

Generalised System of Preferences (GSP) - UPSC

Economy Notes

The Generalised System of Preferences or the GSP is a preferential tariff system that developed countries extend to developing countries. This topic features regularly in the news and is important for the [UPSC exam](#) economy and international relations segments.

Generalised System of Preferences

Video link: <https://www.youtube.com/watch?v=WpJhyxHG-EU&t=884s>

GSP was instituted by the UNCTAD in 1971. The 13 countries that provide GSP preferences to emerging and developing countries are:

1. Australia
2. Belarus
3. Canada
4. European Union
5. Iceland
6. Japan
7. Kazakhstan
8. New Zealand
9. Norway
10. Russia
11. Switzerland
12. Turkey
13. USA

The motive behind granting GSPs is to help developing countries and particularly least developed countries (LDCs) to promote productive capacity development and to encourage trade and investment.

- GSP boosts economic growth and development in many developing countries.
- In the GSP arrangement, certain imports from beneficiary countries are allowed concessions such as zero tariffs.
- GSP involves reduced/zero tariffs of eligible products exported by beneficiary countries to the markets of GSP providing countries.
- The USA has a strong GSP regime for developing nations. It was launched in 1976.
- About 120 countries benefited from the US's GSP system. Additionally, the US also benefitted from the GSP by way of reduced costs of imported (to the US) goods used by American companies in manufacturing.
- According to export volumes (2017 data), India and Brazil were the prime beneficiaries of the USA's GSP regime.
- China and a few other developing countries were not considered eligible for GSP by the US.
- Most of the products covered under the GSP are agricultural products including fisheries, meat, animal husbandry and handicrafts. Generally, these are also the speciality products of the developing countries.
- Under this, the US would select a group of developing or underdeveloped countries and also a list of products for which the preferential zero tariff or lower tariffs would be imposed, compared to other countries in the [World Trade Organization \(WTO\)](#). This list of beneficiary countries and also the

products list are revised every year by the United States Trade Representative (USTR) Office.

- **The USA withdrew the GSP preference to India with effect from June 2019.**
- In fact, the US is on the way to completely phase out the GSP arrangement. Already, as of 2018, GSP for 94 products (chiefly handicraft and agricultural products) has been withdrawn for all beneficiary countries.

Difference between the GSP and the normal trade arrangement under the WTO:

Under the normal trade arrangement, countries must give equal preferences to trade partners. This is called the **Most Favoured Nation (MFN)** clause. As per the MFN, no country should be favoured or discriminated against in trade. At the same time, the WTO allows an exemption for the MFN, like the GSP awarded for developing and least developed countries.

How will the US's withdrawal of GSP affect India?

Out of the 94 products for which GSP has been withdrawn, India exports almost 50 products. India will be affected because the country had enjoyed preferential tariffs on exports worth almost USD 5.6 billion (under the GSP route out of a total export valued at USD 48 billion in 2017-18). Under the GSP, India exported almost 1937 products to the US.

However, according to some sources, 90% of Indian exports to the US is under the normal route, and hence will not be affected by the withdrawal of GSP.

UPSC Questions related to Generalized System of Preferences

What is meant by Generalized System of Preferences?

It is a preferential tariff arrangement granted by the developed countries to a few beneficiary countries (developing countries and LDCs) to promote economic growth in those countries.

What are GSP countries?

13 countries grant GSPs, the list is given above in the article.

What is the purpose of GSP?

The objective of the GSP is to promote monetary prosperity in the beneficiary countries.

Is India a GSP country?

The USA removed India from the list of countries receiving GSP treatment as of June 2019.

