

# WebMemo



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## Congress Should Extend Trade Preferences to Asia's Poorest

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The Tariff Relief Assistance for Developing Economies Act (TRADE Act), introduced in February 2007, would grant the preferential trade benefits of the African Growth and Opportunity Act to 14 of the world's poorest countries, all in Asia.<sup>1</sup> The TRADE Act would demonstrate a U.S. commitment to support development and reduce poverty in these countries, while helping to reduce the economic challenges that extremist organizations exploit to gain members and support. With existing preferences targeting poor nations on other continents, providing similar preferences to Asia's struggling countries is long overdue. Congress should act this year to extend the benefits of lowered tariffs to these countries as well as American businesses and consumers.

**The TRADE Act and U.S. Trade Preferences.** Tariff and trade preferences granted under the Generalized System of Preferences (GSP), the Andean Trade Preference Act (ATPA), and the African Growth and Opportunity Act (AGOA) provide non-reciprocal market access to countries that are struggling to develop and reform their economies. Domestic subsidies and other barriers undermine the competitiveness of entrepreneurs and farmers in developing countries, preventing them from competing in world markets. U.S. trade preference programs give these countries' entrepreneurs improved access to the American market, promoting exports and fostering economic growth. These policies promote self-reliance and so are critical elements of any meaningful strategy to aid developing countries.

Developing countries do benefit from these programs. In 2005, developing countries exported roughly \$27 billion worth of goods through the GSP program.<sup>2</sup> Also in 2005, the four Andean countries of Bolivia, Colombia, Ecuador, and Peru were able to export \$11.5 billion worth of goods through the ATPA, roughly 57 percent of the value of their total exports to the U.S.<sup>3</sup> AGOA-eligible countries exported \$50.3 billion to the U.S. in 2005, with over 98 percent of the goods benefiting from duty-free access to the U.S. market.<sup>4</sup> Since AGOAs inception in 2001, exports from program countries to America have grown by 85 percent.<sup>5</sup> Exports of textiles, jewelry, equipment and parts, chemicals, wood, metals, and agricultural products help these countries develop their economies, provide economic opportunities, and reduce poverty.

Beyond just lowering tariffs, these programs are structured to motivate developing countries to improve their political and economic governance. For example, sub-Saharan African countries are not automatically eligible for AGOA benefits. Instead, the U.S. President grants eligibility based on a country's progress toward establishing market-based economies and representative government,

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strengthening the rule of law, combating corruption, eliminating barriers to U.S. trade and investment, protecting intellectual property, reducing poverty, expanding health care and educational opportunities, and adopting labor standards. By rewarding countries for good economic policy, AGOA strengthens the chance that trade preferences will have a real impact. The TRADE Act would mirror AGOA legislation on these important eligibility criteria.

Moreover, these programs benefit the U.S. For example, a recent U.S. Chamber of Commerce report shows how GSP impacts the U.S. economy:

- GSP has become a meaningful factor in U.S. manufacturing competitiveness, providing American businesses with low-cost sources for raw materials and unfinished goods. Small U.S. firms have especially benefited from these low-cost inputs, becoming more competitive against larger companies.
- Roughly 25 percent of GSP imports are consumer goods. American households benefit from a wider variety of items to purchase at competitive prices, freeing income for additional consumption or savings.
- GSP imports supported nearly 82,500 U.S. jobs in 2005.<sup>6</sup>

Fearful of any new threat of foreign competition, much of U.S. industry is opposed to the TRADE Act. However, the likelihood that a flood of inexpensive t-shirts, cotton pants, and pajamas from

these countries will prove the death knell for U.S. producers is slim. Total imports from TRADE Act countries amounted to just about half a percentage point of total U.S. imports in 2006.<sup>7</sup> In comparison, products from China accounted for more than 15 percent of U.S. total imports that year. Along with the competitive advantages it holds over TRADE Act countries, such as economies of scale and better access to technology, China currently enjoys an average U.S. tariff rate of about 3 percent, while TRADE Act nations face an average tariff rate of about 16 percent on their exports.<sup>8</sup> Lower tariffs on important goods like textiles will allow TRADE Act beneficiaries a chance to better compete with—and claim a share of the market from—China, Vietnam, and other Asian exporters. While preferential trade benefits will not result in these countries dominating the U.S. market anytime soon, they will go far in providing access to greater economic opportunity.

Free trade or market access alone, however, is no panacea for the all of the problems that developing countries face. But freer trade in conjunction with sound economic policy does go a long way toward bolstering long-term development.

**East Timor: A Perfect Candidate for Improved Market Access.** East Timor is a very small, newly independent democracy struggling to find competitive advantage in a hyper-competitive neighborhood. The newest democracy in Asia, East Timor is also the poorest country in the region. The Fund for Peace ranks it 20th in its survey of countries most at

1. The TRADE Act countries are Afghanistan, Bangladesh, Bhutan, Cambodia, Kiribati, Laos, Maldives, Nepal, Samoa, Solomon Islands, East Timor, Tuvalu, Vanuatu, and Yemen. While not classified as a least developed country, Sri Lanka is included to promote economic recovery from the 2004 tsunami.
2. U.S. Chamber of Commerce, “Estimated Impacts of the U.S. Generalized System of Preferences to U.S. Industry and Consumers,” October 2006.
3. U.S. International Trade Commission, “Andean Trade Preference Act: Impact on U.S. Industries and Consumers and on Drug Crop Eradication and Crop Substitution, Twelfth Report 2005,” Investigation No. 332-352, September 2006.
4. Office of the U.S. Trade Representative, “2006 Comprehensive Report on U.S. Trade and Investment Policy Toward Sub-Saharan Africa and Implementation of the African Growth and Opportunity Act,” May 2006.
5. U.S. International Trade Commission, “Sub-Saharan Africa: Factors Affecting Trade Patterns of Selected Industries,” Investigation No. 332-477, April 2007.
6. U.S. Chamber of Commerce, “Estimated Impacts of the U.S. Generalized System of Preferences to U.S. Industry and Consumers,” October 2006, at [www.uschamber.com/publications/reports/0610gsp.htm](http://www.uschamber.com/publications/reports/0610gsp.htm).
7. U.S. International Trade Administration, “Trade Stats Express” at <http://tse.export.gov>.
8. U.S. International Trade Commission, “Tariff Database” at [www.usitc.gov/tata/hts/other/dataweb](http://www.usitc.gov/tata/hts/other/dataweb).

risk of failure.<sup>9</sup> The company East Timor keeps on that top 20 list includes Sudan, Iraq, Somalia, North Korea, and Burma.

Economic problems are high on the list of factors contributing to East Timor's tenuous situation, and they go hand in hand with its political turmoil. In a region where countries are posting 7, 8, 10, and even 11 percent growth rates, a major political crisis in East Timor last year resulted in an actual 2 percent decline in GDP. Unemployment in the capital, Dilli, is estimated to be 27 percent overall and 40 percent among 15 to 24 year olds.<sup>10</sup> East Timor's remarkably small \$10 million a year in non-oil exports earnings demonstrates how clearly the country is struggling economically, as well as politically. The level of formal economic activity is too low to provide economic opportunity and jobs for East Timor's people.

Expanded special access to American markets would be a godsend for East Timor and nicely supplement existing U.S. aid efforts. As for the benchmarks that would be established by the Trade Act, East Timor is already eligible for Millennium Challenge Corporation funding. Trade Act assistance would offer it the opportunity to help itself through trade while encouraging reforms to address the weakness underlying East Timor's instability.

**Cambodia: Positive Incentive for Free Markets and Political Reform.** Cambodia is also among the poorest countries in East Asia. Although it does not make the top 20 states vulnerable to failure, its fragile economy and poor, undemocratic government do combine to keep it in the top 50.<sup>11</sup>

In recent years, Cambodia's economy has grown very rapidly—albeit from a small base. Still, expanding by more than 10 percent per year for each of the last three years, Cambodia's economy is making impressive gains. Except for a two-year

period during the 1997-1998 East Asian financial crisis, solid growth has been the rule for Cambodia since 1993. Its economy, however, is heavily reliant on textiles. The garment industry accounts for 80 percent of its export earnings and approximately 320,000 jobs.<sup>12</sup> The textile industry is intensely competitive within the Asian-Pacific region, and Cambodia could use a leg up to keep pace with this competition and to help it diversify into new export markets.

Cambodia's political progress has lagged its economic growth. Despite some democratic elements in its political system and some positive trends, it is not yet a free country. Freedom House places it in its least democratic category, "not free," and awarded it the same average ranking it gave to post-coup Thailand.<sup>13</sup>

The TRADE Act is a way to encourage Cambodia to move toward greater political freedom. Potential participants in the TRADE Act preference program would be evaluated not just on factors of economic freedom but also on political considerations such as political pluralism and protection of human rights. For Cambodia, this is the type of approach that has proven effective before. The 1999 U.S.-Cambodia Bilateral Textile Agreement rewarded Cambodia with additional quotas under the Multi-Fiber Agreement in exchange for improved workers' rights. That deal contributed significantly to a boom in garment exports and, as intended, greater respect for the legitimate rights of employees.

**Conclusion.** Trade preferences are often criticized as providing special access to U.S. markets to the detriment of the U.S. economy and without promoting U.S. interests. In fact, preference programs play an integral role in supporting U.S. business and increasing Americans' living standards. Moreover, these programs play a real role in promoting development, encouraging economic reform, and allevi-

9. "The Failed States Index 2007," *Foreign Policy*, July/August 2007, p. 57.

10. The World Bank, *East Asia Update*, April 2007, at <http://siteresources.worldbank.org/INTEAPHALFYEARLYUPDATE/Resources/550192-1175629375615/TL-EAP-Update-April2007.pdf>.

11. "The Failed States Index 2007," *Foreign Policy*.

12. Thomas Lum, "Cambodia: Background and U.S. Relations," Congressional Research Service, *Report for Congress*, July 18, 2007, pp. 7-8, at [www.us-asean.org/Cambodia/CRS\\_report\\_July07.pdf](http://www.us-asean.org/Cambodia/CRS_report_July07.pdf).

13. Freedom House, "Freedom in the World 2007," at [www.freedomhouse.org/template.cfm?page=366&year=2007](http://www.freedomhouse.org/template.cfm?page=366&year=2007).

ating poverty. Congress should not let these developing countries and American consumers and businesses lose out on the benefits that preferential market access would provide.

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