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U.S. Trade with Developing Countries: Trends, Prospects, and Policy Implications

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March 28, 2007

Abstract. This report examines the role that developing countries are playing in trading with the United States.

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U.S. Trade with Developing Countries: Trends, Prospects, and Policy Implications

March 28, 2007

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Prepared for Members and
Committees of Congress

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Summary

Developing countries, a heterogeneous group of low- and middle-income countries, have become an increasingly significant factor in U.S. trade flows and trade policy over the last two or more decades. Their influence is reflected in the issues on the trade agenda of the 110th Congress: the possible renewal of fast track trade authority/Trade Promotion Authority; implementing legislation for free trade agreements; re-authorization of trade adjustment assistance (TAA) for workers and firms; review and possible re-authorization of Generalized System of Preferences and other trade preference programs; and oversight of the Doha Development Agenda (DDA) round negotiations in the WTO.

The growth of developing countries' economies and foreign trade presents the United States with opportunities and challenges. The imports from many developing economies provide U.S. consumers with an ever widening range of choices of products at lower prices, raising real incomes and contributing to a higher U.S. standard of living. A number of the developing countries have also become robust markets for U.S. exports because of rapid economic growth and trade liberalization.

At the same time, many U.S. workers are competing with an expanding pool of lower-wage labor from India, China, and other developing countries. Such competition induces U.S.-based firms to reduce costs by using labor-saving technology, moving production offshore, or shutting down, forcing workers to adjust. Even workers in the high-end services sector are feeling the pressures of competition from some developing countries.

Trade with developing countries also raises a set of virtually unique issues regarding labor rights, environment protection, intellectual property rights, among others, that have become fixtures on the U.S. trade agenda. At the same time, developing countries are challenging U.S. policies on trade remedies, high tariffs on wearing apparel and other import-sensitive products, pricing of medicines, and the temporary entry of foreign workers.

If current trade trends hold, developing countries can be expected to account for increasing shares of U.S. exports and imports and for world trade. As a result, these opportunities and challenges will likely continue, if not expand.

The analysis of U.S. trade trends also exposes a significant divide among groups of developing countries. Some countries, such as China, South Korea, Mexico and Chile, have made great strides and, are expanding their role in U.S. and world trade. Others including most of Africa, many in South Asia, and some in Latin America, lag behind or are losing shares of U.S. and world trade. These differences suggest that effective U.S. trade policy may need to differentiate among the various groups of developing countries. These differences could play a role in how the United States proceeds on trade preferences, regional and bilateral trade agreements, and multilateral negotiations in the WTO. This report will be updated as events warrant.

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U.S. Trade with Developing Countries: Trends, Prospects, and Policy Implications

"Developing Countries," a heterogeneous group of low- and medium-income economies, are making an increasingly strong impact on U.S. foreign trade and investment and world trade. This impact is both economic and political and is likely to increase. Developing countries have been shaping U.S. trade patterns, trade policy priorities and policies. They are re-shaping the international trading system, asserting greater influence at bilateral and multilateral trade negotiations, and challenging the United States and other developed countries to reappraise long-held policies. At the same time, developing countries' advancement on the international trade stage has forced them to confront the challenges of international competition and the responsibilities that come with membership in the international trade community: Developed countries are demanding that developing countries jettison economic policies that protect domestic markets for local producers and workers.

The growing role of some developing countries in U.S. and world trade raises sensitive policy issues for Members of Congress as they consider legislation to implement trade agreements, to monitor Administration enforcement of agreements and of trade laws, and to develop policies. Many of the U.S. free trade agreements (FTAs) in place or that are under negotiation are with developing countries. Furthermore, the United States has been engaged with the other 149 members of the World Trade Organization (WTO) in the Doha Development Agenda (DDA) round of negotiations. The vast majority of the WTO members are developing countries who are using the strength of their large numbers to influence the agenda and the pace of the negotiations. The DDA negotiations are now indefinitely stalled because of, among other reasons, conflicts between developed and developing countries on agricultural trade.

Congressional interests and the congressional legislative agenda are filled with issues pertaining to trade with developing countries. The U.S. Generalized System of Preferences (GSP) program and other trade preference programs are subject to periodic reviews and renewals. Some Members of Congress have suggested that the Congress needs to re-examine the rationale for these programs and their eligibility criteria in light of the rapid economic advancements that some developing countries have made. In addition, the Congress has recently considered and passed legislation implementing FTAs with developing countries and will probably consider a number of others in the near future. Congressional debate and final action over these measures will likely be influenced by the perception of the role that developing countries play in U.S. trade.

The purpose of this report is to assist the Congress in assessing and developing U.S. foreign trade and economic policies by examining the role that developing

countries are playing in trading with the United States. The report will be updated as determined by events.

Developing Countries and Their Role in U.S. and World Trade

The category "developing countries" includes economies representing many levels of economic development. However, they share one important quality: they are generally technology receivers rather than technology innovators, and so their economies still have room to "catch up" with industrialized countries through the increased application of technology-based production. Some of the developing countries have been more successful in "catching up" than others, leading to wide gaps in economic welfare among them. For the purposes of this report, developing countries include all countries except Australia, New Zealand, Europe, Japan, Canada, and the United States. The term also excludes the former Soviet republics and the former communist states in Central and Eastern Europe.[1]

Trends in Developing Countries Trade with the United States

Developing countries have accounted for growing shares of U.S. exports and imports of goods over a 20-year span. Data presented in the table below (**Table 1**) illustrate this trend.

[1] Even though many of them would fall under the definition, they are excluded to maintain analytical consistency over a time period that stretches across the Cold War and post Cold War periods. In addition, the impact of these countries on international trade and investment remains minimal at this time.

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Table 1. Share of U.S. Exports and Imports, 1985-2006

(percentages)

Country Group	1985		1995		2000		2006	
	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp
Developing Countries of which:	32.8	34.5	44.5	44.2	44.5	49.0	47.0	54.7
Asia of which:	12.6	16.4	23.4	26.9	20.3	28.1	23.7	32.5
NIEs	7.5	11.3	12.7	11.0	10.8	9.2	9.4	5.9
ASEAN	3.6	4.3	6.8	8.4	6.0	7.2	5.5	6.0
China	1.8	1.1	2.0	6.1	2.0	8.2	5.3	15.5
India	0.8	0.7	0.6	0.8	0.5	0.9	1.0	1.2
Latin America of which:	14.0	13.6	16.5	14.0	21.8	17.2	21.5	17.9
Mexico	6.2	5.5	7.9	8.4	14.2	11.1	12.9	10.7
Africa of which:	3.1	3.5	1.7	2.1	1.4	2.3	1.8	4.4
Sub-Saharan Africa	1.7	2.8	0.9	1.7	0.9	1.9	1.2	3.2
LDCs	1.1	0.8	0.4	0.6	0.4	0.9	0.6	1.3
OPEC	5.0	5.9	3.3	4.5	2.5	5.5	3.9	7.9

Source: CRS calculations using U.S. Department of Commerce data.

From 1985 to 2006, developing countries accounted for an increasing share of U.S. exports, 32.8% in 1985 versus 47.0% in 2006. Similarly, developing countries are becoming more significant as sources of U.S. imports. Developing countries accounted for 34.5% of U.S. imports in 1985 and 54.7% of U.S. imports in 2006.

However, the data clearly show that the trends are not consistent across developing country sub-groups. For example, Asian developing countries (all Asian countries except Japan) have accounted for much of the growth. They increased their share of U.S. exports from 12.6% in 1985 to 23.7% in 2006, and their share of U.S. imports rose from 16.4% in 1985 to 32.5% in 2006. Until recently, the four so-called East Asian Newly-Industrialized Economies (NIEs) (Hong Kong, South Korea, Singapore, and Taiwan) had been an important contributor to this growth, but their influence is declining. They accounted for 7.5% of U.S. exports and 11.3% of U.S. imports in 1985, and 9.4 % of U.S. exports and 5.9% of U.S. imports in 2006. The shares of U.S. trade accounted for by the 10 members of ASEAN were growing in

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the 1980s and early 1990s but are also in decline.[2] Their shares of U.S. exports had been as high as 6.8% and of imports as high as 8.4% in 1995. They declined to 5.5% of exports and 6.0% of imports in 2006.

Among East Asian economies and developing economies in general, China has made by far the most significant impact on U.S. trade during the last twenty years. It accounted for 1.8% of U.S. exports in 1985 and 5.3% in 2006 for 1.1% of U.S. imports in 1985 and 15.5% in 2006. The trends suggest that the patterns of U.S. trade with East Asia are shifting from the East Asian NIEs and ASEAN to China.

India, a huge Asian economy, accounts for only a small part of U.S. trade (0.9% of U.S. exports and 1.1% of U.S. imports), a level of shares that has not changed appreciably over the past two decades.

Latin America has also increased in importance, accounting for 14.0% of U.S. exports in 1985 and 21.5% in 2006, and for 13.6% of U.S. imports in 1985, increasing to 17.9% in 2006. However, the shift is largely the result of Mexico's surge as a U.S. trade partner. In 1985, 6.2% of U.S. exports went to Mexico, a share that rose to 12.9% in 2006. Similarly, the share of U.S. imports coming from Mexico increased from 5.5% in 1985 to 10.7% in 2006.

Among the regional groups, the African countries, particularly those of sub-Saharan Africa, have largely stagnated in importance as U.S. trading partners. In 1985, U.S. exports to sub-Saharan Africa accounted for 1.7% of total U.S. exports in 1985 and for 1.2% in 2006. In 1985, U.S. imports from the sub-Saharan African countries increased modestly as a share of total U.S. imports from 2.8% in 1985 to 3.2% in 2006. However, 81% of U.S. imports from Sub-Saharan Africa is oil mostly from Nigeria and Angola.

The United Nations identifies 50 countries as the poorest countries or "least-developed countries" (LDCs). This group, many of them located in Africa, have consistently accounted for very small shares of U.S. trade. In 1985 they accounted for 1.1% of U.S. exports and 0.8% of U.S. imports, and in 2005 for 0.6% of U.S. exports and 1.3% of U.S. imports. The members of the Organization of Petroleum Exporting Countries (OPEC) are another important subcategory of developing countries. Their shares of U.S. trade have remained fairly constant, with shares of U.S. imports reaching a high of 7.9% in 2006 but largely dependent on world oil prices. Their share of U.S. exports declined from 5.0% in 1985 to 3.9% in 2006.

U.S. exports to developing countries are dispersed over a range of product categories, primarily manufactured goods: electronic products, computers and components, and autos and parts. For agricultural exporters, developing countries are a significant market. In 2006, they bought 56% of total U.S. agricultural exports.

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[2] The members of ASEAN (Association of Southeast Asian Nations) are: Brunei, Cambodia, Indonesia, Laos, Malaysia, Myanmar (Burma), Philippines, Singapore, Thailand, and Vietnam.

The leading U.S. imports from developing countries are crude oil, electrical machinery and computers and components.[3]

The product composition of U.S. trade changes somewhat depending on the subgroup of developing countries. In 2006, more than 60% of U.S. imports from the LDCs were oil (more than 70% came from Angola). Other leading U.S. imports from the LDCs consisted of textiles and apparel, with agricultural products and natural resources much further behind. In contrast, more than 90% of U.S. imports from the more advanced newly industrializing economies of East Asia consisted of more technology-advanced products, such as electrical machinery, other machinery, and cars.[4] The trade patterns between the United States and the advanced-developing countries suggest intra-industry trade and trade where the developing countries are part of a international production supply chain.

Developing countries have not made the same inroads in terms of U.S. foreign investment as they have U.S. trade. In 2005 (latest data available), 72% of U.S. foreign direct investment went to Australia, Canada, Europe, and Japan. The Latin American countries accounted for 8%, the Middle East for 1%, and Asia for 9%. Developing countries are even a much less important source of foreign direct investment in the United States (FDIUS). In 2005, Europe, Canada, Japan, and Australia accounted for 93% of these investments. The developing countries of Asia account for 1% and other developing countries and some Carribean islands accounted for the remainder.[5]

Developing Countries and World Trade

Developing country trends in trade with the United States are mirrored in the trends of their trade with the world as a whole.

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[3] Calculations based on U.S. Department of Commerce data.

[4] Calculations based on data from the U.S. Department of Commerce.

[5] CRS calculations based on data from the Bureau of Economic Analysis.

Table 2. Share of World Exports and Imports, 1985-2004
(percentages)

Country Group	1985		1995		2000		2004	
	Exp	Imp	Exp	Imp	Exp	Imp	Exp	Imp
Developing Countries of which:	25.4	23.2	27.6	28.8	31.6	28.7	33.5	30.4
Asia of which:	15.6	15.1	21.0	21.4	23.8	20.8	25.8	23.5
NIEs	5.8	5.3	10.2	10.6	10.3	9.8	9.7	9.0
China	1.4	2.1	2.9	2.5	3.9	3.4	6.4	6.1
ASEAN	3.7	3.3	6.2	6.8	6.7	5.6	6.1	5.4
India	0.5	0.8	0.6	0.7	0.7	0.8	0.8	1.0
Latin America of which:	4.9	3.3	4.0	4.1	5.1	5.1	4.8	4.0
Mexico	1.4	0.9	1.5	1.5	2.6	2.8	2.1	2.1
Africa of which:	4.2	3.7	2.2	2.5	2.3	2.0	2.5	2.2
Sub-Saharan Africa	2.6	2.1	1.5	1.6	1.5	1.3	1.6	1.4
LDCs	0.7	1.0	0.5	0.7	0.6	0.7	0.6	0.7
Major Oil Exporters	8.8	5.9	4.6	3.4	6.3	3.1	6.2	3.5

Source: CRS calculations based on data published by UNCTAD.

Table 2 shows that developing countries as a group have been making inroads in world trade. From 1985 to 2004 (latest data available), they increased their shares of world exports from 25.4% to 33.5% and their shares of world imports from 23.2% to 30.4%. However, the data also show that not all groups of developing countries have experienced the same level of economic integration. The East Asian countries have been the leaders with the four East Asian NIEs among the primary drivers of trade growth in the region. Their shares of world exports climbed from 5.8% to 9.7% (but had been as high as at 10.3% in 2000 before declining), and their shares of world imports increased as well from 5.3% to 9.0 %, although they had reached as high as 10.6% in 1995. Similarly, the ten ASEAN-member countries have experienced robust trade growth with their shares of world exports having risen from 3.7% to 6.1%, and their shares of world imports having grown from 3.3% to 5.4%, from 1985 to 2004. However, China's emergence on the world trade scene has overshadowed the others with the fastest pace of world trade growth. In 1985, China's share of world exports and imports stood at 1.4% and 2.1%, respectively, and 6.4% and 6.1%, respectively, in 2004.

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Other categories of developing countries have exhibited less robust trade growth. Other Asian countries have not faired as well as the East Asian countries. For example, India's shares of world exports and imports have remained virtually unchanged during the period, according to the data in **Table 2**. The shares of world trade of the Latin American countries as a group have also remained virtually stagnant during the period, although Mexico's shares have grown modestly. The African countries, particularly the sub-Saharan African countries, have fared the worst of all as a group. Their rate of participation in world trade has been low and has been declining. In 1985, the sub-Saharan African shares of world exports and imports stood at 2.6% and 2.1%, respectively, but at 1.6% and 1.4% in 2004.

Causes of the Trends

Specialists and other observers have cited a range of reasons for the disparity in the rates of developing countries' participation in trade. The most successful developing countries have adopted policies of economic integration with the rest of the world with an emphasis on export-led growth. The East Asian countries are the most vivid example. The four East Asian NIEs are largely credited with launching these efforts in the 1970s,which resulted in their economies taking off in the 1980s and continuing to grow in the 1990s, albeit with some bumps along the way. Other East Asian countries have followed; for example, Thailand and Malaysia. China is the most recent and largest example of an economy that has moved to become more integrated in the world economy. Such cases are not confined to East Asia. Chile and Mexico have emerged as a successful export-oriented economies. India has also recently undertaken economic reforms to become more integrated with the rest of the world. Among the less successful developing countries are ones that have followed import substitution economic development strategies of discouraging imports by imposing high tariffs and other trade barriers, and trying to develop domestic production of all goods. These policies have proved to be highly costly and have inhibited economic growth.[6]

Analysts have also concluded that the most successful developing economies are those that have built successful manufacturing sectors, while a number of the less successful countries are highly dependent on the production of primary goods such as food, agricultural products, and natural resources. The 50 LDCs are dependent on average on just three primary commodities for 70% of their total exports. Some LDCs are dependent on a single commodity for their exports. This is a matter of concern because commodity markets tend to be very volatile. In addition, commodities account for decreasing shares of world trade, making it more difficult for commodity-dependent countries to gain a foothold in world trade.[7]

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[6] Spero, Joan Edelman and Jeffrey A. Hart. *The Politics of International Economic Relations.* St. Martin's Press. New York. 1996. p. 231-234.

[7] An OECD study points out that primary commodities such as food and raw materials are income inelastic, that is, as national incomes rise, a country's population spends a declining share of its income on them. In addition, raw materials account for a declining share of production. OECD. *The Development Dimensions of Trade.* Paris. 2001. p. 134.

Furthermore, many of the least developed countries do not have the sufficient infrastructure — customs offices and procedures, transportation facilities, communications infrastructure — to conduct large amounts of trade. The adjustment costs from trade liberalization might also be too great for smaller, less diversified economies. Some developed countries have responded with trade-capacity building assistance as part of efforts to promote trade liberalization and economic growth in these countries.[8]

U.S. Trade Policy Toward Developing Countries

U.S. trade policy toward developing countries is evolving. For many years, the policy largely consisted of trade preference programs extended conditionally and unilaterally to various groups of developing countries. While those programs are still in place, U.S. trade policy is clearly shifting with successive presidential administrations. The Bush Administration especially has negotiated bilateral and regional reciprocal trade agreements with a decided emphasis on trade with developing countries. Observers have also pointed out that U.S. trade policy toward developing countries is ambiguous — on the one hand encouraging trade liberalization through trade preference programs and free trade agreements, while on the other hand applying high import tariffs on products in which developing countries are more likely to have a comparative advantage: labor-intensive goods and semi-finished goods that contain raw materials.

U.S. Trade Preference Programs

U.S. trade preference programs have been important vehicles for U.S. trade policy toward developing countries. These programs also reflect the ambiguity of U.S. policy.

The Generalized System of Preferences. The broadest and oldest program is the Generalized Systems of Preferences (GSP). The U.S. GSP program was first enacted on January 1, 1976, as part of an effort to encourage economic growth in developing countries by extending preferences in the form of low or no tariffs on the imports from certain developing countries. The program was partially in response to developing countries' criticism that high tariffs on their products prevented their producers from competing on world markets. Originally considered a temporary, 10-year program, U.S. GSP has been renewed on eight occasions, most recently through December 31, 2008, in section 8802 of P.L. 109-432. While covering a broad spectrum of products of developing countries, the statutory authority for the GSP program requires country-beneficiaries to adhere to a number of criteria, among them protection of specified labor rights and protection of intellectual property rights. In addition, the statute provides for the "graduation" of countries that exceed a per capita income level and the graduation of products that exceed competitive-need limits. Also, certain import-sensitive goods are excluded

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[8] For more analysis of the trade capacity building program, see CRS Report RL33628, *Trade Capacity Building: Foreign Assistance for Trade and Development,* Danielle Langton.

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from coverage, including some watches, footwear, glass products, and electronic products.[9]

Some critics of the program have charged that the exclusions limit the program's effectiveness by disqualifying labor-intensive products which make up the a major part of the production profile of beneficiary countries. As evidence, they point out that only a small portion of imports from beneficiary countries enters the United States under GSP.

In 2005, for example, only 9.6% of U.S. imports from GSP-eligible countries entered the United States under the GSP program.[10] (See **Table 3** below.) Another criticism of the U.S. GSP program has been that only a few countries have been able to take advantage of its benefits. In 2005, 83.9% of GSP-covered imports were from only 10 countries.[11]

It is also important to note that GSP has automatic competitive need limits (CNL) for beneficiary developing countries (BDCs) (but not for least-developed BDCs), or a level above which the preference is no longer extended, absent a CNL waiver, while the other preference programs have no such limits. This is an important distinction between it and the other preference programs, and is, perhaps, one of the reasons that the percentage of total trade entering under GSP (although the broadest program) has remained relatively static and that the preference may be used less than the others.

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Table 3. U.S. Imports from GSP Beneficiary Countries, 2005

(Millions of Dollars)

1. Total Imports	278,029
2. MFN Duty Free	109,317
3. Imports Under GSP	26,747
4. GSP Share of Total Imports	9.6%

Source: CRS calculations based on U.S. Department of Commerce data compiled by the United States International Trade Commission.

The African Growth and Opportunity Act. The United States provides more extensive tariff preferences to targeted groups of developing countries under three regional preference programs. The African Growth and Opportunity Act (Title I of the Trade and Development Act of 2000 — P.L. 106-200) provides tariff

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[9] For more information on the U.S. GSP program, see CRS Report RL33663, *Generalized System of Preferences: Background and Renewal Debate*, by Vivian C. Jones.

[10] However, if measured against dutiable imports, that is, imports that would not otherwise enter duty free under most-favored-nation (MFN) or normal trade relations (NTR) tariff rates, GSP covered imports accounted for 15.9% of total imports from GSP-beneficiary countries.

[11] CRS calculations based on Commerce Department data from USITC database.

preferences for the imports from 38 (as of 2007) eligible sub-Saharan African countries in addition to those provided under GSP. Congress has amended the program three times since it originally went into effect on October 1, 2000: in 2002 to clarify coverage of some textile and apparel products; in 2004 to expand the benefits of the program and to extend the its effective period to 2015; and in 2006, to extend some textile and apparel provisions to 2012 that would have expired in 2007. In 2005, $32.7 billion in imports entered the United States under the AGOA program — 69.6% of total U.S. imports from those countries. [12] However, imports from Nigeria accounted for $22.5 billion or 68.8% of the total imports under AGOA, and most of the imports from Nigeria consisted of petroleum and petroleum products. In addition, $5.4 billion in imports from the AGOA beneficiary countries entered the United States under the GSP program (see **Table 4**).[13]

Table 4. U.S. Imports from AGOA Beneficiary Countries, 2005
(Millions of Dollars)

1. Total Imports	$47,003
2. MFN Duty Free	8,122
3. Imports Under GSP	5,403
4. Imports Under AGOA	32,743
5. AGOA's Share of Total Imports	69.7%

Source: CRS calculations based on U.S. Department of Commerce data compiled by the United States International Trade Commission.

The Andean Trade Preference Act. The Andean Trade Preference Act (ATPA) which went into effect on December 4, 1991, provided preferential tariff treatment to certain imports from Bolivia, Colombia, Ecuador, and Peru. The preferences were part of a U.S. effort to encourage these developing countries to diversify their economies away from illegal drug production. The original program expired on December 4, 2001, but was reauthorized retroactively under the Andean Trade Promotion and Drug Eradication Act (ATPDEA) (Title XXXI of the Trade Act of 2002, P.L. 107-210). Under P.L. 109-432, its current authorization expires on June 30, 2007.[14] In 2005, 57.1% of imports from ATPA beneficiary countries entered the United States under the program (see **Table 5**).

[12] This turns out to be of the dutiable imports from those countries.

[13] CRS calculations based on data collected by the U.S. Department of Commerce, Bureau of the Census.

[14] For more information about the Andean trade preference programs, see CRS Report RL30790, *The Andean Trade Preference Act: Background and Issues for Reauthorization*, by J.F. Hornbeck.

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Table 5. U.S. Imports from ATPA Countries, 2005
(Millions of Dollars)

1. Total Imports	$20,060
2. MFN Duty Free	6,604
3. Imports Under GSP	448
4. Imports Under ATPA	11,464
5. ATPA's Share of Total Imports	57.1%

Source: CRS calculations based on U.S. Department of Commerce data compiled by the United States International Trade Commission.

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Caribbean Basin Initiative (CBI). Under the Caribbean Basin Economic Recovery Act (CBERA) also knows as the Caribbean Basin Initiative (CBI), the United States extends tariff preferences that go beyond preferences under GSP to certain imports from 24 eligible countries in the Caribbean region. The original program went into effect on January 1, 1984, and was due to expire on September 30, 1995. It was revised and made permanent under the Caribbean Basin Economic Recovery Act of 1990 (P.L.101-382). Furthermore, the Congress enacted the Caribbean Basin Trade Partnership Act (CBTPA) on May 18, 2000 (P.L. 106-200) to respond to the devastation wrought by Hurricanes Georges and Mitch in 1998. The CBTPA provides for more trade preferences on a more extensive range of imports from the region including textiles and apparel but is scheduled to end on September 30, 2008, or on the date that the Free Trade Area of the Americas agreement is completed, whichever is earlier. **Table 6** below provides data on the impact of the CBI and CBTPA programs in U.S. trade in 2005. The data indicate that the CBTPA has added substantially to the tariff preferences for U.S. trading partners in the region. The significance of CBI/CBTPA will diminish as the DR-CAFTA (see discussion below) is implemented since the larger CBI beneficiaries are participants in that arrangement.

Table 6. U.S. Imports from CBI/CBTPA Beneficiary Countries, 2005
(Millions of Dollars)

1. Total Imports	$31,814
2. Imports MFN Duty Free	11,648
3. Imports Under GSP	465
4. Imports Under CBI	3,564
5. Imports Under CBTPA +CBI	12,337
6. CBTPA/CBI Share of Total Imports	38.7%

Source: CRS calculations based on U.S. Department of Commerce data compiled by the United States International Trade Commission.

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Free Trade Agreements (FTAs)

The United States entered into its first bilateral free trade agreement (FTA) in 1985 with Israel and into its largest FTA in 1994 with Canada and Mexico — the North American Free Trade Agreement (NAFTA). While the United States launched FTA negotiations with three countries during the Clinton Administration — Jordan, Chile, and Singapore — U.S. interest in FTAs has surged under the Bush Administration as part of its "competition in liberalization" trade strategy.[15] In addition, agreements have been signed (but not entered into force) with Oman, Colombia, and Peru. Negotiations with Panama have been completed, but an agreement has not yet been signed. Negotiations are underway with South Korea and Malaysia. They were launched with members of the South African Customs Union (SACU), Thailand, Ecuador, and the United Arab Emirates (UAE) but are now dormant. Of the seven FTAs that have entered into force since 2001, only one agreement has been with a non-developing country (Australia).

In terms of trade with developing countries, the emphasis on FTAs signifies a decided shift in U.S. policy and strategy from unilateral trade preferences to reciprocal agreements. For developing countries, FTAs provide the opportunity to negotiate for greater access to U.S. markets and provide a forum to raise concerns about U.S. trade policy and practices; for example, anti-dumping practices. Similarly, the United States has been seeking increased market access in developing countries, reduced barriers to foreign investment, especially in financial services and

[15] Along with Australia (2005), the United States and entered into bilateral FTAs with Jordan (2001), Singapore, (2004), Chile (2004), Morocco (2006), and Bahrain (2006). It has also signed the DR-CAFTA with the Dominican Republic and five Central American countries. To date the agreements with El Salvador (2006), Honduras (2006), Nicaragua (2006) and Guatemala (2006) have gone into effect while the implementation of agreements with Costa Rica and the Dominican Republic are pending.

professional services, and greater protection of intellectual property rights (IPR). Both the United States and its trade agreement partners have used the FTAs also to achieve non-commercial foreign policy objectives, such as solidifying alliances.

FTAs are reciprocal agreements, meaning that the partners negotiate on an equal basis, at least ostensibly. Consequently, while the United States has demanded that developing trade countries improve IPR protection as a condition for preferential treatment in its market, some developing country partners have demanded increased access for textiles and apparel or other markets deemed sensitive by U.S. policymakers as a condition for preferential treatment for U.S. exporters. Critics have argued that the United States needs to shift the emphasis of FTAs from developing countries to larger trade partners, such as Japan and the EU, where the benefits of FTAs might be greater.

The United States also employs bilateral and regional trade and investment framework agreements (TIFAs) with a number of developing countries. Under a TIFA, the participating countries agree to establish a council as a forum to discuss ways to facilitate mutual trade and investment. In some cases, a TIFA is considered a step toward launching FTA negotiations.

World Trade Organization (WTO)

The United States has promoted developing countries' membership and participation in the WTO. Along with increasing trade flows, many developing countries have been exerting stronger political influence in the WTO. Of the 150 WTO members, 107, or 71%, are developing countries. Because of WTO rules of procedures, the developing countries are able to exert institutionally a disproportionally larger degree of influence in the WTO than their participation in world trade flows might dictate. The WTO makes decisions by consensus, which means that any one member-country can block a decision. Developing countries' participation in the General Agreement on Tariffs and Trade (GATT)/WTO has evolved over time. Up until the 1990s, most developing countries did not consider GATT to be an institution that would be sympathetic to their economic concerns, and they largely worked through U.N. organizations.[16] For that matter, the highly protectionist trade policies that many developing countries were following would not have been congruent with GATT principles and rules fostering trade liberalization.

Developing countries increased their activity most noticeably during the Uruguay Round (1986-1994) as they began to put their imprint on agreements that emerged from the round, including the establishment of the WTO. This trend matched the economic restructuring that many developing countries were undertaking to integrate their economies with the rest of the world and that is reflected in their growing shares of world and U.S. trade.

The developing countries' voice in the WTO has never been stronger than in the Doha Development Agenda round and in events leading up to the launch of that

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[16] Michalopoulos, Constantine. *Developing Countries in the WTO.* Palgrave. New York. 2001. pp. 2, 152-153.

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round. In late 1999, the WTO trade ministers had gathered in Seattle for the third WTO Ministerial and their main agenda item was to reach agreement on the launching of a new round of WTO negotiations. However, the large group of developing countries, themselves rather diverse and promoting different agendas, had nevertheless united against the scope and content of a proposed new round. The Seattle meeting collapsed, and some experts assert the concerns of the developing countries not being addressed was an important factor in that failed meeting. Developing countries were especially concerned that the mechanism for establishing the agenda for the round did not allow them a sufficient opportunity to promote issues of interest to them.[17]

The negotiations were eventually launched at the fourth ministerial in November 2001 in Doha, Qatar, as the Doha *Development* Agenda (italics added) round, to reflect the intention of the WTO members to focus on the concerns of developing countries. The negotiations moved very slowly. At the fifth ministerial in Cancun, they came to a standstill when the members could not agree on how to proceed. Among the major participants was the G-20 group of developing countries, led by Brazil and India. At Cancun and since that meeting, the G-20 has emerged as a major force, on par with the United States and the EU in setting the agenda and pace of the negotiations.[18] One of the problems of WTO participation for many developing countries is that it is costly to initiate and carry through with disputes in the WTO.

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Issues in U.S. Trade with Developing Countries

The emergence of developing countries as an important factor in U.S. trade has generated a range of policy issues that, while not unique to developing countries, arise more often in U.S. trade with them. The issues described below do not constitute an exhaustive list but, nevertheless, represent the most prevalent issues that have emerged in U.S. bilateral and multilateral negotiations with developing countries. Some of the issues are developing country challenges to the United States; that is, changes to U.S. laws and practices. Others are U.S. challenges to developing countries. The issues generally cut across U.S. trade relations with most developing countries at all levels of economic development.

Labor Rights and Wages

Perhaps no issue has dominated debate on U.S. trade policy over the past decade more than the role of trade liberalization in employment and wages. The issue results from the increased role of U.S. trade with lower-wage developing countries and the concern that U.S. workers are forced to compete in a "race to the bottom" as U.S. companies are induced to close down or to reduce the wages of or lay off workers

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[17] Ibid. p. 3.

[18] Bhagwati, Jaddish. "From Seattle to Hong Kong." *Foreign Affairs*, Special Edition: Freer Trade?, 2005. The G-20 consists of Argentina, Bolivia, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, Egypt, El Salvador, Guatemala, India, Mexico, Nigeria, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand, and Venezuela.

and move production facilities to lower-wage countries. Labor and trade as an issue has gained more attention recently as economic studies have focused on the growing income gap in the United States; that is, even though the U.S. economy continues to grow robustly, more of the rewards from that growth are going to more highly-paid workers, to higher-income households, and to multinational corporations. Many economists attribute the growing gap to advances in technology that improve labor productivity and increase demand for high-skilled labor, while diminishing demand for low-skilled labor. They also attribute a modest role to trade liberalization and globalization.[19] Other economists attribute a larger role to increased trade with low-wage labor countries and the emergence of large pools of low-wage labor in China and India that cause a compression of wages in developed countries, including the United States. One study shows that over the past twenty years, income inequality in the United States has been rising suggesting a correlation with the rise in trade with developing countries. In addition, they point to more intra-industry trade between the United States and developing countries where U.S. companies shift production to countries with lower wage labor.[20]

Trade policy responses and proposals in the United States have varied. For example, some observers argue that trade plays a limited role, if at all, in employment and wages, and therefore, no trade policy response is required. Others have suggested that the government should provide a safety net to workers who lose their jobs or experience a decrease in wages because of trade. This safety net might be in the form of an enhanced trade adjustment assistance (TAA) program or wage insurance. Others have proposed that the United States needs to boost the level of education to better prepare U.S. workers to compete in the global economy.

Some Members of Congress have argued that lower wages persist in developing countries in part because of the lack of labor rights protection and have called for enforceable internationally-accepted labor standards to be part of U.S. trade agreements with the governments of developing countries. Developing countries, on the other hand, consider demands for labor rights provisions in trade agreements as a form of protectionism. They argue that their workers' wages are lower because their economies have an abundance of unskilled labor and that low wages reflect the lower level of economic development. This issue will likely be part of the expected debate over the renewal of the trade promotion authority/fast track procedures during the 110th Congress and debate over implementing bills for FTAs.[21]

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[19] See for example, The Federal Reserve Board. *Remarks by Chairman Ben. S. Bernanke Before the Greater Omaha Chamber of Commerce, Omaha, Nebraska.* February 6, 2007. [http://www.federalreserve.gov].

[20] See for example, Roach, Stephen S. *Special Economic Study: The Politicization of the U.S.-China Trade Relationship.* February 13, 2007. pp. 7-9.

[21] For more discussion on TPA/fast track and labor rights issues, see CRS Report RL33743, *Trade Promotion Authority (TPA): Issues, Options, and Prospects for Renewal*, by J. F. Hornbeck and William H. Cooper, and CRS Report RL33864, *Traded Promotion Authority (TPA) Renewal: Core Labor Standards Issues*, by Mary Jane Bolle.

IPR Protection

Congress and the Administration have made foreign government protection of the rights of U.S. holders of copyrights, trademarks, and patents a priority in trade negotiations and trade agreements, including FTAs. While not exclusively an issue with developing countries, the problem primarily occurs with those countries because they have not developed a sufficient body of laws or do not adequately enforce the laws they do have. U.S. producers of IP products argue that they not only lose revenues because of the sale of pirated products but also lose control over the quality of the product that bears their brand name or trademark. Developing countries argue that they do not have the infrastructure to combat piracy, and that legally produced goods would be prohibitively expensive for their residents to produce or sell.

Each year the Office of the United States Trade Representative issues a Special 301 report that identifies trading partners that fail to protect U.S.-origin IPR.[22] Of the 13 countries that the USTR placed on its "priority watch list," 11 were developing countries, and the other two were former Soviet states.[23]

Access to Affordable Medicines

For many developing countries, especially the LDCs, access to affordable medicines to combat infectious diseases — HIV/AIDS, tuberculosis, malaria, and others — has been a major issue in their trade relations with the United States and other developed countries. They claim that the prices demanded by pharmaceutical companies are beyond the means of those in need. The pharmaceutical companies respond that the high costs are required for the companies to recoup the research and development costs they have incurred. Some pharmaceutical companies have made their drugs available to developing countries that face health emergencies but have done so largely on an *ad hoc* basis.

In December 2005, WTO members adopted, as an amendment to the Trade-Related Aspects of Intellectual Property Rights (TRIPS) agreement, a provision allowing the use of compulsory licenses for the production of generic pharmaceuticals for certain infectious diseases where the developing country lacks the domestic capacity to manufacture those medicines. In essence, it allows a developing country facing a health crisis to issue a compulsory license for the production of a generic drug in a third country that has the production capacity and then to import that medicine. The provision allows for compensation for the patent holder and restricts the use of the medicine for domestic use and for a limited period of time. However, for various reasons use of the system of compulsory licenses has

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[22] Special 301 refers to a statutory requirement under section 182 of the Trade Act of 1974, as amended, that the USTR annually identify those countries that are the egregious offenders of denying IPR protection and against which the United States could take action. In practice, the USTR has also identified countries which do not fit the category of most egregious offenders but bare serious monitoring on its annual "priority watch list"; and those that require less serious watching,

[23] The 13 countries were China, Russia, Argentina, Belize, Brazil, Egypt, India, Indonesia, Israel, Lebanon, Turkey, Ukraine, and Venezuela.

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been modest and developing countries have complained that developed countries are not putting the procedures in place for it to be used.[24]

Tariffs and Nontariff Barriers

Developing countries raise the issue of high U.S. tariff and non-tariff barriers on products in which they have a comparative advantage, for example, textiles and apparel and certain agricultural products. They claim that these barriers limit their ability to export to the U.S. market. Particularly, developing countries cite high tariffs on textiles and apparel. One study points out that 62.7% of the value of apparel imports from developing countries face "peak" U.S. tariffs (tariffs of 10% or greater). Wearing apparel production is largely labor-intensive and therefore advantageous for many developing countries with an abundance of low-wage labor to produce and export.[25] Developing countries have raised this issue during bilateral negotiations on free trade agreements.[26]

Developing countries frequently complain about high U.S. tariffs, non-tariff barriers, and subsidies on some agricultural products. U.S. quotas and high out-of-quota tariffs on sugar have been an issue in U.S. FTA negotiations with sugar-producing developing countries.[27] One study has estimated that tariffs, quotas, and subsidies provide U.S. agricultural producers with the protection equivalent to an average tariff of 19.9%. The study also notes that the United States is by no means the most protectionist in this category, as the tariff equivalents for other industrialized countries, are much higher: Canada 52.3%; European Union 46.4%; and Japan 82.1%.[28]

At the same time, the United States asserts that developing countries maintain high tariffs and non-tariff barriers on some agricultural products and manufactured goods and barriers to trade in services, such as banking, insurance, and professional services. The United States has pressed the developing countries to reduce these barriers that could offer expanded markets for U.S. exporters but also improve the efficiency of developing economies.

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[24] For more information, see CRS Report RL33750, *The WTO, Intellectual Property Rights, and the Access to Medicines Controversy,* by Ian F. Fergusson.

[25] Cline, William R. *Trade Policy and Global Poverty.* Center for Global Development and the Institute for International Economics. June 2004. pp. 112-113.

[26] See, for example, the U.S. negotiations with South Korea. CRS Report RL33435, *The Proposed South Korea-U.S. Free Trade Agreement (KORUS FTA)*, William H. Cooper and Mark E. Manyin.

[27] See, for example, the negotiations and agreement on CAFTA. CRS Report RL31870, *The Dominican Republic-Central America-United States Free Trade Agreement (DR-CAFTA)*, by J. F. Hornbeck.

[28] Cline, op.cit. p. 123.

U.S. Trade Remedy Practices

Many developing countries complain that antidumping actions that the United States and other developed countries initiate against their products are protectionist and unduly affect them. A number of developing countries are part of an informal group in the WTO called "Friends of Antidumping." In the Doha Development Agenda round, they have proposed that developed countries extend "special and differential treatment" to developing countries when initiating antidumping actions against their products, such as raising the de minimis threshold for AD action, that is the level of dumping below which no action is to be taken.[29] Developing countries have also raised the issue with the United States as part of FTA negotiations, pressing for special treatment under the FTAs. South Korea has been doing so.

Congress has gone on record opposing any agreement that weakens antidumping laws or any other U.S. trade remedy statute. This position is contained in a statute authorizing trade promotion authority/fast track as a principal negotiating objective:

> ... to preserve the ability of the United States to enforce rigorously its trade laws, including the antidumping, countervailing duty, and safeguard laws, and avoid agreements that lessen the effectiveness of domestic and international disciplines on unfair trade ...[30]

A rather strong bipartisan consensus in Congress supports this principle. The Bush Administration allowed the possibility of changes in trade remedy laws to be put on the table in the Doha Development Agenda, arguing that doing so was necessary in order to get developing countries to launch the negotiations. Many Members of Congress have criticized this step.

Effectiveness of Trade Preference Programs

Many developing countries argue that while trade preference programs, such as GSP, are well-meaning on the surface, in practice they do not provide much benefit because of exceptions made for import-sensitive products. These products tend to be ones in which developing countries have or could have a comparative advantage. For example, U.S. law prohibits GSP coverage for certain textile and apparel, watches, import-sensitive electronic products, import sensitive steel articles, footwear, leather apparel, and import-sensitive manufactured glass products. Developing countries also argue that benefits of tariff preference programs are eroding because the United States and other developed countries have been entering into free trade agreements that eliminate tariffs among FTA partners. In addition, various rounds of multilateral negotiations under the GATT and WTO have lowered tariffs for all members and thus have been eroding the effectiveness of trade preference programs for developing countries.

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[29] For more information on the antidumping issue in the WTO, see CRS Report RL32810, *WTO: Antidumping Issues in the Doha Development Agenda*, by Vivian C. Jones.

[30] Trade Act of 2002, Section 2102(b)(14).

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Trends and Policy Implications

Developing countries have become an increasingly significant factor in U.S. trade over the last two or more decades, and this influence is reflected in the issues on the trade agenda of the 110th Congress: the possible renewal of trade promotion authority (TPA) (or fast track trade authority); implementing legislation for FTAs; reauthorization of trade adjustment assistance (TAA) for workers and firms; review and possible re-authorization of GSP and other trade preference programs; oversight of the Doha Development Agenda (DDA) round negotiations in the WTO; and other issues.

The growth of developing countries' foreign trade presents the United States with opportunities and challenges. The imports from many developing economies provide U.S. consumers with an ever widening range of choices of products at lower prices, raising real incomes and contributing to a higher U.S. standard of living. A number of the developing countries have also become robust markets for U.S. exports.

At the same time, U.S. workers are competing with a growing pool of lower-wage labor from India, China, and other developing countries. Some U.S.-based firms are induced to use labor-saving technology, to move production offshore, or to shut down their operations completely. Even workers in the services sector, such as computer programmers, are feeling the pressures of competition from some developing countries. Many economists argue, however, that in the long run that trade affects the composition of jobs but not employment levels.

Trade with developing countries also raises a set of virtually unique issues regarding labor rights, environment protection, and intellectual property rights, among others, that have become fixtures on the U.S. trade agenda. At the same time, developing countries are challenging U.S. trade policies on trade remedies, high tariffs on wearing apparel and other import-sensitive products, pricing of medicines, and the temporary entry of foreign workers, among other issues.

If current trade trends hold, developing countries can be expected to account for increasing shares of U.S. exports and imports and of world trade. As a result, these opportunities and challenges will likely continue, if not expand.

The analysis of U.S. trade trends also exposes a significant divide among groups of developing countries. Some countries, such as those in East Asia, Mexico, and Chile, have made great strides, and are expanding their role in U.S. and world trade. Others including most of Africa, many countries in South Asia, and some in Latin America, lag behind or are losing shares of U.S. and world trade. These differences suggest that an effective U.S. trade policy needs to differentiate among the various groups of developing countries. These differences could play a role in how the United States proceeds on trade preferences, regional and bilateral trade agreements, and multilateral negotiations in the WTO.

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