

How Multiple Withdrawals of GSP Benefits and Uncertainty Affect Thai Exports

Panutat Satchachai and Kornkarun Cheewatrakoolpong
Faculty of Economics, Chulalongkorn University

Introduction

Does uncertainty always disrupt trade and harm exports?

- Unlike traditional trade policy, characterized by tariffs and rules-based agreements, trade policies in recent years have increasingly become subject to rapid, discretionary changes, resulting in Trade Policy Uncertainty.
- While previous literature has heavily documented the negative effects of a single, one-time loss of Non-Reciprocal Trade Preferences (NRTPs) like the Generalized System of Preferences (GSP), this paper uniquely analyzes *repeated withdrawals* and compares two distinctly different institutional environments: the European Union and the United States.

One-time Loss vs. Multiple, Repeated Withdrawals

- Thailand has faced multiple withdrawals of these benefits over the past two decades under two vastly different institutional settings, providing a natural experiment to compare *low-uncertainty* vs. *high-uncertainty* environments.
- To evaluate the causal effects of these multiple withdrawals, the authors analyzed HS 6-digit export data from Thailand to the EU and US spanning from 2002 to 2022.

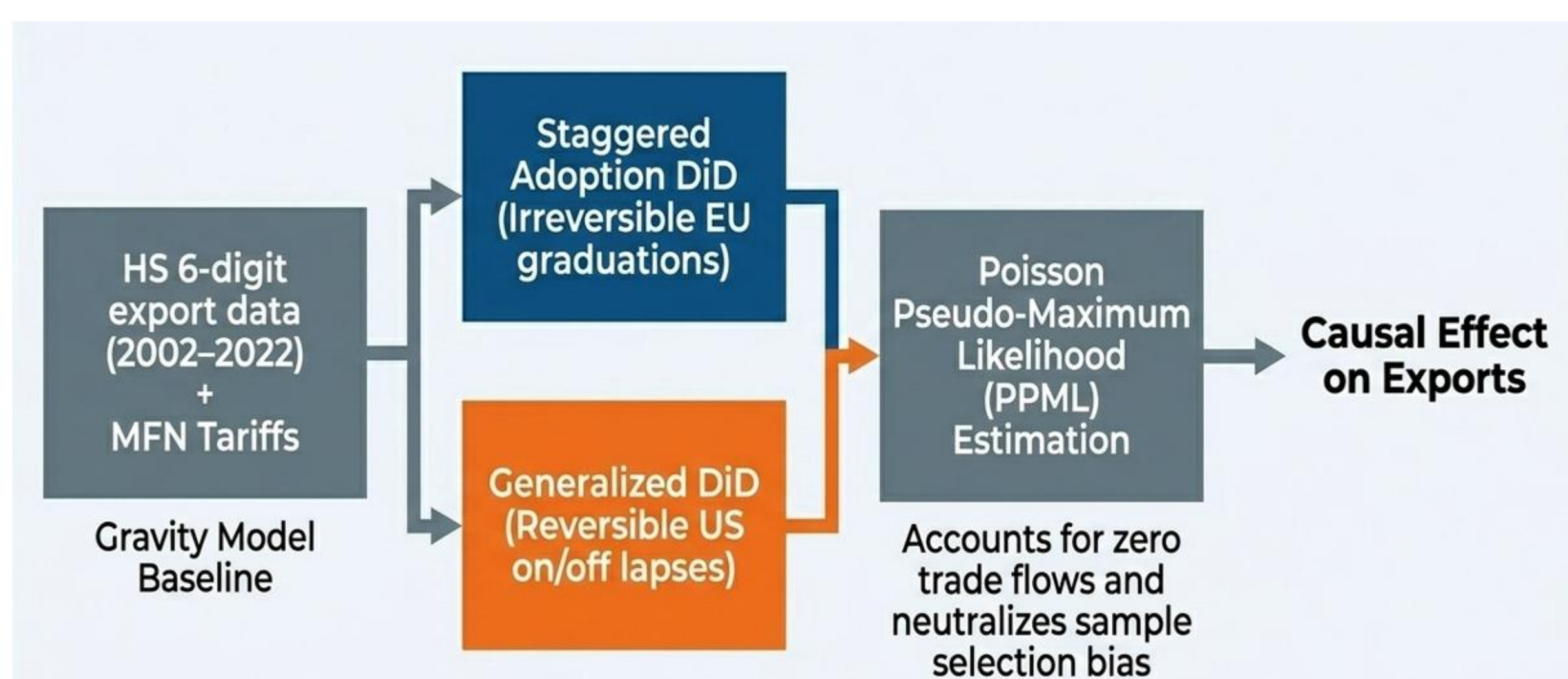
EU and US GSP Schemes

- The structural differences between the two schemes reveals how uncertainty is institutionalized.
- The EU's GSP program operates under a structured, transparent framework.
 - Clear and irreversible = highly predictable (*Low Uncertainty*)
- The US's GSP program is highly discretionary, heavily influenced by political considerations, and requires periodic renewal by Congress.
 - No permanent authorization and reversible = highly unpredictable (*High Uncertainty*)

	EU	US
Primary Source	Graduations & Reforms (2005, 2010, 2015)	Legislative Expirations & Annual USTR Review
Mechanism	Transparent withdrawals based on defined income thresholds and export competitiveness	Discretionary withdrawals, political conditionality, and Congress expirations
Uncertainty Level	Low	High

Methodology and Empirical Strategy

- We utilize the Gravity Model of Trade combined with Difference-in-Differences (DiD) framework. And we use the Poisson Pseudo-Maximum Likelihood (PPML) estimators to handle the zero trade flows.
- Because the EU and US programs operate differently, we consider two distinct DiD designs.
- Since EU graduation is permanent (irreversible) and happens to different products at different times (2005, 2015), we use a staggered adoption DiD estimator (Callaway and Sant'Anna and the Extended Two-way Fixed Effects) to establish clean counterfactuals.
- Because the US GSP turns "on and off" repeatedly and the effects are reversible, we use a generalized DiD (Two-way Fixed Effects) model to capture the multiple expirations and product reviews over time.

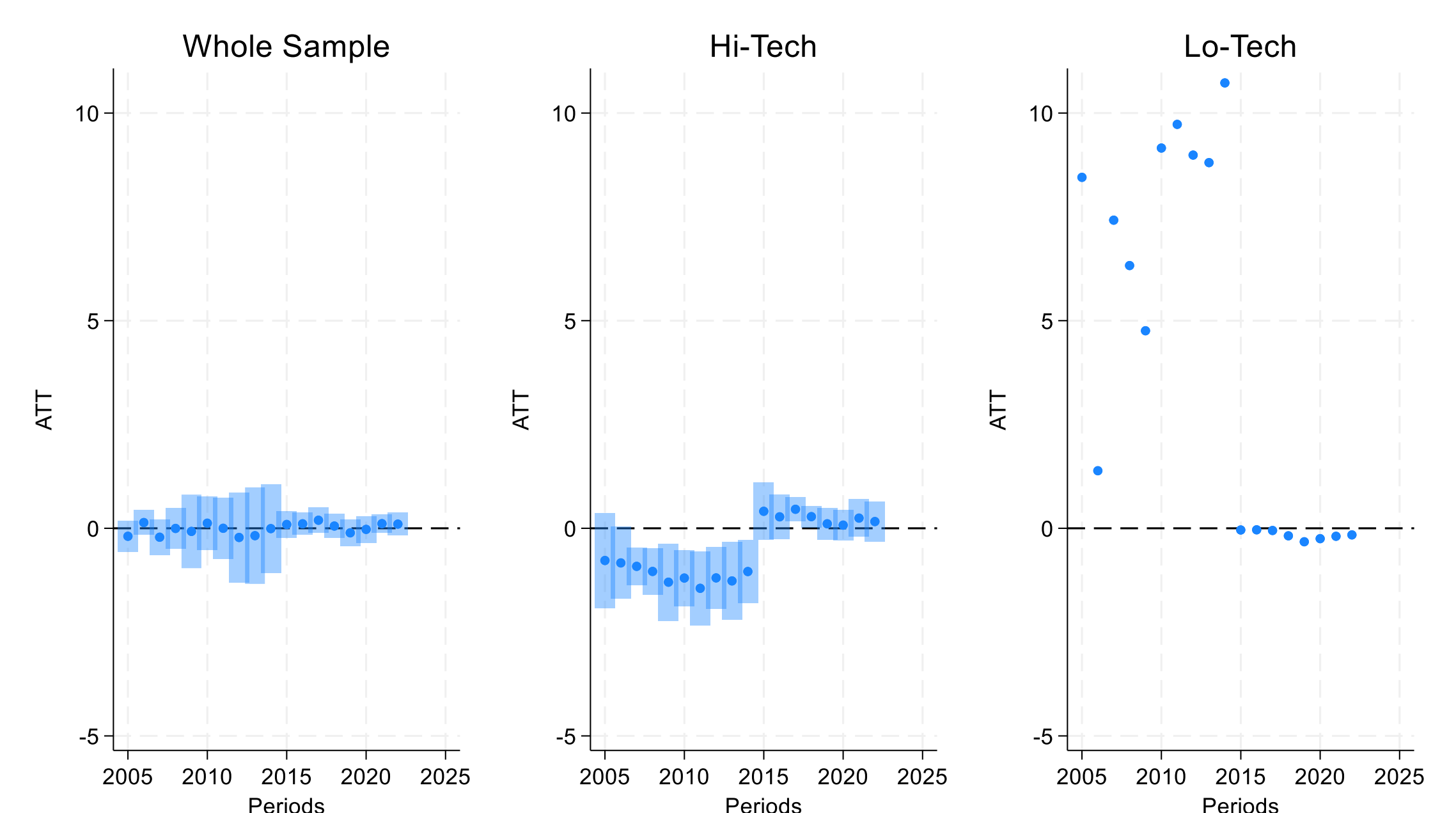


Key Findings

- The central finding is counterintuitive to standard trade literature: changes in GSP status and the associated trade policy uncertainty do not automatically reduce Thailand's exports.

EU

- We find that the reduction in uncertainty through the EU's predictable graduation mechanism did not significantly harm Thailand's aggregate exports.
 - Find positive but statistically insignificant, indicating that moving to a rule-based system supported export stability.
- Policy predictability did not spur massive growth but rather allowed for anticipatory adjustment.



US

- Despite repeated GSP withdrawals and high trade policy uncertainty, Thailand's exports to the US were not undermined; instead, they demonstrated resilience and, in several specifications, expansion.
 - We find statistically significant positive average effects on exports following US GSP expirations.
- Uncertainty stemming from annual USTR reviews had a larger behavioral impact on exports than program-wide legislative lapses

	Whole Sample	Hi-Tech	Lo-Tech
GSPExpire	0.2341**	0.3478**	0.2131
GSPReview	0.2644	0.4271*	0.2557
Obs	75,720	31,446	40,261

Sectoral Heterogeneity

- We find substantial sectoral heterogeneity in how exports respond to the withdrawal of GSP benefits.
 - diverge significantly depending on the institutional environment
 - heavily depends on the sector's specific characteristics, such as its competitiveness, reliance on preferential access, and integration into global value chains

	EU	US
Hi-Tech	<i>Negative/Positive</i> Highly vulnerable to margin loss in intensively competitive environments.	<i>Positive</i> Highly resilient despite high uncertainty
Lo-Tech	<i>Stable/Positive</i> Possesses sufficient baseline competitiveness to weather structured graduation.	<i>Weaker Response</i> More directly exposed and vulnerable to unpredictable loss of preference

- The US pattern was surprisingly the opposite of the EU.

Conclusions

- Changes in Generalized System of Preferences (GSP) status and the associated trade policy uncertainty do not automatically reduce a country's exports.
 - Outcomes depend heavily on the institutional design of the preference scheme, the effective preference margins, sectoral characteristics, and the exporters' ability to adjust

Policy Implications

- Need to systematically and gradually reduce their reliance on unilateral trade preferences.
- Focus on fostering long-term structural competitiveness.
 - Pivot investments toward productivity enhancements, technological innovation, quality upgrading, and deeper integration into GVCs
- Pursue deeper, reciprocal South-South trade partnerships and comprehensive trade agreements that attract high-quality FDI.

Acknowledgement: This research is supported by the Research Grant for the Promotion and Support of Academic Research Projects from the Faculty of Economics, Chulalongkorn University (Contract No. 2/2566)

Contact Info: panutat.s@chula.ac.th