European Development Cooperation Strengthening Programme (**EDCSP**)

The Proposed New GSP:

Turning Away from Multilateralism

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Multilateral and regional trade preferences have gone hand in hand …

For over four decades, there have been two dimensions on which to compare EU trade policies towards developing countries: reciprocal or non-reciprocal; and bilateral or multilateral. All have offered partners better access to the EU market than the basic most-favoured nation (MFN) treatment that is the right of all WTO members. But reciprocal (unlike non-reciprocal) agreements have required a *quid pro quo*, and bilateral or regional deals have not been available to all developing countries.

In the most recent decade, there has been a contradictory set of changes on the two dimensions. On the one hand, there has been a sharp shift from non-reciprocal to reciprocal bilateral/regional agreements as, for example, the Mediterranean accords have been replaced by Free Trade Agreements (FTAs) and the trade provisions of the Cotonou Partnership Agreement for African, Caribbean and Pacific (ACP) states have been replaced by Economic Partnership Agreements (EPAs).

On the other hand, the non-reciprocal, multilateral Generalised System of Preferences (GSP) has been made much more liberal. Beginning life as the poor relation of EU development trade policy, covering fewer products with often higher tariffs than the bilateral/reciprocal accords (Stevens, 1981), the GSP has been transformed during the past decade by the Everything But Arms (EBA) regime for Least Developed Countries (LDCs) and the GSP+. The result: a basic minimum available to all developing World Trade Organisation (WTO) members, giving them a competitive advantage over the Organisation for Economic Co-operation and Development (OECD) suppliers without an FTA with Europe; and more liberal access for two sub-groups deemed to have special needs (Stevens et al., 2011).

… Until now

The EU is considering the new GSP regime that will apply from 2014 and, while the proposal does not detract from either of the special regimes, it removes the commitment to all developing WTO members. All Upper-Middle-Income Countries (UMICs) will be excluded from the GSP, even for products where they are not very competitive.

The justification for the change is that the UMICs are sufficiently well integrated into the world economy not to 'need' the GSP; and it will ease pressure on less competitive developing countries and hence will 'focus the GSP preferences on the countries most in need' (European Commission, 2011).

Neither claim stands up well to examination. UMICs are not a very close proxy for 'the most competitive developing countries'. Under the new regime, China will remain in the GSP but Cuba will be excluded; Indonesia and Thailand will remain in, but Gabon and Namibia will be out. Moreover, the GSP already includes a mechanism to remove preferences from any non-LDC on any product in which it is particularly competitive. This 'product graduation' will also be changed under the new GSP.

Nor are very poor countries likely to benefit – they tend not to be competitors in goods that will be affected by the removal of UMICs and the change to product graduation. Overseas Development Institute (ODI) research has shown that the most likely beneficiaries will often be high-income states which export the largest number of the affected goods (see Figure 1 overleaf).

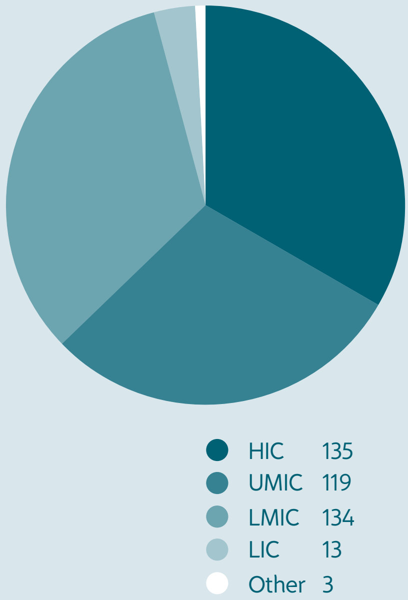
The effect: protectionism or a post-Doha policy shift?

One perspective on the proposed changes is that they reflect a retreat into protectionism but, if so, it is only a small step. The GSP already allows the EU to exclude the most competitive suppliers on a product-by-product basis; many UMICs have negotiated (or are negotiating) FTAs with the EU; and many of their most important exports receive no preference under the basic GSP regime. 'Small earthquake; not many killed.'

From another perspective, though, the expulsion of UMICs may have a more substantial impact, especially when seen against the background of EU arguments that the emerging economies should offer more to unblock the Doha Development Round. The GSP is justified in the WTO under the Enabling Clause that allows developed countries to offer preferences to *all* developing countries. It also allows discrimination by developed countries in favour of sub-groups of developing countries, but only if they share a widely recognised 'development, financial [or] trade need', if the differentiation is relevant to meeting this need and if it is clearly related to trade needs (WTO, 2004: Paragraph 164). A simple income-related cut-off that keeps in China but excludes Namibia is hard to square with this requirement.

What the new GSP does, therefore, is redefine what a developing country is within the WTO. UMICs will still be eligible for preferential access to the EU market (and compete head on with the poorest developing countries), but only if they agree FTAs, not by virtue of their WTO status as developing countries. This may not be the main intention of the change, but it is hard not to see it as a milestone on an EU path away from the centrality of a multilateral set of trade rules to protect all players (including the weakest states which WTO supporters would argue need it the most) towards a set of plurilateral arrangements within which each of the biggest economies is able to set the agenda more easily.

Figure 1: Most important sources of EU imports of key graduated products (shares)



Note: Income groups based on World Bank classifications at January 2011. 'Other' = countries not listed by the World Bank (other than Taiwan, which is included in high-income countries, HICs) and countries not specified in the trade statistics. LMIC = lower-middle-income country.

Source: Stevens et al. (2011).

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