



Ideas Changing the World

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Trade Issues

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The U.S. Generalized System of Preferences: Helping the Poor, But at What Price?

Since the mid-1970s, the U.S. government has maintained programs to benefit certain developing countries and aid their development through preferential access to the U.S. market. American companies can import products from beneficiary countries (i.e., those eligible for the special treatment afforded by the programs) at a lower or zero rate of import duty. Making goods from beneficiary countries cheaper to import than those from noneligible countries creates an incentive to buy from those countries covered by the program, says Sallie James, a policy analyst with the Cato Institute's Center for Trade Policy Studies.

The largest of these unilateral trade preference programs, the Generalized System of Preferences (GSP), expires on December 31, 2010, so Congress must pass legislation to renew it before the end of the legislative year.

Congress must consider the significant costs of unilateral preference programs -- to the preference recipients themselves, to excluded developing countries and to the world trading system in general.

- Product exclusions, import limits that are triggered just when an exporter becomes successful, outdated eligibility criteria, and complex administrative and customs requirements all serve to limit the usefulness of the program to the ostensible beneficiaries and to U.S. consumers.
- Trade preferences distort markets and discourage unilateral and multilateral trade liberalization.
- When beneficiary countries concentrate their efforts in preserving their preferential access rather than becoming competitive, it undermines efforts for multilateral trade liberalization and keeps them beholden to artificial arrangements and the whims of rich-country politicians.

The United States should not abandon its efforts to bring down global trade barriers through multilateral trade talks. In the meantime, however, unilateral reform is within

reach. The expiration of the GSP at the end of 2010 provides an opportunity for the United States to correct the most egregious of the GSP's limitations and move toward opening the U.S. market on a permanent and nondiscriminatory basis, says James.

Source: Sallie James, "The U.S. Generalized System of Preferences: Helping the Poor, But at What Price?" Cato Institute, November 16, 2010.

For text:

<http://www.cato.org/pubs/tpa/tpa-043.pdf>

For more on Trade Issues:

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