Adding Travel Goods to GSP: Did BDCs Benefit?

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The U.S. Generalized System of Preferences (GSP) currently provides duty-free access to over 110 beneficiary developing countries (BDCs) for about 3,500 tariff lines.[1] In 2016, a new group of products—certain travel goods—were added to the GSP for least developed BDCs (LDBDCs) and in 2017 they were added for all BDCs. This is the largest group of products added to the GSP program in recent years and data show that after this addition GSP BDCs increased their share of certain U.S. travel goods imports.

GSP & Travel Goods

The GSP was established by the Trade Act of 1974 ("Trade Act"), as amended, to provide unilateral duty-free access for eligible products to BDCs. It is the oldest U.S. trade preference program and provides duty-free access for about 3,500 tariff lines for all BDCs and about 5,000 tariff lines for LDBDCs. However, the group of eligible products is not fixed. The Trade Act allows the President to add products to the GSP. Such changes are normally made in conjunction with the regular GSP product reviews when petitions to adjust the program's product coverage are solicited and selected for review. However, the President does not have carte blanche to add products to the GSP. The Trade Act prohibits certain articles from being designated as eligible articles, including sensitive items such as certain footwear, and for many years, handbags, luggage and pocket goods, collectively known as travel goods.[2]

It is rare for the list of statutorily prohibited articles to be adjusted. However, when the GSP program was reauthorized in July 2015, the prohibition against the President adding a select group of travel goods was lifted. This change was supported by a number of U.S companies that make and sell these goods. In 2016, USTR accepted petitions from 20 interested parties to add those travel goods to the GSP for BDCs. In July 2016, the President added those travel goods to the list of GSP-eligible products for LDBDCs only. In July 2017, the President expanded GSP-eligibility for those products to qualifying imports from all BDCs.

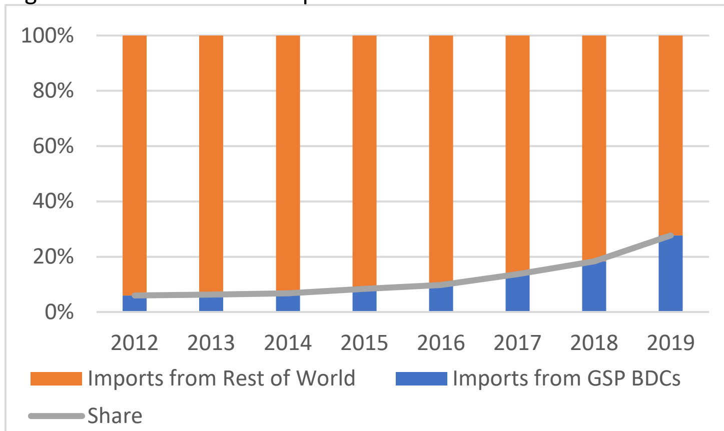
Changes in Sources of U.S. Imports of Travel Goods

The effects of the change on U.S. imports of travel goods can be seen in the chart below (Figure 1). Due to changes in several HTS subheadings' scope, 10 of the 23 travel good HTS subheadings that had been added were dropped from the analysis.[3] The data below represent 13 of 23 travel good product categories for which data remained consistent during the period. Despite the limitations of the data, the effects of the extension of duty-free treatment to GSP suppliers can be clearly seen between 2016-19 (the blue portions of the bars).

One of the arguments that interested parties made during the GSP annual review was that adding travel goods to the program would benefit GSP suppliers and allow diversification of import sources away from China, which is not a GSP beneficiary. An examination of the data indicates that diversification in favor of imports from BDCs has occurred after these travel goods were added for all BDCs by July 2017.

[1] Benefits are provided at the 8-digit HTS subheading level.
[2] The President has authority over any additions or removals of countries or products from the program. However, USTR administers the GSP and chairs the GSP Subcommittee of the Trade Policy Staff Committee (TPSC).
[3] HTSUS lines used in calculation are 4202.11.00, 4202.12.40, 4202.21.60, 4202.21.90, 4202.22.15, 4202.22.45, 4202.31.60, 4202.32.40, 4202.32.80, 4202.92.15, 4202.92.20, 4202.92.45, 4202.99.90.

Figure 1: Sources of U.S. Imports in Travel Goods



In 2012, GSP BDCs' import share was 6.0% of total U.S. imports of the 13 travel good codes (figure 1).[4] Between 2012 and 2015 U.S. imports of these products from BDCs grew 11.6% annually with the largest year-on-year growth occurring in 2015. The share of U.S. imports from GSP BDCs was 8.4% in 2015 and 9.8% in 2016. From 2016 through 2019, U.S. imports of these goods from BDCs rose rapidly: 30.9% annually. By 2019, the last date for which full year data is available, the share of U.S. imports of travel goods from GSP BDCs was 27.7%.[5] If BDCs' share of U.S. import had grown at the average rate of 2012–15, their share of GSP imports would have been only 11.9% by 2019.

GSP benefits helped provide BDCs a competitive edge over travel good imports from non-GSP beneficiaries who faced MFN duty rates between 5.7% ad valorem and 20% ad valorem on these goods. In September 2018, additional duties were placed on travel goods from China.[6] This action amplified the tariff advantage for GSP BDCs compared to China; it also benefited suppliers from the rest of the world. Figure 2 and Figure 3 show the change before and after the additional duties were put in place. While all U.S. import sources besides China increased their market share, GSP BDCs had the greatest relative increase maybe due, at least in part, to the gaining a tariff advantage through the GSP.

Figure 2: U.S. Import Sources 2017

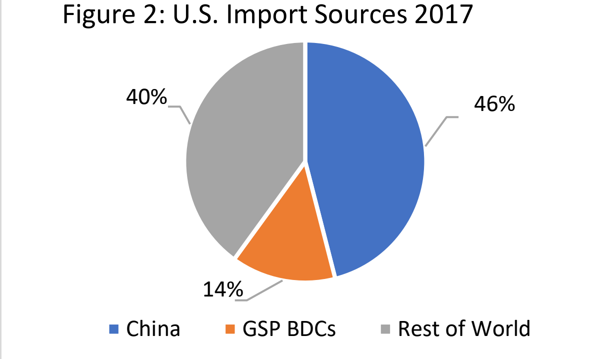
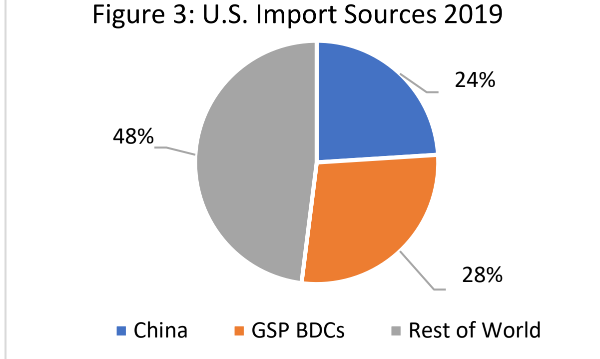


Figure 3: U.S. Import Sources 2019



Sources: Public Law 114-27, Title II Sec. 204, July 29, 2015; USITC, *Generalized System of Preferences: Possible Modifications, 2015 Review*, May 2016; USTR, *2015 Annual Generalized System of Preferences Product and Country Practices Review;* USITC Dataweb 2019 accessed May 5, 2019; USITC, *Shifts in U.S. Merchandise Trade 2018,* December 2019; Presidential Proclamation 9466 (81 FR 44129); full list available from authors by request.

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[4] Based on total imports of travel goods from BDCs regardless of whether entry under the GSP was claimed.
[5] Turkey and India were removed as BDCs in mid-2019 but were included the GSP BDC data. If excluded, the U.S. import share for the remaining GSP BDCs would have been 9.7% in 2012 and 22.7% in 2019.
[6] When implemented on September 24, 2018, the additional duty rate was 10% ad valorem. The rate was raised to 25% ad valorem effective May 10, 2019. Due to the date of the expansion of BDC preferences in July 2017 and the tariffs on goods in China in September 2018, the 2017 and 2018 do not fully capture the effects of either change.