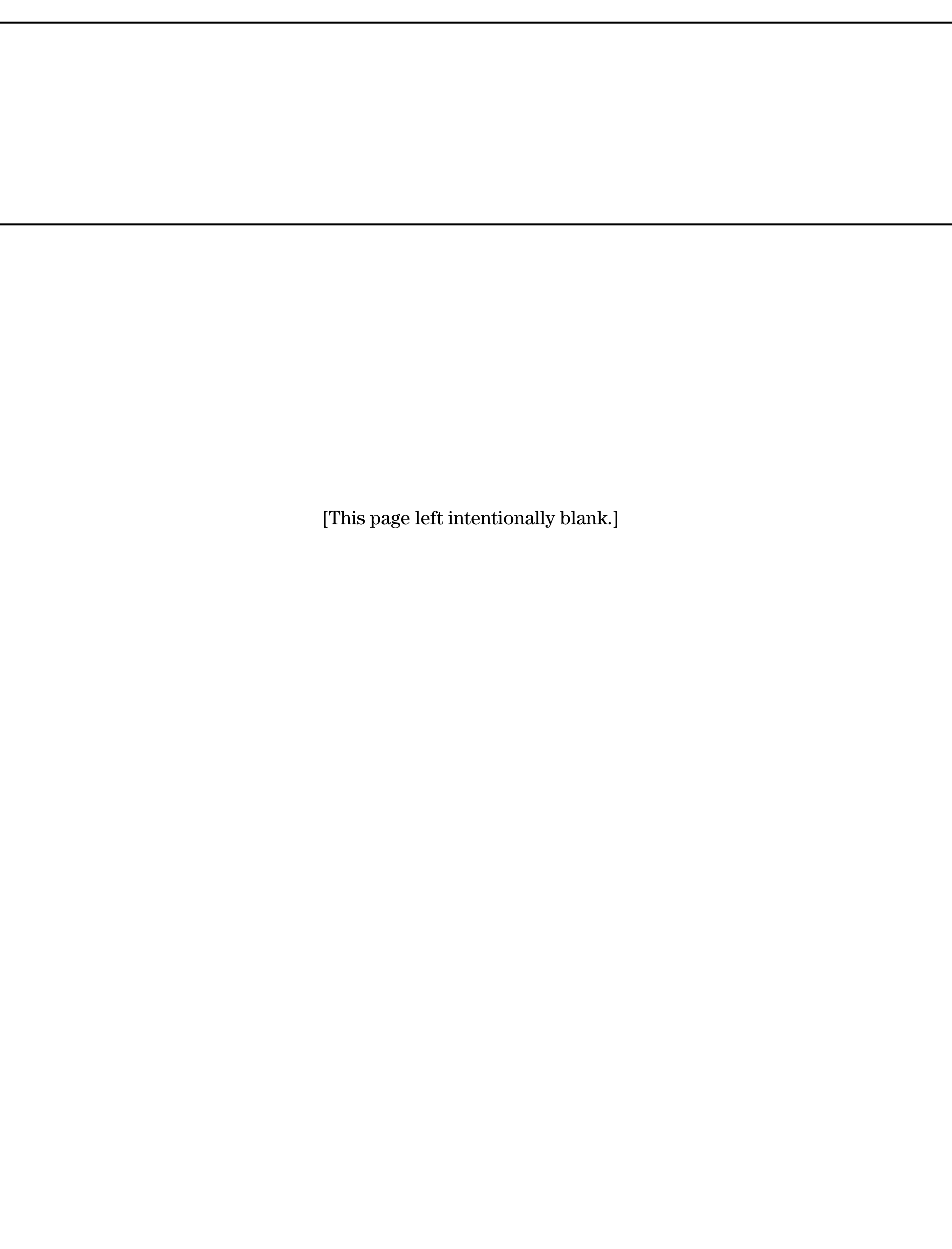
Our analysis of data for each program (see table 6) shows variation in utilization of the programs across eligible countries in 2006. In brief, our analysis finds the following:

- *GSP or GSPLDC*—Analysis of GSP shows that low-income countries are well represented among the top countries in terms of utilization rates, as 9 of the 35 countries with high utilization rates are designated low income. The utilization rates of the leading GSP exporters to the United States in terms of value vary widely, ranging from 99 percent (Zimbabwe) to 9 percent (Chad).

- *AGOA*—Nigeria uses AGOA for 96 percent of its exports to the United States and dominates the share of U.S. imports under the program. Other major suppliers are Angola, Chad, and Gabon. The program appears to be highly utilized for exports of others with lesser-valued imports, including Botswana, Cameroon, Cape Verde, Ethiopia, Kenya, Lesotho, Madagascar, Mauritius, Mozambique, South Africa, Senegal, Swaziland, Tanzania, and Uganda. Perhaps, as a reflection of weaknesses in the trade capacities of some AGOA eligible countries, 12 of the 38 AGOA eligible countries (Benin, Burundi, Djibouti, Gambia, Guinea-Bissau, Guinea, Liberia, Rwanda, Sao Tome and Principe, Seychelles, Sierra Leone, and Democratic Republic of the Congo (formerly Zaire) did not export under the program, though several did export under GSP.

- *ATPA/ATPDEA*—Most of the approximately $13.5 billion in U.S. preference imports under ATPA/ATPDEA came from three beneficiaries. However, utilization of the program by all beneficiary countries, including Bolivia, is relatively high.

- *CBI/CBTPA*—The CBI/CBTPA preference program is the most varied regional program in terms of the development status of eligible countries as seven of the countries eligible for CBI are high income, one (Haiti) is low income, and the rest are middle-income countries. However, Trinidad and Tobago—a high-income country—is the leading supplier and has the highest utilization rate under this preference program.



[This page left intentionally blank.]

Table 6: Coverage and Utilization Rates by Beneficiary Country and Preference Program, 2006

Dollars in millions

		All preference programs		
Beneficiary	Total imports	Preference imports	Coverage rate	Utilization rate
Afghanistan	$45.2	$0.2	74%	28%
Albania	12.5	0.2	5	62
Algeria	14,752.7	0.3	0	55
Angola	11,513.8	11,307.2	100	100
Anguilla	4.2	0.0	0	N.A.
Antigua and Barbuda	5.8	0.0	49	4
Argentina	3,924.7	666.4	33	78
Armenia	46.5	28.1	85	97
Aruba	2,605.7	0.2	100	0
Bahamas	435.7	125.1	99	59
Bahrain	632.3	0.7	37	1
Bangladesh	3,267.8	20.5	1	72
Barbados	33.0	4.7	85	87
Belize	146.4	78.2	98	70
Benin	0.6	0.0	89	90
Bhutan	1.1	0.0	47	9
Bolivia	362.4	187.9	99	85
Bosnia and Herzegovina	25.6	3.5	22	89
Botswana	252.1	28.3	96	97
Brazil	26,169.0	3,737.7	48	58
British Indian Ocean Territory	0.8	0.0	39	0
British Virgin Islands	26.3	0.2	54	11
Bulgaria	457.4	61.1	39	83
Burkina Faso	1.0	0.1	94	10
Burundi	1.9	0.0	25	0
Cambodia	2,188.2	5.0	0	54
Cameroon	223.5	153.2	100	92
Cape Verde	1.0	0.1	100	37
Central African Republic	4.3	0.0	41	0
Chad	1,904.7	1,698.0	100	91
Christmas Island	0.4	0.0	54	0
Cocos (Keeling) Islands	1.5	0.0	52	0

GSP				Regional programs			
Preference imports	Coverage rate	Utilization rate	Eligible for GSPLDC	Regional program	Preference imports	Coverage rate	Utilization rate
$0.2	74%	28%	✔				
0.2	5	62					
0.3	0	55					
6,774.3	100	60	✔	AGOA	4,532.9	100	40
0.0							
0.0	49	0		CBI	0.0	65	3
666.4	33	78					
28.1	85	97					
				CBI	0.2	100	0
				CBI	125.1	99	59
0.7	37	1					
20.5	1	72	✔				
0.0	79	0		CBI/ CBTPA	4.7	85	87
6.0	27	19		CBI/ CBTPA	72.2	98	65
0.0	89	90	✔	AGOA	0.0	0	0
0.0	47	9	✔				
21.7	60	16		ATPA/ ATPDEA	166.2	99	76
3.5	22	89					
0.0	2	4		AGOA	28.2	94	99
3,737.7	48	58					
0.0	39	0					
0.0	47	0		CBI	0.2	54	11
61.1	39	83					
0.1	92	9	✔	AGOA	0.0	83	1
0.0	25	0	✔	AGOA	0.0	0	0
5.0	0	54	✔				
0.8	2	24		AGOA	152.4	98	94
0.0	100	7	✔	AGOA	0.1	30	100
0.0	41	0	✔				
166.6	100	9	✔	AGOA	1,531.4	100	82
0.0	54	0					
0.0	52	0					

Dollars in millions

Beneficiary	Total imports	All preference programs: Preference imports	Coverage rate	Utilization rate
Colombia	9,239.8	4,972.8	92	91
Comoros	1.5	0.0	0	N.A
Congo	3,045.5	774.6	100	26
Cook Islands	2.1	0.0	53	5
Costa Rica	3,813.5	1,495.3	94	92
Croatia	352.6	145.6	76	90
Democratic Republic of the Congo (formerly Zaire)	85.1	2.6	98	94
Djibouti	3.3	0.0	2	0
Dominica	3.1	0.1	23	29
Dominican Republic	4,540.0	2,613.8	99	86
Ecuador	7,011.4	5,396.4	98	94
Egypt	2,404.2	69.9	8	90
El Salvador	1,842.7	164.0	97	10
Equatorial Guinea	1,718.1	1,558.9	100	95
Eritrea	0.9	0.0	69	0
Ethiopia	81.1	7.2	86	98
Falkland Islands	12.2	0.0	41	0
Fiji	145.8	52.8	41	98
Gabon	1,331.0	1,290.0	100	100
Gambia	0.3	0.0	58	60
Gaza Strip	0.8	0.3	44	92
Georgia	115.6	34.5	54	96
Ghana	192.2	45.3	99	65
Gibraltar	0.8	0.1	86	37
Grenada	4.5	0.1	28	62
Guatemala	3,102.7	699.3	97	30
Guinea-Bissau	0.5	0.0	76	0
Guinea	91.7	0.1	44	58
Guyana	125.0	19.7	95	95
Haiti	496.1	380.7	99	82
Heard Island and McDonald Islands	data not significant	0.0	data not available	data not available

GSP				Regional programs			
Preference imports	Coverage rate	Utilization rate	Eligible for GSPLDC	Regional program	Preference imports	Coverage rate	Utilization rate
181.6	14	22		ATPA/ ATPDEA	4,791.2	92	88
0.0			✔				
0.0	0	37		AGOA	774.5	100	26
0.0	53	5					
113.3	37	18		CBI/ CBTPA	1,382.0	94	85
145.6	76	90					
2.6	98	94	✔	AGOA	0.0	1	0
0.0	2	0	✔	AGOA	0.0		
0.0	18	0		CBI	0.1	23	29
132.7	42	10		CBI/ CBTPA	2,481.0	99	82
71.2	4	27		ATPA/ ATPDEA	5,325.2	98	92
69.9	8	90					
9.9	4	15		CBI/CBTPA	154.1	97	10
1,558.9	100	95	✔				
0.0	69	0					
2.2	28	92	✔	AGOA	5.0	61	97
0.0	41	0					
52.8	41	98					
0.0	0	0		AGOA	1,290.0	100	100
0.0	56	62	✔	AGOA	0.0	2	0
0.3	44	92					
34.5	54	96					
10.5	16	96		AGOA	34.9	84	59
0.1	86	37					
0.0	24	33		CBI	0.1	28	33
46.4	16	12		CBI/CBTPA	652.8	97	28
0.0	76	0	✔	AGOA	0.0	0	0
0.1	43	59	✔	AGOA	0.0	2	0
14.6	73	91		CBI/ CBTPA	5.1	95	25
1.4	4	8	✔	CBI/ CBTPA	379.3	99	82
0.0	data not available	data not available					

Dollars in millions

Beneficiary	Total imports	All preference programs: Preference imports	Coverage rate	Utilization rate
Honduras	3,734.7	568.6	99	19
India	21,673.6	5,678.0	53	84
Indonesia	13,267.8	1,945.7	33	76
Iraq	11,326.3	0.2	0	68
Ivory Coast	722.7	20.0	14	76
Jamaica	470.9	257.8	98	98
Jordan	1,421.3	15.3	9	12
Kazakhstan	988.9	483.1	61	97
Kenya	352.8	272.9	99	96
Kiribati	1.3	0.0	25	0
Kyrgyzstan	4.2	0.0	33	2
Lebanon	87.8	34.2	80	96
Lesotho	408.4	384.6	100	99
Liberia	139.8	0.0	98	0
Macedonia	42.2	7.5	34	99
Madagascar	281.1	231.6	100	96
Malawi	79.0	60.9	100	80
Mali	7.9	0.5	48	56
Mauritania	51.2	28.3	100	56
Mauritius	218.6	157.5	99	92
Moldova	37.1	2.4	12	78
Mongolia	113.9	0.5	1	58
Montserrat	0.8	0.0	75	0
Mozambique	15.6	11.8	100	100
Namibia	115.6	33.2	96	70
Nepal	99.4	4.0	8	78
Niger	123.7	0.0	95	0
Netherlands Antilles	1,100.6	2.2	100	0
Nicaragua	1,526.1	111.0	96	9
Nigeria	27,863.4	25,824.3	100	96
Niue	0.1	0.1	99	100
Norfolk Island	0.1	0.0	97	44
Oman	782.0	64.7	12	98

GSP				Regional programs			
Preference imports	Coverage rate	Utilization rate	Eligible for GSPLDC	Regional program	Preference imports	Coverage rate	Utilization rate
12.7	20	2		CBI/CBTPA	555.8	99	18
5,678.0	53	84					
1,945.7	33	76					
0.2	0	68					
20.0	14	76					
12.1	17	27		CBI/ CBTPA	245.8	98	93
15.3	9	12					
483.1	61	97					
7.9	4	61		AGOA	265.1	95	97
0.0	25	0	✔				
0.0	33	2					
34.2	80	96					
0.1	0	30	✔	AGOA	384.5	100	99
0.0	98	0	✔	AGOA	0.0	98	0
7.5	34	99					
2.1	2	57	✔	AGOA	229.5	98	96
31.0	76	54	✔	AGOA	29.9	94	42
0.5	47	56	✔	AGOA	0.0	8	2
28.3	100	56	✔				
11.7	8	80		AGOA	145.8	90	93
2.4	12	78					
0.5	1	58					
0.0	59	0		CBI	0.0	75	0
10.9	94	97	✔	AGOA	0.9	9	90
0.2	0	87		AGOA	33.0	96	70
4.0	8	78	✔				
0.0	95	0	✔	AGOA	0.0	94	0
				CBI	2.2	100	0
				CBI/CBTPA	111.0	96	9
1.2	0	66		AGOA	25,823.1	100	96
0.1	99	100					
0.0	97	44					
64.7	12	98					

Dollars in millions

Beneficiary	Total imports	All preference programs		
		Preference imports	Coverage rate	Utilization rate
Pakistan	3,666.6	130.3	4	90
Panama	337.6	58.0	93	87
Papua New Guinea	83.6	2.9	10	99
Paraguay	51.4	24.8	82	98
Peru	5,896.9	3,381.2	99	98
Philippines	9,696.7	1,141.5	38	72
Pitcairn Island	0.1	0.0	47	0
Romania	1,151.6	283.5	52	77
Russia	19,641.6	512.1	15	34
Rwanda	8.9	0.9	97	100
Sao Tome and Principe	0.2	0.0	95	0
Senegal	21.4	14.4	87	94
Serbia/Montenegro	68.6	29.8	85	80
Seychelles	10.1	0.1	33	26
Sierra Leone	35.9	0.1	62	16
Solomon Islands	2.2	0.0	44	3
Somalia	0.4	0.0	79	0
South Africa	7,497.3	1,783.3	97	92
Sri Lanka	2,141.0	143.6	9	88
St. Helena	1.7	0.0	99	0
St. Kitts and Nevis	50.0	25.8	96	91
St. Lucia	37.3	7.6	94	24
St. Vincent and the Grenadines	2.0	0.2	98	19
Suriname	164.2	0.2	83	14
Swaziland	155.8	149.8	100	98
Tanzania	34.6	3.7	72	93
Thailand	22,344.7	4,252.3	53	83
Togo	3.6	2.3	99	99
Tokelau Islands	5.1	1.0	33	91
Tonga	7.3	0.2	9	54
Trinidad and Tobago	8,398.5	3,685.1	99	95
Tunisia	427.8	113.9	40	89

GSP				Regional programs			
Preference imports	Coverage rate	Utilization rate	Eligible for GSPLDC	Regional program	Preference imports	Coverage rate	Utilization rate
130.3	4	90					
24.2	76	45		CBI/CBTPA	33.8	93	51
2.9	10	99					
24.8	82	98					
179.4	42	12		ATPA/ ATPDEA	3,201.9	99	93
1,141.5	38	72					
0.0	47	0					
283.5	52	77					
512 .1	15	34					
0.9	97	100	✔	AGOA	0.0		
0.0	95	0	✔	AGOA	0.0	27	0
0.1	2	44		AGOA	14.2	85	95
29.8	85	80					
0.1	32	26		AGOA	0.0	0	0
0.1	62	16	✔	AGOA	0.0	2	0
0.0	44	3					
0.0	79	0	✔				
1,065.9	59	91		AGOA	717.4	38	96
143.6	9	88					
0.0	99	0					
1.0	85	4		CBI	24.7	96	87
0.5	19	7		CBI/ CBTPA	7.1	94	22
0.0	97	2		CBI	0.2	98	17
0.2	83	14					
14.4	10	95		AGOA	135.4	89	99
0.7	17	71	✔	AGOA	3.0	57	96
4,252.3	53	83					
2.3	99	99	✔				
1.0	33	91					
0.2	9	54					
7.4	27	1		CBI/ CBTPA	3,677.7	99	95
113.9	40	89					

Dollars in millions

Beneficiary	Total imports	All preference programs		
		Preference imports	Coverage rate	Utilization rate
Turkey	5,387.0	1,125.7	48	70
Turks and Caicos Islands	12.1	0.0	17	16
Tuvalu	0.0	0.0	0	N.A
Uganda	21.8	2.5	97	95
Ukraine	1,637.9	23.8	26	34
Uruguay	512.1	50.3	14	86
Uzbekistan	151.5	2.8	16	99
Vanuatu	2.3	0.1	80	100
Venezuela	36,283.4	685.2	3	96
Wallis and Futuna	data not significant	0.0	data not available	data not available
West Bank	3.1	0.8	46	60
Yemen	447.4	390.2	100	89
Zambia	29.0	0.4	94	74
Zimbabwe	$103.2	$67.7	95%	99%

GSP				Regional programs			
Preference imports	Coverage rate	Utilization rate	Eligible for GSPLDC	Regional program	Preference imports	Coverage rate	Utilization rate
1,125.7	48	70					
0.0	17	16					
0.0			✔				
1.0	41	89	✔	AGOA	1.5	56	100
23.8	26	34					
50.3	14	86					
2.8	16	99					
0.1	80	100	✔				
685.2	3	96					
0.0	data not available	data not available					
0.8	46	60					
390.2	100	89	✔				
0.4	86	79	✔	AGOA	$0.0	8%	19%
$67.7	95%	99%					

Source: GAO analysis of official U.S. trade statistics and tariff schedule.

Note: Program eligibility information is for 2006. For detailed information about changes in country eligibility during 2006, see GAO-07-1209, appendix III, table 1, pages 51-55.

U.S. Imports and Global Exports from Least-Developed Countries

Dollars in millions

Product group	Imports	Imports	Preference imports	Preference imports	Ratio of U.S. preference to total U.S. imports	2005 LDC exports to the world
Animal and plant products	$408	2%	$29	0%	7	62%
Prepared food, beverages, spirits, and tobacco	90	0	56	0	62	6
Chemicals, plastics, and minerals except fuel	370	2	92	1	25	2
Fuel	15,129	66	14,513	92	96	3
Wood and paper products	12	0	2	0	17	5
Textiles, leather, and footwear	178	1	5	0	3	1
Apparel	6,214	27	1,008	6	16	16
Glassware, precious metals and stones, jewelry	179	1	9	0	5	5
Base metals and articles of base metals	38	0	5	0	12	0
Machinery, electronics, and high-technology apparatus	16	0	1	0	7	0
Aircraft, autos, and other transportation	0	0	0	0	30	0
Miscellaneous manufacturing	160	1	7	0	5	0
Total	**$22,796**	**100%**	**$15,728**	**100%**	**69**	**100%**

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

Preference Imports by Program and Product Group, 2006

Dollars in billions

	Preference imports in 2006			Share in each preference program			
Product group	**Value**	**Percentage of preference imports**	**Percentage of total U.S. imports**	**GSP**	**AGOA**	**ATPA/ ATPDEA**	**CBI/ CBTPA**
Animal and plant products	$2.4	3%	6%	2%	0%	7%	9%
Prepared food, beverages, spirits, and tobacco	2.9	3	8	4	0	3	9
Chemicals and plastics	5.6	6	3	12	0	1	14
Wood and paper products	1.0	1	2	3	0	0	0
Textiles, leather, and footwear	0.9	1	2	2	0	0	1
Glassware, precious metals and stones, jewelry	6.0	7	10	17	0	2	3
Base metals and articles of base metals	5.1	6	5	12	0	8	0
Machinery, electronics, and high-technology apparatus	4.9	5	1	14	0	0	4
Aircraft, autos, and other transportation	1.9	2	1	5	1	0	0
Miscellaneous manufacturing	0.7	1	0	2	0	0	0
Fuels	54.8	59	17	27	94	68	27
Apparel	5.9	6	7	0	3	10	32
Total	**$92.1**	**100%**	**5%**	**100%**	**100%**	**100%**	**100%**

Source: GAO analysis of official U.S. trade statistics and tariff schedule.

GAO Contact and Staff Acknowledgments

GAO Contact

Loren Yager, (202) 512-4347, or yagerl@gao.gov

Staff Acknowledgments

In addition to the individual named above, the following persons made major contributions to this report: Kim Frankena, Assistant Director; Juan Gobel, Assistant Director; Ann Baker; Gezahegne Bekele; Ken Bombara; Karen Deans; Etana Finkler; Richard Gifford Howland; Ernie Jackson; Marisela Perez; and Celia Thomas. The team also benefited from the expert advice and assistance of Martin de Alteriis, Susan Offutt, and Mark Speight.

GAO's Mission

The Government Accountability Office, the audit, evaluation, and investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through GAO's Web site (www.gao.gov). Each weekday, GAO posts newly released reports, testimony, and correspondence on its Web site. To have GAO e-mail you a list of newly posted products every afternoon, go to www.gao.gov and select "E-mail Updates."

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. Government Accountability Office
441 G Street NW, Room LM
Washington, DC 20548

To order by Phone: Voice: (202) 512-6000
TDD: (202) 512-2537
Fax: (202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Congressional Relations

Ralph Dawn, Managing Director, dawnr@gao.gov, (202) 512-4400
U.S. Government Accountability Office, 441 G Street NW, Room 7125
Washington, DC 20548

Public Affairs

Chuck Young, Managing Director, youngc1@gao.gov, (202) 512-4800
U.S. Government Accountability Office, 441 G Street NW, Room 7149
Washington, DC 20548

PRINTED ON RECYCLED PAPER