



Generalized System of Preference

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Why in News?

Recently the US government has withdrawn its GSP (Generalized System of Preferences) benefits to India worth \$70 million on as many as 50 items mostly from handloom and agriculture sector.

GSP

- Generalized System of Preferences (GSP) is an umbrella that comprises the bulk of preferential schemes granted by industrialized nations to developing countries.
- It involves reduced **Most Favored Nations (MFN)** Tariffs or duty-free entry of eligible products exported by beneficiary countries to the markets of donor countries.

Background

- The idea of granting developing countries preferential tariff rates in the markets of industrialized countries was originally presented at the first UNCTAD conference in 1964.
- The **GSP was adopted at UNCTAD in New Delhi in 1968 and was instituted in 1971.**
- There are currently 13 national GSP schemes notified to the UNCTAD secretariat.

UNCTAD

- United Nation Conference on Trade and Development (UNCTAD) is a permanent intergovernmental body established by the United Nations General Assembly in 1964.
- It supports developing countries to access the benefits of a globalized economy more fairly and effectively.
- It has 194 member nations.

Most Favored Nations (MFN)

- As per the WTO's General Agreement on Tariffs and Trade's MFN principle, each of the WTO member countries should "treat all the other members equally as 'most-favoured' trading partners."
- According to the WTO, though the term 'MFN' "suggests special treatment, it actually means nondiscrimination."

The following countries grant GSP preferences:

1. Australia
2. Belarus
3. Canada
4. European Union
5. Iceland
6. Japan
7. Kazakhstan
8. New Zealand
9. Norway
10. Russian Federation
11. Switzerland
12. Turkey
13. United States of America.

Benefits of Generalized System of Preference

- **Economic growth and development in the developing world** by helping beneficiary countries to increase and diversify their trade with the developed nations.
- **Employment** – Moving GSP imports from the docks to consumers, farmers, and manufacturers supports tens of thousands of jobs in the developed nation.
- **Company Competitiveness** is boosted by GSP as it reduces costs of imported inputs used by companies to manufacture goods.
- **GSP promotes Global values** by supporting beneficiary countries in affording worker rights to their people, enforcing intellectual property rights, and supporting the rule of law.

GSP for India

- Indian exporters benefit indirectly by way of reduced tariff or duty free entry of eligible Indian products.
- Reduction or removal of import duty on an Indian product makes it more competitive.
- 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.
- It allows India to integrate with global value chains and hence with global markets.

GSP for US

- Cheaper imports of intermediary products from India enable availability of cost-effective and price-competitive inputs to the US downstream industries.
- It also helps the US firms remain domestically and internationally competitive.

Impact of GSP Withdrawal

- The products on which India receives GSP benefits belong to labour intensive sectors such as textile, handloom and agriculture.
- India will lose out on 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.
- India could lose US market share to rivals like Vietnam and Bangladesh, which will continue have duty-free access.

Way Forward

- Indian exports to the US under GSP program are mostly intermediaries and are not in direct competition with US producers which ultimately benefit US economy.
- The US should consider continuing India's eligibility as a gesture of goodwill that reaffirms its commitment to the mutually beneficial relationship between our two countries.
- GSP remains a central aspect of the overall trade engagement and must remain available for Indian exporters keen to address the US markets.