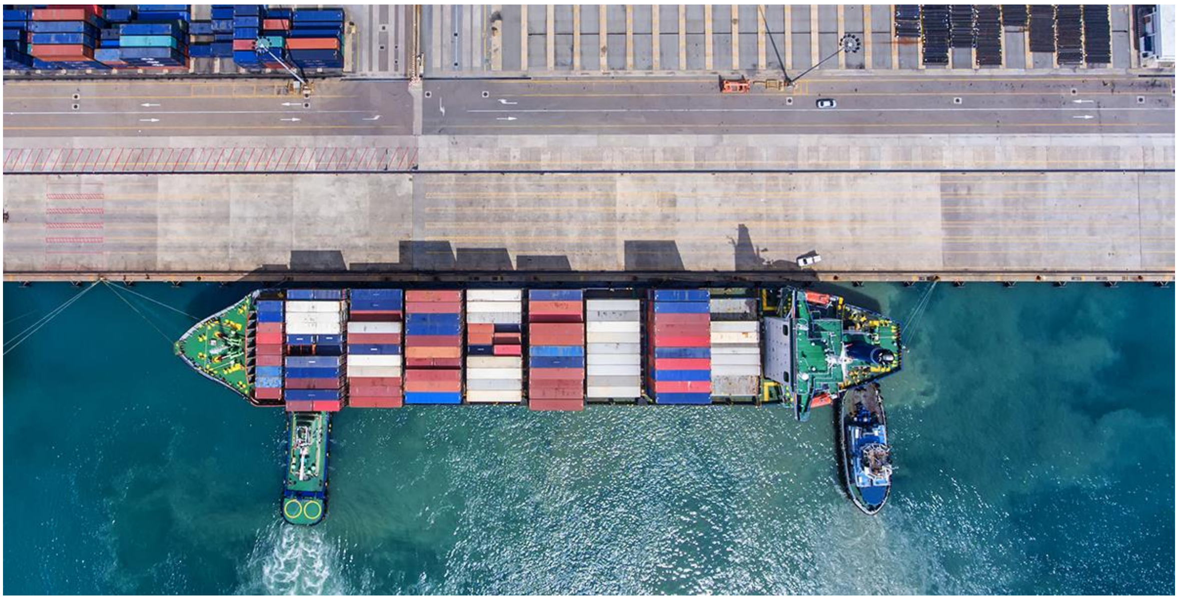
NOTE

SCB Economic Intelligence Center

EIC views that GSP privilege cuts will hurt export products with high GSP dependency, though impact on overall exports remains limited.

29 October 2019



On October 25, 2019, the office of the U.S. Trade Representative (USTR) announced a planned suspension of GSP trade preference on Thai exports valued at USD 1.3 billion due to Thailand's failure to adequately provide internationally-recognized worker rights.

Products that will be disqualified from GSP privileges account for 4.1% of total Thai exports to the US or equivalent to only 0.5% of total Thai exports. Key export products that are at high risk of being affected (based on the proportion of GSP privilege used to GSP granted and/or additional tariff that will incur) are sanitary ware, plastic in primary form, some food (bean products, pasta, crab meat), and jewelry (gold necklaces and gemstones).

If the GSP privileges are eliminated, disqualified products will be taxed an additional 3.9% on average (weighted effective tax rate). EIC estimates that the impact of the privilege cut is limited to approximately 0.01% of the total value of Thai exports. Although impact of GSP suspension is limited, sluggish global economic growth and strengthening baht will suppress businesses that rely on GSP privileges, especially small businesses with lower adjustment potential.

the next target for the US as Thailand is one of the 25 countries that have the highest trade surplus with the US. Furthermore, there are also complaints from the US private sector, namely the National Pork Producers Council (NPPC), to cut GSP privileges from Thailand as Thailand narrowly opens its market to US pork and pork innards from fear of ractopamine contamination. As such, the US plans to set the **official effective date for Thai GSP cuts on April 25, 2020**, **6 months from now**.

EIC evaluates that the GSP privilege cut will have limited effect on overall exports with approximately 0.01% impact on total exports due to the following reasons:

1) The value of products that will be deprived of GSP privileges accounts for only a small proportion of total exports (0.5% of total exports). According to information from USTR, the value of Thai exports that received GSP incentives was at USD 4.3 billion in 2018, of that USD 1.3 billion were products that will be disqualified for GSP incentives (approximately THB 40 billion), which accounted for 4.1% of total Thai exports to the US or at 0.5% of total Thai exports (Table 1).

Table 1: Summary of value and proportion of products that gained GSP benefits from the US

Exports with GSP to the US	Value (USD Million)	Proportion of total exports to the US	Proportion of total Thai exports
Total products	4,344	13.6%	1.7%
GSP maintained	3,026	9.5%	1.2%
GSP disqualified	1,319	4.1%	0.5%

Remarks – data as of 2018

Source: EIC analysis based on data from USTR

Various export products that will no longer receive GSP privileges do not heavily rely on GSP. Analysis of the proportion of exports using GSP privilege to total export value of that product to the US (Table 2) revealed that most of the products had a ratio of less than 10%. This reflects that most of Thai export products do not heavily rely on GSP privileges. Chemical products and building material & steel products had higher dependency than other product categories, though with highest GSP dependency ratio at only 16.0%.

Table 2: All export product categories do not heavily rely on GSP privileges

Product group	% proportion of **exports using** GSP privilege to total export value of that product to the US
Building material & Steel	16.0%
Chemical	14.8%
Automotive	7.2%
Food & Beverage	4.8%
Other Manufacturing	4.8%
Jewelry	3.5%
Consumer products	3.4%
Rubber	2.9%
Machinery	2.3%
Mining	2.1%
Electronics	1.4%
Agriculture	1.2%

Source: EIC analysis based on data from USTR

2) Disqualified GSP products will face incremental costs of 3.9%, but the price increase should not have much impact on sale revenue. Export products disqualified for GSP will be subjected to additional tax in the range of 0% to 21%, depending on type of products. However, the additional **overall weighted effective tax rate these products will face is 3.9%** or equivalent to approximately USD 52 million worth of taxes. Thai products will then on average be 3.9% more expensive (assuming that the business sector pushes price increments on to consumers). As such, the mentioned conditions, in addition to Thai price elasticity in the range of 0.3%-0.6%[1], can be concluded that **sales of disqualified GSP products should drop by approximately 0.006% - 0.012% per total Thai exports**.

However, the price impact on each product category will depend on its price flexibility. If the disqualified product can be easily replaced or is not popular in the US (high price elasticity), the price impact will be high. Hence, exporters might need to deduct the product price before taxes so that when included in US tax, the price will increase slightly. This though will decrease the profit per unit. On the contrary, if the disqualified product cannot be easily replaced and is popular in the US (low price elasticity), the price impact will be limited.

[1] According to the Bank of Thailand's Monetary Policy Report, June 2018
https://www.bot.or.th/English/MonetaryPolicy/MonetPolicyComittee/MPR/BOX_MRP/BOX_MPR_June2018_2.pdf

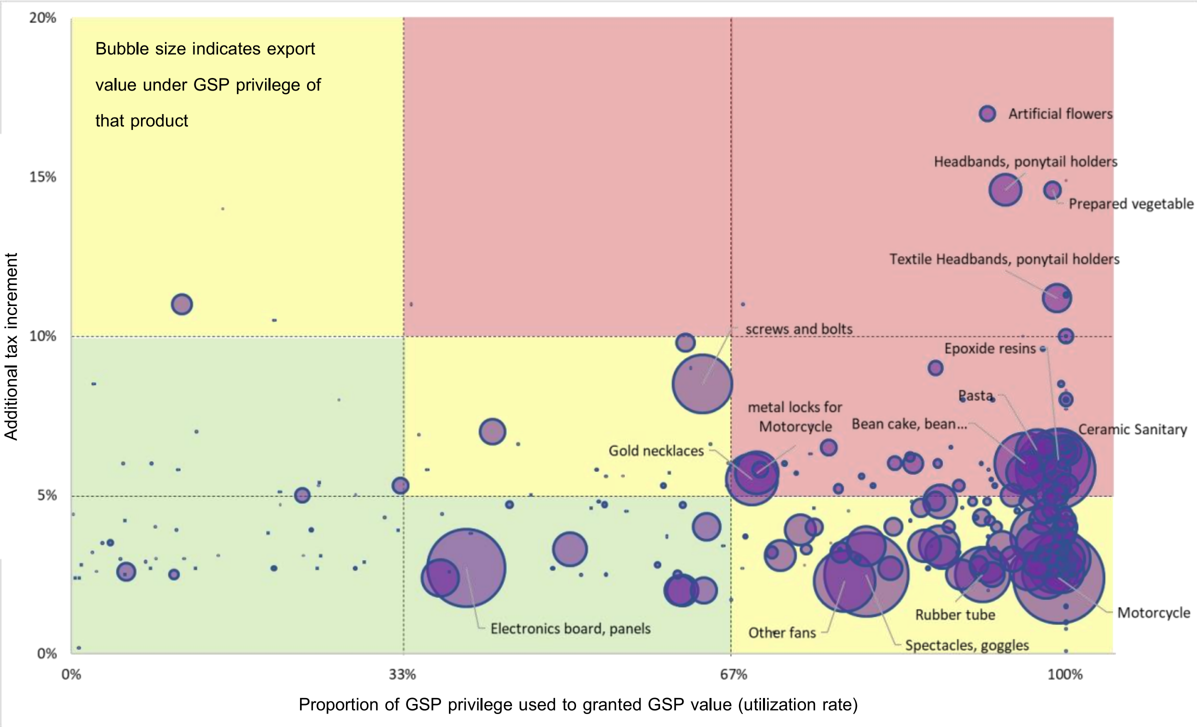
Even though loss of GSP privileges is seen as insignificant, sluggish global economic growth and the strengthening baht will suppress businesses that rely on GSP privileges, especially small businesses with lower adjustment potential. This is because most small businesses will focus on price competition. The slowing economy and the strengthening baht hence further suppress small businesses from adjusting if additional tax obligations come into play (in the form of lowering the sales price to compensate with increased tax). Small businesses might not have enough liquidity to reduce profit margins to maintain the original pricing, so these businesses might need to increase product prices, which will eventually lead to loss of competitiveness.

Detailed analysis of products that will be disqualified from GSP revealed that high-risk products were sanitary ware, plastic in primary form, some categories of food, and jewelry with the following analysis criteria:

- If the product received GSP privileges at levels at par to the granted privilege (high utilization rate), the product will be significantly impacted from the GSP cut
- The higher the tax rate the product will face after GSP cuts, the higher the GSP impact
- The total value of GSP usage of each product. The higher the value, the higher the importance of that product

The criteria above are as displayed in Figure 1. From the figure, the value of privilege used was clustered in the lower right corner of the figure. These products have a high GSP utilization, but will not see much tax increment after the GSP cut, so they will face moderate risk from GSP privilege cuts. Products in this category were, for instance, motorcycle, glasses, copper pipes, and rubber tubes. However, other products with high GSP value used will face higher tax rates**, which then are indicated as high risks of impact from GSP cuts. For instance, sanitary ware, plastic in primary form, some food (bean products, pasta, crab meat), and jewelry (gold necklaces and gemstones)**.

Figure 1: Product categories that will face GSP cuts categorized by the GSP utilization rate and incremental tariff that will incur



	GSP Utilization < 33.3%	33.3% < GSP Utilization < 66.6%	GSP Utilization > 66.6%
Tax > 10%	Imitation jewelry not of base metal or plastics	Hair-slides and the like, not of hard rubber or plastics	Headbands, ponytail holders of 70% textile materials
	Porcelain household mugs and steins		Prepared vegetables not frozen, not preserved by sugar
	Semiprecious stone (except rock crystal)		Headbands, ponytail holders of less than 70% textile materials
	Porcelain household serviette rings		Artificial flowers/foliage/fruit
	Titanium, wrought		Products containing meat of crustaceans, prepared meal
5% > Tax > 10%	Aluminum, foil, w/thickness over 0.01 mm but n/o 0.15 mm,	Screws and bolts, (6 mm or more in diameter)	Porcelain ceramic sanitary fixtures
	Aluminum alloy, profiles (o/than hollow profiles)	National flags	Epoxide resins in primary forms
	Chilled or Frozen fillets,	Ceramic household tableware and kitchenware	Bean cake, bean stick, miso, other fruit, nuts
	Statuettes and other ornamental articles, of plastics	Iron or steel cooking ware	Gold necklaces and neck chains
	Gold rope necklaces and neck chains	Precious metal clasps (o/than silver)	Metal lock for motor vehicles
Tax < 5%	Other machinery in this subheading	Other electronics boards, panels, consoles, desks, cabinets, etc.,	Motorcycles (>800 cc)
	Spark plugs	Dishwashing machines of the household type	Spectacles, goggles

	GSP Utilization < 33.3%	33.3% < GSP Utilization < 66.6%	GSP Utilization > 66.6%
	Printed circuit assemblies,	Jewelry of precious stones, valued not over $40	Other fans
	Plugs and sockets for making connections to or in electrical circuits,	Stainless steel, table, kitchen or household	Other non-aromatic organo-inorganic compounds
	Electric lamps and lighting fixtures	Microwave ovens	Copper alloys, fittings for tubes and pipes

Remarks – red zone: products with high risk from receiving impact from GSP cut
yellow zone: products with medium risk from receiving impact from GSP cut
green zone: products with low risk from receiving impact from GSP cut
listed products in the table are key products (high value) in each zone
Source: EIC analysis based on data from USTR

Furthermore, going forward, Thailand could be challenged as being a currency manipulator. EIC evaluates that in the current, Thailand meets 2 of the 3 currency manipulator criteria set by the US, which are 1) Thailand has the potential to have a current account surplus around 6.4% this year, which is higher than the 2% threshold and 2) the Bank of Thailand intervened the baht continually for more than 6 months during the past year and purchased the USD with value of more than 2% of Thailand's GDP. Thailand has not met the 3rd criteria yet, which is having a trade surplus with the US worth more than USD 20 billion[2]. The most recent threshold breakthrough was during September 2018 (current surplus is at USD 19 billion). However, there is a potential that the threshold could be breached again. As such, going forward, the US could place Thailand into its monitoring list or as a currency manipulator and could lead to additional forms of trade protection measures.

[2] Based on the total trade surplus for the prior 12 months

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