Generalised Systems of Preference: Evolution and Evaluation

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I. Introduction - the origins of GSP

1. Tariff reform has proceeded on a reciprocal basis under the auspices of the GATT throughout the post-war period. Multilateral trade negotiations under the Kennedy and Tokyo Rounds of the 1960s and 1970s have led to tariff reductions, the last of which will be phased in over the period to 1987. It is however widely held that the developed countries have been the major beneficiaries of liberalisation. In contrast, special and non-reciprocal tariff treatment extended to all developing countries represents a different and to some extent conflicting path of reform.

2. The concept of preferential tariff treatment for imports from developing countries is far from new. Nations in the industrialised centre have long accorded preferences to the peripheral less developed country (ldc) suppliers with which they had some form of association (often due to colonial links). Special preferences following this pattern were given by the EEC from its inception. The beneficiaries - mainly former French colonies in Africa - had until 1975 to give tariff concessions in return. Most Commonwealth preferences were not phased out until the mid-1970s and even in the post-war period the United States continued to give special preferences to the Philippines and Cuba. In these cases the preferences were neither generalised nor non-reciprocal.

3. The system of generalised preferences as sponsored by UNCTAD, while employing some of the elements of economic theory inherent in the workings of special preferences (notably the infant industry argument for favouring ldc exports of manufacturers), marked a new departure in that preferences were to be "globalised". They were to be granted to all developing countries without discrimination. The beneficiaries were not to be required to offer reciprocal preferences in their own tariff structure. Moreover, the preferences were not to be negotiated on a quid-pro-quo basis but offered autonomously.

4. The GSP concept was all the more striking because it laid down a path of world trade reform not only divergent from the special preferences within North-South trading blocks, but also in contradiction to the main principle of the GATT. Without a waiver, this would have outlawed discrimination between groups of countries. In another sense, the intention that the rich world should act in concert to favour ldc trade, rather than in competition, was a further factor making generalised preferences a striking new proposal for world trade reform. The reality of GSP has however been less striking than the ideal concept and homogeneity in GSP schemes has yet to be achieved.

5. Schemes for privileged tariff treatment for all ldcs were proposed at the GATT ministerial meeting of May 1963; Prebisch argued the case for general tariff-cutting schemes in favour of developing countries' exports of processed goods and manufactures in his report 'Towards a New Trade Policy for Development' at the first UNCTAD conference in 1964; before the second UNCTAD conference, the OECD countries had conceded in principle the need to offer preferences,[1] and at UNCTAD II, in New Delhi, 1968, the principle of generalised tariff preferences was formally accepted by all UN members in Resolution 21 (II) entitled 'Preferential or free entry of exports of manufactures and semi-manufactures of developing countries to the developed countries'.

6. The resolution itself represented a major compromise, not surprisingly since it embodied such a fundamental departure from key GATT tenets, from US attachment to most-favoured nation (mfn) reductions in the Kennedy Round of Multilateral Trade Negotiations, and from EEC attachment to special preferences (with reciprocity) and enlargement of a free trade zone within Europe. General discrimination as between developed and developing countries was to be encouraged, but, within the GSP, discrimination between groups of developing countries would not be permitted. Its first article sets out the aims and expectations of GSP.

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1. TD/56 of 29 January 1968.

"The objectives of the generalised non-reciprocal, non-discriminatory system of preferences in favour of the developing countries, including special measures in favour of the least advanced among the developing countries, should be: (a) to increase export earnings; (b) to promote industrialisation; (c) to accelerate their rates of economic growth.

The resolution established the Special Committee on Preferences as an UNCTAD organ, and charged it with negotiating the implementation of a uniform, global GSP scheme by early 1970.

7. At this early stage, however, three main anomalies were already apparent, which have considerable bearing on the future role of the GSP in the world economic environment of the 1980s.

First, as the title of Resolution 21 (II) indicates the GSP was originally concerned only with manufactured goods plus "semi-manufactures". Processed agricultural produce, soft commodities and industrial raw materials were not specifically mentioned. This is an indication that the GSP was a child of the trade thinking of the 1960s; the anomaly, however, has its repercussions in the divergences between current GSP schemes.

Second, although the resolution forbade discriminatory treatment between ldcs, an element of differentiation between them was included in the scheme from its inception with the mention of 'special measures' for the least developed countries. This has provided a basis for the drive for increased graduation and differentiatior between ldcs in the GSP during the 1980s.

Third, once again a reflection of the 1960s debates, the resolution concentrated on tariff measures at the expense of market access. It emphasised the importance of preferences to ldcs over mfn suppliers but failed to consider the threat to them from more preferred suppliers or of quantity restrictions and other non-tariff barriers to developed country markets.

8. Between 1968 and 1970, the Special Committee on Preferences held consultations to draw up the details of the GSP system. The problem of non-discrimination was solved by the 'self-election' principle. Any developing country so declaring itself was to be entitled to GSP treatment, although donors ultimately devised their own systems of exclusion. The principle of non-reciprocity was adhered to, although the EEC - US disputes over reverse preferences in the Yaoundé Convention were used as one reason for delaying the introduction of a US GSP scheme. GSP beneficiaries were not guaranteed any fixed margins of preference over mfn suppliers, and the right to proceed with further multilateral mfn tariff cuts was reserved. Moreover, the GSP was specifically recognised as an autonomous offer on the part of the industrialised nations, not contractual, binding or even formally negotiable, which could be withdrawn, or within which donors could implement legitimate safeguard measures at any time, but which should be expected to run its course, in the first instance, of ten years. The GSP is thus now entering its renewal phase.

9. What emerged in the early 1970s was a succession of non-uniform GSP Schemes. Australia had been applying a modest system of ldc tariff preferences since 1966. The EEC-Six implemented the first major GSP scheme on 1 July 1971, followed by Japan one month later. Within the next three years, generalised preference schemes were implemented by Norway, Sweden, Denmark, Finland, Ireland, New Zealand, the United Kingdom, Switzerland, Austria, Australia and Canada. The UK, Denmark and Ireland converted to the EEC scheme on 1 January 1974, and the United States introduced its scheme on 1 January 1976.

10. The GSP now consists of 16 separate schemes involving virtually all the OECD countries[1] and five socialist countries of Eastern Europe. In this paper we concentrate on the three main schemes: those of the EEC, the USA and Japan which together account for about 90 per cent of preferential trade. They each represent autonomous GSP schemes offering at best controlled preferential trade access to developing countries.

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1. Except Spain, Portugal, Turkey and Iceland.

II. The Main Provisions of GSP schemes

11. In this section we describe the distinguishing features of the three main schemes, summarised in Table 2.1. Annual revisions, the recently implemented ten-year renewal of the EEC and Japanese schemes, and a fifth-year Presidential Review of the US scheme have introduced several modifications. The most important changes have been in the area of safeguards against competitive ldc suppliers by the increasing use of mechanisms to apply differential treatment to GSP beneficiaries. As a result, differentiation has now become institutionalised within the GSP despite its founding principles of non-discrimination and generalised access for all ldcs.

12. Country coverage. Nearly all the Group of 77 developing countries are beneficiaries under the main schemes, but the USA excludes some ldcs on explicitly political grounds. Thus Kampuchea, Laos, Cuba and Vietnam are not covered in the US scheme and Afghanistan was withdrawn in 1980. All OPEC members were until recently excluded from the US GSP, though since 1980 Venezuela, Indonesia and Ecuador have been granted preferences after concluding bilateral trade agreements under the MTN. The USA and Japan include Taiwan, while the EEC grants GSP to P.R. China for a restricted range of items. Japan also added P.R. China to its GSP in 1980. All donors also offer GSP to a wide range of dependent territories. A breakdown of countries excluded from GSP schemes is shown in Table 2.2.

13. Product coverage. As a rough indication of coverage, the share of mfn dutiable products covered by GSP, by number of product lines is 87% for the EEC scheme, 86% for Japan and 61% for the USA. By value of GSP covered imports, the total GSP share of mfn dutiable trade falls to 61% (EEC), 12% (Japan) and 31% (USA).[1] These are very imperfect indicators of GSP product coverage, however, and the matter is taken up again in the evaluation sec-

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1. TD/13/C.5/63.

TABLE 2.1 Principal features of GSP Schemes

Country	Product coverage	Main product exclusions	Depth of tariff cut: Manufactures	Depth of tariff cut: Agricultural products	Safeguards	Country coverage
EEC	All manufactures and semis; selected agricultural products.	Industrial raw materials	Duty-free	Partial duty reductions.	Tariff quotas and ceilings plus consideration of ACP[1] suppliers' interests.	G77 plus dependencies.
USA	Most manufactures; some agricultural products.	Textiles, footwear, glass, watches, electronics, petroleum oils; products the concern of national security.	Duty-free	Duty-free	Escape clause; competitive need criterion permits withdrawal of benefits from successful ldc suppliers.	All ldcs except Communist-countries, members of OPEC, states which have expropriated US property; Taiwan included.
Japan	Most manufactures and raw materials; some agricultural products.	Textiles, clothing, leather, plywood, footwear, petroleum oils and gases, gelatin.	Duty-free or 50% reduction of mfn rates.	Usually partial duty reductions.	Tariff quotas and ceilings.	Most of G77, plus Taiwan.
Norway Sweden and Finland	Most manufactures and raw materials; some agricultural products.	Textiles, tyres, leatherwares, footwear, pottery, glass, cycles, m.cycles, furniture.	Duty-free	Duty-free	Only the autonomous donor's right to withdraw.	G77 plus Israel and Turkey.
Australia	Most manufactures and semis plus substantially transformed agricultural products.	Wines, spirits, some processed and fresh fruit and vegetables, chemicals, textiles, electrical goods, railway equipment.	Ten percentage points reduction of mfa rates or duty-free treatment where mfa below 12.5 per cent.		Tariff quotas for sensitive products.	G77 plus Israel, Turkey and Taiwan.
Canada	Most manufactures, some agricultural products.	Textiles, footwear, ships, railcars.	British preferential rate or one-third reduction on mfn rate whichever is lower.		Escape clause.	G77 plus Israel, Turkey, Portugal, Bulgaria and Romania.

Source: Weston Cable and Hewitt, op.cit. and TD/B/C. 5/71.

Note: 1 African, Caribbean and Pacific States.

TABLE 2.2. Exclusion from beneficiary lists

Developing countries excluded from beneficiary status [a]	OECD developing		Eastern Europe		Lldcs				OPEC	Other Africa and Middle East				Asia and Pacific										Caribbean	
Donor countries	Greece	Spain	Albania	Bulgaria	Afghanistan	Laos	Uganda	Democratic Yemen		Angola	Comoros	Mozam-bique	Oman	Cambodia	China	Hong Kong	Macao	Mongolia	N. Korea	Taiwan	Vietnam	Nauru	Tonga	Bahamas	Cuba
Australia		x																							
Austria			x													x[c]		x	x						
Canada		x	x						x[b]				x					x	x	x					
EEC			x	x														x	x	x					
Finland	x	x	x													x	x			x			x	x	
Japan			x							x	x	x	x						x			x			
New Zealand																			x						
Norway	x	x	x													x		x	x	x					
Sweden	x	x	x																	x					
Switzerland			x													x[c]		x		x					
USA	x	x	x	x	x	x	x	x	x[d]					x				x	x		x				x
No. of schemes from which excluded	4	6	9	2	1	1	1	1	2	1	1	1	2	1		2	1	6	7	6	1	1	1	1	1

a Developing countries are not counted as being excluded from the benefits of a scheme if the donor country concerned has preferential trading relations with that country under another arrangement which is at least as advantageous as the GSP.

b Only Libya and Saudi Arabia are excluded.

c Only some products are excluded

d Ecuador, Indonesia and Venezuela are included.

Source: Weston, Cable and Hewitt, P. 24, updated.

tion, below. The main differences can here be best presented descriptively. The EEC grants GSP to all manufactured products. Most manufactures are covered by the other schemes, but the USA and Japan exclude specific industrial products, of which the most important for ldcs are textiles (otherwise restricted under non-tariff arrangements by the EEC), leather and leather goods, footwear and petroleum products. Coverage of agricultural products is only partial under all the schemes but more extensive under the EEC and Japanese schemes.

14. Depth of preferential tariff cuts. The USA grants duty-free treatment on all products covered by the scheme, while the other countries use a combination of exemptions and partial duty reductions. For the EEC, all covered industrial products are duty-free, but agricultural products are granted only partial duty reductions. Partial cuts in the mfn tariff are applied by Japan to agricultural products and also to a range of forty-four selected industrial products (where GSP offers a 50% cut). On the other industrial products, Japan grants duty-free treatment.

15. Safeguards. Given that GSP schemes are autonomous, all donors have the right to withdraw or modify their schemes. However, safeguards are also built into the operations of the schemes. They fall into two categories: a priori limitations on the volume and type of preferential trade, implemented through predetermined tariff quotas and ceilings (the system used by the EEC and Japan) and the escape clause' embodied in the competitive need criterion, employed in the US scheme. This latter provides for withdrawal of preference for a product from a beneficiary in the year following a successful US import performance, defined as imports in excess of US$25 million or 50% of total US imports of that article. The US$25 million ceiling is raised annually,[1] and the 50% rule may be waived if imports are less than a certain amount.[2] The US mechanism penalises individual beneficiaries by withdrawing preferences for a year after a surge in imports of a product. The EEC and Japanese schemes, on the other hand, working according to predetermined limits, regulate preferential imports

1. US$50.9 million in 1981
2. US$1.21 million in 1981

both on a collective and on an individual basis and operate immediately in the current preference year. A major difference is therefore that the US scheme offers a greater measure of certainty as to the preferences available over the short-term.

16. Safeguards under the US scheme admit of having products entirely withdrawn from GSP for one year. This is accomplished through a petitioning procedure involving the Federal International Trade Commission. However, ldc exporters can also petition to have new products included under the same procedure. This renders the US scheme more public in its deliberations and more open to change than the other schemes where decisions are influenced by more covert lobbying. Under the petitioning procedure, 19 products had been withdrawn from the US scheme but 82 products added by March 1979 (although in terms of value the outcome was much less favourable to ldcs).

17. Whereas the US criterion applies across the board to all preferential products, the EEC and Japanese schemes require a preliminary classification of products into categories of sensitivity, prior to the application of tariff quotas, ceilings and butoirs. These limitations are applied to manufactured products (even non-sensitive industrial products are allocated a notional ceiling) while for agricultural products, the partial duty reduction is accorded without limitation, except for five products in the EEC scheme.

18. Ceilings, setting the maximum amounts of a preferential import from all GSP suppliers, are subdivided into butoirs or maximum country amounts in the EEC and Japanese schemes. These are purported to share the benefits more widely among ldcs. For instance, under the Japanese scheme a butoir is hit where a supplying country exceeds 50 per cent of the ceiling. Until 1981 some EEC butoirs were as low as 10 per cent and so resulted in

the 'sterilisation' of large parts of the preference offer in the case of some sensitive products. However, duty is not automatically imposed when ceilings or butoirs are hit for other products. Surveillance is less strict and reintroduction of the tariff discretionary. Both the EEC and Japan exercise flexibility in the case of products posing no identified threat to domestic industry.

19. This does not apply to sensitive products however. Moreover, in the EEC scheme, ceilings for sensitive products, known as tariff quotas, are further subdivided into member states' shares (paradoxically since the EEC member states themselves form a customs and economic union). Moreover, tariffs are reimposed automatically once member state shares are exceeded.

20. By 1980 the development of ever more elaborate safeguards had rendered the EEC scheme impossibly complicated and, for exporters/ importers of sensitive products, highly unpredictable and wasteful (they resorted to competing for a tariff quota or ceiling at the beginning of the year). Under the new (post-1981) system, the EEC has replaced the global tariff quotas/ceilings with specific allocations for individual supplying countries, with the aim of offering more certain (if limited) benefits to highly competitive supplying countries and greater opportunity to gain access to preferences for newcomers. By introducing individual country quotas and ceilings the EEC has made its GSP scheme a little more bilateral and removed a further component from the scheme's original generalised, non-discriminatory principles.

21. Lastly, the systems based on a priori limitations have intricate mechanisms for regulating the annual increases in ceilings. The formulae employed in both Japan and the EEC (until 1981) nevertheless have tended to expand preferences rather less rapidly than the underlying rate of inflation, so many quotas/ ceilings fall far short of current imports, i.e. large amounts of sensitive GSP imports fail to obtain preferential treatment. The Japanese system employs a slightly more generous formula for updating ceiling levels. Under the EEC's new scheme it seems that increases in ceilings will follow an ad hoc procedure rather than being tied to the formula used in the 1970s.

22. Least developed countries. Of the three main schemes[1], the EEC's has been the most generous in providing special measures for the 31 least developed countries (lldcs) on the UN list. They enjoy unrestricted duty-free treatment for all manufactures. The same applies to GSP - covered agricultural products with the exception of tobacco and canned pineapple, on which lldcs are still subject to the tariff quotas, plus fishmeal on which they are accorded a tariff cut rather than a complete exemption. The EEC also added two products (green coffee beans and raisins) hitherto excluded from GSP for the benefit of particular lldcs (Haiti and Afghanistan) as well as clover seeds. The EEC's special measures were introduced in 1977 (modified and improved since), while Japan inaugurated special measures for lldcs only in 1980, giving them unrestricted duty-free treatment on nearly all GSP - covered products[2]. In contrast the US applies its competitive need criterion indiscriminately to lldcs and has not yet introduced special measures under GSP for these countries.

23. Rules of origin. Directly consigned imports qualify for GSP treatment if they have been wholly produced or have undergone "substantial" transformation in the beneficiary country. Japan and the EEC, like the other Western European preference-giving countries, define substantial transformation in terms of the process criterion: the tariff heading has to change as a result of the production process to qualify for originating status. There are however a mass of exceptions to this rule, and the matter is further complicated by the addition of minimum value-added requirements to the change of tariff heading rules in the case of some products, such as articles made of semi-precious stones. The other GSP schemes use the percentage value-added criterion to define substantial transformation. Domestic content (raw materials and value-added) usually has to represent 50%, (60% in the Canadian scheme) of the export's value. The US operates a more complex variation on this scheme, defining domestic content as domestic inputs plus the direct costs of processing, which must be at least 35% of the export value.

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1. The Nordic GSP schemes give particularly favourable treatment to lldcs.

2. TD/B/5/73.

24. Some of the smaller GSP schemes (Australia and New Zealand) permit cumulation among ldcs for rules of origin purposes. This has long been requested by ldcs on the grounds that it would help foster South-South industrial and trade cooperation. The EEC and US schemes permit cumulation only in regional trading groups or customs unions, and also stiffen the qualifying requirements in these cases (to 50% minimum regional - domestic content in the US scheme). The EEC nevertheless manages to operate a rather more liberal set of rules of origin for the ACP states enjoying special preferences under the Lome Convention[1]. There the ACP states are treated (with the EEC) as one area for purposes of origin. Lastly, the direct consignment criterion is normally waived, under all the main schemes, for landlocked countries.

25. Increased Differentiation. Since 1980 measures to differentiate between ldcs have been extended in the three major GSP schemes (EEC, US, Japan) and in two of the smaller ones(Australia, Canada). The changes in the EEC scheme have been outlined in para. 10 the important point to note is that no ldc has had the GSP removed from any of its products, no matter how competitive it is nor how sensitive the product is. Instead strict limits have been placed on the amount of GSP which sensitive imports from each competitive ldc can receive. (Nor has a previously GSP covered country been removed from the EEC's list of beneficiaries, the Argentine was not, at the time of writing, excluded from GSP despite a temporary trade embargo).

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1. It could be reiterated here that the apparent benefits to ldcs as a whole of the EEC GSP scheme are eroded by the more favourable and hence discriminatory trade access terms accorded by the EEC to developing country groups under special agreements (Lomé Convention for ACP states; preferential trade and cooperation agreements with Maghreb and Mashrek countries; association agreements with other Mediterranean countries), as well as by free trade agreements with developed countries (EFTA). This is in contrast to the US and Japanese GSP schemes which do not operate alongside special preferential agreements other than with de jure dependencies

26. In contrast in the US since 1980, the President has had the authority to withdraw altogether GSP treatment on imports of particular products from the more competitive ldcs. In 1982 this policy of graduation resulted in seven countries (Taiwan, Republic of Korea, Hong Kong, Singapore, Israel, Mexico and Brazil) having GSP withdrawn[1] on products which in 1981 had totalled US$651 million (of this US$597 million was of products on which they had not received GSP in 1981 on grounds of exceeding the competitive need limits in 1980, while the remaining US$53 million was of products on which US interest groups had specifically asked that GSP should be withdrawn).

27. In Japan changes in 1981 in the legislation for implementing the GSP mean the government now has the power to exclude a beneficiary from the GSP for a particular product, whereas previously the more advanced beneficiaries had always received duty-free treatment on at least some fraction of all their GSP covered products, (i.e. up to the 'butoir' limit).

28. In Australia, however, procedures introduced in September 1979 mean that the more competitive ldcs will be given a reduced margin of preference rather than having any product withdrawn from the GSP.

29. In Canada, the question of increasing differential treatment was raised in July 1980. In the past if domestic injury resulting from GSP imports could be proven the only option open under existing safeguard measures was to remove competing imports from some or all benefiaries from the GSP. Now, if injury is proven, there are three possible actions: (i) to reduce the preferential margin on competing imports from one or more countries (ii) to impose a tariff quota on competing imports from one or more countries or (iii) to remove the product from the GSP for one or more countries (i.e. as before).

30. What is worrying about these changes is that they make the receipt of GSP increasingly unpredictable and arbitrary. Exporters can no longer be certain from one year to the next

1. With effect from 1 April, 1982.

whether their goods will be duty-free, paying mfn duties or duties somewhere between mfn and GSP levels. The impact on investment planning and risk capital investments in ldc export industries is all the more unfavourable. The situation is further complicated by the fact that the criteria used for reduction of GSP benefits are likely to vary from one donor to the next. In some (the US, Canada) the petitioning procedure will allow a degree of transparency. Where graduation is less transparent there is a danger that it will be used primarily as a protectionist measure.

31. Before passing to the evaluation of GSP, it is appropriate to consider the role of ldc tariff preferences in the 1980s. GSP schemes are likely to be with us throughout the decade. The EEC scheme has already been renewed for a ten year period (with the possibility of a major revision after five years). Japan's scheme was extended in April 1981 and the US administration has announced its intention to extend its scheme beyond 1985. UNCTAD favours a commitment to maintain GSP schemes until the year 2000 and hopes to develop and introduce a GSP scheme among developing countries. There are nevertheless strong reasons to suppose that the significance of GSP schemes, characterised by their prominent characteristics of non-reciprocity, non-discrimination among ldcs and by their exclusive focus on the tariff, is likely to decline. Here we consider the factors influencing this judgement.

32. Firstly, the scope for offering meaningful preferential tariff advantages has been considerably reduced by the successful conclusion of the Tokyo Round MTN. Most of the agreed tariff cuts are to be phased in by equal annual instalments over the period 1981-87, though in the case of some of the most sensitive products the cuts are to be substantially postponed until the end of the period. US officials calculate that by 1987 average mfn duty on GSP imports will be only 4.5%[1], i.e. margins have been eroded, so there will be only limited scope for preferential reductions.

1. US House of Representatives, 1980. p.x.

33. However, developed countries benefit disproportionately from the Tokyo Round. The weighted tariff cut on ldcs' industrial exports was 25% compared with a weighted tariff cut for all industrial products of 34%[1]. For agricultural items the mfn reductions of interest to ldcs were even less important. It is calculated[2] that without preferences the post-MTN weighted tariff will remain higher for ldcs than for ldcs in finished manufactures (10.3% against 6.5% for all countries) and slightly higher even for raw materials (0.5% against 0.3%) due to the commodity and product composition of ldc trade. In other words, a justification for preferences remains despite general tariff liberalisation. An illustrative list of products of interest to ldcs where post-MTN tariffs will remain high is given in Table 2.3.

TABLE 2.3 Post-MTN rates of duty for selected ldc exports

CCT No.	Product	Mfn tariff %
64.01	Rubber/plastic footwear	20*
82.14A	Spoons/forks	17
82.09A	Knives	17*
87.09	Cycles	17*
92.11B	TV sets	14*
61.01 to .02	Outer garments	13
62.02	Bed linen	13
61.03	Under garments	13
82.09B	Knife blades	12
42.02A	Plastic travel goods	12
84.52	Calculators	12

*No change from pre-MTN tariff. For other products listed, reductions were less than MTN formula.

Source: Derived from Weston, Cable and Hewitt, p.154.

34. Second, despite the rise of protectionism, the failure of restructuring in most OECD economies and the desire among many governments in the West for 'managed' free trade, the tariff is no longer a principal means of applying protective measures. At least eight hundred non-tariff barriers have been identified

1. Weston, Cable and Hewitt, 1980. p.153.
2. Ibid, p.154.

which constrain ldc access to markets regardless of GSP. The recently renewed Multi-Fibre Arrangement, embodying a comprehensive set of quota restrictions, is indicative of the current trend. Equally ominous has been the recent spate of 'voluntary' export restraint agreements concluded bilaterally, which have the effect of legitimising discrimination. Non-tariff measures tend to relegate the significance of GSP concessions to a residual item and in severe cases end the GSP's function as a stimulus to trade (as is the case, for instance, for those schemes which offer GSP on textiles).

35. Thirdly, several recent developments can be identified which reinforce the trend towards the always latent discrimination within the GSP scheme. Rich OPEC countries, as yet with little manufacturing capacity, are accorded GSP under the EEC and Japanese schemes. The newly industrialising countries (NICs) are in some cases portrayed as squeezing out the less developed countries despite the regulatory mechanisms in all the schemes. One result of the considerable public impact of the Brandt Commission's North-South: A Programme for Survival has been a spate of allegations to the effect that the North-South division of the world is over-simplistic. This culminated in World Bank president A.W. Clausen's 1982 Tokyo speech which identified eight differentiated economic groupings in the world. Even at the level of the group of 77, this sort of analysis applied to the GSP has led to muted inter-state rivalry. Dismissing the generalised welfare benefits of GSP, ex-ACP secretary-general Tieoule Konate, now with GATT, has stated "the GSP is in any case only used by a limited number of ldcs, above all the most advanced among them". He went on to cite seven countries - Yugoslavia, Hong Kong, Republic of Korea, India, Malaysia, Brazil and Romania - to which accrue 60% of the benefits of the scheme.[1]

36. Another approach favoured by some trade union interests in the West and also promoted by other producer interests particularly in times of recession has been the proposal to limit the range of GSP beneficiary states by making access to the scheme conditional on the acceptance of a social clause outlawing "unfair labour practices", thereby eliminating what is alleged

1. T. Konate: The Lome Convention and the non-associated countries. Paper presented to the Novib conference, the Hague, 26 February 1982.

to be the social dumping results of enterprise based on cheaper labour. No GSP donor has yet formulated a range of applicable labour standards, however, let alone developed a monitoring mechanism for applying them.

37. Nevertheless, it is clear that the generalised nature of the GSP scheme is gradually being eroded (though it never existed in its perfect form due to the least-developed country provision in the original GSP resolution and to the continued existence of special non-generalised preferences elsewhere). There will however remain a strong and possibly growing demand from ldcs for the maintenance of tariff preferences for manufactured goods in the 1980s, if only because of the lack of progress made so far on commodity agreements and the fact that commodity prices are currently at a 30 year low. Thus, enthusiasm for GSP continues despite the relatively minor past impact on ldc trade expansion which we assess in the following sections.

III. Evaluation

38. In this section we attempt to evaluate the GSP. Work in this area falls into three main categories:

i) analysis of the utilization of the GSP

ii) estimation of the static value of the GSP

iii) estimation of the trade created by the GSP both on an ex ante and an ex post basis.

In addition we consider less well documented but important views on the GSP which have been expressed by representatives of ldc exporters as well as importers in the donor countries. The potential conflict between the GSP and mfn tariff cuts under the Multilateral Trade Negotiations are considered in the following section.

i. Utilization of the GSP

39. This is the simplest method of evaluation and one for which data is most readily available for all donor countries (though only to 1976 in some cases). It involves a comparison over time of imports to donors from beneficiaries which are covered by the GSP. The data available on this trade which is

presented in Table 3.1, confirms several of the points already made in Section II.

40. Agricultural products are less well treated by most GSP schemes with only 26% of mfn dutiable imports to market economies excluding the US covered in 1976 (the latest year for which nearly complete data are available from UNCTAD). In contrast 38% of dutiable industrial products were covered in that year. Nevertheless there has been some improvement, with 6 of the countries shown increasing their coverage of agricultural products during the 1976 to 1979 period, notably Sweden (7% to 65%), Finland (8% to 35%), Switzerland (9% to 19%) and Japan (13% to 19%). The proportion of agricultural goods covered by the GSP which actually received preferential treatment was on average as little as 39% in 1976, slightly more than the 37% of covered industrial goods which received GSP. This low rate of utilization of GSP was probably due to the low levels of tariff cuts for agricultural products[1] rather than to any ex ante limitations on the amount of agricultural goods receiving GSP.[2]

41. GSP coverage of dutiable industrial products has barely changed except in Finland where it rose from 56% in 1976 to 91% in 1978. Only one third of products covered actually received GSP - in contrast to agricultural products this was more likely to have been due to the restrictions applied to the amount of imports falling under GSP covered tariff headings which could receive GSP, than to an inadequate preferential margin.[3] More than half of GSP industrial imports faced limitations.[4] In a number of countries these limitations would appear to have

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1. According to GATT the weighted tariff average under the GSP on covered agricultural products was 6.7% compared to a mfn tariff average of 13.2%, GATT (1980) page 40.

2. Only 17% of agricultural imports under the GSP faced limitations, ibid.

3. The weighted tariff average on GSP covered industrial products was 0.7% compared to a mfn average of 10.8%, ibid.

4. ibid.

TABLE 3.1 Imports of preference giving countries from beneficiaries

(US$ million)

Preference giving countries and CCCN chapters	Year	Total imports (1)	Mfn dutiable imports (2)	GSP Imports Covered (3)	GSP Imports Preferential (4)	Shares (per cent) (3)/(2)	Shares (per cent) (4)/(3)
Australia							
1-24	1976	192.4	102.3	43.0	28.6	42.0	66.5
25-99	1976	1879.4	665.6	366.4	150.2	55.1	41.0
1-99	1976	2071.8	767.9	409.4	178.8	53.3	43.6
Austria							
1-24	1976	311.6	256.7	179.6	7.5	70.1	4.2
	1977	430.0	359.7	277.0	14.7	77.0	5.3
	1978	466.4	371.2	227.3	28.4	61.2	12.5
	1979	526.1	398.1	245.6	38.8	61.7	15.8
25-99	1976	1015.9	866.4	818.5	118.6	94.5	14.5
	1977	1042.7	885.6	826.4	157.4	93.3	19.0
	1978	1180.0	956.2	912.6	179.3	95.4	19.7
	1979	1792.2	1504.3	1438.1	244.1	95.6	17.0
1-99	1976	1327.5	1123.1	998.3	126.1	88.9	12.6
	1977	1472.7	1245.3	1103.4	172.1	88.6	15.6
	1978	1646.4	1327.4	1139.9	207.7	85.9	18.2
	1979	2318.3	1902.4	1683.7	282.9	88.5	16.8
Canada							
1-24	1976	561.2	278.4	84.4	56.1	30.3	66.5
25-99	1976	4027.3	925.8	602.2	246.9	65.0	41.0
1-99	1976	4588.5	1204.2	686.6	303.0	57.0	44.1
	1977	4005.9	992.8	571.5	428.9	57.6	75.1
	1978	4007.0	1125.1	684.3	527.9	60.8	77.1
EEC							
1-24	1976	12749.3	10326.4	3043.2	962.6	29.5	31.6
	1978				1231.6		
25-99	1976	65263.1	11415.3	10124.8	3483.5	88.7	34.4
	1978				4086.0		
1-99	1976	78012.4	21741.7	13168.0	4446.1	60.6	33.8
	1977				4217.6		
	1978				5317.6		
Finland							
1-24	1976	274.9	89.3	7.4	4.9	8.2	67.2
	1977	366.6	94.0	23.0	9.4	24.4	40.8
	1978	357.5	93.9	32.6	22.8	34.7	69.9
25-99	1976	447.3	38.5	21.7	15.9	56.4	67.2
	1977	485.6	27.0	22.1	15.9	82.0	71.9
	1978	464.0	30.8	28.1	21.4	91.2	76.2
1-99	1976	722.2	27.8	29.1	20.8	22.7	71.6
	1977	852.2	121.0	45.1	25.3	37.3	56.0
	1978	821.5	124.7	60.7	44.2	48.7	72.8
Japan							
1-24	1976	4031.1	3051.6	391.5	366.2	12.8	93.5
	1979	5966.3	4598.2	873.9	709.9	19.0	81.2
25-99	1976	9426.8	3317.7	3059.3	1423.3	54.1	46.5
	1979	19457.0	7161.1	6703.4	3607.3	93.6	53.8
1-99	1976	13457.9	6379.3	3450.8	1789.5	54.1	51.9
	1979	25423.3	11759.3	7577.3	4317.2	64.4	57.0

TABLE 3.1

Imports of preference giving countries from beneficiaries (Contd.)

(US$ million)

Preference giving countries and CCCN chapters	Year	Total imports (1)	Mfn dutiable imports (2)	GSP Imports: Covered (3)	GSP Imports: Preferential (4)	Shares (per cent): (3)/(2)	Shares (per cent): (4)/(3)
New Zealand							
1-24	1976	88.2	44.7	36.0	23.9	80.5	66.5
	1978/79	94.9	14.2	3.8	n.a.	26.8	n.a.
25-99	1976	529.5	117.3	115.2	47.2	98.2	41.0
	1978/79	569.2	159.0	154.9	n.a.	97.4	n.a.
1-99	1976	617.7	162.0	151.2	71.1	93.3	47.1
	1978/79	664.1	173.2	158.7	n.a.	91.6	n.a.
Norway							
1-24	1976	195.4	23.7	7.6	2.1	31.9	28.3
	1977	267.0	30.4	12.0	4.9	39.3	40.6
	1978	274.2	35.4	11.7	3.3	33.1	28.3
	1979	303.2	42.2	15.8	4.7	37.4	29.7
25-99	1976	976.3	71.3	36.7	20.3	51.5	55.1
	1977	1017.2	148.2	57.2	30.6	38.6	53.5
	1978	912.5	106.0	59.4	30.2	56.0	50.9
	1979	953.8	137.1	75.8	39.6	55.3	52.3
1-99	1976	1171.8	95.0	44.3	22.4	46.6	50.5
	1977	1284.2	178.6	69.2	35.5	38.7	51.3
	1978	1186.7	141.4	71.1	33.5	50.3	47.2
	1979	1257.0	179.3	91.6	44.3	51.1	48.4
Sweden							
1-24	1976	569.4	462.6	32.9	28.8	7.1	87.6
	1977	622.2	51.1	36.0	30.7	70.1	85.3
	1978	662.0	67.7	45.2	37.1	66.8	82.1
	1979	721.2	75.8	49.6	40.6	65.4	81.8
25-99	1976	2163.4	478.9	156.2	116.0	32.6	74.3
	1977	2204.4	512.0	183.7	135.9	35.9	74.0
	1978	2070.8	500.2	208.2	150.1	41.6	72.1
	1979	3858.8	755.9	365.3	265.7	48.3	72.7
1-99	1976	2732.8	941.5	189.1	144.8	20.1	76.3
	1977	2826.6	563.1	219.7	166.6	30.0	75.8
	1978	2732.8	567.9	253.4	187.2	44.6	73.9
	1979	3858.8	755.9	365.3	265.7	48.3	72.7
Switzerland							
1-24	1976	499.8	410.1	36.3	26.2	8.9	72.1
	1977	718.5	623.6	101.6	81.3	16.3	80.1
	1978	751.9	640.2	128.1	107.4	20.2	83.9
	1979	799.1	701.8	135.6	116.2	19.3	85.7
25-99	1976	1041.3	1008.5	598.9	230.9	59.4	38.6
	1977	1359.5	1337.5	772.7	297.8	57.8	38.5
	1978	1576.3	1550.9	983.1	372.2	63.4	37.9
	1979	2030.1	1997.7	1152.8	444.1	57.7	38.5
1-99	1976	1541.1	1418.6	635.2	257.1	44.8	40.5
	1977	2078.1	1961.1	874.3	379.1	44.6	43.4
	1978	2328.3	2191.0	1111.2	479.6	50.7	43.2
	1979	2829.2	2699.5	1288.4	560.3	47.7	43.5

TABLE 3.1

Imports of preference giving countries from beneficiaries (Contd.)

(US$ million)

Preference giving countries and CCCN chapters	Year	Total imports (1)	Mfn dutiable imports (2)	GSP Imports: Covered (3)	GSP Imports: Preferential (4)	Shares (per cent): (3)/(2)	Shares (per cent): (4)/(3)
USA							
1-24	1979	n.a.	n.a.	1889.2	818.1	n.a.	43.3
25-99	1979	n.a.	n.a.	9836.0	5461.9	n.a.	55.5
1-99	1976	27600.8	21076.8	6519.6	3153.7	30.9	48.4
	1977	34597.9	25654.2	7677.6	3878.0	29.9	50.5
	1978	41420.1	21641.4	9740.8	5204.1	45.0	53.4
	1979	52569.8	38163.8	11725.2	6280.0	30.7	53.6
Hungary							
1-24	1975	220.7	164.6	158.6	158.6	96.4	100.0
	1977	362.5	222.8	218.0	218.0	97.9	100.0
	1978	343.4	343.2	340.6	340.6	99.2	100.0
25-99	1975	306.0	101.3	94.1	94.1	92.9	100.0
	1977	142.2	87.1	71.2	71.2	81.6	100.0
	1978	153.5	153.4	146.1	146.1	95.2	100.0
1-99	1975	526.7	265.9	252.7	252.7	95.0	100.0
	1977	504.7	309.9	289.2	289.2	83.3	100.0
	1978	496.9	496.6	486.7	486.7	98.0	100.0
USSR							
1-99	1976	6215.9	n.a.	n.a.	1405.9	n.a.	n.a.
	1977	6624.9	n.a.	n.a.	1689.7	n.a.	n.a.

Sources: Derived from several UNCTAD documents (see bibliography attached). This Table necessarily has to incorporate some slight inconsistencies in the presentation of the data.

increased as the share of covered imports receiving GSP fell - from 74% to 71% in Sweden, from 55% to 52% in Norway - while in others the share rose suggesting an easing of restrictions - from 47% to 54% in Japan, from 73% to 76% in Finland and from 14.5% to 17.0% in Austria - though equally it could have been the result of businessmen's increased familiarity with the rules of the GSP.

42. Overall, the GSP in 1976 covered US$26.3 billion or 34% of mfn dutiable imports to market economies from beneficiaries. Only 40% of these actually received GSP-i.e. US$10.5 billion - less than 7% of all imports from beneficiaries. Comparing imports to countries for which data is available in 1976 and 1979 - i.e. Austria, Japan, New Zealand, Norway, Sweden, Switzerland and the USA which accounted for 46% of ldc imports in 1976 - it seems that GSP coverage and the share of imports receiving GSP increased but only slightly.

43. Use of the GSP has tended to be quite concentrated with ten ldcs accounting for 70% of preferential imports in the EEC in 1977, 78% in the US and 72% in Japan (in 1976). This is not surprising given that a handful of ldcs account for the majority of ldc exports, and especially of manufactured exports. Nevertheless it is partly because of this concentration (and partly because of protectionist pressures) that many donors have introduced measures in their GSP schemes which discriminate between ldcs and attempt to redistribute the benefits towards the less developed amongst them. In the EEC scheme a gradual lowering of butoirs helped to reduce the share of the top ten suppliers from 87% in 1973 to 70% in 1977. But in the US there has been little change - in 1978 and 1979 the top ten suppliers actually accounted for 82% and 81% respectively of all imports receiving GSP. Restrictions in the form of competitive need limitations in the US and maximum country amounts in Japan helped to lower the share of most of the major suppliers in GSP receiving imports below their shares in GSP covered imports - but not significantly.

44. In fact a large number of countries hit by such restrictions under each of these schemes fell outside the group of

TABLE 3.2 Major GSP Suppliers

EEC (1977) % share of GSP		US (1977) % share of GSP			Japan (1976) % share of GSP		
	receiving imports		covered imports	receiving imports		covered imports	receiving imports
Yugoslavia	11.3	Taiwan	17.6	23.5	Rep.of Korea	33.0	29.3
Malaysia	9.4	Rep.of Korea	10.4	13.7	Taiwan	11.8	12.7
Hong Kong	8.9	Hong Kong	15.1	12.5	India	4.1	6.2
India	8.4	Mexico	16.2	10.0	Spain	3.5	6.0
Rep.of Korea	7.9	Brazil	6.6	8.9	Singapore	3.7	5.2
Brazil	7.9	Israel	2.0	3.8	Malaysia	2.8	4.1
Romania	6.4	Yugoslavia	2.0	3.0	Hong Kong	6.2	2.5
Philippines	3.5	Singapore	2.5	2.8	Israel	2.2	2.5
Venezuela	3.3	Philippines	4.7	2.0	Brazil	2.0	1.9
Singapore	3.2	Dominican Republic	2.7	0.5	Zambia	4.3	1.1
	70.2		79.8	77.7		73.6	71.5

Sources: Weston, Cable and Hewitt (1980), p.149; UNCTAD, TD/B/C5/30/ Add.14, Table 1, and UNCTAD, TD/B/C.5/PREF.6,

TABLE 3.3 Countries most affected by restrictions[1]

Country	Per Capita income, $ (1979)	% GSP covered imports excluded by competitive need criteria in US (1977)	No. of products affected by butoirs in the EEC (1980)	% of GSP covered imports not receiving GSP in Japan (1976)
Burma	160	-	-	97.9
Afghanistan	170	-	-	99.6
India	180	14.4	21	20.3
Sri Lanka	230	-	2	47.2
Haiti	260	30.6	-	-
Zaire	260	-	ACP	98.1
Tanzania	270	-	ACP	70.4
Pakistan	270	-	4	50.9
Madagascar	290	22.0	ACP	62.5
Sudan	370	-	ACP	46.3
Egypt	460	-	-	96.0
Zambia	510	76.7	ACP	86.1
Cameroon	560	-	ACP	70.7
Guyana	570	58.2	ACP	-
Thailand	590	45.9	8	38.2
Philippines	600	76.1	8	32.0
Nicaragua	660	67.9	-	-
El Salvador	670	65.5	-	95.6
Botswana	720	-	ACP	46.3
Peru	730	66.7	6	69.9
Mongolia	780	-	-	91.5
Dominican Republic	990	82.9	-	-
Guatemala	1020	40.4	-	78.5
Ivory Coast	1060	48.2	ACP	11.3
Paraguay	1060	-	-	78.5
Rep. of Korea	1150	22.0	46	53.9
Jamaica	1240	43.6	ACP	-
Malaysia	1320	36.6	2	14.5
Turkey	1330	14.8	-	19.4
Panama	1350	78.9	-	98.5
Taiwan	1400[a]	25.2	na	42.8
Mexico	1590	40.3	5	61.3
Chile	1690	78.1	1	66.6
Brazil	1690	26.0	20	53.5
Romania	1900	0.1	13	50.9
Uruguay	2090	-	1	95.3
The Argentine	2280	42.6	2	34.1
Yugoslavia	2430	10.7	-	61.1
Singapore	3820	18.9	4	26.8
Hong Kong	4000	48.7	39	78.5

a 1978
na not applicable

1. The three columns are not strictly comparable - only the US publishes figures showing the impact of competitive need restrictions on the share of GSP covered imports actually receiving GSP. The Japanese figures overstate the impact of its maximum country amounts; there may be other reasons why GSP covered goods did not receive GSP-for example, failure to meet rules of origin, or even that the GSP ceiling open to all countries was exhausted. The column for the EEC merely shows the number of times a country was affected by butoirs or maximum country amounts: for some countries the effect of reaching butoirs on two products may be as severe as for other countries reaching butoirs on many more products.

Sources: UNCTAD, various documents and Weston (1982).

major suppliers, underlining the arbitrariness of the restrictions; as Table 3.3 shows, there is little relationship between those countries which are affected and one development indicator, namely income per capita.

45. Imports from least developed countries (lldcs) covered by the GSP have generally increased, particularly following special improvements on their behalf, but the proportion actually receiving GSP is still low. In the US, for instance, in 1979 only 37% of GSP covered imports from lldcs received GSP, compared to an average for all ldcs of 54%. About a quarter of the shortfall was the result of application of the competitive need criteria, while the remainder was the result of failure to meet the rules of origin or even just to supply the appropriate documentation.[1]

ii. Static value of the GSP

46. Another method of evaluating the GSP is in terms of the tariff revenue foregone by the donor countries, which may in principle be transferred to the exporting countries and used as a subsidy to cut export prices. It is calculated as the product of the value of exports receiving by the GSP (i.e. making allowances for any restrictions on GSP use) multiplied by their preferential tariff margin. This measure is frequently used for instance by the EEC in official commentaries on its own scheme. It has certain drawbacks, however, notably it assumes that the full value of the tariff reduction is returned to the exporting countries - whether or not this actually happens will depend on the relative bargaining strengths of the importers and exporters, in effect on the shape of the demand and supply curves. In addition it ignores the dynamic effect of preferences as the value is weighted by the existing trade structure. For many sensitive products, however, imports at the margin will pay mfn tariffs and so the GSP will have little trade stimulating effect on them.

1. UNCTAD, TD/B/C.5/PREF/8, page 3.

47. Table 3.4 shows how the fiscal value of the EEC scheme has grown over time, more than doubling from 1974 to 1977; though it fell subsequently in 1978, to 318 million ua roughly 5% of imports eligible for the GSP and 3.5% of all dutiable imports from beneficiary countries. Data on the average tariff cut under each of the other GSP schemes is not available - but for 9 Western markets[1] GATT has calculated it to be 6.5 percentage points on agricultural products worth US$4.6 billion in 1977[2] and 10.1 percentage points on industrial products worth US$22.5 billion, giving a total fiscal value of US$2.3 billion. To put this into perspective, it was equal to 4.1% of dutiable imports to these nine markets from beneficiaries in 1977, or 2.7% of all imports from beneficiaries. In contrast net official development assistance from these donors in 1977 was US$15.3 billion.

TABLE 3.4 EEC estimates of fiscal value of GSP concessions

Year	Value eligible (million ua)	Utilisation (%)	Average duty concession (%)	Fiscal value (million ua)
1974	3,250	65	8.3	178
1975	3,680	50	8.5	156
1976	4,600	62	9.3	287
1977	6,720	55a	9.1	385
1978	6,800	55a	8.5	318
Total				1,324

a Estimate

Source: Weston, Cabie and Hewitt (1980) page 134.

48. Some studies have used this method to measure the benefits of the GSP to particular countries. Langhammer (1981) calculates that, on this basis, the EEC's GSP was worth US$74 million to ASEAN countries in 1978, i.e. 2% of the value of their total exports

1. Austria, Canada, the EEC, Finland, Japan, Norway, Sweden, Switzerland and the US.

2. For Austria, Canada and Norway the figures were for 1976. GATT (1980) page 40.

to the EEC in that year. Only 34.8% of ASEAN exports to the EEC in GSP tariff headings actually received GSP - if all their exports eligible for the GSP had received it the gains would have tripled to US$225.4 million or 7% of the value of their total exports to the EEC in 1977. The details for each ASEAN member are shown below in Table 3.5.

TABLE 3.5 The fiscal value of the EEC's GSP to ASEAN
(US$million, 1978)

	Actual	Potential
Indonesia	7.6	46.1
Malaysia	25.3	46.3
Philippines	13.6	57.7
Singapore	14.0	41.6
Thailand	13.7	33.7
ASEAN	74.2	225.4

Source: Langhammer (1981) page 66.

49. Similar calculations by Cable and Weston (1979) had a slightly different objective, namely to evaluate whether the EEC's GSP fully compensated four South Asian countries for the loss of Commonwealth Preferences when the UK joined the EEC in 1973. These showed that gains from improved access to the EEC more than compensated for losses in the UK market for Pakistan, Sri Lanka and Bangladesh, although the net gain was only small, while India suffered a small net loss.

iii. Trade creation

50. Various attempts have also been made to assess whether or not the GSP has helped to stimulate ldc exports to donor countries, using methods ranging from constant market share analysis to multiple regression. Constant market share analysis is perhaps one of the simpler techniques as it is based on a comparison of only four variables over time: 1) exports from beneficiaries to the donor market, 2) their exports to the world, 3) exports from

non-beneficiaries to the donor market and 4) their exports to the world. In effect if the growth of exports from beneficiaries to a donor market deflated by the growth of their exports to the world is greater than the growth of exports from non-beneficiaries deflated by their exports to the world, then this would suggest that, ceteris paribus, preferences were having a positive effect. A major problem with this method is that in practice the ceteris paribus clause does not hold, so that a change in market shares may reflect factors other than the GSP.

51. For example, Cable and Weston comparing Indian and Pakistani exports of manufactured goods (excluding unworked minerals, metals and gems) to France, German F.R. and the UK in 1971 and 1975 found that there were signs of a positive preference factor, especially for exports of carpets, chemicals, clothes and leather to France and German F.R. while for the UK it was negative (as a result of lost Commonwealth preference).[1] But in some cases the positive preference factor was found to exist in the pre-GSP period (1968-71) showing that it was not mechanically related to tariff changes. For instance the above normal growth in German imports from India in the pre-GSP period reflected a growing interest by German and Indian businessmen in mutual trade.

52. In Weston, Cable and Hewitt the same method was applied to exports in 3 major product groups - chemicals, machinery and miscellaneous manufactures - from all ldcs to the EEC for the period 1972 to 1977, which were compared with exports to the US, Japan and the OECD. In addition the performance of exports from 14 individual ldcs were examined. The results shown in Tables 3.6 and 3.7 generally suggest that the EEC's GSP has promoted its imports from beneficiaries of machinery, but has had little effect on miscellaneous manufactures, which is perhaps not surprising as the major items under the latter heading either face tariff quotas (footwear, leather goods) or quantity restrictions under the MFA (clothing). Imports of chemicals seem to

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1. Cable and Weston (1979) page 76.

TABLE 3.6 Measurement of effects of preferences: percentage annual average import growth (1972–77)

		EEC	US	Japan	OECD
(1) *Chemicals*					
Growth of imports from	(i) world	22.1	22.0	21.2	21.5
	(ii) ldcs	21.4	17.5	40.8	21.4
	of which:				
	Korea	48.7	106.3	46.4	53.5
	Singapore	40.8	39.8	135.9	83.7
	Taiwan	32.5	inf.	49.7	53.5
	(ii) (i)	0.97	0.79	1.92	100.0
(2) *Machinery*					
from	(i) world	19.5	16.0	12.5	18.3
	(ii) ldcs	38.3	29.0	39.4	33.0
	of which:				
	Korea	76.5	46.9	57.9	56.6
	Singapore	44.9	25.8	35.8	35.3
	Taiwan	48.7	inf.	76.8	79.3
	(ii)/(i)	1.96	1.81	3.15	1.80
(3) *Miscellaneous manufactures*					
from	(i) world	20.8	16.7	19.5	19.6
	(ii) ldcs	32.8	26.1	42.9	30.0
	of which				
	Korea	67.8	33.5	59.4	44.3
	Singapore	39.1	22.0	41.0	32.3
	Taiwan	37.1	inf.	34.0	64.3
	(ii)/(i)	1.58	1.56	2.20	1.53

Notes: Growth rates are in current, not constant, prices.
SITC 6 is excluded since the major items in this category, metals and non-metal minerals, are not subject to preferences.
inf. infinity and implies growth from a zero base.

Source: Weston, Cable and Hewitt (1980) page 138.

TABLE 3:7 : Performance of ldcs in the EEC market by major product (%)

	Chemicals				Machinery				Miscellaneous manufactures			
	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)	(1)	(2)	(3)	(4)
All ldcs	100.0	21.4	37.0	1.00	100.0	38.3	24.0	1.16	100.0	32.8	31.0	1.09
Asia	11.5	27.1	17.5	0.71	13.0	62.7	22.3	1.30	84.3	31.8	30.2	1.05
S. America	23.0	18.1	39.9	0.97	11.5	39.2	31.0	0.85	3.9	50.4	30.3	1.30
Subsaharan Africa	11.2	21.2	57.4	1.27	2.6	13.8	71.6	—	1.4	54.2	86.5	1.10
N. Africa	16.1	36.7	83.2	1.08	2.1	41.0	99.2	—	5.1	56.7	97.4	1.06
Yugoslavia	8.0	11.9	67.8	1.20	19.8	22.4	76.1	1.61	11.0	17.1	71.4	0.91
Rumania	8.6	12.4	46.6	1.72	5.0	29.2	50.5	1.05	6.7	22.9	70.8	0.87
Mexico	6.8	18.9	27.0	0.75	2.1	24.8	3.4	0.93	0.4	46.5	4.7	2.14
Brazil	5.6	22.9	45.5	1.14	8.9	43.2	28.2	0.83	2.1	46.6	31.7	1.48
Argentina	6.8	18.9	27.0	0.75	1.2	24.9	36.7	0.89	0.5	42.2	27.5	0.89
India	3.1	30.1	39.3	1.09	3.0	38.9	61.9	0.96	5.6	55.5	58.9	1.20
Pakistan	0.1	24.4	18.1	0.45	0.1	−11.2	56.8	—	1.1	24.5	64.0	0.96
Malaysia	0.3	43.2	21.3	1.14	4.4	121.2	17.4	1.03	1.7	63.9	48.6	1.11
Singapore	0.6	40.8	7.5	0.49	16.7	41.9	31.1	1.27	3.7	39.2	44.2	1.21
S. Korea	2.4	48.8	14.7	0.91	8.9	76.5	15.7	1.35	16.8	67.8	23.4	1.53
Philippines	0	1.2	1.3	0.02	1.3	67.2	18.0	0.55	2.2	63.9	29.2	1.10
Thailand	—	—	—	—	0.1	47.1	6.6	0.37	1.1	82.9	40.5	1.61
Hong Kong	0.2	20.6	12.2	1.40	15.6	31.8	29.1	1.33	36.6	19.5	36.8	0.92
Taiwan	1.6	12.7	11.7	0.67	11.8	48.7	15.9	0.61	11.7	37.1	18.8	0.58

(1) Share of individual ldc in exports of all ldcs to EEC (1977).
(2) Annual average growth of exports to EEC (1972–77).
(3) Share of EEC in ldc exports to OECD (1977).
(4) Growth of ldc exports to EEC (1972–77) divided by the growth of ldc exports to OECD (1972-77).

Note: Ldc total does *not* include Yugoslavia and Romania.
Source. Weston, Cable and Hewitt (1980) page 140.

have been stimulated by the GSP but the disaggregated data show that the major suppliers are in fact beneficiaries of more preferential treatment under the Lomé Convention and other agreements. The exclusion of Taiwan from the EEC scheme would appear to have led to lower growth rates in its exports to the EEC than exports from Republic of Korea or Singapore. Countries whose exports seemed to have benefitted from preferences include for chemicals - Brazil, India, Malaysia, and Hong Kong; for machinery - Malaysia, Singapore, Republic of Korea, and Hong Kong; and for miscellaneous manufactures - Mexico, Brazil, India, Malaysia, Singapore, Republic of Korea, Philippines, and Thailand.

53. A closer examination of EEC imports of 19 products at a more disaggregated level including some agricultural items, semi-manufactures as well as manufactures showed evidence of a positive preference effect for 8 products (handtools, ceramic bricks, electrical machinery, valves and diodes, watches and clocks, travel goods, tobacco, and other vegetable oils) but little effect for 4 products (handknotted carpets, cutlery, radios and toys) and a negative effect for the remaining 7 (crustaceans, rice, footwear, sports goods, plywood, non-electrical machinery and calf leather). But it was not possible to evaluate how much of this effect was due to the GSP rather than other factors.

54. Other studies have attempted to estimate the value of trade created by the GSP both ex ante and ex post. These usually postulate that the reduction of tariffs under the GSP will have two effects, firstly it will increase the demand in donor countries for imports from beneficiaries at the expense of domestic production, which is known as trade creation, and secondly it will divert trade from less preferred countries (mostly developed) to beneficiaries, known as trade diversion. To avoid confusion here the sum of these two effects will be referred here to as trade expansion.

55. The most comprehensive estimates of trade expansion have been made by Ginman, Pugel and Walter (1980) for ldc exports of manufactures to the US, the EEC and Japan, which account for 90% of ldc exports to OECD countries. Their results, shown in Table 3.8, suggest that as much as US $4.5 billion of ldc trade in 1976 was stimulated by the GSP, i.e. as much as 15% of EEC and 23% of Japanese dutiable industrial imports, though only 3.8% total imports. Murray (1977), applying the provisions of the 1976 schemes to 1970 trade data was less optimistic about the likely impact of the GSP on ldc trade. As the Table shows,

TABLE 3.8 Trade expansion under the GSP

(a) Ginman et al (1980)

(US $ million, 1976)

	(1) Trade expansion	(2) Total imports	(3) Mfn dutiable industrial imports[a]	(1)/(2)	(1)/(3)
EEC	1762	78012	11415	2.2%	15.4%
Japan	755	13458	3318	5.6%	22.8%
USA	2016	27601	na	7.3%	
	4533	119071		3.8%	

a i.e. in Chapters 25-99

Sources: Ginman, Pugel and Walter (1980) page 89 and Table 2.1 above.

(b) Murray (1977)

(US $ million, 1970)

	(1) Trade expansion with GSP restrictions	(2) Trade expansion without GSP restrictions	(3) Total imports	(4) mfn dutiable industrial imports	(1)/(3)	(1)/(4)
EEC	89	303	18175	1629	0.5%	5.5%
Japan	23	72	6906	3344	0.3%	0.7%
USA	169	233	7846	3152	2.2%	0.5%
	281	608	32927	8125	0.9%	3.5%

Source: Murray (1977), pages 97 and 106.

he estimated that the trade expansion effects would be equivalent to only 3.5% of dutiable industrial imports to the US, Japanese and EEC markets combined, though this was more than one quarter (27%) of imports actually receiving GSP. If restrictions on GSP use under the three schemes were removed the trade expansion would double. Moreover his method probably overestimated the effects of the GSP as it assumed that all goods eligible for GSP within the restrictions would receive it, yet often this is not the case because of failure to comply with rules of origin, non-tariff barriers, or even just inability to supply the goods.

56. The two studies also differ in their conclusions about which scheme is the most beneficial for ldcs as a whole. Both sets of results suggest that the US scheme offers the largest expansion relative to total imports but Ginman places Japan second and then the EEC, whereas according to Murray the Japanese scheme is least effective. Relative to dutiable industrial products, however, Murray puts the EEC first and the US third.

57. Ginman et al's result for the EEC is broadly supported by the work of Sapir (1980). Using regression analysis he estimated the impact of the EEC's GSP on imports from 10 leading beneficiaries[1] by comparing the value of their imports of manufactured goods to the original 6 EEC members over the period 1967-78 (i.e. 5 pre-GSP years and 7 GSP years) with EEC imports from a similar number of developed countries and with imports to four non-EEC countries from both groups. He found that, for the 10 beneficiaries, the trade expansion under the GSP over the seven years was as much as US $8,249 million or 44.8% of their manufactured exports to the EEC in those years, a proportion which increased over the period in consideration. The effect was pronounced for products in SITC 7 and 8, i.e. particularly labour-intensive products, which had high elasticities of demand as well as high post Kennedy round mfn tariffs (in the range 10 to 20 per cent).

1. The Argentine, Brazil, India, Republic of Korea, Malaysia, Mexico, Pakistan, Peru, Singapore, and Yugoslavia.

Leading products in this group were office machines (SITC 714), telecommunications apparatus (724), transistors (7293) and clothing (841). For products in SITC 6 (less 65 + 68) the GSP effect was not found to be significant probably due to the fact that mfn tariffs on these products were low, from 0 to 5 per cent. One problem with this study is that its sample included only the more developed ldcs, and for these countries other factors, such as foreign investment flows and subcontracting arrangements, might explain the effect which was attributed to the GSP. Had less developed ldcs been included the GSP effect would probably have been much less significant.

58. Murray (1980) shows that two factors in particular - inflation and a change in competitive position due to factors other than the GSP such as relative production costs - may account for a larger proportion of increased ldc trade than the GSP. On the basis of a sample of agricultural and industrial products covering 20% of ldc imports to the US (excluding leather products, copper and sugar, which were significantly affected by the competitive need criteria) in 1974 and 1977 he calculated that of the the total increase of US $1,537 million in US imports from ldcs (excluding leather,etc.) inflation accounted for as much as 65%, or US $1,000 million. The change in competitive position accounted for US $547 million, while the income effect was small but negative (-US $18 million). The GSP alone was responsible for only 14% of the change in the volume of imports, or US $485 million (at 1977 prices), i.e. less than one quarter of the trade expansion calculated by Ginman et al. In other words had the GSP not existed the volume of trade in these goods would have been 14% less.

59. The less well documented opinions of the GSP held by ldc exporters and developed country importers[1] suggest there are dangers in attributing too much importance to the GSP, in particular because it may divert attention from other factors stimulating or preventing trade. For instance importers in the EEC

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1. Discussed in Weston, Cable and Hewitt (1980), US House of Representatives (1980) and Kjellberg (1979).

stress that tariffs play a very minor consideration in their choice of suppliers and may often be outweighed by other factors such as reliability, quality control, credit terms and even freight costs. Many exporters even in the more advanced ldcs are still unaware of the tariff margin their goods receive under the GSP; their concern with their goods often ends once they have been despatched with the appropriate certificate of origin required for the GSP. For items on which tariffs are particularly high (i.e. 10% or more) and where GSP might be relatively important, there are usually restrictions on the amount of goods which may receive GSP. The uncertainty over whether goods will receive GSP or not, which arises from the way in which the restrictions are imposed, as well as uncertainty over the long-term future of the GSP means that even in these cases it can have little impact on investment.

iv. Impact on donors

60. Two major concerns of the donors have been to ensure that the 'burden' of the GSP is shared equally between them, and secondly to minimise the 'damage' caused by the GSP to their economies. The extent to which GSP constitutes a burden, other than in terms of foregone tariff revenue (discussed in para. 9 above), is a matter of debate. The damage to domestic producers can be measured from the amount of trade creation. According to Murray (1977) some 88% of the trade expansion under the GSP was due to trade creation rather than trade diversion, i.e. at the expense of domestic rather than less preferred exporters in other countries. But not all trade creation is at the expense of domestic producers; some reflects increased consumption resulting from the lower price of imports. Unfortunately the two effects have not been separated. Ginman et al (1980) found that the reverse was true - trade diversion accounted for 77% of their estimated trade expansion. In terms of employment Murray calculated that the cost to donors from increased imports in their own markets (import displacement) and their export markets (export displacement) was less than 25,000 or about 1% of the annual change in jobs in these countries.

TABLE 3.9 Estimated jobs displaced by GSP trade

	Jobs displaced
EEC	5,217
Japan	9,550
USA	3,057
Others	6,586
	25,410

Source: Murray (1977) page 110.

61. The US House of Representatives (1980) found no measurable impact of GSP imports on the US economy in terms of production, employment, or balance of payments. In fact the US is the only country where there is any systematic attempt to establish an association between these indicators and the GSP, and then only at the special hearings for the removal (or additions) of products to the overall list. More generally the withdrawal of the GSP on ldcs meeting the competitive need criteria in the US, on hitting the ceilings in the EEC and Japan, is automatic - even when there is no causal relationship between the GSP imports and injury to domestic industries.

IV. The GSP and the Tokyo Round

62. A major concern of many ldcs in the Tokyo Round of negotiations was that the mfn tariff cut would erode the benefits accruing to them under the GSP. Their dissatisfaction with the way in which tariffs were handled may be one reason why so few ldcs have signed the agreement to date. On average mfn tariffs are to be cut by one third over the 1980-87 period, though for some sensitive products the reductions were to be held over to 1982. For traditional ldc exports the cut will be one quarter but if potential ldc exports are included it amounts to 35%. According to GATT (1980)[1] mfn cuts would affect nearly one fifth of agricultural items covered by the GSP but 87% of ldc exports of

1. Page 40.

industrial items. In addition two thirds of trade in both agricultural and industrial goods not covered by the GSP would benefit from mfn cuts, as Table 4.1 shows.

TABLE 4.1 Ldc trade affected by mfn cuts (US $ billion)

	Agricultural goods		Industrial goods	
	Pre-MTN	Affected by mfn cuts	Pre-MTN	Affected by mfn cuts
Total	31.0	11.6	52.9	28.4
Mfn free	10.7	0.2	18.3	0.6
Mfn dutiable	20.3	11.4	34.6	27.8
Non-GSP	15.7	10.5	12.1	8.2
GSP-covered	4.6	0.9	22.5	19.6

Source: GATT (1980)

63. There has been a long debate over whether or not mfn cuts will benefit in the long run. Calculations by Baldwin and Murray (1977) and Cline et al (1978) on the basis of a full across-the-board 60% tariff cut (excluding textiles, footwear and petroleum products) suggested that ldcs would gain two or three times respectively in increased exports as much as they would gain under existing GSP schemes. Estimates of the effect of mfn tariff cuts on ldcs depend on how the GSP is expected to develop. For instance if the GSP were to become very liberal, the lost trade diversion resulting from mfn cuts would be much higher than if no change in the GSP were expected. This may explain why Ginman et al (1980) using 1976 trade data found that both the static and the dynamic effects of the MTN for ldcs would be negative.According to them the 5.2 percentage points average cut on US $12 billion of non-GSP items was insufficient to offset the cut in preferential margin by 3.2 percentage points on GSP trade worth US $16 billion. (In fact using the fiscal value approach discussed above, there would appear to be a net gain to ldcs of about US $110 million.)In the longer term they calculated that the tariff changes would lead to a diversion of trade from ldcs to mfn trading partners of US $19.1 million(or US $1.0 billion if textiles are not included),i.e. 0.4% (5.1%)of GSP covered imports to the EEC,Japan and the US.In other words trade creation of US $0.6 billion(or US $1.6 billion)resulting

from mfn cuts on products not covered by the GSP as well as on products subject to limitations would be less than trade diversion of US $1.7 billion on goods fully covered by the GSP.

64. One problem with this argument over the results of the MTN is that it considers ldcs as a whole, whereas in practice the costs and benefits are likely to be unevenly distributed between ldcs. Countries benefitting little will be those with exports of non sensitive industrial products on which GSP treatment has not in the past usually been restricted and agricultural goods on which no GSP or mfn cuts have been made. These will tend to be the middle income and less/least developed ldcs.

V. Conclusions and recommendations

65. Recommendations for the future of the GSP range at one extreme from the UNCTAD position calling for abolition of all duties on all imports from all developing countries, while at other there is the view that the GSP is no longer worth maintaining, partly because the average preferential margin is so low and partly because the countries who use it the most, need it the least. The recommendations considered here fall into a middle camp, based on the premise that donors are unlikely to accept the first position, while beneficiaries are unlikely to accept the second.

66. Even within this middle ground there is a wide range of options open for consideration.

i. Harmonisation and simplification

At present the GSP schemes differ in many ways - notably coverage, depth of tariff cut, rules of origin and safeguard mechanisms. These differences are confusing, particularly for the less advanced exporters and can act as a form of non-tariff barrier. The documentation required to qualify for the GSP (certificate A) has been made uniform for most schemes. Further steps are needed in this direction perhaps beginning with common rules of origin. Meanwhile donors should be addressing the need for simplification of their own schemes. The EEC's scheme, despite a recent attempt to make it more transparent is still complicated by four different types of restrictions on GSP treatment for imports according to their degree of sensitivity. For importers it can be very confusing. One peculiar feature of this GSP is that duty-free treatment of textiles and clothing is often less than the volume of imports allowed under the MFA. Allowing all quantity restricted textiles and clothing in duty-free would not affect trade flows, but ldc exporters would benefit from the duty removed.

ii. <u>Controls on the use of safeguards</u>

The issue of controls on the withdrawal of the GSP, which is often arbitrary, is somewhat more difficult. All three major schemes have established methods whereby the GSP may be withdrawn whether or not there is any limk between duty free access and damage to domestic industries. The system used by the US of open deliberations for the addition or removal of product headings should also be used when curtailing concessions at country level. A more open system should be adopted by other GSP schemes - in the EEC and Japan this would require the establishment of GSP information centres on the US model. Such centres would, through a more careful monitoring of the GSP, help to improve its use and its evaluation. A major problem will be in determining what constitutes grounds for removal of GSP. Measurements of damage have proved difficult in the context of other trade issues (particularly textiles) and the question remains what should be done once damage has been established. In the US, countries hitting the competitive need criteria in one year face GSP withdrawal in the second and if in that year imports fall below the criteria, the ldc is reinstated in the third year. But other donors may favour longer term withdrawal.

iii. Graduation

There is a general feeling amongst donors that even if damage to their economies cannot be proven withdrawal of GSP may be justified where a ldc accounts for a major share of GSP imports, to allow other ldcs a larger share of restricted GSP benefits - or even just to give exporters i less developed ldcs a margin over those in the more advanced who may be their major competitors. This argument has elements of truth; what is disturbing is that it may be used by protectionists to restrict competition - i.e. reducing GSP coverage of imports from the more advanced ldcs may merely result in less GSP trade overall in the short term. In the longer term, however, imports from the less developed ldcs may grow, particularly if they are given guarantees that no restrictions will be placed on their access to GSP (in effect that the GSP is made binding) The risk of low uptake may be necessary if the present deadlock in the GSP is to be broken. The EEC's system of graduation which involves giving more advanced ldcs GSP for fraction of their exports of sensitive products is unsatisfactory - the importers regard it as a lottery with little impact on their decisions. Eliminating some highly competitive ldcs altogether at a product level seems preferable for this reason - if it allows restrictions on others to be removed - though in some respects it increases the overall complexity of the schemes. An alternative would be for countries, such as Yugoslavia, Romania, Spain, Portugal and even Hong Kong, which many no longer class as ldcs, to be removed altogether from the GSP and in return GSP access for other ldcs liberalised. Although it would be difficult to decide the initial list of countries to be excluded the end result would be simpler to administer than the alternative of partial product coverage or partial tariff reductions.

iv. <u>Special measures for less developed ldcs</u>

A more positive form of graduation, from the view-point of ldcs, would be to extend the favourable treatment of the least developed ldcs. This could be done in a variety of ways, each with different implications for the donors: one option would be to extend duty-free coverage for all imports of agricultural and industrial items from lldcs, though for the latter to have any meaning the rules of origin would also have to be relaxed. At the other extreme, this treatment could be extended to all less developed ldcs.[1] At the very least the EEC's exemption of lldcs from restrictions on GSP should be followed by other donors, notably the US whose competitive need criteria have seriously affected some lldcs in the past.

v. <u>Increased agricultural coverage</u>

The GSP's coverage of agricultural products remains limited, even after the Tokyo Round in which some donors chose to make tariff cuts on agricultural goods only for GSP suppliers. Tariffs, and moreover effective tariffs, on a number of processed agricultural items are still very high, even though few interests in the importing countries seem to be affected. Sometimes where goods are covered by the GSP, the GSP tariff which remains is small but nevertheless constitutes a nuisance. In both cases improvements in the GSP should be considered, especially if the system is to benefit the less developed ldcs many of whose exports fall in the agricultural sector.

vi. <u>Non-tariff measures</u>

With the declining importance of tariffs as a barrier to trade additional measures to promote ldc exports will need to be considered. On the supply side, particularly in the less developed exporting countries, assistance in the form of a transfer of technology or even investment subsidies may be required, while at the importing end governments should commit themselves to removing non-tariff barriers. In the long run it may be found that the major barriers are in fact commercial, arising from the structure of production and distribution in the importing countries, and therefore beyond the scope of inter-governmental negotiations.

1. I.e. all ldcs eligible for IDA terms.

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