Bangladesh, Sri Lanka, and the Generalized Scheme of Preferences

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Introduction:

One way the developing world is attempting to help the growth of developing economies is through the practice of unilateral tariff preferences. This means that richer countries adopt non-reciprocal trade policies that benefit developing countries in order to stimulate this growth. The European Union's approach to this is a set of trade policies known as the Generalised Scheme of Preferences. To commence, this paper will explain the European Union's Generalized Scheme of Preferences (GSP) and its role in providing developing countries access to EU markets. Details of the entire program, its history, and its relevance will be provided in conjunction with information on the GSP+ and the EBA. Furthermore, information on the GSP will be applied to two country cases, Bangladesh and Sri Lanka, two beneficiaries of the program. Each country has been individually researched and will serve as two independent examples of the applied GSP program. From there, this paper will determine how exactly the GSP affects the economies of Bangladesh and Sri Lanka. The efficiency of the GSP on Bangladesh and Sri Lanka will be determined and prospects for the future will be outlined.

Part I: The Generalised Scheme of Preferences

The Generalised Scheme of Preferences is the European Union's program to provide unilateral tariff preferences to developing countries. The purpose of the program is to provide a means for developing countries to gain access to EU markets by reducing tariffs on the goods that they export. The benefits from the GSP program help to alleviate poverty in countries that participate and stimulate job growth in a way that is in line with international labor laws and human rights laws. Originally, the EU had unilateral tariff preferences for developing countries so that the extra revenue generated from their exports could then be reinvested back into their own sustainable development. This was then reformed in 2012 to be more targeted towards countries in need, specifically what the World Bank classifies as 'Least Developed Countries.'

There are two main conditions to be a beneficiary of the GSP. The first is that a country must have an income level below "upper middle" as designated by the World Bank. If a country in the program graduates above, they would also graduate from being a beneficiary. The second condition is that countries must not already be beneficiaries of other arrangements that grant them access to the EU market such as the Free Trade Agreement. The GSP is targeted towards countries that are struggling to gain access in the first place.

The GSP has three different tiers of membership that grant different benefits to different groups of countries depending on their qualifications and income levels. The first of these tiers is Standard GSP, which is an autonomous trade agreement. Within this, the EU gives certain exports preferential access to the EU market by reducing or eliminating tariffs. These reductions cover about 66% of all tariff lines and benefit 16 countries as of 2019. Before the 2012 reforms, 176 countries had access to these reductions. The second tier is an incentive agreement called GSP+. In exchange for suspending tariffs on 66% of the EU's tariff lines, countries must ratify and implement 27 different international conventions concerning labor and human rights, the environment, and good governance. This currently benefits eight countries. The final tier is the Everything But Arms (EBA) initiative, which provides duty-free and quota-free access to the EU market for all exports excluding arms and ammunitions, helping the development of 48 Less Developed Countries.

Since its implementation, the GSP has had quantifiable results on international trade and development within its beneficiaries. EU imports from beneficiary countries increased by 44% in between 2011 and 2017. Beneficiaries of the EBA experienced a 125% increase in their exports to the EU and GSP+ countries saw an 82% increase. Participating countries also saw a diversification of their exports as the reduction or suspension of tariffs helped their goods become competitive in EU markets and thus allowed them to expand their industries. The GSP also provided an economic incentive for ratifying treaties on human rights, labor, governance, and the environment and having the threat of revoked membership for countries that do not follow through on implementing these changes.

Part II: Case Study - Bangladesh

One beneficiary of the GSP program is Bangladesh in Southeast Asia. In general, Bangladesh has experienced significant economic growth over the past few decades. The country has been able to lower its poverty rate from an astounding 44.2% in 1991 to 14.8% in 2016, resembling that of more developed countries. GDP growth has been steady, with a 6.2% growth rate over the past decade. Per capita GDP has also been increasing, meaning that the standard of living for residents is growing as well. Bangladesh has experienced increases in life expectancy, literacy, and food production per capita that contribute to improvements in health and education. Female education rates and employment have been on the rise, signaling an improvement in women's empowerment as well.

One of the main challenges the Bangladeshi economy is facing is youth unemployment and the volume of work concentrated in the informal sector. In terms of development, the World Bank classifies job development as the country's top priority. Bangladesh is also struggling to improve its infrastructure and bureaucratic processes to remove barriers to higher investment in light of rapid urbanization and climate change. There is a growing need for more reliable sources of power and energy and more environmentally-friendly methods of production to continue its economic growth. Waste-dumping into water sources and harmful aquaculture practices are significant environmental problems.

Bangladesh joined the GSP in 1971 and later became a beneficiary of the EBA in 2001, which has had significant effects on the country's economic growth. Since joining, 43.3% of its exports now go to the EU as of 2016. Bangladesh's utilization rate is 93.65%, meaning that almost all of the country's exports to the EU use the tariff reductions offered through the EBA in order to be competitive. The primary exports from Bangladesh are from the textile industry, which is the largest industry in the country. Between 2011 and 2016, Bangladesh saw an increase of 80.4% in the value of its exports to the EU. Foreign Direct Investment (FDI) also increased by 167% over the course of four years between 2011 and 2015. However, despite the benefits of the EBA in contributing to the growth of the economy, much of the profits from increased exports go to factory owners rather than workers. In general, income distribution in Bangladesh has become much more unequal, with the Gini coefficient increasing from 0.458 in 2010 to 0.483 in 2016.

Part III: Case Study - Sri Lanka

Another beneficiary of the GSP program is Sri Lanka, about 2,000 kilometers to the south of Bangladesh. In 2019, the nominal GDP of the country was at $88.9 billion, making the GDP per capita about $4,030 for a total population of 21.7 million people. In addition, the economy grew at an average 5.6 percent during the period of 2010-2019. However, growth is increasing at a decreasing rate, made evident by the fact that growth is estimated to have been only about 2.6 percent in 2019. Though there is a slight downturn in the magnitude of annual economic growth, growth is still occurring. Furthermore, the main economic sectors of the country are tourism, tea export, apparel, textile, rice production and other agricultural products. In addition, Sri Lanka is attempting to transition their economy from a predominantly rural-based economy towards a more urbanized economy oriented around manufacturing and services. Lastly, extreme poverty is rare and concentrated in some geographical pockets. Sri Lanka is the second wealthiest nation per capita in South Asia (after the Maldives). However, about 9% of the population subsists on slightly more than the poverty line: vulnerable to shocks which could cause them to fall back into poverty.

On the 19th of May 2017 the EU granted Sri Lanka better access to the EU for its exports. It did so under the EU's Generalised Scheme of Preferences Plus (GSP+). Other GSP+ countries include: Cape Verde, Armenia, Kyrgyzstan, Mongolia, Pakistan, the Philippines, Bolivia and Paraguay. The difference between Standard GSP and GSP+ is that GSP+ is conditional on Sri Lanka advancing human and labor rights and working towards sustainable development. GSP+ is granted on the condition of Sri Lanka's commitment to ratify and effectively implement 27 international conventions on human rights, labor conditions, protection of the environment and good governance. These one-way trade preferences will consist of the full removal of duties on 66% of tariff lines, covering a wide array of products including textiles and fisheries.

Sri Lanka’s acceptance into the program is incredibly important to its economy, mainly because the European market serves as one of Sri Lanka’s most valuable trade destinations. The EU is Sri Lanka's second-largest trading partner after India but its main export destination, absorbing 31% of Sri Lankan exports in 2015. Specifically, textiles and clothing account for 61.9% of Sri Lanka's exports to the EU, followed by food products with 12.3% in 2016.

The benefits of Sri Lanka gaining GSP+ range from social, environmental, and economic impacts. Social impacts of GSP+ are widely linked to implementation of international conventions on labor and human rights. This includes protection against child labor, discrimination, violence, crime, genocide, and much more. In addition, environmental improvement has been recorded and includes protection of wildlife, reduction of emissions, and more. Finally, economic benefits can be seen as Sri Lanka's overall exports to the EU can increase by 480 million dollars as a result of GSP+ with an export benefit of almost 15%. The animal and animal products sector saw a 32.2% increase in exports after GSP+ while the transportation sector increased by 28.1%, the textiles and apparel sector increased by 20.9% and the foodstuff sector increased by 11.8%.

Conclusion:

It should be made clear that the GSP has an important impact on both Bangladesh and Sri Lanka. It is evident that though the program has flaws, it has generally succeeded in including these developing countries into the EU market and improving their economies. Though Bangladesh and Sri Lanka benefit from two different forms of the GSP trade agreement, they both have seen economic and social benefits. It's important to make the connection between the benefits of GSP to economic growth in both Bangladesh and Sri Lanka. Considering the foundational investment infrastructure put in place courtesy of the GSP, future investment development can continue to thrive, increasing the standards of living and employment opportunities of many. Moreover, said sustainable investment development will have long lasting implications on the people of both nations.

A fundamental component of the GSP is that it gives countries the boost needed to make their products competitive and thus diversify their exports. In the cases of Bangladesh and Sri Lanka, these countries still primarily rely on just a few main exports. As their economies grow and they move towards graduating from the GSP program, it will be important for them to also continue to grow their industries to be strong enough to maintain their competitiveness without the help of tariff reductions.

It is also important to consider how this will affect the EU. As more developing countries gain access to the EU market, they are able to export goods created with lower production costs than that of EU producers due to factors such as lower wages. This allows the foreign producers to sell their product at a more competitive price and thus be more appealing to consumers. Another effect of this is the shrinking of these industries in the EU as outsourcing cheaper labor allows them to make a larger profit. Furthermore, there are continuous concerns over whether the EU has effectively implemented proper monitoring procedures and whether countries benefiting from GSP are truly implementing international conventions.

Taking into account these concerns, the futures of Bangladesh, Sri Lanka, and the other beneficiaries of the GSP are still uncertain. Once these countries no longer qualify for the benefits of GSP, will they be able to maintain their economic growth without the program? Or will their economy recoil? Will there be social repercussions once Bangladesh and Sri Lanka no longer have to be monitored by the EU? How will these nations grow long-term, with and/or without the benefits of GSP? Will the impacts on future investment development prove to be sustainable?

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