

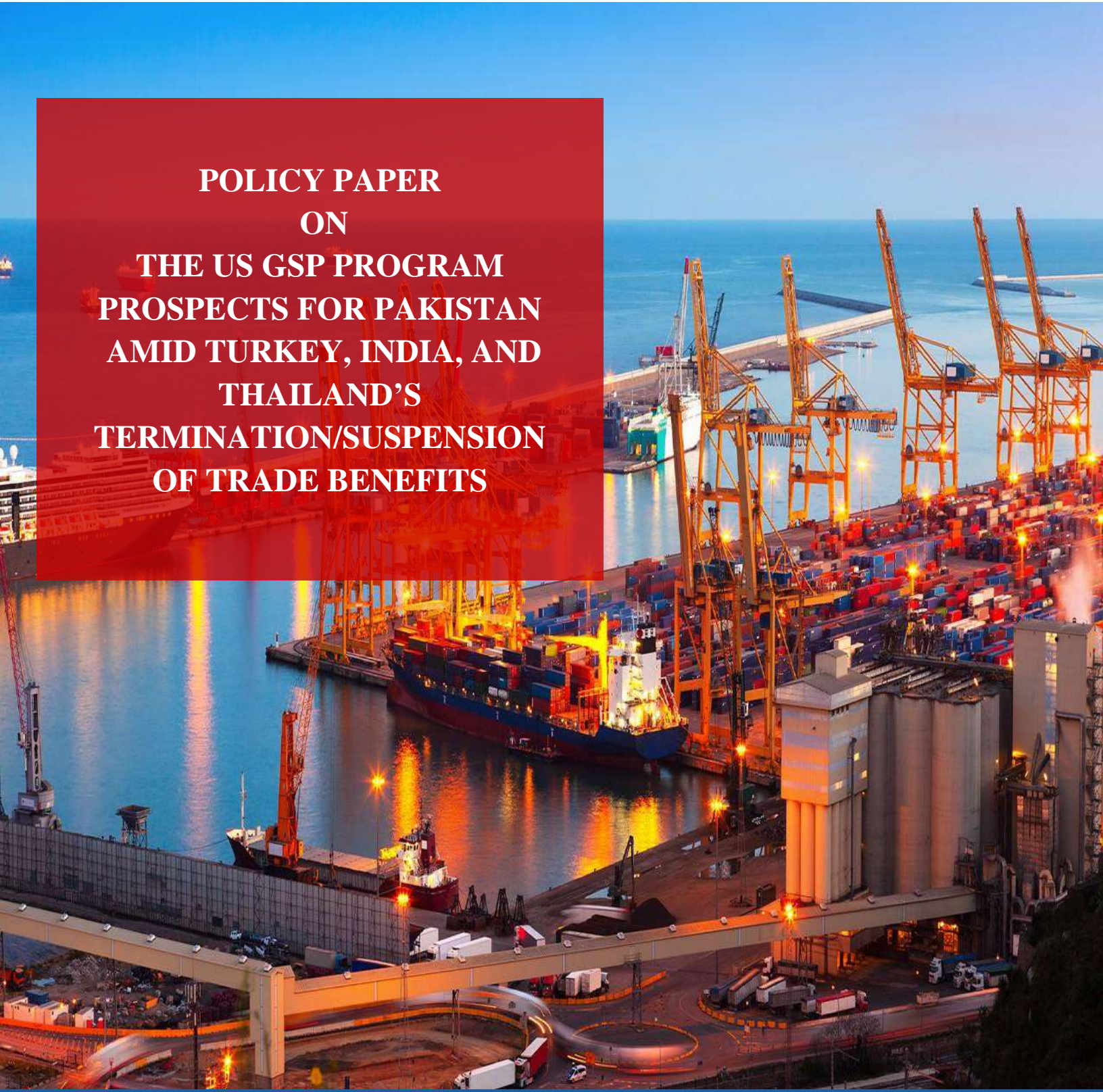


| TRADE DEVELOPMENT AUTHORITY OF PAKISTAN |

| MINISTRY OF COMMERCE |



**POLICY PAPER
ON
THE US GSP PROGRAM
PROSPECTS FOR PAKISTAN
AMID TURKEY, INDIA, AND
THAILAND'S
TERMINATION/SUSPENSION
OF TRADE BENEFITS**



NOVEMBER 2020

DISCLAIMER

The analyses, interpretations, and conclusions expressed in this study do not necessarily reflect the view of the Board of Directors, Chief Executive, and Secretary of the Trade Development Authority of Pakistan.

Any conclusion, interpretation, and analyses of the U.S. unilateral trade policy of Generalized System of Preference (GSP) is the responsibility of the author and do not necessarily reflect the opinion of the Ministry of Commerce (MOC) and Trade Development Authority of Pakistan (TDAP). Although every effort has been made to analyze the original policy subject of the United States Trade Representatives (USTR) from the message of the original content.

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KEY WORDS: GENERALIZED SYSTEM OF PREFERENCE (GSP), SPECIAL PROGRAM INDICATOR (SPI), **BENEFICIARY DEVELOPING COUNTRY** (BDC), **NOT ELSEWHERE SPECIFIED** (NESOI)

1. INTRODUCTION AND BACKGROUND OF THE POLICY

The Generalized System of Preferences (GSP) is the U.S. trade preference program which provide opportunities for many of the world's poorest countries to use trade to grow their economies and climb out of poverty. GSP is the largest and oldest U.S. trade preference program, established by the Trade Act of 1974, it promotes economic development by eliminating duties on thousands of products when imported from one of 119 designated Beneficiary Developing Countries (BDC) and territories.

1.1 GRADUATION OF A BENEFICIARY COUNTRY FROM GSP PROGRAM

Graduation is the removal of a country's GSP eligibility on factors related to national income or competitiveness. The U.S. President may remove a Beneficiary Developing Country (BDC) from the GSP program if the country is sufficiently developed or competitive or may suspend or limit the BDC's access to duty-free treatment concerning one or more products. Thereby, the country graduation occurs when a beneficiary country advances in economic development and trade competitiveness.

The per capita Gross National Income (GNI) limit for mandatory graduation is set at the lower-bound of the World Bank's definition of a "high-income" country. Moreover, the mandatory graduation takes effect from January 1st of the second year after the year in which the President makes the graduation determination.

1.1.1 FACTOR FOR GRADUATION OTHER THAN MANDATORY GRADUATION

Following are the circumstance, which a subcommittee consider referring to suspension or limit BDC's access other than mandatory graduation. such as:

- (1) The country's competitiveness in a particular product.
- (2) Its practices relating to trade, investment, and worker rights, and
- (3) The overall economic interests of the U.S., including the adverse effect of the continued GSP treatment on U.S. producers, workers, and consumers.

2. PURPOSE OF THE POLICY PAPER

In April 2019, the office of the U.S. Trade Representative in Washington, D.C. at the direction of President Donald J. Trump, announced that the United States is terminating the designations of Turkey and India as Beneficiary Developing Countries (BDC) under the Generalized System of Preferences (GSP) program, which was followed by another development later in the year when 1/6th of GSP benefit of Thailand were also suspended citing noncompliance with the statutory eligibility criteria.

Turkey's termination from GSP was since it is sufficiently economically developed and shall mandatorily graduate from the preferential market access to the United States market. Whereas India's termination from GSP resulted in its failure to provide the U.S. with equitable and reasonable access to its markets in numerous sectors that have created serious negative effects on U.S. commerce. However, Thailand's suspension of partial trade preference under the GSP program is also based on its lack of sufficient progress on providing the U.S. with equitable and reasonable market access for pork products.

The U.S. consumer market is revered as the most robust market on the planet; therefore, it is seen as an ideal market for exports/development of developing economies and especially those that are accorded unilateral trade preferences like Generalized System of Preference (GSP). In the background of this and the current developments, which when analyzed collectively in term of value accounts for approximately US\$ 4.43 billion approximately or 22 per cent of the US total imports under the GSP program.

Due to the underlying development, it is argued that considerable avenues of expansion may arise for Pakistan to further penetrate in the U.S. market and to capture the market share of Turkey, India, and Thailand under GSP program as their graduation from these tariff lines provides Pakistan with a comparative advantage over them.

2.2 CURRENT MARKET SITUATION

Currently, Pakistan exports under GSP program amounts to US\$ 344.66 million which is only 1.79 per cent of the U.S. total imports under this program in the year 2019. However, in the year 2018 Pakistan export under the same were US\$ 326 million, which shows that Pakistan exports on year on year basis are increasing in a normal course, but when the same is compared

with the exports volume of its competitors in the market it reveals that Pakistan market share is quite meagre, therefore, it is more pressing than market-focused strategy may be adopted to improve Pakistan positioning under the scheme and also to capture market share of the graduating countries which shall only be possible when focused marketing/matchmaking strategies are adopted.

TABLE 1: LIST OF TOP 10 EXPORTERS TO THE U.S. UNDER GSP PROGRAM IN THE YEAR 2019

Serial #	WORLD GSP TOTAL 2019	Imports in the US Million
1	Thailand	4,787.07
2	India	2,830.08
3	Indonesia	2,609.52
4	Philippines	1,599.24
5	Cambodia	1,429.24
6	Turkey	783.55
7	South Africa	741.39
8	Pakistan	344.66
9	Burma	223.53
10	Sri lanka	194.46
	Sub total	US \$20,154.08 M

Source: USITC

3. FREE TARIFF LINES UNDER U.S GSP PROGRAM

The U.S. Generalized System of Preferences (GSP) provides preferential duty-free treatment for over 3,500 products at HS 08 digits from a wide range of designated beneficiary developing countries (BDCs). Which falls under all 99 chapters of Harmonized system. However, bifurcation of these tariffs lines is drawn at HS 02 chapter and at sectoral level of Special Program Indicator (SPI “A”) category^[1] to identify sectors that may be focused on shorts, medium and long-term strategies.

TABLE 2: LIST OF FREE TARIFF LINES UNDER EACH SECTOR

Total Free tariff lines Under Agro & Food Sector	607
Free Tariff lines Under Engineering, Minerals & Metal Sector	2465
Free Tariff lines Under Textile & Leather Sector	179
<u>Total free tariff lines under SPI A Category</u>	<u>3251</u>

Source: Authors estimations

4. METHODOLOGY FOR THE FOCUSED INTERVENTION

Based on the nature of the study two rationales are drawn, first one is to identify specific products which may be targeted in the short run for better market share in the aftermath of graduation of major competitors. And the second rationale is employed in support of the first argument based on the overall market analysis of the program to capture additional market share in emerging market trend and comparative advantage of Pakistan in the medium to long term.

4.1 FIRST RATIONALE FOR THE PROPOSED POTENTIAL PRODUCTS

This study filters products based on the criteria of demand & supply of the US market under the GSP Program at HS 06 digits. Thereby, in the first stage products which have significant demand in the US market are identified for analysis[2]. Further, in the second stage, same products are cross-matched for complementarity analysis with Pakistan exports under GSP[3], and Pakistan’s total world exports of the said products[4] to ascertain well-established supply base.

Furthermore, the market share of the graduating competitors are also incorporated for the identified product, to exhibit a clear picture of the market, and lastly, products in which Pakistan has already captured more than 15 per cent share is excluded.

Below given are sectors specific products proposed for immediate and focused strategic intervention.

TABLE 3: LIST OF PRODUCTS FOR AGRO & FOOD SECTOR

HS Code	Product Description	World Total Imports Under GSP	Pakistan Exports Under GSP	Percent share	Pak Exports to World
080410	Dates, Fresh or Dried	30,855,893	3,530,144	11.44	71,806,000
081340	Fruit, Dried, Nesoi, Ex That of Heading 0801-0806	5,748,899	27,728	0.48	13,591,000
080450	Guavas, Mangoes and Mangosteens, Fresh or Dried	115,898,925	230,139	0.2	101,633,000

Source: USITC & Trade Map

Value in USD

TABLE 4: SHARE OF INDIA, TURKEY, AND THAILAND IN THE PROPOSED PRODUCTS OF AGRO & FOOD

HS Code	Product Description	World Total 2019 USD	Pakistan 2019 USD	India 2019 USD	Turkey 2019 USD	Thailand 2019 USD
080410	Dates, Fresh or Dried	30,855,893	3,530,144	6,280	0	-

081340	Fruit, Dried, Nesoi, Ex That of Heading 0801-0806	5,748,899	27,728	284,997	683,024	-
080450	Guavas, Mangoes and Mangosteens, Fresh or Dried	115,898,925	230,139	4,612,932	0	-
	Total Imports	152,503,717	3,788,011	4,904,209	683,024	

Source: USITC

Value in USD

TABLE 5: LIST OF PRODUCTS FOR ENGINEERING & MINERAL METALS SECTORS

HS Code	Product Description	US Total Imports Under GSP	Pakistan Exports Under GSP	Percent share	Pakistan World Exports
392390	Art for Conveying or Packing Goods Nesoi, Plastic	31,855,180	459,060	1.44	10,847,000
392490	Household and Toilet Articles Nesoi Of Plastics	14,443,381	194,983	1.35	9,480,000
392690	Articles of Plastics, Nesoi	70,753,845	760,277	1.07	5,691,000
392321	Sacks & Bags (incl Cones) Of Polymers of Ethylene	143,903,003	23,399	0.02	8,702,000

Source: USITC & Trade Map

Value in USD

TABLE 6: SHARE OF INDIA, TURKEY, AND THAILAND IN THE PROPOSED PRODUCT OF ENGINEERING & MINERAL METALS SECTORS

HS Code	Product Description	World Total 2019 USD	Pakistan 2019 USD	India 2019 USD	Turkey 2019 USD	Thailand 2019 USD
392390	Art for Conveying or Packing Goods Nesoi, Plastic	31,855,180	459,060	6,623,586	905,844	-
392490	Household and Toilet Articles Nesoi Of Plastics	14,443,381	194,983	1,487,792	1,514,714	-
392690	Articles of Plastics, Nesoi	70,753,845	760,277	6,823,740	3,396,471	-
392321	Sacks & Bags (incl Cones) Of Polymers of Ethylene	143,903,003	23,399	32,747,617	8,389,477	-
	Total Imports	260,955,409	1,437,719	47,682,735	14,206,506	

Source: USITC

Value in USD

TABLE 7: LIST OF PRODUCTS FOR TEXTILE & LEATHER SECTOR IN THE YEAR 2019

Chapter	HS Code	Product Description	World Total Imports Under GSP	Pakistan Exports Under GSP	Percent share	Pak world exports
41	410792	Ltr, nesoi, inc Sides Ful Grn, split, fur Prep,bv/eq	7,602,872	21,514	0.28	29,431,000
42	420100	Saddlery, Harness, Traces, Leads Etc, Any Material	14,871,695	726,321	4.88	8,400,000
42	420291	Containers, Bags, Cases Etc Of Leather/comp Nesoi	201,046,251	1,240,580	0.62	6,403,000
61	611693	Gloves, Mittens and Mitts Synthetic Fibers, Knit	20,734,635	788,970	3.81	7,672,000

Source: USITC & Trade Map

Value in USD

TABLE 8: SHARE OF INDIA, TURKEY, AND THAILAND IN THE PROPOSED PRODUCTS OF TEXTILE & LEATHER SECTOR IN THE YEAR 2019

HS Code	Product Description	World Total 2019 USD	Pakistan 2019 USD	India 2019 USD	Turkey 2019 USD	Thailand 2019 USD
410792	Ltr,nesoi,inc Sides Ful Grn,split,fur Prep,bv/eq	7,602,872	21,514	203,799	18,539	-
420100	Saddlery, Harness, Traces, Leads Etc, Any Material	14,871,695	726,321	9,567,814	-	-
420291	Containers, Bags, Cases Etc Of Leather/comp Nesoi	201,046,251	1,240,580	11,132,840	591,218	-
611693	Gloves, Mittens and Mitts Synthetic Fibers, Knit	20,734,635	788,970	1,153,071	-	-
	Total imports	244,255,453	2,777,385	22,057,524	609,757	

Source: USITC

Value in USD

4.2 SECOND RATIONALE FOR PROPOSED INTERVENTION

This section is based on the analyses of the overall market share of Pakistan under GSP program, which is taken as an indicator for arguments, as Pakistan total exports under the said program are approximately 2 per cent of the market share.

Therefore, employing the same argument as a justification that in given capacity Pakistan may only capture 2 per cent of the market share in emerging market scenario amid graduation of its competitors under the said program, whose share in term of value amounts to the US\$ 4.42 billion or approximately 22 per cent of the total market. Hence, if only 2 per cent of that market share is capture in the emerging comparative advantage that Pakistan has over them is equal to US\$ 88.40 million, if only that market share is captured which arguably is in Pakistan's existing capacity is considerably equates to the US\$ 88 million of additional share.

Similarly, when the proposed product is focused that is analyzed above in each sector and employ the same arguments of 2 per cent, it results in the additional market opportunity of US \$13.15 million, which considerably is not too much to expect with the timely focused intervention in the coming years while keeping other things constant.

5. POLICY RECOMMENDATION

The above-given analyses assert that in order to capture market share of the graduating countries in the U.S. market under GSP program, focus intervention is required in the overall market and especially for the highlighted products in the short run, which considerably requires

little efforts as those products have strong supply base in Pakistan. Further, it also argues that in the existing capacity Pakistan may capture additional 2 per cent of the market share of its graduating partners, therefore, in the rough/conservative estimates Pakistan has the potential to collectively capture additional US\$ 100 million of the market share under US GSP program.

Hence, to achieve the underlying target, Pakistan's TIOs posted in the U.S. may be directed to focus these products on the priority basis in order to penetrate further in the U.S. market, and also try to promote Pakistan as an alternative solution/market for potential buyers that were previously sourced from these countries, and they may also devise robust marketing strategy given the emerging market development which has disrupted the supply chain.

6. APPENDIX

TABLE 9: LIST OF FREE TARIFF LINES UNDER GSP PROGRAM IN EACH CHAPTER

HS Code	Product Description	GSP Eligible Tariff lines
1	Live animals	4
2	Meat and edible meat offal	15
3	Fish and crustaceans, molluscs and other aquatic invertebrates	26
4	Dairy produce; birds' eggs; natural honey; edible products of animal origin, not elsewhere ...	12
5	Products of animal origin, not elsewhere specified or included	5
6	Live trees and other plants; bulbs, roots, and the like; cut flowers and ornamental foliage	20
7	Edible vegetables and certain roots and tubers	109
8	Edible fruit and nuts; peel of citrus fruit or melons	40
9	Coffee, tea, maté and spices	10
10	Cereals	3
11	Products of the milling industry; malt; starches; inulin; wheat gluten	23
12	Oil seeds and oleaginous fruits; miscellaneous grains, seeds, and fruit; industrial or medicinal ...	15
13	Lac; gums, resins and other vegetable saps and extracts	4
14	Vegetable plaiting materials: vegetable products not elsewhere specified or included	4
15	Animal or vegetable fats and oils and their cleavage products; prepared edible fats; animal ...	23
16	Preparations of meat, of fish or of crustaceans, molluscs or other aquatic invertebrates	38
17	Sugars and sugar confectionery	16
18	Cocoa and cocoa preparations	31
19	Preparations of cereals, flour, starch or milk; pastrycooks' products	30
20	Preparations of vegetables, fruit, nuts, or other parts of plants	99
21	Miscellaneous edible preparations	33
22	Beverages, spirits, and vinegar	16
23	Residues and waste from the food industries; prepared animal fodder	17
24	Tobacco and manufactured tobacco substitutes	14
25	Salt; sulphur; earths and stone; plastering materials, lime, and cement	9
26	Ores, slag, and ash	6
27	Mineral fuels, mineral oils, and products of their distillation; bituminous substances; mineral ...	7
28	Inorganic chemicals; organic or inorganic compounds of precious metals, of rare-earth metals, ...	165
29	Organic chemicals	407
30	Pharmaceutical products	1
32	Tanning or dyeing extracts; tannins and their derivatives; dyes, pigments and other colouring ...	36
33	Essential oils and resinoids; perfumery, cosmetic or toilet preparations	10
34	Soap, organic surface-active agents, washing preparations, lubricating preparations, artificial ...	19
35	Albuminoidal substances; modified starches; glues; enzymes	10
36	Explosives; pyrotechnic products; matches; pyrophoric alloys; certain combustible preparations	10

37	Photographic or cinematographic goods	27
38	Miscellaneous chemical products	67
39	Plastics and articles thereof	150
40	Rubber and articles thereof	68
41	Raw hides and skins (other than furskins) and leather	60
42	Articles of leather; saddlery and harness; travel goods, handbags, and similar containers; articles ...	48
43	Furskins and artificial fur; manufactures thereof	13
44	Wood and articles of wood; wood charcoal	35
45	Cork and articles of cork	1
46	Manufactures of straw, of esparto or of other plaiting materials; basketware and wickerwork	24
47	Pulp of wood or of other fibrous cellulosic material; recovered (waste and scrap) paper or ...	1
48	Paper and paperboard; articles of paper pulp, of paper or of paperboard	2
50	Silk	2
51	Wool, fine, or coarse animal hair; horsehair yarn and woven fabric	6
52	Cotton	9
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	3
54	Man-made filaments; strip and the like of man-made textile materials	4
56	Wadding, felt and nonwovens; special yarns; twine, cordage, ropes and cables and articles thereof	6
57	Carpets and other textile floor coverings	3
58	Special woven fabrics; tufted textile fabrics; lace; tapestries; trimmings; embroidery	1
59	Impregnated, coated, covered, or laminated textile fabrics; textile articles of a kind suitable ...	4
61	Articles of apparel and clothing accessories, knitted or crocheted	5
62	Articles of apparel and clothing accessories, not knitted or crocheted	8
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	7
64	Footwear, gaiters, and the like; parts of such articles	6
65	Headgear and parts thereof	9
66	Umbrellas, sun umbrellas, walking sticks, seat-sticks, whips, riding-crops, and parts thereof	5
67	Prepared feathers and down and articles made of feathers or of down; artificial flowers; articles ...	6
68	Articles of stone, plaster, cement, asbestos, mica, or similar materials	21
69	Ceramic products	23
70	Glass and glassware	65
71	Natural or cultured pearls, precious or semi-precious stones, precious metals, metals clad ...	41
72	Iron and steel	6
73	Articles of iron or steel	55
74	Copper and articles thereof	63
75	Nickel and articles thereof	15
76	Aluminium and articles thereof	44
78	Lead and articles thereof	9
79	Zinc and articles thereof	8
80	Tin and articles thereof	9
81	Other base metals; cermets; articles thereof	29
82	Tools, implements, cutlery, spoons, and forks, of base metal; parts thereof of base metal	76

83	Miscellaneous articles of base metal	38
84	Machinery, mechanical appliances, nuclear reactors, boilers; parts thereof	268
85	Electrical machinery and equipment and parts thereof; sound recorders and reproducers, television ...	246
86	Railway or tramway locomotives, rolling stock and parts thereof; railway or tramway track fixtures ...	22
87	Vehicles other than railway or tramway rolling stock, and parts and accessories thereof	41
88	Aircraft, spacecraft, and parts thereof	1
89	Ships, boats, and floating structures	6
90	Optical, photographic, cinematographic, measuring, checking, precision, medical or surgical ...	106
91	Clocks and watches and parts thereof	24
92	Musical instruments; parts and accessories of such articles	25
93	Arms and ammunition; parts and accessories thereof	13
94	Furniture: bedding, mattresses, mattress supports, cushions and similar stuffed furnishings; ...	29
95	Toys, games, and sports requisites; parts and accessories thereof	30
96	Miscellaneous manufactured articles	71
	Total Free Tariff Lines Under SPI "A"	3251



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