



Mains Practice Question

Q. What do you understand by Generalized System of Preferences? How will removal of India from the said list will impact it? (250 words)

06 Mar, 2019 GS Paper 3 Economy

Approach

- Explain about Generalized System of Preferences in the introduction.
- Give reason why India is removed from the list.
- Examine how the move will impact India.

Introduction

- 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. GSP was **instituted on January 1, 1976**, by the **Trade Act of 1974**.
- Under the GSP program, certain products can enter the United States duty-free if beneficiary developing countries meet the eligibility criteria established by its Congress.
- GSP promotes sustainable development in beneficiary countries by helping these countries to increase and diversify their trade with the United States. The GSP program provides additional benefits for products from least developed countries.

Body

Why is India removed from the list -

- GSP criteria include respecting arbitral awards in favor of United States citizens or corporations, combating child labor, respecting internationally recognized worker rights, providing adequate and effective intellectual property protection, and providing the United States with equitable and reasonable market access, stated the USTR
- India's termination from GSP follows its failure to provide the United States with assurances that it will provide equitable and reasonable access to its markets in numerous sectors.

Impact on India -

- **Products impacted-** Around 1,900 products from India, including raw materials and intermediaries across sectors like organic chemicals, would be impacted if GSP is withdrawn.
- **Impact on Export-** India has been the biggest beneficiary of the GSP regime and accounted for over a quarter of the goods that got duty-free access into the US in 2017. Exports to the US from India under GSP — at \$5.58 billion — were over 12 per cent of India's total goods exports of \$45.2 billion to the US that year. The termination of GSP benefits is likely to adversely affect about 10% of India's total exports to the country. At a time when India's export growth remains sluggish, and trade deficit remains a concern, any impact on exports can only worsen the scenario.
- **Loss of employment-** since the predominant share of exports under the GSP scheme is from small and medium enterprises, which are typically labour-intensive.

- **US's rigid stance-** The withdrawal of the GSP scheme for Indian companies comes on the back of far greater restrictions on visa issuances for Indian firms under the Trump administration.
- **Impact on Indian Firms-** While Indian IT companies have adapted by increasing local hiring, this comes at the cost of lower margins.
- **Extent of trade loss-** However, according to Indian commerce secretary, the US' move is expected to have minimal impact on India, as exporters here were deriving duty-free benefits of only \$190 million of the total \$5.6 billion-worth of GSP items traded.
- It may be fair to conclude that the loss may not be very high as India has diversified its exports to Latin American and African countries.
- **Balance of Payment-** However, even if there is a \$1-2 billion impact as a result of the withdrawal of GSP scheme, the eventual impact on the country's balance of payments will be greater.

Conclusion

Overall, termination of India's benefits under the generalized system of preferences presages a bumpy road ahead in bilateral trade relations between India and the US. It is essential that the situation does not spiral out of control for which dialogue at diplomatic level needs to be continued.

PDF Reference URL: <https://www.drishtias.com/mains-practice-question/question-173/pnt>

