EU-SRI LANKA TRADE & INVESTMENT: REGAINING GSP+

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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:
  - **57th** import partner (2012)
  - **75th** 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

- United Kingdom: 32%
- Italy: 15%
- Germany: 8%
- Belgium: 10%
- France: 9%
- Netherlands: 7%
- Other: 14%

Sri Lanka’s Import Partners of EU, 2014

- United Kingdom: 17%
- Italy: 17%
- Germany: 8%
- Belgium: 17%
- France: 10%
- Netherlands: 17%
- Sweden: 13%
- Other: 15%

Source: calculated using ITC TradeMap (Online). Available at: http://www.trademap.org/index.aspx
### Product-wise analysis of Sri Lanka’s Exports to EU: 2014

<table>
<thead>
<tr>
<th>Product Category</th>
<th>Share of Sri Lanka’s Exports to EU</th>
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<tbody>
<tr>
<td>01-05 Animal &amp; Animal Products</td>
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<td>7.0</td>
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<tr>
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<td>44-49 Wood &amp; Wood Products</td>
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<td>64.1</td>
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### Product-wise analysis of Sri Lanka’s Imports from EU: 2014

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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
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

Economic

- Poverty reduction
- Promoting sustainable development

Political

- Promoting good governance

- 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

- 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
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 indication 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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