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ANALYSIS**

TOPIC

**Renew the Generalised System of
Preferences**

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RENEW THE GENERALISED SYSTEM OF PREFERENCES

In Context

- India and the U.S. discussing restoration of the Generalised System of Preferences (GSP).

About Generalized System of Preferences (GSP)

- The Generalized System of Preferences (GSP), instituted in 1971 under the aegis of United Nations Conference on Trade and Development (UNCTAD).
- It is a voluntary trade scheme provided by developed economies that offers lower tariffs to imports from their developing counterparts.
- It seeks to facilitate developing countries' export growth, particularly in the manufacturing sector.
- Each developed country has customised its own GSP programme to identify qualification criteria it deems important in economic reform, although all ensure that their programmes are constructed to avoid harm to domestic production.
 - ♦ It is the largest and oldest U.S. trade preference program.

Importance

- GSP can play a vital role in **establishing stable market access** for developing countries that otherwise struggle to tap into global trade flows.
- It can be especially **valuable for small businesses** and women-owned enterprises, thus helping to empower them beyond limited domestic markets.
- It is vital in offering alternatives to Chinese imports and providing an advantage to suppliers in trusted developing country markets.
- It promotes reforms on labour and environmental sustainability and intellectual property rights protection.
- In an era of friendshoring and nearshoring, GSP can be an effective tool in pursuing new supply chain objectives. Surprisingly, there is even strong bipartisan support for restarting GSP talks with India.

Issues linked to GSP

- The benefits from GSP are highly concentrated in a few countries and products.
 - ♦ These are unilateral, non-reciprocal and non-discriminatory benefits extended by some developed countries to developing countries.
- Some beneficiaries face challenges in fully exploiting the market access opportunities available under GSP schemes.
- Concerns exist about beneficiaries' compliance with GSP eligibility requirements, including alleged violations of worker rights and failure to protect intellectual property.
- Controversy arises over duty-free access for products deemed "import sensitive."
- The private sectors in both countries are teaming up to increase investments in high-profile sectors across critical and emerging technologies from smartphone manufacturing to semiconductor production, but they lack the stability in regulatory certainty and ease of doing business that a strong, enforceable trade agreement can bring.

US decision to withdraw GSP for India

- The United States of America (USA) has w.e.f. 5 June 2019 withdrawn India's GSP benefits.
- Renewing GSP would offer an avenue for wide-ranging U.S.-India trade negotiations that can help in vaulting the bilateral trade relationship¹
- It could cover trade in goods and services, protections for internationally accepted labour rights and restrictions on child labour, enforcement of environmental laws, and provisions on good regulatory practice and other areas relevant to ease of doing business.

Conclusion and Way Forward

- The Generalized System of Preferences is a vital component of international trade, especially for developing countries like India.
- Its renewal and continuation are crucial for maintaining the momentum of economic growth and development in the beneficiary countries.
- New legislation is never an easy proposition, especially in a polarised environment, making bipartisan legislation a herculean endeavour.
- GSP renewal would offer an avenue for wide-ranging U.S.-India trade negotiations that can help in vaulting the bilateral trade relationship from the \$200 billion it is presently at to a much higher level.
- As the U.S.-India strategic partnership continues to grow and the two countries play critical, collaborative roles in the Indo-Pacific, they should aim much higher in their trade relationship.

Mains Practice Question

- Q. Discuss the impact of the Generalized System of Preferences (GSP) on the trade dynamics between developed and developing countries. How much does it matter for India ?**

