Developing Countries' Utilization of GSP:
Labor Standards, the Margin of Preference, and the Demand for Zero Tariffs

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INTRODUCTION

In October, 2020, the United States renewed Georgia's and Uzbekistan's duty-free market access under the Generalized System of Preferences (GSP). Citing these countries' "improvements in the protection of worker rights," the United States Trade Representative explained that "[t]oday's announcement demonstrates the effective use of the GSP program *to improve labor standards....*"[1] This assessment taps the conventional wisdom. Most government reports, and much of the academic literature, find that *conditionality* in GSP leads recipients to implement higher labor standards. But nearly all of these studies tell a supply-side story, one in which "suspension" results in reform after the fact. Yet if the conventional wisdom is right, the evidence should also be clear from a demand-side perspective as well, one in which exporters make more use of GSP, the less vulnerable their country to suspension in the first place. That is, exporters should be less likely to utilize this tariff preference if they fear that their country's actions on workers rights could lead to overall removal from GSP. We propose and test this demand-side account of the utilization of GSP on a country-product-year level, and find reason to doubt that recipients price in the risk of suspension in making the costly investments needed to use these tariff preferences.

Exporters weigh the costs and benefits of using GSP. The costs include substantial auditing requirements, monitoring export volumes below a year-on-year quantitative limit, and, most importantly, complying with "rules of origin" on domestic sourcing, versus from a global supply chain. The benefits include the *margin of preference* over the tariff that an exporter would otherwise pay, namely the US's Most-Favored Nation (MFN) or non-MFN rate, depending on whether the recipient belongs to the World Trade Organization (WTO).

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[1] https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/october/ustr-announces-gsp-enforcement-action-country-successes-and-new-eligibility-reviews. Emphasis added.

This margin is the literature's single best predictor of GSP utilization.[2] But the catch is that the zero-tariff under GSP can be suspended if, for example, the recipient falls short on labor standards. We argue that exporters should be expected to value the risk of suspension in deciding whether to use GSP, and that worker rights—*if they matter*—should loom large in this decision.

We argue, in particular, that a recipient with lower labor standards is at greater risk of suspension, in which case its exporters will require a higher margin in order to use GSP, controlling for the costs. Conversely, a recipient with higher labor standards is at a lower risk of suspension, in which case its exporters are likely to use GSP at lower margins, again. We test these hypotheses on a new data set that enables us to examine GSP utilization rates by country-product-year.

One of the most enduring puzzles about GSP is that it is *under*utilized. The program is widely seen as a "free lunch" for developing countries because it is non-reciprocal, meaning a recipient does not have to liberalize at home in order to get market access to the US. Yet, utilization averages only 60%. What role do labor standards play in this lack of full utilization? We look to answer this question by pricing in the risk of suspension from GSP over worker rights.

In our main estimation we use a two-limit Tobit model, but use a specification curve to show how our results hold up across other models, including a fractional logit, generalized method of moments, and standard gravity model. The specification curve results reveal a strong, positive effect of the margin, but show no effect of the interaction of this margin with the recipient's labor standards, or of labor standards alone. This lack of

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evidence casts serious doubt on whether GSP improves labor standards in developing countries.

Why does this matter? Dating back to 1976, the US has used GSP to pursue a variety of political goals, from encouraging compliance with intellectual property rights to adhering to investor rights.[3] Yet, worker rights stand out in the politics of GSP. Indeed, petitions to suspend a recipient, which are often filed by US interest groups, frequently mention labor standards. Moreover, the US House of Representatives is currently weighing legislation that would put *more* emphasis on enforcing "internationally recognized worker rights," making this a precondition for renewing the program.[4] Will a legislative rewrite make GSP more effective at promoting labor standards? Our demand-side study, assessing utilization at the country-product-year level, suggests that it will not.

Our paper proceeds as follows. First, we explain the costs and benefits of US GSP, and how a recipient's labor standards should inform an exporter's decision to use the program. Second, we detail our research design, describing the data and the models estimated. Third, we present our findings and robustness checks. Fourth, we conclude with some implications for GSP, and using trade preferences to leverage political influence more generally.

II. GSP AND LABOR STANDARDS

Title IV of the Trade Act of 1974 lays out US GSP, although the program did not officially launch until 1976. Like other GSP programs, the US version is a form of "trade as aid." It gives non-reciprocal tariff preferences to developing countries on eligible goods,

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and is allowed for under the WTO's *Enabling Clause*, which permits—*but does not require*—this preference, as it would otherwise violate MFN.[5] US GSP covers 5,000 tariff lines on imports from 119 developing countries, but the catch is that it comes with *conditionality*, meaning a recipient can be suspended if it does not comply with various political criteria. Labor standards stand out in this regard.[6]

US legislation says, in particular, that GSP can be suspended if a recipient does not "afford internationally recognized worker rights."[7] These include the right of association; collective bargaining; a prohibition on forced labor; a minimum age for child employment, a ban on the "worst forms of child labor;" minimum wages, hours of work and occupational safety and health.[8] Interest groups, especially unions, often petition to have the US conduct reviews of a recipient's compliance with labor standards, looking to have them suspended. Nicaragua (1987), Paraguay (1987), Chile (1988), Sudan (1991), Belarus (2000), Bangladesh (2013) and Thailand (both in 2019 and 2020), for example, have all been suspended over worker rights.

The House would like to go further. In the Generalized System of Preferences and Miscellaneous Tariff Bill Modernization Act of 2021, the language calls for a deeper "review of the laws of each beneficiary developing country relating to internationally recognized worker rights…."[9] The bill inserts the "elimination of discrimination with respect to employment and occupation" and sanctions "violence or threats of violence against

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[6] Amy M. Mason, "The Degeneralization of the Generalized System of Preferences (GSP): Questioning the Legitimacy of the US GSP." Duke Law Journal 54 (2) 2004, p. 524.

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[9] HR 3975, "Generalized System of Preferences and Miscellaneous Tariff Bill Modernization Act of 2021," (117th Congress, 1st Session), p. 37.

workers, including violence related to gender-based violence or harassment in the work-place and violence related to workers exercising or attempting to exercise any of the rights."[10] In other words, GSP is drawing more on the ILO covenants. But does the *threat* of suspension change labor standards in recipient countries?

Government studies insist that it does. For example, Europe's GSP, which also ties tariff preferences to worker rights, is argued to have pushed Bangladesh to make important labor reforms.[11] A partial suspension of Cambodia (also by the EU), mostly over worker rights, is said to have prompted the government to revamp its laws.[12] The European Commission's biannual report also credits GSP with getting Bolivia to raise its minimum age to 14 years, Paraguay to vow to end all child labor by 2024, and Sri Lanka to create "Child Labour Free Zones," which it credits with reducing child labor from 16% to 1% of total employment.[13]

The US also claims a long list of success stories involving GSP and labor standards. Thailand, for example, endured six years of GSP reviews, and took "steps to provide internationally recognized worker rights in a number of important areas" because of this scrutiny.[14] In addition, Bangladesh is argued to have increased its commitment to worker rights under threat of suspension, culminating in an agreement that involves input and monitoring by Canada and the International Labor Organization (ILO).[15] Indonesia also responded to

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[10] HR 3975, "Generalized System of Preferences and Miscellaneous Tariff Bill Modernization Act of 2021,"p. 42.
[11] "Bangladesh to Reform Labour Laws to Retain Trade Benefits." Just-Style 28 October, 2020.
[12] "Cambodia: EU Partially Suspends Trade Preferences." Human Rights Watch 13 February, 2020.
[13] European Commission, "Joint Report to the European Parliament and the Council: Report on the Generalized Scheme of Preferences Covering the Period 2018-2019" (JOIN(2020) 3 final), p. 8.
[14] "US Cuts to Thailand's Free-Trade Benefits Take Effect." Voice of America 25 April, 2020.
[15] Congressional Research Service, "Generalized System of Preferences (GS): Overview and Issues for Congress (2021), p. 30.

threats of being suspended from GSP, changing labor laws the US found problematic since the early 1990s.[16]

As more evidence of a link between GSP and labor standards, consider the fact that developing countries complain about it. They insist that this conditionality creates too much uncertainty about market access. In advance of the 1999 WTO Ministerial, for example, Cuba, the Dominican Republic and Honduras proposed that "[p]reference-giving countries *shall not subject preferential market access to conditionalities*, whether trade-related or not," or "initiate any form of unilateral action against preference-receiving countries…."[17] India has been just as vocal in its opposition, demanding that the link "*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."[18] Yet, when asked to rule on conditionality, the WTO has upheld it. In a dispute filed by India against the European Communities (EC), called *EC—Tariff Preferences*, the WTO's Appellate Body said that countries should "ensure that identical treatment *is available to all similarly-situated GSP beneficiaries,*"[19] but did *not* rule against conditionality per se.

The problem with much of this literature on GSP, however, is that it is cast at the level of the *recipient*. As Hafner-Burton, Mosley and Galantucci find, labor standards matter in suspensions of recipients, but *not* product ones.[20] They argue, more specifically, that

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[16] George Tsogas, "Labour Standards in the Generalized Systems of Preferences of the European Union and the United Sates," *European Journal of Industrial Relations* 6 (3) 2000, p. 356.

[17] WT/GC/W/377. Emphasis added.

[18] WT/GC/W/123, 4. Emphasis added.

[19] WTO Document WT/DS246/AB/R, paragraph 173. Emphasis added.

[20] Emilie M. Hafner-Burton, Layna Mosley and Robert Galantucci, "Protecting Workers Abroad and Industries at Home: Rights-Based Conditionality in Trade Preference Programs." Journal of Conflict Resolution X (X) 2018, p. 20.

suspensions of recipients are a rare event, whereas suspensions of specific products are not, suggesting the decision of exporters to use GSP—i.e., a demand-side story—might be more telling with respect to any link between trade and labor standards than the common supply-side approach.

The Costs of Using GSP

An exporter incurs three main costs in using GSP. First, there is the paperwork. On a per-shipment basis, exporters must submit a wealth of audited information, and meet five-year record-keeping requirements. A tariff bill under GSP assigns the letter "A" in front of the good's eight-digit tariff code, but it falls on the exporter to verify that all ("A") or some ("A*") suppliers are eligible for GSP, or that the good is one of the 1,500 additional items that would be eligible from a least-developed country ("A*").

Second, there are trade volume concerns, known as "competitive needs limitations" (CNLs), that must be monitored on a yearly basis. These are quantitative caps on the import of a good from a given recipient by year. Specifically, CNLs restrict goods from a country that accounts for 50 percent of the total value of US imports, or exceeds a dollar value, set at $155 million in 2012. Waivers from CNLs can be had, but these require that the exporter make its case using eight-digit tariff data, which is difficult. For example, in 2018, Kazakh-stan received a one-year waiver on "ferrosilicon chromium," a product that had been under a CNL the prior year, but the effort was costly. There is another waiver for goods that have not been produced in the US over the previous three years, but through 2019, only one has been issued, reflecting a high bar on submissions. In short, CNLs, and waivers from them, add exporter costs to using GSP.

Third, and most important, there are rules of origin. Exporters have to track their use of inputs from upstream suppliers to ensure compliance with thresholds for the content by value of eligible products. This means that, to gain a tariff preference, an exporter might have to rework its supply chain to meet these rules. US legislation requires that, to be eligible for GSP, the good "must be the growth, product or manufacture" of a recipient, with domestic materials, and direct costs of processing, equal to *at least* 35 percent of the appraised value. Audits can be onerous, especially where rules of origin are subject to change.

To put this cost in better perspective, consider the example of the North American Free Trade Agreement (NAFTA). Most of NAFTA's rules of origin were so costly to comply with that some 80 percent of Mexican trade with the US took place under WTO rules.[21] The US Chamber of Commerce worries about this happening in a revamped GSP, warning that "[t]hese revisions could lead foreign governments to conclude that *GSP's compliance burdens outweigh its economic benefits*."[22] Like in preferential trade agreements, the value of a tariff preference has to be weighed against the cost of meeting a rule of origin that may require a substantial overhaul of the exporter's supply chain.

The Benefits of Using GSP

While the costs of using GSP might be large, for some, the benefits ar even greaer. GSP is a zero-tariff. Its value is measured against what the exporter would pay without this zero tariff: the US MFN or non-MFN tariff, depending on whether the recipient is a

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[22] Letter from Neil L. Bradley, Executive Vice President, Chief Policy Office and Head of Strategic Advocacy, US Chamber of Commerce, to Members of the House Committee on Ways and Means, December 1, 2021.

member of the WTO. The literature rallies around this margin like no other variable.[23] The idea here is that the larger the margin, the greater the likelihood that the benefits of utilization outweigh the costs. Keck and Lendle, for example, find that this margin is key to explaining GSP utilization across Australia, Canada, Europe and the United States.[24] Similarly, Hoekman, Martin and Primo Braga introduce a volume of empirical studies by stressing the importance of the margin, warning that its erosion poses challenges for developing countries.[25] Alexandraki and Lankes take the concern for erosion further, explaining that exporters risk losing markets secured under GSP, given the proliferation of preferential trade agreements, for example.[26] In our data, GSP's margin ranges from zero to 38 percent.

What the literature has never done, and what we do here, is to scale this margin by the risk of suspension over labor standards. We price in the risk of suspension in telling a demand-side account of the extent to which exporters use GSP by country-product-year. We hypothesize that a recipient with *lower* (*higher*) labor standards is at *more* (*less*) risk of suspension, such that its exporters will require a *higher* (*lower*) margin to use GSP, net the costs.

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[23] Congressional Research Service, "Generalized System of Preferences," (Washington, DC: CRS, 2002), p. 6; Congressional Research Service, "Generalized System of Preferences: Background and Renewal Debat." (Washington, DC: CRS, 2008), p. 24.
[24] Alexander Keck and Andreas Lendle, "New Evidence on Preference Utilization," (Geneva: WTO Economic Research and Statistics Division, 2012).
[25] Bernard Hoekman, Willliam J. Martin and Carlos A. Primo Braga, "Quantifying the Value of Preferences and Potential Erosion Losses," (Washington, DC: World Bank, 2008).
[26] Katerina Alexandraki and Hans Peter Lankes, "The Impact of Preference Erosion on Middle-Income Developing Countries," (Washington, DC: IMF Working Paper No WP/04/169, 2004).

III. RESEARCH DESIGN

Our unit of analysis is imports from GSP eligible countries to the US at the country-product-year level, 1997-2011. Data are from the U.S. International Trade Commission.[27]

The dependent variable, GSP UTILIZATION, is defined as the fraction of GSP-eligible imports at the Harmonized Tariff System (HTS) 8 digit-level that utilize either GSP or GSP+[28] when imported into the US. Formally, we calculate GSP UTILIZATION as:

$$y_{cjt} = \frac{x_{cjt}^{claim}}{x_{cjt}^{eligible}}$$

Where x^{claim} represents the total value of imports under GSP or GSP+, $x^{eligible}$ represents the total value of imports that were eligible for GSP, and c,j,t are the country, product and year, respectively.

If a good entered the US under an alternative trade scheme, we do not include it in the analysis. We only compare GSP UTILIZATION with the decision to export under the US's MFN or non-MFN rates. We obviously exclude cases where a country is *ineligible* for GSP treatment on a particular product or where some other exclusion was in effect. For example, US GSP includes CNLs eliminating or restricting utilization of these trade benefits when a good from a country (1) accounts for more than 50 percent of the total value of US imports of that good; or (2) exceeds a certain dollar value (i.e., $155 million in 2012). If, however,

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[27] For 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.

[28] GSP+ is a supplemental program that allows for duty-free import of additional products from least-developed countries. From here on we use GSP to refer to both GSP and GSP+

a country received a CNL waiver, or even a *de minimis* waiver, we include it in the analysis.

We have three variables of interest: (1) PREFERENCE MARGIN; (2) LABOR RIGHTS; and (3) their interaction. First, GSP PREFERENCE MARGIN is the difference between the US program's duty-free rate, and either its MFN or non-MFN rates. We use the World Bank's World Integrated Tariff Solution database to determine the average duty rates, available at HTS-8 level, for all products entering the United States under MFN or non-MFN rates, and subtract the GSP rate. Consistent with prior research, we expect GSP utilization to increase with margin of preference.

Second, to measure LABOR RIGHTS, we use the Worker's Rights variable from the CIRI Human Rights Data Project. This measures the extent to which workers enjoy internationally recognized rights at work, such as freedom of association, prohibitions on forced labor, and acceptable health and safety conditions in the workplace. The variable is measured on a scale of 0-2, with 0 indicating that rights are severely restricted, and 2 indicating that rights were fully protected in a given year.[29] We expect that countries with lower scores will be less likely to use GSP, given concerns for suspension.

Third, we interact the PREFERENCE MARGIN with LABOR RIGHTS, the expectation being that countries with lower scores on the latter might be enticed to use this trade preference the larger the difference between GSP and either the MFN or non-MFN rate. Specifically, we expect the interaction of PREFERENCE MARGIN and LABOR RIGHTS to be negatively signed.

The rest of the variables in our specification look at country-product characteristics that are likely to shape the costs of using GSP. We draw these from Hakobyan (2015), the

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[29]Cingranelli, Richards, and Clay 2014

most recent published work on the preference margin. First, firms need to comply with the rules of origin laid out in GSP. US GSP has relatively simple local content requirements (LCRs), Specifically, the value of local materials, plus the 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."[30] The cost of complying with local content requirements varies across countries, industries, and firms, but the less local content added to the product in the recipient country, the more burdensome it is for firms to satisfy LCRs and the less likely the firm is to utilize GSP. We deal with much of this variation by using fixed effects. Still, unprocessed primary products easily satisfy these LCRs, and thus we include a variable called PRIMARY EXPORTS, which is a dummy variable that takes the value of 1 if the product is classified as such. At the same time, LCRs are somewhat relaxed if the value of the good has been produced regionally. To account for this easing of LCRs, we include REGIONAL CUMULATION, a dummy that equals 1 if the beneficiary country qualifies for regional cumulation within any of the six regional associations in that year.

Next, we include IMPORT VALUE, the sum of preferential imports and MFN imports of a given product that are imported to the US. Here, we account for the potential of exporters to reduce utilization if their product is close to being terminated or limited for GSP benefits due to competition. As we note above, the US terminates or limits GSP benefits for a given product line when that product (1) accounts for more than 50 percent of the total value of U.S. imports for that good or (2) exceeds a certain dollar value (i.e., $155 million in 2012). If an exporter is approaching those limits, they may not fully utilize GSP.

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[30] USTR 2015

Beneficiaries who are close to "graduating" from GSP—meaning they will soon be too wealthy to qualify—may utilize the program *less* in anticipation in anticipation. We account for this with the variable GRAD ELIGIBILITY, an indicator that takes the value of 1 if the country c is in its last year of GSP eligibility and will graduate from GSP in the next year.

Finally, and importantly, exporters that are eligible for other preferential programs with less onerous requirements may utilize these programs instead of GSP. Indeed, it is possible that these other programs, even if not as generous as GSP in terms of a preference margin, would be preferred because the overhead cost of using them is less. We thus include OTHER PROGRAM, a dummy variable equal to 1 if the product originating in the beneficiary country is eligible for an alternative trade preference program in that year.

Model Specification

The utilization rate is bonded between 0 and 1 with a number of observations at extreme values, so we us a two-limit Tobit model to estimate our main specification:

$$y^*_{cjt} = \beta_1 Preference\ Margin + \beta_2 Worker's\ Rights + \beta_3 Preference\ Margin \\ * Worker's\ Rights + \beta_4 Controls + \varphi_c + \omega_j + \tau_t + \varepsilon_{cjt}$$

Where y_{cjt} is the GSP UTILIZATION rate of product *j* imported from country *c* at time *t*; Controls includes all of the control variables detailed above, φ is fixed country effects, ω are fixed product effects, τ are fixed time effects, and ε is an error term. We re-estimate this equation using more standard estimation techniques including OLS, fractional logit (which models the conditional mean as a logistic function ensuring that the predicted values fall

between 0 and 1), and System GMM to deal with the potential for serial correlation and endogeneity in the OLS model. While the size of the coefficient estimates and marginal effects vary across these estimation techniques, the signs and significance levels remain relatively consistent.

IV. FINDINGS

Table XXX reports the results of equation 1 estimated by Tobit, OLS, Fractional Logit and System GMM. Focusing on our preferred specification, the Tobit in Model (1), we find that, as in other research on GSP utilization, there is a positive and statistically significant relationship between PREFERENCE MARGIN and GSP UTILIZATION. Surprisingly, there is no statistically significant relationship between GSP utilization and either worker's rights alone, or the interaction of LABOR RIGHTS and PREFERENCE MARGIN. These relationships are consistent regardless of the econometric model used and their magnitude is incredibly small. While an increase in the PREFERENCE MARGIN of 1 percent is associated with a 1 percentage point increase in the UTILIZATION RATE, a one point increase in LABORRIGHTS is associated with only a 0.1 percentage point increase in GSP UTILIZATION—and again, this result does not approach statistical significance.

Table XXX. Output of regression models of GSP Utilization

|	(1) OLS	(2) Tobit	(3) Fractional Logit	(4) System GMM
Preference Margin	0.00730***	0.0157***	0.00861***	0.0864*
	(8.14)	(7.11)	(7.48)	(1.77)
Worker Rights	0.000458	0.00160	0.000825	0.217
	(0.20)	(0.30)	(0.33)	(1.60)
Worker Rights* Preference Margin	-0.000362	-0.0000798	-0.000283	-0.0501
	(-0.62)	(-0.06)	(-0.40)	(-1.57)
Primary Exports	0.0299***	0.123***	0.0373***	-0.631*
	(3.87)	(5.71)	(3.61)	(-1.78)
Import Value	0.0299***	0.0180***	0.0320***	0.00149
	(39.24)	(12.31)	(37.59)	(0.09)
Regional Cumulation	0.0554***	0.135***	0.0574***	0.0397
	(3.78)	(3.78)	(4.06)	(0.34)
Grad. Eligibility	0.0497**	0.0950*	0.0508**	-0.00182
	(2.80)	(2.29)	(2.89)	(-0.01)
Other Program	0.291***	0.481***	0.255***	
	(5.19)	(4.50)	(5.14)	
Constant	-0.00445			0.443
	(-0.06)			(1.27)
Observations	206845	206845	206845	462542

t statistics in parentheses
* $p < 0.05$, ** $p < 0.01$, *** $p < 0.001$

Because there is no standard model of GSP Utilization, a key concern is whether we have modeled the relationship appropriately. For example, different authors have used different estimation techniques and (or) included different controls. To gauge whether our null result is robust to different estimations techniques and controls, we run a specification curve analysis. Specification curve analysis allows us to examine how different choices in our econometric specification would have affected our findings.[31] We run 134 models that address any potential change to the specification. We exclude country, sector and time fixed effects individually and combined; we exclude clustered standard errors, and alternatively cluster them at the HTS-2, 4 and 6 levels; we substitute our measure of Labor Rights with other political variables, including human rights, the existence of a military alliance or trade agreement with the US, economic freedom, as well as the preference similarity with the US (based on ideological voting distance in the United Nations); and last, we include a series of variables often used in gravity models of trade, including distance, income, and population. Figures XXX-XXX display the specification curves focused on the coefficient estimates for the Preference Margin, Labor Rights, and their interaction, respectively, sorted by their magnitude. The shaded bars indicate the respective confidence intervals, and the blue diamond indicates the main estimation model for purpose of comparison. Because the coefficient estimates are so small we magnify the portion of each curve around zero in order to see the significance of each estimate.
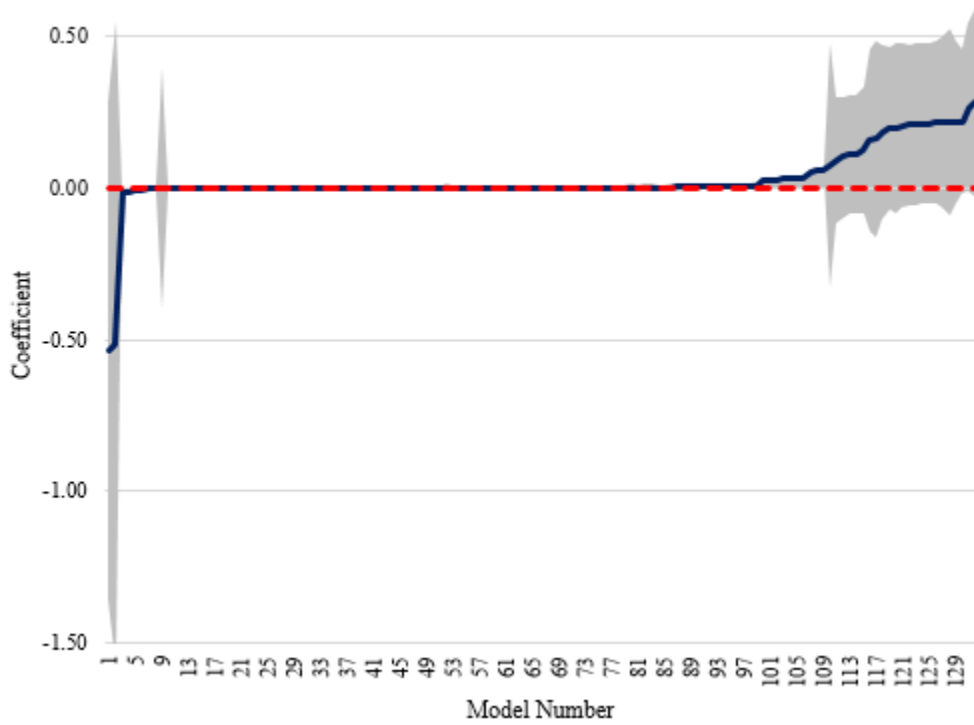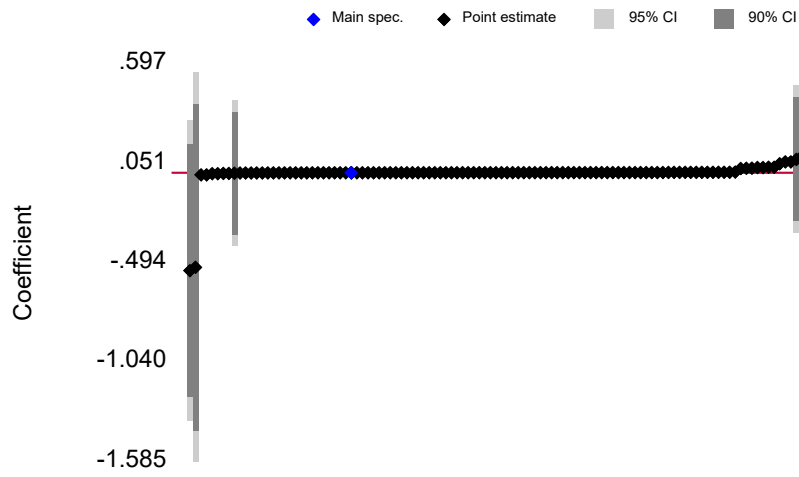
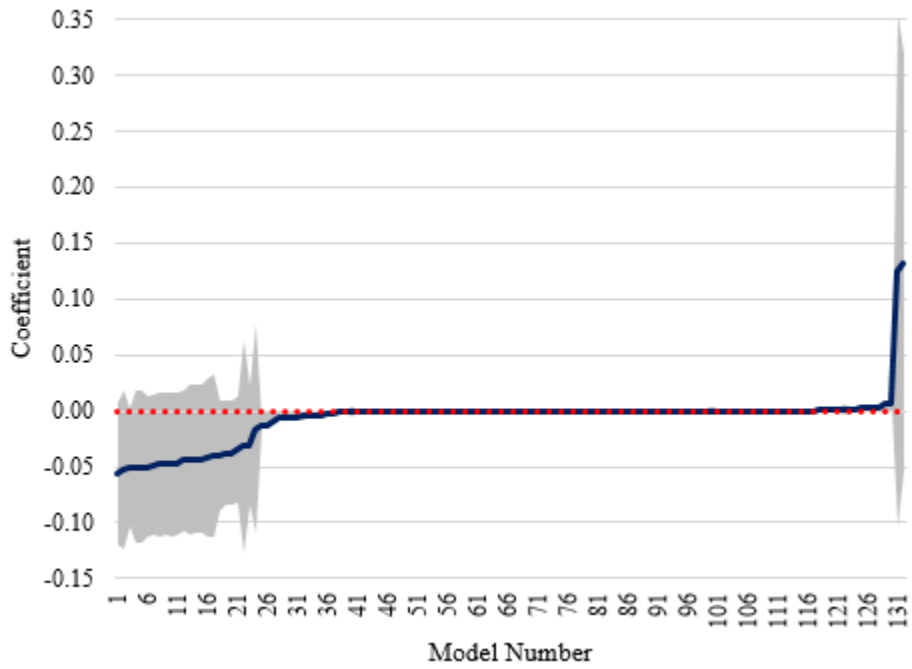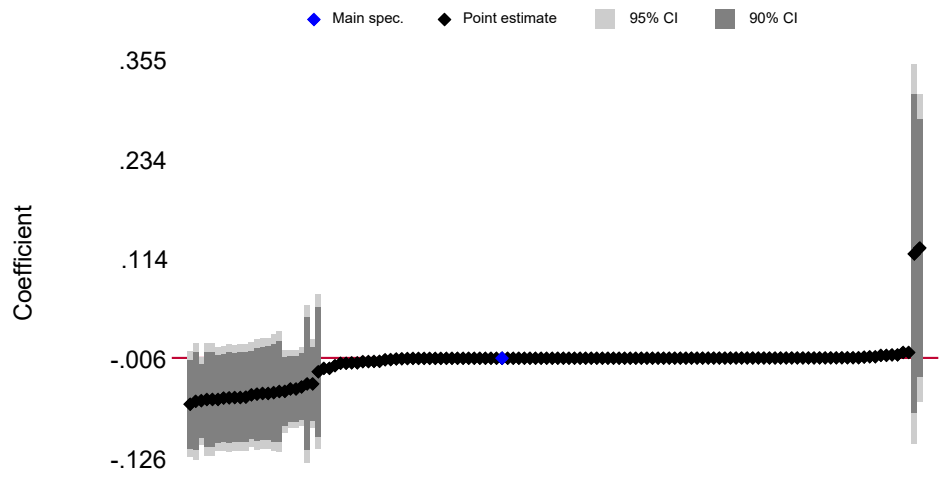---

[31] Simonsohn et al., 2015, 2020

Spec Curve of Pref Margin
Dependent Var: GSP Utilization

◆ Main spec.   ◆ Point estimate   ▢ 95% CI   ▢ 90% CI
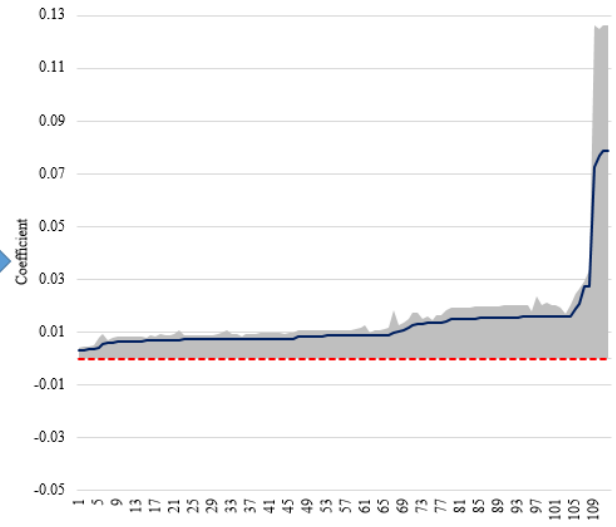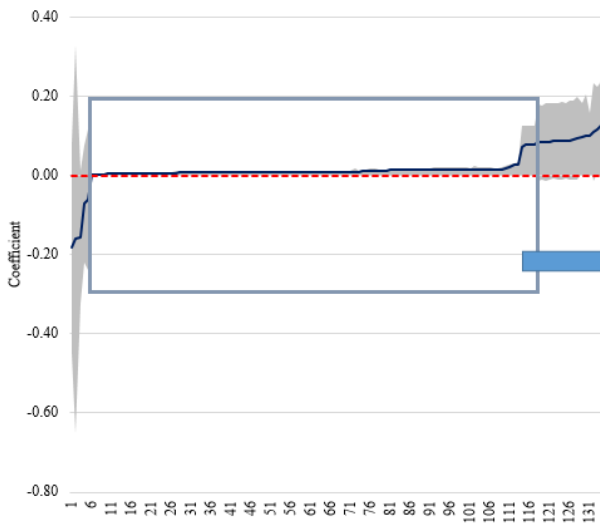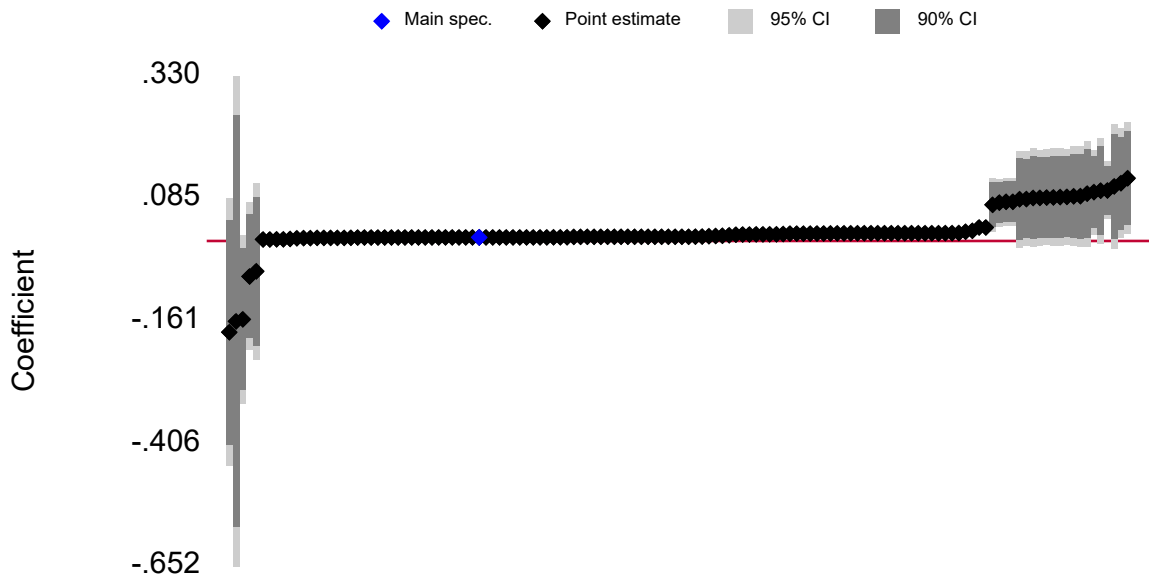
Spec Curve of Workers Rights
Dependent Var: GSP Utilization

Spec Curve of Workers'Rts*PrefMargin
Dependent Var: GSP Utilization

These curves clearly demonstrate the robustness of our results. PREFERENCE MARGIN, the main predictor of GSP utilization in past studies, is significant at the 90 percent level in 96% of our 134 models. This variable is only insignificant in four models, none of which include country-level fixed effects. This would be an odd choice in a model of trade flows, however, and thus we do not find it concerning. If anything, we take it as reassuring.

Most critically, LABOR RIGHTS, as well as its interaction with PREFERENCE MARGIN, is similarly robust in terms of its *insignificance*. In fully 90% of our models, worker's rights are insignificant, and in 86% of our models, the interaction is insignificant. But as above, the models in which they are significant exclude either country or year fixed effects, which would be an unusual modeling choice in this case. We thus find these results reassuring as well.

V. IMPLICATIONS

Our null result is surprising given the policy studies, government reports, and academic studies that have long made the case that GSP influences recipient's labor standards. But given every opportunity to speak for itself, labor standards, alone and interacted with the preference margin, and scrutinized from every possible angle, sheds no light on the demand for GSP. This null result casts a shadow on current efforts to renew US GSP. Indeed, it flies in the face of the groundswell of bipartisan support in 2021 for making the link between GSP and a recipient's labor standards even more demanding, and more enforceable.

What to make of this null result? First, our study complements other GSP research.

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Supply-side accounts, like the one by Hafner-Burton, Mosley and Galantucci, also find no evidence that labor standards explain GSP suspensions at the country-product level.[32] But suspensions reflect an extra layer of US politics, making it more difficult to pinpoint where the action is. Our approach, which builds on the premise that recipients adjust for the risk of suspension, given labor standards, lets us hone in on their responsiveness to different preference margins. This gives labor standards a say in explaining the *under*utilization of GSP. Intriguingly, labor standards appear to have little to say.

Second, the link between GSP and labor standards is *indirect*, not direct. Add in the costs of using GSP, from monitoring CNLs, auditing rules of origin, and record-keeping, it would appear that the link between GSP and labor standards is too indirect. There are a lot of factors to be modeled at the country-product-year level, but the one that stands out is the preference margin, making it especially important to interact it with labor standards. In other words, the link between GSP and labor standards might obtain at certain margins, but not others. Yet, we find no evidence of this.

What might explain this lack of a relationship between GSP and labor rights when it is purportedly a primary driver of the US' GSP program? One possibility is that GSP is simply not as political as we think it is. GSP could be truly serving a non-political trade-as-aid function. The US is granting tariff free access to poor countries to help aid their export markets, the US is not making this access conditional on worker rights, and exporters understand this.

Another possibility is that GSP is even more political than the policy and academic

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[32] Emilie M. Hafner-Burton, Layna Mosley and Robert Galantucci, "Protecting Workers Abroad and Industries at Home: Rights-Based Conditionality in Trade Preference Programs." Journal of Conflict Resolution X (X) 2018, p. 20.

research has considered. If powerful groups dependent on imports from GSP eligible countries are willing to fight against potential suspension, exporters may not need to fear suspension even when labor rights in their countries are weak.

None of this is to suggest that GSP can or should be written to do more about labor standards. Trade is a carrot, but GSP works *indirectly* on labor standards through the maze of US and recipient politics. As GSP's preference margin falls against the tariff rates under preferential trade agreements, in particular, the main implication of our analysis is that the program's influence on labor standards will only wane.

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