To: **Office of the U.S. Trade Representative**

From: **Women's Edge Coalition (contact: Katrin Kuhlmann, kkuhlmann@womensedge.org)**
Oxfam America (contact: Katherine Daniels, kdaniels@oxfamamerica.org)
German Marshall Fund of the United States (contact: Randall Soderquist, rsoderquist@gmfus.org)
Viji Rangaswami, Carnegie Endowment for International Peace (vrangaswami@ceip.org)

Re: **2006 GSP Eligibility and CNL Waiver Review**

Date: **September 5, 2006**

We write in response to the August 7, 2006 request for comments on the operation of the U.S. Generalized System of Preferences (GSP) program.[1] We agree with the general objective of the inquiry, which, as stated by U.S. Trade Representative (USTR) Susan Schwab in announcing the request for comments, is "for more countries to benefit from the program and use trade in support of their economic development."[2] As this submission will outline, we do not believe that revoking some or all of the GSP benefits currently available to the countries identified in the review ("review countries") would achieve USTR's stated objective. Our analysis, discussed in greater detail below, shows that non-GSP beneficiaries, including developed countries such as Canada and Japan, and large, industrialized developing countries like China, would likely be the primary beneficiaries of such a revocation. Moreover, many of the review countries are extremely poor, or, even where some economic development has occurred, still have very large desperately poor populations. Revocation of benefits is likely to have a serious detrimental development impact on the review countries, and particularly on vulnerable populations within them, such as women and low-skilled workers.

We structure our comments in five parts. First, we discuss the importance of trade to development, and preferences to trade. Second, we identify the primary impediments to broader use of GSP by developing countries. Third, we discuss the impact of revocation of benefits on the composition of suppliers to the U.S market, and on some of the review countries. Fourth, we discuss how revocation of GSP for the identified countries will hurt U.S. commercial interests. Fifth, we offer recommendations on how to most effectively help more developing countries, and in particular, least developed and low-income countries, benefit from GSP.

---

[1] Office of the United States Trade Representative, "Generalized System of Preferences (GSP): Initiation of Reviews and Request for Public Comments," 71 *Fed. Reg* 45079 (Aug. 8, 2006).
[2] *USTR Announces Review to Consider Withdrawing GSP Benefits for Certain Countries*, August 7, 2006, Office of the United States Trade Representative, www.ustr.gov/Document_Library/Press_Releases/2006.

I. Trade Contributes to Development, and Preferences Contribute to Trade

The concept of GSP is now more than four decades old – yet it is very modern in its outlook and very much complements the Administration's approach to promoting development. The rationale, as first articulated at the U.N. Conference on Trade and Development (UNCTAD) in 1964, is that the developed countries can most effectively promote economic growth and industrialization in developing countries through trade.[3]

This perspective is supported by literature showing that increased trade contributes to growth. This growth can occur through a number of channels. Most obviously, the opportunity for international trade gives firms and workers in developing countries access to more markets, including larger and wealthier markets. That access creates additional demand for developing country goods, which, in turn, creates new, much-needed opportunities for employment. Increased trade is also shown to stimulate a greater demand for investment, which, in turn, has a strong positive effect on increased growth.[4] In addition, increased trade is assumed to increase total factor productivity of an economy through channels such as improved access to new information and improved efficiency as developing country firms are exposed to global competition.

There is evidence that preference programs are achieving the intended result of promoting development. One study of U.S. preference programs from the 1980s shows that GSP beneficiary countries increased exports of products eligible for GSP treatment by about 8% annually.[5] A more recent analysis of U.S. preferences extended to countries in Central America under the Caribbean Basin Economic Recovery Act (CBERA) reveals two very positive impacts from that preference program. First, increased access to the U.S. market has had a significant positive impact on investment in Central America, which, in turn, has contributed to income growth in the region.[6] Second, preferences have played an important role in promoting export diversification.[7] A third finding – that the positive effect of preferences is heightened when beneficiary countries also liberalize – also underscores the potential of U.S. preference programs as a tool for development.[8] Notably, all U.S. preference programs include eligibility criteria aimed at promoting economic and legal reforms.

---

[3] For a brief history of GSP, see *Assessment of the Generalized System of Preferences*, General Accounting Office, Report 95-9 (November 1994), Chapter 1.
[4] See, Judith M. Dean, "Do Preferential Trade Agreements Promote Growth: An Evaluation of the Caribbean Basin Economic Recovery Act," USITC Office of Economics Working Paper, No. 2002-07-A (Washington, DC: USITC, July 2002).
[5] Samuel Laird and Andre Sapir, "Tariff Preferences," in *The Uruguay Round: A Handbook on Multilateral Trade Negotiations*, eds. Michael J. Finger and Andrzej Olechowski (Washington, DC: World Bank, 1987), cited in William H. Cooper, *Generalized System of Preferences*, CRS Report for Congress, (March 30, 2006).
[6] Dean, *supra* note 4, at 19.
[7] Dean, *supra* note 4, at 5.
[8] Dean, *supra* note 4, at 19.

II. Restrictions in the GSP Program Are the Real Impediment to Broader Use

Notwithstanding these positive results, preference programs, and, in particular, the U.S. GSP program, clearly have not had the full development impact desired. Many developing countries, and, in particular, poorer developing countries, export very little under GSP, as USTR and others have noted. This lack of utilization, however, is not due to larger or more developed GSP beneficiary countries monopolizing the benefits. Rather, it has happened because the current GSP program fails to cover the specific products that developing countries have a comparative advantage in producing. This lack of coverage is especially acute for less industrialized developing countries not included in any of the U.S. regional preference programs, such as the African Growth and Opportunity Act (AGOA) and the CBERA.

Exclusions under GSP primarily result from statutory mandates and from operation of the product approval process. With respect to statutory exclusions, paradoxically, the products excluded by statute include many products no longer produced in the United States, such as watches, certain glass products, and many types of footwear. They also include textiles and apparel and certain agricultural products – key products for many low-income and least developed countries. These are also sectors that tend to be dominated by vulnerable populations, including women and low-skilled workers – precisely the people preference programs should be designed to help.

With respect to the approval process, unlike some other U.S. preference programs, such as the Andean preference program, products are not automatically included as eligible under GSP – a petition must be filed for inclusion, which is then subject to a lengthy interagency review process. As a result, some products have not been included simply because developing country exporters have lacked the capacity to go through the petition process.

Table One illustrates the paucity of coverage under GSP, particularly for exports from the poorest developing countries. For example, Bangladesh has a per capita GDP of only $406, yet only 2% of Bangladeshi exports to the United States are eligible to receive GSP treatment. Nepal has a per capita GDP of only $252, yet only 5% of its exports to the United States qualify for GSP treatment. In fact, preference coverage for developing countries that are eligible only for GSP, and are not eligible for benefits under one of the regional preference programs, is, on average, only about 44%. Nearly half of the GSP-only countries have less than one third of their exports covered by the program.[9] Of the 15 LDCs eligible only under the GSP program, half have coverage rates near or below 25%,[10] even though the GSP-plus LDC program offers greater product coverage than the regular GSP program.

[9] Judith M. Dean and John Wainio, "Quantifying the Value of US Tariff Preferences," (January 2006), revision of a paper presented at *Preference Erosion: Impacts and Policy Responses*, WTO International Symposium, Geneva, June 12-14, 2005, at 10.
[10] *Id*. at 10.

Table One: GSP Coverage* of Non-Agricultural Imports from Select Beneficiary Countries, 2003

Country	GSP Coverage	2003 Share of Exports Receiving GSP Treatment (%)**	Per Capita GDP***
		Non-LDCs	
Egypt	3%	2.8%	$1085
Mongolia	1%	0.1%	$641
Pakistan	5%	3.6%	$632
Sri Lanka	7%	5.4%	$1033
Tunisia	20%	11.9%	$2838
		LDCs	
Afghanistan	27%	0.0%	n/a
Bangladesh	2%	1.5%	$406
Bhutan	22%	17.6%	$751
Cambodia	1%	0.3%	$354
Nepal	5%	3.0%	$252

*Ratio of imports eligible for GSP (or GSP-plus for LDCs) to total dutiable imports. GSP coverage data taken from Judith M. Dean and John Wainio, *Quantifying the Value of US Tariff Preferences*, (January 2006), revision of a paper presented at Preference Erosion: Impacts and Policy Responses, WTO International Symposium, Geneva, June 12-14, 2005, Table 2.
**Data from U.S. International Trade Commission Dataweb, available at www.usitc.gov.
*** World Bank data.

Beyond product exclusions, several other aspects of the GSP program impede its effectiveness in promoting trade with and development in less-industrialized developing countries. These impediments include:

- **Disincentives for long-term investment because of short extensions and frequent expirations of the program.** Over the last 12 years, GSP has been allowed to lapse periodically and has usually been renewed for periods of less than one year (the last renewal was an exception). This has greatly undermined the effectiveness of the program in promoting trade and investment in marginal, developing countries. Simply put, investors and importing firms attracted by the opportunity of preferences will not invest in or source from countries if the status of the preferences is in doubt. In contrast, where preferences are stable, trade and investment has flourished. For example, U.S. preferences for the Caribbean and Central American countries, which are permanent and have been in effect continuously since 1984, have had a significant impact on investment.[11]

- **Disincentives for long-term investment because of the competitiveness penalty.** Under the current GSP program, countries that enjoy export success to the United States risk losing their preferential access under the program's competitive needs limit (CNL). The CNL was put into place to help less

[11] Dean, *supra* note 4, at 5.

competitive GSP beneficiaries – once a country reached the CNL, it was assumed to be a competitive exporter, and revoking benefits was assumed to provide less competitive beneficiaries with the opportunity to export. Unfortunately, the CNL has not had that effect. Data show that the CNL causes imports of the affected goods to drop by 10 to 17%, with no shift of trade in favor of less developed/competitive producers.[12] Moreover, the CNL has an unintended effect of chilling investment in countries perceived as likely to exceed it. Investors appear reluctant to invest in certain sectors in marginal countries because they believe that as soon as their investment succeeds, they will no longer receive the preference.

- **Lack of focus on supply side constraints.** The Doha Round of WTO negotiations has rightly focused on the issue of whether developing countries have the capacity to capitalize on the market access opportunities provided by developed countries through multilateral trade negotiations. The same concern exists with respect to unilateral preference programs. U.S. preference programs, including GSP, have not adequately tied trade capacity building assistance to the types of market access opportunities provided.

III. Revocation of GSP Benefits Would Give Industrialized and Advanced Developing Countries an Economic Boost at the Expense of the Less Industrialized Countries

As stated out the outset, we do not believe that revoking some or all of the GSP benefits currently available to the review countries would achieve USTR's stated objective of redistributing benefits under the program to other developing countries. Moreover, such action could have a significant adverse impact on development in some of the review countries.

A. Revocation Would Benefit Industrialized and Advanced Developing Countries

We identified the top three GSP exports for seven of the countries listed in USTR's request for comments (Brazil, India, Indonesia, Philippines, South Africa, Thailand, and Turkey). We then identified the top ten country exporters of these products to the U.S. market. For almost all of the top GSP exports from these seven countries, the alternative suppliers are developed countries, other advanced developing countries that are not GSP beneficiaries, or one of the other countries identified in USTR's GSP notice. These trade patterns, shown in Table Two below, suggest that if these seven review countries lose benefits, it would be these other leading suppliers, not less-industrialized GSP beneficiary countries, which would gain.

[12] James Devault, "Competitive Need Limits and the U.S. GSP," Contemporary Economic Policy (Huntington Beach: Oct 1996), Vol.14, Iss. 4.

Table Two: Top GSP Imports from Countries Identified in USTR FR Notice and Alternative Suppliers			
Country	**Product (HTS 8 digit line)**	**Value (US$)**	**Top 10 Suppliers to US Market**
Brazil	Pts. & access. of mtr. vehicles of 8701, nesoi, and 8702-8705, brakes and servo-brakes & pts thereof (o/than mounted brake linings) (87083950)	223,671,557	Canada, Mexico, Japan, China, Brazil, Germany, South Korea, Italy, Taiwan, Australia
	Plywood of wood sheets, n/o 6 mm thick each, with outer plies of coniferous wood, with face play nesoi, not or clear surface covered (44121940)	140,991,971	Brazil, Canada, Chile, China, Paraguay, Mexico, Austria, Netherlands, Germany, Guyana
	Other parts, nesoi, suitable for use solely or principally with the machines in heading 8501 or 8502 (85030095)	131,170,736	Japan, Brazil, Mexico, Canada, Germany, China, Denmark, Taiwan, France, Netherlands
India	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal,nesoi (71131950)	1,594,212,535	India, China, Thailand, Italy, Hong Kong, Turkey, Mexico, Dominican Republic, France, Canada
	Monumental or building stone & arts. thereof, of granite, further worked than simply cut/sawn, nesoi (68029300)	74,615,304	Brazil, Italy, China, India, Canada, Taiwan, Spain, South Africa, Saudi Arabia, Argentina
	Pts. & access. of motor vehicles of 8701, nesoi, and 8702-8705, pts. for steering systems nesoi (87089973)	62,679,865	Japan, Canada, Mexico, Liechtenstein, Germany, South Korea, India, Brazil, Thailand, France
Indonesia	Still image video cameras (other than digital) and other video camera recorders (85254080)	83,626,632	Japan, Malaysia, Indonesia, China, South Korea, Singapore, Taiwan, Denmark, Thailand, Germany
	Polyethylene terephthalate in primary forms (39076000)	76,802,412	Mexico, Canada, China, South Korea, Indonesia, Thailand, India, Taiwan, Italy, Malaysia
	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal,nesoi (71131950)	69,926,309	India, China, Thailand, Italy, Hong Kong, Turkey, Mexico, Dominican Republic, France, Canada

Philippines	Insulated ignition wiring sets and other wiring sets of a kind used in vehicles, aircraft or ships (85443000)	148,275,001	Mexico, Philippines, Honduras, China, Nicaragua, Japan, Thailand, Indonesia, Canada, France
	Insulated electric conductors nesoi, for a voltage exceeding 80 V but not exceeding 1,000 V, fitted with connectors, nesoi (85445190)	62,673,427	Mexico, China, Philippines, Taiwan, Canada, Japan, Indonesia, Germany, Hong Kong, India
	Cane sugar, raw, in solid form, w/o added flavoring or coloring, subject to add. US 5 to Ch.17 (17011110)	56,386,002	Brazil, Dominican Republic, Philippines, Australia, Guatemala, Panama, Colombia, Argentina, El Salvador, Swaziland
South Africa	Aluminum alloy, plates/sheets/strip, w/thick. o/0.2mm, rectangular (incl. sq), not clad (76061230)	149,578,295	Canada, Germany, South Africa, Russia, Greece, Indonesia, Brazil, Romania, China, Austria
	Ferrochromium containing by weight more than 4 percent of carbon (72024100)	114,815,184	South Africa, Kazakhstan, Zimbabwe, Russia, Sweden, India, China
	Ferrosilicon manganese (72023000)	60,863,525	South Africa, Norway, Romania, Australia, Mexico, Russia, Georgia, South Korea, Spain, Canada
Thailand	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal,nesoi (71131950)	590,713,403	India, China, Thailand, Italy, Hong Kong, Turkey, Mexico, Dominican Republic, France, Canada
	Non-high definition color television reception app., nonprojection, w/CRT, video display diag. ov 35.56 cm, incorporating a VCR or player (85281228)	170,286,335	Malaysia, Thailand, China, Mexico, Hong Kong, Belgium, Taiwan, Japan, United Kingdom, Israel
	Sacks and bags (including cones) for the conveyance or packing of goods, of polymers of ethylene (39232100)	129,498,353	Canada, China, Thailand, Taiwan, Mexico, Indonesia, South Korea, Malaysia, Vietnam, Hong Kong

Turkey	Precious metal (o/than silver) articles of jewelry and parts thereof, whether or not plated or clad with precious metal,nesoi (71131950)	279,853,191	India, China, Thailand, Italy, Hong Kong, Turkey, Mexico, Dominican Republic, France, Canada
	Gold necklaces and neck chains (o/than of rope or mixed links) (71131929)	103,992,130	Italy, Turkey, Croatia, Israel, India, France, Thailand, Peru, China, Dominican Republic
	Refined copper, wire, w/maximum cross-sectional dimension of 6 mm or less (74081900)	37,421,045	Turkey, Brazil, Germany, France, United Kingdom, Austria, Japan, China, Peru, Taiwan

As shown in Table 2, the top GSP export from Brazil is certain automotive parts classified under HTSUS 87083950. The other top suppliers to the U.S. market for that tariff classification are Canada, Mexico, Japan, China, Germany, South Korea, Italy, Taiwan and Australia. Of these exporters, Canada, Mexico, and Australia have duty-free access to the U.S. market under U.S. free trade agreements (FTAs). South Korea is likely to enjoy similar access soon. In light of both the heavy concentration of developed country exporters and the significant number of exporters that are party to a U.S. FTA, it would be highly improbable that a LDC or low-income developing country would be able to break into the U.S. market, even with revocation of Brazil's GSP benefits.

Similar trade patterns exist for Indonesia's leading GSP export – video cameras classified under HTSUS 85254080. The leading exporters to the U.S. market are Japan, Malaysia, China, South Korea, Singapore, Taiwan, Denmark, Thailand and Germany. The high concentration of developed country and advanced developing country exporters suggests that it would be very difficult for an LDC or low-income country to enter the U.S. market.

In some instances, importers have already indicated that they will switch sourcing from a GSP beneficiary to a non-GSP beneficiary if benefits are revoked. The best example is for India and Thailand's leading GSP export – entry-level fine jewelry classified under HTSUS 71131950 (e.g., gold jewelry available at Wal-Mart, JC Penney, etc.). The other leading exporter to the U.S. market of jewelry falling under this classification is China. Leading U.S. importers of this type of jewelry state that they intend to source from China if India or Thailand lose GSP benefits, because, according to them, China has the immediate capacity to produce what they need at a highly competitive price.[13] When asked whether they would consider sourcing from other GSP beneficiaries, including countries that currently do not export this type of jewelry, the importers said no, due to the uncertainty of training a new workforce.[14]

[13] From authors' conversations with leading industry importers. Notes on file with authors.
[14] *Id*.

B. Revocation Could Hurt the Poor

Revocation of benefits for the review countries would be at odds with past U.S. practice under the GSP programs. In contrast to countries that have been graduated from GSP in the past, many of the review countries have very large poor populations, and low per capita GDPs. Moreover, the leading GSP exports discussed are produced by the types of industries GSP was intended to support – industries that require a skilled workforce and that foster the development of related industries and services.

1. Revocation Would Not Be Consistent with Past Practice

The U.S. Government appears to have revoked GSP benefits for beneficiary countries primarily under three circumstances. First, GSP benefits have been terminated when a country has exceeded the per capita income threshold (as measured by World Bank statistics), triggering graduation from the program.[15] Second, benefits have been revoked when a country has maintained practices clearly inconsistent with the statute's eligibility requirements, such as inadequate protection and enforcement of intellectual property[16] or weak observance of worker's rights.[17] Third, countries have lost GSP benefits when they extended preferential trade terms to non-U.S. trading partners, a provision recently invoked when several countries acceded to the European Union.[18]

Only in very few cases has revocation been based on the conclusion that a country is well on the road to economic development. However, in those few cases, which involved Hong Kong, the Republic of Korea, Singapore, Taiwan,[19] and Malaysia, [20] the circumstances justifying revocation were very different from the situation at hand. For

[15] Section 504 of the U.S. Trade Act of 1974, as amended, establishes the legal criterion for per capita income graduation. This provision has been applied in seventeen cases. For example, Antigua and Barbuda, Bahrain, and Barbados were determined to have achieved "high income" status and were graduated from the GSP program on January 1, 2006. *See* "The U.S. Generalized System of Preferences Program: An Update," prepared for the Coalition for GSP by the Trade Partnership, March 2006, www.tradepartnership.com.

[16] *See, e.g.,* Ukraine, Office of the United States Trade Representative, "Determination of Action to Suspend GSP Benefits Under Section 301 (b)," 66 *Fed. Reg.* 42246 (Aug. 10, 2001).

[17] Because of labor rights violations, a total of thirteen countries have been suspended from GSP beneficiary status: Romania (1987), Nicaragua (1987), Paraguay (1987), Chile (1987), Burma (1989), Central African Republic (1989), Liberia (1990), Sudan (1991), Syria (1992), Mauritania (1993), Maldives (1995), Pakistan (1996), and Belarus (2000). *See* "The U.S. Generalized System of Preferences Program: An Update," prepared for the Coalition for GSP by the Trade Partnership, March 2006, www.tradepartnership.com.

[18] In May 2004, GSP benefits were terminated for the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovenia. Office of the United States Trade Representative, Generalized System of Preferences (GSP): Termination of Countries Joining the European Union From Eligibility as a GSP Beneficiary Country," 69 Fed. Reg. 28185 (May, 18, 2004).

[19] Hong Kong, the Republic of Korea, Singapore, and Taiwan were graduated from the GSP program on January 2, 1989. *Statement by Assistant to the President for Press Relations Fitzwater on Amendments to the Generalized System of Preferences Program*, January 29, 1988, www.presidency.ucsb.edu/ws.

[20] Malaysia was graduated from the GSP program on January 1, 1997. *Proclamation 6942: To Amend the Generalized System of Preferences*, October 17, 1996, www.presidency.ucsb.edu/ws.

example, when Hong Kong's GSP benefits were terminated in 1989, Hong Kong had per capita GDP, as adjusted for inflation, of $13,767.[21] Singapore's per capita GDP in 1997, also adjusted for inflation was $12,204.[22] These per capita GDPs are much higher than the per capita GDPs in many of the review countries. For example, India has per capita GDP of $620 and a population of 855.6 million poor living on less than $2 a day.[23]

Admittedly, South Korea did have a relatively low GDP at the time of its graduation in 1989. However, South Korea is distinguishable on other grounds. At the time of graduation, South Korea had already transitioned from an agriculture-based economy to a manufacturing based economy, with only around one third of its workforce engaged in farming. South Korea also had experienced significant, consistent economic growth for a number of years. In fact, for the prior three years before graduation, the South Korean economy was growing at an average of 12% per year, and the South Korean government projected that per capita GDP would double within ten years.[24] Those statistics stand in sharp contrast to the review countries. In India, for example, the majority of its working population continues to engage in farming, much of which is on small, subsistence plots. India also has much lower levels of projected economic growth and a significantly lower per capita GDP.[25]

2. <u>Revocation Hurts Sectors Important to Development</u>

The industries that rank among the top GSP exports for many of the review countries are also significant in terms of development patterns. Many of industries supported by GSP in these countries have helped create large numbers of jobs, fostered a skilled workforce, and have supported the development of related industries and services.

For example, as shown in Table Two, electronic products are a significant GSP export for Indonesia, Philippines and Thailand. The electronics industry is credited with helping spur development in Asia for four related reasons.[26] First, and most obviously, the industry has attracted needed investment and generated jobs. In Thailand, for example, the electronics industry has created approximately 300,000 new jobs, including in rural areas.[27] Second, because of the skills required, the industry has helped promote the development of a more skilled labor force and has contributed to improvements in

---

[21] World Bank, *World Development Indicators*, 2006, publications.worldbank.org/subscriptions/WDI/SMReslt.asp.
[22] *Id*.
[23] *Id*.
[24] *South Korea: A Country Study*. Federal Research Division, Library of Congress, 1992. Andrea Matles Savada and William Shaw, eds., pgs. 193-195, *Trends in Developing Economies 1990*. The World Bank, October 1990, pgs. 299 to 303.
[25] *Supra*, note 21.
[26] UNCTAD. "Strengthening Participation of Developing Countries in Dynamic and New Sectors of World Trade: Trends, Issues and Policies in the Electronics Sector," September 28, 2005. UNCTAD/TD/B/COM.1/EM.28/2, www.unctad.org/en/docs/c lem28d_en.pdf
[27] UNCTAD, "A Case Study of the Electronics Industry in Thailand," 2005. UNCTAD/ITE/IPC/1005/06, http://www.unctad.org/en/docs/iteipc20056_en.pdf.

labor productivity.[28] Third, the sector has led to advances in technology and innovation. Fourth, the industry has attracted and spurred the development of related services industries.[29] In fact, in the Philippines the electronics manufacturing sector has been one of the few sectors to generate economic growth.[30]

Jewelry-making is another important GSP sector that is helping to contribute to development in India, Indonesia, Thailand and Turkey. In India, for example, industry experts estimate that the export-oriented jewelry making industry has created 400,000 jobs since GSP benefits were extended in 2001.[31] Forty percent of these workers are women, and many of the workers come from the countryside, where they likely were involved in subsistence farming. The export-oriented jewelry industry also helps support an estimate 600,000 related workers involved in gem cutting and finishing. While the gem cutting industry existed prior to the development of the export-oriented jewelry industry (and in fact, was one of the reasons the new industry could be so quickly established), the gem industry has flourished and expanded as the new industry has taken root. Industry experts say there would likely be a contraction in that related industry if GSP benefits are revoked. It is important to note that many of these businesses are family owned, and a number of the workers do not possess the skills to transfer to another industry.

IV. Revocation of GSP Benefits Will Hurt U.S. Commercial Interests

A. Eligibility Criteria Promote U.S. Interests

Since the GSP program was created, it has served as an important U.S. policy tool to encourage economic reforms in GSP beneficiary countries. The mandatory and discretionary criteria in the statute, such as the requirement that countries adequately and effectively protect intellectual property (IP) and the requirement that workers' rights be protected, have served as important leverage to bring about legal reform in GSP beneficiary countries, to the benefit of U.S. businesses and workers, as well as to the beneficiary countries. That leverage will be lost if GSP benefits are revoked for the review countries, many of which are key markets for U.S. firms.

The IP provisions of the GSP program have been particularly important to upholding U.S. commercial interests, such as addressing counterfeiting and enforcement of copyright laws. Several notable examples of how the IP provisions in the GSP statute have been used to address legal deficiencies and rampant copyright piracy exist within the group of review countries, namely India, whose benefits were revoked and then

[28] *See* Sidney F. Heath III, "Lessons from the Evolution of Electronics Manufacturing Technologies" from Marshaling Technology for Development: Proceedings of a Symposium, 1995.
[29] OECD Development Centre, "Striving for International Competitiveness: Lessons from Electronics for Developing Countries," Jan Maarten de Vet, OECD Working Paper No. 84.
[30] International Bank for Reconstruction and Development and the International Finance Corporation. "Country Assistance Strategy for the Republic of the Philippines," April 19, 2005. http://siteresources.worldbank.org/INTPHILLIPINES/resources/PHILCASMAIN_noannexes.pdf.
[31] From authors' conversations with leading industry importers. Notes on file with authors.

restored in 2005, and Brazil and Kazakhstan, both of which made significant improvements to their copyright regimes in response to pending GSP cases.

Numerous examples of the effectiveness of GSP's requirement for adequate and effective IP enforcement also exist aside from the review countries. After losing GSP benefits in 2001, Ukraine implemented measures to fight widespread copyright and trademark piracy.[32] Recently, USTR, in response to a petition filed by U.S. industry to revoke Pakistan's GSP benefits due to IP violations, used GSP eligibility to obtain significant improvements to Pakistan's IP regime.[33]

IP is just one example of eligibility criteria that have promoted reform in beneficiary countries. Other eligibility criteria on protection of workers rights, investor's rights, and affording equitable access to U.S. goods and services have also provided leverage in achieving positive change in beneficiary countries.

B. <u>U.S. Firms Benefit from Use of GSP Products</u>

In addition to promoting better trade practices in beneficiary countries through the statutory criteria, GSP helps many U.S. businesses, including many small and large U.S. importers and retailers, which use GSP imports. In particular, U.S. firms use GSP imports to lower their cost of doing business. In fact, GSP is estimated to have saved U.S. businesses $923 million in 2005.

For example, GSP has been the key to success of a number of smaller companies that import fertilizer and herbicides for farmers and households.[34] It is also the key to the sourcing strategies for a number of nationwide U.S. retailers of household wares. GSP also supports U.S. jobs in a wide variety of U.S. manufacturing industries that use inputs imported under GSP as a way to reduce their manufacturing costs. For example, a major U.S. electronics manufacturer uses GSP-eligible speaker parts at one of its U.S. facilities.[35]

C. <u>GSP Serves Other U.S. Interests</u>

In addition to its economic benefits, GSP serves other important U.S. foreign policy goals, such as the promotion of U.S. security. President Bush has argued that the United States is seeking economic progress in the developing world because

> our interests are directly at stake . . . . The ultimate answer to [the threat of terrorism] is to encourage prosperous, democratic, and lawful societies that join us in overcoming

---

32 "USTR Reinstates GSP benefits for Ukraine," January 1, 2006. *See* www.ustr.gov/Document_Library/Press_Releases/2006/January.

33 "USTR Ends Review of Pakistan's Protection of Intellectual Property Rights," January 24, 2006. *See* www.ustr.gov/Document_Library/Press_Releases/2006/January.

34 "The U.S. Generalized System of Preferences Program: An Update," prepared for the Coalition for GSP by the Trade Partnership, March 2006, www.tradepartnership.com.

35 *Id.*

> the forces of terror . . . . It is trade that provides the engine for development.[36]

Because GSP is an important economic tool to countries that are central to U.S. security interests, the GSP program plays a large role in U.S. economic and political policy. In the case of the identified countries, this is particularly true with respect to Indonesia and the Philippines.[37] GSP has also provided an effective means to promote economic growth and minimize political and economic upheaval in the face of natural disaster, such as the Asian tsunami in December 2004, and war.[38]

V. Five Changes to Broaden the Benefits of GSP

We reiterate our strong support of the objective of promoting international economic development through the U.S. GSP program and other preference programs. In order to achieve the objective of broadening use of GSP, and, based on the restrictions outlined in Section II, we propose that USTR, working with Congress, reform the GSP program to include the following:

- **Broaden the benefits of GSP for LDCs and low-income and other economically vulnerable countries by providing 100% duty-free access for all exports.**

- **Make GSP permanent.**

- **Use a negative list product designation so that preferential market access is granted without a petition process, as under the Andean preference program.**

- **Eliminate the competitive need limit, which creates a glass ceiling for competitive GSP beneficiaries and often acts to discourage investment.**

- **Provide targeted trade capacity building, including through programs designed to address infrastructure gaps, financing shortfalls, beneficiary government policies that impede development, and corruption.**

---

[36] "President Discusses G8 Summit, Progress in Africa," June 30, 2005. *See* www.whitehouse.gov/news/releases/2005/06/20050630.html.

[37] One of the few countries to have ratified all 12 UN Conventions on Counterrorism, the Philippines was designated as a major non-NATO ally by the United States in October 2003. "Background Note: Philippines." U.S. Department of State, Bureau of East Asian and Pacific Affairs, September 2005. *See* www.state.gov/r/pa/ei/bgn/2794.htm.

[38] "U.S. Extends Trade Benefits to Tsunami-hit Countries and Iraq," June 30, 2005. *See* www.ustr.gov/Document_Library/Press_Releases/2005/June.