On March 4, 2019, U.S. Trade Representative Robert Lighthizer announced the revocation of Turkey’s and India’s beneficiary developing nation designations in the Generalized System of Preferences (GSP) program. Established in 1976 based on a UN recommendation, the U.S. GSP program provides preferential market access, such as duty-free imports on certain products, to developing economies to encourage economic growth. Although Lighthizer listed specific GSP criteria that India had failed to fulfill, the explanation for Turkey’s termination simply read, “It is sufficiently economically developed and should no longer benefit from preferential market access to the United States market.”

The timing of this graduation should raise eyebrows as the current economic reality in Turkey paints a different picture than Lighthizer’s statement; GDP per capita, exports, and imports have decreased significantly since 2013 and, as of March 2019, Turkey is officially in an economic recession. This highlights a departure from the original spirit of GSP to assist developing countries. To build the letter of the law up to its original spirit, the GSP program will require more quantitative and definitive standards.

Countries qualify for GSP based on standards laid out in 19 USC 2462 (b) & (c). The criteria are divided into mandatory and discretionary standards—all of which are notably subjective. Mandatory criteria require that the recipient not be a communist country, is not actively trying to withhold vital supplies from or cause serious disruption to the world economy, does not support international terrorism, and is working towards full compliance with international worker rights. Discretionary criteria are based on the judgment of the U.S. president and include an expression of interest in achieving GSP status, economic factors that “the President deems appropriate,” an acceptable level of intellectual property protection, and restraint from unreasonable export practices.

The European Union and Canada, both of which established equivalent programs under the same UN directive, illuminate different approaches to determining standards for beneficiary countries. In the EU, there are three categories of beneficiary countries: GSP for developing nations, GSP+ for vulnerable developing nations, and Everything But Arms (EBA) for least-developed countries. Each of these categories has specific, quantitative guidelines for graduation based on UN and World Bank classifications, import shares, and economic diversification. In 2012, the EU started graduating countries identified as upper-middle income, eliminating...
87 countries from GSP but granting them a year to ease the transition period to avoid causing instability.\textsuperscript{11,12} Comparatively, Canada changed its standards in 2015 to be more quantitative; a country graduates out of the Canadian General Preferential Tariff (GPT) program if it is classified as an upper-middle income economy or holds more than a 1 percent share of world exports for two consecutive years.\textsuperscript{13} Both the EU and Canadian schemes have definitive standards for qualification and graduation which provides stability for developing countries and a more robust graduation process.

The sudden revocation of India’s and Turkey’s GSP status is just one byproduct of the wider debate currently taking place within the U.S. administration about which countries should benefit from developing nation status in trade-related agreements. Thus far, the discussion has largely centered on the World Trade Organization (WTO) rather than the GSP. Currently, the WTO allows countries to self-declare developing nation status, a point that has caused significant friction in U.S. trade relations with countries such as China, South Africa, and India because of the perceived unfairness of special and differential treatment for competitive and substantial, yet developing, global economies. To mitigate the issue, the United States has proposed a clear set of criteria to qualify for developing nation status that would curb that ability of many nations to self-declare. The proposed standards prohibit claiming developing nation status if a WTO country:

- is a member of or has initiated accession into the Organization for Economic Cooperation and Development (OECD);
- is a member of the Group of 20 (G20);
- is classified by the World Bank as a high-income country; or
- accounts for .5 percent of global merchandise trade.\textsuperscript{14}

These criteria would effectively preclude 33 current beneficiaries of special and differential treatment from identifying as a developing country at the WTO.\textsuperscript{15} They also provide the clearest definition for a “developing country” put forward by the United States in a trade context and share similarities with the qualifications espoused by the EU and Canada for their GSP-equivalent programs. In practice, the standard becomes slightly more problematic. If it were applied to the current list of GSP beneficiary countries, six countries would cease to receive GSP treatment in addition to recently removed India and Turkey: Brazil, the British Virgin Islands, Indonesia, South Africa, Thailand, and Uruguay.
Figure 1: Current GSP beneficiary countries that would be removed under proposed WTO standards\textsuperscript{16,17}

<table>
<thead>
<tr>
<th>Country</th>
<th>OECD member</th>
<th>G20 member</th>
<th>High-income</th>
<th>More than 0.5 percent of global trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X (1.1%)</td>
</tr>
<tr>
<td>The British Virgin Islands</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Indonesia</td>
<td>X</td>
<td></td>
<td>X (0.9%)</td>
<td></td>
</tr>
<tr>
<td>South Africa</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Thailand</td>
<td></td>
<td>X</td>
<td>X (1.2%)</td>
<td></td>
</tr>
<tr>
<td>Uruguay</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td>X</td>
<td>X</td>
<td>X (1.0%)</td>
<td></td>
</tr>
<tr>
<td>India</td>
<td></td>
<td>X</td>
<td>X (2.3%)</td>
<td></td>
</tr>
</tbody>
</table>

The logic behind the inclusion of South Africa and Indonesia on this chart illustrates the probable shortcomings of the criteria and pitfalls of such criteria in the GSP program.

Membership in the OECD or G20 does not exclusively signal a specific level of development. In fact, much of G20 country selection considered not development levels but regional balance and avoidance of another Northern Hemisphere-only international organization.\textsuperscript{18} Similarly, the OECD was created as an extension of the Organization for European Economic Cooperation (OEEC), a post-war reconstruction program to bolster the European economy.\textsuperscript{19} Although most members of the OECD and G20 are advanced economies, development status and membership are not mutually exclusive; relying on membership to signal development level is thus a flawed standard. Neither South Africa nor Indonesia should be excluded from GSP benefits because of membership in the G20, just as Turkey’s level of development should not be based on its OECD membership.

Although Indonesia passes the marker of making up more than 0.5 percent of global trade, its primary exports include coal briquettes, palm oil, petroleum gas, rubber, and crude petroleum.\textsuperscript{20} As these exports are not sustainable, this indicator reveals not a developed economy but a developing one that would benefit from trade to diversify its economy. Indonesia’s significant share of global trade also is tempered by its large population. Although it makes up 0.88 percent of global trade, its GDP per capita is only $3,847; 9.8 percent of its population lives under the line of poverty; and an additional 20.78 percent of the population are vulnerable to falling below the poverty line.\textsuperscript{21} Its closest counterparts in share of global trade, Thailand and Brazil, clock in above 1 percent with exports primarily in intermediate or final products, including office machine parts, integrated circuits, delivery trucks, and cars, which benefit more laborers and are more sustainable practices.\textsuperscript{22,23} The problem illuminated by Indonesia would be addressed if the U.S. proposed benchmark was increased from 0.5 percent to 1 percent of global trade, mirroring Canada’s standard. All but one country with a more than 1 percent share in global trade have GDP per capita greater than $5,000. The only exception is India, which does not qualify for GSP because of a failure to assure
Cooperation (OEEC), a Post-War Reconstruction Program to Bolster the European Economy. Although most members of the OECD and G20 are Advanced Economies, development status and membership are not mutually exclusive.

quantifying "developing nation" for international trade

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ENDNOTES


2. Ibid.


8. Ibid.


16. Ibid.

17. Brazil has initiated the process of acceding into the OECD. The United States has promised to support the accession in exchange for Brazil pledging to forego special and differential treatment in future WTO talks. This hints at Brazil’s alignment with the U.S. standards—where a country cannot be a member of the OECD and seek special and differential treatment—despite not having been adopted yet.


24. Office of the United States Trade Representative, “United States Will Terminate GSP Designation of India and Turkey.”