

No, No They Can't Take That Away From Me:
Why Friends of the U.S. Are More Likely to Use the
Generalized System of Preferences

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1 Introduction

In 1968, the United Nations Conference on Trade and Development (UNCTAD) agreed to implement “a generalized, nonreciprocal and non-discriminatory system of preferences in favour of the developing countries, which would assist the developing countries to increase their export earnings and so contribute to the acceleration of their rates of economic growth...as soon as possible” (UNCTAD 1968). By giving exporters in developing countries preferential access to markets in developed countries, UNCTAD hoped to bolster trade and, with it, growth. Six years later, the United States authorized the Generalized System of Preferences (GSP), permitting beneficiary countries to export qualifying products to the United States at lower than Most Favored Nation (MFN) tariff rates without demanding reciprocal rates for U.S. goods. However, despite the obvious benefits, the average beneficiary claimed U.S. GSP on just 60% of eligible products over the last fifteen years.¹ What explains the gap in utilization?

One common answer is that GSP is not entirely costless because the program imposes various administrative requirements on exporters. For example, in order to receive GSP duty rates, an exporter must be able to comply with the Rules of Origin requirement, meaning that its articles “must be the growth, product, or manufacture of [the beneficiary country], and the sum of the cost or value of materials produced in the [the beneficiary country] plus the direct costs of processing must equal at least 35 percent of the appraised value of the article at the time of entry into the United States” (Office of the United States Trade Representative 2012, ap. 11, sec. 6). Because of this requirement, exporters must assess

¹This calculation compares goods that entered the U.S. under GSP with GSP-eligible goods that did not enter under a preferential trade program. It excludes GSP-eligible goods that entered under alternative trade schemes (e.g. the African Growth and Opportunity Act and the Caribbean Basin Initiative). Additionally, it excludes competitive need limitations, cases in which the United States terminates or limits GSP benefits for a country along a given product line when that product (1) accounts for more than 50 percent of the total value of U.S. imports for that product or (2) exceeds a certain dollar value (\$155 million in 2012) (Office of the United States Trade Representative 2012, ch. 4). If the country received a competitive need limitations waiver, allowing preferential access for their product despite exceeding the import ceiling, or a *de minimis* waiver, granting preferential access because the U.S. imports only a small quantity of the good, the value is included in the calculation (UNCTAD 2010, ch. 3).

whether they benefit more from foreign inputs or the reduced duty rate offered by GSP. Thus, numerous economists find that exporters use GSP when the preferential margin, the difference between MFN and GSP tariff rates, exceeds the cost of compliance (including Rules of Origin and other administrative rules associated with GSP).

We argue that this is only part of the story. In addition to administrative costs, exporters must also consider a political price: conditionality. As required by the WTO, U.S. GSP is nondiscriminatory, meaning that the U.S. must provide identical treatment to goods from all similarly-situated beneficiary countries (WTO 2004a, par. 173). But although U.S. GSP is nondiscriminatory, participation in the program is subject to a range of conditions related to labor rights, intellectual property rights, and other factors. If a country fails to comply with these conditions, the President can suspend the beneficiary, rendering it temporarily ineligible for GSP benefits. The tariff preferences granted under GSP were never meant as a substitute for membership in the multilateral trading system. When GSP started in the early 1970s, grantors needed a “waiver” from the General Agreement on Tariffs and Trade (GATT), and recipients wanted disciplines on the program’s conditionality. The 1979 “Enabling Clause” took care of the first concern, but the second, which has received little scholarly attention, stood out as a serious challenge. This is because GSP is an exception to the GATT/WTO, not an obligation; rich countries are not required to offer these tariff preferences, and can attach conditionality. And yet, recipients, most of whom were not members of the GATT/WTO, wanted the Geneva-based institution to limit this conditionality. Through rules and adjudication, they expected the GATT/WTO to make GSP nondiscriminatory in the sense that, while conditionality would apply, it would apply in the same way, and under the exact same circumstances, to all recipients who were members of the GATT/WTO, and perhaps even more generally.

But despite the wishes of developing states, conditionality exists and inhibits GSP utilization. Just as developed countries have successfully tied trade agreements to the human rights (Hafner-Burton 2013) and workers’ rights (Lim, Mosley and Prakash 2015) standards

of their partners, so too has the United States used GSP to influence its beneficiaries. Prior research has shown that GSP beneficiaries are more likely to pledge not to turn over Americans to the International Criminal Court (Kelley 2007). Further, GSP recipients are less likely to retaliate against the United States for certain types of trade sanctions (Sykes 1992). The United States can leverage GSP in this manner because it is not an obligation; it is conditional on subjective standards, and there is a credible threat of suspension. In fact, the U.S. suspended or removed 18 countries from GSP for reasons of conditionality.²

Thus, because the U.S. links GSP to politics through conditionality, exporters must price the risk of suspension or removal into their decisions about whether to use it. We argue that states that are strategically important to the United States — democracies, allies, major aid recipients, and states that are wedded to the U.S.-led liberal order, as evidenced by their similarities in UN voting records, for example — should have higher rates of GSP utilization than those who do not because of the lesser risk of suspension or removal. Exporters are more likely to change their business practices when there is less risk that the costly modifications will be for naught. Additionally, we argue that, if the WTO encourages GSP grantors to apply conditionality in the same way to all member states, WTO membership should further reduce the political price of using GSP. Thus, we expect WTO members to use GSP at higher rates than non-members.

Our paper proceeds as follows. First, we provide background on GSP and review the requirements and costs associated with the program. We then explain our argument: suspension and removal from GSP are credible threats that the United States uses as leverage in achieving its political goals. In addition to the administrative costs of GSP, exporters in states that are not strategically important to the U.S. price in the risk of suspension when deciding whether to use the program. Finally, we test our theory using fifteen years of product-level U.S. import data from the U.S. International Trade Commission. We find that democracies, WTO members, and states which are strategically important to the U.S.

²Data provided by the United States Office of the Trade Representative.

are more likely to use GSP on a per product basis. Further, we find that the gap between GSP use for democracies and nondemocracies shrinks with the preference margin. In other words, exporters treat this risk as just another cost: if the administrative costs plus the risk of suspension are less than the benefits conferred by the preference margin, exporters use GSP. If not, they export under MFN.

2 Argument

GSP use is limited by its administrative costs. A broad literature demonstrates that exporters use GSP when the tariff savings from the preference outweigh the costs of compliance with GSP requirements. We argue that, in addition to these considerations, exporters also price conditionality — and the subsequent fear of suspension or removal — into their decisions about whether to take advantage of GSP. If exporters shift their business models to capitalize on GSP only to later lose access to the preferential rate, they are forced to pay the costs without reaping the benefits. Thus, firms incorporate this risk into the decision to use GSP. Exporters in countries which are strategically important to the United States, *e.g.* democracies, allies, recipients of substantial official development assistance, and states which share the global vision of the U.S., are less likely to feel apprehension over the potential loss of benefits. Additionally, we argue that the WTO, by encouraging GSP grantors to apply conditionality consistently across beneficiaries, increases member utilization. Hence, we provide an estimate of how strategic importance and institutional participation insulate preference beneficiaries from conditionality.

2.1 Administrative Costs of GSP Utilization

U.S. GSP has a broad reach, allowing roughly 5,000 products from 130 developing countries to enter the United States duty-free. However, over the last fifteen years, the average

country claimed GSP rates on just 60% of eligible products.³ While the U.S. does not impose penalties or fees for using GSP, the process for exporting goods under the GSP is not costless. To claim GSP, an importer who is receiving GSP-eligible goods need only write the letter “A” before the Harmonized Tariff System number (HTS) on the entry documentation (Office of the United States Trade Representative 2012, ch. 2 sec. C).⁴ But in order to be eligible for GSP, a product must meet U.S. Rules of Origin requirements: the imported good “must be the growth, product, or manufacture of a [developing country], and the sum of the cost or value of materials produced in the [developing country] plus the direct costs of processing must equal at least 35 percent of the appraised value of the article at the time of entry into the United States” (Office of the United States Trade Representative 2012, ap. 11, sec. 6). To calculate the portion of the article produced domestically, the exporter must maintain detailed cost, sales, and overhead accounting information, purchase documentation for source materials, and calculations of direct manufacturing/processing costs (Office of the United States Trade Representative 2012, ap. 11, sec. 6). The exporter may also have to determine the appraised value of the article in the United States by considering, for example, “(1) the packing costs incurred by the buyer; (2) any selling commission paid by the buyer; (3) the value of any assist; (4) any royalty or license fee that the buyer is required to pay as a condition of the sale; and (5) the proceeds of any subsequent resale, disposal, or use of the imported merchandise that accrue to the seller” (Office of the United States Trade Representative 2012, ap. 11, sec. 6).

Of course, tracking and documenting is just a small part of the cost of compliance. The

³This calculation compares goods that entered the U.S. under GSP with GSP-eligible goods that did not enter under a preferential trade program. It excludes GSP-eligible goods that entered under alternative trade schemes (e.g. the African Growth and Opportunity Act and the Caribbean Basin Initiative). Additionally, it excludes competitive need limitations, cases in which the United States terminates or limits GSP benefits for a country along a given product line when that product (1) accounts for more than 50 percent of the total value of U.S. imports for that product or (2) exceeds a certain dollar value (\$155 million in 2012) (Office of the United States Trade Representative 2012, ch. 4). If the country received a competitive need limitations waiver, allowing preferential access for their product despite exceeding the import ceiling, or a *de minimis* waiver, granting preferential access because the U.S. imports only a small quantity of the good, the value is included in the calculation (UNCTAD 2010, ch. 3).

⁴Importers previously had to file a “Form A” in order to receive the GSP rate, but that requirement was eliminated of late (Office of the United States Trade Representative 2012, ch. 2, sec. C).

35% local content rule requires some exporters to rethink their entire production and sourcing strategies: if the bulk of the exporter's costs are associated with inputs, they will have to source those inputs locally instead of purchasing the least expensive option (Hakobyan 2010). This does not affect all firms equally. An exporter who produces and ships raw materials could easily meet the 35% requirement. But an exporter who relies on imported materials may prefer the cost savings from cheap foreign inputs to the preferential rate. Further, if the exporter wants to consider imported materials as part of the required 35%, it must prove that the source materials were "substantially transformed" into different materials that were then used to produce the GSP-eligible article (Office of the United States Trade Representative 2012, ap. 11, sec. 6). In other words, an exporter in Ghana could not use Canadian lumber to build a table and claim the cost of the lumber as part of the 35% minimum; however, it could transform the wood into paper, use the paper to create a book, and then claim the cost of the Canadian lumber.

An additional expense is that, to be GSP-eligible, products must be shipped directly from the beneficiary country to the U.S. without passing through any other country (Office of the United States Trade Representative 2012, ap. 11, sec. 7). Finally, Customs and Border Protection requires exporters to submit a GSP declaration with summary cost information, and exporters must maintain the supporting documentation described above for five years. The exporter must also be able to submit the documentation within 60 days of a request from Customs (*U.S. Code. (2015) 19 USC 2462* N.d.).

Despite the burdensome Rules of Origin requirements, exporters still claim GSP. The logic is straightforward: exporters will claim GSP if the preference margin, the difference between MFN and GSP tariff rates, is greater than the administrative costs. Numerous studies empirically demonstrate the link between the preference margin and overall utilization of nonreciprocal preference programs – the greater the margin, the more likely exporters are to use the preferential rate (Candau, Fontagne and Jean 2004; Bureau, Chakir and Gallezot 2007; Hakobyan 2010, looking specifically at U.S. GSP). Given that preference margins are

tied to utilization, administrative costs are often calculated in the GSP economics literature as revealed preferences: preference utilization (u) is a function of the preference margin (t) less the administrative costs (c). If costs are perfectly accounted for, when $t > c$, u should be 100% because the exporter is better off paying the administrative costs to meet Rules of Origin requirements and receive the preferential rate. Conversely, if $c > t$, u should be 0% because the exporter would be better off avoiding the administrative costs and accepting the MFN rate. For a simple illustration, if utilization was 100% whenever the preference margin was 5% and above and 0% whenever the preference margin was less than 5%, a rough guess would put the administrative costs for the program at 5%.

In practice, costs vary by product, firm, country, and numerous other factors; thus, researchers use modeling to predict utilization and estimate costs. A growing cohort of GSP researchers has identified a range of economic explanations for inconsistent and limited preference utilization. [Francois, Hoekman and Manchin \(2006\)](#), applying traditional gravity model variables, demonstrate that nonreciprocal preference programs across the OECD are underused and estimate average costs to the exporter at 4%. [Manchin \(2006\)](#), using a similar approach for EU preferential programs, produces congruent results. Examining nonreciprocal preference programs across Europe, including EU GSP, [Agostino, Demaria and Trivieri \(2010\)](#) find that these administrative costs largely prevent beneficiary countries from reaping the benefits of the reduced tariff rates. Other scholars estimate the utilization dampening effects of specific rules. For example, [Carrere and de Melo \(2004\)](#) estimate that, when applied, certain rules reduce preference utilization by as much as 21%. Indices of restrictiveness are available for both NAFTA ([Estevadeordal 2000](#)) and EU preferential schemes ([Carrere 2006](#)), though these measures suffer from various limitations ([Inama 2009](#)). Scholars thus attempt to estimate the extent to which the administrative costs of various tariff regimes inhibit utilization. More recent work argues the costs are overstated and that utilization is both a function of preference margins and export volume — the larger the shipment, the more likely it is that the exporter will use the preference ([Keck and Lendle 2012](#)). Taken

as a whole, there is a robust literature that shows exporters weigh the costs of compliance against the savings from the preference margin when deciding whether to claim nonreciprocal preference programs like U.S. GSP. The central findings of research to date are intuitive: as the preference margin and export volume increase, so too does preference utilization.

2.2 Costs of Conditionality

Still, while this economic story is intuitive, we argue that it leaves out a critical political component: conditionality acts as a hidden cost for exporters on U.S. GSP. GSP was never meant as an alternative to the GATT/WTO, and yet its compatibility with the multilateral trading system is legally awkward. GSP required a “waiver” from MFN under the GATT/WTO — known as the Enabling Clause — but rich countries are not required to offer these one-way tariff preferences, and poor countries were not required to be GATT/WTO members in order to qualify for them. When the United Nations Conference on Trade and Development met in New Delhi in 1968 to launch GSP, it was hoped that the programs on offer could be made more consistent and transparent, and that developing countries would make greater use of these tariff preferences as a result.

While grantors debated what the template of GSP would look like, recipients were preoccupied with conditionality. It was clear that, while the GATT/WTO might help discipline GSP, rich countries would not be prevented from attaching conditionality as they saw fit. The main worry was (and is) suspension or removal from the program. Despite the requirement of nondiscrimination, beneficiaries must adhere to a range of conditions, including “taking steps to afford to workers in that country...internationally recognized worker rights,” “providing adequate and effective protection of intellectual property rights,” and “[reducing] trade distorting investment practices,” or risk being suspended from U.S. GSP (*U.S. Code. (2015) 19 USC 2462* N.d., sec. B-C). When countries are in a position to demand political concessions in exchange for tariff relief, they are likely to exploit that advantage (Carnegie 2014).

Further, suspension is not an idle threat. The U.S. suspended 13 countries for violating workers' rights, including Nicaragua (1987), Paraguay (1987), Romania (1987), Chile (1988), Sudan (1991), Belarus (2000), and Bangladesh (2013).⁵ The U.S. also suspended Argentina (2012) for failing to comply with two rulings adjudicated under the U.S.-Argentina bilateral investment treaty and removed benefits from India (1992), Argentina (1997) and Ukraine (2001) for intellectual property rights violations. That the U.S. ties politics with GSP, supposedly a trade-as-aid program for developing countries, is not lost on its beneficiaries. As Brazil complained to the WTO, "GSP is a tool of foreign policy of developed countries..." (WTO 2004b).

Developing countries could see the writing on the wall and tried to curb GSP conditionality from the start. Many were heard at the UNCTAD meeting in New Delhi insisting that there should be no GSP conditionality at all. In the run-up to the 1999 WTO Ministerial, Cuba, the Dominican Republic and Honduras even proposed that "[p]reference-giving countries shall not subject preferential market access to conditionalities, whether trade-related or not, in order to comply fully with the provisions of the Enabling Clause," and should "not initiate any form of unilateral action against preference-receiving countries, including through 'warnings,' 'watch lists,' 'priority watch lists' or any other form of discriminatory characterization" (WTO 1999). India has long objected that "there is an attempt to give concessions under their GSP scheme subject to recipient governments committing to comply with certain environmental/labour standard norms. This is in violation of the 'enabling clause' of GATT relating to GSP which clearly sets out that GSP must be non-discriminatory, non-reciprocal and generalized" (WTO 1998, 4). More generally, the GATT Council, in 1995, observed that recipients worried about "new conditions under some GSP schemes, as well as changes regarding beneficiary countries of GSP schemes" (WTO 1995, Section VII). When asked to rule on GSP conditionality, however, the WTO upheld it. In EC-Tariff Preferences, filed by India, the Appellate Body urged that grantors should "ensure that identical treatment is

⁵Data provided by the Office of the U.S. Trade Representative.

available to all similarly-situated GSP beneficiaries,” but this does not preclude suspending a recipient for violating the grantor’s legislation (WTO 2004*a*, paragraph 173).

Numerous scholars have shown trade to be a successful tool for changing partner behavior in other issue areas. Preferential trade agreements (PTAs) that tie human rights standards to market access improve human rights behavior in repressive states (Hafner-Burton 2005). These PTAs do not achieve human rights reforms through persuasion or shared economic norms; instead, they “bully” despots into capitulating to U.S. policy aims in exchange for economic benefits (Hafner-Burton 2013). Further, the more dependent developing states are on trade, the more likely they are to accede to the preferences of their trading partners with respect to workers’ rights (Lim, Mosley and Prakash 2015).

GSP is no different. Critics of GSP note that conditionality leaves beneficiary countries subject to the political wants of grantor states (Silva 2011), and its existence presents challenges for the long-term stability of the preferences (Zappile 2011). Further, scholars have identified various linkages between GSP participation and the adoption of policy positions which benefit the United States. U.S. GSP beneficiaries are more likely to sign agreements with the United States pledging not to hand American citizens over to the International Criminal Court (Kelley 2007). As another example, recipients of GSP are less likely to retaliate for trade sanctions imposed by the United States under Section 301 of the 1974 Trade Act, as amended (Sykes 1992). There is a host of evidence that the United States is able to leverage policy adoption with promises of market access — or threats of suspension or removal of that access in the case of GSP.⁶

⁶In addition to conditionality, the President can “graduate” a country from the program, revoking their GSP status, by either defining it as a “high-income country” or conducting a review of its “advances in economic development and trade competitiveness” (Office of the United States Trade Representative 2012, ap. 11, sec. 5). While graduation is influenced by far more objective criteria than conditionality, it too appears subject to political whims. For a recent example, immediately after Russia’s invasion of Crimea in 2014, Congress began to criticize its status as a GSP beneficiary (Jones 2015). Russia annexed Crimea on March 18, 2014. Addressing Congress on May 7, 2014, less than two months later, President Obama announced that Russia would be graduated from GSP because it was “sufficiently advanced in economic development and...trade competitiveness” (U.S. Congress House Committee on Ways and Means May 7, 2014). The President officially graduated Russia on October 3, 2014 (Federal Register October 8, 2014) — notably, GSP benefits were lapsed when President Obama made his announcement. Even still, the U.S. signaled its displeasure by removing future benefits from Russian exporters. U.S. GSP, with a host of

If this logic of influence-through-trade is correct — if GSP truly changes beneficiary state behavior through the risk of suspension — exporters should price that risk into their decision to claim GSP benefits. As discussed, GSP, while ostensibly free, imposes substantial costs on exporters by requiring them to fulfill Rules of Origin requirements and maintain a host of documentation about their goods and means of production. The local content rules require some exporters to change their suppliers, manufacturing strategies, and other central elements of their businesses. These are not short-term, meaningless changes. Thus, exporters in countries that are at greater risk of suspension or removal from GSP must, in addition to the preference margin, also consider the possibility that their goods will lose GSP status, requiring them to bear the administrative burdens of the program without reaping the benefits of preferential tariff rates.

Given that the WTO insulates its member states from conditionality by mandating identical treatment across GSP beneficiaries, we expect that exporters in WTO member states will be more likely to use GSP, on a per product basis, than exporters in non-member states. WTO members, protected by the rules and laws of the institution, should have less to fear from GSP suspension, and this should be evident in the decision-making of their firms. By contrast, exporters in non-WTO member states must apply a risk premium to the administrative costs of compliance, reducing their incentive to comply with and use GSP.

2.3 Strategically Important States Are Less Subject to Conditionality

At its core, the Generalized System of Preferences functions as a “trade as aid” program. Exporters in beneficiary states receive aid through GSP tariff relief, making their products more competitive in grantor states. And, congruent with other aid programs, conditionality is not unique to GSP. Donor states and institutions like the World Bank have long attached conditions to aid agreements in order to reform economic management, governance, and hu-

subjective stipulations for suspension and graduation, is a perfect tool for linking trade with politics.

man rights in developing states (see Collier, Guillaumont, Guillaumont and Gunning (1997), for example).

However, when it comes to holding developing states accountable for the imposed conditions, strategically important countries receive special treatment. Scholars measure strategic importance to the United States through various means: shared votes records at the United Nations (Andersen, Harr and Tarp 2006; Kilby 2009) and formal alliances (Girod and Tobin 2016). Additionally, countries which are strategically important to the United States tend to receive larger allocations of U.S. aid (Bermeo 2016), and the U.S. prefers to fund democracies and democratizing states (Alesina and Dollar 2000).

So-defined strategically important states derive numerous benefits. Countries with ties to the United States are more likely to receive loans from the International Monetary Fund (Andersen, Harr and Tarp 2006) and receive fewer terms and conditions on the disbursements (Stone 2011). Further, once loan agreements are in place, those states are also less likely to have future disbursements withheld for failing to comply with the conditions of both IMF loans (Stone 2002) and World Bank structural adjustment assistance (Kilby 2009).⁷ In other words, allies and friends of the United States continue to receive aid despite failing to comply with the associated conditions.

We expect to find evidence of these same dynamics in GSP conditionality. Just as strategically important states are less subject to conditionality in other forms of aid, so too with GSP. Strategically important states have little cause to fear suspension or removal from the program; thus, we hypothesize that exporters will use GSP at a higher rate, controlling for product, in countries that are politically wedded to the U.S. Again, this dynamic should be evident in the behavior of developing country exporters. All beneficiary firms must consider the administrative costs of GSP compliance. But exporters in states that are *not* strategically important to the United States also face the risk of removal, forcing them to

⁷Numerous other researchers, including Neumayer (2003) and Meernik and Poe (1998) similarly demonstrate the strategic nature of aid dispersal and conditionality. Even measures of situational strategic importance, temporary seats on the UN Security Council, for example, confer immediate aid benefits (Dreher, Sturm and Vreeland 2009).

shoulder the disadvantages of GSP compliance without the favorable preference.

As we describe in the subsequent section, we measure strategic importance through several channels in order to demonstrate robustness. First, we identify democracies and states that are more aligned with the U.S.-led liberal order, as evidenced by their voting at the United Nations (Bailey, Strezhnev and Voeten 2015), as strategically important. Additionally, we use recipients of significant shares of U.S. development aid — e.g. Afghanistan in the mid-2000s — as a further proxy for strategic importance. The United States is committed to the development of those countries through aid financing and would therefore be unlikely to simultaneously remove GSP benefits while funding the regime through aid. Additionally, the U.S. is further unlikely to strip its allies of preferential tariff rates.

We contrast these measures of political strategic importance with economic ties to the United States. Given the nature of GSP, a benefit conferred to less developed states, the U.S. is unlikely to bend conditionality because of the economic importance of beneficiaries, states which, by definition, have relatively smaller, weaker economies. Still, we capture interlocking economic arrangements by examining states with U.S. FDI and those with additional preferential trade agreements with the United States.

We do not expect this finding to supplant the research conducted on the economic determinants of preference utilization. Instead, we expect that exporters will make precisely the calculations described by the literature, using GSP when the costs of compliance are lower than the benefits of duty-free rates and when shipping large volumes of product. However, we argue that the risk of suspension is an additional political calculation that exporters consider in their cost/benefit decisions on whether to use GSP. Thus, we expect that the difference in utilization between states with U.S.-aligned values and others will be most pronounced when there is little to no preference margin and shrink as the gap between MFN and GSP rates increases. If GSP provides only a modest improvement over the MFN rate, exporters in non-democracies will be more sensitive to the possibility of suspension and forgo the preference in order to avoid the costs. This difference in utilization is the price exporters assign

to suspension risk. Conversely, if the preferential rate is substantially better than the MFN rate, exporters will be more likely to shoulder the costs and accept the risk of suspension in order to benefit from participation. This article is the first to add a political explanation to the economic stories surrounding the reasons for limited GSP utilization.

3 Data

To test our hypotheses, we use U.S. International Trade Commission (USITC) import data from 1997-2011 (United States International Trade Commission 2016).⁸ The USITC provides, at the year, country, and product level (to HTS-8), all imports to the United States, along with a designation indicating whether the article was claimed under a special import program. To calculate GSP UTILIZATION, our dependent variable, at the product level, we divide the total value of each article that entered the U.S. under the GSP or GSP+, a supplemental program that allows for duty-free import of additional products from least-developed countries, with the value of the same article that entered the U.S. under the GSP or without a preferential trade program. If an article entered the U.S. under an alternative trade scheme, we do not include it in the analysis. We only compare the decision to use GSP with the decision to export without a preferential tariff rate.

Moreover, we exclude all cases where countries were ineligible for GSP treatment under a certain product line. For example, the U.S. places competitive needs limitations, eliminating or restricting GSP benefits when an article from a particular country (1) accounts for more than 50 percent of the total value of U.S. imports of the article or (2) exceeds a certain dollar value (\$155 million in 2012) (Office of the United States Trade Representative 2012, ch. 4). However, if the country received a competitive needs limitation waiver or a *de minimis* waiver, we include it in our analysis.

⁸For 1997-2011, the USITC provides country and product eligibility for both GSP and GSP+. However, for 1989-1996, the USITC neither provides GSP+ eligibility nor disaggregates GSP imports into GSP and GSP+. This is a substantial limitation of the pre-1997 data; articles from numerous states may have been ineligible for GSP+ treatment during that period, but our analysis would treat their lack of GSP exports as a failure to use GSP. Thus, our primary results reflect the data available from 1997-2011.

To assess whether WTO members have higher rates of GSP utilization than non-members, we construct `WTO MEMBERSHIP`. The WTO provides accession dates for all of its members (WTO 2016). We considered all states WTO members beginning in their year of accession to the WTO.

We measure political ties and strategic importance to the United States through a series of variables. First, we include `DEMOCRACY`. The Polity IV Project provides a 21-point scale of institutional governing authority for each country in our dataset. Following the coding rules provided by the Polity IV Project, we flag states as democracies in years where they have a Polity IV score of six or more (Polity IV Project 2014). As discussed previously, we expect that democracies and other strategically important states will use the GSP at a higher rate due to concerns over conditionality.

Another tool for evaluating strategic importance is identifying countries which curry favor with the United States by adhering to their preferences and endorsing their positions at international institutions. Alternatively, states may merely share U.S. values, aligning themselves with the U.S. global economic order, on a host of issues, fostering a closeness that could reduce the risk of GSP suspension. As such, we include `IDEAL POINT DIFFERENCE`, the distance in United Nations General Assembly voting mean ideal points between the United States and each GSP recipient (Bailey, Strezhnev and Voeten 2015). Although exporters are unlikely to track votes taken at the United Nations, they should have a general understanding of where their nation sits with respect to the liberal world order. This measure is an appropriate proxy for this relationship.

U.S. aid provides an additional proxy for strategic importance. States that receive a large share of foreign aid from the United States may be more insulated from the risk of suspension, owing to the closeness of their relationship. Thus, we obtained official development assistance (ODA) flows from the United States to GSP recipients using the OECDs International Development Statistics Database (IDS) (Organization for Economic Cooperation and Development 2016b). For each country-year, we calculated the `SHARE OF U.S. AID` provided

to each GSP recipient. Formal alliance is a final proxy for strategic importance. U.S. allies should have less concern over suspension or removal from GSP. The Alliance Treaty Obligations and Provisions Project (ATOP) tracks various forms of alliances formed between states from 1815-2003 (Leeds, Ritter, Mitchell and Long 2002). We flag all countries with accords with the United States as U.S. ALLIES.

As controls, we include two of the main predictors of preference utilization found in the literature. Most fundamentally, we calculate the MFN-GSP PREFERENCE MARGIN, the difference between the MFN tariff rate and the duty-free rate provided by exporting under GSP. We use the World Bank's World Integrated Tariff Solution database to determine the average duty rates (available at HTS-6) for all products entering the United States under MFN or a special import program and subtract the GSP rate from the MFN rate (World Bank 2016). Consistent with prior research on preference margins, we expect that GSP utilization increases with the size of the margin. As Keck and Lendle (2012) propose, we also include the EXPORT VOLUME for each year-country-product, the total value of the product exported from a given developing country to the United States (available from United States International Trade Commission (2016)). Following Keck and Lendle (2012), we expect that the more a country exports of a given product, the greater the likelihood that the exporter claims GSP.

Of course, as Keck and Lendle (2012) and others highlight, there are numerous product lines with high rates of preference utilization despite low preferential margins. This is because rules of origin requirements do not place equal burdens across sectors and products. Certain products and firms may be able to comply with rules of origin requirements with little effort, while, for others, the hurdles may be prohibitively expensive. Thus, since administrative costs are not distributed evenly across all products, it is unsurprising that some products with low marginal preferences (comparing MFN to GSP duty-free treatment) still use the available GSP preference at a high rate. However, on balance, the larger the margin of preference and volume of article shipments, the greater the likelihood that exporters utilize

GSP. To account for inconsistent incentives to use GSP across articles, we include product controls (at HTS-8) in all regressions.

We also consider a range of economic and political variables that could partially explain GSP utilization. Exporters from states with large economies may be better equipped to comply with rules of origin requirements and overcome the hurdles of GSP; thus, we include GSP in constant dollars (logged in all specifications) in our models as LOG GDP (World Bank 2015). Similarly, countries which are highly reliant on exports may have better support for their exporters, and we therefore include EXPORTS AS % OF GDP (World Bank 2015).

Strategic behavior, either by exporters or their states, may also affect GSP utilization. For example, GSP-eligible products are periodically cited in U.S. antidumping (AD) or countervailing duty (CVD) claims by domestic U.S. firms. The United States International Trade Administration Enforcement and Compliance Division investigates these claims and, if it determines that the items are unfairly traded, levies appropriate trade remedies in the form of supplemental duties on the article(s) in question. When a particular article appears in an investigation, suggesting that U.S. firms are lobbying the government for increased duties on the product, exporters may be more reluctant to pursue GSP treatment in an attempt to dissuade the United States from removing the product from GSP in the future. To identify all U.S. AD/CVD investigations, we use Chad Bown's Global Antidumping Database (GAD) and flag all product lines that were subject to U.S. investigative proceedings as AD/CVD INITIATION (Bown 2015).

Finally, we compare political strategic importance to measures of economic ties to the United States. States with substantial foreign direct investment (FDI) from the United States may have greater GSP utilization as U.S. multinationals use the preferential rates to maintain a low-cost supply chain for domestic manufacturing. We use Organization for Economic Cooperation and Development (2016a) Bilateral FDI Statistics data to capture the U.S. FDI STOCK % OF GDP for the countries in our dataset. Additionally, we construct an analogous measure for overall FDI positions, FDI STOCK % OF GDP, using UNCTAD

(2014) investment data. We do not have strong priors about the role of total FDI in GSP utilization — while U.S. multinationals may take advantage of GSP by incorporating developing country subsidiary firms into their production strategy, the benefits for foreign firms are less clear, beyond the general value of the preference. Additionally, we assess whether states that are party to supplemental preferential trade agreements are more likely to use GSP. The Design of Trade Agreements (DESTA) Database contains all preferential trade agreements signed since 1945 (Dur, Baccini and Elsig 2014). Using the DESTA data, we construct PTA for all countries who are party to a preferential trade agreement with the United States. Given the size and relative economic strength of GSP beneficiaries, we do not expect these ties to affect conditionality in a similar manner to political bonds with the United States.

4 Evidence

In this section, we present a series of models and graphs using USITC year, country, and product import data. Each observation represents the percentage of imports along a product line (HTS-8) from a GSP-eligible developing country in a given year that entered the United States under the GSP or GSP+. Again, we only compared products that entered the U.S. under GSP with imports that did not enter under a preferential trade program. Given the structure of our data, our models are estimated with year, country, and product fixed effects.

We find evidence to support two hypotheses: WTO members and states that are strategically important to the United States have higher rates of GSP utilization. We attribute this finding to the risks of suspension from U.S. GSP. While numerous economists have characterized the decision to use GSP as a simple trade-off between administrative costs and preferential margins, we argue that exporters must also price in a political consideration: the risk of suspension. As GSP may require some exporters to substantially modify their sourcing of inputs, modes of production, shipping routes, and document retention policies,

exporters must consider the possibility that their structural changes will be for naught — with GSP removal or suspension, exporters suffer the additional burdens of GSP compliance without the benefits of duty-free market access.

Table 1 depicts a series of fixed-effects models that investigate the role of strategic importance and WTO membership in GSP utilization. Turning first to the controls, all specifications include a one-year lag of GSP utilization. Once an exporter complies with GSP rules of origin requirements, they have every incentive to continue using the program (unless the exporter undergoes a change that alters their administrative cost vs. duty-free benefits calculus). Therefore, we expect prior year utilization to be a strong predictor of GSP use. Unsurprisingly, prior year utilization is positively associated with GSP utilization in all models, and the results are highly significant. Next, following prior research, we also find that preference margins are correlated with GSP utilization — the greater the difference between MFN and GSP rates, the more likely exporters are to take advantage. This is consistent with all prior economic research on GSP utilization. If the preferential margin is greater than the administrative costs of compliance, exporters have every incentive to restructure their operations in order to comply with GSP. As the MFN rate increases, so too does the likelihood that the pain of compliance is worth the reduction in duties. Similarly, our model bears out the additional insight provided by Keck and Lendle (2012): the larger the shipment, the more likely it is to receive GSP treatment. Much like the preference margin, this is an uncomplicated story of incentives. If an exporter needs to ship a massive quantity of an article, the benefits of a small tariff adjustment from GSP become magnified by the volume of the export. The two primary explanations of GSP utilization from the economics literature hold, controlling for lagged GSP utilization.

Next, we include both GDP and exports as a percentage of GDP to control for economic size and structure, at least with respect to exports. While GDP is a consistent predictor of export volume in gravity models of trade, the size of a country’s economy is not positively related to GSP utilization, holding all else constant. Similarly, countries that depend on ex-

ports at a higher rate for their overall economic performance are not substantively different from those that do not, though the results are significant. As these are product-level observations, the types and volumes of exports are far more important to GSP utilization than the size of the economy — exporters make decisions on the basis of tariff rates, shipment size, and administrative costs of compliance with GSP on a product-to-product basis. Again, we are not modeling the relationship between these variables and overall export flows; we are estimating the share of each product that entered the U.S. under GSP. Countries with large economies may have fewer products with high rates of utilization given the breadth and diversity of exporters, each with their own calculations about the value of complying with the necessary requirements to obtain reduced tariff rates.

With respect to the political variables, both WTO members and democracies use GSP at a higher rate than non-WTO members and non-democracies. In particular, the difference between democracies and non-democracies is highly statistically significant, and, as we will show, robust to numerous specifications. While the substantive effect may appear small at a glance — a democratic WTO member uses GSP, on average, about three percentage points more than a non-democratic state that is not part of the WTO — GSP accounted for nearly \$300 billion of goods over our period of analysis. More specifically, over \$70 billion in GSP-eligible goods from non-democracies entered the U.S. *without* a preference. In other words, even a one percentage point difference in utilization rates between democracies and non-democracies could result in \$700 million of GSP-eligible goods from non-democracies entering the U.S. without a preference and \$2.1 billion worth of goods with a three percentage point difference. Although the difference in GSP usage is slight — non-democracies use the GSP just a few percentage points less than democracies on a per product basis — because of the staggering volume of imports, the aggregate impact is substantial. Thus, the individual risk-based calculations of exporters prevent billions of dollars worth of goods from receiving preferential tariff rates.

For a country-level example, Yemen, a non-democracy and non-WTO member — Yemen

Table 1: GSP Utilization for Democracies and WTO Members

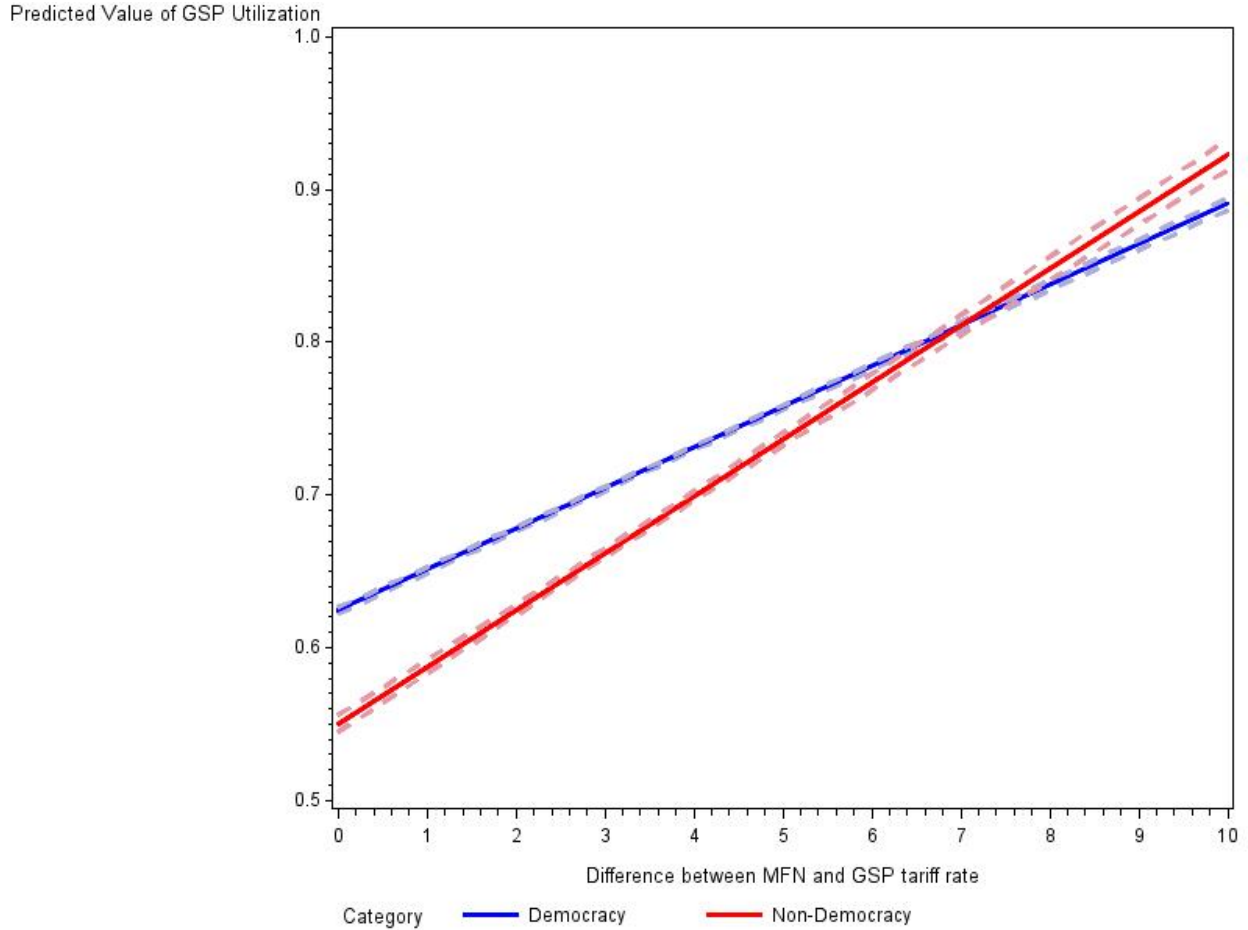
	(1)	(2)	(3)
GSP UTILIZATION			
LAGGED GSP UTILIZATION	0.2996 (0.0022)	0.2995 (0.0022)	0.2995 (0.0022)
LOG PRODUCT EXPORT VOLUME	0.0257 (0.0004)	0.0257 (0.0004)	0.0257 (0.0004)
MFN-GSP PREFERENCE MARGIN	0.0054 (0.002)	0.0083 (0.0022)	0.0083 (0.0022)
LOG GDP	-0.0418 (0.0053)	-0.0418 (0.0053)	-0.0424 (0.0053)
EXPORTS % OF GDP	-0.0007 (0.0002)	-0.0007 (0.0002)	-0.0007 (0.0002)
WTO MEMBER	0.0196 (0.0097)	0.0194 (0.0097)	0.0125 (0.0103)
DEMOCRACY	0.0124 (0.0033)	0.0236 (0.0048)	0.0255 (0.0049)
DEMOCRACY * PREFERENCE MARGIN		-0.0034 (0.0011)	-0.0065 (0.0019)
WTO * DEMOCRACY * PREFERENCE MARGIN			0.0033 (0.0016)
<i>N</i>	179,666	179,666	179,666
Year, Country, and Product Fixed Effects	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>

Robust standard errors in parentheses

became a WTO member in 2014, after our period of analysis — had a roughly average utilization rate of 57 percent from 1997-2011. During that same time period, Yemen had nearly \$1 billion of GSP-eligible goods that entered the U.S. without a preference. Had Yemen been a democratic WTO member, we estimate that an additional \$30 million in goods would have received GSP treatment. Moreover, this omits any lost sales to the United States as a result of the inability to claim the preferential rate; it only captures goods that were still imported *despite* the lack of a preference. Equatorial Guinea, another non-democratic non-WTO member, exports large volumes of petroleum and petroleum-related products to the United States, and, despite frequent GSP use, still does not take full advantage of the program. For Equatorial Guinea, three percentage points of utilization translates to an additional \$200 million of product entering the U.S. under the GSP. Of course, national level utilization rates are muddled by product mixes, unique firm qualities, and other country-specific circumstances. To this end, we control for product and country fixed effects in all models — countries vary considerably. Some non-democracies, like Namibia, Mozambique, and Kazakhstan, receive GSP rates on over 90 percent of their GSP-eligible shipments, as do democracies like Paraguay, Ghana, South Africa, and Latvia. By contrast, importers claim GSP on less than half of the eligible products from Iraq, Azerbaijan, Angola, Chad, and the Dominican Republic. Despite the marked variation across countries, the effects of conditionality can make a pronounced impact.

Notably, as depicted in Models 2–3, these differences are more pronounced when the preferential margin is low. Of course, when there is little to no difference between MFN and GSP rates, overall utilization is lower; as that gap widens, GSP utilization increases because the administrative cost vs. reduced duty calculation becomes more favorable for the exporter. Since exporters from non-democracies price in the additional risk of suspension, they are even more sensitive to the margin. As [Figure 1](#) shows, when there is no preferential margin, utilization rates are 2.4 percentage points higher for democracies. But as the preferential margin widens, non-democracies close the gap. [Figure 2](#) plots similar estimates, comparing

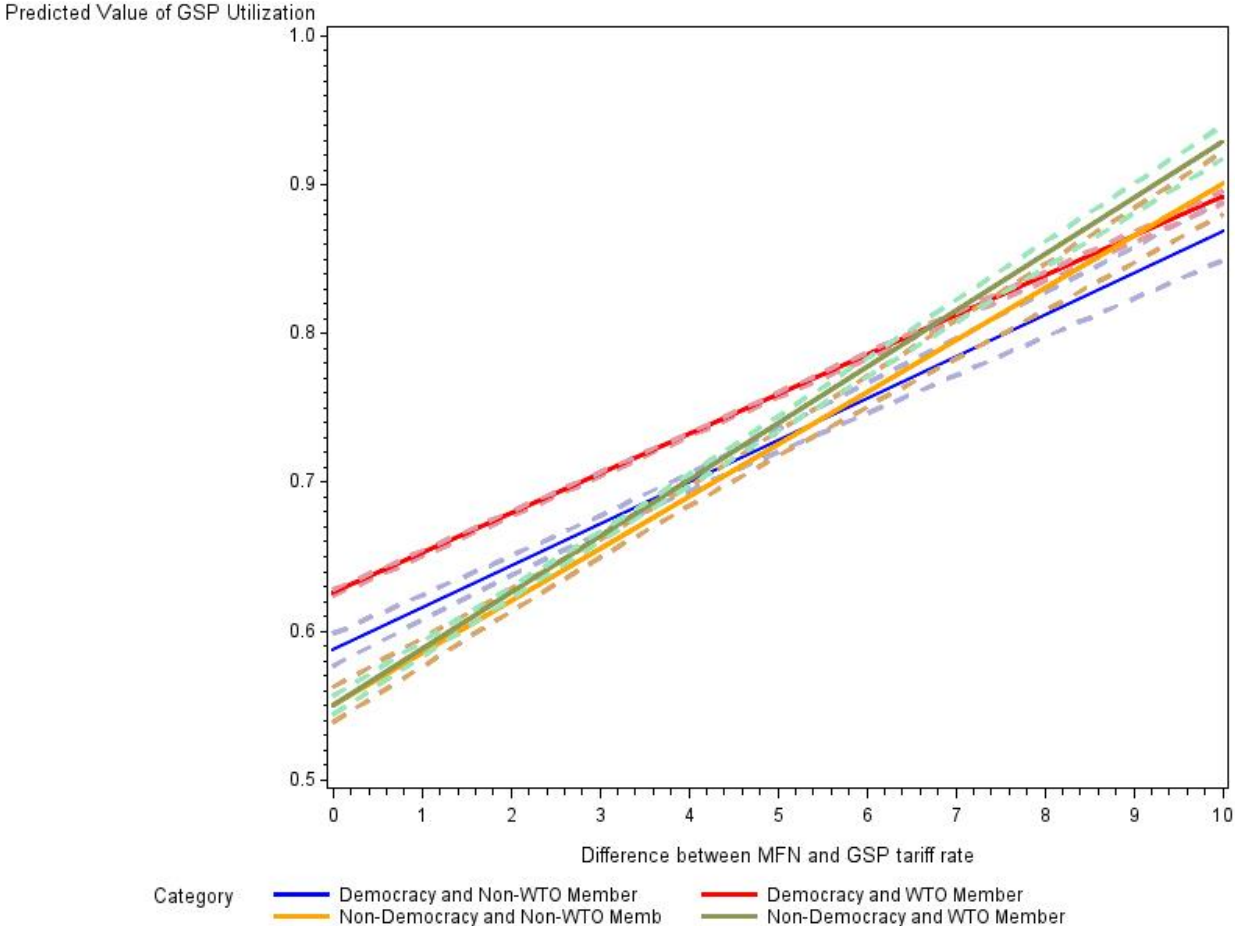
Figure 1: GSP Utilization for Democracies and Non-Democracies by Preference Margin



GSP utilization rates of democracies who are WTO members, democracies who are not WTO members, non-democracies who are WTO members, and non-democracies who are not WTO members across different preferential margins with 95% confidence intervals. As predicted, when preferential margins are low, democracies who are WTO members have the highest rates of GSP utilization, followed by democracies who are not WTO members. Non-democracies are estimated to have a substantial gap in utilization at low margins but close it at rates of 5-6%.

Still, democracy is often used as a blunt instrument in cross-national studies and is a limited proxy for strategic importance. Beyond democracy, if exporters fear the risk of

Figure 2: GSP Utilization for Regimes and WTO Membership Relative to Preference Margin



suspension from U.S. GSP, those in states that are strategically important to the United States should also feel more at ease, free to modify their production strategies in order to take advantage of the preferential trade program. We tested this with a series of models in Table 2. First, as shown in Model 1, countries who receive a greater percentage of overall U.S. official development assistance have higher rates of GSP utilization. While businesses may not know the specific amount of aid received by developing states, the knowledge of a substantial aid relationship may create the perception of close ties to the U.S. As the variable represents the total share of U.S. development assistance received by each country, the coefficient is sizable, representing the estimated additional GSP utilization of a state that received the entire aid budget of the U.S. In practice, beneficiary countries receive far more modest allocations. Further, countries that vote with the United States at international institutions like the United Nations may be perceived as lesser risks for suspension — either for reasons of *quid pro quo* or, alternatively, because of a shared global vision to that of the United States. Model 2 shows the effect of United Nations voting ideal point distance between each GSP beneficiary and the United States on GSP utilization. As the distance between GSP recipient and U.S. ideal points increases, GSP utilization decreases, *ceteris paribus*. Additionally, as depicted in Model 3, U.S. allies have higher rates of GSP utilization than non-allies. In concert with the other evidence presented, this suggests that strategic importance to the United States influences the decision for exporters to restructure production in order to capitalize on the Generalized System of Preferences.

However, while political ties to the United States are correlated with GSP utilization, we do not find a similar effect for economic relationships. First, as shown in Model 4, states with higher rates of U.S. foreign direct investment as a percentage of GDP, indicating that U.S. multinationals are a larger share of their economies, are statistically indistinct from those with a lesser share of U.S. FDI as a percentage of GDP. We theorized that U.S. firms would contribute to higher rates of GSP utilization as exporters of source materials to vertically integrated partners further up the supply chain, but U.S. multinationals appear

Table 2: GSP Utilization and Ties to the United States

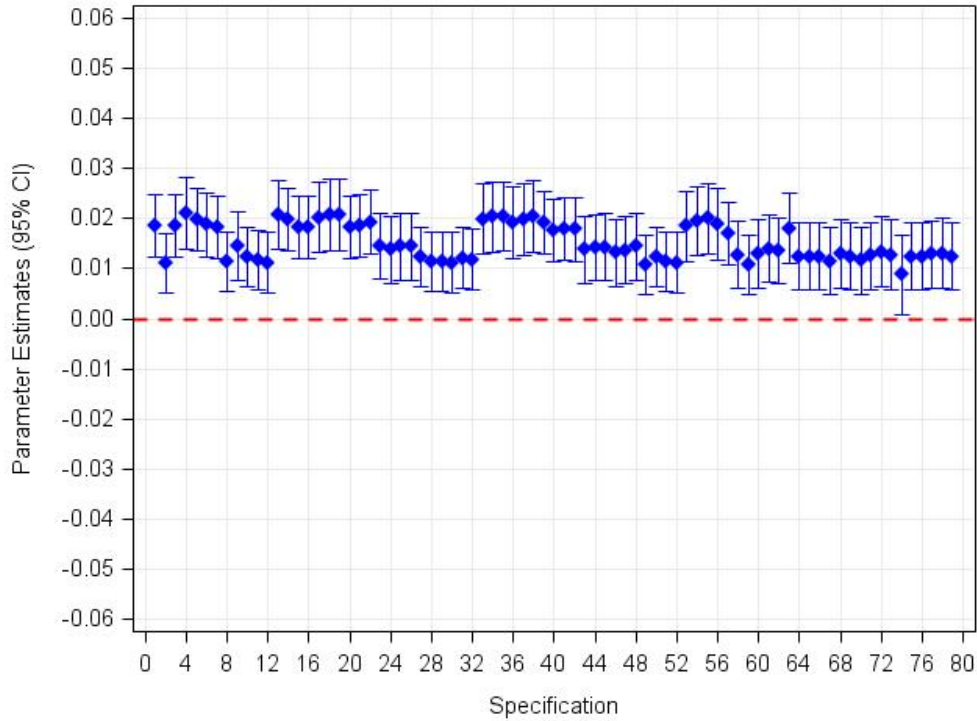
	(1)	(2)	(3)	(4)	(5)	(6)
LAGGED GSP UTILIZATION	0.2996 (0.0022)	0.2995 (0.0022)	0.296 (0.0024)	0.2949 (0.0024)	0.2996 (0.0022)	0.2996 (0.0022)
LOG PRODUCT EXPORT VOLUME	0.0257 (0.0004)	0.0258 (0.0004)	0.0261 (0.0004)	0.0261 (0.0004)	0.0257 (0.0004)	0.0257 (0.0004)
MFN-GSP PREFERENCE MARGIN	0.0054 (0.002)	0.0054 (0.002)	0.005 (0.0022)	0.0062 (0.0021)	0.0054 (0.002)	0.0054 (0.002)
LOG GDP	-0.0419 (0.0053)	-0.042 (0.0053)	-0.0426 (0.0058)	-0.0405 (0.0058)	-0.0422 (0.0053)	-0.0417 (0.0053)
EXPORTS (% OF GDP)	-0.0007 (0.0002)	-0.0008 (0.0002)	-0.0007 (0.0002)	-0.0005 (0.0002)	-0.0007 (0.0002)	-0.0007 (0.0002)
WTO MEMBER	0.0197 (0.0097)	0.0175 (0.0097)	0.0494 (0.0151)	0.027 (0.0101)	0.0196 (0.0097)	0.0196 (0.0097)
DEMOCRACY	0.0116 (0.0033)	0.0118 (0.0033)	0.0122 (0.0035)	0.011 (0.004)	0.0127 (0.0033)	0.0124 (0.0033)
AID (% OF U.S. AID)	0.3725 (0.1433)					
UN IDEAL POINT DISTANCE		-0.0099 (0.0048)				
ALLIANCE			0.1325 (0.0219)			
U.S. FDI (% OF GDP)				-0.0273 (0.0443)		
PTA WITH U.S.					-0.0065 (0.0054)	
AD/CVD INVESTIGATION						-0.0067 (0.0082)
<i>N</i>	179,666	179,127	179,666	157,973	179,666	179,666
Year, Country, and Product Fixed Effects	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>	<i>Yes</i>

Robust standard errors in parentheses
Shown with Year Fixed Effects

to have the same incentives as other firms in developing countries. Whether the firm is U.S. owned or based locally, if the preferential margin exceeds the administrative costs of GSP, exporters use the preference. Similarly, as shown in Model 5, exporters in states that have a preferential trade agreement with the United States utilize GSP at the same rate as those that do not. Finally, we speculated that exporters may be reticent to use GSP (or importers to claim preferences) for products that were recently the subject of anti-dumping and countervailing duty disputes. As shown in Model 6, this does not appear to be the case. Products undergoing AD/CVD investigations are indistinct with respect to GSP utilization from those that are not.

Following a method suggested by [Gelman and Hill \(2006\)](#), we include a series of figures to assess the robustness of our findings. These graphs are visual depictions of 79 different specifications of the models including democracy ([Figure 3](#)), the interaction between regime type and the preferential margin ([Figure 4](#)), WTO membership ([Figure 5](#)), aid share ([Figure 6](#)), UN ideal point difference ([Figure 7](#)), and alliance ([Figure 8](#)). The variables included in each model are listed in the Appendix. Each dot represents the parameter estimate for the variable of interest, and the attached lines provide the 95% confidence interval for that estimate. All models are estimated with fixed effects. As shown, the results for democracy and the interaction between regime type and the preferential margin are robust across nearly all specifications: democracy has a consistently positive effect on GSP utilization, and the interaction between the tariff margin and democracy is slightly negative, suggesting that the differences between democracies and non-democracies with respect to GSP utilization are overcome as the preferential margin increases. Additionally, the other measures of strategic importance show similar trends. Aid is significant and consistently signed across all specifications, and ideal point difference is nearly as robust a predictor, showing a consistent negative effect on GSP utilization. Alliance is significant across 80 percent of the models, but, taken as a whole, the four measures of strategic importance are robustly correlated with GSP use. Controlling for democracy, WTO membership is consistently signed but fluctuates

Figure 3: Parameter Estimates for Democracy Across 79 Specifications



in significance across specifications. The models are identical across the six figures, except all regressions depicted in Figure 4 include democracy and the preference margin main effect.

In summary, state politics affect exporter behavior. Exporters from WTO member states and countries that are strategically important to the United States, whether it is measured through democracy, substantial provision of foreign aid, voting at the United Nations, or formal alliances, are more likely to take advantage of the Generalized System of Preferences. GSP, like a trade agreement, is a tool of state influence. GSP recipients are more likely to sign agreements with the United States to withhold Americans from the International Criminal Court and less likely to retaliate against the U.S. for trade sanctions. Failure to comply with the interests and values of the United States poses meaningful risks for suspension, removal, or graduation from GSP. Additionally, we find evidence supporting the premise that the WTO insulates member states from conditionality. While this finding is less robust than the strategic importance measures, it still suggests a relationship between the variables. These

Figure 4: Parameter Estimates for Democracy*Preference Margin Across 79 Specifications

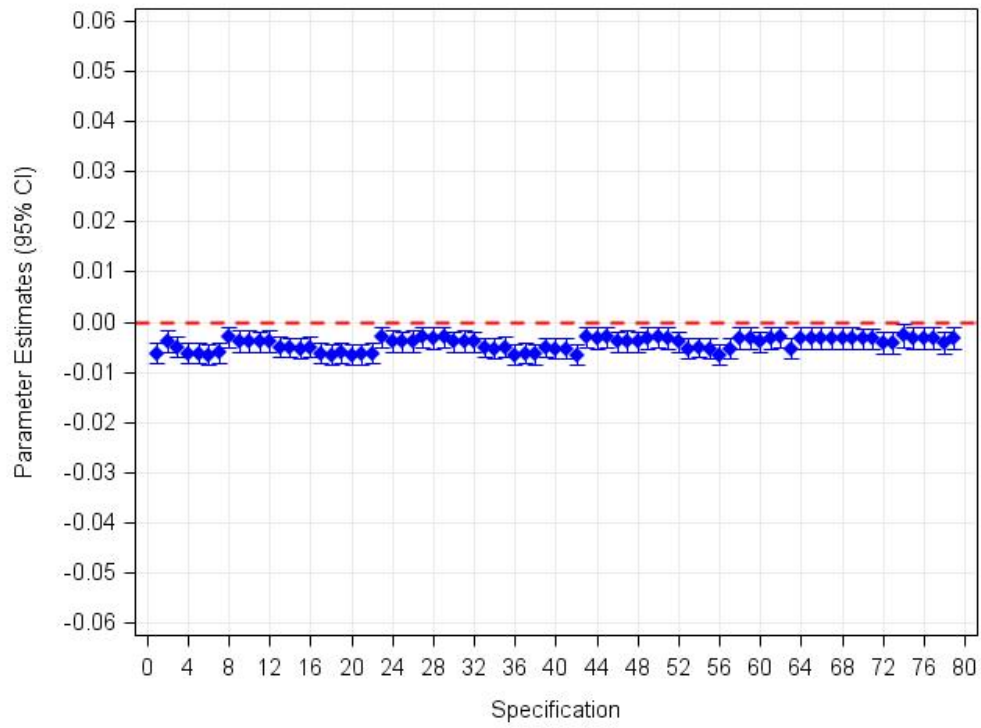


Figure 5: Parameter Estimates for WTO Across 79 Specifications

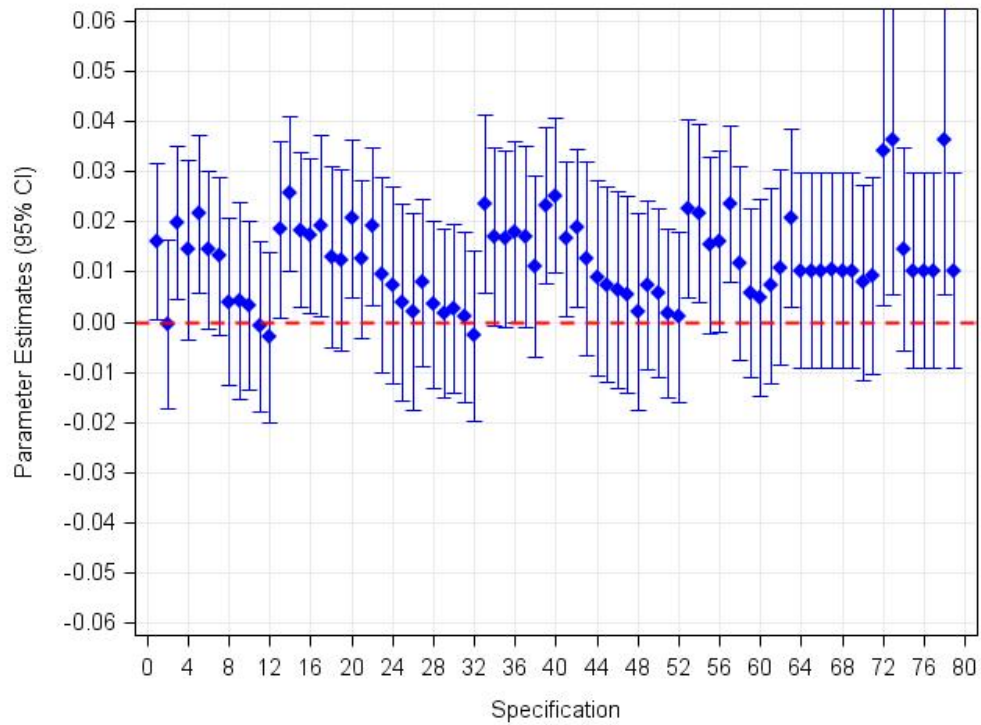


Figure 6: Parameter Estimates for Aid Share Across 79 Specifications

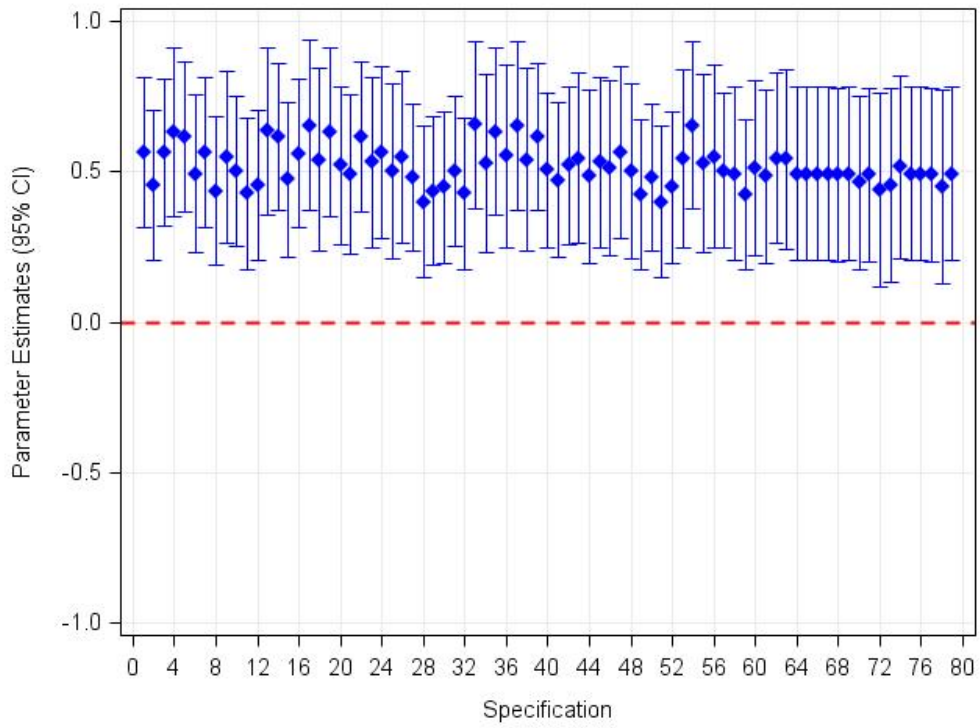


Figure 7: Parameter Estimates for Ideal Point Difference Across 79 Specifications

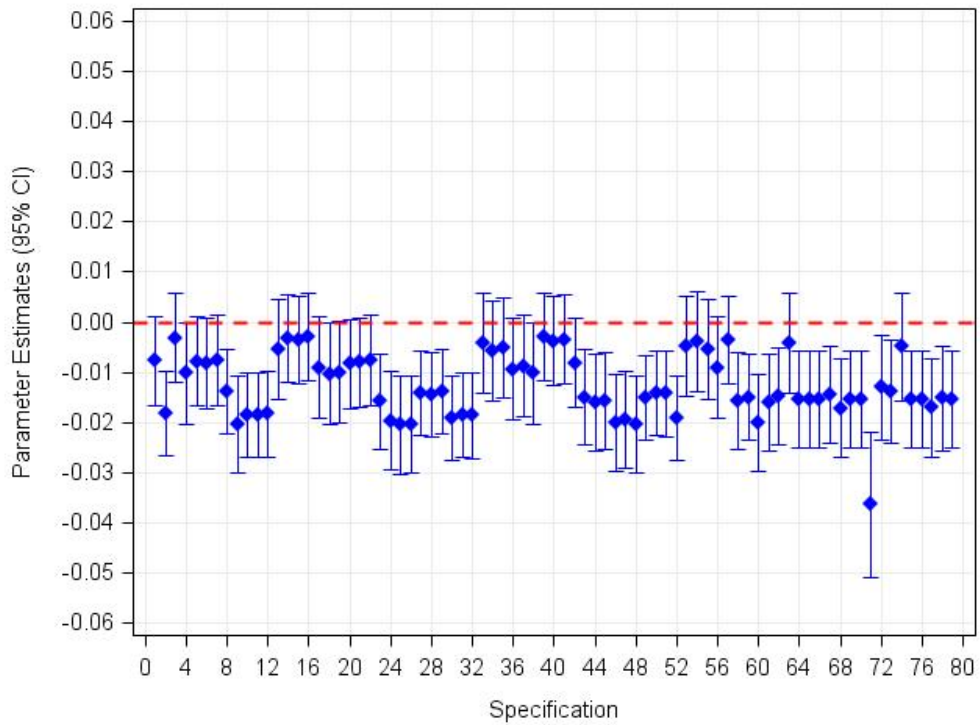
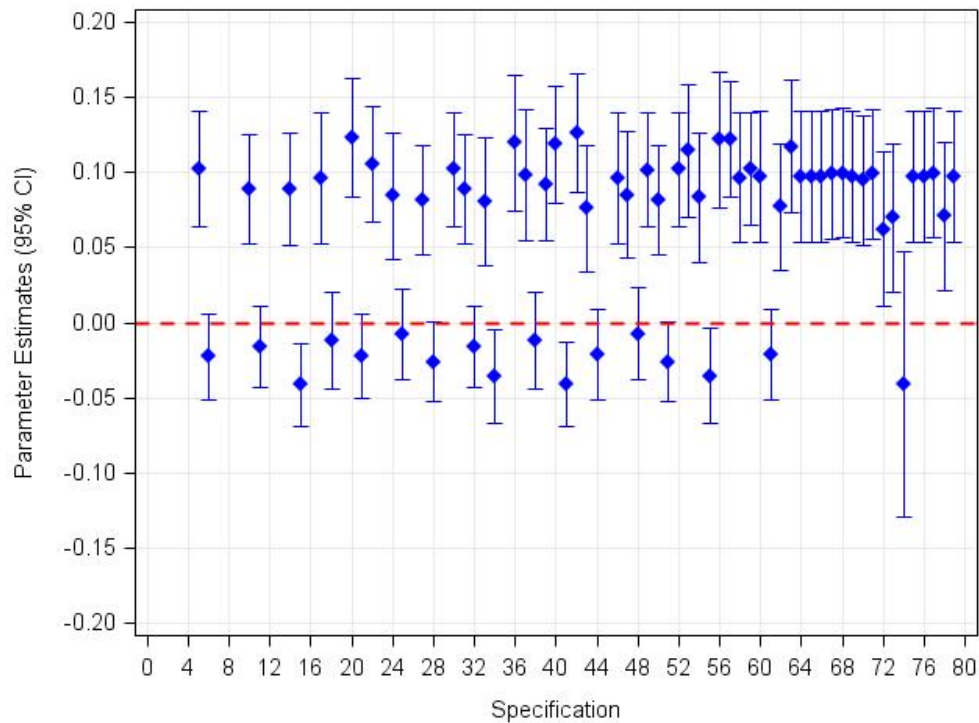


Figure 8: Parameter Estimates for Alliance Across 79 Specifications



findings are not the sole reason for limited GSP utilization; instead, we also find support for the two primary economic theories of utilization, preferential margins and export volume. However, exporters price in more than compliance costs to their decisions on whether to use GSP: they also consider political risk.

5 Conclusion

The Generalized System of Preferences provides one-way tariff preferences to developing countries, ostensibly as a form of aid. Developing country exporters who comply with the various administrative requirements of the program gain preferential access to the enormous U.S. market, while the U.S. receives no discernable benefit in return. However, by attaching conditions to the duty-free access granted under GSP, the United States can use GSP as a foreign policy tool to achieve its aims and punish unwanted behaviors. Thus, while developing

countries gain a meaningful boon for exporters, the U.S. is not wholly magnanimous in its participation — GSP also exists as a carrot for adhering to U.S. interests. Exporters, recognizing that GSP benefits can be removed at any time for reasons beyond their control, must consider this risk when deciding whether to reorient their businesses to take advantage of GSP.

This has two primary implications: first, the conventional wisdom on GSP utilization is that, when the administrative costs of GSP are less than the benefits derived from duty-free treatment of their products, exporters use the program. However, large shares of GSP-eligible products enter the U.S. under MFN or worse rates, presenting a lingering puzzle for scholars of GSP: is utilization only limited by administrative costs, or does something else contribute to less-than-universal use of the program? Our research suggests that part of the gap in utilization can be explained by the risks brought on by conditionality. Thus, future research on GSP utilization should, in addition to refining economic explanations through better measurement of compliance costs, also consider possible political accounts.

Second, conditionality comes with meaningful externalities for exporters from developing countries. When GSP beneficiary states lobbied against conditionality at the UNCTAD meeting in New Delhi, they correctly identified that it would impose costs inhibiting the trade-as-aid nature of the program. Prior research shows that GSP has adverse unintended consequences: GSP beneficiaries trade less overall and are also less likely to reduce tariffs while participating in the program. The presence of and costs from conditionality call even the central conceit of GSP — that it exists as an aid program for developing country exporters — into question.

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6 Appendix

This section details the models used to assess the robustness of democracy (Figure 3), the interaction between regime type and the preferential margin (Figure 4), WTO membership (Figure 5), aid share (Figure 6), UN ideal point difference (Figure 7), and alliance (Figure 8). In the interest of space, the models used for Figure 3 are listed below. Figure 4 uses the same models but includes an interaction between DEMOCRACY and MFN-GSP TARIFF MARGIN along with both main effects. Additionally, it excludes all models that lack the preferential margin main effect.

Fixed Effects Models

- 1) GSP Utilization = Democracy
- 2) GSP Utilization = Lag(GSP Utilization) Democracy
- 3) GSP Utilization = Log(Import Value) Democracy
- 4) GSP Utilization = MFN-GSP Preference Margin Democracy
- 5) GSP Utilization = Log(GDP) Democracy
- 6) GSP Utilization = Exports (%GDP) Democracy
- 7) GSP Utilization = WTO Member Democracy
- 8) GSP Utilization = Lag(GSP Utilization) Log(Import Value) Democracy
- 9) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Democracy
- 10) GSP Utilization = Lag(GSP Utilization) Log(GDP) Democracy
- 11) GSP Utilization = Lag(GSP Utilization) Exports (%GDP) Democracy
- 12) GSP Utilization = Lag(GSP Utilization) WTO Member Democracy
- 13) GSP Utilization = Log(Import Value) MFN-GSP Preference Margin Democracy
- 14) GSP Utilization = Log(Import Value) Log(GDP) Democracy
- 15) GSP Utilization = Log(Import Value) Exports (%GDP) Democracy
- 16) GSP Utilization = Log(Import Value) WTO Member Democracy
- 17) GSP Utilization = MFN-GSP Preference Margin Log(GDP) Democracy
- 18) GSP Utilization = MFN-GSP Preference Margin Exports (%GDP) Democracy
- 19) GSP Utilization = MFN-GSP Preference Margin WTO Member Democracy
- 20) GSP Utilization = Exports (%GDP) Log(GDP) Democracy
- 21) GSP Utilization = Exports (%GDP) WTO Member Democracy
- 22) GSP Utilization = Log(GDP) WTO Member Democracy
- 23) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Democracy
- 24) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(GDP) Democracy
- 25) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Exports (%GDP) Democracy
- 26) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin WTO Member Democracy
- 27) GSP Utilization = Lag(GSP Utilization) Log(Import Value) Log(GDP) Democracy
- 28) GSP Utilization = Lag(GSP Utilization) Log(Import Value) Exports (%GDP) Democracy
- 29) GSP Utilization = Lag(GSP Utilization) Log(Import Value) WTO Member Democracy

- 30) GSP Utilization = Lag(GSP Utilization) Log(GDP) Exports (%GDP) Democracy
- 31) GSP Utilization = Lag(GSP Utilization) Log(GDP) WTO Member Democracy
- 32) GSP Utilization = Lag(GSP Utilization) Exports (%GDP) WTO Member Democracy
- 33) GSP Utilization = MFN-GSP Preference Margin Log(Import Value) Log(GDP) Democracy
- 34) GSP Utilization = MFN-GSP Preference Margin Log(Import Value) Exports (%GDP) Democracy
- 35) GSP Utilization = MFN-GSP Preference Margin Log(Import Value) WTO Member Democracy
- 36) GSP Utilization = MFN-GSP Preference Margin Log(GDP) Exports (%GDP) Democracy
- 37) GSP Utilization = MFN-GSP Preference Margin Log(GDP) WTO Member Democracy
- 38) GSP Utilization = MFN-GSP Preference Margin Exports (%GDP) WTO Member Democracy
- 39) GSP Utilization = Log(Import Value) Log(GDP) WTO Member Democracy
- 40) GSP Utilization = Log(Import Value) Log(GDP) Exports (%GDP) Democracy
- 41) GSP Utilization = Log(Import Value) Exports (%GDP) WTO Member Democracy
- 42) GSP Utilization = Log(GDP) Exports (%GDP) WTO Member Democracy
- 43) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Democracy
- 44) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Exports (%GDP) Democracy
- 45) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) WTO Member Democracy
- 46) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(GDP) Exports (%GDP) Democracy
- 47) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(GDP) WTO Member Democracy
- 48) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Exports (%GDP) WTO Member Democracy
- 49) GSP Utilization = Lag(GSP Utilization) Log(Import Value) Log(GDP) Exports (%GDP) Democracy
- 50) GSP Utilization = Lag(GSP Utilization) Log(Import Value) Log(GDP) WTO Member Democracy
- 51) GSP Utilization = Lag(GSP Utilization) Log(Import Value) Exports (%GDP) WTO Member Democracy
- 52) GSP Utilization = Lag(GSP Utilization) Log(GDP) Exports (%GDP) WTO Member Democracy
- 53) GSP Utilization = MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP) Democracy
- 54) GSP Utilization = MFN-GSP Preference Margin Log(Import Value) Log(GDP) WTO Member Democracy
- 55) GSP Utilization = MFN-GSP Preference Margin Log(Import Value) Exports (%GDP) WTO Member Democracy
- 56) GSP Utilization = MFN-GSP Preference Margin Log(GDP) Exports (%GDP) WTO Member Democracy
- 57) GSP Utilization = Log(Import Value) Log(GDP) Exports (%GDP) WTO Member Democracy
- 58) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP) Democracy
- 59) GSP Utilization = Lag(GSP Utilization) Log(Import Value) Log(GDP) Exports (%GDP) WTO Member Democracy
- 60) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(GDP) Exports (%GDP) WTO Member Democracy
- 61) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Exports (%GDP) WTO Member Democracy
- 62) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) WTO Member Democracy
- 63) GSP Utilization = MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP) WTO Member Democracy
- 64) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP) WTO Member Democracy

- 65) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP)
WTO Member AD/CVD Ruling Democracy
- 66) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP)
WTO Member U.S. Ally Democracy
- 67) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP)
WTO Member ODA (%U.S. Aid) Democracy
- 68) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP)
WTO Member U.S. PTA Democracy
- 69) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP)
WTO Member Partisanship Democracy
- 70) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP)
WTO Member UN Ideal Point Difference Democracy
- 71) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP)
WTO Member UN Ideal Point Difference (Important Issues) Democracy
- 72) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP)
WTO Member U.S. FDI Stock Democracy
- 73) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP)
WTO Member U.S. FDI (%GDP) Democracy
- 74) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP)
WTO Member FDI (%GDP) Democracy
- 75) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP)
WTO Member Democracy
- 76) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP)
WTO Member Democracy
- 77) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP)
WTO Member AD/CVD Ruling U.S. PTA Democracy
- 78) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP)
WTO Member AD/CVD Ruling U.S. PTA U.S. FDI (%GDP) Democracy
- 79) (1989 data) GSP Utilization = Lag(GSP Utilization) MFN-GSP Preference Margin Log(Import Value) Log(GDP) Exports (%GDP) WTO Member AD/CVD Ruling Democracy