The Significance of the EEC’s Generalized System of Preferences

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In 1986 the EEC’s Generalized System of Preferences will be entering its 15th year. In line with the Community’s decision for the granting of generalized tariff preferences for the period 1981-90 the time has come for an interim appraisal of the scheme with the aim of evaluating experiences gathered since the system was reformed at the end of 1980 and discussing modifications which may now seem expedient.

During the 14 years of its existence the EEC’s Generalized System of Preferences (GSP) has undergone frequent changes. Since the substantial reforms of the scheme in 1981 it has undoubtedly become much more liberal and there has been a lasting increase in the Community’s GSP-imports (cf. Table 1). The enlargement of the circle of beneficiaries was not the major precondition for a more widespread impact of the system. The extension of the product coverage by approximately 1,000 tariff items since 1971, together with a reduction of tariffs in the agricultural sector, were of much greater significance in this respect. The Community can quite rightly claim that of all the GSPs operated by industrialised countries its preferences to developing countries cover the widest range of industrial products.

Although trade in sensitive and semi-sensitive products accounted for over 50 % of total preferential trade on the average of past years, the change from quantitative controls to supplier-specific guaranteed minimum import levels led to a relaxation of the strict surveillance of imports. Individual tariff quotas and ceilings give the system a greater, albeit not sufficient, degree of predictability.

These measures have concomitantly provided the weaker supplying countries with better opportunities for conducting trade on preferential terms. Other reform measures, such as the determination of quotas according to “needs” in the field of the MFA textiles or the special measures benefitting the least developed of the developing countries (LLDCs), underline the GSP’s definite distributional policy orientation. With regard to the nine LLDCs actually covered by the GSP, the almost complete elimination of quantitative restrictions, the extensive range of preferential agricultural products, the complete tariff exemption, the decision by the Community not to apply the safeguard clause in the field of non-sensitive products, and the relaxed rules of origin have created a clearly improved preferential framework which can be utilised by LLDCs providing they have the corresponding production and exporting capacities. The well above-average utilisation of preferential export opportunities by the LLDCs and their slightly increased share in GSP trade indicate the success of the aforementioned measures. In addition, this reveals just how effective non-restrictive preferences can be (cf. Table 2).

Trade Liberalisation via Preferences

The Community’s system of generalized preferences plays an important part in the trade policy considerations of the beneficiary developing countries. The GSP of the EEC, the world’s most important export market, provides – in its present form – the Third World with the best exporting opportunities under preferential conditions. It can claim the greatest amount of actual preferential trade among all preference-giving industrialised countries and economic groupings. This leading position is strengthened even more if the EEC’s special preferential agreements with the developing countries of the Mediterranean region and the ACP states are also taken into account.

TRADE POLICY

The GSP is part of the Community’s wide-ranging preferential policy framework. In connection with the latter and the multilateral liberalisation of trade, it has contributed towards the dismantling of the Community’s tariff barriers in its trade with third countries.

From the point of view of the GSP-dependent developing countries, the GSP represents a substantial yet limited instrument of trade liberalisation. However, a substantial non-preferential and dutiable volume of imports still remains which is by and large covered by the product list of the GSP (cf. Table 3).

The analysis uncovers a number of shortcomings within the GSP system. Firstly, the scheme bypasses a considerable proportion of the dutiable imports from beneficiary developing countries; most of them are agricultural products (Chapters 1-24), for which the GSP only makes a limited offer to developing countries right from the start. Secondly, it has not yet been even possible to utilise half of the GSP’s preferential potential (cf. Table 3).

Nevertheless, the GSP’s rate of utilisation is higher than hitherto assumed and reached 47.1 % in 1982 (cf. Table 2). Furthermore, in contrast to the tenable opinion held so far there has also been an increase in the utilisation of preferences which was 41.3 % in 1976. Success in this respect, however, still leaves a great deal to be desired. Despite various reform measures the GSP still lacks the effectiveness it requires. This fact is confirmed by numerous empirical studies on the statistical and causal links between the granting of preferences and the export successes of beneficiary developing countries.

NICs the Main Beneficiaries

Only a few analyses provide evidence of truly extensive and significant preferential effects of the EEC’s GSP. Methodologically, however, they are not convincing enough to serve as a reliable evaluation yardstick. This applies both to methods based on elasticity as well as to those which work on the basis of (market) share concepts.

Accepting the imperfection of virtually all methodological approaches, gravity models are probably among the most suitable measurement concepts. If the findings of studies based on the gravity model conducted so far are combined with those established in our particular, much more extensively designed study,1 a positive, albeit limited link can be established between the development of imports and the granting of preferences. There is significant proof that the introduction of the GSP has brought about a sustained and continuous reduction in the former degree of discrimination against developing countries in their trade with the EEC. It is important, on the other hand, to note that the main beneficiaries of the increase in trade have been the newly industrialising countries (NICs), whose export product structure would appear to be much more strongly aligned to the GSP’s product structure than is the case for middle-income developing countries and LLDCs. A further striking finding is that the improvement was less pronounced in the case of the non-sensitive products, i.e. fully preferential products with no quantitative restrictions, than in the case of the

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1 Cf. A. Borrmann et al., op. cit., pp. 141 ff.