

GSP-Plus removal 'will raise many issues for EU in global trade debate'

An issue much discussed today is trade with the EU and the future of the GSP-Plus scheme. The Island Financial Review spoke to Dr. Saman Kelegama, Executive Director of the Institute of Policy Studies of Sri Lanka, on a number of issues relating to the EU trade policy and Sri Lanka.

Q: How important is EU as a trading partner for Sri Lanka ?

A: EU is the largest export market and the second largest import source for Sri Lanka. In 2008, 37.4 % of Sri Lankan exports went to EU (compared to 22.7 % of exports to USA, which ranked second) and 12.4 % of Sri Lankan imports came from EU (compared to 24.5 % of imports from India, which ranked first). Textiles and garments accounted for bulk of Sri Lankan exports to EU – around 50 % and machinery accounted for bulk of the imports from EU – around 29%. In an overall sense, EU is a very important trading partner for Sri Lanka but for EU, Sri Lanka is not an important trading partner.

Q: Has GSP-Plus scheme increased Sri Lanka's exports to EU?

A: Yes. Since the major beneficiary of the GSP-plus scheme is ready-made garments (RMG), let me take it as an example to show how the GSP-plus scheme has contributed to increase exports from Sri Lanka to the EU market. RMG exports to EU increased its share from 36.2 % in 2005 to 39.6% in 2006, to 45.3% in 2007, and to 48.8% in 2008, while the RMG share in the US market fell from 59.4% in 2005, to 55.9% in 2006, to 49.9% in 2007, and to 45.2% in 2008. This clearly shows that the RMG exports have benefitted from the duty free access to the EU market and now has become excessively dependent on that market for its survival.

Q: Why is removal of GSP-plus an issue ?

A: GSP allows duty free entry for the EU for about 7,200 products from the recipient country. There are 15 GSP-plus beneficiary countries: 11 Latin American countries, Moldova, Georgia, Mongolia and Sri Lanka.

Now assume that GSP-Plus is removed, then the Sri Lankan RMG exporter will face an average tariff of 5.9% and at the higher band 9.6%. Sri Lanka will be subject to this tariff while competing with 14 other GSP-plus recipients who will still have duty free entry to the EU market (there are no indications that EU will not renew their GSP-Plus status for these countries), 44 LDCs who qualify for duty free access to EU under EBA (Everything-But-Arms), member countries of the APC (Lome countries) who have special tariff concessions to the EU market, and India (most probably Indian ready-made garments will be subject to very low duty in the EU under the proposed FTA between EU and India which is supposed to come into operation this year).

The only redeeming feature is that unlike many US buyers, the EU buyers give more importance to the reliability of supply and the personal rapport with the seller without solely depending on the price. So, some buyers in EU will still continue with the well established Sri Lankan suppliers irrespective of the price but not all buyers will do that, and it is here that we will lose our market share in the EU to other developing countries like India.

Q: What are the conditions governing the GSP-Plus ?

A: The GSP-plus scheme is governed by conditions on the economic and political fronts. The economic conditions are the basics in any preferential scheme such as fulfilling rules of origin, but the key political conditions are more complex and centred around the so-called democracy building. I will focus on the political conditionalities.

To qualify for GSP-plus and to ensure its continuation, recipient countries must demonstrate, to the satisfaction of the EU, that they have ratified and implemented 27 international conventions on core human rights, labour rights, and conventions on environment and good governance principles. Key international human rights conventions listed under the relevant EU law are the International Convention on Civil and Political Rights (ICCPR), the Convention against Torture (CAT), and the Convention on Rights of the Child (CRC).

GSP came into operation in 2005 and comes into renewal after 3 years. A recipient country's continued beneficiary status under the GSP plus scheme depends on the ratification and effective implementation of 16 core conventions on human and labour rights as well as the ratification and implementation of 11 conventions on good governance and the environment.

Q: What are the major concerns you have on the EU conditionalities ?

A: There is no consistency in the application of these conditionalities by the EU. For example, the "essential element" clauses are not in the EU agreements with China and ASEAN countries. In other words, these countries have refused to have political conditionality clauses included in their agreements with EU. EU approach on political conditionality is driven by a host of geo-political, economic, and security interests. Let me elaborate on this: if it is a State of marginal interest to EU they will be subject to strict political conditionality in order to show the world that the EU is doing something about, say human rights. Where commercial interests are important or if the state is strategically important, political conditionalities are almost overlooked and non-fulfillment of conditionalities is confined to verbal denunciation.

The 'carrot and stick' approach is practised on an ad hoc basis and not pursued with any coherence or vigour. For instance, war on terror was cited as the key reason why democratic promotion was not prioritized in Central Asia, despite the poor political record in the region. On the other hand, another yardstick was used on war on terror in Sri Lanka as clearly seen by the recent EU statements. There had been a highly discriminatory scrutiny of "values" and "benchmarks" in relation to Sri Lanka when compared with other beneficiary countries of EU.

Q: Is the consistency of application of political conditions the only concern ?

A: No, there is a rigid dogma towards non-strategic states. Let me elaborate. Europe developed its legal system and institutions over centuries and not overnight. They have come to this stage of development after going through a turbulent period of revolutions, wars, etc. EU's strength is "rule of law" and obviously they take enormous pride over it, and this is understandable. But in their strategy of Europeanization beyond Europe, there is this strong dogma of "our values and our ways of doing things fit all" and this doctrine is applied for non-strategic States regardless of considering the benefits and feasibility.

To assume that developing countries can implement the EU framework of democracy and good governance in a short period is unrealistic. There are political costs associated with these conditionalities and they can outweigh the economic benefits associated with better market access to EU through preferential trade schemes.

EU approach has not changed with the times. On the other hand, the Bretton Woods Institutions (the World Bank and the IMF) have changed with the times. About a decade ago, the Bretton Woods institutions followed somewhat of a "one size fits all" policy and their conditionalities were not at all friendly towards developing countries with democratic forms of government. Fulfilling these conditionalities not only led to riots, they also led to strikes, work stoppages, and regime changes. It was Nobel Laureates like Joseph Stiglitz who highlighted the political costs of "one size fits all" Washington Consensus policies, and UNCTAD that highlighted the need for "policy space" for developing countries, that compelled these two institutions to change their stance and become more flexible.

This flexibility is seen across the board when it comes to the applicability of conditionalities by these two institutions. But this is not the case with EU. Flexibility is applied on a political/strategic basis and this is pathetic to say the least.

Second, conventions pertaining to democracy, human rights, child labour, etc., have their own monitoring and compliance ensuring mechanisms through specialized institutions and agencies. International agencies such as UNHCR, ILO, UNICEF etc., have been set up with the specific mandate of monitoring the implementation of the conventions and charters that countries have subscribed to. Therefore, there is no necessity for the EU to set up a parallel mechanism to monitor compliance with these conventions, and the inclusion of these conditionalities under the EU's trade policy. Too many watchdogs can spoil the situation and defeat the exercise. This is not to say that the EU should abandon its policy of promoting human rights and democracy but it should explore non-trade routes to achieve these objectives.

Q: Will EU be undermining its objectives in the economic area by removing the GSP-Plus ?

A: Yes, EU will be completely undermining its own goals by engaging in GSP-Plus removal. The three core objectives of GSP-Plus are: poverty reduction, promoting sustainable development, and promoting good governance. I have already dealt with good governance and it is outside the core economic area. The first two objectives are the key items in the core economic area.

Let us focus first on poverty reduction, and look at the ready-made garment (RMG) industry – a key beneficiary of the GSP-Plus scheme.

The removal of GSP-plus scheme is certainly going to lead to some industrial closure with employment losses. There are about 250,000 workers in the RMG industry and about one million livelihoods are dependent on the industry, and this is the very area you are hitting by the removal of GSP-plus. Are you then contributing to poverty alleviation? On the contrary, you are contributing to poverty enhancement!

The EU then talks of promoting sustainable development. EU provides the GSP-Plus and makes us excessively dependent on the EU market and now says the facility has to be withdrawn due to not fulfilling conditionalities. How can Sri Lanka sustain its RMG exports in the EU market under such circumstances?

Moreover, the Sri Lankan RMG industry took several measures over the last decade to promote sustainable development; (a) 'garment without guilt' initiative where about 130 industries voluntarily submitted themselves for independent audit of working conditions, and (b) green initiative where concerted effort was taken to reduce carbon footprints. In fact, with the assistance of Marks and Spencer, Sri Lanka was one of the first developing countries to establish an eco-friendly factory. All these initiatives will be slowed down by the GSP-plus removal. Why? because you are cutting into the industrialists margin (9.6% tariff payment without GSP-plus) and restrict them from investing more on sustainable development measures.

In short, by trying to teach a lesson to the Sri Lankan government, the EU will be punishing the Sri Lankan dynamic entrepreneurs and poor workers thus undermining the very objective of promoting sustainable development and poverty reduction of the GSP-plus scheme.

Q: If by withdrawing GSP-Plus EU is undermining its own objectives, does it mean that it is undermining democracy building also ?

A: Yes, recent research on the impact and effectiveness of the EU's economic policy of promoting democracy and human rights in non-EU third countries, point to low impact and low effectiveness. This is valid irrespective of geographical regions or the particular strategy or instrument used. The EU's inconsistency in application of rewards for democratization has further confused the position as some of the biggest increases in recent EU aid and support have gone to authoritarian or partly autocratic regimes.

Democracy building efforts within third countries are in any case not so effective when imposed from outside forces, as the countries would respond better to internal efforts and actions by its own government and institutions, that is why "ownership of policies" is important. Therefore, the "carrot and stick" approach adopted by the EU of linking trade concessions as a tool for promoting democracy and human rights clearly needs to be re-visited in the absence of any evidence that these have generated momentum towards greater democratization.

Q: What should the government do about the renewal of GSP-plus ?

A: There is a lot of politics in the process, and extensive lobbying by certain groups is taking place to prevent Sri Lanka getting a renewal. The government and the industrialists are well aware of this. Meanwhile, so-called EU-led "investigations" that have ramifications on sovereignty cannot be accommodated – in other words, obtaining further liberal market access cannot be at any cost.

Keeping this in mind, the government has to continue the dialogue with EU and be frank and say there are certain things that the government can do and certain things that the government cannot do in the current political environment. The government needs time to implement certain laws to minimize the political fallouts and this reality has to be argued out. We need not over-react to this situation but have to retain our confidence in the power of persuasion and the ultimate victory of reason over unreason.

Q: What have you got to say about EU trade policy ?

A: Instead of following a "carrot and stick" approach of trade policy being used as a punitive weapon, it should rather be used to positively reinforce democracy building and human rights through uplifting the economy of a country and thereby the living standards of its people, which in turn will strengthen the country's democratic processes.

This calls for a flexible policy on the part of the EU that takes into account the situation in each individual country, rather than imposing a broad brush approach to democracy building. There is a vital need for the EU to adopt a more flexible approach that is based on incentivizing democracy building as opposed to the punitive approach currently being followed. The EU should practise constructive engagement, political dialogue and capacity building in the region, by working closely with its partners, rather than resorting to punitive

sanctions, which are neither consistently applied nor found to be at all effective in democracy building. The EU should recognize that democracy building should best come from within rather be imposed from outside, and should therefore be seen more as a supportive facilitator of democracy building and human rights, in a non-intrusive manner, allowing countries to find their own answers that are consistent with their ethos.