



What is the Export Benefit of GSP+ to Sri Lanka in Numbers

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Outline



- EU GSP arrangements
- Economic, Social & Environmental Benefits of GSP: Literature Review
- Sri Lanka's trade with EU
- Estimated benefits of GSP+: Export Sector-wise



What is GSP?

- EU's Generalised Scheme of Preferences is a system of **unilateral trade concessions** that reduces/eliminates tariffs on a range of exports from developing countries.
- GSP is used to **increase export revenue** in developing countries to **reduce poverty, promote sustainable development & good governance**.
- GSP preferential arrangements focus solely on granting tariff preferences for trade in goods.
- EU's GSP has been in place since 1971 although it has periodically been subject to reviews.

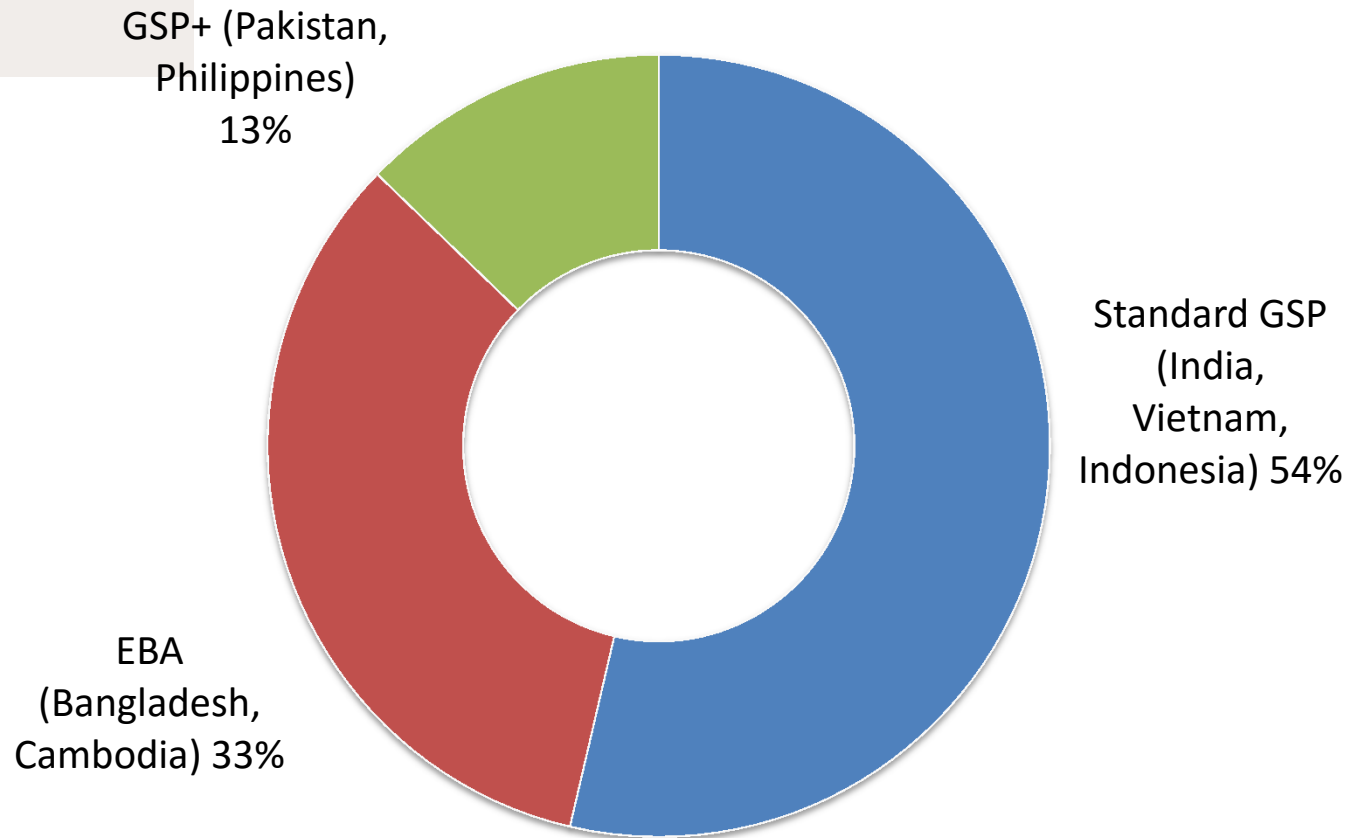


EU's GSP Arrangements

	Standard GSP	GSP+	EBA
Beneficiaries	low or lower-middle income countries	vulnerable Standard GSP beneficiaries in terms of export diversification and import volumes	LDCs
Number of beneficiaries ¹⁶	23	8	49
Non-sensitive goods	duty suspension	duty suspension	duty suspension
Sensitive goods - <i>specific duty</i> - <i>ad volorem duty</i>	duty reduction: - 30 per cent - 3.5 percentage points	duty suspension	duty suspension



Benefits of GSP : Literature



Benefits of GSP : Literature (cont.)



- EU's GSP has had overall **positive impact on beneficiary countries**; increased beneficiary countries' exports & welfare.
- However, distribution of increased exports to the EU among beneficiaries is highly **unequal**.
- EU imports under GSP from East Asia, the Pacific and South Asia are significantly greater than any other regions
- Despite low share in EU GSP imports, EBA arrangement has led to greatest increase in exports for beneficiary countries.

Benefits of GSP: Literature (cont.)

- One of the main economic indicators used to assess impact of GSP arrangement is ***preference margins***.
- A detailed look at preferential margins suggests that there are a significant number of cases where preferences are ***not utilised*** & eligible exports pay the full MFN tariff.
- GSP's utilisation rates vary significantly from country to country & arrangement types:
 - Standard GSP : 70.3 %
 - EBA : 87.1 %
 - GSP+ : 66.1%



Benefits of GSP: Literature (cont.)

- Literature suggests that EU's GSP has a positive impact on countries' export ***diversification***
- Reduction of trade barriers, more firms & producers are encouraged to export a basket of goods.



Benefits of GSP : Literature (cont.)

- Effect of preferences on **FDI** in beneficiary countries is very high; difference of FDI inflow between beneficiaries and non-beneficiaries: over 200%.
- However, large impact on FDI under GSP scheme can be due to bias of data.
- Take-away: When economic impact of GSP is analysed, one needs to take into account that preferential tariff regime is **only one factor** that can contribute to export growth



Benefits of GSP+: Literature (cont.)

- ***Social impact*** of GSP is widely linked to implementation of international conventions on labour & human rights.
- Overall lit. does not offer any consensus on impact of the EU's GSP on human rights, labour, environment & good governance.
- EU has *not always applied the GSP scheme consistently*.
- Effectiveness of GSP in the social dimension is compromised by inconsistent application of sanctioning.
- Nonetheless, there is overwhelming consensus on the potential beneficial effect on social, labour and human rights standards.
- GSP's impacts on social and human rights standards depend on specific country; thus, can't be generalized.

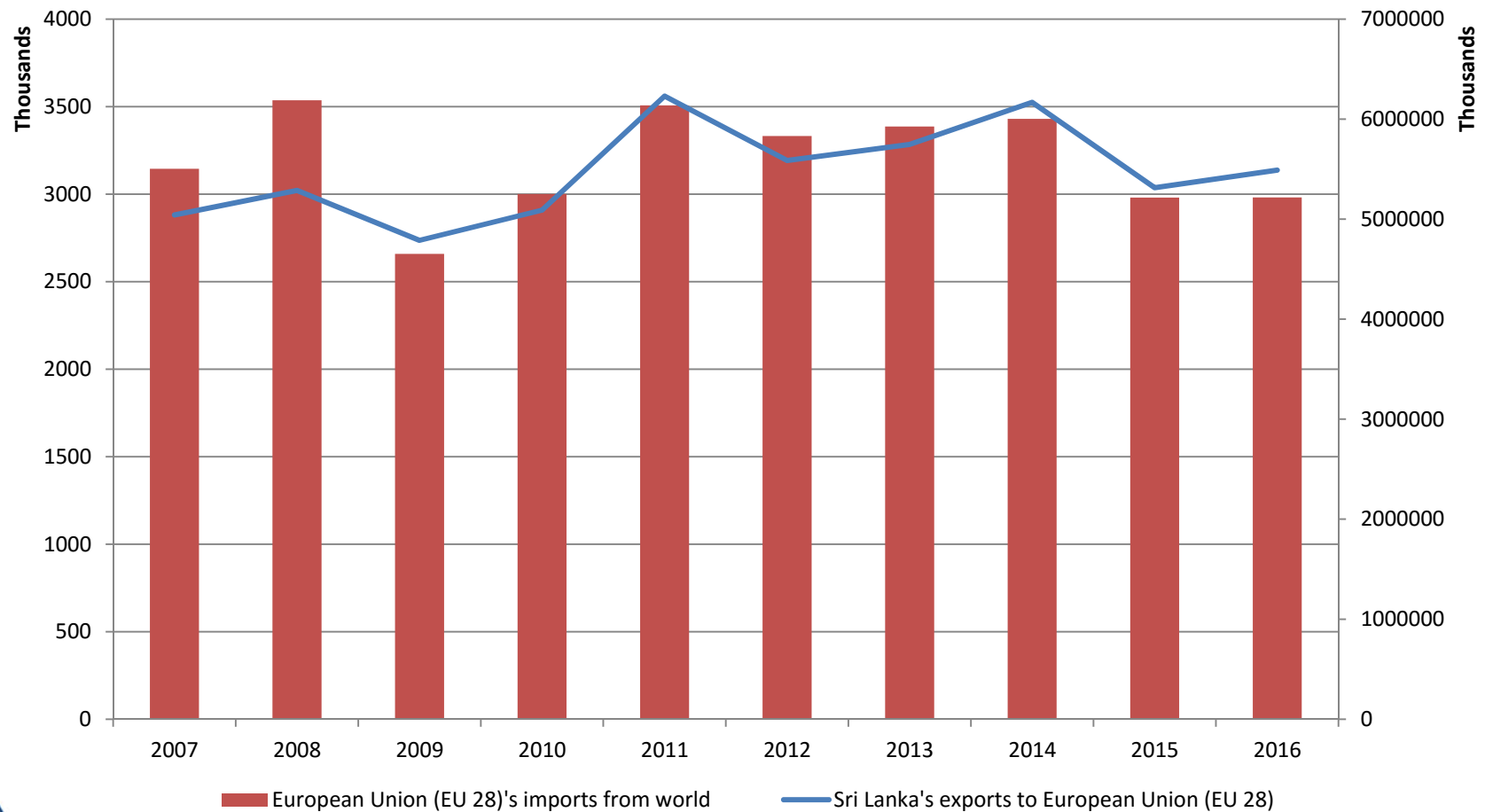


Benefits of GSP+: Literature (cont.)

- ***Environmental impact*** of GSP is widely equated to ratification and implementation of international conventions covered by GSP+ arrangement.
- Lit. shows that there are significant differences in the implementation status of the different conventions.
- While a vast majority of the countries have ratified respective environmental conventions, they have *compliance issues* due to the costs associated with implementation & yearly reporting.



Sri Lanka's Current Trade with EU



Export Benefit of GSP+ for Sri Lanka

- On 19 May 2017, EU granted Sri Lanka GSP+
- GSP+ as established by current Regulation (978/2012) is valid until 2023.
- Sri Lanka will benefit from GSP+ until 2021 when it achieves Upper Middle Income status
- Sri Lanka's overall exports to EU can increase by **US\$ 480 million** as a result of GSP Plus
- Exports will increase from current earnings of US\$ 3,275 million to US\$ 3,756 million
- Export benefit of almost **15 %**



Benefits of GSP+: Sector-wise

Table 1: Impact of GSP Plus on Sri Lanka's Exports to the EU*

	Exports before GPS+ (US\$ Mn.)	% of exports to EU	Exports after GSP+ (US\$ Mn.)	% of exports to EU	Increase in exports to EU (US\$ Mn.)	% increase in exports after GSP+
Animal & Animal Products	93.2	2.8	123.2	3.3	30.0	32.2
Vegetable Products	259.0	7.9	265.7	7.1	6.7	2.6
Foodstuffs	52.1	1.6	58.3	1.6	6.2	11.8
Mineral Products	3.8	0.1	3.8	0.1	0.0	0.0
Chemicals & Allied Industries	39.1	1.2	39.1	1.0	0.0	0.0
Plastics/Rubbers	359.2	11.0	359.7	9.6	0.5	0.1
Raw Hides, Skins, Leather & Furs	17.7	0.5	18.0	0.5	0.3	1.6
Wood and Wood Products	21.1	0.6	21.1	0.6	0.0	0.0
Textiles & Apparel	2,032.6	62.1	2,457.2	65.4	424.6	20.9
Footwear/Headgear	14.2	0.4	14.6	0.4	0.4	3.1
Stone/Glass	127.5	3.9	128.6	3.4	1.1	0.9
Metals	13.5	0.4	13.5	0.4	0.0	0.1
Machinery/Electricals	123.9	3.8	123.9	3.3	0.0	0.0
Transportation	38.9	1.2	49.8	1.3	10.9	28.1
Miscellaneous	79.4	2.4	79.8	2.1	0.3	0.4
			0.0		0.0	
Total	3,275.3	100.0	3,756.4	100.0	481.1	14.7

Source: WITS/SMART Simulation

Benefits of GSP+: product-wise

Table 2: Top 5 Products Benefiting from GSP Plus

HS Code	Description	Total Trade Effect (US\$ Mn.)	Trade Creation (US\$ Mn.)	Trade Diversion (US\$ Mn.)	Old Simple Duty Rate	New Simple Duty Rate
61	Articles of apparel and clothing accessories, knitted or crocheted	265.5	125.7	139.9	9.34	0
62	Articles of apparel and clothing accessories, not knitted or crocheted	149.7	61.6	88.1	9.1	0
3	Fish and crustaceans, molluscs and other aquatic invertebrates	30.0	18.7	11.3	6.36	0
87	Vehicles other than railway or tramway rolling stock, and parts	10.9	7.3	3.6	2.13	0
15	Animal or vegetable fats and oils and their cleavage products	4.2	3.6	0.7	2.13	0

Source: WITS/SMART Simulation





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