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# The Generalized System of Preferences (GSP): A Primer

## What is GSP?

GSP is a "unilateral trade preference program," a special program maintained by the United States to promote development, through trade, of selected developing countries ("beneficiary countries'). Using GSP, U.S. companies can import products from these countries free of U.S. tariffs ("duty-free treatment"). Because imports from these countries do not bear import duty costs, but imports from non-beneficiary countries must pay the duties, there is an incentive for U.S. businesses to buy from the GSP-eligible countries rather than non-GSP-eligible countries, other things being equal.

## What countries are eligible?

Two types of countries are eligible for GSP benefits: "developing countries" and specifically listed "least-developed countries." The latter receive an enhanced level of benefits.

Country eligibility is determined by several factors. First, only developing countries with a low per capita GDP (less than $11,906 in 2008) are eligible. In addition, countries must protect worker rights and intellectual property rights, prohibit the worst forms of child labor, aid the United States in the war on terrorism, and provide reciprocal access to U.S. exports, among other conditions.

It is noteworthy that certain developing countries are precluded from ever qualifying for GSP benefits, most notably communist countries (hence, China does not receive benefits).

## What imported products benefit the most?

GSP benefits are available for over 4,600 U.S. tariff line items (products). Types of products that are exported the most using GSP include oil, jewelry, electrical equipment and parts, transportation equipment parts, and wood and wood products. Excluded from eligibility are import-sensitive products, like certain steel products. So GSP is used by American manufacturers and homebuilders to source more cost-competitive raw materials or machinery and equipment for U.S. production, as well as by retailers and others who use or sell finished products directly to consumers.

**What about countries that don't seem to need GSP anymore?**

The law establishing GSP provides the Administration with the authority to "graduate" countries or products from GSP benefits when they are no longer needed. Such "graduation" is automatic when a country reaches the per-capita income cut-off, or when a total value of a product it exports to the United States reaches specific thresholds. In addition, the Administration already has authority to "graduate" a country for any other reason, even if its per capita income remains low. For example, the Administration removed Malaysia from the program in 1996 because it deemed Malaysia to be a sufficiently competitive supplier of goods to the U.S. market even thought it had yet to reach the per-capita income cut off.

**Who runs GSP?**

GSP is administered by an inter-agency committee chaired by the Office of the U.S. Trade Representative. Most of the day-to-day work running the program is performed by USTR, which has a staff member specifically assigned to the job.

**How long has GSP been around?**

Quite a long time, since 1974.

**Who cares about GSP?**

Obviously, all of the beneficiary countries that use it to expand sales – and related domestic production and employment – to the U.S. market.

Less commonly realized, but no less significant, are U.S. companies, workers, and consumers. While on average for all products U.S. tariffs are relatively low (4.6 percent), for individual products duties can be quite high: porcelain and china (up to 26 percent), railway cars (14 percent), building materials (up to 13.5 percent), and machine tool parts (8 percent). So GSP matters for U.S. companies who need to import these products.

GSP also enjoys support from U.S. labor organizations (because of its much-touted worker rights conditions). U.S. companies who care about intellectual property rights protections have also used the program to win improvements in IPR practices of beneficiary developing countries.

**Why is it an issue for Congress this year?**

GSP expires December 31, 2010. Congress must past legislation to renew GSP before it adjourns for the year.