

# The Generalized System of Preferences

How much does it matter for developing countries?



**United  
Nations**

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**United Nations**

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## ABBREVIATIONS AND ACRONYMS

<b>AGOA</b>	African Growth and Opportunity Act
<b>ASEAN</b>	Association of Southeast Asian Nations
<b>EAEU</b>	Eurasian Economic Union
<b>EBA</b>	Everything but arms
<b>FDI</b>	Foreign direct investment
<b>FTA</b>	Free trade agreement
<b>GSP</b>	Generalized System of Preferences
<b>GVC</b>	Global value chain
<b>HS</b>	Harmonized Commodity Description and Coding System
<b>LDC</b>	Least developed country
<b>MFN</b>	Most favoured nation
<b>NTM</b>	Non-tariff measures
<b>ODA</b>	Official development assistance
<b>TRAINS</b>	Trade Analysis Information System
<b>USITC</b>	United States International Trade Commission
<b>WITS</b>	World Integrated Trade Solution
<b>WTO</b>	World Trade Organization

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## EXECUTIVE SUMMARY

The Generalized System of Preferences (GSP) scheme is a voluntary trade measure implemented by developed countries that provide an advantageous, or “preferential”, tariff treatment to imports from developing countries. Different national GSP schemes were introduced following a resolution adopted at the second session of the United Nations Conference on Trade and Development (UNCTAD) in 1968. The scheme is expected to contribute to developing countries’ export growth particularly in the manufacturing sector.

**Five decades since its inception, the GSP stands at a crossroads.** The effectiveness of tariff incentives as a tool to foster exports has eroded over time as trade liberalization processes proceed at multilateral, regional and unilateral levels, and as the relevance of tariffs to overall trade costs declines.

The question arises as to whether the relevance and effectiveness of tariff preferences remain valid today. Focusing on the GSP schemes of the Quad economies (Canada, European Union, Japan, and the United States of America), which accounted for about 50 per cent of global imports on average in the period between 2004 and 2018, the study provides an objective assessment of tariff advantages offered under the GSP by quantifying the economic “value” of preferential treatment and the obstacles to the realization of its full potential.

While sharing the same objective of providing preferential market access to imports from developing countries, the GSP schemes of different countries are non-homogeneous sets of national measures. Each GSP scheme is designed according to the granting country’s national interests. Across GSP schemes, there is no threshold or minimum requirement in terms of product/country coverage and the level of tariff advantages. Hence, the objective of the study is not to bring value judgment as to which scheme is better or worse relative to others but to take stock of the state of tariff preferences offered under the four representative schemes.

The following points emerged from the study.

**The preferential tariff rates offered under the Quad GSP schemes have generated tariff savings for importers, particularly for those who import products from least developed countries (LDCs).**

In 2018, some US\$213 billion worth of exports from selected developing countries were eligible for preferential treatment in one or more of the Quad GSP schemes. About 61 per cent of these eligible exports, or US\$131 billion, entered these markets and effectively received tariff preferences under various GSP schemes. The total tariff saving from the Quad GSP schemes amounted to US\$8.8 billion, of which US\$5.1 billion was thanks to the GSP schemes for LDCs.

**The GSP preferences applicable to imports from non-LDC developing countries, however, are becoming negligible.** The GSP preferential margin for non-LDC developing countries has decreased over time, particularly through the proliferation of reciprocal free trade agreements (FTAs) between the Quad economies and middle-income developing countries. Frequently, tariffs offered under FTAs are lower than preferential tariff rates under GSP schemes. Moreover, several Quad economies exclude upper middle-income countries from GSP eligibility.

**By contrast, we observe a significant value and improvement in tariff advantages that LDCs receive from the Quad economies** under their respective GSP-for-LDCs schemes. The European Union, Canada and Japan provide preferential tariffs to virtually all products exported by LDCs. The European Union’s Everything-but-Arms (EBA) scheme for LDCs offers the largest tariff saving of all Quad GSP schemes in absolute terms.

**The benefits from GSP-for-LDCs preferences are however highly concentrated in a few countries and products.** The largest five exporters and top five export products, which include apparel, footwear, leather, and fish, tend to account for nearly 70 per cent of the total preference value in Quad markets.

As far as the GSP-for-LDC schemes are concerned, the three largest exporters represent over 90 per cent of the total preference value.

**A significant preference margin provides an incentive to importers to apply for the GSP preferences,** according to the Quad import data under GSP-for-LDCs schemes. The rules of origin, which define the “nationality” of a product and allow importing country to determine the eligibility for GSP tariff advantages, also influence importers’ decision to apply for GSP preferences. Complying with the rules of origin could be costly and time consuming. The European Union example shows that the simplification of rules and flexibility given to exporters in meeting the origin requirements significantly increased the use of GSP preferences, particularly on apparel products.

# I. Introduction and the analytical framework

For over 50 years, developed countries have offered preferential tariff treatment to imports from developing countries under the Generalized System of Preferences (GSP). The GSP was established in 1968 through discussions within UNCTAD as a voluntary “autonomous” trade measure.<sup>1</sup> It is aimed at promoting export growth, industrialization and economic development in developing countries by providing “generalized, non-reciprocal, non-discriminatory preferences”.

- “Generalized” as preferential tariff advantages should in principle apply to all developing countries.
- “Non-reciprocal” as developed countries reduce tariffs “unilaterally” to imports from developing countries, without requiring similar market opening on the part of developing countries.
- “Non-discriminatory” as the same preferences apply to all beneficiary developing countries except least developed countries (LDCs) that receive even better treatment.<sup>2</sup>

The GSP allows developing countries to export using lower-than-ordinary, “preferential”, tariff rates. During the 1960s and 70s, developing countries were exporting only a few natural resource-based products (e.g., oil, coffee, sugar). Through this system, developed countries sought to support export diversification and industrialization efforts in developing countries.

Today, sixteen economies operate GSP schemes.<sup>3</sup> These schemes are non-homogeneous sets of national measures sharing certain common characteristics that each granting country can freely design (Arnau and Juan, 2002). There is no threshold or minimum requirement in terms of product/country coverage and the level of tariff advantages (except for duty-free and quota-free market access conditions for LDCs).<sup>4</sup>

Most GSP schemes contain special (more beneficial) preferences for LDC beneficiaries in the form of lower preferential tariffs, often zero, for a greater number of products than non-LDC beneficiaries. To differentiate asymmetric levels of preferences applicable to non-LDC and LDC beneficiaries, the study refers to GSP preferences available to non-LDCs as “general (GSP) scheme” and those available to LDCs as “GSP-LDC” or “LDC scheme”.

## I.1. Data

The study is based on UNCTAD’s GSP database.<sup>5</sup> The database compiles bilateral imports from the GSP beneficiary countries that entered the Quad markets to which preferential GSP tariff rates are applied at the national tariff line level.

For Canada and Japan, such import data were sourced directly from their governments. The import data for the United States of America and the European Union are compiled from publicly available data

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<sup>1</sup> The system was established by the member States during the United Nations Conference on Trade and Development’s (UNCTAD) second conference in 1968.

<sup>2</sup> The special treatment of the least developed countries (LDCs) is the only exception recognized from the onset in this regard.

<sup>3</sup> These are: Armenia (Eurasian Economic Union - EAEU), Australia, Belarus (EAEU), Canada, the European Union, Iceland, Japan, Kazakhstan (EAEU), Kyrgyzstan (EAEU), New Zealand, Norway, the Russian Federation (EAEU), Switzerland, Türkiye, United Kingdom of Great Britain and Northern Ireland, and the United States of America.

<sup>4</sup> The key parameters for the special treatment of LDCs were set out in the World Trade Organization Hong Kong Ministerial Decision (2005) that called upon developed and developing countries prepared to do so to provide duty free quota free (DFQF) market access for LDCs for “at least 97 per cent of tariff lines.” Accordingly, various developed countries have enhanced their LDC preferences, and several developing countries instituted new LDC-specific preferential schemes.

<sup>5</sup> <https://unctad.org/topic/trade-agreements/trade-preferences-utilization>

sources operated by the United States International Trade Commission<sup>6</sup> and Eurostat.<sup>7</sup> The data on tariff rates are drawn from the World Integrated Trade Solution UNCTAD TRAINS. The dataset analyzed in the report amounts to a total of 4.5 million products traded bilaterally between the Quad economies and beneficiary countries between 2004 and 2018.<sup>8</sup>

### I.2. Key indicators

The study uses three sets of indicators; scope, relevance and value.

**The first set of indicators** measures the “scope” of each GSP scheme in terms of:

- (i) **Effective country coverage** – How many countries are reported as the GSP beneficiaries in the database. The indicator is measured as the number of countries that export at least one product that receives the GSP preferential tariff of the importing country. The “effective” country coverage can be less than the official number of beneficiary countries, as some countries may not have any record of exports of products that receive the GSP preference.
- (ii) **Effective product coverage rate** – The share of imported products that benefited from the GSP preferences in the total tariff lines. It is measured as the share of the products imported at least once under the GSP preferential treatment in the total tariff lines of an importing country. Again, as some GSP-eligible products may not be traded at all, the rate can be less than the share of all the GSP-eligible products in the total tariff lines. That is, the indicator measures the size of GSP schemes in terms of the number of “active products” being preferentially traded.

Both indicators help us compare the scope of preferences across different GSP schemes.

To introduce remaining two sets of indicators, a simple diagram is useful. Figure 1 provides a visual representation of the indicators. Assume that there are two different products (product 1 and product 2) imported by a Quad country from a beneficiary country. Further, assume for simplicity that these two products are traded at the same world price. The y-axis provides the prices of the imported products, and the x-axis the quantities of imports of the products.

On the y-axis:

- $P^W$  is the world price of a product;
- $P^{PRE}$  is the world price plus the preferential tariff applicable to a product;
- $P^{MFN}$  is the world price plus the MFN tariff applicable to a product

On the x-axis:

- Products 1 and 2 are imported at quantities  $Q_1$  and  $Q_2$  respectively.

These two products receive different tariff treatment:

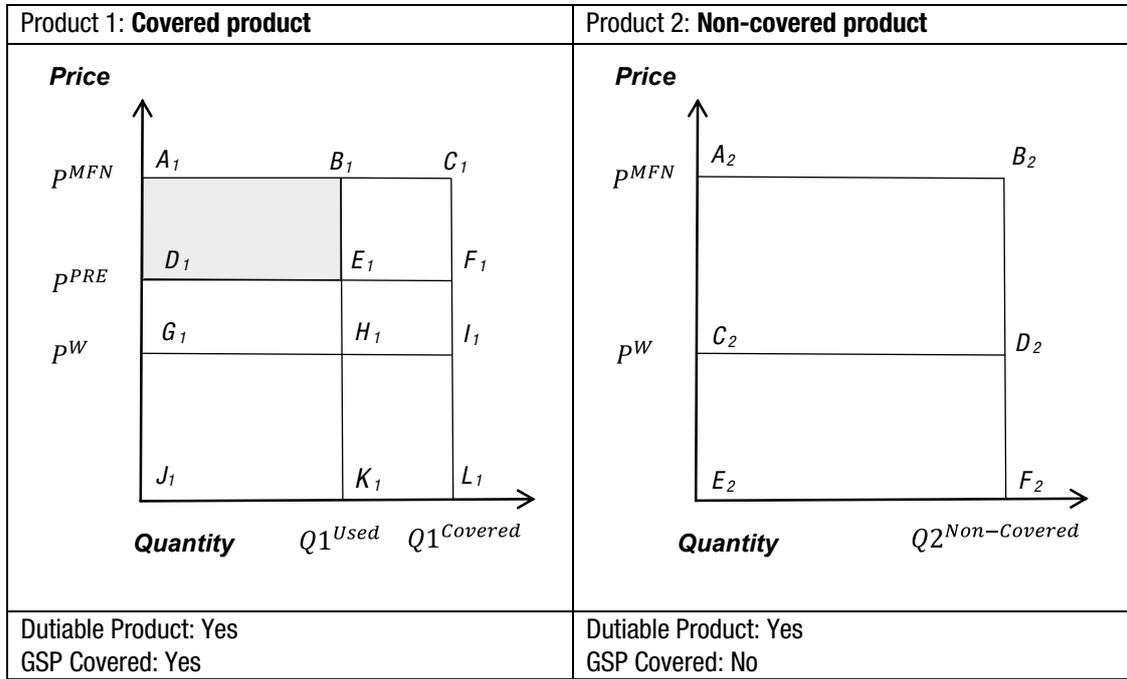
- Product 1 is covered by the GSP scheme. The part of the imports ( $Q_1^{Used}$ ) benefited from preferential rate ( $P^{PRE}$ ) instead of the MFN rate ( $P^{MFN}$ ). The remaining part of the covered imports ( $Q_1^{Covered} - Q_1^{Used}$ ) did not receive preferential rate but the MFN rate, either because beneficiary country could not or did not use the GSP preferences.
- Product 2 is not covered by the GSP scheme. All imports of this product ( $Q_2^{Non-Covered}$ ) were subject to the MFN rate.

<sup>6</sup> The United States International Trade Commission Data Web (<http://dataweb.usitc.gov>)

<sup>7</sup> Eurostat database (<https://ec.europa.eu/eurostat/web/main/data/database>)

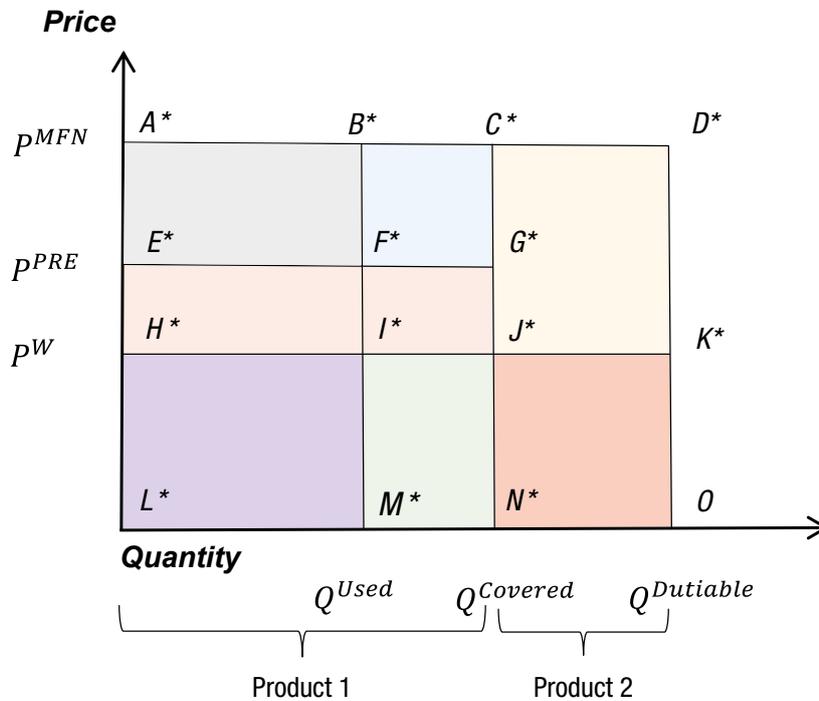
<sup>8</sup> The study uses the dataset covering the period between 2004 and 2018 due to technical reasons pertaining to the subsequent years' data.

Figure 1: Diagram of preferential trade



Source: Authors' own elaboration.

Figure 2: Diagram of preferential trade (combined)



Source: Authors' own elaboration.

These two diagrams for product 1 and product 2 can be combined into a single product market as in figure 2. The vertical axis is now the price of product 1 and 2, and the quantity is the sum of the number of product 1 ( $Q^{Covered}$ ) and product 2 ( $Q^{Dutiable} - Q^{Covered}$ ). Both products are traded at the same world prices before import duties but subject to different GSP treatment. The product 1 is eligible for a lower preferential rate and thus can be imported at  $P^{PRE}$ . However, the product 2 is subject to the MFN rate and thus imported at  $P^{MFN}$ .

Returning to the remaining two sets of indicators, **the second set of indicators** measures the “relevance” of GSP preferences in enhancing beneficiaries’ exports to GSP-granting markets. The indicators used under this category include:

- (iii) **Preference coverage rate** – The share of imports that are eligible for the GSP preferential tariffs (“covered imports”) in all imports that are subject to MFN tariff rates greater than zero per cent (“dutiable imports”). The indicator measures the share of the value of GSP-covered imports in the value of the total dutiable imports in a preference-granting country. That is, the indicator measures the weight of preference-eligible imports in the total dutiable imports of the product. In Figure 2, the preference coverage rate corresponds to the ratio of area  $H^*J^*L^*N^*$  (the covered imports) to  $H^*K^*L^*O^*$  (the dutiable imports).<sup>9</sup>
- (iv) **Preference utilization rate** – The share of imports that received GSP preferential treatment at the custom border of a preference-granting country in the total “covered imports”. The preference utilization rate compares the imports of a GSP-eligible product that actually received the preferential tariff treatment when entering the importing country to the imports covered by the GSP scheme. In Figure 2, this indicator corresponds to the ratio of area  $H^*I^*L^*M^*$  to  $H^*J^*L^*N^*$ . This indicator shows the extent to which the GSP preferences are actually claimed by importers, thus, can be used to measure the usability of existing GSP preferences. The higher the preference utilization rate, the more “usable” the GSP preferences are to exporters and importers.

**The third set of indicators** captures the “value of preferences” that can be measured based on:

- (v) **Preference margins** – The difference between the preferential tariff rate and the MFN tariff rate of a product. The margin is calculated at the export-product line level. When the preference margin is sufficiently large, importing the product from GSP beneficiary countries would be more competitive than other countries’ product that is subject to an MFN tariff rate.

Using the preference margin, we can calculate the **value of preference** as a “tariff preference rent” by multiplying the preference margin by the value of imports made under the preferential tariff treatment. This is a tariff revenue forgone for the importing country’s government or tariff savings achieved by importers.<sup>10</sup>

- (vi) **“Effective” value of preference** – The value of tariff expenditures that importers avoided from paying due to preferential tariffs. In figure 2 this corresponds to the shaded rectangle  $A^*B^*E^*F^*$ .
- (vii) **“Potential” value of preference** – The higher level of tariff expenditure that importers could avoid from paying if all the preference-covered products are imported under the preferential tariff rates. The distinction is made between the “effective” and “potential” value of preferences because not all the products are imported using the preferential tariff rates. The rectangle  $A^*C^*E^*G^*$  corresponds to this indicator.

<sup>9</sup> Import statistics record value of imports inclusive of transportation costs, insurance, and freight (CIF) while customs duties are excluded. Therefore,  $P^w$  is taken as the reference price instead of preferential  $P^{PRE}$  or MFN  $P^{MFN}$  prices in measuring import values in this study.

<sup>10</sup> For a discussion, see Brenton and Ikezuki, 2004 and 2005; Brenton and Hoppe, 2006; Candau and Jean, 2005; Hoppe, 2007; Hoekman, Martin and Braga, 2009.

- (viii) Further, the **“unused” preference value** is the difference between (vii) and (vi) and provides the value of preferences that were not utilized, corresponding to rectangle  $B \times C \times F \times G^*$ . In other words, the indicator provides a first measure of the scope of possible improvement in preference values by increasing preference utilization.
- (ix) **“Maximum” value of preference** – The maximum benefit from preferences can be achieved by broadening product coverage to all products currently subject to positive (non-zero) MFN duties and eliminating all residual tariffs that may be applicable. In other words, this indicator represents the maximum possible preferential value arising from full duty-free treatment, full product coverage and full preference utilization. This is equal to the area of the rectangle  $A \times D \times H \times K^*$ .
- (x) The difference between the maximum value (ix) and potential value (vii) is the value of preference that is not offered by preference-granting countries on account of product exclusion or continued application of positive tariffs. This equals to the sum of rectangles  $C \times D \times J \times K^*$  (product exclusion) and  $E \times G \times H \times J^*$  (positive preferential tariffs). In other words, this **“non-covered” preference value** suggests the additional tariff savings (or the value of preference) that could be obtained by extending product coverage and eliminating remaining tariffs.

Both “unused” and “non-covered” preference values are important indicators for understanding the extent to which trade preferences are effectively used by, or offered to, beneficiary countries and can point to the areas and magnitude of potential improvements.

### I.3. Limitations

Several caveats are worth noting. First, the preference value is a static concept and does not capture a dynamic effect. “Effective”, “potential” or “maximum” preference values above assume that the imports remain constant even if applicable tariff rates change. In reality, import quantity and prices will change as a result of new market opportunities from broader product coverage, greater preference margin, or more significant preference utilization.

Second, the above-defined preference value is not necessarily financial gains to the GSP-beneficiary exporters. In actual practice, preferential tariff is claimed by importing firms or individuals and considered as tariff savings. Nevertheless, importers’ preference to save on tariff payments makes exports of the GSP beneficiary countries price competitive vis-à-vis imports of the same product from other countries. In economic welfare terms, who captures the benefits from tariff savings, or rents, depends on the relative bargaining power of importers and exporters, which would depend, among others, on the product’s supply and demand elasticities.

Third, in the computation of the value of preference of a product, the benchmark used to derive the preference margin is the corresponding MFN rate. In this context, the value of preference should be considered as the upper limit in the possible range of effective and potential values of preference. This is because most importing countries and particularly the Quad economies provide preferential tariffs to countries under non-GSP preferential schemes such as bilateral or regional FTAs. In such cases, GSP beneficiary countries’ competitive advantage over other countries can be smaller than what is estimated using the MFN tariff as the baseline (Low et al. 2005 and 2006).

On the other hand, if the granting of GSP preferential tariffs triggers new exports in products that had not been exported by GSP-beneficiary countries in the first place, the economic benefits of the preferential scheme to exporters can far exceed the value of saved tariffs. In this case, the benefits of the preferential tariffs are the whole value of exports, along with other secondary benefits such as employment and domestic production increases.

The value of preferences also ignores other types of costs, including non-tariff measures (NTMs). Regulatory measures such as technical standards and requirements, as well as the GSP scheme-specific rules of origin requirements are also affecting the value importers and exporters derive from using preferential schemes.

With these caveats in mind, the value of preference provides a useful measure of the economic significance of preferential market access under the GSP schemes. Combined with information on preference coverage and utilization, it helps us measure the scope, usability and potential economic benefit of the GSP schemes.

The study examines the GSP schemes of the Quad economies over a period between 2004 and 2018. The remainder of the report is organized as follows. Chapter 2 provides a synopsis of the major findings on preferential trade under the Quad economies' GSP schemes. Chapter 3 presents a comparative assessment of Quad schemes over time by different quantitative metrics in terms of the scheme scope, preference coverage and utilization, and the value of preferences. Chapter 4 concludes.

## II. The GSP schemes of the Quad: A snapshot

### II.1. The Quad economies as the key providers of GSP preferences

Out of sixteen countries that implement their GSP schemes,<sup>11</sup> the study focuses on the schemes of the so-called Quad economies – Canada, the European Union, Japan and the United States.

Table 1: Summary of Quad GSP schemes

	Canada	European Union	Japan	United States	Memo: AGOA
Start date	01/07/1974	01/07/1971	01/08/1971	01/01/1976	18/05/2000
Valid until:	31/12/2024	31/12/2023	31/03/2031	31/12/2020 <sup>12</sup>	30/09/2025
Beneficiary countries	104 (July 2021)	66 (January 2022)	131 (April 2022)	119 (February 2020)	36 (January 2022)
Of which:					
In the general scheme	55	11	86	75	-
In incentive scheme (GSP+)	-	8	-	-	-
In LDC scheme	49	47	45	44	24 (Apparel benefit)

Source: UNCTAD compilations. See UNCTAD 2016, 2021a, 2021b, and 2021c for further information.

As of 2021/2022, the Quad GSP schemes provided preferential market access to 11 to 86 non-LDC developing countries, and to most countries that are classified as LDCs under the criteria of the United Nations (table 1).<sup>13,14</sup>

The focus on Quad markets is based on the following reasons:

- **The Quad represents a significant market for exports from developing countries.** Together, these markets were the destinations for 47 per cent of global exports in 2021. They absorbed 37 per cent of exports from low and lower-middle-income countries, and even more, 46 per cent of their manufactured goods exports (figure 3). Among the sixteen economies granting GSP tariff advantages, the Quad markets represented over 80 per cent of exports from low and lower-middle-income countries to these markets. Focusing the analysis on the Quad markets, therefore, allows to capture a substantial proportion of trade under the GSP and identify general trends.

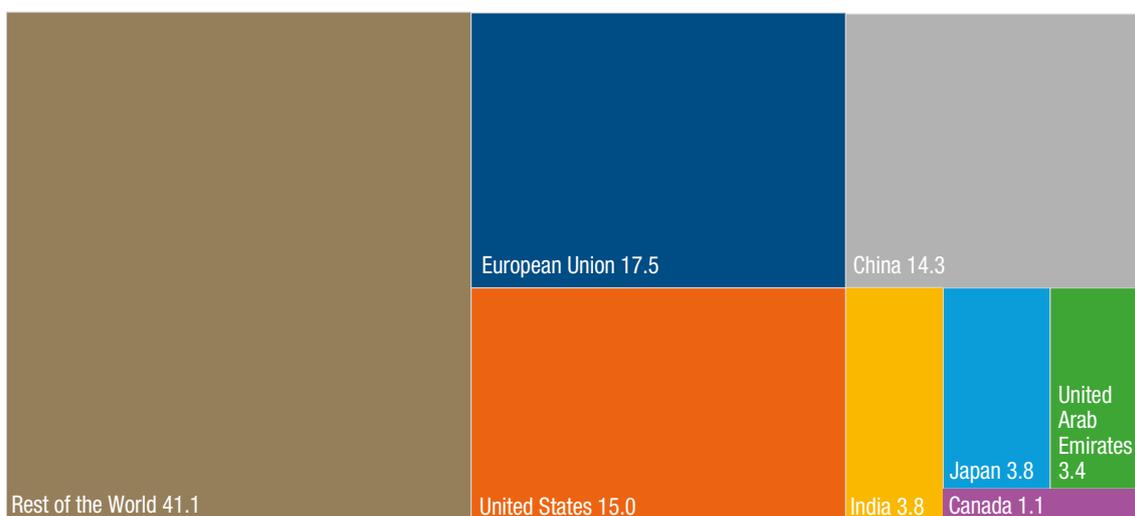
<sup>11</sup> In addition to the sixteen “developed” countries granting GSP schemes, nine “developing” economies provides similar unilateral preferential tariff treatment specifically for LDCs: These are: Chile, China, India, Republic of Korea, Montenegro, Morocco, Taiwan Province of China, Tajikistan and Thailand. The Quad markets accounted for 40 per cent of LDC exports to these 25 markets in 2021.

<sup>12</sup> The United States GSP expired on 1 January 2021.

<sup>13</sup> The latest list of beneficiary countries of different GSP schemes are available at official sources. For instance, see the European Commission, Generalised Scheme of Preferences ([https://policy.trade.ec.europa.eu/development-and-sustainability/generalised-scheme-preferences\\_en](https://policy.trade.ec.europa.eu/development-and-sustainability/generalised-scheme-preferences_en))

<sup>14</sup> The United Nations Committee for Development Policy review the list of LDCs according to the criteria that cover income, human assets (including health and education), and economic and environmental vulnerability.

Figure 3: Distribution of exports from low-income and lower-middle-income country by markets (2021, per cent)



Source: UNCTADStat.

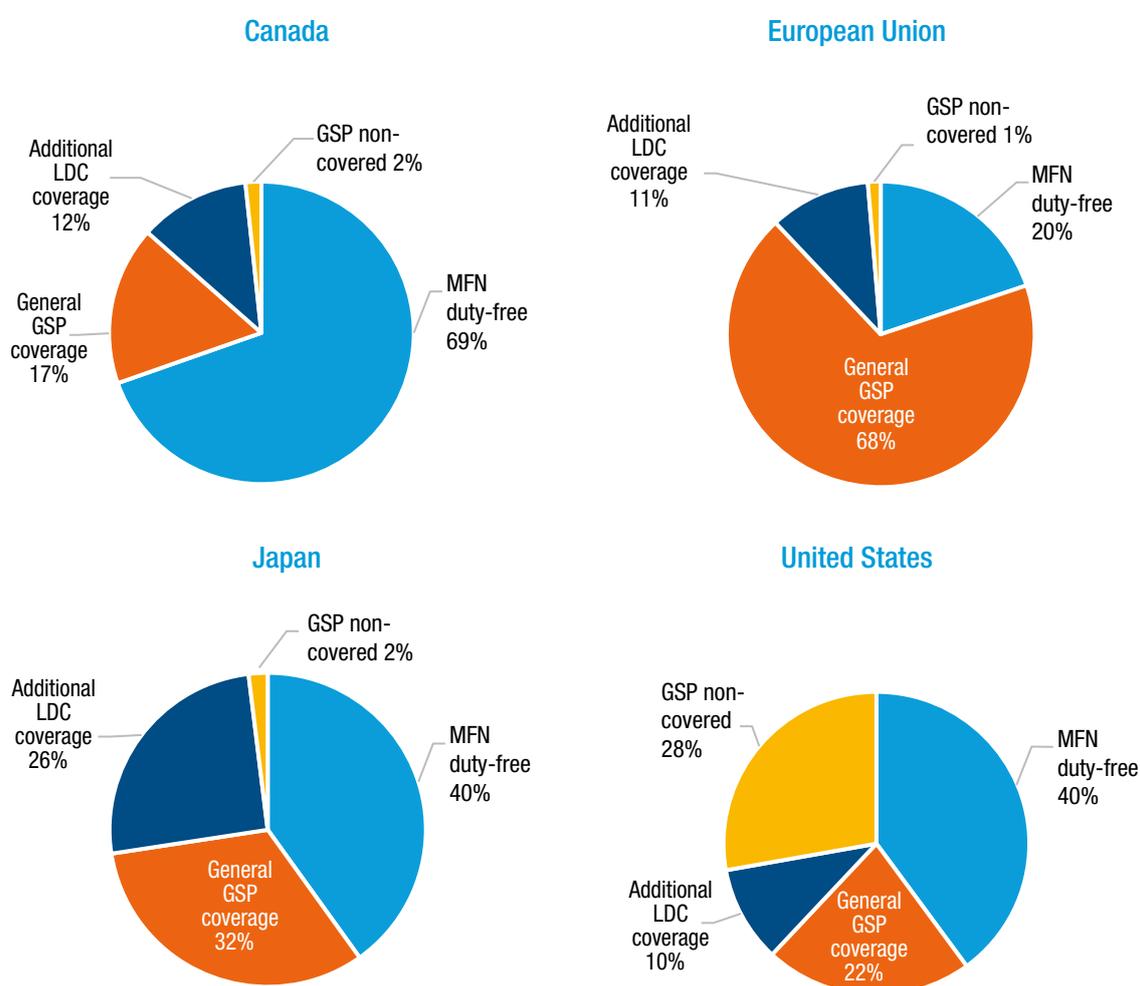
- **The Quad schemes have strongly influenced the evolution of GSP schemes elsewhere.** These economies have been the frontrunners in GSP implementation and reforms, and their GSP schemes (especially that of the European Union) have provided a reference point for other schemes and influenced their evolution.
- **The Quad economies provide comprehensive data on trade under GSP since 2004.** As GSP schemes are voluntary initiatives not coordinated multilaterally, there has been a lack of full transparency on trade preferences under GSP. As a result, the real picture of trade under these schemes has not been widely known. Consistent and continuous preferential trade data of the Quad economies in UNCTAD’s GSP database allow richer statistical analysis of the Quad schemes.

The product coverage of GSP schemes of the Quad differs as each country’s tariff structure varies. As figure 4 suggests, the number of GSP-eligible products is a function of that of products that are subject to MFN tariffs above zero per cent. For example, in the European Union, only 20 per cent of its total tariff lines are zero per cent on an MFN basis. In the remaining three-fourth of the tariff lines, the majority is eligible for GSP preferential treatment, thus bringing the GSP product coverage to 68 per cent.

In Japan and the United States, 40 per cent of total tariff lines is duty-free on an MFN basis. In Japan, most of the remaining “dutiable” products are eligible for GSP-for-LDC preference and about the half in the United States.

## II. The GSP schemes of the Quad: A snapshot

Figure 4: Share of tariff lines eligible for lower GSP rates in the general and LDC only schemes (2020)



Source: UNCTAD calculations based on TRAINS database in WITS.

Note: The products covered by the general GSP schemes for non-LDCs are not necessarily subject to duty-free treatment in Canada, the European Union and Japan and can consist of positive (non-zero) duties. Preferential tariffs for LDCs are however usually duty free in all Quad markets. Therefore, LDCs are provided with duty-free treatment for those products covered by the general GSP scheme, as well those additional products covered by GSP-LDC. Preferential rates are always duty free in the case of the United States under all its GSP schemes.

In addition to general GSP schemes for LDCs and non-LDC developing countries, the European Union provides a scheme called “GSP+” that grants more generous preferences to countries that comply with certain human rights, labour, and environmental standards that the European Union promotes. The United States maintains geographically focused preference schemes such as the African Growth and Opportunity Act (AGOA).<sup>15</sup>

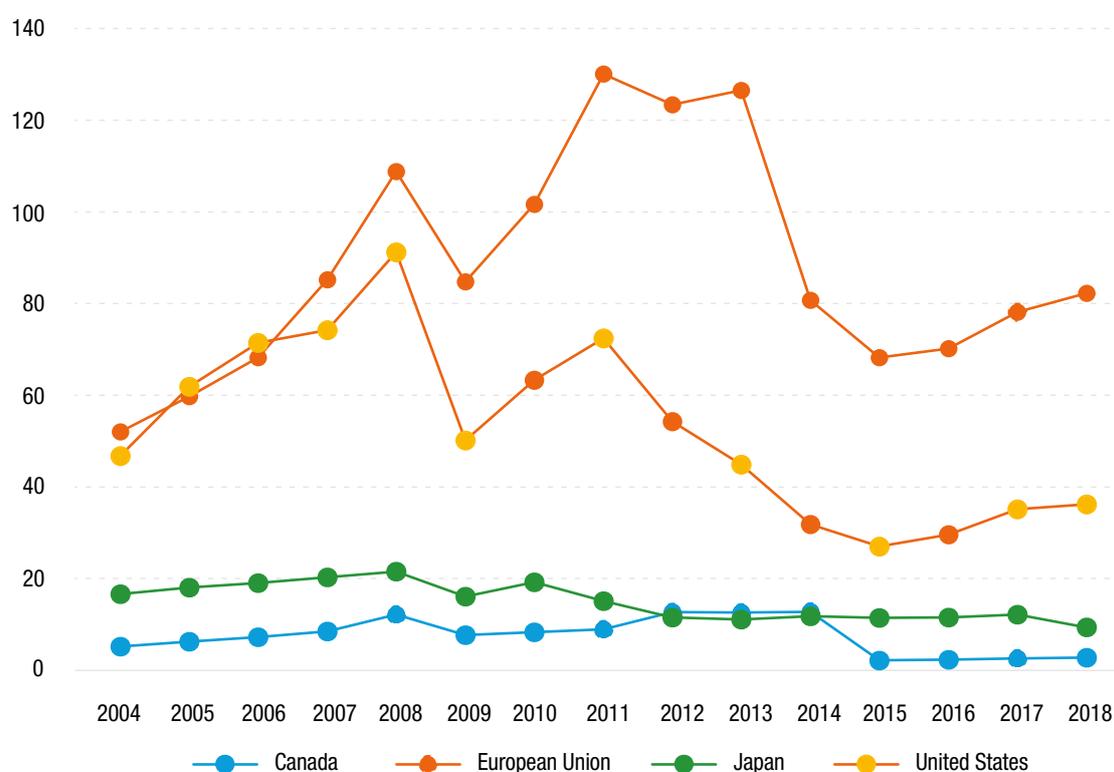
<sup>15</sup> AGOA has a regional focus on sub-Saharan Africa and grants duty-free access to an additional number of product lines along with the products eligible for duty-free access under the United States GSP scheme.

## II.2. Imports under the GSP preferences

After peaking in 2008 and 2011 respectively, imports under the GSP schemes of the two largest Quad markets, namely the European Union and the United States, declined significantly (Figure 5). In the case of the European Union, the decline is partly due to the exclusion of upper-middle income countries from the eligibility list. Recently, preferential imports are trending upwards in both markets mainly due to the recovery in the EBA and AGOA schemes.

In 2018, developing countries exported about US\$82 billion in preferential rates to the European Union under its GSP scheme. The United States GSP scheme (including AGOA) provided preferential duty-free treatment for about US\$40 billion worth of imports from beneficiary countries.<sup>16</sup> In comparison, the preferential imports into Canada and Japan in value remained relatively low and constant.<sup>17</sup>

Figure 5: Preferential imports under GSP schemes in Quad markets (2004–2018, US\$ billion)



Source: UNCTAD GSP database.

## II.3. The preference value

The European Union provides three different GSP schemes; The GSP-LDC scheme called the Everything but Arms (EBA) initiative, the general GSP scheme, and the GSP+ (GSP-plus) scheme.

Among the three European Union schemes, the EBA initiative stands out with the preference value (or the tariff savings) of US\$3.7 billion generated in 2018 (figure 6). The three European Union GSP schemes

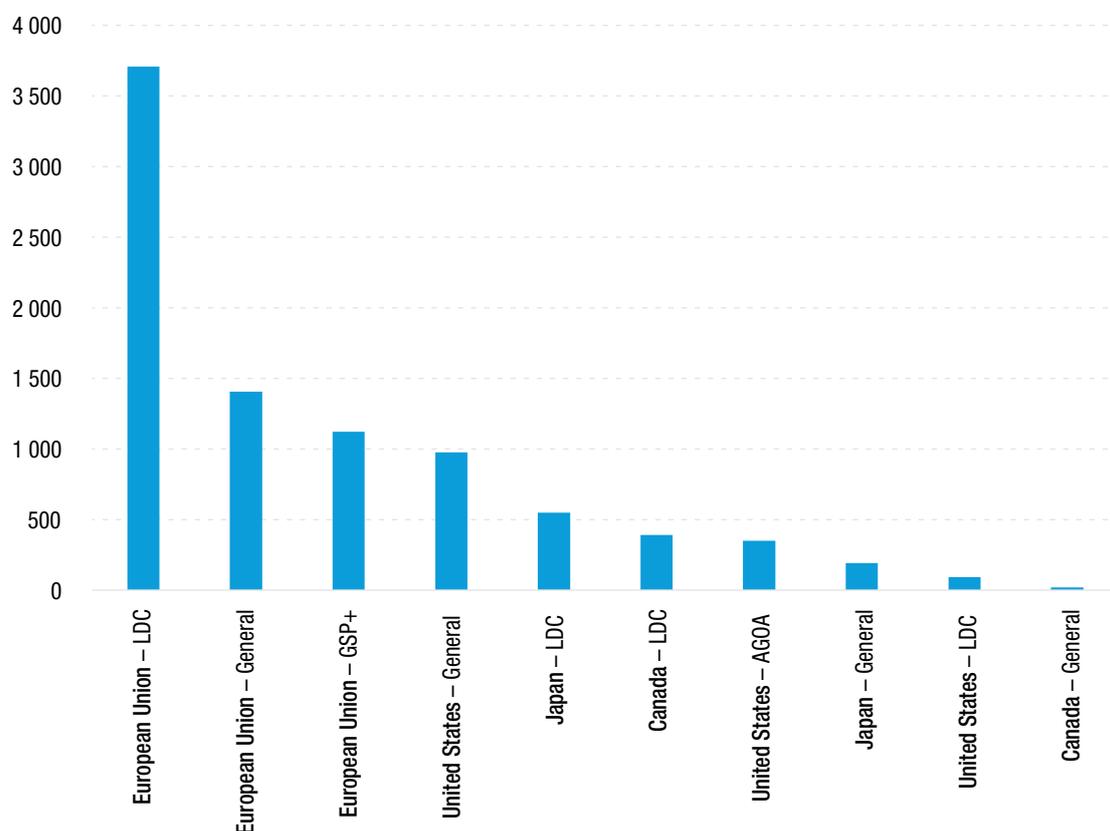
<sup>16</sup> The much of the decline in preferential imports in the United States is attributable to the fall in the value of fossil fuel imports under these preferential schemes. Available at <https://usatrade.census.gov/>

<sup>17</sup> The European Union schemes register the highest share of preferential imports in total imports from beneficiary countries with 37 per cent. Canada's scheme is the second largest with 22 per cent, followed by the schemes of the United States and Japan with 12 per cent and 3 per cent respectively.

## II. The GSP schemes of the Quad: A snapshot

account for US\$6.2 billion in effective preference value, with the GSP scheme generating US\$1.4 billion and the GSP+ scheme creating US\$1.1 billion, respectively. The general GSP scheme of the United States also provides a similar preference value of around US\$1 billion.

Figure 6: “Effective” value of preference by the GSP schemes (2018, US\$ million)



Source: UNCTAD GSP database.

The prominent size of the European Union's GSP schemes is due to its generous product coverage and preference margins. At the same time, the European Union presents the largest market for exports of many developing countries, particularly for LDCs.

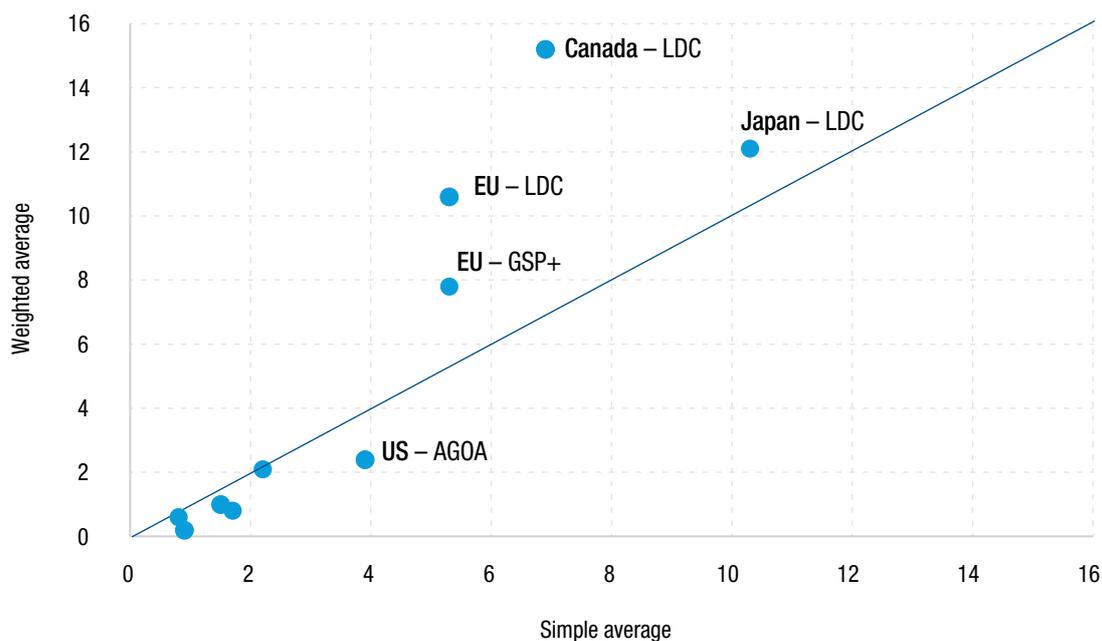
### II.4. The margin of tariff preference

Figure 7 plots the average preference margins across GSP schemes of the Quad in terms of the simple average (the x-axis) and the trade-weighted average (y-axis). The indicators measure the same statistics in slightly a different way. The simple average is the average of the preference margin across the board. It covers the products that receive preferential treatment but not necessarily imported. The trade-weighted average, on the other hand, indicates the average preference margins of the products that were imported.<sup>18</sup>

<sup>18</sup> Caution should be exercised in comparing the simple and trade-weighted averages. GSP preferences can tilt the composition of imports in favour of products having high preference margins. Therefore, having a higher trade-weighted average preference margin over the simple average may not mean that GSP preferences were given mostly to products that matter most for the exports of developing countries. The exports under GSP may be done mostly on goods with better preferential tariffs, not the ones that developing countries have the most competitive advantages and export potential.

Along the y-axis, the highest trade-weighted average preference margin is 10.3 per cent under Japan’s GSP-LDC scheme, followed by 6.9 and 5.3 per cent of the GSP-LDC schemes of Canada and the European Union, respectively. By contrast, the trade-weighted average preferential margins for non-LDC developing countries are around 1 per cent, which may be considered negligible as a preference margin when import values are low.<sup>19</sup>

Figure 7: Preference margin by scheme, simple and weighted average (2018, per cent)



Source: UNCTAD GSP database.

In Figure 7, the GDP-LDC schemes of Canada, Japan and the European Union are above the 45-degree line bisecting the graph, indicating that the products that beneficiary countries export to these markets tend to receive larger preference margins than products that the beneficiaries rarely export. Indeed, products of export interest to LDCs tend to fall on products with relatively high MFN rates.

## II.5. The preference coverage and utilization

The preference coverage and utilization rates of a GSP scheme are positively correlated (Figure 8). The preference coverage of the GSP-LDC schemes of Canada, the European Union, and Japan is nearly 100 per cent, that is, GSP preferences are granted to almost all imports of products whose MFN tariffs are above zero. The European Union’s GSP+ scheme also reveals more than 95 per cent of the preference coverage. In regard to the GSP schemes of the United States, the AGOA registers the product coverage that is close to 100 per cent.

<sup>19</sup> As shown in the following section, averages may hide variations in preference margins across product lines. Some product lines may still possess significant preference margins.

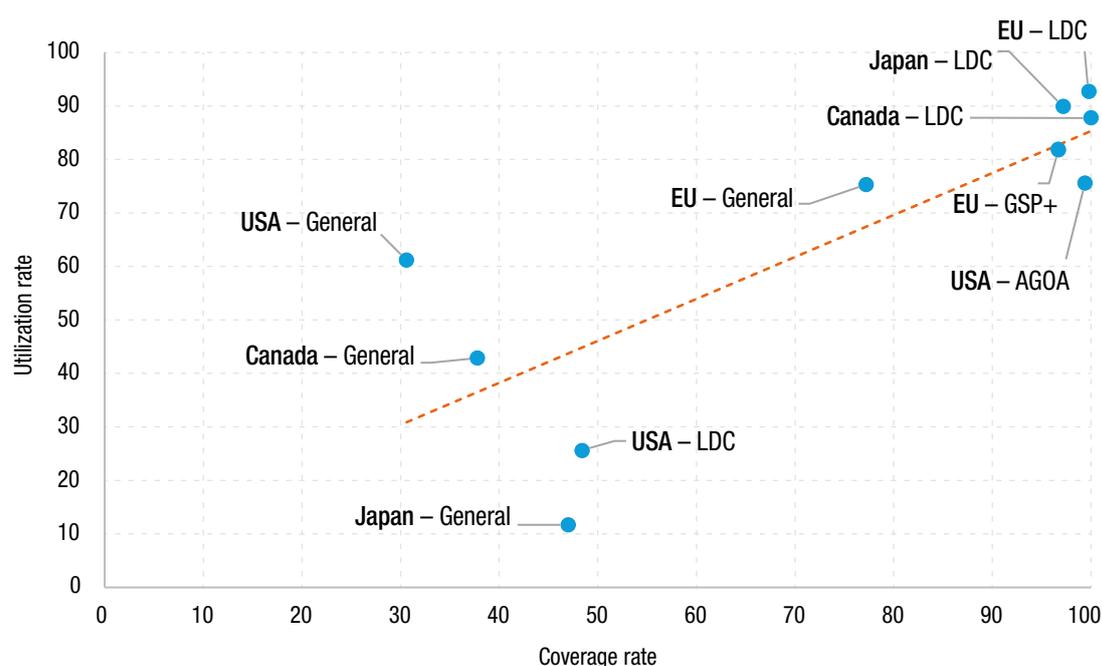
## II. The GSP schemes of the Quad: A snapshot

The above-mentioned five GSP schemes with more than 95 per cent of the preference coverage are also associated with the highest utilization rates, ranging between 75 and 95 per cent.

The preference coverage of other GSP schemes, except for the European Union's general GSP scheme, is less than 50 per cent. A lower coverage may lead to mismatches between the GSP-eligible products and actual exports of the beneficiary countries. And this may be one of the reasons why the utilization rates of these schemes are relatively low. For example, the United States general scheme excludes textiles, apparel, and footwear, which are important products for developing countries' exports (Congressional Research Service, 2022). The GSP schemes with low coverage and utilization rates are the ones with low preference margins as shown in Figure 7.

Relatively low utilization rates of specific GSP schemes may also be due to co-existing FTAs. Certain GSP-eligible developing countries may have FTAs with the Quad economies. FTAs generally offer larger product coverage and greater preference margins than GSP schemes, as is the case for the members of the Association of Southeast Asian Nations (ASEAN) with Japan. Regarding the United States, a relatively low utilization rate of the GSP-LDC scheme is partly attributable to the fact that certain sub-Saharan African LDCs that are eligible for both schemes tend to prefer AGOA, which offers better product coverage and user-friendly rules of origin.<sup>20,21</sup>

Figure 8: Product coverage and utilization rates of the GSP schemes (2018, per cent)



Source: UNCTAD GSP database.

Note: Dotted line shows linear fitted line.

<sup>20</sup> See WTO (2019) for further information.

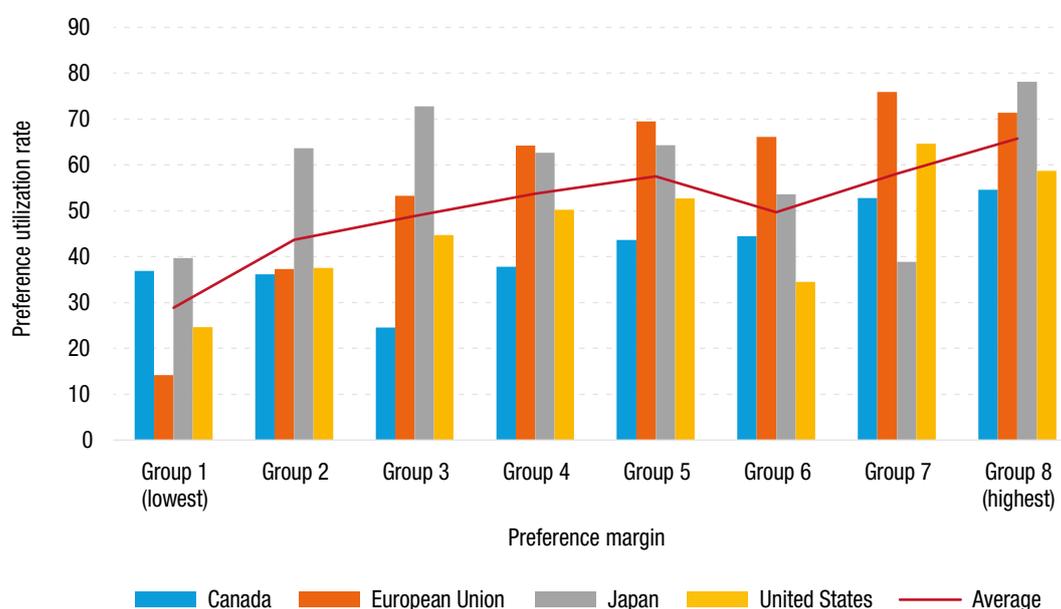
<sup>21</sup> Congressional Research Service (2022) suggests that GSP general and LDC scheme beneficiaries may receive more favourable treatment under AGOA and Caribbean Basin Initiative in some products.

## II.6. The preference margin, utilization, and values

It is intuitive that the larger the preference margin of a product, the greater the incentive to importers of the product to apply for the GSP preference.

In Figure 9, all the GSP-eligible imports of the Quad are classified into eight equal-sized groups according to the level of the preference margin in 2018, from the lowest (group 1) to the highest (group 8).<sup>22</sup> Then the average preference utilization rate for each group was computed. The resulting Figure 9 demonstrates that the average utilization rate goes up with the average preference margin in the GSP-LDC schemes of Canada, the European Union, and the United States.<sup>23</sup> For example, the average utilization rate goes up from about 30 per cent for the lowest preference rates to about 65 per cent for the highest preference rates.

Figure 9: Average preference utilization by the level of preference margin (2018, per cent)



Source: UNCTAD calculations based on the GSP database.

Note: See appendix 2 for preference margin groups.

Figure 10 presents the distribution of preference values that are (i) effectively used; (ii) unused; and (iii) not covered, as a share of the maximum preference value under different GSP schemes of the Quad (i.e., preference values arising from duty-free treatment for all products with full preference utilization). Under the GSP-LDC schemes of the European Union, Japan and Canada in 2018, over 90 per cent of the maximum preference values arising for LDC imports to these markets were effectively used, as these imports benefited from GSP-LDC preferences.

<sup>22</sup> As the distribution of preference margins differs across countries, each country may have different range of preference margins in each group. Yet, the ordering of the groups is the same across the countries. See Appendix 2 for preference margin groups.

<sup>23</sup> Figure 9 shows averages for a particular year for comparison to preclude any possible changes that may distort the results due to time effects. To minimize possible beneficiary country heterogeneity effects, the figure only covers a particular type of scheme. The LDC schemes are similar in terms of country coverage and the way, roughly, the preferences are treated.

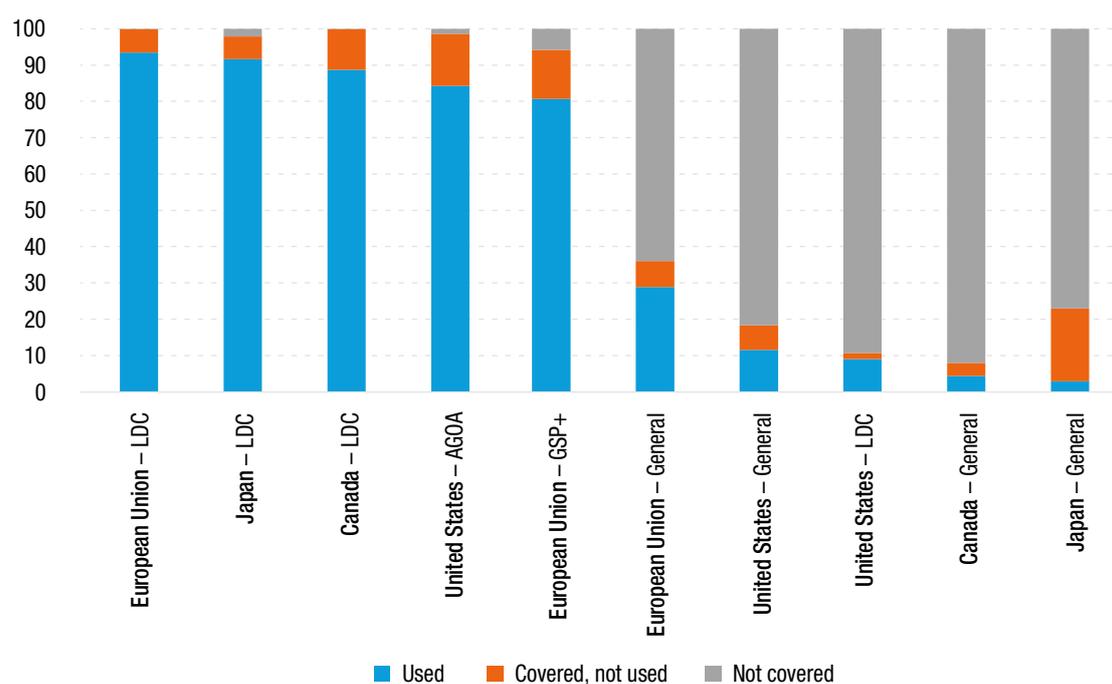
## II. The GSP schemes of the Quad: A snapshot

The orange segment represents the segment of preference values arising from those imports that were levied non-GSP tariffs rates even though GSP preferences were available. That is, these were the products whose GSP preferences were “unused” and the preference values (or tariff savings) were not captured at the customs border.

Increasing the preference utilization rate is a practical way to improve the GSP schemes’ potential benefits. For instance, by raising the utilization rate to 100 per cent, the European Union’s GSP-LDC scheme could increase its preference value from US\$3.7 billion to US\$4 billion, and from US\$350 million to US\$409 million in the case of the AGOA of the United States.

Another way to increase the potential benefits of certain GSP schemes is to expand the product coverage. This is applicable to the GSP schemes for non-LDCs developing countries of Canada, Japan, and the United States. By increasing the utilization to 100 per cent, the preference value from the general GSP scheme (the GSP-LDC scheme) of the United States can increase from US\$974 million to US\$1.5 billion (from US\$92 million to US\$110 million). If product coverage of these schemes were also expanded to cover all imported goods from beneficiary countries, the preference value under the general GSP scheme (the GSP-LDC scheme) would further rise to US\$8.4 billion (US\$1 billion).

Figure 10: Distribution of preference values – “used”, “unused” and “non-covered” – by GSP schemes (2018, per cent)



Source: UNCTAD GSP database.

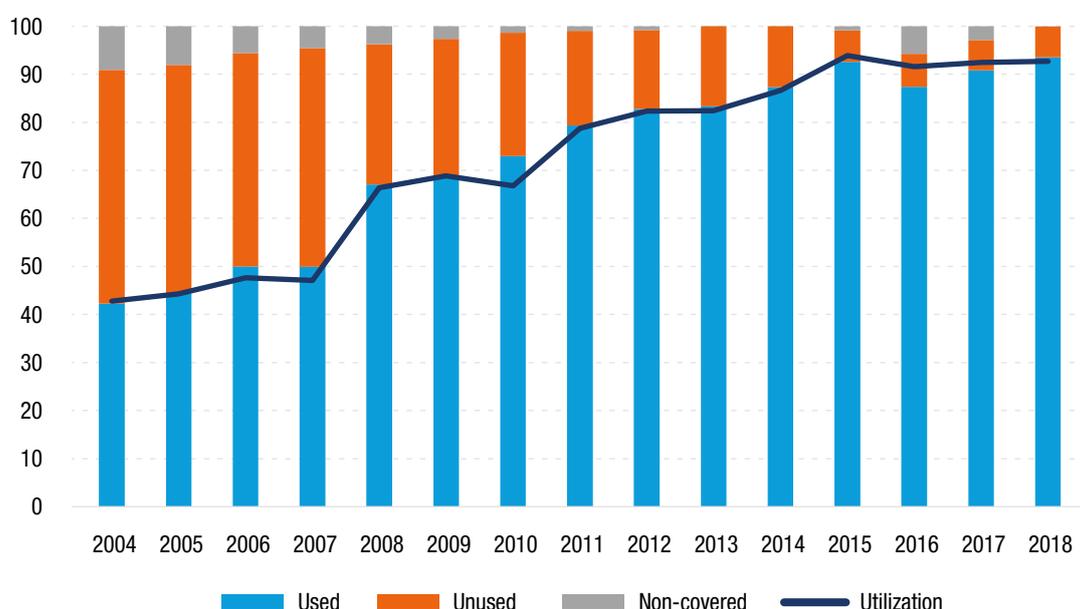
### II.7. The value of preference and the rules of origin

Even if preference margins are sufficiently large to provide tariff incentives, specific eligibility requirements may hinder a full utilization of the GSP schemes and induce significant untapped (“unused”) value of preferences. Some Quad economies have taken steps to ease these conditions to facilitate imports from the LDCs.

For instance, the European Union’s GSP-LDC scheme showed a remarkable progress in steadily improving utilization rates for LDCs (Figure 11). Between 2004 and 2018, the utilization rate of the European Union’s GSP-LDC scheme rose from just over 40 per cent to above 90 per cent. Combined with a full product coverage for duty-free treatment, over 90 per cent of the maximum preference value was effectively used under the European Union’s GSP-LDC scheme in 2018.

Behind this trend lies the reform of the European Union’s GSP-LDC scheme rules of origin. In 2010, the European Union moved from a “double transformation” to a “single transformation” requirement for HS chapters 61 and 62 on apparel articles, the leading product groups traded under the European Union’s GSP preferences. The reform allowed the use of imported fabrics by the exporting LDCs to produce final products, rather than the use of imported yarns.<sup>24</sup> Since most LDCs do not have the weaving capacity to meet the double transformation requirement, the reform facilitated the better use and, thus, the higher value of preferences under the scheme.

Figure 11: Utilization rate versus the value of preferences (European Union’s GSP-LDC scheme, 2004–2018, per cent)



Source: UNCTAD GSP database.

## II.8. Major exporters and products that receive GSP preferences

The distribution of the value of preferences of the Quad GSP schemes is highly concentrated in a small group of exporters and products.

Five major exporters – Bangladesh, Cambodia, India, Pakistan, and Viet Nam – represent nearly 70 per cent of total preference values in the Quad markets as a group. In the case of the relatively small markets of Canada and Japan, the corresponding figure reaches 97 per cent and 92 per cent, respectively (Table 2). As far as the LDC schemes are concerned, only three largest exporters – Bangladesh, Cambodia and Myanmar – account for over 90 per cent of the total preference values in the Quad markets.

<sup>24</sup> European Union, Commission Regulation (EU) No 1063/2010 of 18 November 2010.

## II. The GSP schemes of the Quad: A snapshot

Table 2: Major exporters under Quad GSP schemes by preference value (2018, US\$ million)

Country	Development	Quad		Canada		European Union		Japan		United States	
		Status	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value
Bangladesh	LDC	2696	1	200	1	2353	1	143.5	3	..	..
Cambodia	LDC	1195	2	173	2	739	2	208.3	1	74	10
India	Developing	897	3	..	..	617	4	0.3	30	280	1
Pakistan	Developing	753	4	2	7	733	3	0.5	24	18	15
Viet Nam	Developing	486	5	13	3	472	5	1.1	17	..	..
Myanmar	LDC	449	6	11	4	286	7	137.5	4	15	16
Indonesia	Developing	417	7	..	..	305	6	0.4	26	112	3
Philippines	Developing	297	8	3	5	192	8	0.1	40	102	5
Kenya	Developing	191	9	0	36	96	11	0.6	21	95	6
Cote d'Ivoire	Developing	183	10	0	34	182	9	0.03	45	0.3	42
Concentration											
Top 5 countries share		66%		97%		75%		92%		54%	

Source: UNCTAD GSP database.

Similarly, the largest five exported product groups, classified at the HS chapter (2-digit) level, represent between 65 and 95 per cent of total effective preference values under the GSP schemes. The product composition is more diversified for the United States' schemes, with the top five exports accounting for 45 per cent (Table 3).

Table 3: Major exported products under Quad GSP schemes by preference value (2018, US\$ million)

HS2 Code	Product	Quad		Canada		European Union		Japan		United States	
		Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank
61	Apparel and clothing accessories, knitted/crocheted	2526	1	198	1	2063	1	105	3	161	2
62	Apparel and clothing accessories, not knitted/crocheted	1968	2	133	2	1545	2	159	2	131	3
64	Footwear, gaiters and the like	746	3	28	3	522	3	191	1	4	42
63	Apparel and clothing accessories, not knitted/crocheted	342	4	23	4	308	4	2	23	9	30
42	Articles of leather, etc	323	5	5	6	120	7	15	7	183	1
3	Fish and crustaceans, molluscs etc	296	6	0	28	282	5	14	9	0	69
39	Plastics and articles thereof	242	7	2	8	112	8	31	6	97	4
16	Preparation of meat and fish or of crustaceans	214	8	0	23	202	6	2	21	9	32
29	Organic chemicals	146	9	0	93	22	26	54	4	71	5
87	Vehicles other than railway or tramway rolling-stock	134	10	1	11	76	14	0.0	91	57	7
Concentration											
Top 5 product share		65%		95%		73%		76%		45%	

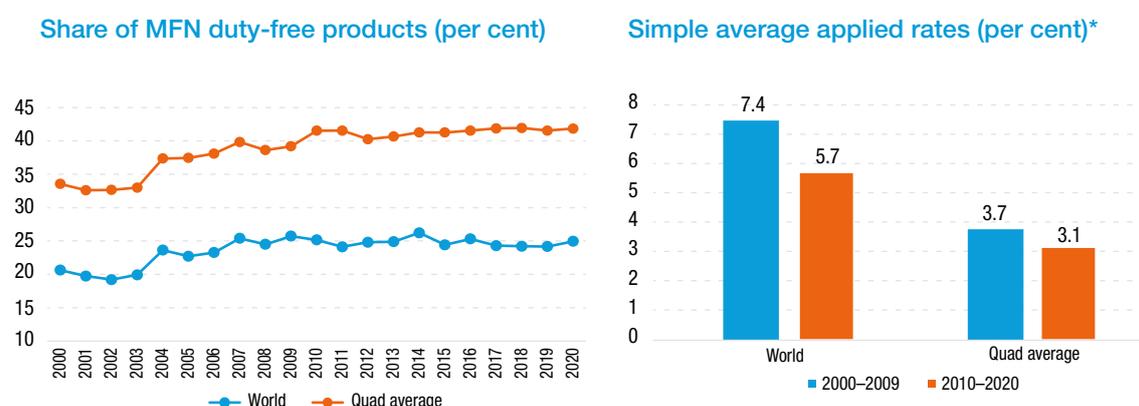
Source: UNCTAD GSP database.

## II.9. “Policy space” for trade preferences – Preference erosion and dilution

Successive trade liberalization at the global and regional levels has reduced the relative value of GSP preferences granted to LDCs and non-LDCs. During the last two decades, the share of MFN duty-free products in total tariff lines rose to 25 per cent worldwide (figure 12). The rise is more pronounced among the Quad economies. As the share of duty-free product lines of the Quad reached 42 per cent by 2020, this technically excluded almost half of the Quad’s imported product lines from GSP preferential treatment. Falls in the MFN rates are reducing the GSP preference margins.

The decline in the value of GSP preferences is more significant when the applied tariff rates are considered. While the MFN rates set the maximum tariff rate a WTO member state can levy on another member state, countries can apply tariff rates lower than their MFN rates. Between two decades of 2000–2009 and 2010–2020, the world average applied tariff rates fell by 1.7 percentage points. Today’s average applied rates are 5.7 for the world and 3.1 per cent for the Quad, further reducing the value of GSP preferences.

Figure 12: Share of MFN duty-free products and the average applied rates (2000–2020)



Source: TRAINS database in WITS.

\* The United States figure excludes the year 2019 as the imposition of higher tariffs in that year distorts the overall trend.

## II.10. Summary

The GSP schemes of the Quad for the LDCs and non-LDCs (the general schemes) are trending in two opposite directions. On the one hand, the most GSP-LDCs schemes have extended product coverage and preference margins and are effectively used by LDC beneficiaries. In the European Union, Canada and Japan, preference coverage and utilization rates of these schemes are about 90–100 per cent, and their monetary preference value now exceeds that of their respective general GSP schemes. The European Union’s EBA is the most extensive GSP scheme in terms of the absolute preference value.

On the other hand, the general GSP schemes of the Quad became less impactful in facilitating developing country exports as the country coverage decreased and the level of tariff advantages diminished. The preference margins are in the ranges of 1–2 per cent ad valorem, and their preference coverage and utilization rates are either moderate or low. This has resulted in a low level of effective preference values under these schemes.

The benefits of the GSP schemes, as measured by the preference value, are highly concentrated in a few countries and products. The largest five exporters and key export products (e.g., apparel, footwear, leather, fish) account for nearly 66 and 65 per cent of preference values in Quad markets,

## II. The GSP schemes of the Quad: A snapshot

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respectively. As far as the GSP-LDC schemes are concerned, the three largest LDC exporters account for over 90 per cent of the total preference values in the Quad markets.

The Quad import data of the GSP-LDC schemes suggests that GSP preferences with higher preferential margins tend to be utilized (i.e., claimed by importers at the customs) more.

Where preference margins are sufficiently large, rules of origin are an important determinant of preference utilization. The European Union example shows that the reform of rules of origin via relaxing processing requirements for apparel products significantly improved the utilization of GSP preferences for LDCs exports. The less stringent rules of origin are also instrumental for the generally high utilization rates under the LDCs schemes of Canada and Japan, as well as under the AGOA scheme of the United States.

“Policy space” for tariff preferences has narrowed over time to a varying degree in Quad markets as the number of MFN duty-free tariff lines increased, and the average MFN rate decreased. This indicates a gradual dilution of the average preference margin, limiting the ability of Quad economies to expand trade preferences.

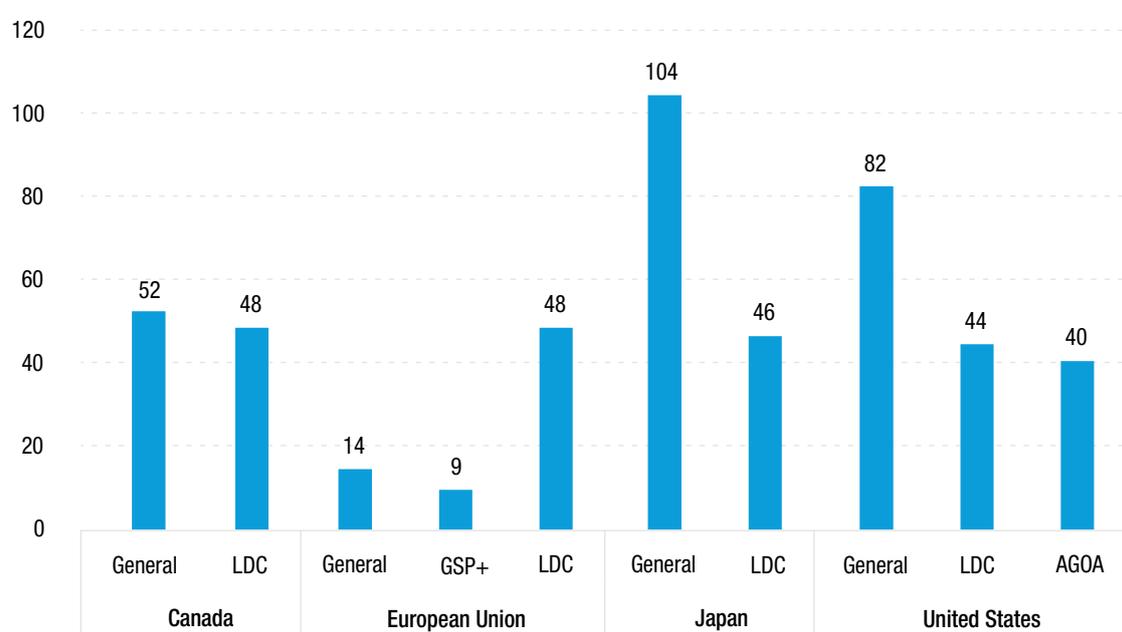
The proliferation of FTAs involving Quad and developing countries has led to preference erosion and dilution and reduced preference utilization, particularly for non-LDCs. The GSP preferences would be irrelevant to a GSP beneficiary when the country has alternative preferences available under parallel FTAs which offer a more advantageous market access condition. At the same time, the relative value of GSP preferences may have come down as other exporting developing countries competing with GSP beneficiaries are involved in FTAs with the Quad economies.

### III. Key indicators

#### III.1. Effective country coverage

The effective country coverage shows a large variation for the general schemes and a strong similarity for the LDC schemes (figure 13a). While Japan and the United States register a large number of beneficiary countries actively using the general GSP preferences, the European Union, and Canada to a lesser extent, maintain a small number of active users for their general schemes. With only 14 beneficiaries, the European Union’s general scheme is smallest. The number of LDC beneficiaries are quite similar across Quad economies in the range of 44–48 as the eligibility for LDC preferences is commonly based on the United Nations LDC definition.

Figure 13a: Effective country coverage of GSP schemes (2018, number of countries)



Source: UNCTAD GSP database.

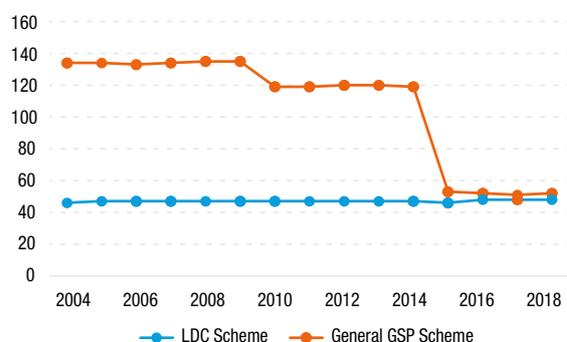
#### Definition

“Effective country coverage” is the number of countries that receive preferential treatment on at least one product line for a given importing country and scheme. The indicator traces the size of GSP scheme in terms of the number of “active users”, i.e., beneficiary countries effectively using GSP preferences.

### III. Key indicators

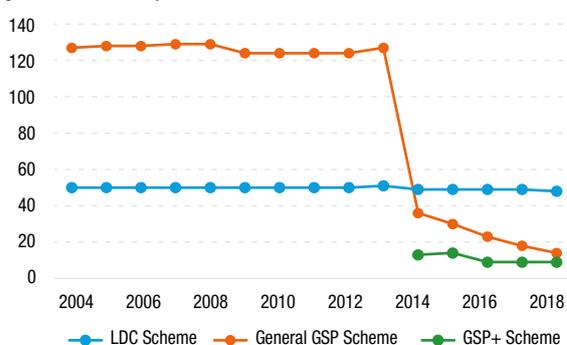
Figure 13b: Effective country coverage – by economy (number of countries)

Figure 13b1: Canada



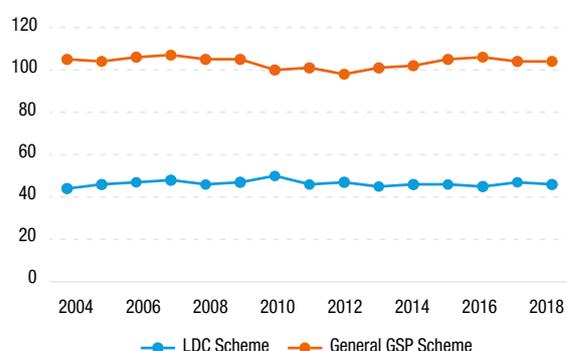
Over the 2004–2018 period, the effective country coverage of the general scheme more than halved in 2015 (figure 13b1). In that year, Canada decided to drop high-income and “trade-competitive” countries, essentially upper-middle-income countries, from the list of eligible countries. This, among others, resulted in the decline in the number of users of the scheme from 119 to 53 countries.

Figure 13b2: European Union



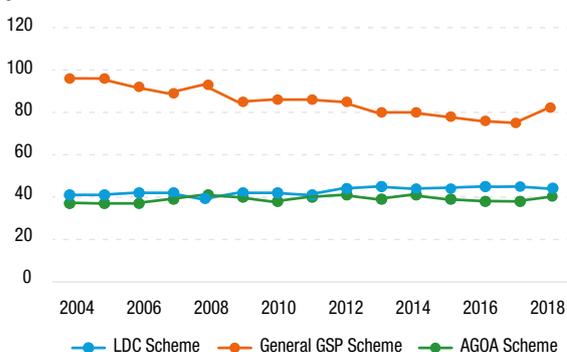
In 2014, the European Union introduced a reform by excluding those countries that are classified by the World Bank as “upper-middle-income countries” for three consecutive years from eligibility (figure 13b2). This criterion, along with other adjustments, significantly reduced the number of users of the standard scheme from 127 in 2013 to 36 in 2014 and further down to 14 in 2018.

Figure 13b3: Japan



Japan’s GSP scheme has the broadest country coverage of all Quad schemes (figure 13b3). The effective country coverage remained roughly constant over time and as of 2018, 104 countries used the general and 46 countries used the LDC schemes.

Figure 13b4: United States



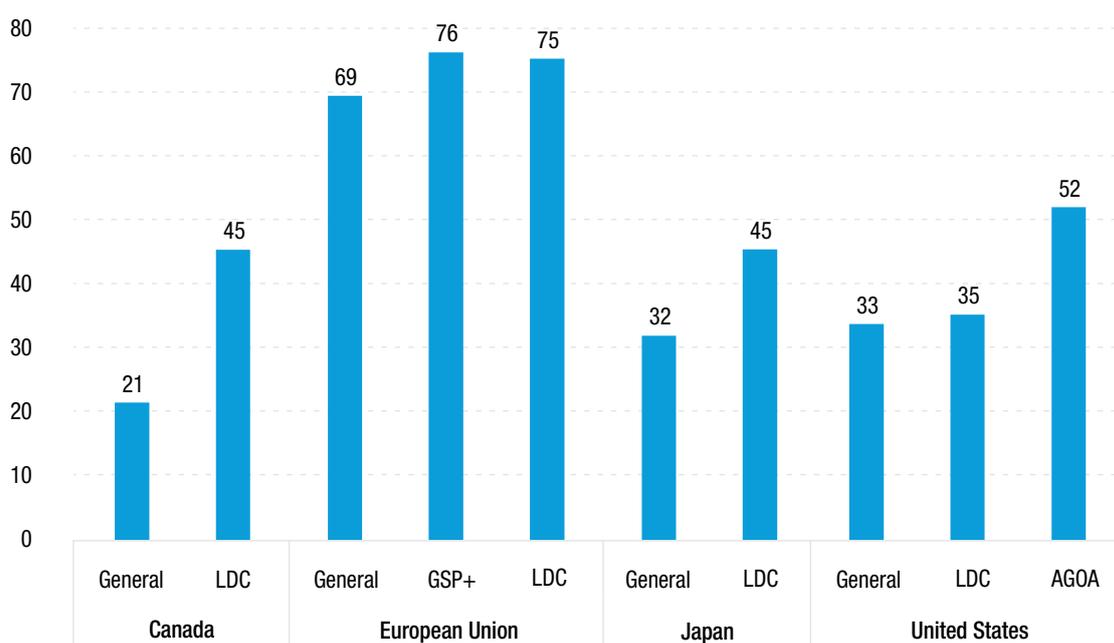
The number of effective users under the general GSP scheme of the United States declined slightly (figure 13b4). As of 2018, 82 countries have a record of preferential exports under the general GSP scheme, and 44 LDCs, under the LDC scheme. In addition to those schemes, AGOA provides additional tariff incentives for 36 sub-Saharan African countries.

Source: UNCTAD GSP database.

### III.2. Effective product coverage rate

The effective product coverage rate is high for the three European Union schemes in the range of 69 and 76 per cent (figure 14a). This implies a significantly large product coverage of European Union GSP schemes as up to three-fourths of total products are available for preferential treatment and such preferences are indeed used by beneficiaries. The rate is commonly higher under the LDC schemes than under the general schemes, with the range of 45 per cent for LDCs under GSP of Canada and Japan and 52 per cent under AGOA of the United States, as LDCs usually enjoy a broader product coverage.<sup>25</sup>

Figure 14a: Effective product coverage rate of GSP schemes (2018, per cent)



Source: UNCTAD GSP database.

#### Definition

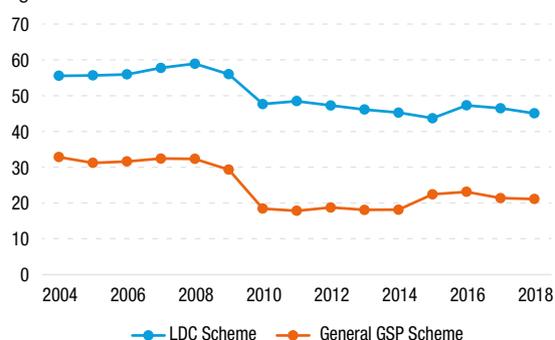
“Effective product coverage rate” is the share in the total tariff lines of those products that register at least one instance of imports with preferential treatment for a given importing country (across all exporting countries) and scheme. The indicator measures the size of GSP schemes in terms of the number of “active products” that are preferentially traded under the scheme.

<sup>25</sup> The share of MFN duty-free tariff lines in the total can affect the effective product coverage. For example, Canada’s effective product coverage rates are rather small compared to the European Union scheme. This is in part due to Canada’s greater number of duty-free tariff lines on an MFN basis.

### III. Key indicators

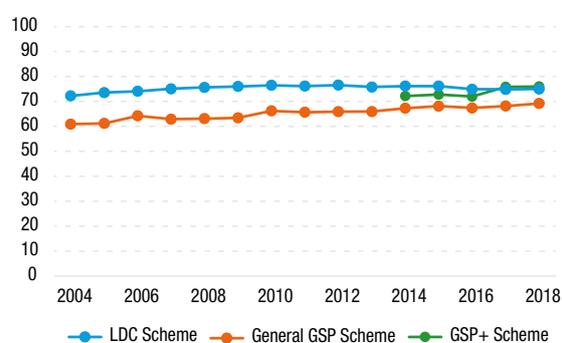
Figure 14b: Effective product coverage rate – by economy (per cent)

Figure 14b1: **Canada**



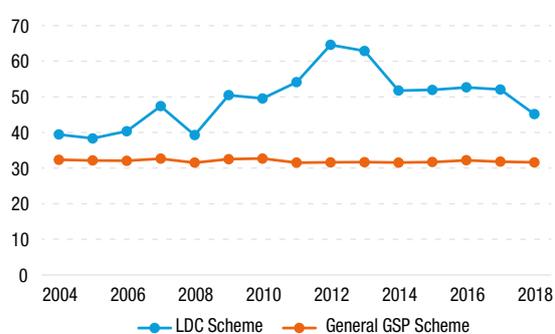
Canada witnessed a sizable decline in effective product coverage rate in both schemes (figure 14b1). The falling coverage is partly due to the increase in the share of MFN duty-free product lines in Canada's tariff schedule from about 50 per cent in 2004 to 70 per cent in 2018.

Figure 14b2: **European Union**



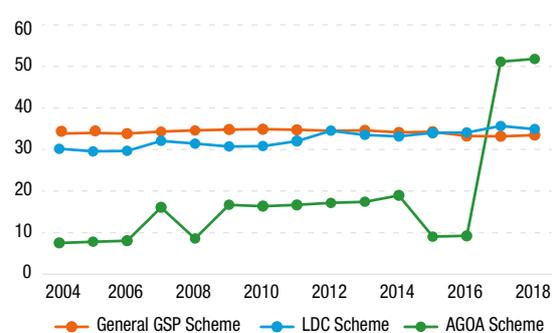
The European Union records the highest effective product coverage rate among all Quad economies (figure 14b2). The rate improved over time under all schemes. In the European Union, the share of MFN duty-free tariff lines remained constant at around 20 per cent, which had the effect of maintaining the overall level of preference margins for beneficiary countries.

Figure 14b3: **Japan**



The effective product coverage rate remained constant for the general GSP scheme and fluctuated under the LDC scheme (figure 14b3). Since the share of MFN duty-free tariff lines remained constant (at 40 per cent), the changes are attributable to those in product coverage for the LDC scheme. Japan broadened the product coverage of its LDC scheme in 2007.

Figure 14b4: **United States**



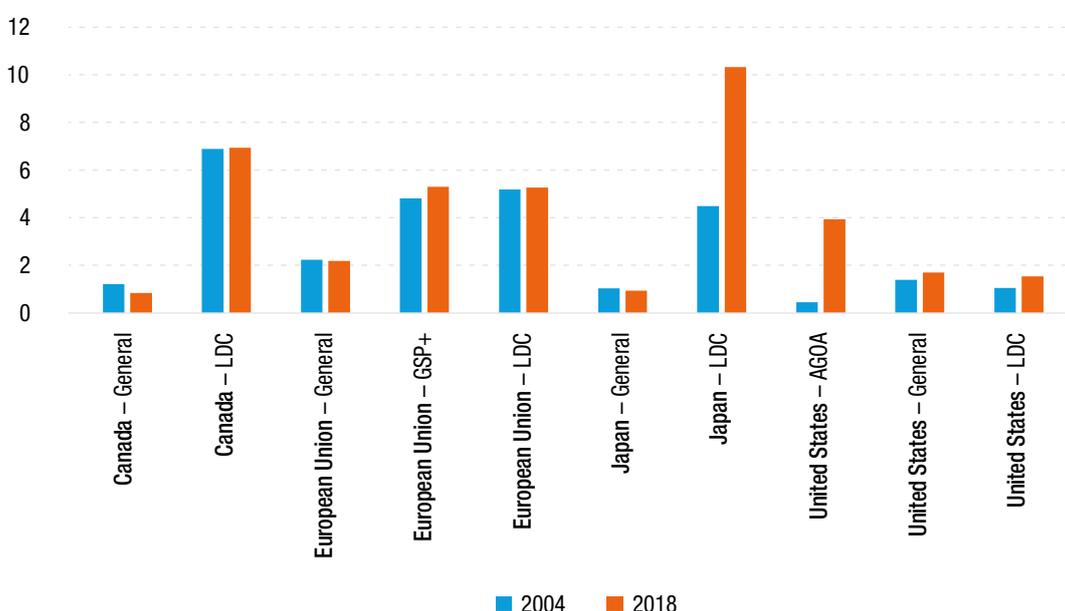
The effective product coverage remained stable at relatively low levels under the general and LDC schemes (figure 14b4). AGOA registered a jump in 2017 to over 50 per cent. In mid-2015, with the 10-year extension of the AGOA scheme, the number of preferential tariff lines increased from 2994 to 6441. The sudden jump in the AGOA figure is partly due to a change in procedures that allowed AGOA preferential tariff claims on products that are also eligible for other preferential schemes. Previously this was not possible.

Source: UNCTAD GSP database.

### III.3. Distribution of preference margins

LDCs tend to receive greater preference margins compared to non-LDCs using general GSP schemes (figure 15a). The highest average preference margins are provided through Japan’s LDC-only scheme with 10.3 per cent, followed by Canada’s and the European Union’s LDC schemes with 6.9 and 5.3 per cent respectively. The LDC preferences usually consist of duty-free treatment on covered products while preferences for non-LDCs often include positive tariff rates. Moreover, the products of export interest to LDCs tend to fall on products that face relatively high MFN rates such as apparel, leather, fish, and agricultural products. General GSP schemes tend to provide low preference margins, in the region of one percentage point *ad valorem*. The small margin of preference implies that exporters do not have strong incentives for seeking GSP treatment.

Figure 15a: Average preference margin (2004 and 2018, per cent)



Source: UNCTAD GSP database.

Note: 2014 figure for GSP+ is used for the 2004 statistics.

#### Definition

“Preference margin” refers to the difference between the MFN tariff and the preferential rate, calculated at the exporter-product line level.

### III. Key indicators

Figure 15b: Distribution of preference margins – by economy

#### Canada

Figure 15b1: General scheme

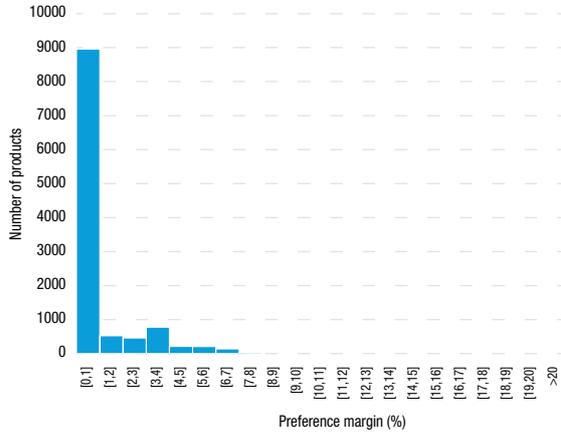
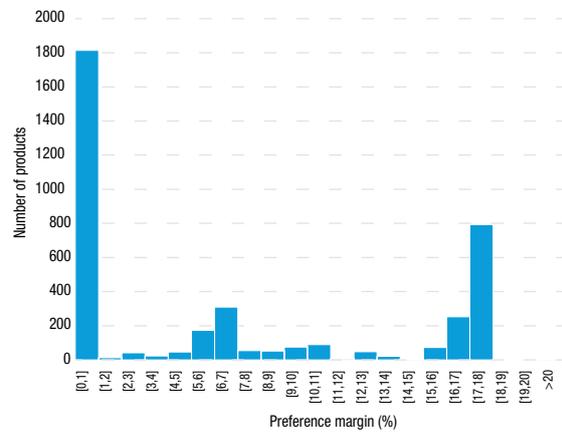


Figure 15b2: LDC scheme



There is a large mass of zero preference margins in both schemes due to the prevalence of zero tariffs on an MFN basis (figure 15b1 and figure 15b2). Preference margins are particularly low for the general scheme, below one percentage point on average. The LDC scheme preserves a substantial margin for its beneficiaries as a large mass of preference margins are found in the range of 15–18 per cent.

#### European Union

Figure 15b3: General scheme

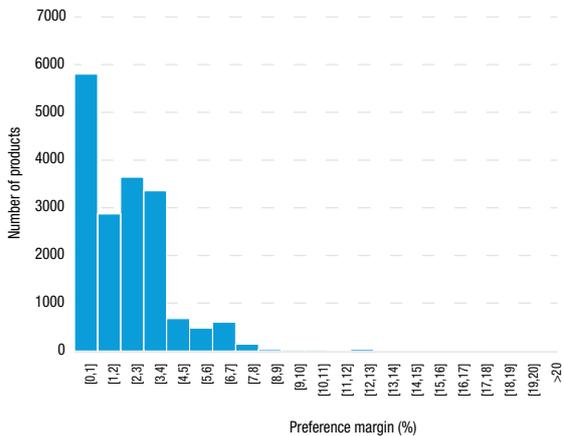


Figure 15b4: LDC scheme

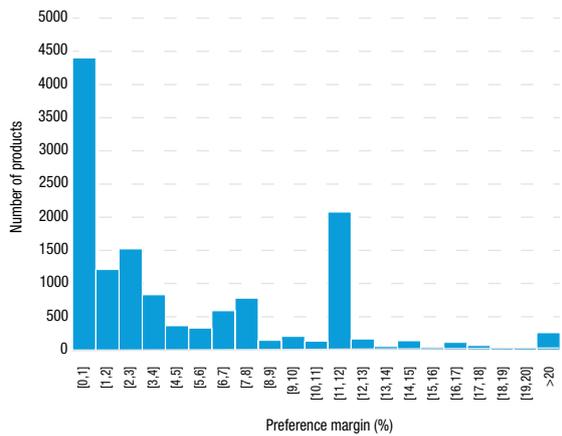
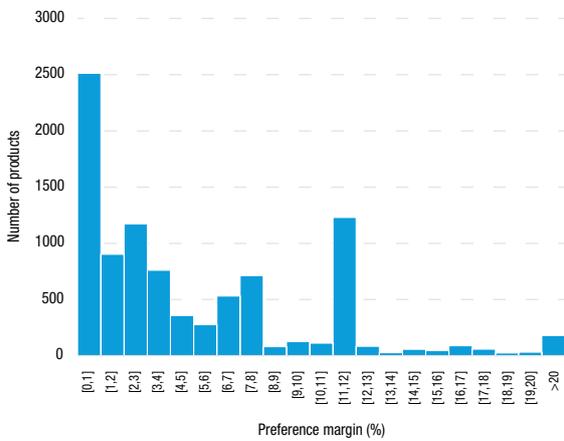


Figure 15b5: GSP+ scheme



All schemes record a high number of products with no or low preferential margin. Most of the preference margins for the general scheme were between zero and 8 per cent. For the LDC scheme and GSP+, there is a high density of preference margins in the range of 11–12 per cent (figures 15b3–15b5).

Japan

Figure 15b6: General scheme

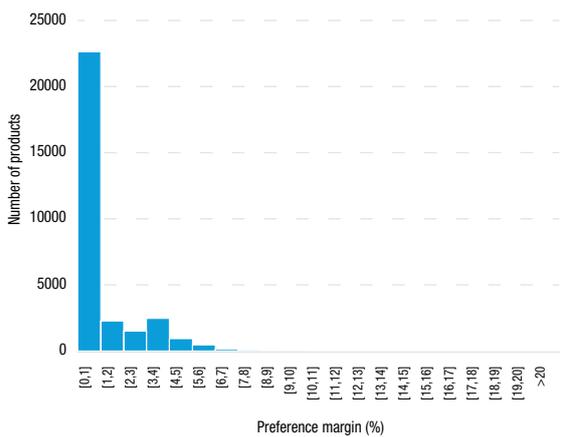
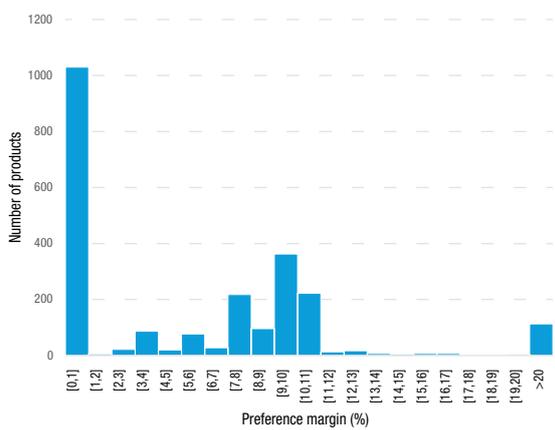


Figure 15b7: LDC scheme



Many products in both schemes register an effective preference margin of zero. About 40 per cent of the product lines are MFN duty-free in Japan. Preference margins are substantially greater under the LDC scheme than under the general scheme. There is a high density of preference margins in the range of 7 – 11 per cent for LDCs (figure 15b6 and figure 15b7).

### III. Key indicators

#### United States

Figure 15b8: General scheme

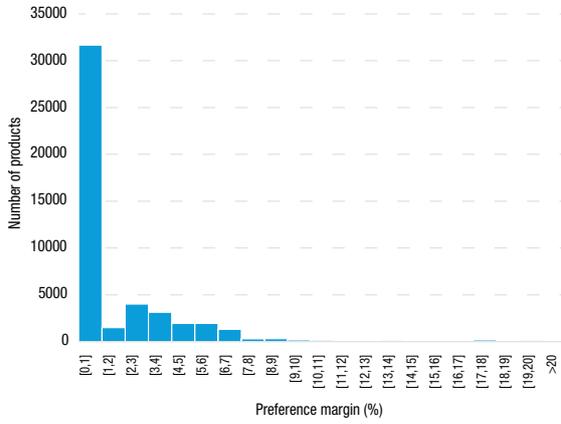


Figure 15b9: LDC scheme

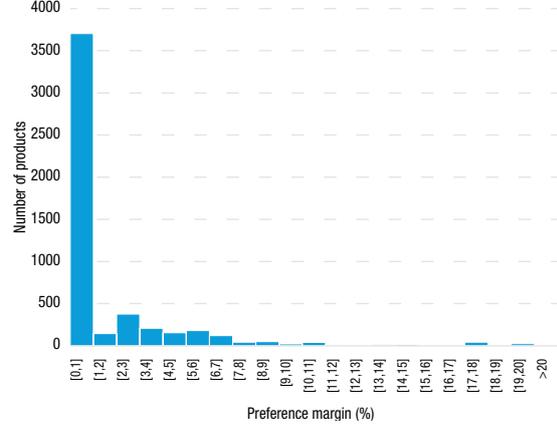
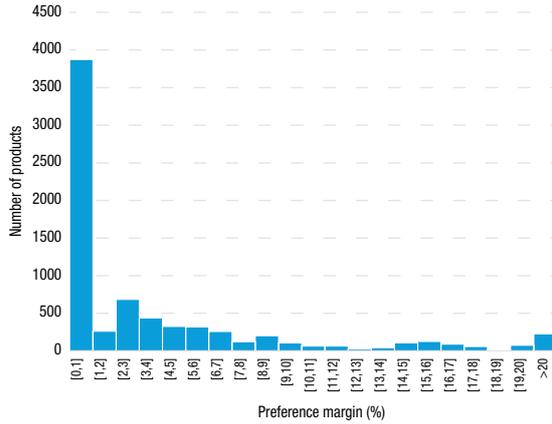


Figure 15b10: AGOA scheme



The distribution of preference margins remained constant under the general and LDC schemes. Reflecting the generally low MFN rates, preference margins fall within the range between zero and 7 per cent in these schemes. AGOA exhibits a greater dispersion of preference margins over 10 percentage points (figures 15b8–15b10).

Source: UNCTAD GSP database.

### III.4. Preference margins by product sector

The differences in average preference margins across product groups partly show the existing MFN tariff structures of the Quad economies (table 4). Food, textile, and apparel products have the highest preference margins across the board as they are often highly protected by importing countries through relatively high MFN rates. In contrast, ores and minerals often face lower import protection in these markets.

Table 4: Median preference margin by scheme (2018, per cent)

	Canada	European Union	Japan	United States	European Union	United States	Canada	European Union	Japan	United States
	General	General	General	General	GSP+	AGOA	LDC	LDC	LDC	LDC
Agriculture	0.1	1.2	0.7	1.3	3.3	1.0	0.9	3.4	3.4	1.5
Ores, minerals and utilities	0.0	0.0	0.0	2.3	0.0	0.0	0.0	0.0	0.0	2.0
Food products and textile	0.9	2.3	0.9	0.9	10.4	4.3	8.3	11.2	7.0	2.5
Chemicals, plastic products etc	1.6	2.1	1.1	0.4	2.6	2.4	2.3	2.0	0.0	1.4
Machinery and equipment and metal products	0.4	1.6	0.0	0.6	2.2	1.5	0.7	1.8	0.0	0.6

Source: UNCTAD GSP database.

Note: Colour scale: White: low preference margin, Dark Green: high preference margin.

#### Definition

“Preference margin” refers to the difference between the MFN tariff and the preferential rate, calculated at the exporter-product line level.

### III. Key indicators

Figure 16: Preference margins by product sector – by economy (per cent)

#### Canada

Figure 16a1: General

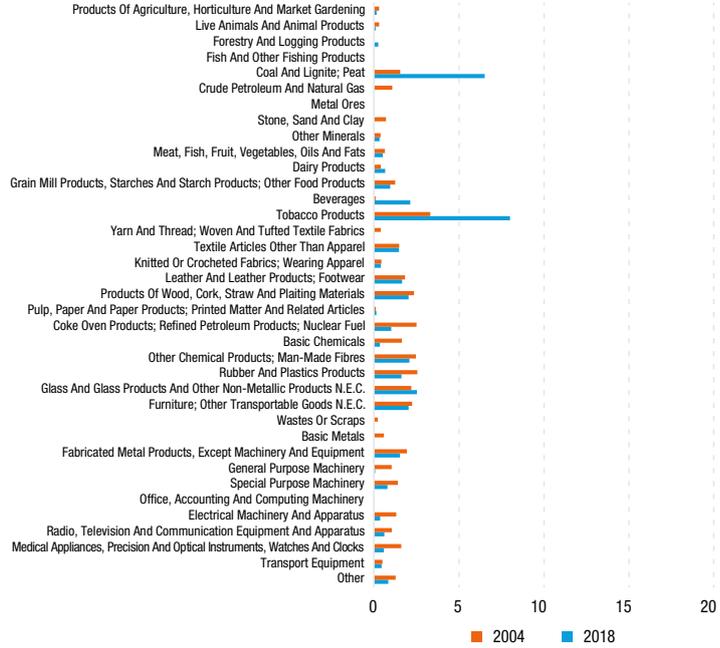
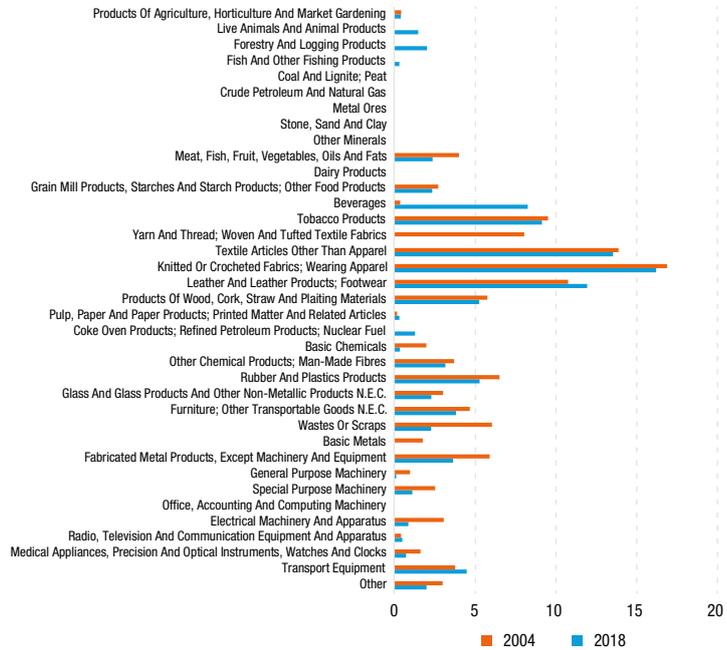


Figure 16a2: LDC



Under the general scheme, preference margins are highest in sectors such as coal, tobacco, rubber and plastics, and some chemicals (figure 16a1 and figure 16a2). The LDC scheme, by contrast, has the largest preference margins in textile, apparels and leather reaching up to 15 per cent. There are typically only minor changes over time.

European Union

Figure 16a3: General

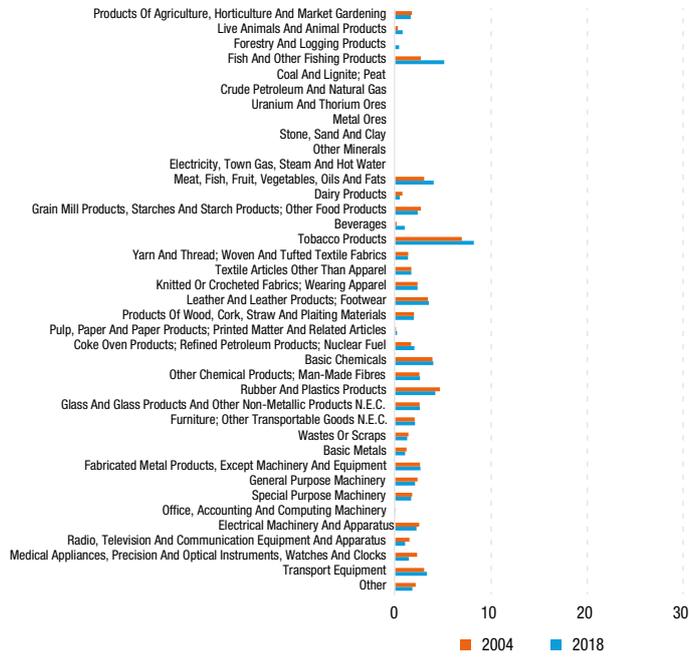
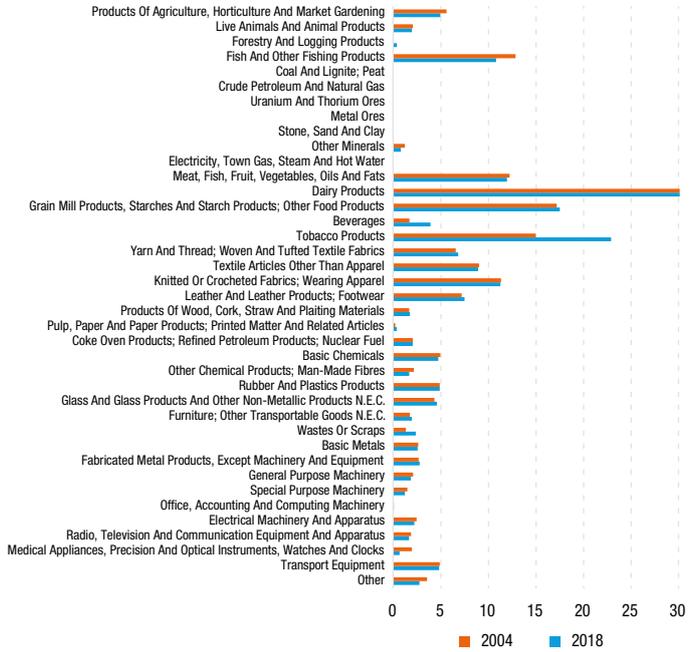
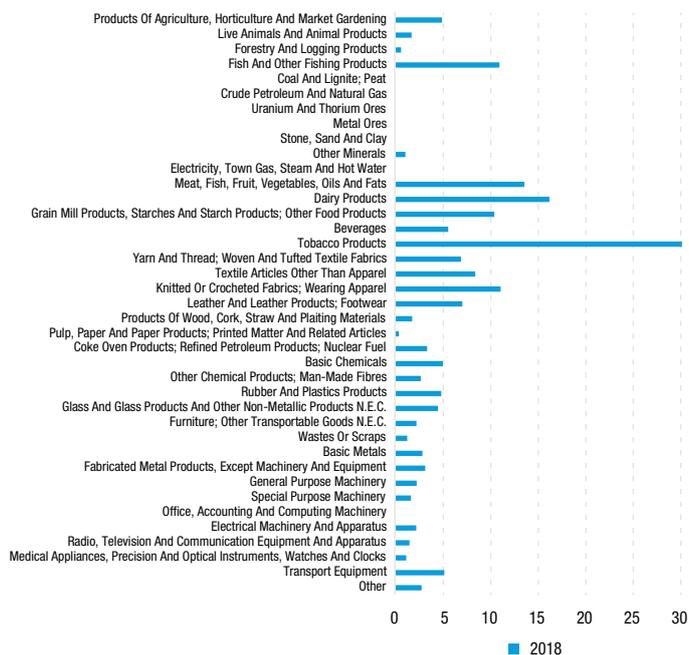


Figure 16a4: LDC



### III. Key indicators

Figure 16a5: GSP+



Under the general scheme, tobacco has the highest margin followed by fish and meat products. Under the LDC scheme, larger margins are found more frequently across categories. Dairy products have the highest margin, followed by tobacco and other agricultural products. The most significant preferences remain in textile and apparels with preference margins of around 10 per cent. GSP+ shows a pattern similar to the LDC scheme (figures 16a3–16a5).

Japan

Figure 16a6: General

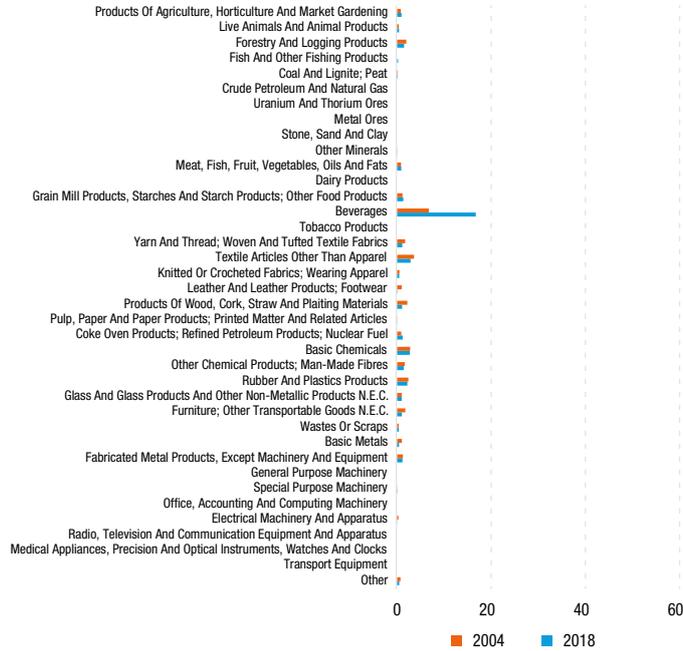
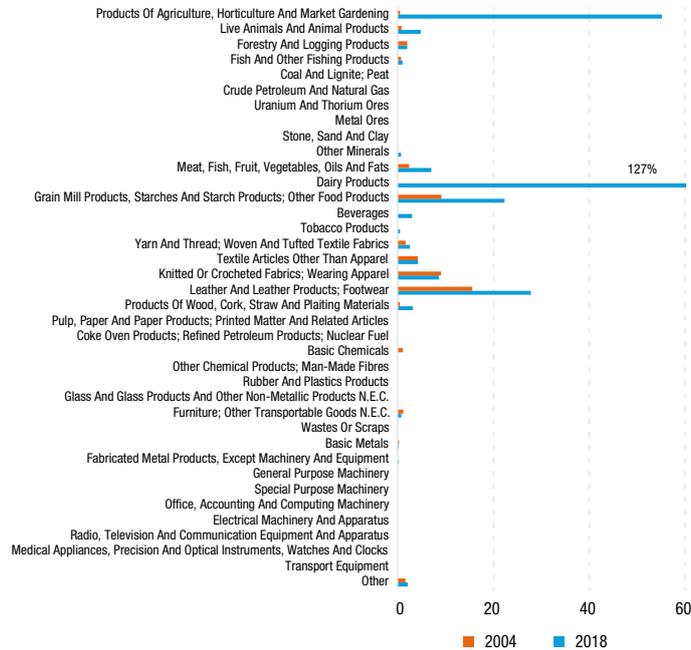


Figure 16a7: LDC



Only a handful of product categories attract large preference margins under the general scheme, such as beverages. Under the LDC scheme, certain agricultural categories (dairy, animal products and grains) register a particularly high margin due to high MFN rates. Preference margins for leather and apparel products among manufactured goods are also significant (figure 16a6 and figure 16a7).

### III. Key indicators

#### United States

Figure 16a8: General



Figure 16a9: LDC

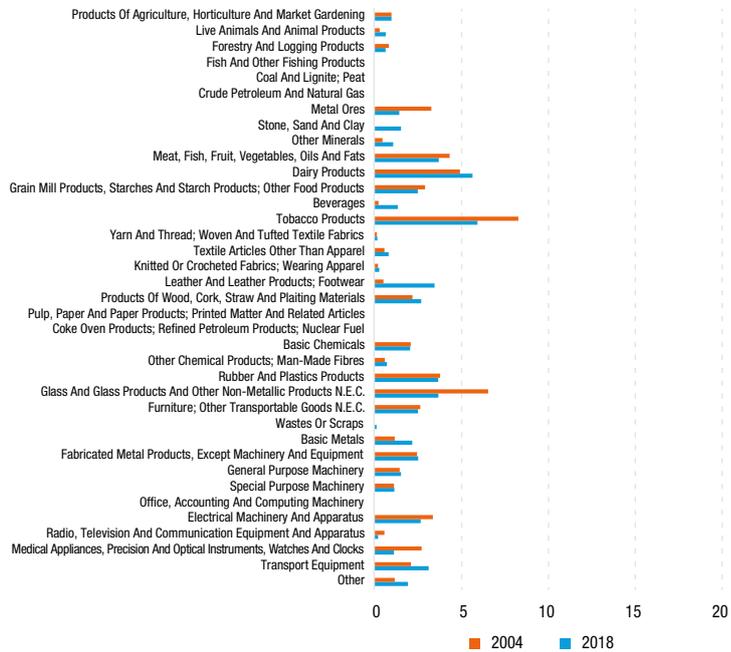
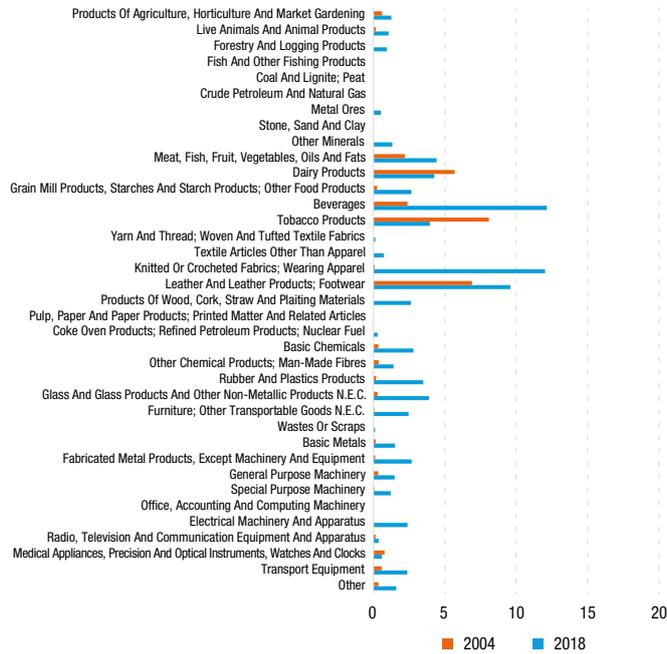


Figure 16a10: AGOA



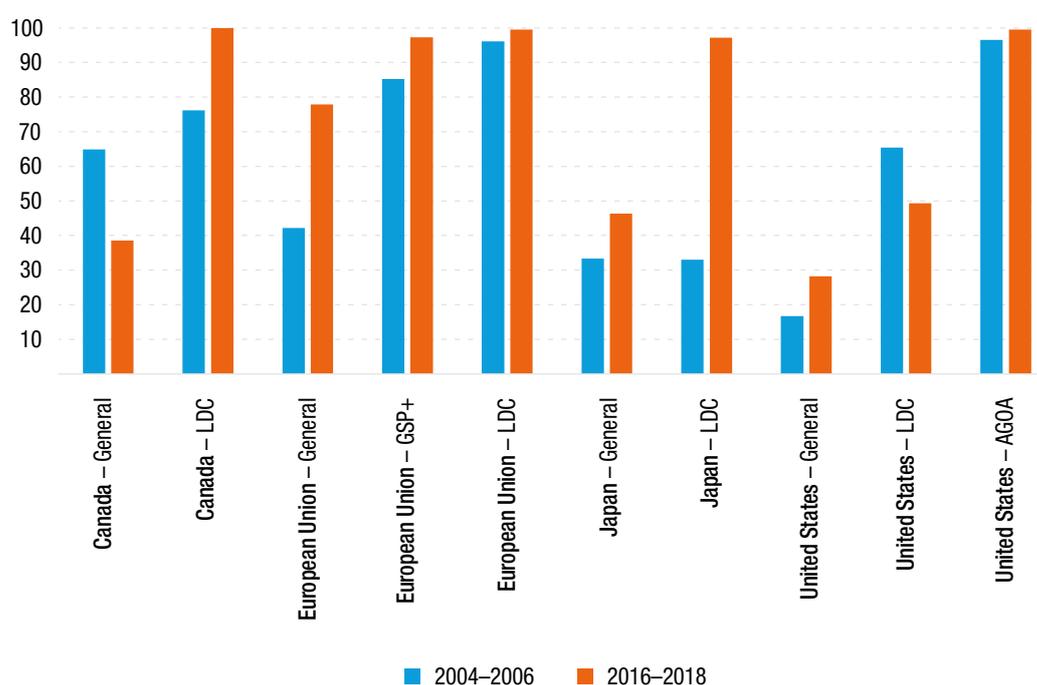
Source: UNCTAD GSP database.

For the general scheme, the largest margin is in tobacco products with about 170 per cent. Others with relatively high preference margins include some agricultural and food products, rubber and plastics, and glass products, but these margins are in the region of 2 per cent. The LDC scheme shows a similar pattern. Larger margins are more frequently found under AGOA, particularly for some textile and apparel products. Moreover, preference margins improved almost across the board in AGOA while changes are more muted in the other schemes (figures 16a8–16a10).

#### III.5. Preference coverage rate

Preference coverage generally improved over the past two decades in the Quad markets, both for the general and LDC schemes (figure 17a). LDC schemes generally saw a significant improvement, reaching practically 100 per cent in all schemes but the one of the United States. For the latter, AGOA improved the coverage rate to 100 per cent. The coverage rate of other schemes also saw notable progress, especially under the European Union's GSP and GSP+. Improvement was rather muted in other Quad general schemes.

Figure 17a: Preference coverage rate (per cent)



Source: UNCTAD GSP database.

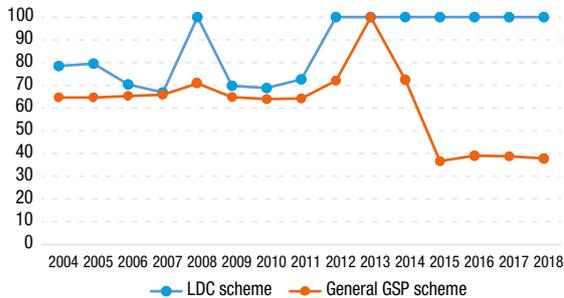
Note: As European Union's GSP+ scheme started in 2014, 2014–2016 average is used for the initial period average for the scheme.

#### Definition

“Preference coverage rate” is the share of imports subject to preferential tariffs (“covered imports”) in the total “dutiable” imports, i.e., imports subject to non-zero MFN rates, in a preference-granting country. This is a measure of imports that are potentially eligible for preferential tariffs, irrespective of whether such preferential tariffs are actually used.

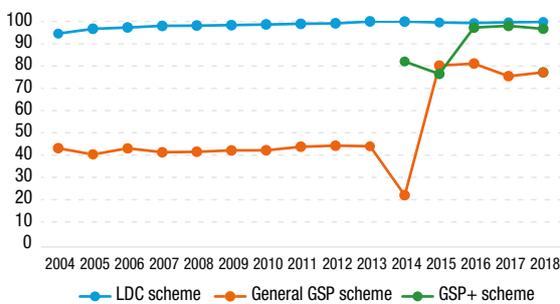
Figure 17b: Preference coverage rate – by economy (per cent)

Figure 17b1: Canada



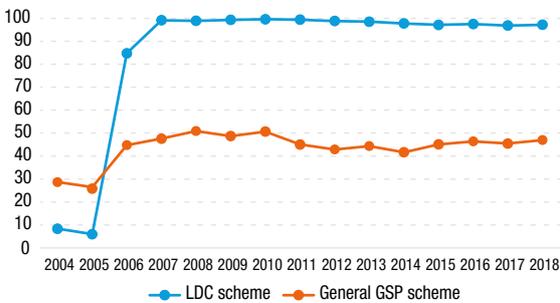
The coverage rate is 100 per cent under the LDC scheme since 2012 reflecting comprehensive product coverage (figure 17b1). For the general scheme, the coverage rate saw a significant drop in 2015 to below 50 per cent, following the graduation of upper-middle-income countries.

Figure 17b2: European Union



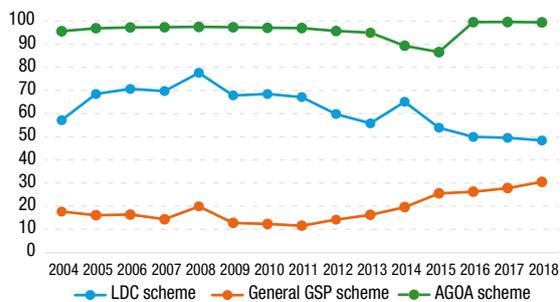
The coverage remained 100 per cent for the LDC scheme (figure 17b2). The coverage for GSP+ also reached 100 per cent. The general scheme saw a substantial rise in 2015 following the graduation of upper-middle-income and other beneficiary countries. This appears to have increased product matches for the remaining beneficiaries.

Figure 17b3: Japan



The coverage rate saw a significant jump in 2006–2007 to reach 100 per cent for the LDC scheme as Japan expanded product coverage for duty-free treatment for LDCs (figure 17b3). The coverage rate also increased under the general scheme and stayed in the range of 40–50 per cent.

Figure 17b4: United States



The coverage rates are relatively stable at different levels under all schemes. The rate is practically 100 per cent under AGOA (figure 17b4). This contrasts with the particularly low rate of the LDC scheme at around 50 per cent, and that of the general scheme at 20–30 per cent.

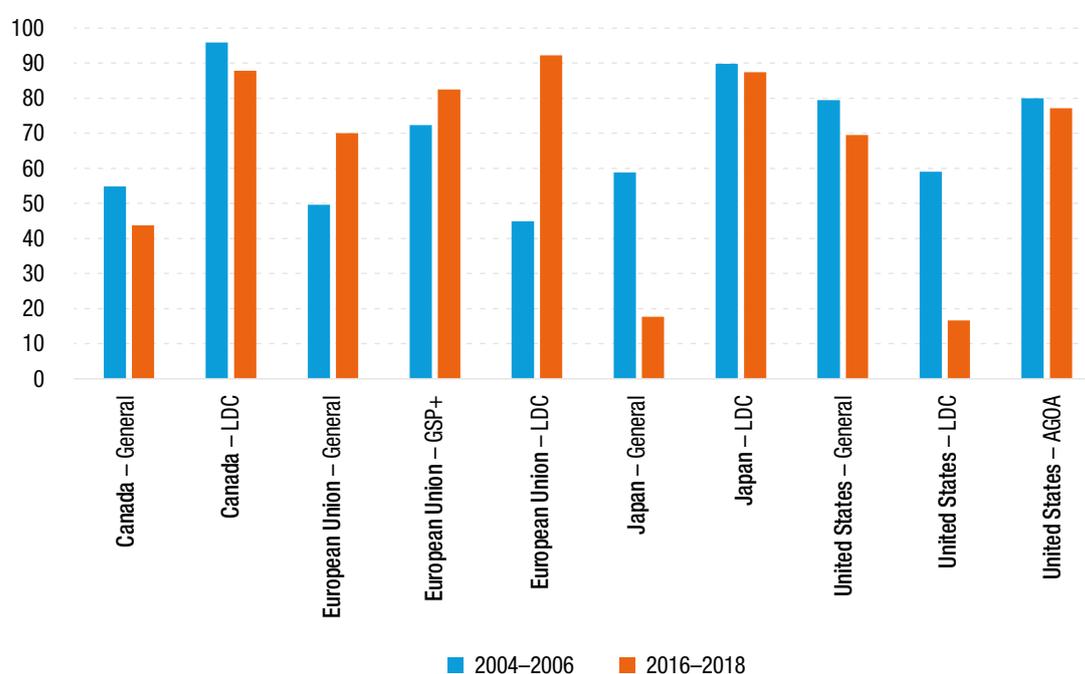
Source: UNCTAD GSP database.

### III. Key indicators

#### III.6. Preference utilization rate

The preference utilization rate improved significantly for all GSP schemes of the European Union (figure 18a). Yet, there is still room for improvement in this indicator, particularly for the European Union's general scheme. Japan's GSP-LDC scheme and the United States's AGOA scheme remained roughly constant, while all other remaining schemes registered considerable declines over the analysis period. In general, the LDC schemes with the exception of the United States have a more than 80 per cent utilization rate during the 2016–18 period. AGOA and the European Union's GSP+ schemes also registered about 80 per cent rate. Canada's general scheme shows a preference utilization rate of slightly more than 40 per cent while Japan's general scheme and the United States' LDC scheme registered utilization rates lower than 40 per cent.

Figure 18a: Preference utilization rate (per cent)



Source: UNCTAD GSP database.

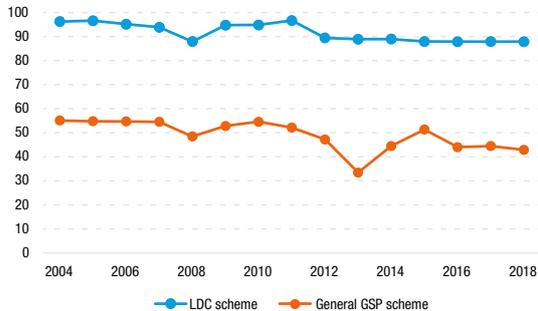
Note: As European Union's GSP+ scheme started in 2014, 2014–2016 average is used for the initial period average for the scheme.

#### Definition

“**Preference utilization rate**” is the share of preferential imports (i.e., imports entering the markets with preferential treatment) in the total “covered imports”. This indicator measures the extent to which beneficiary countries (or importers) successfully utilized existing preferential tariffs.

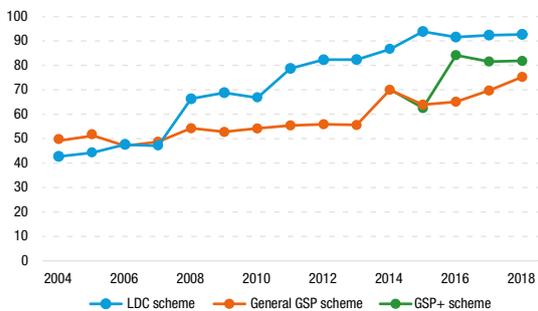
Figure 18b: Preference utilization rate – by economy (per cent)

Figure 18b1: Canada



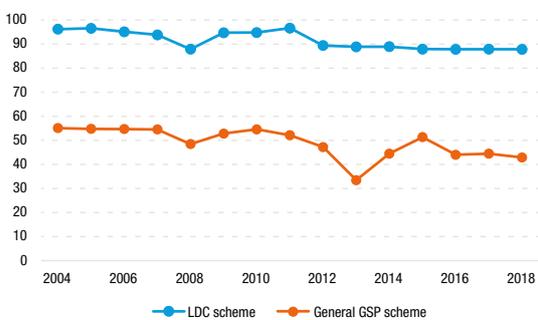
The utilization rate decreased moderately under both schemes (figure 18b1). The decline was more pronounced in the general scheme. The rate remained constantly higher in the LDC scheme even though it fell to 88 per cent during this period, 8 percentage points below its 2004 level.

Figure 18b2: European Union



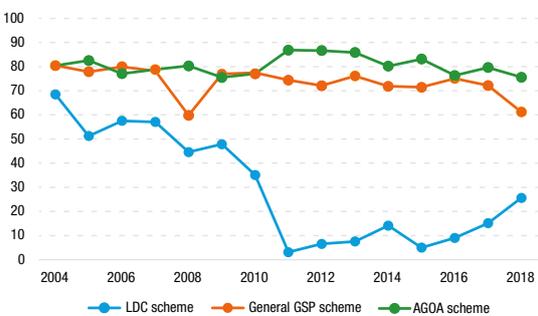
The European Union's schemes have high utilization rates reaching 93 per cent in the LDC scheme, followed by GSP+ (82 per cent) and the general scheme (75 per cent) (figure 18b2). The LDC scheme, as well as the general scheme, saw a remarkable and steady increase in utilization rate during this period.

Figure 18b3: Japan



The utilization rate is high and stable under Japan's LDC scheme (figure 18b3). The general scheme saw a steady and significant fall in utilization during this period. One contributing factor is the increasing prevalence of parallel FTAs, which allowed these countries to choose between FTA and GSP.

Figure 18b4: United States



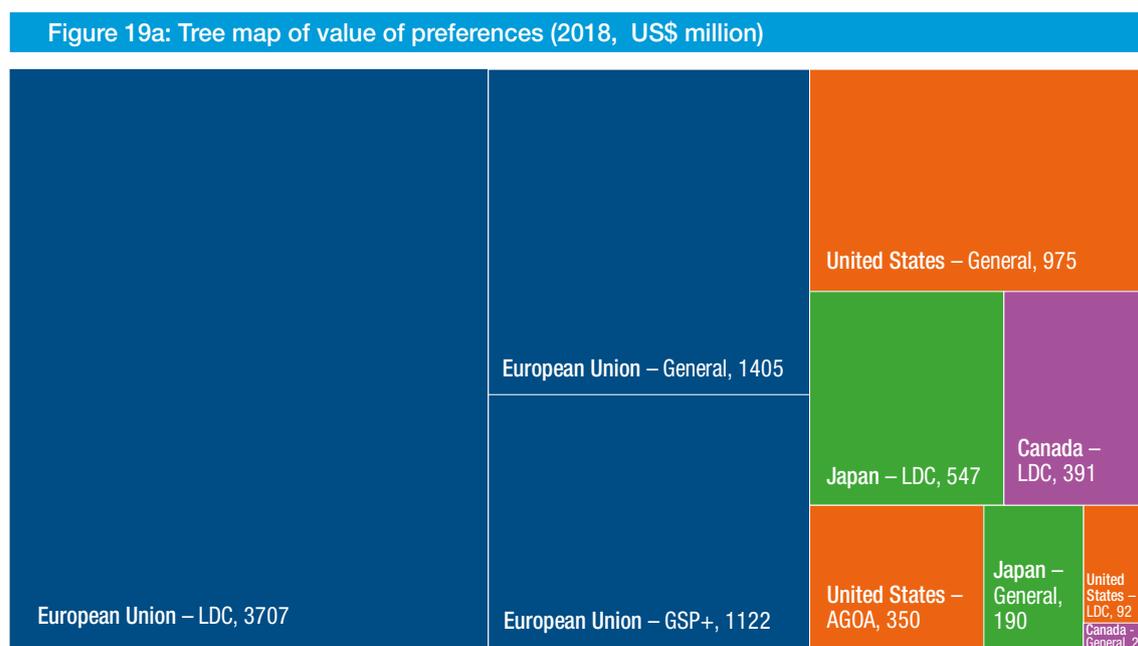
The utilization rate varied significantly across the United States GSP schemes. The rate is constantly high under AGOA (figure 18b4). The general scheme also maintained relatively high levels. The utilization rate under the LDC scheme saw a significant fall and stayed at low levels despite the recent upward turn. As discussed earlier in figure 14b, the fall in the LDC scheme utilization rate is partly due to changes in regulations that allowed claiming AGOA tariff rates when products are also covered under other preferential schemes.

Source: UNCTAD GSP database.

### III. Key indicators

#### III.7. Value of preferences

In terms of absolute size, the European Union's LDC scheme stands out in generating the largest preferential value reaching US\$3.7 billion in 2018 (figure 19a). This is followed by the European Union's general scheme and GSP+ with the effective preference values of US\$1.4 and US\$1.1 billion respectively. The United States's general scheme also provides significant preferences reaching about US\$1 billion in value. As compared to these schemes, the values generated by the Japan's and Canada's schemes are smaller.



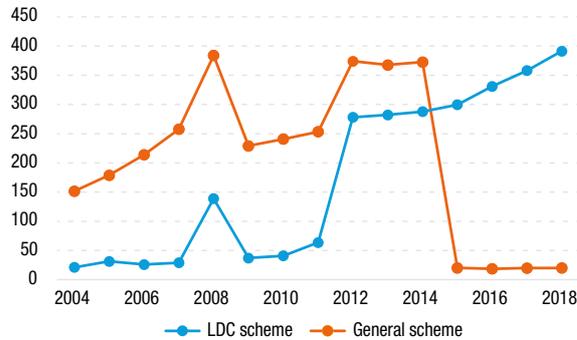
Source: UNCTAD GSP database.

#### Definition

The value of preference amounts to the notional tariff revenue forgone for the importing-country's government due to preferences, or tariff savings realized by importers of the GSP granting economy due to preferences.

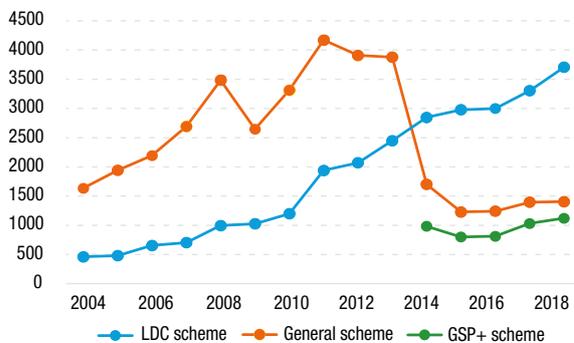
Figure 19b: Value of preferences – by economy (US\$ million)

Figure 19b1: Canada



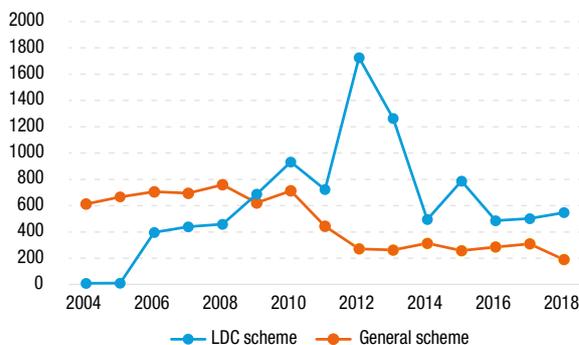
The value of preference of the general scheme plummeted in 2015 owing to the change in country coverage (figure 19b1). The exclusion of upper-middle-income countries coincided with those countries that received the most value of preferences. By contrast, the value of the LDC scheme increased over time. After 2015, it is more valuable than the general scheme.

Figure 19b2: European Union



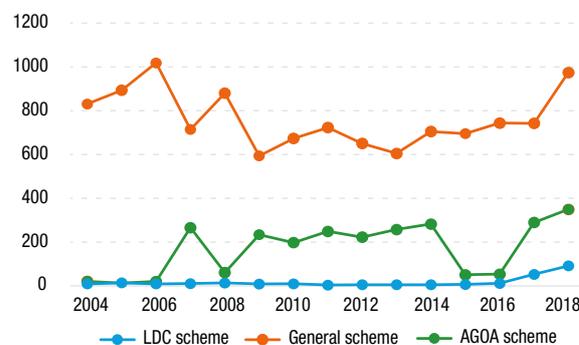
The value of preference steadily increased for the LDC scheme, and its value is larger than other schemes since 2014 (figure 19b2). The fall in the value of the general scheme is due to the change in country coverage in 2014. The countries that remained eligible in the general scheme continued to increase their value of preferences.

Figure 19b3: Japan



The value of preference of the general scheme steadily declined (figure 19b3). Given the constant country and product coverage, the decline is due to the fall in preference utilization, including for reasons of dual preferences under GSP and FTAs. The value of preferences for LDCs remained higher than the general scheme after 2009.

Figure 19b4: United States



Most of the preference value accrue in the general scheme, as different from other Quad economies (figure 19b4). AGOA captured a larger value than the LDC scheme. Dual preferences available for AGOA-eligible LDC beneficiaries reduced the use of LDC preferences.

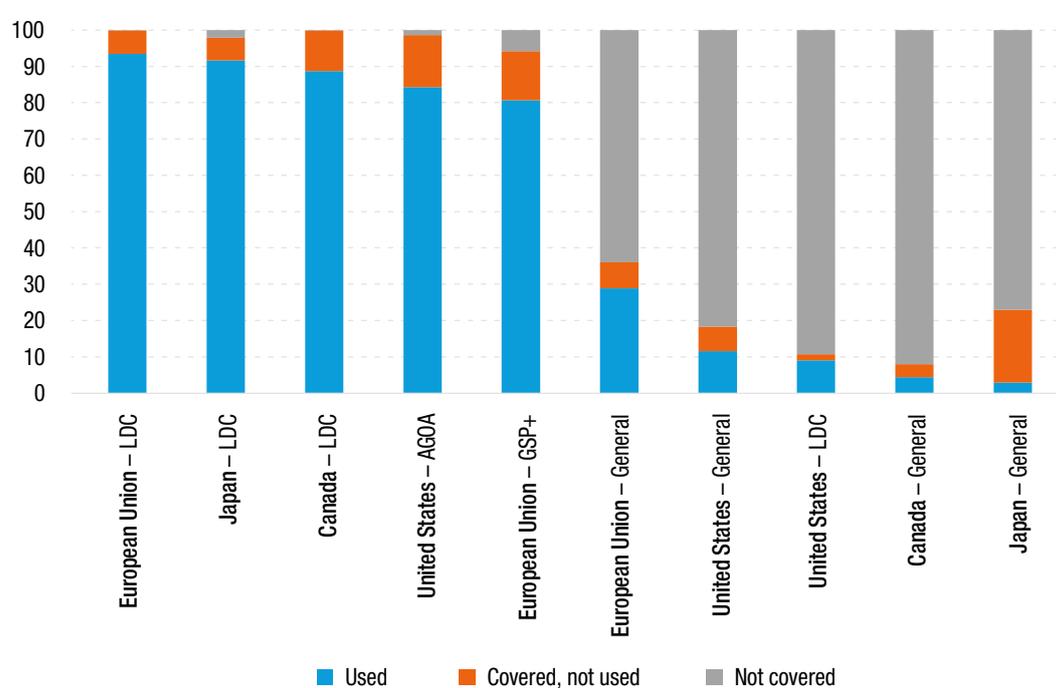
Source: UNCTAD GSP database.

### III. Key indicators

#### III.8. Distribution of value of preferences

Under the LDC schemes of the European Union, Japan and Canada, about 90 per cent of the total potential preferential value is effectively “used” as these schemes are marked with fuller preference coverage and utilization coupled with large preference margins (figure 20a). For these schemes, as well as for the European Union’s GSP+ and the United States AGOA, “unused” values still exist in the order 10–25 per cent of the full potential while there remain practically no “non-covered” values. In contrast, the general GSP schemes exhibit 80–90 per cent of their full potential value being “non-covered” to the beneficiary countries. Owing to the generally low utilization rates under these schemes, up to some 20 per cent of the potential value is also “unused”.

Figure 20a: Distribution of preference values – “used”, “unused” and “non-covered” – by GSP schemes (2018, per cent)



Source: UNCTAD GSP database.

#### Definition

The “effective” or “used” value of preference measures the notional amount of tariff savings that are effectively realized by importers. “Potential” value of preference (full utilization) assumes the full preference utilization. The difference between the two gives “unused” preference value.

“Maximum” value of preference represents the maximum possible preferential value arising from duty-free treatment of all products with full utilization. The difference between the maximum and potential values gives “non-covered” value of preference, in other words, the value of preferences that is not offered by preference-granting countries.

Figure 20b: Distribution of value of preferences – by economy (per cent)

Canada

Figure 20b1: General scheme

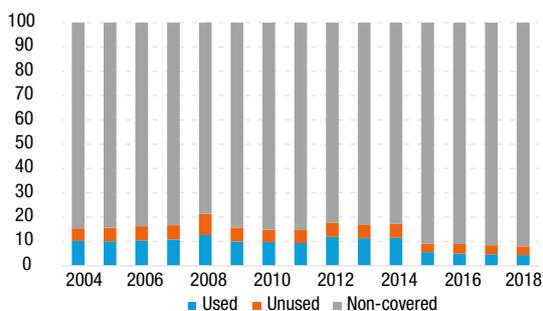
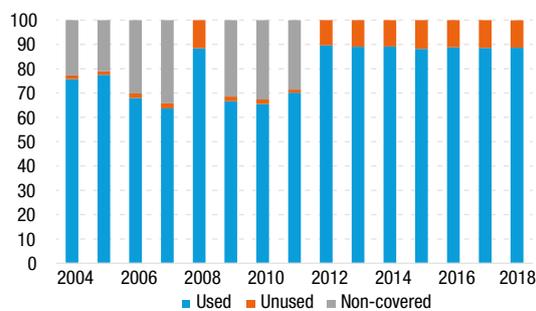


Figure 20b2: LDC scheme



After 2012, LDCs captured about 90 per cent of the potential value of preference with only 10 per cent remaining “unused”, reflecting full product coverage and duty-free treatment under the LDC scheme (figure 20b1 and figure 20b2). By contrast, over 90 per cent of the potential value is “non-covered” under the general scheme, and only 4 per cent of the potential is effectively used, indicating limited product coverage and positive (non-zero) preferential duties applicable.

European Union

Figure 20b3: General scheme

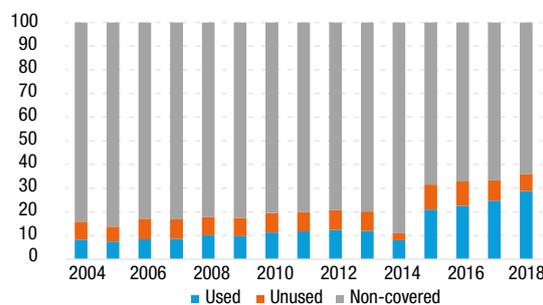


Figure 20b4: LDC scheme

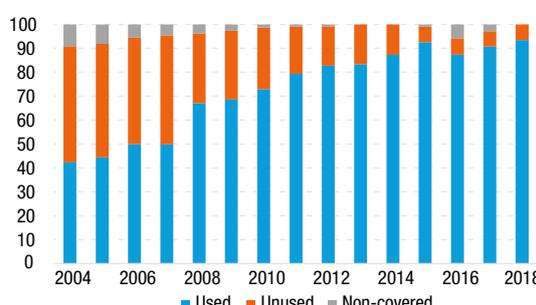
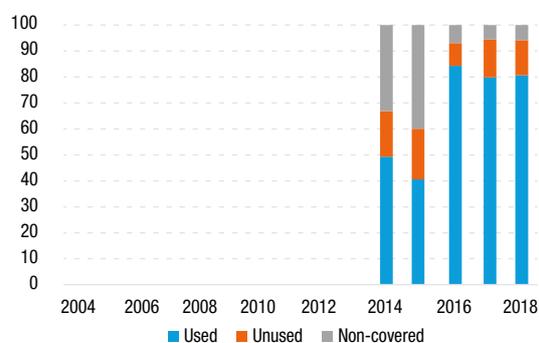


Figure 20b5: GSP+ scheme



The European Union scheme showed remarkable progress in reducing the “unused” values for LDCs by improving preference utilization. LDCs captured 93 per cent of the full potential in 2018 while “non-covered” value almost vanished. GSP+ beneficiaries captured some 80 per cent of the potential. The covered preference value available under the general scheme increased in relative terms after 2014 following the decrease in the number of beneficiary countries (figures 20b3–20b5).

### III. Key indicators

#### Japan

Figure 20b6: General scheme

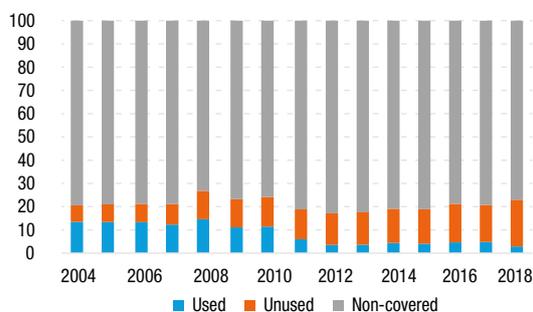
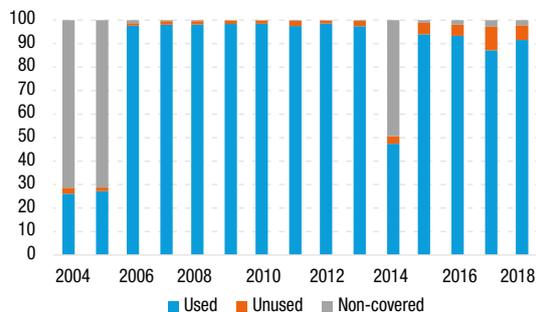


Figure 20b7: LDC scheme



LDCs captured almost all potential value of preference under the LDC scheme. “Unused” or “non-covered” preferences are rare occurrences under the LDC scheme. By contrast, the general scheme’s beneficiaries reaped only 3 per cent of the potential value while 77 per cent was not covered in 2018. The proportion of “unused” value is also substantial (20 per cent) (figure 20b6 and figure 20b7).

#### United States

Figure 20b8: General scheme

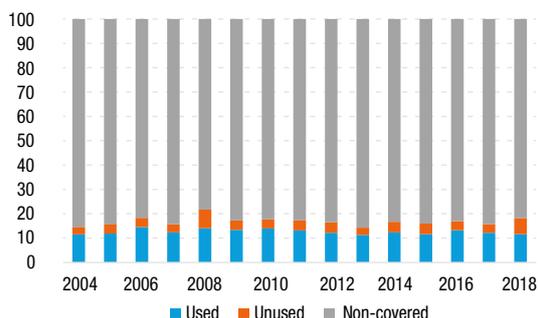


Figure 20b9: LDC scheme

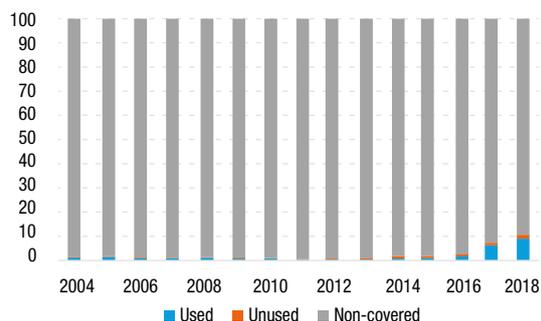
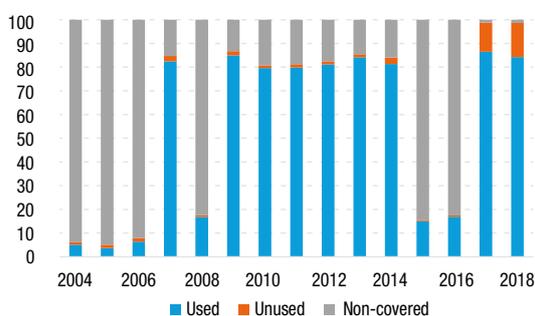


Figure 20b10: AGOA scheme



AGOA has the highest share of “used” value of preference with 84 per cent, with sizable “unused” value emerged in the last two years. The level of value of preference available under LDC scheme is very low with almost 90 per cent the potential value being “non-covered”. The level of covered value of preference is constant at below 20 per cent under the general scheme reflecting modest but stable product coverage (figures 20b8–20b10).

Source: UNCTAD GSP database.

### III.9. Major exporters by value of preferences

For Quad economies as a group, the largest effective preference values accrue to Asian countries, particularly to two Asian LDCs, Bangladesh and Cambodia, indicating high use of preferential rates by these exporters (table 5). The level of concentration for the five largest exporters is about 66 per cent for Quad markets as a whole, particularly high in Canada and Japan.

Table 5: Major GSP exporters by value of preferences (2018, US\$ million)

Country	Development	Quad		Canada		European Union		Japan		United States	
		Status	Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value
Bangladesh	LDC	2696	1	200	1	2353	1	143.5	3	..	..
Cambodia	LDC	1195	2	173	2	739	2	208.3	1	74	10
India	Developing	897	3	..	..	617	4	0.3	30	280	1
Pakistan	Developing	753	4	2	7	733	3	0.5	24	18	15
Viet Nam	Developing	486	5	13	3	472	5	1.1	17	..	..
Myanmar	LDC	449	6	11	4	286	7	137.5	4	15	16
Indonesia	Developing	417	7	..	..	305	6	0.4	26	112	3
Philippines	Developing	297	8	3	5	192	8	0.1	40	102	5
Kenya	Developing	191	9	0	36	96	11	0.6	21	95	6
Cote d'Ivoire	Developing	183	10	0	34	182	9	0.03	45	0.3	42
Concentration											
Top 5 countries share		66%		97%		75%		92%		54%	

Source: UNCTAD GSP database.

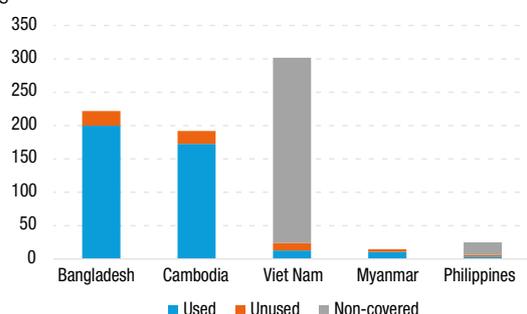
#### Definition

Largest 10 exporters to the Quad markets as a group are ranked by effective value of preference across all GSP sub-schemes (general and LDC schemes combined, including GSP+ for European Union and AGOA for the United States).

### III. Key indicators

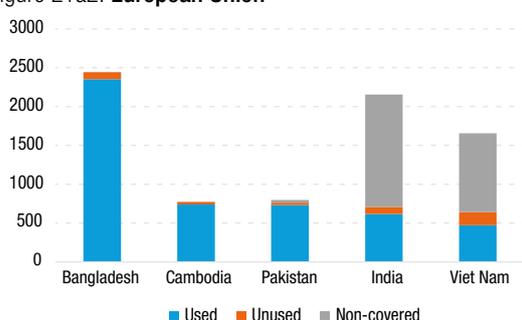
Figure 21: Major exporters by value of preferences – by economy (US\$ million)

Figure 21a1: **Canada**



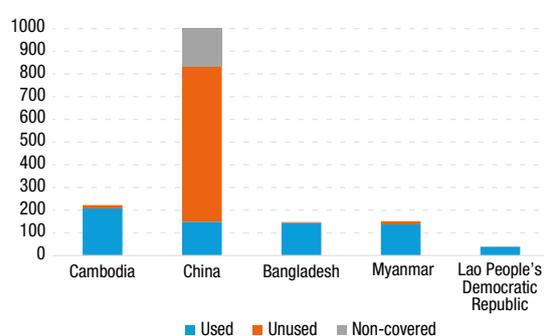
Two Asian LDCs, Bangladesh and Cambodia, captured the largest value of preferences in 2018 (figure 21a1). Together, they account for 91 per cent of the total preference value, inclusive of the general GSP scheme. These LDC exporters fully used the existing preferences. For non-LDC exporters such as Viet Nam, the bulk of preference values are “non-covered” and unavailable.

Figure 21a2: **European Union**



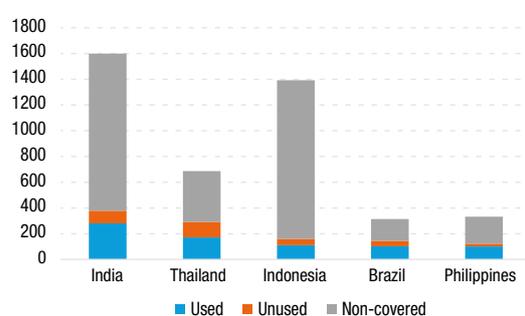
Bangladesh stands out as the main beneficiary of the European Union GSP capturing the bulk of value of preference under European Union GSP schemes (figure 21a2). Cambodia, an LDC, and Pakistan, an GSP+ beneficiary, also captured significant value. The beneficiaries of the general scheme, India and Viet Nam, record a significant value that was “non-covered”, suggesting narrower product coverage and lower preference margin available for their exports.

Figure 21a3: **Japan<sup>(1)</sup>**



Japan’s scheme is relatively skewed towards four Asian LDCs that fully use and capture preference values (figure 21a3). Preferences are of limited relevance to non-LDC exporters, notably China, for which a far larger proportion of potential value is “non-covered” or “unused”.

Figure 21a4: **United States**



The bulk of value of preference accrues to non-LDCs under the United States scheme while a significant proportion of the potential value is “non-covered” for them, indicating their limited preference dependence (figure 21a4). LDCs do not appear in the list. Kenya and Lesotho (not shown) are ranked 6<sup>th</sup> and 7<sup>th</sup> reflecting AGOA preferences they effectively capture.<sup>26</sup>

Source: UNCTAD GSP database.

<sup>(1)</sup> In the figure for Japan’s GSP, China’s figure is truncated at US\$ 1000 to better present the figures for other countries. Used, unused and non-covered preference values are US\$149, US\$ 682 and US\$ 2774 for China respectively.

<sup>26</sup> India, which was the leading economy on this list, lost its GSP eligibility in 2019. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/march/united-states-will-terminate-gsp>

### III.10. Major exported products by value of preference

Two apparel categories stand out as the major products traded using trade preferences under GSP in Quad markets (table 6). They are followed by footwear, apparel articles, leather, travel goods, fish, plastic, and prepared meat and fish. The five largest product groups represent 65 per cent of total effective preference values generated in the Quad markets as a group. The level of concentration is most acute in Canada and relatively pronounced in European Union and Japan.

Table 6: Major exported products by value of preferences (2018, US\$ million)

HS2 Code	Product	Quad		Canada		European Union		Japan		United States	
		Value	Rank	Value	Rank	Value	Rank	Value	Rank	Value	Rank
61	Apparel and clothing accessories, knitted/crocheted	2526	1	198	1	2063	1	105	3	161	2
62	Apparel and clothing accessories, not knitted/crocheted	1968	2	133	2	1545	2	159	2	131	3
64	Footwear, gaiters and the like	746	3	28	3	522	3	191	1	4	42
63	Apparel and clothing accessories, not knitted/crocheted	342	4	23	4	308	4	2	23	9	30
42	Articles of leather, etc	323	5	5	6	120	7	15	7	183	1
3	Fish and crustaceans, molluscs etc	296	6	0	28	282	5	14	9	0	69
39	Plastics and articles thereof	242	7	2	8	112	8	31	6	97	4
16	Preparation of meat and fish or of crustaceans	214	8	0	23	202	6	2	21	9	32
29	Organic chemicals	146	9	0	93	22	26	54	4	71	5
87	Vehicles other than railway or tramway rolling-stock	134	10	1	11	76	14	0.0	91	57	7

Concentration

Top 5 product share	65%	95%	73%	76%	45%
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Source: UNCTAD GSP database.

#### Definition

The largest 10 product categories at HS2 level imported into the Quad markets as a group are ranked by the effective value of preference across all GSP sub-schemes (general and LDC schemes combined, including GSP+ for European Union and AGOA for the United States).

### III. Key indicators

Figure 22: Major exported products by value of preferences – by economy (US\$ million)

#### Canada

Figure 22a1: General scheme

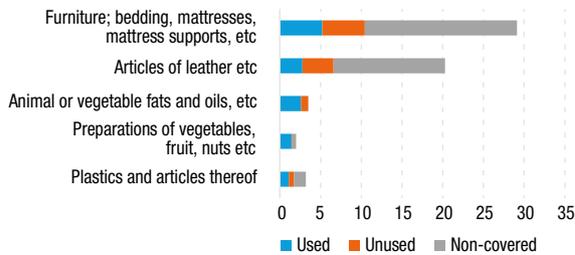
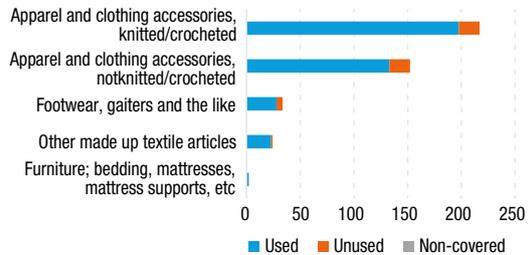


Figure 22a2: LDC scheme



The value of preference concentrates on two apparel categories available under the LDC scheme only, which altogether capture 85 per cent of the total preference values under the Canadian scheme (figure 22a1 and figure 22a2). The value generated under the general schemes is far smaller.

#### European Union

Figure 22a3: General scheme

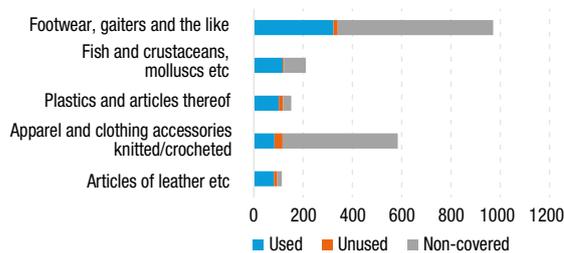


Figure 22a4: LDC scheme

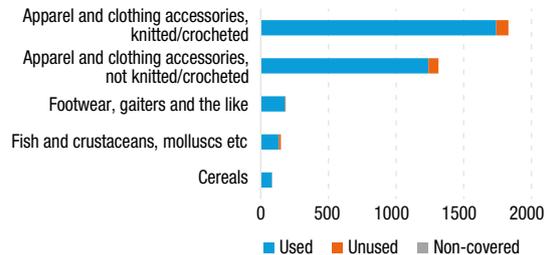
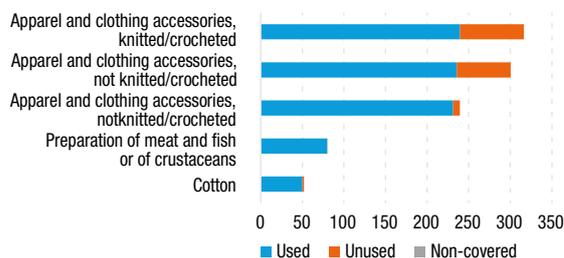


Figure 22a5: GSP+ scheme



The value of preference concentrates on two apparel categories under the LDC scheme and GSP+ while the value generated under the LDC scheme outweighs that of GSP+ where “unused” value remains sizable. Footwear, fish, cereals and plastics also attract some preference values. There are substantial amount of “non-covered” values under the general scheme such as for footwear and apparels (figures 22a3–22a5).

Japan

Figure 22a6: General scheme

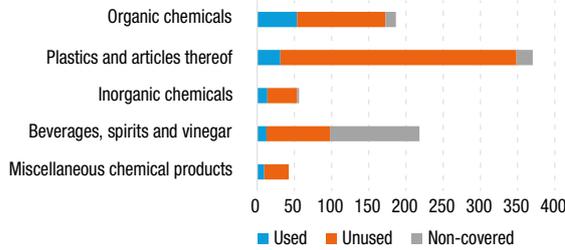
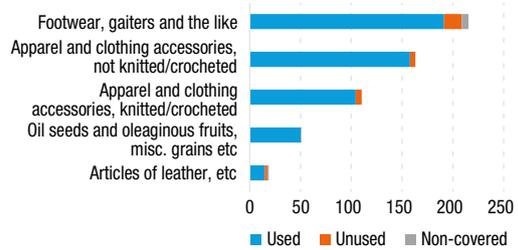


Figure 22a7: LDC scheme



Footwear and two apparel categories are the major categories generating the largest preference values under the LDC scheme, all of which enjoy practically full utilization. In contrast, major products traded under the general scheme – chemicals, plastics, beverages – are characterized with a large “unused” value (figure 22a6 and figure 22a7).

United States

Figure 22a8: General scheme

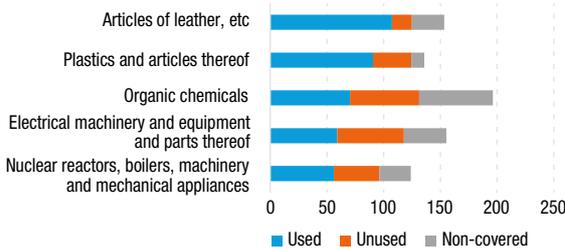


Figure 22a9: LDC scheme

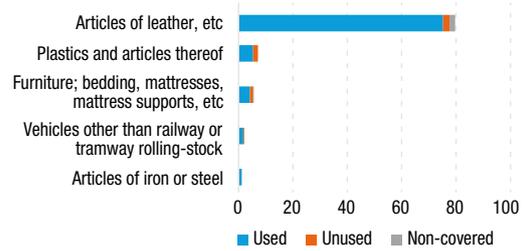
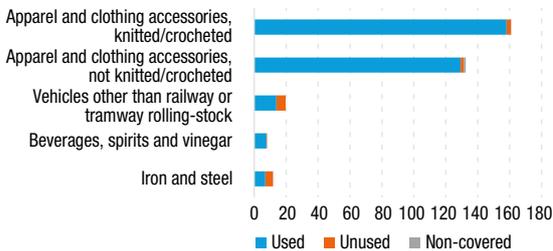


Figure 22a10: AGOA scheme



Two apparel categories stand out as the largest product categories generating value of preference for AGOA beneficiaries. These values outweighs those generated under the LDC scheme with leather being the leading product. Products traded under the general scheme are more diverse and marked by substantial shares of “unused” and “non-covered” values (figures 22a8–22a10).

Source: UNCTAD GSP database.

# IV. Conclusion and the way forward

Five decades since its inception, the effectiveness of GSP schemes and their contribution to sustainable development are still in the spotlight. The study aimed to shed light on some of the key features and issues of the GSP schemes by using the preferential trade data available in the UNCTAD's GSP Database for the Quad economies for the 2004–2018 period.

The main findings of the study provide the following insights:

- **To what extent do tariff preferences under the GSP schemes have an impact today on exports of beneficiary developing countries?**
  1. **Tariff advantages for LDCs became more comprehensive and effectively used, generating larger tariff savings in most countries.** The United States scheme is unique in that larger middle-income countries continue to capture certain benefits under the general scheme while the value of preference accrues mainly under AGOA.
  2. **The use of GSP preferences is more common in products that offer higher tariff advantages in the form of preference margins.** The data confirm that importers apply more often for GSP-for-LDCs preferences when the financial benefits they get through lower tariffs are high enough.
  3. **There is a high concentration of the benefits in a limited number of countries and products across schemes, particularly for LDCs.** As LDCs enjoy duty-free treatment for almost all products, there is only limited scope for further improvement through tariff concessions. This highlights the importance of better understanding the factors affecting the ability of exporting countries to take advantage of preferential tariffs over a larger range of products.
  4. **Under the LDC schemes, as well as under AGOA, exporting countries have extensively used preferential tariffs.** However, there remains a limited scope for increasing preference values by improving utilization, as some LDC imports still failed to use existing tariff advantages. Moreover, even having full preference utilization does not mean LDCs are exporting at their full potential and their exports to the Quad markets cannot be increased through other trade-facilitating measures by the preference-granting economies. This points to the case for facilitating preference use by addressing rules of origin, as well as other factors impeding their full use, such as administrative formalities and uncertainties stemming from specific scheme designs and durations.
- **If the relevance and effectiveness of GSP schemes have waned over time, what adjustments are needed and what else can be done?**
  1. **The general GSP schemes for non-LDCs have become less impactful in providing tariff incentives for their exports.** Extending product coverage and reducing further GSP tariffs would increase preference values. However, there is a trade-off in increasing preferences under the general schemes for non-LDCs on the one hand and strengthening the GSP benefits for the LDCs on the other. Favouring the former objective will certainly diminish the competitiveness of the LDCs in the major markets.
  2. **Relaxing and simplifying rules of origin will make GSP schemes more transparent and certainly deserves further exploration.** Under the current trends, LDCs face difficulties in integrating themselves into GVCs. Many of these low-income countries are left out of major regional trade integration processes. Adapting rules of origin to better address trade within GVCs – which is characterized by increased use of imported intermediates in production – can facilitate better utilization. More flexible rules of origin, for example, can not only

promote trade in parts and components but also contribute to attracting FDI for LDCs to take advantage of preferential rates.

3. **Enhanced predictability, stability and transparency of GSP schemes is key for a more equitable sharing of GSP benefits for a larger number of countries and products.** The heightened uncertainties stemming from the short duration of individual GSP schemes, as well as country-product eligibility, have hindered the formation of long-term trade links between the GSP-granting economies and beneficiary countries. Dissipating such uncertainties is amenable for making GSP benefits more inclusive and sustainable.

Looking forward, specific issues will deserve attention for further research.

**Firstly, the role that FTAs and their proliferation play for the future of GSP needs further analysis.**

Tariff advantages under the GSP are increasingly affected by the overall reduction of tariffs resulting from trade liberalization and the proliferation of FTAs. Under such FTAs, GSP non-beneficiaries may enjoy equivalent conditions to access specific markets to GSP beneficiaries, or even better. For a realistic assessment of the contemporary value of GSP preferences, it would be important to examine the effect of parallel FTAs on preferences available under the general and LDC schemes.

The proliferation of FTAs also creates challenges for developing countries. Even though both the FTAs and GSPs allow developing countries access to major markets at preferential rates, the former requires reciprocal trade concessions on the developing countries' side. The competitive pressure on domestic firms and industries would be much higher in the case of FTAs, particularly for small enterprises. Challenges still remain for low-income and vulnerable developing countries in pursuing the reciprocal FTAs as a substitute for GSP, which may induce disproportionate adjustment costs on small and medium-size enterprises. Deeper FTAs may however contribute to reducing costs associated with NTMs through regulatory cooperation and harmonization.

**Secondly, the economic actors that ultimately benefit from GSP schemes need to be identified.**

The discussions on the benefits of the GSP schemes often revolve around the gains developing and least developed countries receive through preferential rates. However, many importers and consumers in GSP-granting economies equally benefit from these preferences. Indeed, some of these gains remain in the GSP-granting countries. Some empirical studies find the United States applies preferential tariffs on goods that are exported by the subsidiaries of United States multinational companies and have high levels of United States input content (Brown, 2018). Some companies in the major markets support and campaign for the continuation of these preferences. Indeed, the expiration of the United States GSP scheme in 2021 is estimated to cost about US\$2 billion in excess tariffs across the United States, and a disproportionate share of this burden would fall on small and medium-sized enterprises.<sup>27</sup> How much these local firms and consumers benefit from their countries' GSP schemes has not been sufficiently studied.

**Thirdly, the role of NTMs in reshaping trade incentives for developing countries has to be considered.** In the long run, the effect of tariff preferences to trigger developing countries' merchandise exports will decline in view of the diminishing importance of tariffs in the overall trade cost, and the rising importance of other cost components, ranging from trade logistics and customs procedures to product regulations and standards. NTMs, in particular, are becoming an increasingly important factor in hindering LDCs' exports to developed markets.

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<sup>27</sup> For example, the Coalition for GSP is a group of American companies and trade associations organized to advocate for the important benefits to American companies, workers, and consumers of the United States of America's GSP scheme. Available at <https://renewgsp.wpengine.com>. See also Brew, J.B. and Bergotsev, D. (2022) and Coalition for GSP (2022). See also Congressional Research Service (2022) for further information.

#### IV. Conclusion and the way forward

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**Fourthly, modernizing tariff incentives in view of increased trade under GVCs can be further studied.**

Raw materials and intermediate goods exported by developing countries are increasingly embedded in final products.<sup>28</sup> Currently, preferential tariffs apply to the final products that are exported directly from eligible developing countries to GSP-granting developed countries. Yet, the increased use of inputs and intermediate goods from developing countries may also be encouraged in all trade, wherever the goods is exported from, so that developing countries may export at low trade costs throughout GVCs.

**Finally, services and trade in digitally enabled goods and services, are becoming a dynamic force in international trade, offering new opportunities for developing countries' economic diversification.**

Encouraging services exports and services inputs deserve further attention (UNCTAD, 2020). Innovative ways to better adapt GSP preferences to the changing structure and patterns of international trade deserve further research in preserving their contemporary relevance and value to developing countries.

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<sup>28</sup> For discussion on improving GVC participation of LDCs through global preferential rates applied to value added of inputs coming from LDCs, see Cernat and Antimiani (2021).

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## APPENDIX 1: TECHNICAL NOTE ON INDICATORS USED IN THE STUDY

“**Coverage rate**” is the ratio of the imports eligible (“covered”) for preferential treatment to the total dutiable imports in a preference-granting country, and expressed as follows:

$$C_j = \frac{\sum_i^n m_{ij}^{COVERED}}{\sum_i^n m_{ij}^{DUTIABLE}}$$

where  $C_j$  is coverage rate of preferences for imports from beneficiary (partner) country  $j$ ,  $f$  or product  $i$ .  $m_{ij}^{COVERED}$  is the value of product  $i$  imported from partner  $j$  eligible for preferential treatment, and  $m_{ij}^{DUTIABLE}$  is the value of total imports that are subject to positive MFN duty. The import values are summed across all products to compute the aggregate values.

“**Utilization rate**” ( $U_j$ ) is the ratio of imports that enter the markets receiving preferential treatment to the imports that are eligible for such preferential treatment. The indicator is expressed as follows:

$$U_j = \frac{\sum_i^n m_{ij}^{USED}}{\sum_i^n m_{ij}^{COVERED}}$$

where  $m_{ij}^{USED}$  is the value of product  $i$  imported from partner  $j$  under a preferential treatment scheme. The import values are summed across all products to compute the aggregate values.

**Used or “Received” preference value:** This indicator measures the realized value of benefits of the GSP schemes in monetary terms. In formal terms, it is expressed as follows:

$$V_j = \sum_i^n (t_i^{MFN} - t_{ij}^{PRE}) * m_{ij}^{USED}$$

where  $V_j$  is value of actual preferences received by beneficiary (partner) country  $j$ ,  $t_i^{MFN}$  is MFN duty applicable to product  $i$ ,  $t_{ij}^{PRE}$  is preferential duty applicable to product  $i$  imported from partner  $j$ . The values of actual preferences are summed across all products to compute the aggregate preference value.

“**Potential” value of preference 1 (narrow definition - full utilization):** Developing countries may not always use the GSP schemes fully due to various reasons. To estimate how much further they can economize on tariff costs, we need to estimate the potential preference values. Potential value of preference 1 assumes the full utilization rate at the given tariff rates and product coverage in computing the value of preferences. In formal terms, the value of preferences that may arise from the full utilization of preferences for partner  $j$  ( $V_j^{FullUse}$ ) can be obtained as follows:

$$V_j^{FullUse} = \sum_i^n (t_i^{MFN} - t_{ij}^{PRE}) * m_{ij}^{COVERED}$$

The total value of potential preferences (narrow definition) is, again, obtained by summing potential preference values across all products.

**(ix) “Unused” preference value:** The difference between these two values ( $V_j^{FullUse}$ ) and  $V_j$  gives us the value of unused preferences, or the scope for possible improvement by increasing preference utilization.

**“Potential” value of preference 2 (broad definition - full utilization, coverage and tariff elimination):**

An alternative way of increasing the benefits of the GSP schemes for developing countries is to broaden their product coverage and eliminate all residual tariffs that may be applicable. Potential value of preference 2 is an alternative indicator that measures potential value of preference when all MFN dutiable products are subject to zero tariffs under the GSP schemes. This is the maximum possible preferential value ( $V_j^{max}$ ) arising from full duty-free treatment and full product coverage (i.e., 100 per cent product coverage) and ( $V_j^{max}$ ) can be obtained as follows:

$$V_j^{max} = \sum_i^n (t_i^{MFN} - t_{ij}^{PRE}) * m_{ij}^{DUTIABLE}, \text{ with } t_{ij}^{PRE} = 0$$

The total value of potential preferences (broad definition) is also obtained by summing potential preference values across all products. **“Non-covered” preference value:** The difference between the broad definition ( $V_j^{max}$ ) maximum and narrow definition ( $V_j^{FullUse}$ ) potential preferential values gives us the foregone value of preference that is not offered by preference-granting countries due to product exclusion. This also shows the amount of value of preference that could be obtained by extending product coverage for preferential duty-free treatment to all products. Both unused and non-covered preference values are important indicators that could help us understand the extent of the challenges developing countries face in using the preferential schemes and ways to address them.

## APPENDIX 2: PREFERENCE MARGIN GROUPS USED IN CONSTRUCTING FIGURE 9

Appendix Table 1a: Preference margin groups for Canada and the European Union (per cent)

	Canada		European Union	
	Preference margin	Preference utilization	Preference margin	Preference utilization
Group 1	0 - 2.5	36.9	0 - 3.5	14.2
Group 2	2.5 - 5	36.2	3.5 - 7.5	37.3
Group 3	5 - 7.5	24.5	7.5 - 11.25	53.3
Group 4	7.5 - 10	37.8	11.25 - 15	64.2
Group 5	10 - 12.5	43.6	15 - 18.75	69.5
Group 6	12.5 - 15	44.4	18.75 - 22.5	66.1
Group 7	15 - 17.5	52.7	22.5 - 26.25	75.9
Group 8	17.5 - 20	54.6	26.25 - 30	71.4

Source: UNCTAD calculations based on UNCTAD's GSP database.

Appendix Table 1b: Preference margin groups for Japan and the United States (per cent)

	Japan		United States	
	Preference margin	Preference utilization	Preference margin	Preference utilization
Group 1	0 - 3.5	39.7	0 - 2.75	24.6
Group 2	3.5 - 7.5	63.7	2.75 - 5.75	37.5
Group 3	7.5 - 11.25	72.8	5.75 - 8.5	44.7
Group 4	11.25 - 15	62.6	8.5 - 11.5	50.2
Group 5	15 - 18.75	64.3	11.5 - 14.25	52.7
Group 6	18.75 - 22.5	53.6	14.25 - 17	34.5
Group 7	22.5 - 26.25	38.9	17 - 19.75	64.7
Group 8	26.25 - 30	78.1	19.75 - 22.75	58.7

Source: UNCTAD calculations based on UNCTAD's GSP database.

