

No, No They Can't Take That Away From Me: Why WTO Members Are More Likely to Use the Generalized System of Preferences

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Motivation

- GSP, while ostensibly free, is not fully used by developing country exporters. Why?



Conventional Wisdom

- GSP use increases with the preference margin

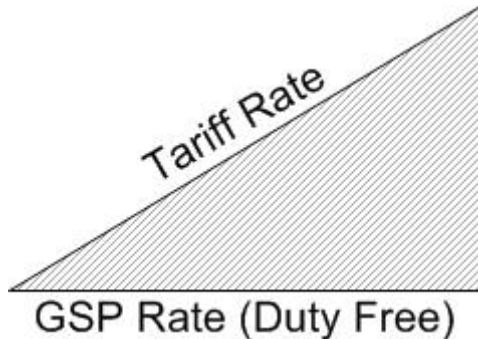


Figure 1: Illustration of the preference margin



Conventional Wisdom

- Exporters shoulder meaningful administrative costs, which depress GSP use.
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 - Documentation and tracking



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 - Documentation and tracking
 - Shipping and routing



Argument

- The conventional wisdom misses a key political factor: U.S. conditionality.

(2) Other bases for ineligibility

The President shall not designate any country a beneficiary developing country under this subchapter if any of the following applies:

(A) Such country is a Communist country, unless—

(i) the products of such country receive nondiscriminatory treatment,

(ii) such country is a WTO Member (as such term is defined in section 3501(10) of this title) and a member of the International Monetary Fund, and

(iii) such country is not dominated or controlled by international communism.

(B) Such country is a party to an arrangement of countries and participates in any action pursuant to such arrangement, the effect of which is—

(i) to withhold supplies of vital commodity resources from international trade or to raise the price of such commodities to an unreasonable level, and

(ii) to cause serious disruption of the world economy.

(C) Such country affords preferential treatment to the products of a developed



Figure 2: Portion of GSP eligibility requirements

Argument

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- India: “There is an attempt to give concessions under their GSP scheme...This is a violation of the Enabling Clause.”
- Cuba, DR, and Honduras: “Preference-giving countries shall not subject preferential market access to conditionalities...in order to comply fully with the provisions of the Enabling Clause.”



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- Trade agreements, including GSP, influence state behavior (Hafner-Burton 2013; Lim, Mosley, and Prakash 2015; Kelley 2007; Sykes 1992)



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- We estimate the cost of this influence



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 - The Enabling Clause provides cover for WTO members on GSP, but it does not apply to non-members.
 - The WTO ruled that GSP grantor states must “ensure that equal treatment is available to all similarly-situated beneficiary countries.”

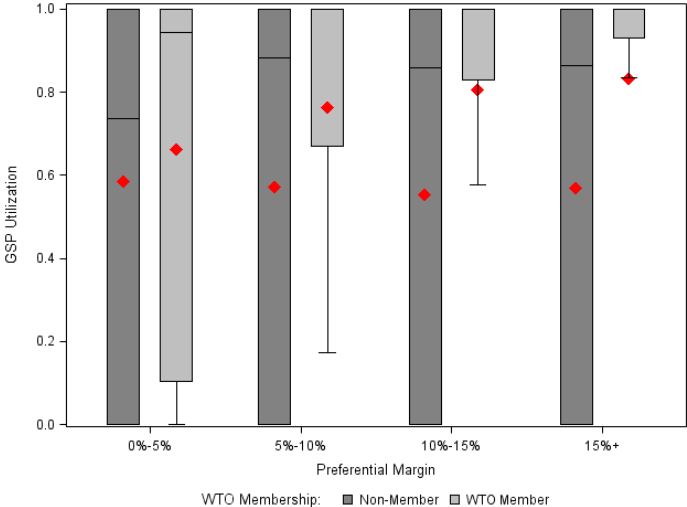


Data

Figure 3: USITC year-country-product import data (1997-2011)

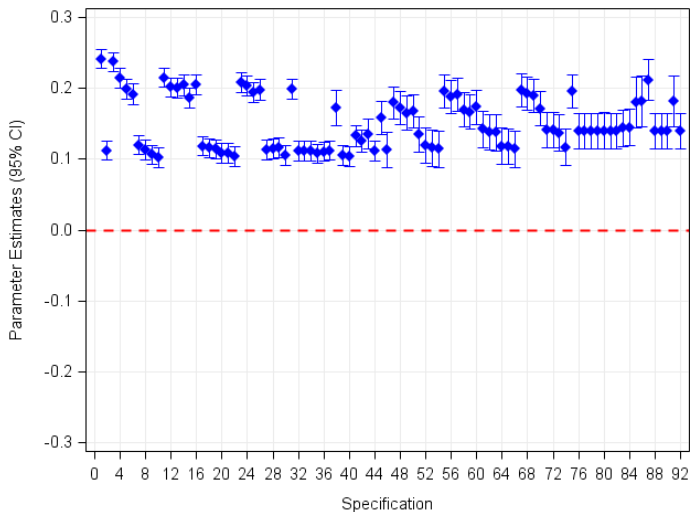


Figure 4: GSP use by WTO membership and preference margin



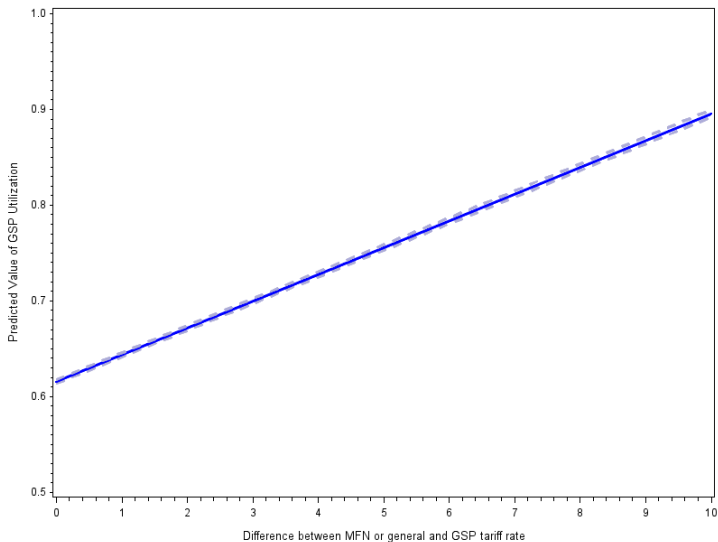
Results

Figure 5: Exporters in WTO member states are more likely to use GSP



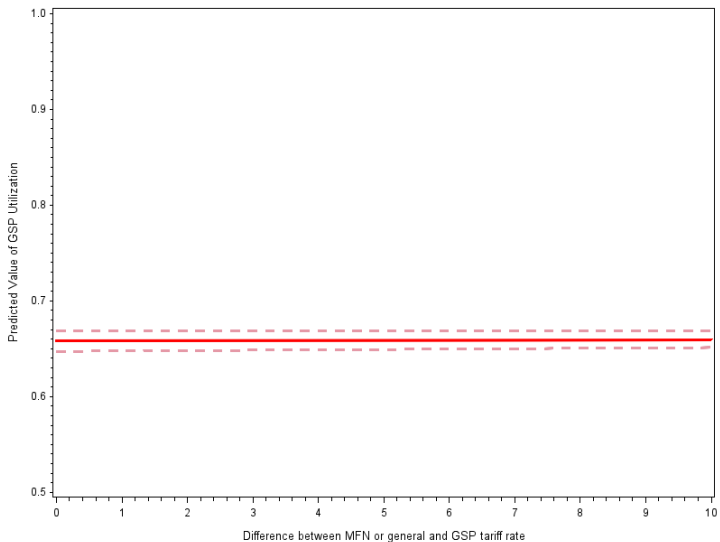
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Figure 6: WTO members are sensitive to the preference margin



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Figure 7: Non-members cannot be enticed by better margins



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- Issue linkage of GSP conditionality is similar to other trade agreements (Hafner-Burton 2013; Lim, Mosley, and Prakash 2015).
- Conditionality has consequences for developing country exporters, limiting the usefulness of the GSP.



Questions?

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