

Abstract: The Generalized System of Preferences (GSP), a program meant to provide less developed countries with reduced tariff access to developed markets, also provides developed countries the opportunity to deviate from their most-favored nation tariff. In this paper, we evaluate the incentives for optimal discrimination in a general equilibrium trade model with heterogeneous tariff elasticities. Theoretically, we show that the developed market can minimize losses from GSP by granting preferences when there is a lower import share from GSP-eligible markets. Further, developed markets can gain from granting GSP preferences when GSP-eligible exporters have a higher tariff elasticity. Empirically, we evaluate the incentives for GSP using data from the New Zealand GSP program, and find evidence for both channels of optimal tariff discrimination.