Updated January 16, 2025

Generalized System of Preferences (GSP): FAQ

What is the Generalized System of Preferences (GSP)? GSP is a trade preference program that provided nonreciprocal, duty-free treatment for certain U.S. imports from eligible developing countries. GSP expired on December 31, 2020. The 119th Congress may deliberate whether or not to reauthorize the program. At the time of its expiration in 2020, it was the largest such U.S. trade program. There are also regional preference programs, such as the African Growth and Opportunity Act (AGOA).

What is GSP's purpose? Congress created GSP in the 1970s to spur economic development in developing countries through trade. The program began when the United States and other developed countries in the United Nations sought ways to enable developing countries to diversify their economies and grow through trade. Developed countries created their own programs based on a common set of principles. Other countries that implement similar programs include Australia, Canada, the EU, Iceland, Japan, New Zealand, Norway, the Russian Federation, South Korea, Switzerland, and Turkey.

When did the U.S. program begin? GSP was first authorized in Title V of the Trade Act of 1974 (19 U.S.C. §§2461-2467), and went into force on January 2, 1975.

Is GSP permanent? GSP was first authorized for 10 years, until 1985. Since then, it has been reauthorized 14 times, with authorizations generally lasting 2 to 3 years. Congress last extended the program until December 31, 2020, in Division M, Title V of the Consolidated Appropriations Act, 2018 (P.L. 115-141).

Has the GSP program ever expired before being reauthorized? The GSP program has expired prior to its reauthorization in 10 of the 14 times it was extended. In the past, Congress extended the program retroactively from the original expiration date so that importers were refunded (without interest) for the duties paid during the authorization lapse.

Who administered the U.S. program? The President has held primary authority for GSP. The Trade Policy Staff Committee (TPSC), an interagency committee chaired by the U.S. Trade Representative (USTR), administered the program, mainly by conducting annual product and country reviews and providing recommendations to the President. The U.S. International Trade Commission (ITC) reported to the President on the possible effects of proposed changes to GSP on the U.S. economy. U.S. Customs and Border Protection (CBP) enforced GSP at the border.

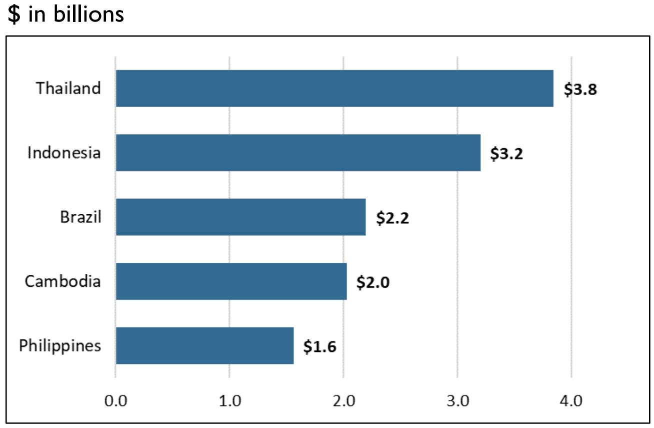
Were all developing countries automatically included in the GSP program? Beneficiary developing countries (BDCs) were selected by the President on the basis of certain mandatory eligibility criteria (see 19 U.S.C. §2462). For example, eligible countries must not have nationalized or expropriated the property of U.S. citizens, infringed on U.S. citizens' intellectual property rights, or repudiated or nullified existing contracts with U.S. citizens. Countries must also have taken steps to grant internationally accepted worker rights, and implemented commitments to eliminate the worst forms of child labor, among other things.

The President also could consider certain discretionary criteria, including the country's level of economic development, whether it was committed to providing reasonable and equitable market access for foreign goods and investment, and the level at which the country was providing protection of intellectual property rights.

Could a country's GSP status change? The President could terminate, suspend, or limit GSP status at any time, based on the eligibility criteria, provided that Congress was notified 60 days prior to the action. BDCs were also mandatorily "graduated" from the GSP if the President determined that they were a "high income country," as defined by official World Bank statistics (i.e., gross national income per capita of greater than $14,005 in 2024-2025). The President could also graduate a BDC based on its level of economic development (i.e., income per capita, living standards of inhabitants, or other economic factors the President deems appropriate).

The President terminated GSP eligibility for India for failure to provide equitable and reasonable market access, effective June 5, 2019, and Turkey based on its level of economic development, effective May 17, 2019. As a result of the 2020 annual review, the President partially suspended Thailand's GSP benefits for failure to provide equitable and reasonable market access.

Figure 1. Top 5 GSP Beneficiaries, 2020
$ in billions



Source: ITC Dataweb.

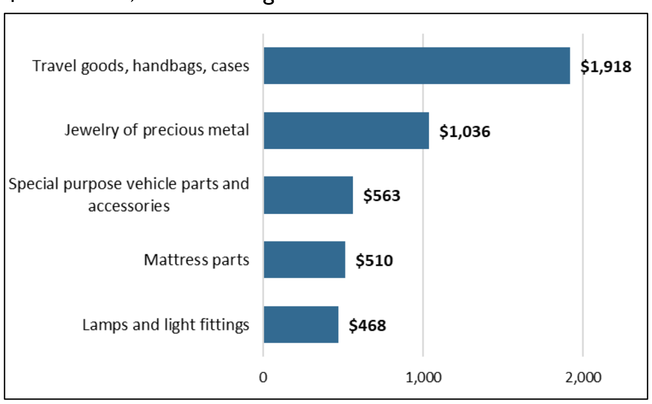
How many countries are GSP beneficiaries? At the date of expiration in December 2020, there were 119 developing countries, including 17 non-independent territories and 44 least-developed beneficiary developing countries (LDBDCs). In 2020, the top five BDCs in terms of U.S. imports entering under GSP were Thailand, Indonesia, Brazil, Cambodia, and the Philippines (**Figure 1**). The list of eligible BDCs is recorded in the Harmonized Tariff Schedule of the United States (HTSUS) under General Note 4 in the HTSUS "General Notes" section, available on the ITC website (http://hts.usitc.gov/current).

What products were eligible for GSP duty-free status? When authorized, the program covered more than 3,500 products ranging from agricultural goods, jewelry, and travel goods. LDBDCs received duty-free treatment for an additional 1,500 products. Certain products were considered "import-sensitive" and specifically prohibited from GSP treatment (19 U.S.C. §2463). These include most textile and apparel goods, watches, and some electronic, steel, and glass products. The President was sometimes authorized by Congress, in consultation with the ITC, to designate new articles as eligible for the program. In 2015, the President declared certain luggage and travel articles eligible for GSP, as previously approved by Congress in Section 204 of the Trade Preferences Extension Act of 2015 (P.L. 114-27).

What are the product restrictions? To be imported under GSP, a product had to be imported directly from a BDC that was eligible for GSP treatment for that product. At least 35% of the value of an eligible product had to be produced in a BDC, or in two or more countries that are part of a GSP-recognized association of countries.

Figure 2. Top 5 GSP Import Categories, 2020

$ in millions, HTSUS 4-digit level



Source: ITC Dataweb.

What kinds of products were GSP-eligible? Products eligible to be imported under GSP must have been found to be not "import-sensitive." Before new products were added, there was a public comment period, hearings, and ITC reporting on the possible economic effects of the product's inclusion in GSP. In 2020, the top five categories of GSP imports were travel goods, handbags, and other cases of various materials; jewelry of precious metals; special purpose vehicle parts and accessories; mattress parts; and lamps and light fittings (**Figure 2**). Total GSP imports were valued around $16 billion in 2020.

Were there restrictions on the duty-free treatment of a GSP-eligible product? Duty-free treatment of a single GSP-eligible product from an individual BDC was limited to a certain value amount, referred to as competitive need limits (CNL). If the CNL was exceeded, the BDC lost its GSP eligibility for that product, unless the President granted a waiver. Interested parties could petition for waivers if products met certain specific criteria. There were no value limitations on GSP imports from LDBDCs or AGOA beneficiaries that were also eligible for GSP benefits.

Issues for Congress

GSP expired on December 31, 2020. Several bills were introduced in the 118th Congress to reauthorize and amend the program (e.g., H.R. 4276 and S. 4915). The 119th Congress may examine the following issues if or when it considers whether or not to reauthorize the program.

GSP and Special Tariff Actions. GSP-eligible products subject to duties or quotas under Section 232 of the Trade Act Expansion Act of 1962 on steel and aluminum may not claim duty-free treatment under GSP. Developing countries are largely exempt from the tariff rate quotas imposed under Section 201 of the Trade Act of 1974 on solar panels and modules, provided that U.S. imports from an individual country do not exceed 3% by value, or if total imports of the product from all developing countries do not exceed 9%. The tariffs assessed under Section 301 of the Trade Act of 1974 apply only to products from China, which is not a GSP beneficiary.

GSP, Duties, and Supply Chains. U.S. importers have been paying duties on GSP-eligible goods since the program expired. Some companies claimed they have begun importing from China due to the uncertainty of the program's status. Historically, Congress retroactively reauthorized the program back to the date of expiration, and CBP would process refunds of duties paid during the authorization lapse. Proponents of GSP have estimated that U.S. importers have paid over $3 billion in duties from 2021 to 2023. The number may be higher if U.S. importers did not claim GSP preferential treatment on their import documents. Some Members of Congress have expressed support for the reauthorization of GSP to encourage supply chain diversification from China. Others have raised concerns over the amount of duties that would be refunded if Congress were to reauthorize the program retroactively to January 2021.

GSP Reauthorization and Reform. One of the debates surrounding GSP reauthorization has been whether to add new eligibility criteria to the program. Some of the proposed eligibility criteria include provisions on human rights, digital trade, environmental laws, and good governance. Some have argued that new proposed eligibility criteria are needed to address contemporary issues. Others have raised concerns that adding new criteria could make the costs of complying with the program outweigh the benefits and that this in turn could discourage some BDC participation. Others have also argued that new criteria could undermine a core objective of the program, which is to promote economic development through trade. See CRS Report RL33663, *Generalized System of Preferences (GSP): Overview and Issues for Congress*.

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