Generalised System of Preferences

Why in news?

The US Generalised System of Preferences (GSP) have not been renewed since its expiration in 2020.

What is Generalised System of Preferences?

- **Preference receiving countries**- It is a preferential tariff system extended by developed countries to developing countries.
- **US GSP**- It is the largest and oldest United States trade preference programme, this arrangement allows *concessional or zero tariff imports* from developing couturiers into the US.

Developed countries including the US, EU, UK, Japan etc., gives GSPs to imports from developing countries.

- **Aim**- To promote economic development by *eliminating duties on some products* it imports from the 120 countries designated as beneficiaries.
- **Procedure-**The US government selects a *group of poor countries* and a set of products and offers these countries lower-than-normal tariffs than it applies to imports from all other World Trade Organization countries.
- **USTR-** US Trade Representative makes *annual reviews* about the types of commodities to be selected under GSP and the countries to be benefited.

What is the significance of GSP?

For Developing countries	For Developed countries

• **Market access**- It provides developing countries with preferential access to developed markets by reducing or eliminating tariffs on a wide range of products. • **Economic growth-** Increased exports can lead to higher production levels, job creation, and overall economic development. • **Diversification-** It encourages developing countries to diversify their economies by promoting the export of non-traditional goods and services, reducing reliance on a limited range of products or markets. • **Investment attraction**- Preferential access to developed markets can make beneficiary countries more attractive to foreign investors, who are drawn by the opportunity to produce goods for export under favourable conditions. • **Capacity building**- It often include criteria that encourage beneficiary countries to improve labour standards, environmental practices, and intellectual property rights.	• **Affordable imports**- By lowering tariffs on imports from developing countries, GSP helps reduce costs for consumers and businesses in developed countries. • **Supply chain diversification**- It allows developed countries to diversify their supply chains, reducing dependency on a single source or country. • **Strategic partnerships**- It can strengthen diplomatic and economic ties between developed and developing countries, fostering better international relations and cooperation. • **Promotion of standards**- It encourages global improvement in labour rights, environmental protection and intellectual property that aligns with international standard and values. • **Economic development**- Supporting the economic growth of developing countries through GSP can contribute to global economic stability and reduce poverty, aligning with the broader goals of international development and cooperation.

What is the strategic benefits of renewing GSP?

- **Provide framework for negotiations**- With the renewal of GSP, the U.S. and India can negotiate terms that enhance trade in goods and services, enforce internationally accepted labour rights, restrict child labour, enforce environmental laws, and promote good regulatory practices.
- **Strengthen economic ties-** A renewed GSP could serve as a platform for *increased investments* in critical and emerging technologies, from smartphone manufacturing to semiconductor production, ensuring regulatory stability and business ease.
- **Enhance bilateral trade**- GSP renewal could significantly *elevate the U.S.-India trade* relationship from the current 200 billion dollars level.
- **Align strategic interests**- As both countries play collaborative roles in the *Indo-Pacific*, a strengthened trade relationship through GSP would underscore their mutual commitment to economic and strategic partnership.
- **Offset the absence of FTAs-** U.S. is reluctant to negotiate *Free Trade Agreements*, therefore GSP stands out as the most effective tool for advancing U.S.-India trade relations in the near term.

What lies ahead?

- Renewing the GSP program is not just about reducing tariffs but about sending a strong message of commitment to a deeper, more strategic economic partnership.
- It would provide the necessary framework to elevate U.S.-India trade to new heights, ensuring mutual benefits and reinforcing their roles as key collaborators in the global economy.

Reference

[The Hindu-Renew Generalised System of Preference]

