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Congress Should Commit to Long-Term Renewal of the Generalized System of Preferences

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KEY TAKEAWAYS

The Generalized System of Preferences (GSP) eliminates tariffs on more than 5,000 products from over 120 developing countries.

American businesses and families save $1 billion in import taxes annually due to this program.

There is a long history of bipartisan support for the GSP, and Congress should renew it as soon as possible for the long term.

The Generalized System of Preferences (GSP), a program that eliminates tariffs on thousands of products from around the world, expires on December 31, 2020. Each year this program saves American businesses and families roughly $1 billion in import taxes (i.e., tariffs). Eliminating these taxes results in more affordable imports, making it easier for American businesses to produce other goods at more competitive prices and make final products more affordable for individuals.

The GSP generally receives overwhelming support in Congress, yet in recent years Americans have faced costly lapses in the program because it was not renewed in a timely manner. A three-year lapse that started in 2013 cost Americans $1.3 billion and caused long-term damage to businesses, including worker layoffs, hiring freezes, wage and benefit cuts, and capital investment delays.[1] Congress should not delay in renewing the GSP before the program expires in December. Americans could benefit even more from the program if it were renewed for a longer period—at least 10 years—and expanded to cover more products.

Basics and Benefits of the GSP

The GSP is the United States' longest running and most extensive trade preference program. It was initially authorized as part of the Trade Act of 1974 and is aimed at bolstering economic growth in developing countries through tariff reductions.[2] Over 120 developing countries currently benefit from the program's tax savings,[3] and 13 other developed countries offer GSP-like programs.[4]

The United States lists mandatory and discretionary criteria that countries must meet to be eligible for GSP benefits. The President may consider issues such as workers' rights, child labor laws, level of economic development, and protection of intellectual property rights when making an eligibility determination.[5] A country may also graduate from the program at any time if the United States considers it "sufficiently" developed.[6]

While the primary goal of the GSP is to help developing countries, American businesses and consumers also benefit greatly. The program eliminates import taxes on over 5,000 products, which helps businesses of all sizes remain competitive.[7] In 2019, consumer goods ($512 million), industrial materials ($256 million), and food and agriculture ($116 million) yielded the greatest savings.[8] Also in 2019, over $20 billion worth of goods were imported under the GSP, saving Americans over $1 billion.[9] Overall, these savings allow American businesses to reinvest, hire more workers, and grow their businesses. GSP savings also give individual Americans greater options and more competitive prices.

Major Changes in GSP Beneficiaries

Since 2019, the Trump Administration has removed GSP benefits for India, Turkey, and Thailand. These moves affect more than $9 billion worth of imports[10] and subject Americans to higher taxes on products from these countries. GSP benefits were also reinstated for roughly $12 million worth of goods from Ukraine in October 2019.[11]

- **India.** Prior to having its GSP benefits revoked in June 2019, India was the program's largest beneficiary. In 2018, Americans imported

$6.3 billion worth of duty-free goods from India under the GSP.[12] Americans were importing items ranging from leather to industrial machinery to vehicles and accessories all tariff-free from India.[13] The Trump Administration terminated India's GSP benefits after the President "determined that India has not assured the United States that India will provide equitable and reasonable access to its markets."[14] U.S. and Indian officials tried to conclude a deal in early 2020 to reinstate benefits for India in exchange for greater market access for U.S. exports, but those efforts have stalled.

- **Turkey.** GSP benefits were terminated for Turkey in May 2019. The President's proclamation making this change cited Turkey's "level of development" as the reason for termination.[15] In 2018, Americans imported $1.9 billion worth of GSP goods from Turkey, and the country was ranked as the fifth-largest beneficiary of the program.[16] Goods imported from Turkey under the GSP included items such as jewelry, motor vehicle parts, and stones.[17] The Coalition for GSP estimates that revoking benefits for India and Turkey will cost Americans $330 million annually.[18]

- **Thailand.** Thailand, the second-largest GSP beneficiary in 2018, had one-third of its eligibility revoked in April 2020 due to continued concerns regarding worker rights.[19] Americans imported more than $4 billion worth of goods duty-free from Thailand in 2018, but they are now subject to higher tariffs on roughly $1.47 billion worth of goods from the country. Goods that no longer receive duty-free entry include items such as seafood, kitchenware, hair and clothing accessories, and ceramics.[20] In just the first two months of the suspension, American businesses paid over $10 million in extra taxes.[21]

GSP Uncertainty Is Bad for Business

It is imperative that Congress renew the GSP before it expires in December. A lapse is costly for the American companies that import GSP products, even if renewal legislation includes tariff refunds. When the GSP expired for two years in 2013, companies paid $1.3 billion in extra tariffs.[22] Another lapse in December 2017 that lasted nearly four months cost businesses $145 million in the first two months of 2018 alone.[23] This cost continued to grow until the GSP went back into effect in April 2018.

Eventually importers were refunded in both cases, but after the 2013 lapse, long-term damage was done. According to a Coalition for GSP letter sent to Congress in November 2016, "Taxes and uncertainty forced companies to lay off workers, freeze new hires, cut wages and benefits, and delay capital investments."[24] Thompson Traders, a small, luxury bathroom fixture company based in North Carolina, was forced to lay off almost half of its staff and halt investment plans following the 2013 lapse. Overall, the elimination of GSP benefits cost the company over $200,000.[25]

The short-term nature of the program—each authorization lasts only two years—and significant mid-program changes by the executive branch also create a significant amount of uncertainty for American businesses that use these imports. Extending authorizations of the GSP for a longer period—10 years or more—could help increase use of the GSP and allow companies to make better long-term supply-chain plans. Many GSP products are intermediate goods used to produce other products, such as organic chemicals, iron and steel, and plastics.[26] Paying tariffs on these products results in cost increases for American businesses, which can impact their ability to produce competitively priced finished goods.

For example, Ritika's Global Grains, a small microwaveable grain and sauce company based in Massachusetts, relied almost exclusively on Indian imports. Prior to India officially losing its beneficiary status, the company noted that it would likely have to raise prices, lay off staff, and navigate a significant loss in revenue and growth should India's status change.[27]

Congress Understands the Importance of the GSP

There is a long history of bipartisan support for the GSP. Since its initial introduction, Congress has reauthorized the GSP a total of 14 times, and the legislation typically receives overwhelming support.[28] Most recently, Congress voted to extend the program through December 31, 2020.

When renewal legislation made its way to the House floor in 2018, Members passed the legislation by a vote of 400–2, proving that Democrats and Republicans alike recognize its importance. Representative Kevin Brady (R–TX) noted in his remarks that "this is money that our businesses can instead use to hire more workers, expand, and innovate."[29]

Members of Congress also spoke up when India was removed as a GSP beneficiary, signaling their understanding of the benefits of the program. With the support of 44 other lawmakers, Representatives Jim Himes

(D–CT) and Ron Estes (R–KS) organized a letter urging U.S. Trade Representative Robert Lighthizer to consider the costs for individual Americans and to restore India's beneficiary status.[30]

Recent Calls for Reform. During his testimony before the Senate Finance and House Ways and Means Committees this year, U.S. Trade Representative Lighthizer expressed an interest in reforming the GSP. Lighthizer expressed dissatisfaction with the lack of reciprocal treatment between the United States and GSP beneficiaries, specifically citing unfairness in situations where GSP beneficiary countries have trade agreements with the European Union that provide greater market access for the EU than the United States.[31]

Reforms of the GSP to require reciprocal treatment would be at odds with the very purpose of the program. The GSP is meant to increase trade with developing countries and increase economic growth in that country. It should also be a stepping stone to deeper trade relations, such as a future free trade agreement, which would include tariff and non-tariff barrier concessions by both sides. The new negotiations with Kenya—a beneficiary of the GSP and the African Growth and Opportunity Act—illustrate how preference programs can lead to deeper trade relations.[32]

If Congress considers making changes to the GSP this year, those changes should focus on eliminating barriers on imports for Americans. For instance, Congress should broaden the list of products covered under the GSP to include products currently labeled as "import-sensitive," such as textiles and apparel.

Recommendations

The GSP saves Americans money and gives businesses access to competitively priced inputs. The program is currently set to expire on December 31. As soon as possible, Congress should:

- **Advance legislation renewing the GSP.** Congress should not delay in renewing the GSP to prevent the costly effects of disrupted supply chains and increased tariffs.

- **Commit to the GSP for the long term.** Long-term renewal of the GSP would allow American businesses to better plan for the future and could lead to increased use of the program. Congress should commit to extending the program for at least 10 years.

- **Extend GSP coverage to textiles and apparel.** Currently, most textile and apparel products are not covered under the GSP because they are considered to be "import-sensitive." Congress should review the list of products not covered, because extra tariffs on products such as clothing is costly for American families.

Conclusion

American businesses and families benefit from trade programs that eliminate tariffs on imports. The GSP, which eliminates tariffs on imports from developing countries, saves Americans over $1 billion annually. Congress should not let this cost-saving program expire and should renew it as soon as possible for the long term.

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