

GSP-Plus Removal and the Apparel Industry in Sri Lanka: Implications and Way Forward

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Introduction

Given the heavy dependence on developed Western markets for its exports, Sri Lanka's apparel industry has been a sector significantly affected by the recent unfavourable developments in these markets. Added to dampened demand from such markets is the challenge posed by the withdrawal of the Generalized System of Preferences (GSP) Plus concessions granted by the European Union (EU) in August 2010. Moreover, under new GSP reforms that will come into effect in 2014, Sri Lankan exports to the EU are set to face higher tariffs, with competitors being eligible to several concessions. The lack of a level-playing field in exporting to the EU is a significant challenge Sri Lanka will have to face in the near future.

Several studies have examined the importance of the GSP Plus scheme for beneficiary countries. Onguglo (undated), analysing the importance of EU GSP preferences for all beneficiary countries, shows that the coverage and utilization rates by import value are considerably higher for GSP Plus at 74 per cent and 86 per cent respectively, compared to 38 per cent and 64 per cent for general GSP. Wijayasiri (2007) assesses the usefulness of the EU and US GSP schemes for Sri Lanka's exports using three indicators (coverage, utilization and utility rates). He finds that while close to 100 of apparel exports from Sri Lanka to the EU are eligible for preferential treatment, the utilization rate is low at 28 per cent, mainly owing to stringent rules of origin (RoO) criteria. De Mel et al. (2011) also analyse the utilization of various trade agreements in Sri Lanka using both primary and secondary data, and conclude that the utilisation rate of GSP has increased over the years – from 42 per cent in 2003 to 72 per cent in 2008 – especially after the GSP-Plus came in to place. A firm-level survey reveals that a majority of the selected firms use the EU GSP scheme and rate it as highly beneficial.

Objectives

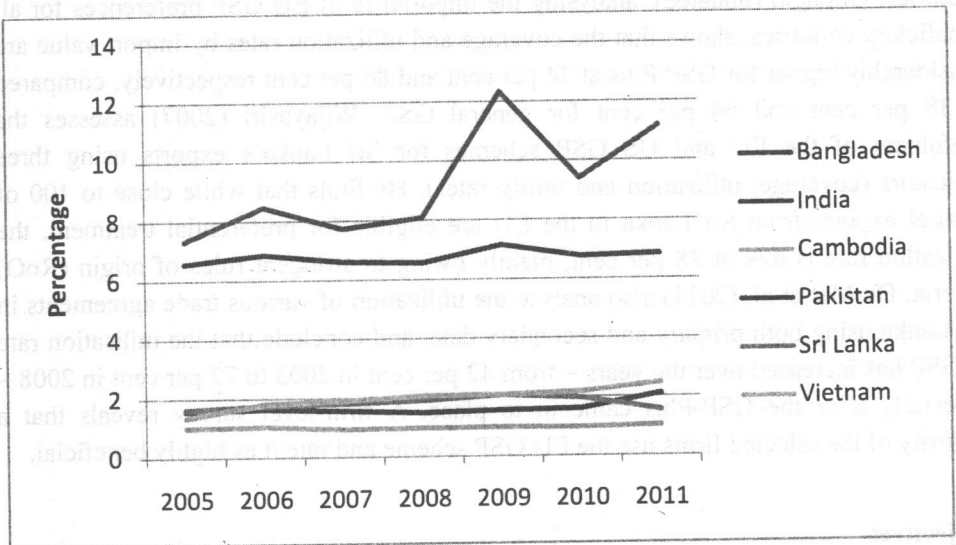
The focus of the studies on Sri Lanka has been mostly on the general GSP scheme and not so much on the GSP-Plus scheme in particular. The withdrawal of GSP-Plus

concessions and the importance of the EU as the prime destination of Sri Lanka’s apparel exports warrant a fresh look at the performance of Sri Lanka’s apparel industry. In this context, this study aims at assessing the current impact of GSP-Plus withdrawal on the Sri Lankan apparel industry, possible future impacts, and means of mitigating negative impacts and moving forward.

Methodology and Results

The study employed both primary and secondary data sources. Secondary data, obtained from the Department of Customs and the Department of Commerce of Sri Lanka, were used to analyse the impact on apparel exports to the EU following the withdrawal of GSP-Plus concessions. In particular, indicators of the usefulness of trade agreements including coverage, utilisation and utility rates were calculated for Sri Lanka’s apparel exports to the EU both under the general GSP and GSP Plus schemes. Results indicated that the GSP Plus scheme has played a significant role in penetrating the EU market compared to the general GSP scheme – utilization rates, which averaged around 35 per cent and 15 per cent for HS 61 and 62 product categories for the period 2002-2004 where only the general GSP preferences were available, increased significantly in the post-2005 period, peaking at 77 per cent and 55 per cent for HS 61 and 62 respectively in 2009 – the last full year in which GSP Plus was available. The rates for 2010 and 2011 show a declining trend in the absence of GSP Plus.

Figure 1: Export Shares in the EU Apparel Market, 2005-2011



Source: Own calculations using data from OTEXA, *US Imports of Textile and Apparel*. (<http://otexa.ita.doc.gov/scripts/tqads2.exe/ctrypage>) and the Market Access Database, Statistical Database. (http://madb.europa.eu/mkacddb2/statistical_form.htm)

Indeed, following the withdrawal of GSP-Plus, apparel export earnings to the EU recorded notable declines of approximately 10-15 per cent during 2012. Moreover, as illustrated in Figure 1 above, Sri Lanka's apparel export share into the EU market witnessed a steady increase after 2005 under the GSP-Plus scheme, but has recorded a significant decline in 2010 and 2011. The increasing export shares of regional competitors such as Bangladesh, India and Pakistan is also evident.

This analysis is complemented by interviews carried out with stakeholders in the Sri Lankan apparel industry, including apparel exporters to the EU and industry officials from the Joint Apparel Association Forum (JAAF), Sri Lanka Apparel Exporters Association and the Department of Commerce, with a view to obtaining their perceptions on the current situation and changes required in taking the industry forward. Such interviews revealed diverse viewpoints. One group acknowledged that loss of GSP-Plus would have a significant negative impact on the industry, especially by 2014 and beyond. Another group was of the view that, despite GSP-Plus removal, Sri Lanka's apparel exports would remain resilient in the future. They argued that many EU buyers gave more priority to factors such as long-standing relationships with suppliers, quality and reliability, and focus less on prices. This has indeed been observed in the case of large players in the industry, such as MAS Holdings and Brandix, which have established strong brands and reputation with buyers over the years.

Conclusions

The study concludes that, despite such favourable factors, the loss of GSP-Plus could bring about significant challenges to the Sri Lankan apparel industry due to several reasons. First, the EU GSP reforms in 2014 will give added advantage to Sri Lanka's competitors in penetrating the EU market. Second, the crisis in the EU and subsequent dampened demand means that there would be more focus on prices in the future. Third, apart from large garment exporting firms, many other small and medium industries with less of an advantage in terms of long-standing relationships are likely to feel the impact to a large extent, which could also lead to closing of factories and job losses for many rural poor.

Policy Recommendations

Thus, in looking to the future, Sri Lanka will have to find ways of mitigating negative impacts. One option is to fulfill the GSP-Plus criteria and regain some of its preferential access in the European market. However, this would be dependent on many political factors which remain highly uncertain. The need to diversify exports, both in terms of markets and products is another alternative receiving policy attention. The successful

penetration of new markets is, nevertheless, not an easy task. Given the lack of a level-playing field, increasing labour productivity and supply chain efficiency to remain competitive is key in moving forward and ensuring the sustainability of Sri Lanka's apparel industry.

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