U.S. Trade Preference Programs:

Reducing Poverty and Hunger in Developing Nations Through Economic Growth

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Foreword

Section 701 of the Trade Preferences Extension Act of 2015 ("TPEA") provides that the President[1] shall submit a report to Congress assessing the contribution of the trade preference programs of the United States, including the Generalized System of Preferences (GSP), the African Growth and Opportunity Act (AGOA), and the Caribbean Basin Economic Recovery Act (CBERA), to the reduction of poverty and the elimination of hunger not later than one year after the enactment of the TPEA. The current report provides a survey of the data and empirical research on the benefits of trade for higher economic growth, reduced poverty, and the alleviation of hunger; and evaluates the links between U.S. preference programs and increased trade with beneficiary countries and the effects on poverty and hunger.

[1] This reporting function was delegated to the U.S. Trade Representative, with the advice and assistance of other executive departments and agencies involved in international programs to reduce poverty and eliminate hunger, in Executive Order 13720 of February 26, 2016.

I. SUMMARY

Since the creation of the Generalized System of Preferences (GSP) in the Trade Act of 1974, America's trade preference programs have provided special duty-free privileges to thousands of goods from developing countries meeting certain criteria. More than 40 years later in 2015, the three major U.S. preference programs – the GSP, the Caribbean Basin Economic Recovery Act (CBERA), and the African Growth and Opportunity Act (AGOA) – provided duty-free treatment to roughly $27 billion in imports from 126 beneficiary countries and territories. This accounted for roughly 1.3 percent of the United States' $2.2 trillion in total imports of goods, and 13 percent of the $212 billion in imports of goods from the beneficiary countries. U.S. preference programs aim to support sustainable growth and economic development through trade, and in so doing to contribute to the alleviation of poverty and hunger in the beneficiary countries.[2]

In June 2015, in passing the Trade Preferences Extension Act of 2015 (TPEA) to renew certain of the preference programs, Congress requested a review and assessment of the contribution of these preference programs to the reduction of poverty and hunger in the beneficiary countries. Our conclusions are as follows:

- The preference programs have made a valuable contribution to the reduction of poverty, and in doing so have contributed to the alleviation of hunger in a number of beneficiary countries. They remain an important element of American trade and development policy overall, and in a number of particular national and regional cases are important to U.S. relationships with the beneficiary countries.

- The impact of duty-free treatment on the reduction of poverty and hunger may begin to wane, however, in light of an overall drop in tariff rates worldwide, including through the negotiation of free trade agreements (FTAs).

- Economic research and available data also suggest that preferences are only one element in the larger set of trade policies that help promote development. Addressing supply-side constraints including slow and expensive port transits, costly telecommunications, the time and expense of managing overly complicated trade paperwork, inefficient internal transport and logistics bottlenecks, and other challenges is essential to success in trade, and tariff waivers cannot substitute for policy reforms in these other areas.

- Preferences are of crucial importance to a number of least-developed countries (LDCs) which do not as yet have the capacity to negotiate and implement comprehensive FTAs.

[2] The United States government also provides technical assistance to developing countries to increase trade under U.S. trade preference programs and reduce poverty and hunger. See chapter 4 of the Biennial Report on the Implementation of the African Growth and Opportunity Act 2016 for an overview of U.S. trade capacity building assistance programs developed to increase AGOA trade and reduce poverty and hunger in Africa.

II. INTRODUCTION

The three main U.S. preference programs are the Generalized System of Preferences (GSP, created in 1974), the Caribbean Basin Economic Recovery Act (CBERA, 1984[3]), and the African Growth and Opportunity Act (AGOA, 2000). As of June 2016, 126 countries and territories participate in these programs, with 122 eligible for the GSP program, 17 for the CBERA, and 38 for the AGOA. Several beneficiary countries are eligible for more than one program.

Total preference imports under GSP, CBERA, and AGOA accounted for $27 billion in 2015 – roughly 13 percent of goods imports from the beneficiary countries. The value of preference imports was down 17 percent from 2014, mainly due to a decline in the value of AGOA oil imports (down $3.9 billion or 43 percent).[4] As a share of total U.S. goods imports, this accounted for 1.3 percent of all imported goods, again slightly down from 1.4 percent in 2014 due to a decline in AGOA oil imports. Imports under GSP accounted for 64.7 percent of the total preference imports at $17.4 billion. AGOA imports accounted for 29.7 percent of the total preference imports at $8.0 billion. CBERA imports totaled $1.5 billion and accounted for 5.6 percent of total preference imports.[5]

U.S. trade preference programs have played a significant role in reducing poverty in beneficiary countries by increasing and diversifying trade, encouraging inclusive economic growth, and creating new employment opportunities in certain sectors, such as textiles and apparel, that directly benefit the poor.[6] In doing so, they have also made a contribution to the reduction of hunger in at least some beneficiary countries.

Empirical evaluation of the preference programs' contribution to poverty reduction and hunger elimination is a complex task, best divided into two distinct parts. One is the link between trade, growth, poverty, and hunger; the other is the direct effect the trade preference programs have had on trade flows. Estimating the effect of preferences on trade flows can be done through modeling, and a number of recent studies focus specifically on the impact of AGOA, GSP, and CBERA on trade. The link between trade on the one hand, and the alleviation of poverty and hunger on the other, is a complex question that has resulted in a significant and expanding body of economic research.[7] This report begins with a survey of the data and empirical research on the benefits of openness and increased trade flows for higher economic growth, reduced poverty, and the alleviation of hunger. It will then turn to an evaluation of the links between U.S. preference programs and increased trade with beneficiary countries and the effect on poverty and hunger.

[3] The original CBERA was made permanent in 1990.
[4] Oil imports under AGOA had a relatively small amount of duty preference and did not provide broad employment or development effects. The decline in world oil prices led to a decline in the value of oil exports from AGOA countries without significantly affecting employment.
[5] 2016 Trade Policy Agenda and 2015 Annual Report, Office of the United States Trade Representative, p.189.
[6] World Bank Group and World Trade Organization, *The Role of Trade in Ending Poverty*, World Trade Organization: Geneva (2015) (hereinafter "World Bank and WTO, *The Role of Trade in Ending Poverty*").
[7] This literature review is by no means an exhaustive summary of all the papers in this field.

III. LINKS BETWEEN TRADE OPENNESS AND REDUCTION OF LONG-TERM POVERTY

Since preferences were first implemented, and especially in the last two decades, poverty has fallen sharply worldwide, and rates of undernourishment have dropped as well though more slowly. World Bank estimates find the total number of people living in absolute poverty has fallen from 1.96 billion people in 1991 to 1.75 billion in 1999, and an estimated 702 million in 2015. Global rates of deep poverty have fallen even faster, from 37 percent in 1991, to 29 percent in 1999, and a projected 9.6 percent in 2015. Over the same time period, according to estimates by the UN Food and Agricultural Organization, the global rate of undernourishment has fallen from 18.6 percent to 10.9 percent of world population.[8]

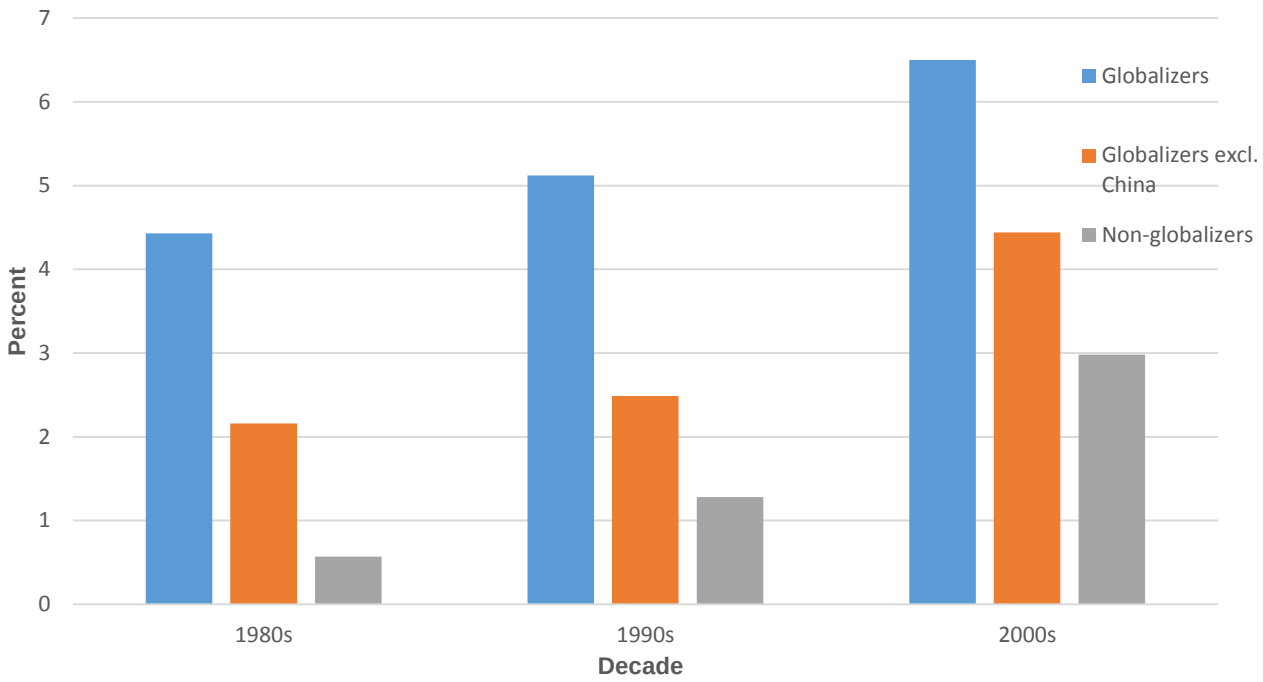
In a recent report, the World Bank and the WTO estimate that the number of people living in extreme poverty globally has declined by about one billion since 1990, and attribute this drop in part to the growing participation of developing countries in international trade.[9]

The reviewed literature suggests four points on the link between trade and poverty:

First, countries with greater openness to international trade experience faster economic growth and higher gross domestic product per capita. Early literature found correlations between openness to trade and growth in developing countries. More recent academic work has established a causal effect. This connection is illustrated in Figure 1, which builds on a study by World Bank staff.[10] According to this study, the group of developing countries known as "globalizers," (i.e., those in the top one third in terms of increased openness between the 1970s and the 2000s) experienced consistently higher growth rates in real gross domestic product (GDP) per capita over the past three decades than did other developing countries ("non-globalizers"). Figure 1 shows population-weighted average growth rates in the two groups, which gives heavy weight to China (largest of the globalizers). However, the basic conclusion still holds even when China is excluded – GDP per capita growth in the "globalizing" group was consistently over 1 percent faster than GDP per capita growth in the "non-globalizing" group.

[8] FAO, *Food Insecurity 2015*, *http://www.fao.org/3/a-i4646e.pdf p. 12*
[9] World Bank Group and World Trade Organization, 2015. *The Role of Trade in Ending Poverty.* World Trade Organization: Geneva, p. 7.
[10] Dollar, David, and Aart Kraay, *Trade, growth, and poverty,* The Economic Journal 114.493 (2004): F22-F49;

Figure 1: Developing Countries: Growth in Real GDP Per Capita



State Department OCE calculations based on Dollar and Kraay (2004). Data source: Penn World Tables 7.1

Other empirical studies have found as follows:

- Per capita real income grew nearly three times faster for developing countries that lowered trade barriers (at 5 percent per year) than for other developing countries (at 1.4 percent per year) in the 1990s.[11]

- A one percent increase in trade openness induces, on average, a one percent increase in GDP per capita.[12]

- Trade growth can explain roughly 17 percent of the variation in cross-country income growth between 1960 and 1995.[13] Between 1996 and 2006, developing countries' share of global trade increased from 29 percent to 37 percent. In that same time period, gross domestic product (GDP) rose by over 16 percent in Africa, Western Asia,[14] and Latin

[11]Paul Collier and David Dollar, *Globalization, Growth and Poverty: Building an Inclusive World Economy* (Washington, D.C.: World Bank and Oxford University Press, 2001), p. 5.
[12] Noguer, M. and M. Siscart (2005). "Trade raises income a precise and robust result," *Journal of International Economics*, 65(2), p. 447–460.
[13] Freyrer, J., *Trade and income: exploiting time series in geography*, NBER Working Paper Series. No. 14910, (2009).
[14] Western Asia is defined by the UN to include Armenia, Azerbaijan, Bahrain, Cyprus, Georgia, Iraq, Israel, Jordan, Kuwait, Lebanon, Oman, Qatar, Saudi Arabia, State of Palestine, Syrian Arab Republic, Turkey, United Arab Emirates, and Yemen. United Nations Statistics Division, http://unstats.un.org/unsd/methods/m49/m49regin.htm

America, with significant contribution from the reduction of trade barriers.[15] Those countries experienced increased employment and investment as a result, and greater employment is critical to reducing poverty and hunger.

- Looking at data from 1974 to 2000, trade expansion induced by greater access to the U.S. market caused a significant acceleration in the growth rates of developing countries.[16]

Finally, economic theory suggests a number of channels by which trade liberalization increases per capita income and promotes economic growth. In the broadest terms, international trade increases productivity through the reallocation of resources to their most productive uses, fosters competition, expands variety, spurs innovation and learning, and enables technology transfer and quality improvements through imported intermediate inputs. Numerous studies have found empirical support for these channels, with much of the evidence coming from developing countries.[17] More recent analyses are based on micro-level variation in trade policy (i.e. changes in tariff rates) and economic theory. One study[18] develops a theoretical model and, consistent with its predictions, finds that tariff reductions on intermediate inputs and capital goods results in greater economic growth.

Second, there is a link between economic growth spurred by trade, and the reduction of poverty.[19] A study by the Institute for International Economics (now the Peterson Institute for International Economics) estimated a decade ago that removing all substantial remaining trade barriers ("global free trade") could lift as many as 500 million people out of poverty and inject $200 billion annually into the economies of developing countries.[20] Another study found that the income of the poorest quintile increases one-for-one with increases in national income as a result of economic growth.[21]

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[15] United Nations Chronicle, *How Trade Can help Developing Countries Eradicate Poverty,* Vol XLV no. 1, March 2008, http://unchronicle.un.org/article/trade-and-mdgs-how-trade-can-help-developing-countries-eradicate-poverty.

[16] John Romalis, *Market Access, Openness, and Growth*, 2007.

[17] These studies include: Pavcnik, N. *Trade liberalization, Exit, and productivity improvements: Evidence from Chilean plants*, Review of Economic Studies, 69(1), 245–276 (2002); Levinsohn, J., *Testing the imports-as-market-discipline hypothesis*, Journal of International Economics, 35, 1–22, (1993); Broda, C., J. Greenfield and D. Weinstein, *From Groundnuts to Globalization: A Structural Estimate of Trade and Growth*, NBER Working Paper No. 12512, (2006); Coe, D. T. and E. Helpman, *International R&D spillovers*, European Economic Review, 39(5), 859–896, (1995); Amiti, M. and J. Konings, *Trade liberalization, intermediate inputs, and productivity: evidence from Indonesia*." American Economic Review 97(5):1611–3, (2007); Atkin, D., A. Khandelwal, and A. Osman, *Exporting and Firm Performance: Evidence from a Randomized Trial*, NBER working paper 20690, (2014).

[18] Estevadeordal, A. and Taylor, A. (2013). "Is the Washington Consensus Dead? Growth, Openness, and the Great Liberalization, 1970s-2000s." Review of Economics and Statistics, 95: 1669-690.

[19] World Bank and WTO, *The Role of Trade in Ending Poverty* p. 7.

[20] William R. Cline, *Trade Policy and Global Poverty*, Center for Global Development and the Institute for International Economics, June 2004.

[21] Dollar, David, and Aart Kraay, *Trade, growth, and poverty*, The Economic Journal 114.493 (2004): F22-F49; *see also* Wacziag and Welch, *Trade Liberalization and Growth: New Evidence*, 2008. This assumes that benefits of trade are shared equally in the nation. See the following section on short term costs and long term gains.

Trade openness contributes to poverty reduction in several ways, from supporting economic growth,[22] to creating new employment opportunities, and addressing other variables that affect the poor. The World Bank and the World Trade Organization (WTO) report that between 2000 and 2015, developing countries' share of world trade increased from 33 percent to 48 percent.[23] The increased participation in trade has been accompanied with steady GDP growth, and developing countries' share of world output increased from 23 to 40 percent between 2000 and 2012.[24] As this has proceeded, developing country employment and wages have both increased. In fact, from 2000 to 2011, average wages grew by approximately 25 percent. The World Bank and WTO find increased trade has been associated with economic growth and improvements in the standard of living for the bottom 40 percent. This is because trade offers new opportunities for jobs, improves access to external markets for goods consumed by the poor, and generates structural changes by expanding export sectors and increasing employment for low-skilled workers.[25] Increased employment[26] and a constant, reliable income stream are in turn critical to reducing poverty and alleviating hunger.

Third, in concert with appropriate domestic reforms, increased trade can be a powerful force to improve the lives of the poor. This is demonstrated by the experience of Vietnam since its bilateral trade agreement with the United States became effective in 2001. As a transitioning economy, Vietnam has adopted a gradual approach of market reform and export-led growth over the last three decades, steadily pursuing trade agreements to expand trade and investment, and this approach has been coupled with a high rate of growth.[27] Several studies suggest that the benefits of trade liberalization depend on the presence of complementary policies, such as a regulatory environment that allows business and workers to take advantage of new opportunities. One study shows that greater trade openness leads to a higher standard of living in flexible economies (economies that facilitate firm entry) but has no effect on rigid economies.[28] A second study reports similar results - trade liberalization increases economic growth, except for countries with strong distortions in complementary areas such as educational investment, financial depth, inflation stabilization, public infrastructure, governance, ease of firm entry, and ease of firm exit. These results suggest that trade agreements are likely to be most beneficial if they also address behind-the-border policies. Sound domestic policies maximize the benefits of trade and provide significant additional benefits. Drawing from the World Bank's "Doing Business" indicator, which measures the conduciveness of regulatory environments to business operations, lower costs and times of exporting and importing tend to be associated with a more conducive environment for business. [29]

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[22] USITC, AGOA: Trade and Investment Overview, Chapter 7, 2014; https://www.usitc.gov/publications/332/pub4461.pdf

[23] World Bank and WTO, *The Role of Trade in Ending Poverty* p. 14.

[24] Ibid., p. 14-15, 19.

[25] Ibid., p. 25.

[26] The World Bank reports that labor is often the "sole asset of the poor." Ibid., p. 14.

[27] Arita, Shawn and John Dyck, "Vietnam's Agri-Food Sector and the Trans-Pacific Partnership," EIB-130, U.S. Department of Agriculture, Economic Research Service, October 2014. http://www.ers.usda.gov/media/1692699/eib130.pdf

[28] Bolaky, B. and C. Freund, *Trade, regulations, and income*, Journal of Development Economics 82(2): 309–321, (2008)

[29] World Bank Group, "Doing Business: Measuring Businesses Regulations," http://www.doingbusiness.org/data/exploretopics/trading-across-borders.

To provide another example, gains arise when poor farmers have access to credit and technical assistance,[30] the revenue from moderate tariffs are put towards investment in infrastructure and education,[31] and import competing sectors are brought into expanding supply chains.[32] Without these measures, trade liberalization may not always lead to growth, especially in the short term.[33] In the long-run, however, trade liberalization will likely enhance capital accumulation and bring substantial decreases in poverty through combined income and price effects.[34] Trade openness can also bring long-run improvements in human development measures for countries that increase their participation in international trade. For example, trade participation has been linked with reductions in the incidence of poverty and child labor, improved gender equality, and incentives for better governance. Trade is necessary to sustain national growth,[35] can lead to more opportunities for women,[36] and may insulate countries from internal market crises.[37] In addition, greater access to health and education products and services has a direct link to lower mortality rates.[38] Integration into the world economy may impose costs on a country, but there is evidence that the opportunity costs of avoiding that integration are even higher.[39]

Fourth, trade supports economic growth, but is not the only contributor to growth. While growth is vital to reducing poverty, growth alone is not enough to end poverty. Growth also needs to be inclusive within a country so that impoverished populations share in its benefits. The poor are more likely to share in the gains from trade when labor rights are respected, when opportunities are open to women, and when education is universal.[40]

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[30] Balat, Jorge F., and Guido G. Porto, *Globalization and complementary policies: Poverty impacts on rural Zambia,* Globalization and Poverty, University of Chicago Press, 373-416 (2007)

[31] Buffie, Edward F., and Manoj Atolia, *Trade, growth, and poverty in Zambia: Insights from a dynamic GE model*, Journal of Policy Modeling 34.2, 211-229 (2012).

[32] Maertens, Miet, and Johan FM Swinnen, *Trade, standards, and poverty: Evidence from Senegal*, World Development 37.1, 161-178 (2009).

[33] Certain studies suggest that trade liberalization without reform may not lead to growth for certain sectors.

[34] Annabi et al. (2005) developed a dynamic computable general equilibrium (CGE) model to analyze household data in Senegal during a period of trade liberalization (1995-96). Annabi, Nabil, et al., *Trade liberalisation, growth and poverty in Senegal: a dynamic microsimulation CGE model analysis*, (2005).

[35] World Bank and WTO, *The Role of Trade in Ending Poverty*, p. 19.

[36] *See* Borraz, Fernando and Lopez-Cordova, Jose Ernesto, *Has Globalization Deepened Income Inequality in Mexico?*, Global Economy Journal 7.1: Article 6, (2007) (discussing how countries that are more integrated with the world economy have greater employment opportunities for women).

[37] *See* De Hoyos, Rafael E., *The Effects of Trade Expansion: Poverty and Inequality in Post-NAFTA Mexico*, The World Bank. Journal of Centrum Cathedra 6.3: 103-127 (2013) (discussing how trade helped mitigate the peso crisis).

[38] World Bank and WTO, *The Role of Trade in Ending Poverty*, p. 19.

[39] Borraz, Fernando and Lopez-Cordova, Jose Ernesto, *Has Globalization Deepened Income Inequality in Mexico?*, Global Economy Journal 7.1: Article 6, (2007).

[40] Topalova, Petia, *Trade liberalization, poverty and inequality: Evidence from Indian districts." Globalization and Poverty*, University of Chicago Press, 291-336 (2007).

IV. ECONOMIC GROWTH STRENGTHENS FOOD SECURITY AND REDUCES HUNGER

Increased trade, greater economic growth, and reduced poverty have a strong potential to lead to reduced hunger, though in complex ways that are less easy to directly demonstrate. The UN Food and Agriculture Organization carefully examined the direct link between trade openness and reduced hunger in its most recent report on the state of food security.[41] It found that increased income and reduced poverty are likely to have a positive impact on reducing hunger and concluded that "international trade openness has an important potential for improving food security by increasing food availability and promoting investment and growth."[42]

An assessment by USDA Economic Research Service economists reviewed 76 vulnerable developing countries (chosen for low-income status or receiving food aid), and found that food security in these countries overall is expected to deteriorate over the next decade, with the number of food-insecure people projected to increase from 13.4 percent in 2015 to 15.1 percent of the population in 2025.[43] This is primarily because the share of food-insecure people is projected to rise as growth of the number of food-insecure people outpaces growth of the total population. Trends vary by region. In Asia, particular challenges appear in Afghanistan, where production growth falls short of population growth, and Yemen, where slower import growth will bring in fewer grain supplies. In Sub-Saharan Africa, rises in food insecurity are driven by countries where civil strife disrupts agricultural activities and countries where population growth remains high. Food security is projected to improve in the Latin America and the Caribbean region.

Economic growth can help to lower food insecurity through a number of channels. First, economic openness and trade liberalization can play a role in stimulating growth and strengthening food security. Second, trade connects regions with abundant and inexpensive supplies of goods to regions with a high demand for those goods, which reduces imbalances between supply and demand. Third, trade can provide farmers with better income and provide consumers with less expensive access to food.[44] Through these channels, trade liberalization can stimulate growth and help to improve food security.

Another important factor is nutrition, which is linked to food availability, household income, and nutritional practices. Although the links between economic well-being or growth and nutrition are hard to demonstrate in the short-run, over the longer term, higher levels of income are associated with lower levels of malnutrition. For example, an analysis by USAID shows the percentage of children under five years of age who are stunted (whose height is more than two standard deviations less than that normal for children of their age) decreases by one-quarter of one percent for every 1 percent increase in GDP per capita. Similarly, the prevalence of underweight children (those whose weight is more than two standard deviations below the international norm) decreases by 0.4 percent for every 1 percent increase in GDP per capita.[45] Rising economic growth rates,

[41] FAO, IFAD and WFP. 2015. *The State of Food Insecurity in the World 2015. Meeting the 2015 international hunger targets: taking stock of uneven progress*. Rome, FAO, 33-35
[42] Ibid., p. 42
[43] Rosen, Stacey, B. Meade, and A. Murray. "International Food Security Assessment," 2014-2025, GFA-26, U.S. Department of Agriculture, Economic Research Service, June 2015, p.13.
[44] International Food Policy Research Institute. http://www.ifpri.org/topic/trade.
[45] U.S. Agency for International Development (USAID) econometric analysis based on World Development Indicators.

supported by trade liberalization, likely play a role in reducing undernourishment. However, trade liberalization is only one element in a larger program to alleviate hunger.

V. U.S. PREFERENCE PROGRAMS INCREASE TRADE FLOWS AND ECONOMIC GROWTH

Against the backdrop of the positive trends toward worldwide reduction of poverty and undernourishment rates, and role of trade expansion in those trends, we turn to examine the specific impact of U.S. preferences.

Overview:

U.S. trade preference programs have encouraged exports from developing countries, with particular effect in value-added and labor-intensive goods such as jewelry, clothing, semi-manufactured goods, and a number of agricultural products. This is corroborated by a large body economic literature.[46] These studies have also found that U.S. trade preference programs have made a contribution to the reduction of poverty and in doing so, to the alleviation of hunger. For example, one study reports that trade expansion induced by greater market access provided by preference programs has significantly accelerated growth in developing countries and in turn reduced poverty and hunger.[47] Another study finds that, from 1976 through 2008, several nonreciprocal preferential trade programs - including GSP, AGOA, and CBERA - had an economically significant positive effect on exports from developing countries.[48] We provide below an overall assessment of the ability of preference programs to affect trade flows, and a number of success stories for each program.

At the outset, however, we note that the positive impact U.S. trade preference programs have had on exports from developing countries and on the reduction of poverty and hunger are necessarily limited by certain factors.

First, U.S. tariffs are generally low and in many cases are set at zero. As Table 1 below shows, most U.S. imports by value already enter duty-free, with 50 percent arriving duty-free under the MFN system and another 17 percent under FTAs. Moreover, the tariffs on many remaining products are very low. Overall, U.S. trade-weighted tariffs averaged 1.5 percent in 2015. Excluding imports made duty-free through free trade agreements and the preferences, U.S. trade-

[46] USITC, "AGOA: Trade and Investment Performance Overview" April 2014, Chapter 7; Hakobyan, Shushanik, *GSP Expiration and Declining Exports from Developing Countries*, Working Paper (2013); DeMelo, Jaime, and Alberto Portugal-Perez. "Preferential Market Access Design: Evidence and Lessons from African Apparel Exports to the US and the EU," World Bank Policy Research Working Paper 6357, February 2013, p. 20; Condon, Niall and Matthew Stern, "The Effectiveness of AGOA in Increasing Trade from Least Developed Countries (EPPI-Centre) Report 1902, Social Science Research Unit, Institute of Education, University of London, March 2011, p. 17; Cooke, F.A. Edgar. "The Impact of Trade Preferences on Exports of Developing Countries: The Case of AGOA and CBI Preferences of the USA", Working Paper, June 2011, p. 18; Frazer, Garth, and Johannes Van Biesebroeck, "Trade Growth Under AGOA, The Review of Economics and Statistics 92, no.1, February 2010, p. 133, 135-36; Tadesse,Bedassa, and Bichaka Fayissa. "The impact of AGOA on U.S. Imports from Sub-Saharan Africa", Journal of International Development 20, no. 7, October 2008, p. 934-37; Seyoum, Belay. "Export Performance of Developing Countries under the AGOA", Journal of Economic Studies 34, no. 6, 2007, p.523, 525; Nouve, Kofi. "Estimating the Effects of AGOA on African Exports Using a Dynamic Panel Analysis" World Bank Policy Research Working Paper Series, July 2005, p.17-18; Lederman, Daniel and Caglar Ozden. "U.S. Trade Preferences: All Are Not Created Equal", Central Bank of Chile Working Paper No. 280, December 2004, p. 15.

[47] John Romalis, *Market Access, Openness, and Growth*, 2007.

[48] Gil-Pareja, Salvador, Rafael Llorca-Vivero and José Antonio Martínez-Serrano, *Do nonreciprocal preferential trade agreements increase beneficiaries' exports?,* Journal of Development Economics 107, 291–304 (2014).

weighted tariffs still averaged only 1.7 percent in 2015. Moreover, over 50 percent of all U.S. imports from the preference beneficiary countries were duty-free under the MFN tariff system. This means the benefit of duty-free treatment for certain countries is often incremental, and can at most apply to only about 50 percent of imports. This is not always enough to gain a significant competitive advantage vis-à-vis countries whose exports are charged MFN rates.

Table 1: U.S. Trade-weighted tariff, share of duty-free imports, and number of FTA partners

Year	Trade-weighted U.S. Tariff	Share of Imports Duty-Free	Number of U.S. FTA Partners
1976	3.9%	31%	0
1992	3.3%	36%	2
2001	1.6%	67%	4
2015	1.5%	69%	20

Source: United States International Trade Commission (ITC)

Second, preference margins in products that do have tariffs – even substantial ones above 10 percent – can be offset or overcome by other factors that affect competitiveness and price. If beneficiary countries do not address supply-side constraints, preference programs are often unable to offset the extra cost and lost time. For example, a non-beneficiary country may have far better logistics and lower cost of inputs compared to a beneficiary country that equalize or exceed the benefits of the tariff reduction. To cite an extreme case, the World Bank finds the cost of border and document compliance in the Democratic Republic of Congo at $3,823 per container. This is a level well above U.S. tariff rates for almost all cargoes, and easily high enough to nullify the cost advantage AGOA tariff elimination provides.[49] Closer to the world median but still well above, Mozambique's costs are $1,037 per exported container and Brazil's are $1,185. To put such figures in perspective, the comparable costs are $420 per container in Costa Rica, $424 in Indonesia, and $366 in Malaysia.

Preferences do not address these issues of supply side constraints. While U.S. programs do have basic pro-development eligibility criteria, they do not require the kind of broad reforms and internal liberalization that cause resources to be used more efficiently within developing countries and enable industries to become more competitive. By contrast, comprehensive, high-standard free trade agreements that address behind-the-border impediments to trade and investment can "lock in" needed domestic reforms and enhance a government's ability to commit to policies that may be valuable across the entire economy.[50] Participation in these kinds of agreements could have deeper, more positive effects on developing-country partners' economies.

And third, the effect preferences can have on poverty in different beneficiary countries varies from one place to the next. This is because reliance on preferences for export to the United States, and reliance on the U.S. market more generally, vary greatly across countries. This is shown in the tables below. Haiti is one of the most prolific users of preferences, relying on the CBERA program for nearly 90 percent of its total exports and 10 percent of its GDP. Some countries in the Middle East and Asia are extensive GSP users, but rely on Europe or China as their main export market.

[49] World Bank, Trading Across Borders database for 2015, at http://www.doingbusiness.org/data/exploretopics/trading-across-borders, visited June 2016.
[50] USITC, *AGOA Trade and Investment Overview*, April 2014.

Cambodia is a growing user of GSP and relatively more reliant on the U.S. market than its neighbors, but still exports most of its goods to the United States under the MFN tariff system. Brazil is a large GSP user that is relatively reliant on the United States, but most of whose exports are duty-free under MFN tariffs. U.S. preferences will naturally have the most impact on countries that are both highly reliant on the U.S. market and large users of preference benefits; they will have less effect as use of preference margins and reliance on the U.S. market diminish.

Table 2: U.S. Imports from Beneficiary Countries: MFN-Duty Free, Preference, and Tariffed

Partner	Total U.S. Goods Imports (2015)	Duty-free Under MFN	Duty-free Under Preference	Tariffed
Preference Beneficiaries	$212 billion	50%	13%	37%
NTR Countries	$1166 billion	57%	0%	43%
Haiti	$0.97	3%	96%	1%
Kenya	$0.57	77%	22%	1%
South Africa	$7.44	59%	39%	2%
Brazil	$27.01	65%	8%	27%
Philippines	$10.14	57%	14%	28%
India	$44.76	54%	11%	34%
Tunisia	$0.53	23%	38%	38%
Pakistan	$3.67	10%	5%	85%
Cambodia	$2.99	3%	2%	94%

Source: ITC Dataweb, statistics for 2015

Table 3: Beneficiary Countries Reliance on U.S. (as share of total exports)

Partner	Total U.S. Goods Imports (2015)	Share of Exports Going to U.S. (2014)
Haiti	$0.97	87%
Cambodia	$2.99	24%
Pakistan	$3.67	14%
Philippines	$10.14	14%
India	$44.76	13%
Brazil	$27.01	12%
Kenya	$0.57	7%
South Africa	$7.44	7%
Tunisia	$0.53	3%

Source: IMF, Direction of Trade Statistics 2015

Finally, while the preference programs retain considerable power to influence importer decisions, their ability to provide a competitive benefit does not remain constant; rather, it has been steadily waning. This is because since 1974, the United States has reduced the number of products subject to tariffs, reduced rates on products still subject to tariffs through multilateral trade agreements,

and increased the number of countries for which nearly all tariffs have been eliminated through free trade agreements (FTAs).

We now examine the three preference programs in turn. Each has made an important contribution to the core goal of helping beneficiary countries succeed in trade, and thereby contributing to the reduction of poverty and hunger.

A. The Generalized System of Preferences supports the expansion and diversification of exports from beneficiary countries.

The U.S. Generalized System of Preferences (GSP) program was initially authorized by the Trade Act of 1974 (19 U.S.C. §§ 2461 *et seq*.) for a ten-year period, beginning on January 1, 1976. The United States has extended the program 13 times since then. Most recently, in June 2015, the Trade Preferences Extension Act of 2015 (TPEA) reauthorized the GSP program through December 31, 2017.

GSP is designed to promote economic growth in developing countries by providing preferential duty-free treatment for a broad range of products imported into the United States from eligible countries and territories. An underlying principle of the GSP program is that the creation of trade opportunities for developing countries helps to encourage broad-based economic development and sustain momentum for economic reform and liberalization in these countries.

Over its four decades, the GSP program has helped a wide range of beneficiary countries expand and also diversify their exports into products with higher value-added. Diversification of exports under GSP also enhances the productive capacity and competitiveness of beneficiary countries with respect to their exports to markets other than the United States. A persistent challenge, however, is that the GSP program has typically been renewed only for short periods of one to three years. Therefore, its authority frequently expires, and on several occasions the gaps between expiration and reauthorization have been quite long. Most recently, the program lapsed in July 2013 and was not renewed until June 2015. During this period, beneficiary countries lost market share in GSP-eligible goods to China, the European Union, and others. Such experiences likely limit the benefit GSP has had for long-term development and poverty reduction.

As of January 1, 2016, 122 countries were designated GSP beneficiary developing countries (BDCs) and territories, including 43 countries and territories that are "least-developed beneficiary developing countries" (LDBDCs) and eligible for a broader range of duty-free benefits.[51] Approximately 5,000 product lines out of a potential 7,200[52] are eligible for duty-free treatment under GSP, with nearly 1,500 lines reserved for LDBDCs only. By statute, GSP excludes most apparel, footwear, tableware, many textiles, and a number of other goods Congress has viewed as especially import-sensitive.

[51] See Appendix A for a list of GSP beneficiary countries.

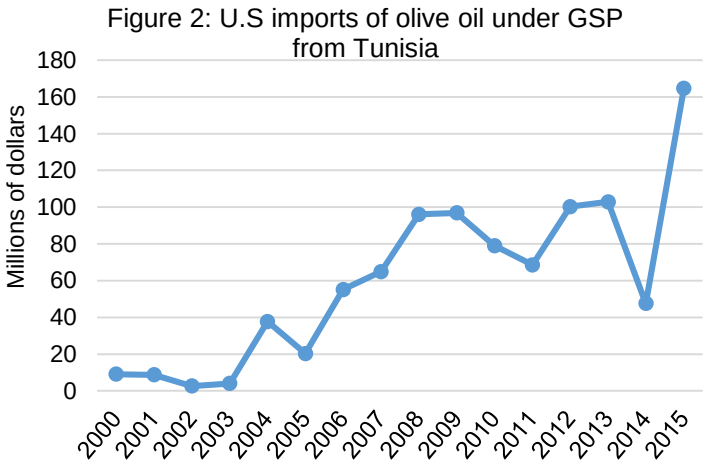
[52] The U.S. tariff schedule in total includes about 10,700 separate tariff lines, of which roughly 3,500 are permanently duty-free.

In 2015, U.S. imports under GSP from eligible countries totaled $17.4 billion. Leading U.S. imports under GSP at the 4-digit HTS subheading were motor vehicle parts, ferroalloys, monumental or building stone, electric motors and generators, jewelry of precious metal, air conditioning machines, transmission shafts and cranks, rubber tires, and flavored waters including mineral waters. The top five GSP suppliers, representing 75 percent of total GSP imports, were, in order, India, Thailand, Brazil, Indonesia, and the Philippines. Ten of the top 50 GSP suppliers in 2015 were LDBDCs: Congo (DRC), Cambodia, Malawi, Mozambique, Ethiopia, Nepal, Madagascar, Zambia, Bhutan, and Solomon Islands. Several beneficiaries witnessed significant increases in GSP trade in 2015, including Tunisia, Uruguay, Cambodia, and Ghana.

GSP Success Stories:

Tunisia: Tunisia has a diverse economy, with important agricultural, mining, tourism, and manufacturing sectors. The ninth-largest user of GSP in 2015, Tunisia exported goods valued at $203 million dollars under the program to the United States. U.S. imports from Tunisia that entered under the GSP program represented 38 percent of total U.S. imports from Tunisia in 2015 – one of the highest rates for any GSP beneficiary, demonstrating the importance of GSP trade to Tunisia's overall trade with the United States.[53] Tunisia has expanded and diversified the number of products it exports to the United States under GSP,[54] with 85 different products arriving under GSP in 2015, more than double the number of products exported under GSP in 2000.

Olive oil is one of Tunisia's top exports to the United States and accounts for a significant share of its exports under GSP. Tunisian exports of olive oil compete with exports from Italy and Spain, the world's largest producers, but enjoy a tariff advantage when entering the U.S market under GSP, with a waiver of tariffs of 5 cents or 3 cents per kilo of oil, depending on the grade. U.S. imports of olive oil from Tunisia under GSP have quadrupled in value since 2000, reaching a high of $164.6 million in 2015. This was the United States' second largest source of imports after Spain. [55]



Olive oil is an important source of employment in Tunisia. The industry employs 309,000 agricultural workers, representing 60 percent of all

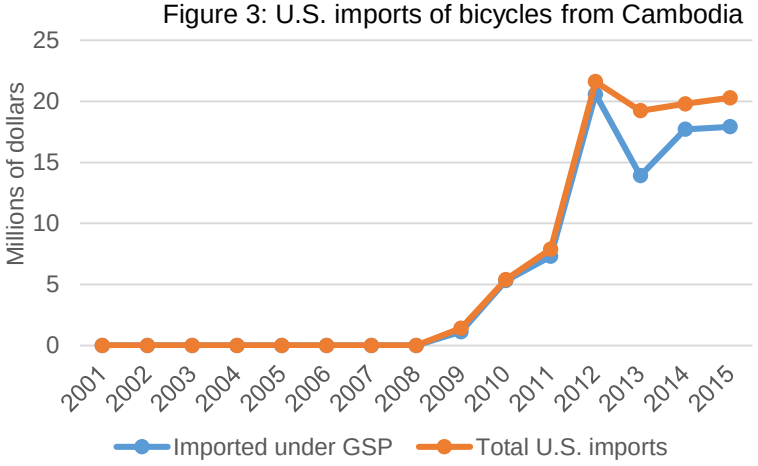
[53] Of the remaining 2015 U.S. imports form Tunisia, 39 percent of imports were dutiable and 22 percent were duty-free on a MFN basis.

[54] In 2008 and 2012, USTR worked with the Departments of State and Commerce to provide a series of GSP educational seminars and industry meetings in several Tunisian cities. Since that time, imports of many of the products including condiments and other food preparations, wooden tableware, and dates have increased significantly. Small and medium-sized enterprises benefit from these increases.

[55] Isabel Putinja, "Tunisia Is the World's Second Largest Olive Oil Producer, for Now," *Olive Oil Times*, January 27, 2015.

employment in the agricultural sector.[56] One-third of arable land in Tunisia is used to grow olive trees.[57] Olive oil accounts for 44 percent of Tunisia's agricultural exports and 10 percent of its total exports.[58] The country has struggled economically since the Arab Spring, with the Tunisian government reporting a steep decline in tourism, which has been a particularly significant sector of its economy. However, agricultural exports, such as olive oil, have played a vital role for economic and social development in Tunisia.

Figure 3: U.S. imports of bicycles from Cambodia



Cambodia: As a least-developed beneficiary of GSP, Cambodia is eligible to export nearly 5,000 qualifying GSP products to the United States duty-free. GSP imports from Cambodia were worth $68.9 million in 2015, accounting for 2 percent of total U.S. imports from Cambodia.[59] Cambodia was the 19th largest user of GSP in 2015 and the second largest LDBDC user. U.S. imports from Cambodia under GSP have quadrupled since 2010, reflecting Cambodia's efforts to diversify exports beyond apparel (the country's main export, which as noted above is not covered by GSP).[60]

One noteworthy GSP success story from Cambodia is bicycles. U.S. imports of bicycles from Cambodia have increased more than tenfold since 2009, totaling $20.3 million in 2015, with 88 percent of those imports entering under GSP.[61] [62] Bicycles are a GSP-eligible product for LDBDCs only, with MFN tariff rates of 11 percent and 5.5 percent depending on the type. Thus duty-free access under GSP can give Cambodian bicycle producers an 11 percent tariff advantage in the U.S. market over many competitors, increasing Cambodia's ability to compete with more established exporters. Cambodia is now the third-largest source of U.S. imports of bicycles behind China and Taiwan (though still well behind these two sources, which respectively export $1.0 billion and $535 million worth of bicycles to the United States), and the leading source of all U.S. preference partners.

[56] Republic of Tunisia, Ministry of Trade, petition for the 2015 GSP Annual Review, Docket USTR-2015-0013, www.regulations.gov.
[57] Ibid.
[58] Ibid.
[59] Of the remaining 2015 U.S. imports from Cambodia, 94 percent of imports were dutiable and 3 percent were duty-free on a "most-favored-nation" (MFN) basis. The largest U.S. imports from Cambodia are apparel and textile products which are statutorily excluded from GSP.
[59] GSP imports from Cambodia have increased 420 percent since 2010.
[61] There were no U.S. imports of bicycles from Cambodia prior to 2009.
[62] The GSP program lapsed from July 31, 2013 through July 28, 2015. Although GSP benefits were restored retroactively to July 2013, the 24-month lapse in GSP authorization may have been a factor in the decline of U.S. imports of bicycles in 2013-14.

A Cambodian bicycle producer, A&J (Cambodia) Company, Ltd., began production in 2006 when the industry was nascent in the country.[63] Nine years later, the company employs 2,300 Cambodian workers, creating new economic opportunities in a rural area where most jobs had been in subsistence or low-wage agriculture.[64] The manager of the factory describes the impact as follows:

> *"When we first began, the workers came from the fields and local villages for an interview, most had not even any shoes or flip flops, when they started working they arrived on foot, already tired and thirsty. Or they arrived by a local worker transport method which involved as many workers as possible standing upright in the back of an open truck, and taken back and forth to their local town or village. Today we have to provide parking spaces for over 500 brand new scooters, and this number is growing all the time. This newfound mobility has changed the lives of these young people beyond recognition."*

A&J (Cambodia) Company, Ltd. runs five assembly lines and produces an average of 50,000 bicycles a month for many of the world's leading brands.

Philippines: The Philippines has been a GSP beneficiary country since the program's inception in 1976 and has long been one of the program's biggest users. In 2015, it was the fifth-largest user of GSP – behind India, Thailand, Brazil and Indonesia – exporting $1.4 billion in goods to the United States under GSP, or roughly 13 percent of overall Philippine exports to the United States.[65] U.S. imports from the Philippines under GSP have increased 49 percent since 2010, while total U.S. imports from the Philippines have increased only 28 percent. The Philippines has expanded and diversified the number of products it exports to the United States under GSP, counting more than 580 products in 2015. Leading GSP imports from the Philippines include automobile tires, telescopic sights, measuring and checking instruments, certain coconut waters, and appliances and machines.

[63] A&J (Cambodia) Company, Ltd. is a supplier to Kona Bicycle Company, based in the Pacific Northwest.
[64] Letter from Jon Edwards, the Chief Executive Officer for A&J (Cambodia) Co Ltd., February 17, 2016.
[65] Of the remaining 2015 U.S. imports from the Philippines, 29 percent of imports were dutiable and 57 percent were duty-free on a "most-favored-nation" (MFN) basis.

One GSP import from the Philippines that has grown considerably is insulated beverage bags.[66] U.S. imports of insulated bags from the Philippines under GSP have increased by almost 270 percent since 2010, totaling $17.5 million in 2015. Under GSP, the normal seven percent duty on these bags is eliminated for imports from the Philippines.

Figure 4: U.S. imports of insulated beverage bags under GSP from the Philippines

In 2002, East-Cam Tech Corporation (ECTC) became the official manufacturer in the Philippines of Camelbak products. At its start, ECTC had only 300 skilled sewers. But over the years, ECTC has expanded to meet increasing demand for this product and now employs 1,500 workers. ECTC credits part of its growth to the GSP program, which has enhanced its competitive advantage over non-BDC sources.

Jewelry: Throughout the developing world, millions of people work as artisans and create handcrafted products. The GSP program provides exporters from beneficiary countries with duty-free access to the U.S. market, helping artisans – often women – earn a sustainable income. As higher tariff products, articles of jewelry have a special advantage under GSP.[67] In 2015, 42 GSP beneficiary countries exported jewelry under GSP, with 16 of those countries exporting more than $1 million worth of jewelry products. In total, U.S. imports of jewelry (classified under HTS Chapter 71) under GSP totaled $529 million in 2015, representing three percent of the $27 billion in total GSP imports from all beneficiary countries.

In 2015, the largest exporters of GSP jewelry were Turkey ($110.5 million), Indonesia ($86.2 million), Thailand ($73.9 million), South Africa ($63.1 million) and India ($62.2 million). Jewelry accounts for a significant share of many beneficiaries' total exports to the United States under GSP. For example, in 2015, Lebanon exported 11 different types of jewelry products under GSP, totaling $12.4 million in value and representing 29 percent of Lebanon's total GSP exports. Two LDBDCs, Madagascar and Nepal, exported jewelry products totaling more than $1.3 million each and representing 35 percent and 32 percent, respectively, of their total GSP exports.

Many U.S. companies have partnered with artisans from many GSP eligible countries and import fair trade jewelry.[68] These fair trade organizations advocate for higher prices for qualifying exporters and improved social and environmental standards. Many of the artisans are women in rural or economically depressed areas, for whom the opportunity to earn an income is especially important. Noonday Collection imports handmade jewelry from Afghanistan, Ecuador, Ethiopia,

[66] This product is classified under subheading 4202.92.04 and is described as an "insulated beverage bags with an outer surface of textiles whose interior incorporates only a flexible plastic container of a kind for storing or dispensing potable beverages through attached flexible tubing."
[67] The MFN duty for brass, beaded, silver and other jewelry ranges from 5 to 13.5 percent.
[68] Email from Dan Anthony, GSP Coalition.

Haiti, India, Kenya, Nepal, Rwanda, and Uganda. It partners with 30 artisan businesses that employ more than 4,050 artisans, connecting these businesses to the global market. WorldFinds imports fair trade jewelry from several countries including India, Indonesia, and Nepal and sells its products wholesale to nearly 900 retail locations. Nina Designs imports handmade jewelry from Indonesia and Thailand.

B. The Caribbean Basin Economic Recovery Act (CBERA) demonstrates the need for internal reforms to maximize trade benefits.

The Caribbean Basin Initiative (CBI) began with the Caribbean Basin Economic Recovery Act (CBERA) and subsequently was expanded through the Caribbean Basin Trade Partnership Act (CBTPA). At the end of 2015, 17 countries and territories were eligible for benefits under the program: Antigua and Barbuda, Aruba, The Bahamas, Barbados, Belize, British Virgin Islands, Curaçao, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

CBI benefits were further expanded with the HOPE Act of 2006 (HOPE Act), the HOPE II Act of 2008 (HOPE II Act), and the Haitian Economic Lift Program Act of 2010 (HELP Act), expanding Haiti preferential treatment for its textile and apparel products. In June 2015, the TPEA extended trade benefits provided to Haiti in the HOPE Act, HOPE II Act, and the HELP Act until September 30, 2025. The TPEA also extended the value-added rule for apparel articles wholly assembled or knit-to-shape in Haiti until December 19, 2025.

Since its inception, the CBI program has helped beneficiary countries diversify their exports. On a region-wide basis, this export diversification has led to a more balanced production and export base and has reduced the region's vulnerability to fluctuations in markets for traditional products. In conjunction with economic reform and trade liberalization by these countries, the trade benefits of CBI have contributed to their economic growth.

However, the U.S. International Trade Commission reports that a range of internal constraints have made it difficult for CBERA countries to fully benefit from the trade advantages.[69] Here again we encounter the challenge of supply-side constraints and the need for internal reform. The problems in question include inadequate infrastructure, limited telecommunications capacity, shortage of skilled workers, lack of access to investment financing, and an underdeveloped private sector. In addition, CBERA countries have reoriented their economies toward service-related, instead of goods-related, industries, primarily tourism. Also, many of the significant CBERA exporters concluded FTAs with the United States including the DR-CAFTA FTA and the Panama FTA. This further shifted the product composition of U.S. imports under the CBI program, making the share of petroleum and other energy-related imports (mainly supplied by Trinidad and Tobago) more important just as U.S. consumption began to fall off and U.S. production of crude petroleum began to increase. As a result, there has been an overall decline in CBERA exports to the United

[69] U.S. International Trade Commission, *Caribbean Basin Economic Recovery Act: Impact on U.S. Industries and Consumers and on Beneficiary Countries, 21st Report, 2011-12*, Investigation No. 332-227, USITC Publication 4428 (Sept. 2013).

States. However, Haiti is a notable exception because the specific provisions for Haiti have led to a strong positive effect on export earnings and job creation.[70]

HOPE Success Story:

Haiti: Industrial manufacturing was an important element of Haiti's economy until the sanctions in the early 1990s. The manufacturing industry in Haiti employed more than 150,000 people in about 200 foreign companies at its peak in 1980. The main goods manufactured in Haiti were garments.

Following a boom in the apparel industry in Haiti in the period leading to the early 1980s, and the subsequent decline of the sector since the mid-1980s, the industry has struggled with natural disasters, political instability, and competition from Asia in its effort to bring investment and jobs back to the country. Even before the 2010 earthquake that devastated the island, Haiti had long been the Western Hemisphere's poorest country, with 80 percent of the population living below the poverty line and 54 percent in abject poverty. Two-thirds of all Haitians depend on the agricultural sector, mainly small-scale subsistence farming, making them vulnerable to the natural disasters to which the country is prone. The apparel industry has been identified as a lifeline for Haitian workers.

The HOPE and HELP Acts succeeded in creating interest from American buyers to source from Haiti, increasing production and creating domestic jobs. In 2009, Haiti exported $514 million worth of apparel to the United States. By 2012, this value had increased to $766 million, representing an increase of over 40 percent in the value of apparel exports. In 2014, apparel exports rose another 10 percent to $843.2 million and accounted for 91 percent of national export earnings and 10 percent of national GDP.

The apparel industry became one of the largest employers within Haiti, creating jobs for over 30,000 people. Sixty-five percent of the workers are women who support a number of family members through savings of earnings and remittances to families. The Caracol Industrial Park (CIP) in northeast Haiti provides an illustration of this impact on employment. Since its opening in 2012, employment at the CIP has increased steadily, from providing 1,200 jobs in the first year of operation to 7,600 as of May 2016. More jobs are expected to come online as the facility expands further. Industry sources in Haiti have gone so far as to assert that without the key incentives provided by HOPE/HELP trade preferences, there would be no apparel industry in Haiti.

The very large role preference exports play in Haiti's GDP, overall exports, and industrial employment suggest that HOPE/HELP plays a uniquely important role in Haiti's ability to alleviate poverty and reduce hunger.

C. The African Growth and Opportunity Act is linked to increased employment and exports from eligible countries.

AGOA, enacted in 2000, provides eligible sub-Saharan African countries with duty-free access to the U.S. market for over 1,800 products, including for lesser developed countries, in addition to

[70] *Id.* In Haiti's apparel sector.

those available under GSP. These additional products include value-added agricultural and manufactured goods such as processed foods, apparel, and footwear. AGOA includes a special apparel rule of origin for lesser developed countries, referred to as the "third country fabric provision" because it allows beneficiary countries to use non-U.S., non-AGOA fabric in making apparel for duty-free export under AGOA. The TPEA extended AGOA, including the third-country fabric provisions, for ten years through 2025. As of January 1, 2016, 38 sub-Saharan African countries were eligible for AGOA benefits.[71]

Beyond opening up market access to the U.S., AGOA has provided a strategic space for dialogue between the United States and sub-Saharan African countries on trade and investment issues through the annual AGOA Forum. The program's eligibility criteria allows the U.S. to continue to influence political, governance, and economic issues in beneficiary countries.[72]

A number of studies have found that AGOA had a positive total effect on aggregate trade flows from sub-Saharan Africa (SSA). For example, AGOA has resulted in significant increases in apparel exports to the United States from five of the 38 beneficiary countries (Kenya, Lesotho, Mauritius, Madagascar, Ethiopia), and supported a market for South African automotive exports and value-added agricultural products. One study demonstrated that AGOA has increased non-energy exports from beneficiary countries to the United States by 57.8 percent.[73] Another study found that this increase in exports to the United States was not merely due to a redirection of African exports from other markets.[74] Additionally, a survey in 2011 found that AGOA facilitates increased employment,[75] which likely reduces poverty and hunger.

Since 2001, total AGOA (including GSP) imports have risen by 13 percent to $9.3 billion in 2015. AGOA non-oil trade has increased fourfold to $4.1 billion in 2015 from $1.4 billion in 2001, with sharp increases in autos and auto parts, apparel, footwear, prepared vegetables, fruits, and nuts, cocoa powder and cocoa paste, and cut flowers. Leading non-oil exporters under AGOA include South Africa, Kenya, Lesotho, Mauritius, Madagascar, Tanzania, Ethiopia, Cote d'Ivoire, Ghana, Cameroon, Malawi, and Uganda.[76]

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[71] See Appendix B for a list of AGOA beneficiary countries.

[72] Williams, Brock, "African Growth and Opportunity Act: Background and Reauthorization," *Congressional Research Service, April 22, 2015.* https://www.fas.org/sgp/crs/row/R43173.pdf

[73] Cooke, Edgar F. A. "The impact of trade preferences on exports of developing countries: the case of the AGOA and CBI preferences of the USA", Working Paper, June 2011.

[74] Frazer, Garth and Johannes Van Biesebroeck, "Trade growth under the African Growth and Opportunity Act", The Review of Economics and Statistics, 92(1): 128–144, February 2010.

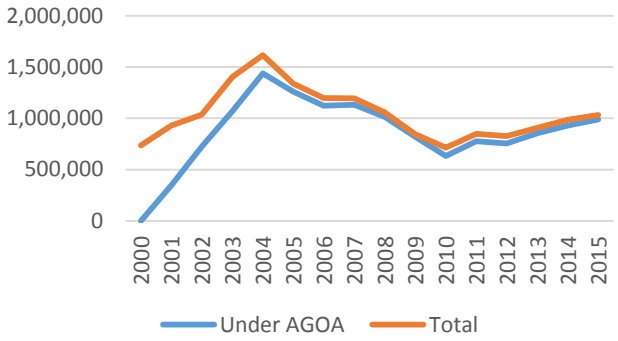
[75] Karingi, Stephen, Laura Paez, and Derrese Degefa. "Report on a Survey of AGOA's Past, Present and Future Prospects", Africa Trade Policy Centre Work in Progress No. 89. United Nations Economic Commission for Africa, 2012. From the 56 respondents who answered the questions on AGOA having an impact on employment creation, 75% said they had registered employment creation, while 25% reported they had not. For the respondents who gave information on employment impacts, the reasons cited why AGOA may have had weaker impact on employment than expected so far rests on the general fear of an AGOA phase-out in the short term, which impedes building local capacity through investment (foreign or domestic) and thereby deters employment creation.

[76] Overall, AGOA's impact on sub-Saharan African countries' total exports to the United States is unclear, likely because AGOA has a varied impact on different countries at different levels of development. This is partly due to the variations in study methodologies as well as the fact that tariff reduction on the textile and apparel products is one of the largest under AGOA. For example, Zenebe et al. (2014), who used a gravity model and data on 35 AGOA-eligible countries between 1990 and 2011, found that AGOA trade preferences do not have a statistically significant impact

AGOA Success Stories:

Apparel: Apparel is one of the product areas that AGOA beneficiary countries have most been able to take advantage of, in large part due to the program's liberal rules of origin. Specifically, AGOA permits the import of apparel manufactured in Africa that is made of fabric and other inputs from non-AGOA countries. Various sector-specific studies have agreed that AGOA preferences led to increased sub-Saharan African exports of apparel for a number of eligible countries, with beneficiaries exporting higher volumes of apparel products and also diversifying exports of new apparel products.

Figure 5: U.S. imports of textiles and apparel under AGOA



Nevertheless, the effect of AGOA on sub-Saharan exports of apparel has been uneven over the years. African apparel exports to the United States quickly rose from $600 million in 1999[77] to $1.62 billion in AGOA's early years, but then dropped down to nearly its original levels after the elimination of textile quotas in 2004, before rising again to roughly $1 billion in 2015. Moreover, in apparel, as in the overall program, use of these preferences remains limited, with four countries (Kenya, Lesotho, Mauritius, and Madagascar) accounting for 92 percent of AGOA clothing in 2015.

The effect of these increased apparel exports on individual Africans can clearly be seen by looking at individual apparel factories in places like Kenya. For instance, the UAL apparel factory is located within a government-supported Export Processing Zone, six miles from Nairobi's city center. It is a leading Kenyan exporter of apparel to the U.S., supplying a number of large retail chains, including Levi Strauss & Co and H & M. Since the extension of AGOA in 2015, UAL has added thousands of jobs, and currently employs nearly 10,000 Kenyans, a substantial number in a country with an estimated 40 percent unemployment rate.

"The job has empowered me. I'm not stuck at home. I now know leadership," said Violet Kabanya who joined UAL in 2003, the same year it opened. She worked her way up from a "helper" to a director of quality control, speaking directly with buyers regarding their shipments. "The company has given me opportunity. It is a privilege to be here."

Samuel Omboga started with UAL just out of secondary school, 5 years ago. His family encouraged him to move from his rural home in western Kenya to Nairobi for a job. He also started as a helper and has worked his way up to a clerical position. He now supports his two

on SSA agricultural exports. These authors credit the exclusion of some agricultural products from AGOA and a tariff rate quota for the lack of a measurable impact.

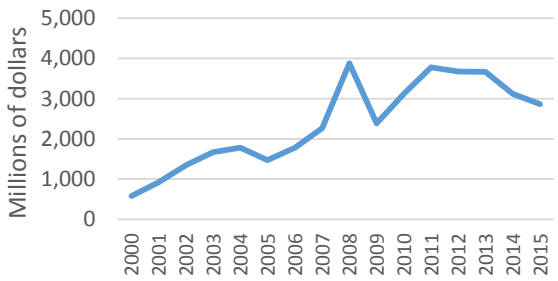
brothers who attend school and is working to improve the living standards of his parents. He has more than doubled his income since joining the company.

"The job has created opportunities for me. Now, I want to create opportunities for my family back home," said Omboga who recently started a small side business selling handbags. He says it isn't doing well yet, but it does provide his rural family with employment.

Kenya's ability to attract investment in the textile and apparel industries holds out the promise of higher-wage employment, with attendant impacts on reducing poverty and hunger. Overall, 40,000 Kenyans are employed in the garment and apparel export industry. The apparel and textile manufacturing industry drives urban employment and is critical to improving the livelihoods of urban women and youth. In the words of Violet Kabanya, "we need more people employed to decrease crime and make people happy."

South Africa: South Africa is generally considered the most advanced and diversified economy in sub-Saharan Africa, and is the economic, commercial, and logistics hub of Southern Africa. South Africa is the largest sub-Saharan African user of AGOA and GSP by value, and accounts for 75 percent of non-oil AGOA exports to the United States. Under AGOA, South African exports to the United States have increased three-fold since 2001, totaling $2.9 billion in 2015, helping to create jobs across many different sectors in South Africa, including in both the industrial and agricultural sectors, which in turn affects poverty and hunger.

Figure 6: U.S. imports from South Africa under AGOA



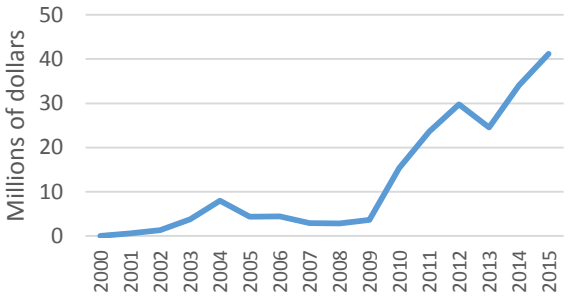
South Africa's major AGOA success story is the automobile industry. Under AGOA, South African exports of transportation equipment, which includes autos and other parts and accessories, increased from $76 million in 2001 to $1.5 billion in 2015, adding over 30,000 South African jobs.

Agriculture provides another good example of South Africa's success under AGOA. Under AGOA, South African exports of agricultural products increased six-fold since 2001 to $248 million in 2015. South Africa's citrus industry has attributed its success to market access opportunities provided by AGOA, which has helped support up to 85,000 South African jobs in the sector alone. South African citrus exports under AGOA reached $46 million in 2015. Other examples of agricultural products that have gained a foothold in the U.S. market under AGOA include macadamia nuts. In 2015, South Africa exported $50 million worth of macadamia nuts to the United States under AGOA. South African exports of macadamia nuts under AGOA help support 3,800 South African jobs, including an additional 7,000 jobs during harvest season.

Kenya: Kenya has the strongest industrial base in East Africa and is generally considered the economic, commercial, and logistics hub of East Africa. The agricultural sector is the largest employer in Kenya, contributing 25.3 percent of GDP. The country's major exports are tea, coffee, cut flowers, and vegetables. Kenya is the fifth largest user of AGOA and GSP by value, but three of the larger users primarily export petroleum to the United States. Approximately three-quarters of Kenya's exports to the U.S. market enter under these preference programs.

A good example of a Kenyan success story under AGOA, beyond apparel, is macadamia nuts. Kenyan exports of macadamia nuts to the United States under AGOA totaled $72,000 in 2000 the year AGOA was signed into law, and then rose quickly to $8 million by 2004. After some fluctuation since that date U.S. imports further grew to $41.1 million in 2015.

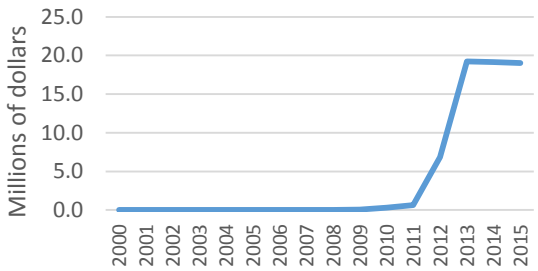
Figure 7: U.S. imports of macadamia nuts under AGOA from Kenya



These exports support over 100,000 farmers with an average of 6-12 trees per grower, typically as part of a diversified agricultural smaller-holder operation. Sales of macadamia nuts under AGOA can add thousands of dollars to these farmers' income, improving their livelihoods. For instance, Samuel Ngatia, a small farmer in Central Kenya, recently said he earned approximately $2,000 from the sales of macadamia nuts which allowed him to purchase two dairy cows and cement his house. Additionally, macadamia shells and husks can be used for fertilizer, further increasing their value to small-scale farmers.

Ethiopia: Ethiopia is the second-most populous country in sub-Saharan Africa with its 90 million inhabitants, though with a GDP per capita of only about $632 in 2015. It has also had one of the fastest growing economies in the world over the last decade. Economic growth due to increased trade is likely to increase income and have a positive impact on reducing poverty and hunger. Ethiopia's major exports include coffee, oil seeds, and gold. Ethiopia is only the twelfth-largest user of the AGOA program by value, but it has increasingly taken advantage of the program in recent years. Ethiopia's exports to the United States under AGOA have risen from $10.3 million in 2010 to $47.9 million in 2015, with the proportion of Ethiopia's exports to the United States entering under AGOA rising from 8.1 percent to 15.5 percent during that period.

Figure 8: U.S. imports of footwear under AGOA from Ethiopia



One area in which Ethiopia has had success is footwear. Ethiopia started using the program for footwear in 2007, with exports totaling $33,000. Between 2011 and 2015, Ethiopian footwear exports through AGOA increased more than thirty-fold—from $630,000 to nearly $20 million. The USAID East Africa Trade and Investment Hub, which partners with East African and U.S. businesses to boost trade and investment with and within East Africa, began

working with Ethiopian footwear producers in 2012. In just over a year, it facilitated over $1.5 million in sales to the United States. In 2016, Ethiopia's shoe exports continue to grow very rapidly compared to the 2015 totals, making the country the first substantial AGOA footwear supplier to the United States.

VI. CONCLUSION

Over the course of the last four decades, a rich set of data and examples have accumulated on how U.S. preference programs provide trade opportunities for beneficiary countries. The trade preference programs have had significant success in helping smaller and poorer countries to compete, develop value-added industries, and support higher-quality employment. As Cambodia's success in bicycle exports suggests, this is clear even in countries that make only modest use of trade preference programs. And the cases such as Haiti and Lesotho show, in some cases the preference programs are fundamentally important to national economies.

The programs have been a valuable and effective part of America's development of trade relations with the beneficiary countries. As Congress hoped, they have helped promote economic growth through trade, and in doing so made a contribution to the larger effort to alleviate poverty and reduce hunger in the developing world. They are likely to retain this valuable role through the next decade for many beneficiary countries, in particular the least-developed.

However, in examining the successes of preferences, it is also important to be aware of their limitations. As beneficiary country trade capacity grows, opening of national markets and internal reform will be necessary to drive export growth and development. Moreover, with the increase of free trade arrangements over time, the competitive advantage provided by preference programs will diminish. It will be important to help beneficiary countries to not only fully utilize preference programs in their formative years but, over time, to look to advancing beyond preferences to more stable, reciprocal arrangements that can more fully integrate them into the global economy.

Appendix A (1): GSP Eligible Countries in 2016

Albania	Grenada	Paraguay
Algeria	Guinea-Bissau	Rwanda
Angola	Guyana	Saint Lucia
Armenia	Haiti	Saint Vincent and the Grenadines
Azerbaijan	India	Samoa
Belize	Indonesia	Sao Tome and Principe
Benin	Iraq	Senegal
Bhutan	Jamaica	Serbia
Bolivia	Jordan	Seychelles
Bosnia and Hercegovina	Kazakhstan	Sierra Leone
Botswana	Kenya	Solomon Islands
Brazil	Kiribati	Somalia
Burkina Faso	Kosovo	South Africa
Burundi	Kyrgyzstan	South Sudan
Cambodia	Lebanon	Sri Lanka
Cameroon	Lesotho	Suriname
Cabo Verde	Liberia	Swaziland
Central African Republic	Macedonia, Former Yugoslav Republic of	Tanzania
Chad	Madagascar	Thailand
Comoros	Malawi	Timor-Leste
Congo, Republic of	Maldives	Togo
Congo, Democratic Republic of	Mali	Tonga
Cote d'Ivoire	Mauritania	Tunisia
Djibouti	Mauritius	Turkey
Dominica	Moldova	Tuvalu
Ecuador	Mongolia	Uganda
Egypt	Montenegro	Ukraine
Eritrea	Mozambique	Uruguay
Ethiopia	Namibia	Uzbekistan
Fiji	Nepal	Vanuatu
Gabon	Niger	Venezuela, Republic of
Gambia, The	Nigeria	Yemen
Georgia	Pakistan	Zambia
Ghana	Papua New Guinea	Zimbabwe

Appendix A (2): GSP Least-Developed Beneficiary Countries in 2016

Afghanistan	Guinea-Bissau	Senegal
Angola	Haiti	Sierra Leone
Benin	Kiribati	Solomon Islands
Bhutan	Lesotho	Somalia
Burkina Faso	Liberia	South Sudan
Burundi	Madagascar	Tanzania
Cambodia	Malawi	Timor l'Este
Central African Republic	Mali	Togo
Chad	Mauritania	Tuvalu
Comoros	Mozambique	Uganda
Congo, Democratic Republic of	Nepal	Vanuatu
Djibouti	Niger	Yemen
Ethiopia	Rwanda	Zambia
Gambia	Samoa	
Guinea	Sao Tome e Principe	

Appendix B: AGOA Eligible Countries in 2016

Angola
Republic of Benin
Republic of Botswana
Burkina Faso
Republic of Cape Verde
Republic of Cameroon
Republic of Chad
Union of the Comoros
Republic of Congo
Republic of Cote d'Ivoire
Republic of Djibouti
Ethiopia
Gabonese Republic
Republic of Ghana
Guinea
Guinea Bissau
Republic of Kenya
Kingdom of Lesotho
Republic of Liberia
Madagascar
Republic of Malawi
Republic of Mali
Mauritania
Republic of Mauritius
Republic of Mozambique
Republic of Namibia
Republic of Niger
Federal Republic of Nigeria
Republic of Rwanda
Sao Tome & Principe
Republic of Senegal
Republic of Seychelles
Republic of Sierra Leone
Republic of South Africa
United Republic of Tanzania
Republic of Togo
Republic of Uganda
Republic of Zambia

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