

Accounting for Underutilization of Trade Preference Programs:
U.S. Generalized System of Preferences^{*}

Job Market Paper

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Abstract

The US Generalized System of Preferences (GSP) provides duty-free market access to developing countries. Yet despite these preferences, about 40 percent of imports qualifying for the GSP enter the US without claiming the benefits. This paper documents the extent of this underutilization and explores the underlying factors that explain the observed pattern of utilization. Exporters weigh the benefits of claiming GSP preferences against the costs of compliance with the rules of origin and other program requirements. In order to study the choices made, I construct a panel dataset that combines a measure of GSP utilization at country-product level with country-industry level production data for 143 GSP eligible countries exporting about 5,000 products to the US over 1997-2008. Employing econometric techniques applicable to fractional data, I examine how the GSP utilization rate varies with the value added share, a proxy for the cost of complying with the rules of origin; the preference margin, a measure of the benefit; the export volume, a proxy for fixed costs; and other product and country characteristics. Consistent with theoretical predictions, I find that the utilization rate increases with the preference margin, share of value added in output, degree of processing, remoteness and export volume. Moreover, I provide evidence on the negative effect of import ceilings and intertemporal instability of the program on utilization.

JEL Classifications: F13, F14, O12, O19

Keywords: Trade preference programs, preference utilization, Generalized System of Preferences (GSP), rules of origin, trade policy, developing countries

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