The Bottom Line

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GENERALIZED SYSTEM OF PREFERENCES (GSP) BENEFITS TERMINATED FOR TURKEY AND INDIA

Summary

Effective May 17, 2019 and June 5, 2019, the designation of Turkey and India, respectively, as a beneficiary country for the Generalized System of Preferences (GSP) was terminated. This move by the Trump administration removes duty-free status for thousands of products, including auto parts and textiles, imported to the United States from these countries.

Background

The Generalized System of Preferences, established by the Trade Act of 1974, is the largest and oldest U.S. trade preference program. It's designed to promote economic development by allowing duty-free entry for thousands of products from designated beneficiary countries. The GSP promotes sustainable development by helping countries increase and diversify their trade with the United States. GSP also boosts American competitiveness by reducing the cost of imported parts and products. While the GSP was initially established as non-reciprocal and nonconditional in nature, except for four eligibility requirements for the beneficiary status, the U.S. Trade and Tariff Act of 1984 introduced certain revisions altering the spirit of the GSP scheme. A beneficiary country must meet 15 discretionary and mandatory eligibility criteria established by Congress to qualify for GSP. These include providing the U.S. with equitable and reasonable market access, combating child labor, respecting internationally-recognized worker rights, and providing adequate and effective intellectual property rights protection. The changes added tougher reciprocal conditions which required the beneficiaries to reform certain domestic economic policies. In particular, the conditions relating to the protection of intellectual property rights and reduction of trade-distorting investment practices became controversial, leading to the withdrawal of GSP status of several countries by the U.S. government.

Current Status

India was the largest beneficiary of the program in 2017 with USD 5.7 billion in shipments to the U.S.—given duty-free status—and Turkey, the fifth largest, with USD 1.7 billion, according to a Congressional Research Service report issued in January. According to the proclamation of the Trump administration, an increase in Gross National Income (GNI) per capita, declining poverty rates, and export diversification (by trading partner and sector), are evidence of Turkey's higher level of economic development and justification for Turkey's removal from the program. In a statement in March, the U.S. Trade Representative (USTR) said that India failed to provide the U.S. with assurances that is will provide equitable and reasonable access to its markets in numerous sectors. The leading GSP import categories were vehicles and vehicle parts, precious stones, pharmaceuticals, jewelry and precious metals, and stone articles.

Impact

The decision by the Trump administration has put bilateral negotiations between Turkey and the Untied States on hold. The goal of the negotiations had been an overall increase in trade volume from $21 billion to $75 billion. Turkey has called the U.S. move "contradictory." India has said that the decision will not have a significant impact on their exports to America. The price will be paid by U.S. importers who buy from Turkey and India. Duties now being collected on products previously duty-free means an additional $337 million paid by U.S. importers.