

# EU-SRI LANKA TRADE & INVESTMENT: REGAINING GSP+

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ECCSL, EU, & SLAEA SEMINAR, 22 JANUARY 2016



# OUTLINE

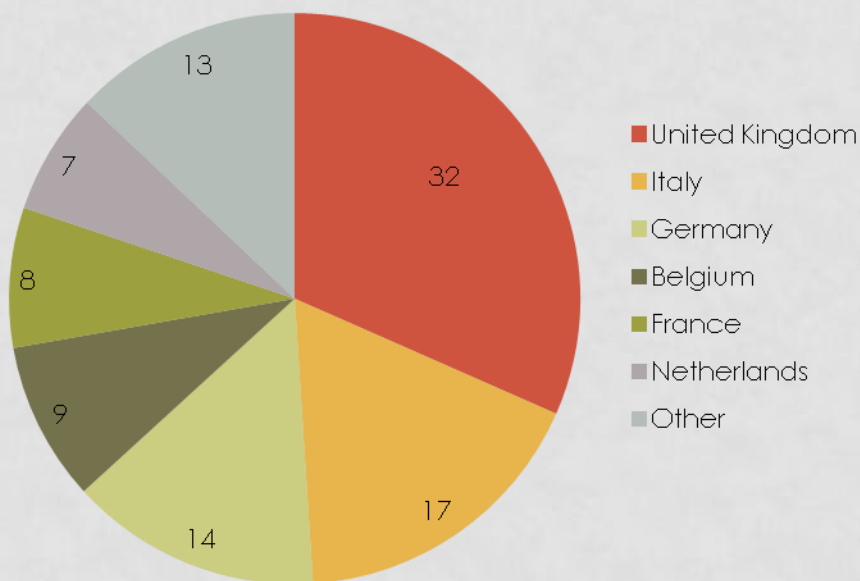
- Overall Picture on Trade and Investment with EU
- EU-Sri Lanka Trade
- GSP & GSP+ Schemes
- Impact of the GSP-Plus Scheme
- Regaining GSP+

# EU-SRI LANKA TRADE & INVESTMENT

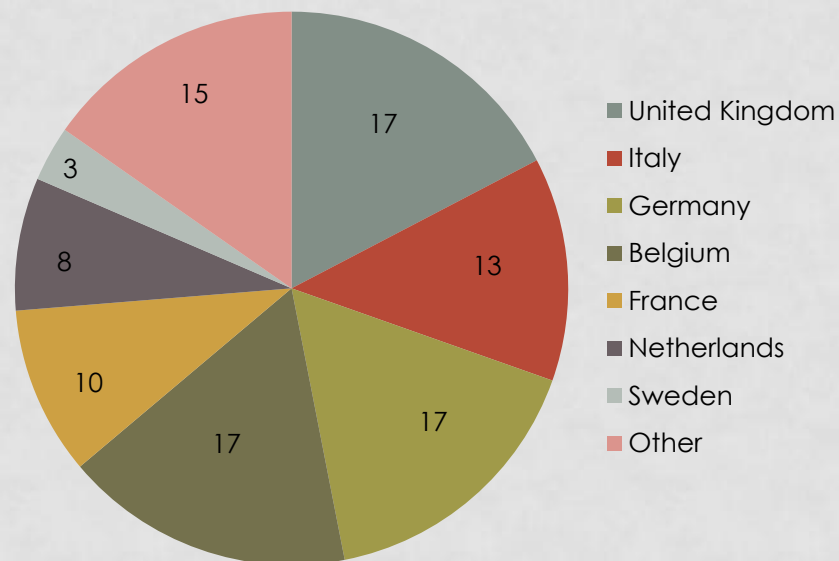
- EU is SL's **single largest** export market & **3rd** largest import source
- In 2014 the EU accounted for **31%** of exports & **12%** of imports
- Though EU is an important trading partner for SL, for the EU, SL is not important:
  - **57<sup>th</sup>** import partner (2012)
  - **75<sup>th</sup>** export partner (2012)
  - Accounts for **0.1%** of EU trade (2012)
- EU investment in SL in 2014 amounted to **US\$ 535 million**
- Accounted for **33%** of total FDI

# EU-SRI LANKA TRADE

Sri Lanka's export Markets in the EU, 2014



Sri Lanka's Import Partners of EU, 2014



Source: calculated using ITC TradeMap (Online). Available at:  
<http://www.trademap.org/Index.aspx>

# EU-SRI LANKA TRADE CONT.

**Product-wise analysis of Sri Lanka's  
Exports to EU : 2014**

Product Category	Share of Sri Lanka's Exports to EU
01-05 Animal & Animal Products	3.1
06-15 Vegetable Products	7.0
16-24 Foodstuffs	4.3
25-27 Mineral Products	0.2
28-38 Chemicals & Allied Industries	1.0
39-40 Plastics / Rubbers	9.9
41-43 Raw Hides, Skins, Leather, & Furs	0.4
44-49 Wood & Wood Products	0.7
50-63 Textiles	64.1
64-67 Footwear / Headgear	0.5
68-71 Stone / Glass	2.3
72-83 Metals	0.4
84-85 Machinery / Electrical	1.6
86-89 Transportation	1.6
90-97 Miscellaneous	2.1

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# EU-SRI LANKA TRADE CONT.

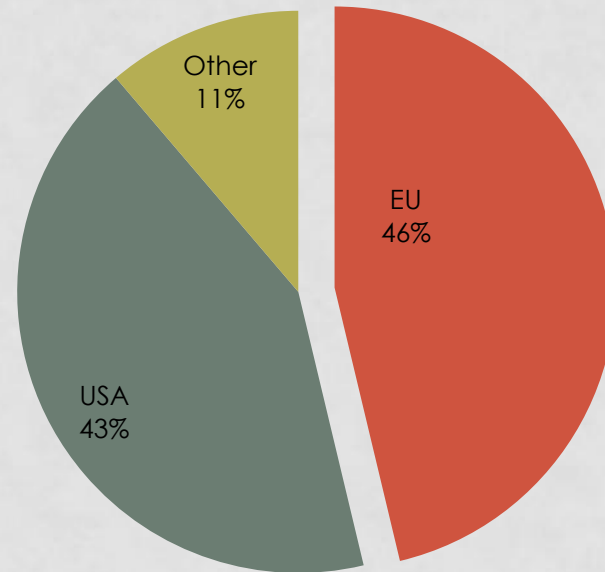
## **Garments – important product category for Sri Lanka**

- as Sri Lanka's largest export earner (43% of total export earnings)

-generated employment for over 250,000 workers till 2014

**EU is Sri Lanka's largest export earner , accounting for 46% of exports**

Country Classification of Garment Exports



# EU GSP SCHEME

- EU has multiple trading models & bilateral partnerships with different partner countries
- Main trading framework between the EU & SL is the GSP Scheme
- Provides **non-reciprocal** preferences to developing countries
- Under GSP, 3 separate preference categories:
  - **Standard GSP** scheme (1971)
  - **EBA** scheme (2001)
  - **GSP+** scheme (2005)
- SL exports have benefited significantly under the GSP scheme, particularly under GSP+

# GSP+ SCHEME

Offers additional tariff reductions over standard GSP to identified developing countries

- **7200** products for LDCs
- **6400** products for middle income countries (SL)

Eligibility based on economic & non-economic (political) factors

- Economic:
  - Economically “vulnerable” in terms of size or low diversification of exports
  - Meeting Rules of Origin (ROO) criteria
- Non-economic – implementation of **27** international conventions on human rights, labour standards, sustainable development & good governance



# GSP+ SCHEME CONT.

- 3 core objectives



- SL became eligible for preferences in July 2005 in the aftermath of the tsunami

# IMPORTANCE OF GSP+ SCHEME

SL apparel sector major beneficiary of GSP+

Significant preferences for apparel products

- **0%** tariff rate compared to **5.9%-9.6%** under standard GSP

Important implications for poverty & welfare

- Around **250,000** workers employed in apparel sector, another **1 million** livelihoods dependent on the industry
- Majority are females from rural areas

# WITHDRAWAL OF GSP+

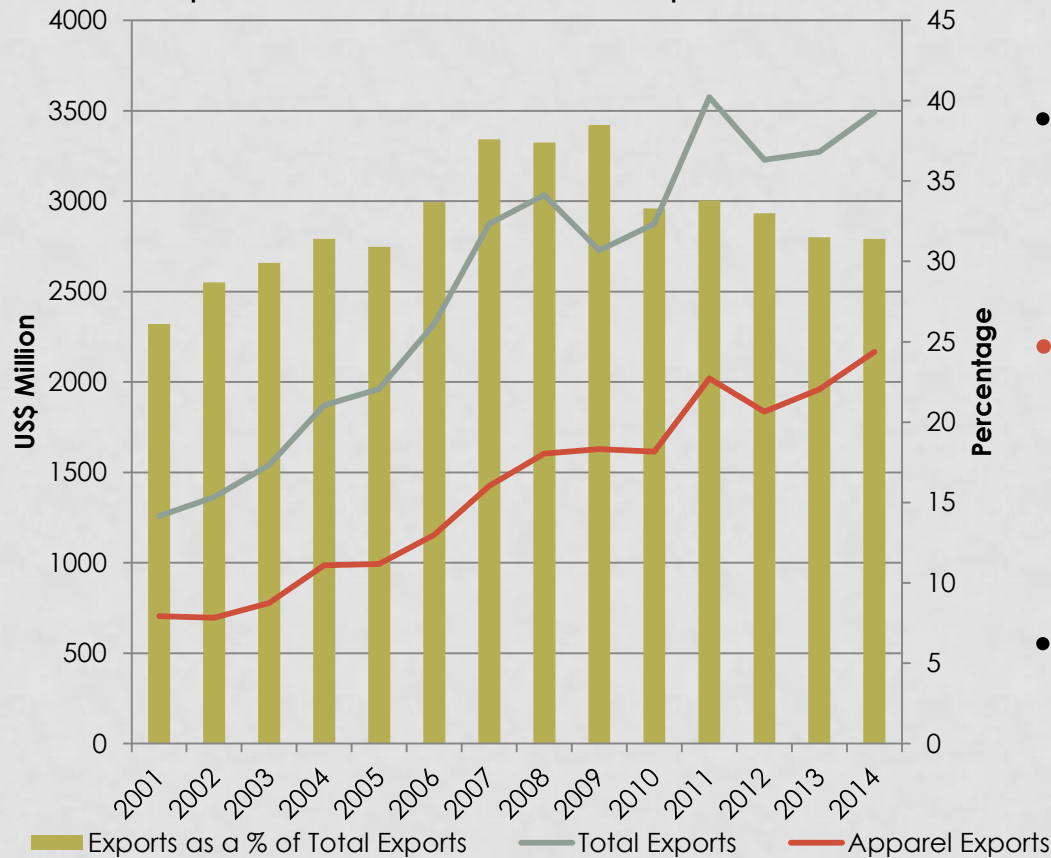
- 27 international conventions have to be ratified to qualify for GSP+ — 16 core conventions on human rights and labour and 11 conventions on good governance and environment
- Key international human rights conventions listed under the relevant EU law are: International Convention on Civil and Political Rights (ICCPR), Convention against Torture (CAT), and Convention on Rights of the Child (CRC)
- It is on these three issues that EU has raised concerns and these concerns intensified in the immediate post-war period

# WITHDRAWAL OF GSP+

- EU wanted an investigation on these matters in 2010 before the GSP-Plus renewal
- Previous government's position was that these are internal matters of Sri Lanka and such investigation will be a breach of sovereignty and the government considered the proposed investigation as intrusive to internal affairs
- Thus in 2010 August, Sri Lanka lost GSP-Plus status
- Moreover, in early 2014, Sri Lanka fisheries exports faced a ban (red flag) in the EU for other reasons

# IMPACT OF GSP+ SCHEME

Total Exports and Garment Exports to the EU



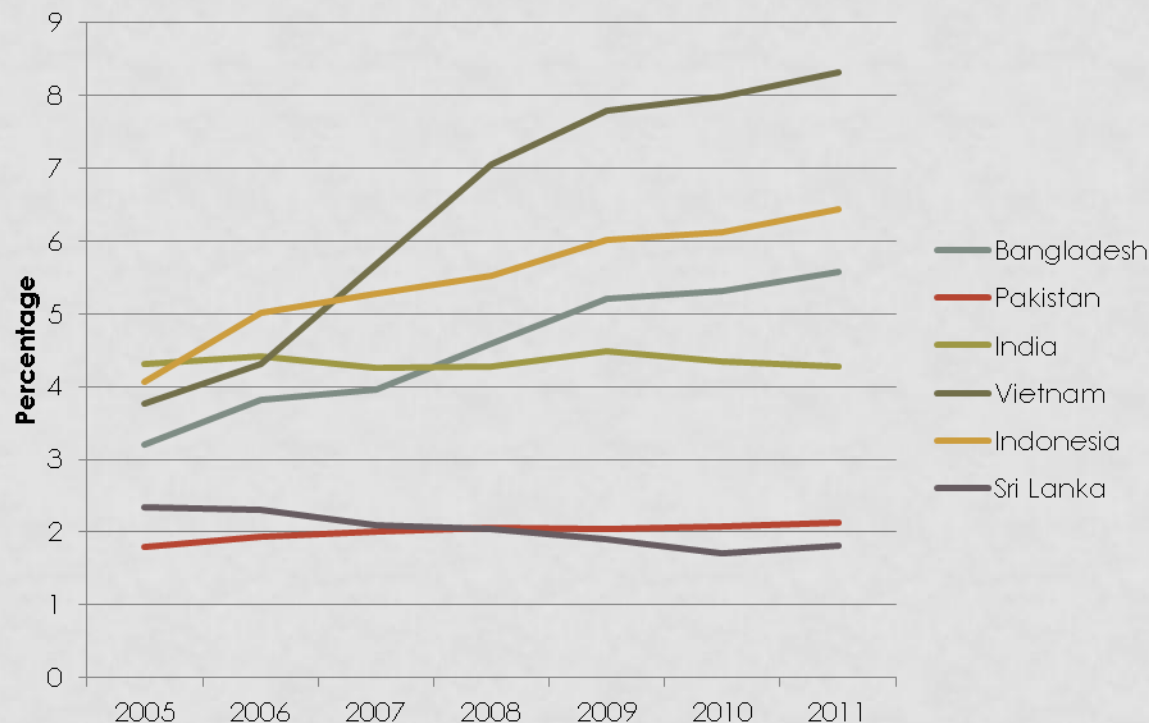
- Notable increase in exports & export share after 2005
- **16%** growth rate of apparel exports in 2006, compared to **0.8%** in 2005
- Decline in export share post 2009

Source: Central Bank of Sri Lanka

# IMPACT OF GSP+ SCHEME CONT.

- Declining share of apparel export market share compared to competitors

Export Shares in the EU Apparel Market, 2005-2011



Source: Own calculations using data from Market Access Database

# IMPACT OF GSP+ SCHEME CONT.

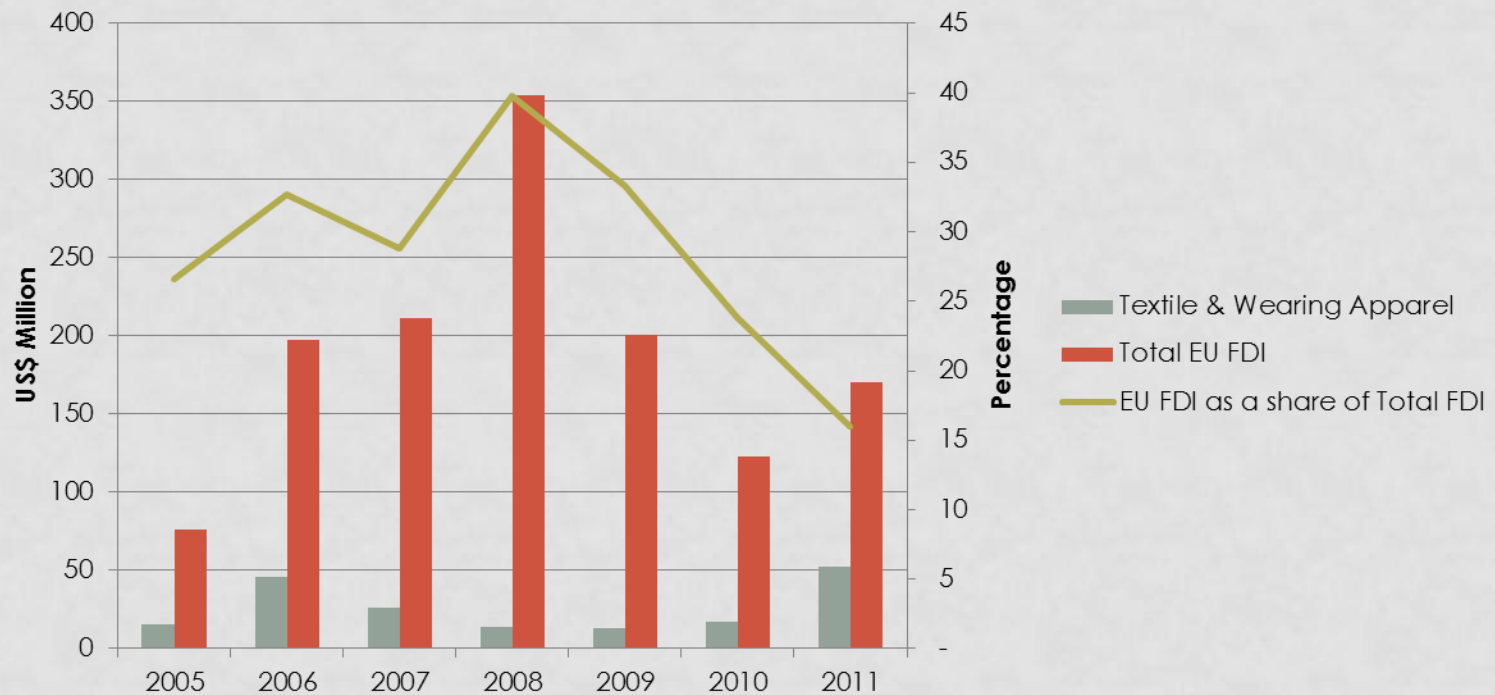
*With the loss of GSP+,*

- Decline in absolute apparel export earnings from EU:
  - A **9%** decline in annual growth in 2012 compared to 2011
  - Slowdown in annual growth; 11 % in 2014 compared to 26% in 2004
- Closure of firms & employment losses:
  - **2000** jobs of direct employment lost due to closure of 2 factories alone
- Declining competitiveness of SL exports in the SA region – other SACs still eligible for concessions:
  - Bangladesh an EBA beneficiary
  - Pakistan became eligible for GSP+ concessions in 2014
  - India negotiating an FTA with the EU (final stages)
- Competition from around 15 other GSP+ beneficiaries

# IMPACT OF GSP+ SCHEME CONT.

- No clear impact of GSP+ on FDI in apparel sector
- But EU FDI as a percentage of total FDI shows a fast declining trend

EU FDI in Sri Lanka, 2005-2011



Source: Board of Investment of Sri Lanka



# OVERALL IMPACT OF GSP+ WITHDRAWAL

- It was stated in Parliament by the former Minister of Investment Promotion that GSP+ withdrawal led to closure of 25 apparel factories, almost 10,000 job losses, and LKR 782 million losses from apparel exports (Daily FT, 24 October 2013)
- A detailed study on the adverse impact of withdrawing GSP+ is available in **The World Economy** 2015 by Bandara and Narampanawe
- Using a GTAP Model the study shows that GSP+ withdrawal had a negative impact on, real household consumption at the bottom strata of the population, and poverty indices
- Poverty reduction is one of the key goals of the GSP+ as highlighted earlier

# REGAINING GSP+

- After the regime change in Sri Lanka the new government is working on regaining GSP-Plus
- Preparation of the new Sri Lankan application is now in the final stages
- Ministry of Foreign Affairs has prepared Sri Lanka's current position on Civil and Political Rights, and an Inter-Ministerial Committee under the Chairpersonship of the Director General of Commerce is in the process of preparing Sri Lanka's position on CAT and CRC
- 85 to 90 per cent of the new application to regain GSP-plus is ready

# REGAINING GSP+

- Before the application goes to the European Commission, European Council, and European Parliament, Sri Lanka has to get the fisheries export ban in EU removed
- All indications are that this ban will be removed by April/May 2016 as Sri Lanka has now addressed the concerns raised by EU
- Sri Lanka will have to submit the GSP+ application by that time so that the path is cleared for the EU to have a fresh look

# REGAINING GSP+

## Economic factors

### ROO criteria

- Determines the value addition threshold that needs to be met in order to become eligible for concessions
- Particularly problematic for the apparel sector – large proportion of inputs **(65%)** sourced from abroad
- Affected full utilization of concessions – 40 % (IPS study by Wijayasiri, 2007) during early years
- ROO needs to go beyond South Asia regional cumulation to Asian region Super cumulation
- Cross cumulation was granted to unprocessed tobacco by EU

# WAY FORWARD

- Regaining GSP+ is more of a political process than an economic issue
- Developing countries like Sri Lanka depends heavily on better market access to large markets like EU to strengthen their export-led industrialization
- Specially at a time when EU is facing an economic downturn, EU buyers, despite having a close rapport with Sri Lankan suppliers, may opt for a cheaper supplier who benefits with duty free access to EU
- It is difficult to re-establish a lost market and Sri Lanka has already lost 5 years without GSP+
- Sri Lanka needs GSP+ soon to catalyze its export-led industrialization-based growth strategy

Thank you

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