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### Abstract

## Generalized System of Preferences and Graduation: Is There a Parallel with Infant Industries?

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The generalized system of preferences (GSP) is an accepted part of trade and development policy. Their rational and expected outcome are strikingly similar to those associated with the promotion of infant industries through the imposition of tariffs. One common thread in both GSP and infant industry arguments is that the benefits offered should only be temporary – until the affected industries become internationally competitive. For GSPs the temporary nature of the protection is institutionalized in the idea of graduation. In the case of infant industries, it is observed that they *never grow up* – they do not become internationally competitive – and they often can successfully lobby to retain their protection. This is not the case with GSP graduation, but there is no reason to be optimistic that firms receiving GSP benefits will have become internationally competitive. Thus, they may face similar adjustment costs to those that are deemed unacceptable in the case of firms protected under the auspices of infant industry policy. This asymmetry suggests a further examination of GSP schemes, and graduation in particular, is warranted.

Keywords: graduation, GSP, infant industry, internationally competitive, tariffs

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