

# Generalised System of Preferences (GSP)

9<sup>th</sup> Feb, 2019



**What to study?**

**For Prelims: Key features of GSP.**

**For Mains: How US withdrawal affects India and how should India be prepared for this?**

**Context:** Vowing to reduce the U.S. deficit with large economies, President Trump is planning to withdraw the **Generalised System of Preferences (GSP)** from India, the world's largest beneficiary of a scheme that has been in force since the 1970s.

**Background:**

The trigger for the latest downturn in trade ties was **India's new rules on e-commerce** that restrict the way Amazon.com Inc. and Walmart-backed Flipkart do business in a rapidly growing online market set to touch \$200 billion by 2027.

That, coming on top of a drive to force **global card payments companies such as Mastercard and Visa to move their data to India** and the **imposition of higher tariffs on electronic products and smartphones**, left a broader trade package the two sides were working on through last year in tatters.

**Implications:**

With this, India could lose a vital U.S. trade concession, under which it enjoys zero tariffs on \$5.6 billion of exports to the United States.

**Generalised System of Preferences (GSP):**

The Generalized System of Preferences (GSP) is a U.S. trade program designed to promote economic growth in the developing world by providing preferential duty-free entry for up to 4,800 products from 129 designated beneficiary countries and territories.

**What is the objective of GSP?**

The objective of GSP was to give development support to poor countries by promoting exports from them into the developed countries. GSP promotes sustainable development in beneficiary countries by helping these countries to increase and diversify their trade with the United States. GSP provide opportunities for many of the world's poorest countries to use trade to grow their economies and climb out of poverty.

**Benefits of GSP:**

1. **Indian exporters benefit indirectly** – through the benefit that accrues to the importer by way of reduced tariff or duty free entry of eligible Indian products.
2. Reduction or removal of import duty on an Indian product makes it **more competitive to the importer** – other things (e.g. quality) being equal.
3. **This tariff preference helps new exporters to penetrate a market and established exporters to increase their market share** and to improve upon the profit margins, in the donor country.

**What is the difference between GSP and the usual trade arrangement under WTO?**

Under the normal trade laws, the WTO members must give equal preferences to trade partners. There should not be any discrimination between countries. This trade rule under the WTO is called the Most Favored Nation (MFN) clause.

**The MFN instructs non-discrimination that any favorable treatment to a particular country.** At the same time, the WTO allows members to give special and differential treatment to from developing countries (like zero tariff imports). This is an exemption for MFN. The MSP given by developed countries including the US is an exception to MFN.

**What is the impact of GSP withdrawal on India?**

India exports nearly 50 products of the 94 products on which GSP benefits are stopped. The GSP removal will leave a reasonable impact on India as the country enjoyed preferential tariff on exports worth of nearly \$ 5. 6 billion under the GSP route out of the total exports of \$48 bn in 2017-18. In total India exports nearly 1,937 products to the US under GSP.

**Removal of GSP indicate a tough trade position by the US; especially for countries like India who benefited much from the scheme.** India is the 11th largest trade surplus country for the US and India enjoyed an annual trade surplus of \$ 21 bn in 2017-18.

- Mains Question: Write a note on the generalised system of preferences (GSP) system and its impact on India.

**To be looked in UPSC Paper 2 and 3 Topic:**

1. Effect of policies and politics of developed and developing countries on India's interests, Indian diaspora.
2. Effects of liberalization on the economy, changes in industrial policy and their effects on industrial growth.