Comments Regarding GSP Country Eligibility Reviews for Indonesia, Thailand, and Others

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Submitted by GSP Action Committee
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Introduction

The GSP Action Committee ("Action Committee") welcomes the opportunity to submit comments for the country eligibility reviews – for Indonesia, Thailand, Ecuador, Georgia, Kazakhstan, Uzbekistan, Azerbaijan, and South Africa – under the Generalized System of Preferences (GSP) by the Office of the U.S. Trade Representative (USTR) and the GSP Subcommittee of the Trade Policy Staff Committee (TPSC). The Action Committee is a recent initiative from the Coalition for GSP, which since 1992 has been the predominant U.S. business community voice advocating for GSP renewal. The Action Committee is a group of American companies and trade associations organized to help policy makers and others fully appreciate the important benefits to American companies, workers, and consumers of the GSP program as they administer the program on a daily basis.

Members of the Action Committee know first-hand the benefits of the GSP program to American companies and worker. By lowering costs for raw materials, components, and machinery, GSP helps American manufacturers and workers compete in a tough global economy, where they face competition not only in the U.S. market from imported finished products, but also in international markets to which they export. By lowering costs for consumer goods and food products, many of which are not available in the United States, GSP increases product choices and helps American families stretch paychecks further. In 2019, GSP is expected to save American companies over $1 billion in import tariffs.

Summary of comments

The Action Committee's comments focus on specific benefits and opportunities to American workers, manufacturers, farmers, and ranchers created by the GSP program. Using information about GSP use and other business characteristics provided by our importers, along with data from official U.S. government trade statistics on current and recently GSP-eligible countries, we demonstrate two key points:

1. **American companies and workers are the primary "beneficiaries" of GSP eligibility for developing countries.** Recent experiences with temporary GSP lapses and retroactive reauthorizations clearly demonstrate the importance of GSP for American companies and workers.

2. **The threat of GSP revocation provides poor leverage for inducing changes in developing countries policies, particularly in light of ongoing global sourcing shifts.** The "carrot" of GSP is smaller-than-assumed due to limited product coverage, while the "stick" often hits American users, not those in GSP-eligible countries. Even countries that recently lost GSP eligibility are thriving are thriving due to even-higher tariffs on their primary competitor: China.

While we strongly encourage each of the countries under review to work constructively with the United States government to resolve any alleged violations of the GSP country eligibility criteria, we are concerned about the real, negative impacts to American companies, workers, and the U.S. national interest that would result if those discussions are unfruitful and GSP benefits were suspended. We believe the GSP Subcommittee should place great weight on these factors as it undertakes this review and decides on the appropriate course of action.

American companies are the primary "beneficiaries" of the GSP program

As the GSP Subcommittee undertakes its country eligibility reviews, an important fact to keep in the forefront is that American companies – not foreign governments or producers – are the primary beneficiaries of continued GSP eligibility for supplier countries. When GSP is in place, American companies' costs decrease and workers gain. When GSP benefits go away, either because of lapsed authorization or Administrative decisions, American companies face higher taxes and workers suffer.

Recent experiences with temporary GSP lapses and retroactive reauthorizations clearly demonstrate the importance of GSP for American companies and workers. Table 1, based on surveys of hundreds of GSP importers in August 2014 and August 2016, show the impact that GSP benefits have on U.S. employment, employee benefits, investments, and sales.

TABLE 1: IMPACTS OF GSP EXPIRATION AND RENEWAL ON U.S. COMPANIES AND WORKERS

Impact	**August 2014 Survey**[A] (after 1 year of GSP expiration)	**August 2016 Survey**[B] (after 1 year of GSP reauthorization)
Employment	13% laid off workers / 44% delayed new hires	46% hired new workers
Benefits	22% cut employee wages or benefits	23% provided new (or reinstated) employee benefits
Investments	40% delayed or canceled capital investments	41% made new capital investments
Sales	77% lost sales due to price increases or reduced volumes	56% increased sales of GSP-eligible products

Source: Coalition for GSP survey data
[A] Survey; 230 respondents (Fall 2014); [B] Survey; 135 respondents; Fall 2016

In response to the launch of country practice reviews for several major GSP suppliers in 2018, and the subsequent announcements of potential revocation of GSP benefits for India and

Turkey in early 2019, the Coalition for GSP once again surveyed American companies that import under the GSP program to determine how such actions could impact their domestic operations. A full report, *How GSP Termination would Hurt American Businesses & Workers*, was published in May 2019.[1] Among the key findings of that report:

- **GSP importers were thriving**. About 70% of survey respondents had hired new workers or increased wages and benefits in the previous year.
- **GSP importers were poised for future growth**. Most survey respondents expected further growth in the next year, including 60 percent to 70 percent of respondent that expected to hire more workers, increase pay and benefits, and make capital investments.
- **GSP loss would cost American jobs.** About 90 percent of survey respondents expected sales to fall if GSP was terminated, making it difficult to move ahead with current planned expansions. As a result, about 40 percent expected to lay off currents workers, and even more expected planned hires and investments to be put on hold.

One of the most important findings was that, despite the frequent narrative that imports destroy jobs, companies with rising imports outperformed companies whose imports were flat or declined in every "desirable" category. That includes higher shares reporting new hires, increasing compensation, making investments, increasing domestic production, and even growing exports. Yet it is the companies growing and hiring the most that also are hit hardest when GSP benefits are lost.

The report profiled dozens of GSP importer companies, many of which detailed recent job creation and planned facility and hiring expansions. Unfortunately, a number of those companies have confirmed that those plans were canceled after GSP eligibility for India and Turkey were revoked in mid-2019. There is no reason to believe that "this time will be different" if GSP benefits are suspended or revoked for the countries currently under review.

The threat of GSP revocation provides poor leverage for inducing changes in developing countries policies

GSP eligibility criteria often have been viewed through the lens of a providing a "carrot and stick." However, the "carrot" is considerably less appealing than one may believe and experience has shown that the "stick" tends to hit the American users of the program as opposed to the beneficiary developing countries (BDCs), as detailed above.

The GSP program's limited effectiveness as a carrot stems from the fact that the vast majority of imports from BDCs do **not** receive GSP benefits. As shown in Table 2, just 9 percent of goods imports from BDCs claimed GSP preferences from January to November 2019. Phrased differently, GSP is irrelevant to $9 out of every $10 in goods exports from beneficiary countries to the United States to date in 2019. It also means that most industries within the BDCs, even

[1] http://renewgsptoday.com/2019/05/01/new-report-how-gsp-termination-would-hurt-american-businesses-workers/

among the active exporting industries, do not have a reason to pressure their governments to meet U.S. requests associated with country practice reviews.

TABLE 2: SHARE OF GOODS IMPORTS CLAIMING GSP, REVIEW COUNTRIES, FOR JANUARY-NOVEMBER 2019

Country	Total Goods Imports, Jan.-Nov. 2019	Goods Imports Claiming GSP, Jan.-Nov. 2019	Share GSP, Jan.-Nov. 2019
All BDCs	$216.5 billion	$19.5 billion	9.0%
Thailand	$30.8 billion	$4.4 billion	14.5%
Indonesia	$18.7 billion	$2.5 billion	13.2%
South Africa	$7.0 billion	$703 million*	10.1%
Ecuador	$6.3 billion	$421 million	6.6%
Kazakhstan	$1.2 billion	$149 million	12.4%
Georgia	$149 million	$111 million	74.1%
Uzbekistan	$32 million	$4 million	12.3%
Azerbaijan	$24 million	$666,726	2.8%

Source: Derived from U.S. Census Bureau data; November 2019 is the latest available as of January 17, 2020.
* Additional products receive duty-free treatment under AGOA

Among the countries currently under review, the share of U.S. imports claiming GSP is generally close to the all-country average. Georgia is the exception, with approximately three-quarters of its goods exports to the United States receiving GSP benefits. South Africa's share is not reflective of the review's potential impact, as importers can claim duty preferences under either GSP or the African Growth and Opportunity Act (AGOA). The figure shows only the import value under GSP, but termination could result in the loss of both preferences. Azerbaijan exported only about $60,000 per month under GSP in 2019.

While exporting the highest share of its goods under GSP, Georgia provides a good example that the stick, once swung, almost always comes back around to hit the American companies and workers that rely on the GSP program. Nearly all U.S. imports from Georgia under GSP are ferrosilicon manganese, which is a raw material used by U.S. steel manufacturers with limited global sourcing alternatives. South Africa is the second largest supplier in 2019, and combined the two countries account for about half of U.S. imports. Loss of GSP for either or both of these countries would raise prices for U.S. steel manufacturers, but cannot change the fact that these important ferroalloys are mined in only a few countries.

The impacts to trade from the recent revocations of GSP benefits for India and Turkey also are instructive. According to the Coalition for GSP's analysis of Census data, terminating GSP benefits for India and Turkey led to $210 million in new import taxes on American companies from May to November 2019 alone. This is real money that cannot be reinvested into American workers, facility expansions, or new product development. As noted above, a number of Coalition for GSP members have shared examples of canceled expansions and other job-creating investments directly related to lost GSP benefits.

Yet the pain appears to be one-sided. From June to November 2019 – a period when both countries were ineligible for GSP – imports of previously GSP-eligible from India increased by 34 percent compared to the same period in 2018 (when benefits were in effect). Imports from Turkey increased by 36 percent over the same period. The countries are not suffering from lost GSP; their exports are booming.

We have heard from long-time GSP users that the tariff increase hurt their pricing and margins, and therefore growth plans. But GSP decisions are not happening in a vacuum. The large and sustained Section 301 tariffs on most imports from China are causing shifts in U.S. import patterns that swamp any GSP impacts. Exporters in countries such as India and Turkey are thriving as companies seek to move supply chains out of China. For these new importers, it does not matter that tariffs in India or Turkey are higher than a year or two ago, only that costs (including most-favored nation tariffs) are lower than costs of similar products from China (including most-favored nation PLUS Section 301 tariffs).

Arguably, India and Turkey are more competitive *today* than when their country practice reviews were launched in mid-2018. The average new tariff on imports from India due to GSP loss is 3.7 percent. Yet 80 percent of these products are on the China Section 301 Lists 1-3, meaning they face 25 percent tariffs when imported from China. Another 12 percent of the imports from India are on List 4A and currently face 15 percent tariffs when import from China. Just 8 percent are not on any of the China Section 301 lists implemented to date. Framed differently, whereas in early 2018 a product on List 3 might have had a 0 percent tariff when imported from India and a 4 percent tariff when imported from China, the product from India now faces a 4 percent tariff while the product from China faces a 29 percent tariff.

Imports from India have grown as may be expected from the discrepancy in the *relative* change in tariff rates compared to China. Indian products on Lists 1-3 increased 41 percent from June-November 2018 to June-November 2019 despite loss of GSP. Imports of Indian products on List 4A increased by 18 percent over the same period. Meanwhile, the small share of products where imports from India are worse off vis-à-vis imports from China increased just 8 percent. It should be noted that tariffs against imports from China were threatened for most of these products for the entire period covered, meaning that some import growth from India may have been trying to beat new tariffs on China from taking effect.

For Turkey, just 2 percent of previously GSP-eligible imports were not on any of the China Lists implemented to date. About 77 percent were on Lists 1-3 and the remaining 21 percent were on List 4A. The import trends are even more stark for Turkey: products on Lists 1-3 increased by 46 percent while products on List 4A increased by 5 percent. Imports not on any list jumped, but from an almost non-existent base in 2018 is not large enough to affect overall bilateral trade numbers. Even after the China “Phase One” deal takes effect in February 2020, tariff increases on imports of List 4A products from India and Turkey are about half the level of increases on those same products from China.

This is not to suggest that BDCs do not care if they retain GSP benefits – most do, though not always for reasons directly tied to the tariff benefits. Yet limited product coverage, and the fact that the tariff burden falls on U.S. companies when benefits are revoked, makes the carrot a little less sweet than it initially sounds to policymakers interested in negotiating leverage. The experience to date with India and Turkey terminations show that the Administration should be cautious about using GSP eligibility as a stick, since Section 301 tariffs on China likely will more than offset any impacts that may have occurred due to lost GSP in other periods.

Conclusion

The GSP Action Committee appreciates the opportunity to contribute to the GSP Subcommittee's country eligibility reviews for Indonesia, Thailand, Ecuador, Georgia, Kazakhstan, Uzbekistan, Azerbaijan, and South Africa. GSP supports American companies, workers, and exports, and many of those benefits are tied directly to imports from countries under review. Suspending GSP would have real, negative impacts on U.S. competitiveness at businesses throughout the country, while likely having a much smaller effect on industries in BDCs due to ongoing realignments in global supply chains. The GSP Subcommittee should give great weight to these known U.S. harms, compared to limited BDC industry impacts, as it moves ahead with the eligibility reviews.

I look forward to working with the Administration to promote – and improve upon – trade policies such as GSP with a proven track record of benefiting American companies, workers, and families.

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