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Working Paper — Digitized Version

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Kiel Working Paper, No. 183

Provided in Cooperation with:

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Suggested Citation: Langhammer, Rolf J. (1983) : Ten years of the EEC's generalized system of preferences for developing countries: success or failure?, Kiel Working Paper, No. 183, Kiel Institute of World Economics (IfW), Kiel

This Version is available at:

<https://hdl.handle.net/10419/717>

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Kiel Working Papers

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Ten Years of the EEC's Generalized
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by
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ISSN 0342-0787

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September 1983

A 9 33 07 / 83
Weltwirtschaft
Kiel

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ISSN 0342-0787

Ten Years of the EEC's Generalized System of Preferences for Developing Countries: Success or Failure?*

Introduction

Treating unequal partners in world trade unequally has been one of the major targets of the Group of 77 in the international trading order for about two decades. Thus, the OECD countries were urged to improve the market access conditions for the developing countries' non-traditional exports unilaterally, that means without any obligation for the developing countries to lower their tariffs on imports from developed countries.

These so-called generalized preferences violated the GATT principle of non-discrimination. Non-discrimination, however, implied that tariff concessions were negotiated between the principle suppliers of goods, in most cases the developed countries, in order to achieve a maximum of reciprocal economic compensation for own concessions.

Developing countries as the lesser suppliers sat at the side-table and took the free-rider position. Urging for generalized preferences meant to make this implicit free-rider position explicit.

With the beginning of the seventies the Group of 77 formally succeeded in receiving preferences from OECD countries. Whether the preferences have stimulated the developing countries' manufactured exports during the last decade can be analysed at best by discussing principles and operations of the oldest GSP scheme, that of the European Economic Community¹.

* This paper draws upon a preliminary version of the author's contribution to a wider research project on "Participation of Developing Countries in the International Trading System" launched by the Trade Policy Research Centre, London. Comments made by Ulrich Hiemenz were most helpful.

Description of the EEC Scheme

The EEC scheme was the first of the OECD countries' unilateral concessions to be introduced on 1 July 1971. Its implementation underwent gradual changes over the following decade, whereas its fundamentals remained the same: a full tariff exemption for most of the beneficiaries' exports of semi-manufactures and manufactures (CCT 25 - 99) under various preconditions and within certain product- and country-specific annually fixed limits, a full or partial tariff exemption for some processed agricultures (CCT 1 - 24) under similar restrictions as for CCT 25 - 99 items, and a country coverage, which comprised the Group of 77 countries plus some dependent territories whose customs administrations were authorized to issue origin certificates. After the EEC enlargement the UK, Denmark and Ireland abandoned their national schemes and converted to the EEC scheme on 1 January 1974.

This scheme, which was initially based on a GATT accorded ten-years waiver of MFN treatment and hence subject to renewal of the tariff exemptions each calendar year, was extended to a further period of ten years in December 1980. It was thus brought in line with the replacement of the GATT waiver by an enabling clause on permanent differential treatment in the Tokyo Round as well as with the third UN development decade.

Product coverage: In the realm of semi-manufactures and manufactures only few items (unwrought mineral raw materials through the ingot stage, waste and scraps, some processed agricultures) are exempted from GSP treatment. In these items where MFN duties were greater zero, the EEC took ac-

count of vested interests of competing suppliers from African associates. About 96 percent of all semi-manufactures and manufactures have been GSP items from the beginning contrasting to processed agricultures where the EEC raised the number of GSP items from 145 in 1971 to 338 in 1983 (about 74 percent of all items). The fact that the greatest improvements in the product coverage were achieved between 1975 and 1977 (296 items) reflects the intention to compensate Asian Commonwealth countries for the loss of Commonwealth preferences which expired by 1978.

Depth of tariff cut: The preference margins, which GSP beneficiaries enjoy vis-à-vis non-beneficiaries equals the common external tariff in semi-manufactures and manufactures where full tariff exemption is granted. In this category the import value-weighted average preference margin for all items amounted to 9.6 percentage points in 1976. They were the highest for the so-called sensitive textiles (14.6 percentage points). Ranging the margins according to the degree of sensitivity (which is explained below) yields the following list: 14.6 percent for sensitive textiles, 12.1 percent for all sensitive products, 8.9 for all semi-sensitive products, 7.8 percent for all non-sensitive products and 6.8 percent for all agricultures².

Beneficiaries: In selecting the countries under GSP status, the EEC considered the Group of 77 membership as terms of reference (the so-called self-selection process). Thus, preferential treatment was denied to Taiwan and Israel and granted to Yugoslavia. Besides this group China and Romania were included in the list of beneficiaries in 1980 and 1974 respectively. For cotton textiles and substitutes the EEC confined the beneficiary status to those developing countries being contracting parties to the LTA (Long Term Arrangement Regarding Trade in Cotton Textiles). Since 1980 the Community links preferential treatment for products subject to the Multifibre Agreement (MFA) with bilateral

"voluntary" export self-restraints with the Community for these products³. In 1980 twenty-one countries and dependent territories (including Romania) plus nine LLDCs outside the ACP group were granted preferential treatment for MFA products⁴. Applications from member states' or third countries' dependent territories were approved if the above-mentioned origin certificate condition was met.

Hence, in 1983 125 independent countries were GSP beneficiaries. Sixty-three of them enjoyed special preferences under the ACP agreement and nine other mostly Mediterranean countries under bilateral agreements. These countries have the option of claiming preferential treatment under either system and thus choosing the more favourable one. In most cases special preferences have been at least equivalent in manufactures and far better in agricultures. Special rules in the GSP fixed in 1977 provided additional preferences for those least developed countries (LLDCs), which did not belong to the ACP group. For these countries the GSP product range has been extended to products like raw coffee and cocoa beans. Furthermore safeguards like ceilings and other quantitative restrictions under the GSP have been lowered for the LLDCs. It goes without saying that viewed against the background of the very low competitiveness of LLDCs in manufactures on world markets even a more open-ended GSP scheme has little economic impact.

Safeguards: The manifold safeguards in the EEC scheme deserve most attention since the critics on how the scheme works in practice focus on them. The scheme is often criticized as closed-ended and hence of little impact on trade flows in those goods where some developing countries have revealed clear comparative advantages and as highly discriminatory because of arbitrary "divide and rule" policies towards the group of beneficiaries.

Besides a general escape clause for processed agricultures similar to that of Article XIX of the GATT a lot of a priori limitation formulas exist for semi-manufactures and manufactures.

For each GSP item a ceiling is annually calculated on the basis of trade flows about three to four years ago. The sum of all ceilings denotes the annual "GSP offer" of the EEC. What is essential is the whether imports exceeding the ceilings face MFN treatment either automatically or facultatively or not at all.

To be brief, ceilings have not been relevant for non-sensitive items. These are products where imports are not assumed to threaten domestic production and employment. Ceilings on these products are not published and in the seventies member countries did not request a reimposition of duties under a general safeguard clause. In practice duty-free treatment for non-sensitive items is open-ended provided that administrative conditions (origin rules, correct formulas etc.) are met and that importers apply for GSP treatment at the customs.

The next category, the so-called semi-sensitive items existed until 1981. It included imports in borderline items which were assumed to disrupt the domestic market eventually. Ceilings were therefore facultative and partly under surveillance so that imports beyond the ceilings frequently faced MFN treatment at request of member states. Consequently a considerable amount of uncertainty on the sort of tariff treatment prevailed in this category which was abandoned for all industrial products except textiles in 1981. However, since most of the former semi-sensitive items became "sensitive", the most restrictive form of administering a ceiling, the surveillance was not lowered, just the contrary. In the sensitive items, which comprise goods competing strongly with domestic substitutes, the ceiling takes the form of a tariff quota. Those imports exceeding the quota automatically face MFN treatment. In addition, the tariff quota for each sensitive item is divided into fixed member state shares, so that GSP imports in a member state whose share is exhausted are only possible via another

member state whose share is not yet exhausted. These indirect imports cause additional costs and are only profitable if the additional costs are lower than the tariff saving. In practice indirect imports are frequently made, not only because of the GSP, but also because of short-term adjustments to changing marketing decisions on the wholesale level. In fact, the free circulation of goods within the EEC makes member state shares costly but ultimately useless. In recent times a community reserve allows for some inter-member state allocations of shares.

A further limitation, the maximum amount rule or "butoir", is based on one of the essential perceptions of GSP administrators that is "differentiation". It simply means cutting down the share of the cake (the strictly limited GSP offer in sensitive items particularly) eaten by the most competitive suppliers among the beneficiaries in order to guarantee some pieces of the cake for the smaller suppliers or the LLDCs. Till 1980 the butoir which denoted the maximum share of a ceiling which an individual beneficiary could use ranged between 50 percent for non-sensitive items and 15 percent for "hybrid" products. The latter category was characterized by some products, where few major suppliers frequently hit the normal butoir. In practice the butoir was often exceeded before the MFN tariff was reimposed. This happened because of time-lags in the information process between the member states and the EEC commission.

Since 1981 tariff quotas and butoirs are combined in a new sub-category of very sensitive items, where some competitive developing countries have been granted individual identical tariff quotas, not as a share but in absolute amounts. These amounts are again sub-divided into member state shares and strictly obligatory. Other GSP suppliers of very sensitive items face facultative ceilings and so do all GSP beneficiaries in another sub-category of less sensitive items⁵.

One can conclude from these changes that the anti-major supplier bias in special safeguards has been enforced at the beginning of the second GSP decade. This corresponds to the

intention of the EEC both to limit the GSP offer in sensitive items and to approach an "equal" distribution of this limited offer as far as possible.

Administrative constraints: Administrative constraints are said to be a major deterrent against a high share of imports in GSP-covered items which actually receive preferential treatment. Preferences are by no means automatically granted by the importing country's customs authorities. Instead they are bound to origin rules, which are typically restrictive in goods where domestic producers' interests are vested⁶, and to direct shipping requirements. The relevant documents have to be filled in by the exporter and have to be certified by authorized authorities in the exporting country. If, as it happened in China in 1980 and partly still in 1981, the correct origin certificate Form A is not available or unknown respectively, all other discussions on safeguards are redundant. GSP treatment will not be granted.

Administrative constraints simply follow from the basic character of the GSP that is differential treatment, not only of beneficiaries and non-beneficiaries, but also of more or less competitive beneficiaries. Thus, in order to realize the notion that the world trading partners should be divided into those who "need" a duty-free market access and others who "need not", origin rules are applied. By nature, GSP-induced export incentives and origin controls are interdependent. High incentives provoke the faking of invoices and the shipping of products to GSP beneficiaries which have not yet "eaten their piece of the cake" in order to get preferences after having made a final touch on the products in that country. Stricter origin controls will automatically follow, a costly and unproductive way of absorbing resources and a way towards a growing inattractiveness of preferences for those having comparative advantages in producing the goods.

Trade Effects of the EEC Scheme

Tackling the trade effects of the EEC scheme is possible by answering three subsequent questions:

Firstly, which effects occur theoretically?

Secondly, how can one measure the effects empirically?

Thirdly, can we explain the results of measurement by looking at the GSP in practice?

Trade effects in theory: To begin with, preferences may have an impact on the volume of imports as well as on their regional and sectoral structure. If the cut of tariffs on imports from beneficiaries is transmitted to the consumer, the relative import prices compared to prices for domestic substitutes will fall thus shifting the demand from the domestic substitute to imports. This direct static effect of a tariff cut is called trade creation according to the traditional customs union theory. An indirect dynamic trade creation effect would occur if investments would be launched in the beneficiary country in order to export under preferential conditions to the donor country. A discriminatory tariff cut may additionally change the price ratio between imports from beneficiaries and non-beneficiaries and thus lead to a shift of demand from the latter to the former sources. This effect is called trade diversion and affects the regional structure of the donor country's imports.

The sectoral structure of imports will be changed if preferences contribute to reduce or even - in the case of a full tariff exemption on intermediates and finished goods - eliminate the effective rate of protection of both categories. This would give developing countries having comparative advantages for instance in labour-intensive finished goods a competitive edge against those domestic suppliers whose domestic value added is more effectively protected than it is expressed by the nominal rate of protection. This holds because of tariffs escalating with the stage of processing. Theoretically, such a very important effect should arise in the EEC, where with the exceptions of some processed agricultures tariffs on intermediate and finished goods are fully exempted in the GSP⁷.

Empirical measurement of trade effects: Turning to the second question of empirical measurement, several approaches are introduced in the following which have different reference systems (and have also different pitfalls). Firstly, one may compare actual EEC imports "with GSP" with hypothetical imports "without GSP" during the period in which the EEC scheme operated. This is done in the first measure by which the development of the EEC and US import market penetration is compared for the 1972/75 period, when the US GSP scheme was not yet operating⁸. On a country level such a "with" and "without" comparison would also be applicable to imports from Taiwan as a non-beneficiary and say South Korea or Singapore as a beneficiary⁹. Secondly, one may include dummy variables reflecting the GSP status of a country in cross-sectional regression analyses. These regressions should explain bilateral trade flows between donor countries on one hand and beneficiaries and non-beneficiaries on the other hand by demand and supply conditions in both countries as well as by trade resistance factors, besides the GSP status. Calculated on a yearly basis before and after the introduction of the GSP, the change of the estimated coefficient of the dummy in an upward direction may signal the growing intensity of trade between donor countries and GSP beneficiaries over time (gravity-model approach)¹⁰.

A third method applies the traditional approach of measuring trade creation as the percentage change in the price of imports to the consumer caused by the tariff cut multiplied by the price elasticity of demand for imports. This percentage reduction in the price of imports is multiplied by the initial value of imports from beneficiaries before the introduction of the GSP. Under various assumptions on the substitutability between imports from either beneficiaries or non-beneficiaries and domestic production trade diversion would become trade creation multiplied by the ratio between imports from non-beneficiaries and domestic production¹¹.

A fourth approach refers to the rigidity of the assumptions on trade diversion estimates by trying to measure ex post

elasticities of substitution between imports from privileged and non-privileged sources.

Bearing the manifold apriori limitations of the EEC scheme and their possibly discouraging effects on imports in mind, one may finally introduce a fifth "plausibility" approach, that is to refer to the actual amount of GSP-receiving imports and to discuss whether it is reasonable to expect trade creating and trade diverting effects as well as effects on investment at all under the above-discussed limitations¹².

EEC-US comparison during the pre-GSP period of the US (1972-1975): Turning to the first approach we measure changes in import-apparent consumption ratios in the EEC and US/Canada¹³ between 1972 and 1975. Though the import penetration ratios in manufacturing are rather similar in both areas, the validity of such a comparison may of course be questioned because of other divergencies in the two areas' demand patterns in general and during the covered period in particular. Therefore, any conclusion from a comparison should only tentatively be made, especially in view of the short period and the possible difficulties in the EEC to disseminate the GSP and get the scheme running.

To introduce the concept, gross trade creation is expected to have emerged if the change in the share of imports from developing countries the beneficiaries was larger in the EEC than in the US during this period. On the other hand trade diversion is assumed to have occurred if the change in the share of imports from non-beneficiaries (the developed and centrally planned economies) in apparent consumption was larger in the US/Canada than in the EEC. A negative trade diversion would indicate that EEC imports from non-beneficiaries as a proportion of apparent consumption increased by more (or declined by less) than the corresponding change in the US/Canada context, thus indicating an effect contrary to that one would expect under an effective GSP. This is just what the results suggest (appendix table 1). On the average US manufactured imports from the developing countries increased by more under non-preferential conditions than did

the corresponding EEC imports under the GSP. The pattern is reverse in textiles and clothing where the GSP was restrictive from the very beginning as well as in rubber and non-metallic minerals; two sectors, where the GSP did not play a major role. With regard to imports from non-beneficiaries the results yield that EEC imports from non-beneficiaries either increased by more or declined by less than in the US/Canada. Hence, the less favorable treatment did not deter non-beneficiaries from penetrating into the EEC market more rapidly than did the same group of countries in the US market under relatively better conditions. To conclude, a GSP effect in the theoretically expected direction of positive trade creation and diversion effects does not emerge from applying this approach.

The gravity-model approach: The second empirical concept, the so-called gravity-model approach, has been tested by Sapir (1981) with SITC data for the EEC during 1967 and 1978. He came out with the result that the dummy variables reflecting the GSP status of an exporting country in bilateral trade flows were statistically significant only in 1973 and 1974. Somewhat better results were achieved for disaggregated trade flows in the SITC 7 and 8 categories.

This test has again been applied for the 1978-80 period with a smaller sample of bilateral trade flows (140 instead of 180 in Sapir's study) and some other minor modifications. The major difference to the reference study, however, is that instead of SITC data BTN total import data of only those manufactures were used, which were imported under the GSP (appendix table 2). The data were disaggregated by sensitivity categories in order to test the theoretically expected hypothesis that the beneficiary status led - if at all - to more intensive trade flows in non-sensitive than in sensitive items.

The results do not give much rise to a positive assessment of GSP trade effects. For all GSP items the dummy reflecting the GSP status is significantly negative throughout the three years. The same outcome emerges for the individual

categories except for non-sensitive agricultures where the GSP effect is indeterminate. There is only one major deviation from this pattern (sensitive textiles, 1980) where the coefficient turned to be significantly positive. This is the more surprising as the explanatory power of the independent variables was by far the weakest in this heavily protected category for the two other years. However, in general, trade relations between the EEC and the other western industrial countries which did not receive preferential treatment proved to be still more intensive at the end of the seventies than trade with the major GSP beneficiaries.

There are several factors explaining this result:

- the free trade arrangements between the EEC and former EFTA countries in manufactures,
- the importance of neighbour trade in Europe reflected by the overall negative sign of the trade resistance proxy in the gravity model,
- the positive impact of high income levels, both in exporting and importing countries on bilateral trade flows fostering intra-industry specialization,
- the quantitative restrictions in standardized and labour-intensive consumer goods facing successful LDC suppliers on European markets and
- the still rather limited product spread of these suppliers compared to the wide range of products in intra-DC trade.

To be brief, though the GSP covers airplanes, computers, cars and other high technology machinery, preferences do not at all affect the developed countries' competitiveness in these products. This is just what is expressed in the gravity model. Furthermore, some developed countries, such as the US, practice marginal cost pricing on EEC markets for simple mass consumer goods (t-shirts), because of excess capacities in domestic production, and can therefore compete with LDC suppliers.

The traditional trade creation measurement: The third approach, measuring trade creation traditionally via tariff

cuts and price elasticities of demand, does not construct the antimonde world "without GSP", but simply assumes that the GSP tariff cut will result in an equivalent import price cut under the small country assumption (no change of export prices) and will thus raise the imports from beneficiaries above their initial level before the introduction of preferences.

Following this approach and under the assumption of no MFN tariff reduction Baldwin/Murray (1977) estimated trade creation effects in the range of twenty-two to twenty-five percent of 1971 EEC imports of GSP products.

Notwithstanding the assumptions on the size of price elasticities of demand, these estimates must be questioned because of the lacking data base on EEC GSP-receiving imports prior to 1973. In this year the EEC started to record GSP-receiving imports. Prior to 1973 only data on GSP-covered imports (total imports from GSP beneficiaries in GSP tariff items, Baldwin/Murray's base) and GSP-eligible imports (GSP-covered imports coming within the tariff quotas in sensitive items and the ceilings in semi-sensitive and non-sensitive items, shortly the preference offer) were available.

Therefore, the first year to start with trade creation estimates should be 1973. In this year GSP-covered imports, GSP-eligible imports and GSP-receiving imports amounted to EUA1790m, EUA1250m and EUA610m respectively. That means that only 34 percent of GSP-covered imports in 1973 actually received GSP treatment (Borrmann et al., 1979, table 27, p. 89). Since more than 50 percent of the 1973 GSP-receiving imports referred to non-sensitive products there must be other reasons than apriori limits which explain this low share. Some of these reasons are discussed below.

Turning to the trade creation measurement, Baldwin/Murray's estimates hold under the assumptions of an average GSP preference margin of about 10 percentage points and an average price elasticity of demand of about -2.5.¹⁴ However, only

about one-third of GSP-covered imports benefited from the tariff cuts and thus consumers could enjoy import price reductions only for this share of GSP-covered imports. The relative import price reduction multiplied by the price elasticity should therefore be further multiplied by this share so that GSP-induced trade creation would be reduced to about eight percent of GSP-covered imports.

With regard to trade diversion, Baldwin/Murray did not estimate elasticities of substitution between imports from GSP beneficiaries and non-beneficiaries but instead calculated trade diversion as trade creation weighted by the share of imports from non-beneficiaries to domestic production. These estimates should be therefore revised too. By considering the relation between GSP-covered and GSP-receiving imports total trade expansion (trade creation plus trade diversion) would only be in the range of eight to nine percent of GSP-covered imports instead of twenty-three to twenty-five percent.

Elasticities of substitution: The second-best character of the trade diversion measurement leads us to the fourth concept, that is to estimate elasticities of substitution between EEC imports from GSP beneficiaries and non-beneficiaries. Here, the pitfall emerges that one has to rely on import unit values and quantities because of lacking market price data. However, if the estimates are based on individual non-sensitive GSP items (on the 4- or 6-digit BTN level) instead of on baskets and indexes, the shortcomings of this approach seem to be less serious¹⁵. Such an approach has been pursued in the following. Sensitive or semi-sensitive products were excluded from the sample because of both the quantitative restrictions, which were assumed to suppress consumer reactions to changing price ratios, and the low share of duty-free trade in total trade.

The estimate in fact reveals a theoretically plausible and statistically significant elasticity of substitution (-1.10) between EEC imports from beneficiaries and non-beneficiaries according to changes in relative prices which

occurred between 1970 and 1972, when the preferences were introduced. A ten percent reduction of relative prices on imports from beneficiaries due to the average preference margin would thus have resulted in an eleven percent increase in import quantities from beneficiaries in relation to import quantities from non-beneficiaries.

The crucial question still rests, whether this empirical observation has its roots in the preferences. In view of the conceptual shortcomings (lacking data on market prices, possible product heterogeneity, overlap with simultaneously happened price changes ruled by other determinants than tariff changes) scepticism is justified. As the observed elasticity seems to be rather small in view of the two years period, so is trade diversion.

In general, this result may especially hold for the EEC, which has established extensive free trade arrangements in manufactures with the EFTA countries, so that as major non-beneficiaries and relevant supplier of manufactures only Japan and the USA emerge. Since the overlap between the manufactured export supply of these two countries and of the beneficiaries is likely to be low given the different resource endowments, one may argue that the trade expansion effects of the EEC GSP scheme are based - if at all - on trade creation.

The "plausibility" concept: The shortcomings which are inherent to all empirical antimonde concepts of measuring GSP trade effects give rise to more intuitive "plausibility" reasoning by looking at the GSP in operation. In addition to the HWWA benchmark survey for the 1973/76 period, disaggregated EEC data on these imports are available since 1978, for some individual EEC member countries since 1973, for instance for West Germany. These are the sources which underlie the following discussions. Priority is given to the period since 1978 in order to account for lacking dissemination of the scheme among the importers in earlier years.

The most important feature to be drawn from these data is that the above-mentioned one third share of GSP-receiving

imports in GSP-covered imports for 1973/76 did not rise over time (appendix table 3), though the scheme became more disseminated. The share fluctuated between 27 percent and 33 percent for all products during 1978-81. The data also reveal that there are large differences in this share according to individual EEC member countries (to be discussed below) and to different GSP categories. The latter ones deserve our attention, for the preferences have not always been used more extensively in non-sensitive than in the restricted sensitive items. In the largest category, the non-sensitive industrial products (except textiles), where limitations should not matter, preferences were also used only by one third in general. The fact that by 1981 most semi-sensitive items were placed in the sensitive category accounts for the jump of the share in sensitive industrial products. Utilisation rates are better in non-sensitive agricultures and especially in non-sensitive textiles. However, even in the latter category, where relatively high preference margins act as an incentive to apply for preferential treatment, the GSP was used only by less than three quarters. Very low shares of GSP-receiving imports in sensitive industrial items prior to 1981 and in sensitive textiles throughout the period reflect the marginal value of the GSP given the strict tariff quotas in these categories.

These findings support Cooper's above-cited assumption that there is no trade effect at all in the case where imports exceed the quotas. There seems to be a strong case for arguing that most of the beneficiaries' exports to the EEC in privileged items became possible under MFN- and not under GSP-conditions. This would mean that the EEC GSP scheme did not contribute to reduce the costs of marginal imports and hence did not provide a direct trade incentive at the margin. Instead it allowed for some "windfall" profits on intra-marginal imports to be used sometimes - as West German traders underlined - for lowering the prices of marginal imports. It is likely but not evident that importers apply a "mixed pricing" between imports receiving preferences and others which do not, so that an indirect GSP trade incentive may occur at the margin. Some importers argued that this is

done especially for cheap products and special offers, where the price for the consumer is the main, if not sole determinant of retail trade competition.

The low share of GSP-receiving imports also depreciates the effect of the GSP on lowering effective rates of protection. In some cases of agricultures where intermediates, for example fish meal, are imported duty-free and where the finished good (beef) is excluded from the GSP, the effective rate of protection of this good even increases.

The reasons for these major results from the GSP in operation are manifold and point to far ranging restrictions in the administration of preferences. On the other hand, importers stress that especially in high quality products as well as in fancy goods requiring a lot of marketing flexibility, the price is only one among various other determinants of market success. A cost-benefit comparison between the indispensable delays in customs clearance associated with the application of preferential treatment and the preference margin of mostly less than ten percent of the cif-price would therefore often lead to the decision in favour of a rapid, but dutiable market access. In addition, the more diversified and less organized the wholesale and retail market would be, the more often it would happen that wrong customs formulas are filled in by small importers and exporters, leading automatically to the denial of preferential treatment.

Dynamic trade effects of the GSP: Did the EEC GSP scheme encourage the establishment of foreign direct investments in beneficiary countries exporting to the home country under preferential conditions? It goes without saying that preferences may influence investment decisions at the margin, but fail to be the only determinant to invest. Quantifying this marginal contribution by interviewing the investors is hardly promising, since the numerous quantitative and qualitative aspects cannot be made equivalent and comparable. The weight of preferences in the investment decision finds it parallel in the relevance of export-processing zones or more general,

free zones in developing countries offering tax holidays. The considerable differences in the success of free zones throughout the developing countries underline that tax holidays are only a complement to other macro- and micro- economic resources available in the host country and are ineffective without them. In this regard duty holidays conceded by the importing country could be a further stimulant to export processing zones. However, the restrictive origin rules in the EEC GSP disqualify many offshore assembly activities for GSP treatment.

Additionally, those export-oriented investments which take the GSP into account, claim for stable export market access conditions during the pay-off period. The discretionary element in the EEC GSP to concede preferences for each product unilaterally year by year does not meet this claim. Though the reformed EEC GSP since 1982 provides some stability over a four-years period, no EEC country government can give a legally binding guarantee that an individual product exported from an individual GSP beneficiary country will be granted the same GSP treatment during this period. This especially holds for products exported by the advanced suppliers. The export dynamism of these suppliers induced the Commission to make a difference between the general medium-term framework of the scheme and its detailed implementation to be adjusted annually. Thus, for an investor who decides on a production plant for an individual product in a specific developing country, the uncertainty of market access has not been reduced by the reformed GSP. Especially in highly price-elastic goods this may shift the investment risk above the tolerable level¹⁶. The higher the degree of sensitivity of the product is and the more successful the beneficiary export expansion is, the higher this uncertainty will be. An export-oriented investment in non-sensitive products like Volkswagen in Mexico exporting car equipment and the "beetle" to West Germany under GSP conditions is therefore far less affected by the uncertainty than the foreign investments in standardized labour-intensive consumer industries or in steel.

The Distribution of the Benefits from the EEC Scheme

By discussing the benefits from the GSP and its distribution, two effects within the static framework have to be separated, the welfare effects (trade expansion as the sum of trade creation and trade diversion) and the income distribution effect, that is the amount of tariff revenues forgone pocketed either by the importer or the exporter. One may further look upon welfare effects either from the world's or the individual country's point of view. In the former view trade expansion may give rise to a negative evaluation of its welfare content if it is mainly composed of trade diversion, whereas in the view of the beneficiary this impact is positive. Talking on distributional aspects in the EEC framework should include an evaluation of the "burden sharing" discussion among EEC members since unilateral trade liberalization also involves the above-mentioned two points of view. In this respect unilateral trade liberalization of an individual country may be politically unacceptable if all other countries are mercantilist and nationalist¹⁷.

To begin with, the inter-beneficiaries' distribution of both GSP-receiving imports and MFN dutiable imports in GSP items in 1973 and 1981 allow for some insight which countries could have gained from the EEC GSP (appendix table 4). It is interesting to note that the ranking list of the ten largest suppliers under GSP conditions underwent considerable changes during the eight years under consideration. Whereas Yugoslavia held the top rank in 1973 (about one third of the EEC GSP-receiving imports), the country has disappeared from the 1981 list. Instead, Romania whose status as a developing country can be questioned and Brazil moved upwards followed by the export phalanx of East/Southeast Asian countries. The cases of Iran in 1973 as well as of Romania, Venezuela and Saudi Arabia in 1981 witness that the GSP covers products like some medium and heavy oils or petroleum gases (MFN tariff 1.5 percent!) which hardly suffer from market access barriers. With these products the EEC blows up its "GSP offer" without stimulating trade.

In general, the ranking list exhibits a growing number of countries mainly from the Asian sphere participating in the GSP, so that the ten largest suppliers accounted only for about two third of all GSP-receiving imports in 1981 compared to more than 86 percent eight years ago. What seems to be more relevant is the extent to which the countries' GSP-covered exports actually received preferential treatment. In this respect the countries range between two poles. The one pole is set by a country like Venezuela (to less extent Romania too) whose GSP-covered exports in total receive preferences. Such a country exports only non-sensitive products (in the extreme case only oil derivatives), has no problems with origin rules and distributes its products by GSP experienced traders. The other pole is a country like Hongkong, exporting a lot of sensitive products with strictly applied limits to duty-free access, and facing origin rules which disqualify many of its GSP-covered exports for GSP treatment¹⁸.

The other countries are in between these poles with South Korea ranging next to Hongkong. Comparing the two poles makes clear which gains would be theoretically achievable if the EEC would not discriminate the export supply of a country like Hongkong against the supply of a country like Venezuela. There is no trade creation effect in the Venezuela case because domestic substitutes do not exist for a Ricardo good like oil derivatives. Nor do trade creation effects arise in the Hongkong case, where the GSP-covered products do not qualify for GSP treatment, because the beneficiary is fully integrated in the international division of labour and imports intermediates from the cheapest source. With respect to the welfare effect the Venezuela case reveals that even GSP-covered imports which are equal to GSP-receiving imports do not guarantee for a GSP-induced welfare increase via trade creation, if the comparative advantage is mostly determined by the natural resource endowment of the beneficiary.

Turning to the income distribution effect, one may first estimate the amount of tariff revenues forgone irrespective of whether this amount is pocketed by the importer or transferred to the exporting countries. Under the assumption of a zero price elasticity of demand in the relevant range and of an average preference margin of ten percentage points, the tariff revenue loss in 1981 amounted to about EUA850m, that is the preference margin multiplied by the amount of GSP-receiving imports. To put this figure into perspective, it equals 8.4 percent of total DAC development aid in 1981. However, this is not the relevant reference system since it is by no means guaranteed that this amount accrues to beneficiary exporters. Theoretically this depends on the relation between price elasticities of demand and supply. In practice an essential precondition of an aid transfer to the exporting country would be that the exporter knows that his product enters the EEC under GSP conditions. This is not the case for sensitive items, which in 1981 accounted for 50 percent of total EEC GSP-receiving imports.

To quote an example: German importers order tiles from South Korea, which is one of the "very sensitive" products with country-specific tariff quotas. The South Korean exporter fills in the right origin certificate, the products are shipped to Hamburg in autumn and are stored there in a bonded warehouse till January 2nd. They are then declared to the customs but it is not until February that the individual importer gets to know whether he was lucky to receive a piece of the tariff quota which is usually exhausted for this product within the first January week. The exporter in South Korea does not receive any information about which part of his exports to West Germany entered the market duty-free. Under this scenario of uncertainty, the importer will price the goods under MFN conditions, and he will look upon the received preferences as an unexpected gift to be used perhaps for subsidization of further sales by special offers or discounts to the retail trade. There is no chance for the exporter of sensitive goods to anticipate preferential treatment and thus to raise his export prices in advance by the

amount of the preference margin. Even if the uncertainty would not exist in the case of tariff quotas preallocated to traditional importers, the aid transfer to the exporter is not likely to occur, given the ubiquitous nature of low-priced sensitive goods and the high intensity of competition on the markets of those goods. Typically buyers' market conditions prevail so that the importers may rapidly replace suppliers by one another. In economic terms, the small country assumption holds. For non-sensitive and non-standardized products with open-ended ceilings the preconditions for an aid transfer are certainly better, unless the independent price bargaining between importers and exporters is conditioned by transfer pricing. This could occur in intra-firm trade such as in the Volkswagen case where intermediates are exported to the parent company under GSP conditions.

In general, the aid transfer element in the EEC GSP shrinks to a quantité négligeable if we only take non-sensitive products into account and if we assume that the tariff revenues forgone are fully distributed to the individual GSP beneficiaries. Under these conditions the aid transfer accruing to Brazil, the largest exporter of non-sensitive GSP items, would have amounted to EUA45m in 1981, which in fact are peanuts compared to the country's current account deficit in the same year of US\$13100m.

The mirror of the benefit sharing among beneficiaries is that of the burden sharing among EEC members. One may argue that without large benefits there is no burden to be shared. However, this global macroeconomic view has been widely displaced by the politicians' sectorally confined view of job losses in vulnerable industries and of an "equal" share of each member in this burden. For that reason the EEC determined the global "absorptive capacity" of each member by such crude criteria as population, GNP and foreign trade. The member state shares¹⁹ formed from these criteria are with few exceptions the same for all products. This of course does not hold in practice, where the shares differ by products widely.

Appendix table 5, which records the intra-EEC distribution of GSP-receiving imports of sensitive and semi-sensitive items in recent years, exhibits that there is no conformity between the arbitrarily fixed shares and the distribution in practice. Throughout the 1978-81 period French imports fell short of their share whereas West Germany, the UK and Italy in some cases exceeded theirs. The extraordinarily high share of Italy in sensitive industrial goods reflects the country's imports of oil derivatives from Romania, Venezuela and the Netherlands Antilles and should therefore be regarded separately. Too much should not be made from this distribution although different national interests and protectionist attitudes may have an influence on it. Thus, France is evidently the proponent of a rather restrictive way of applying preferences by paying tribute to strong pressures of domestic entrepreneurs and of some ACP exporters. The UK on the other hand has tried to continue its world market orientation in agricultural products from the pre-integration period.

If one adjusts these figures by differences in the domestic market size of the members (that is by calculating duty-free imports per GDP unit) it turns out that in 1981 West Germany as well as the UK or the Benelux countries imported twice as much as France in sensitive products including textiles. A similar difference between France and the other EEC members emerges if instead of the GNP the population is taken as the numéraire. This pattern fits well into the observations cited by insiders of EEC internal negotiations on the annual GSP concession schedules. Here, the French delegates are characterized as being leading in introducing new restrictions into the scheme in addition to their individual possibilities to delay and to impede the customs clearance process at the French borders. In this respect, the imitation effect as well as the political tensions which arise from the discrepancies between major and minor "bearers of burden" within the Community give more rise to concern than the protectionist attitudes of a single member country.

Consequences of Administrative Rules for the Benefits from the GSP

Administrative rules, under which the monitoring and control of tariff quotas, ceilings, butoirs, origin rules and direct shipping certificates have to be subsumed, are the most crucial barrier to the effectiveness of the GSP. This cannot be changed unless its underlying philosophy to suppress successful suppliers in order to guarantee other pretendedly competitive beneficiaries a piece of the cake is abandoned. It would require a deeper insight of politicians into the allocative benefits of unilateral trade liberalization in products where the beneficiaries have comparative advantages instead of granting preferences in goods where tariffs are redundant. Administrative rules are nothing else than government interference into the regional and sectoral structure of GSP-receiving trade according to politically determined criteria such as an "equal distribution of benefits" and the "burden sharing principle". Having already discussed this above, one may mention another effect of rules which are newly determined each calendar year, that is the effect on the temporal rhythm of trade and production. Trading under preferences with closed-ended quotas is like a game of hazard which has its heyday in January each year and then slows down until the beginning of the next year. Production and transportation may adjust to this rhythm by closing production plants in developing countries for some months in order to minimize storage and transportation costs of sensitive items.

How rapid the exhaustion of tariff quotas for sensitive items takes place in some cases under a greyhound system is exemplified by the West German GSP-receiving imports in sensitive items (appendix table 6). In 1982, for example, Brazil had "eaten its guaranteed piece of the cake" in sensitive textiles already by 94.7 percent within January. This is admittedly an extreme example which no other country

achieved. In general, country-specific tariff quotas in industrial products (excluding textiles) were almost completely exhausted by seven large exporting countries in the course of the year, but not within one month. Only in the case of India the utilisation rate remained at a relatively lower level (83.2 percent). Utilisation rates in textiles were generally lower and fluctuated widely between the countries which seems to be the consequence of the restrictive origin rules as discussed in the Hongkong case. During 1977 and 1982 the run on scarce tariff quotas became more intensive due to the transition from normal butoirs (in percentages) to country-specific tariff quotas (in absolute amounts).

Eroding preferences for successful suppliers and splitting the Community into ten preference-conceding sub-areas involves a further element of uncertainty and unattractiveness for beneficiaries: the administrative rules are published so late that the exporting countries cannot adjust to changes compared to preceding years. It is not even possible to get to know the exact GSP status and the rules for an individual product one week before the new scheme comes into operation. Preferences for 1982, for example, were approved by the Council on December 7, 1981, and were published in detail in the Official Journal of December 21, 1981, which itself came into public not before December 30, 1981, five days before the run on tariff quotas for 1982 started. The same happened for the 1983 preference scheme, which was published in the Official Journal of December 23, 1982. Though draft schedules of the Commission are available earlier as recommendations they cannot be anticipated as final decisions, since the Council uses to change details which are essential for individual exporters²⁰.

To be short, apart from the general doubtfulness of a closed-ended scheme, rules are scheduled much too late by the Council. They are highly discretionary and cannot be extrapolated from the Commission's recommendations.

Exporters and importers who have to decide on ordering, shipping and storing much earlier in the year will therefore decide under uncertainty in bordercase items and will consequently set their prices under MFN conditions. A trade expansion effect as mentioned already above is under such conditions unlikely, at least indeterminate in the case where importers subsidize marginal imports by preferences received on intra-marginal imports.

Conclusions

In essence, the EEC GSP scheme involves a "rational protectionist's view of preferences" (Johnson), that is to control the amount and allocation of benefits through quotas among the beneficiaries. Preferences for developing countries which proved to be competitive with products in which the EEC countries have a visible comparative disadvantage are frozen or even reduced. On the other hand, preferences for developing countries which up to now failed to convert a potential comparative advantage into a revealed comparative advantage are extended. The initial pretension of the EEC to establish a non-discriminatory preference scheme in the sense that it would apply to all developing countries in the same way, does not pass the test after a decade of enforced discriminating operations against competitive beneficiaries.

The question whether the EEC GSP scheme proved to be a success or failure, can be answered in the way that by no means it has satisfied the objectives of those developing countries whose export-orientation strategies should have been assisted by the EEC. During the first ten years of the scheme two major tendencies in the EEC trade policy have adversely affected the GSP: Firstly, the trend towards sectorally specified barriers against individual successful suppliers. This trend has been fully incorporated in the GSP reform of 1980 and seriously depreciates the scheme. Secondly, there is the shift from tariff barriers to non-tariff barriers. Tariffs at the present level are no longer the most crucial barriers to entry, and thus the GSP is no longer

the most efficient way to eliminate export disincentives on the demand side. The first-best strategy to do so could be to ease quantitative restrictions. However, just in those textile sectors, where tariffs are still relatively high, the GSP strenghtens non-tariff barriers by linking preferential treatment to export-self restraint commitments of individual developing countries.

In short, the GSP of the eighties is a side aspect but not the core of market access conditions. This does not exclude that on a micro-level the GSP has some merits. It is on this level where improvements along the lines of more open-ended long-term guaranteed GSP conditions for individual products from any beneficiary should be conceded. The perspectives of reform should be the view of export-oriented investors in developing countries who are engaged in a world-wide intra-industry specialization and thus see themselves restricted by the GSP origin rules in splitting the production process inter-nationally. Furthermore the investors claim for stability of GSP provisions during the pay-off period. This seems to be a much more important investment determinant than a preferential tariff of zero.

However, too much efforts in fighting protectionism should not be invested in the GSP reform. This fight will be won or lost on the field of non-tariff barriers, and here the rapidly growing newly industrializing countries have a large potential of reciprocity to offer.

References

- 1 See for a comprehensive review of all OECD countries' GSP schemes, OECD (1983).
- 2 Axel Borrmann et al., Das Allgemeine Zollpräferenzsystem der EG, (HWWA Institute, Hamburg: Weltarchiv, 1979), p. 135.
- 3 The link between export self-restraint agreements and GSP treatment is strictly applied. South Korea which exceeded the deadline (30 November 1982) for signing the latest agreement by six weeks (13 December 1983) was subjected to the "penalty" that its textile exports received preferential treatment only from 1 February 1983. Since most of the importers were not aware of this, they had to pay the duties after declaring the imports in early January, whereas few well-informed importers waited until February and then collected an "information rent".
- 4 It is characteristic for the GSP in practice and hence worth mentioning that the EEC calculated a "competitiveness" indicator for preferential treatment of MFA products by multiplying the GNP per capita of a beneficiary by the beneficiary's share in EEC textile imports from all beneficiaries. The higher this indicator, the lower the EEC fixed the duty-free share in the beneficiary's textile exports to the Community and vice versa. Thus, Hongkong being at the top rank according to the indicator received a two percent duty-free share of its 1977 textile exports to the EEC in 1980, whereas Sri Lanka exporting 0.04 percent of Hongkong's textile exports to the EEC in 1977 got a sixty-five duty-free share.
- 5 See Ann Weston, 'Who is More Preferred? An Analysis of the New Generalised System of Preferences', in: Christopher Stevens (Ed.), EEC and the Third World. A Survey. 2. Hunger in the World (London: ODI/IDS., 1982), pp. 73 - 86.

- 6 An example of the restrictive nature of origin rules: To qualify a radio or TVset for GSP treatment requires firstly that the import content does not exceed 40 percent of total value, secondly that at least 50 percent in value of the intermediates originate from the country demanding preferences, and thirdly that all the transistors originate from the country too. Especially the last provision disqualified many products from Southeast Asian countries for GSP treatment since because of strong economies of scale these countries imported transistors from Japan and the US. It seems obvious that the EC included this provision to the full knowledge of this division of labour in order to build in a break to duty-free imports of radios and TVsets.
- 7 An example from the pre-Tokyo Round situation: EEC imports of raw jute are duty-free, whereas jute yarn and jute fabrics face an eight percent tariff and twenty percent tariff respectively. The domestic value added content of jute yarn at world market prices amounts to about 46.7 percent and for jute fabrics twenty-five percent. The effective rates of protection of jute yarn and jute fabrics are 17.1 and fifty-six percent respectively. If the nominal rate of eight and twenty percent are fully exempted in the GSP (without limits), the nominal preference margins against non-beneficiaries amount to eight and twenty percentage points. However, related to the domestic value added, they are much larger: 11.4 and forty percentage points respectively. The effective rate of protection for both products would be zero. See for a lucid discussion on this effect of preferences Harry G. Johnson, 'Trade Preferences and Developing Countries', Lloyds Bank Review, London, February 1966, pp. 1 - 18. Johnson, Economic Policies Toward Less Developed Countries (Washington: Brookings Institution, 1967), pp. 170 - 181.

- 8 See for an application of this method to the EFTA and EEC foundation EFTA, The Effects of EFTA on the Economies of Member States (Geneva, 1969) and EFTA, The Trade Effects of EFTA and the EEC 1959-67 (Geneva, 1972); Mordechai E. Kreinin, Trade Relations of the EEC. An Empirical Investigation (New York: Praeger, 1974), Chapter 3.
- 9 See Ann Weston, Vincent Cable, Adrian Hewitt, The EEC's Generalised System of Preferences. Evaluation and Recommendations for Change (London: Overseas Development Institute, 1980), p. 138.
- 10 See André Sapir, 'Trade Benefits under the EEC Generalized System of Preferences', European Economic Review, Amsterdam, March 1981, pp. 339 - 356.
- 11 See Robert E. Baldwin und Tracy Murray, 'MFN Tariff Reductions and Developing Country Trade Benefits Under the GSP', The Economic Journal, London, March 1977, pp. 30 - 46.
- 12 This approach draws upon Cooper's apriori assumption that there is no trade effect at all in the case where imports exceed the quotas, because then beneficiaries are competitive on the Community market without the help of preferences. By competing with one another they can bid down the sales price even on duty-free imports to the same level prevailing on dutiable imports. Under these conditions those EEC importers receiving and pocketing the quotas are the only beneficiaries. See Richard N. Cooper, 'The European Community's System of Generalized Tariff Preferences', The Journal of Development Studies, London, July 1972, p. 382.
- 13 Canada which established its scheme by mid-1974 is included because of data constraints. Since the Canadian share in the total imports of both countries is low, the distortion effect is estimated to be low as well.

14 In 1973 the average import value-weighted GSP preference margins in the EEC amounted to 10.1 percentage points (Borrmann et al., tables 14 and 43).

15 The following cross-product equation has been estimated

$$\ln \left(\frac{q_{is}^1}{q_{is}^0} / \frac{q_{js}^1}{q_{js}^0} \right) = a_0 + a_1 \ln \left(\frac{p_{is}^1}{p_{is}^0} / \frac{p_{js}^1}{p_{js}^0} \right) + e_s$$

where q_{is} and q_{js} are the quantities of EEC imports from all GSP beneficiaries i (less developed countries including Yugoslavia excluding Taiwan) and all non-beneficiaries j (developed and centrally planned economies excluding Yugoslavia and including Taiwan) in the non-sensitive manufactured product s , and p_{is} and p_{js} are the unit values respectively. The indices 1 and 0 denote the years 1972 and 1970. The estimate based on thirty-six non-sensitive items exceeding a value of imports from GSP beneficiaries of EUA2m in 1980, yielded the following regression coefficients (t-values in paranthesis):

a_0	a_1	R^2
-0.480	-1.099	0.422
(3.62)	(4.99)	

16 For example, a West German project to build up a parka production plant in Sri Lanka designed for exports to the EEC almost failed, because the West German Ministry of Economics could not guarantee the GSP status of this product.

17 This view has prominent fathers. See for example Joseph A. Schumpeter, The Influence of Protective Tariffs on the Industrial Development of the United States (New York: Academy of Political Science, 1940), pp. 2 - 7.

18 In 1981 Hongkong exported men's and boy's shirts of synthetic textiles fibres (BTN 6103-11) worth EUA161m to the EEC. Only 0.5 percent of these exports entered the market duty-free under the GSP. This very low percentage has nothing to do with the tariff quota, since there was no

MFN duty reimposed on Hongkong exports. The reason is that this product was not considered as originating from Hongkong under the GSP rules of origin, because Hongkong imports the fabrics, whereas the rules only allow that the yarn is imported. It is therefore possible that the 0.5 percent received preferential treatment "erroneously".

- 19 The actual distribution of 80 percent of the global tariff quota for each product is as follows (in percent): Benelux 10.5, Denmark 5, West Germany 27.5, Greece 2, France 19, Ireland 0.5, Italy 14.5, and UK 21. The share for plywood and veneer and five other sensitive agricultural products are different in order to take account of the UK's traditional imports from the two ASEAN commonwealth members Malaysia and Singapore. A so-called community reserve (20 percent of the global tariff quota) to be allocated to EEC countries which have already exhausted their shares and are prepared to import more on a duty-free base, should allow for more flexibility. However, much more flexibility than by this bureaucratic procedure is provided by the indirect imports and the duty-free circulation within the EEC, once a product has entered the market.
- 20 The changes may affect either the GSP status of a product (for example titanium oxides (BTN 28.25), which was recommended by the Commission as a non-sensitive product for 1982, but was changed into a sensitive product by the Council) or the amount of tariff quotas (for example in leather clothing (BTN 42.03) where the Council cut the tariff quotas recommendation of the Commission by 5 percent and included China, Hongkong and Romania in the list of very competitive beneficiaries in addition to the Commission which proposed South Korea only). In general, the Council changes the recommendation of the Commission in a restrictive direction.

Appendix Table 1 - Estimated Trade Creation and Diversion by the GSP
in Manufacturing, 1972/73 to 1974/75, in Mill. US-\$

Industry	Gross Trade Creation ^a		Trade Diversion ^b	
	in Mill. US-\$	in percent of EC9 Im- ports from Developing Countries 1972/73	in Mill. US-\$	in percent of EC9 Imports from Developed and Centrally Planned Eco- nomies 1972/73
Food, beverages and tobacco	- 350	- 12.7	- 54	- 1.3
Textiles	45	5.3	- 428	- 28.2
Clothing	122	8.7	- 832	- 52.1
Wood products, paper and printing	- 95	- 15.0	- 1119	- 16.4
Rubber	9	78.3	4	1.5
Chemicals	- 124	- 13.8	72	1.7
Non-metallic mineral products	6	32.5	- 87	- 17.1
Ferrous and non-ferrous metals	- 18	- 0.9	1024	20.8
Transport equipment	- 66	- 58.1	663	22.0
Machinery and other manufactured goods	- 485	- 59.2	- 1292	10.0
Total	- 956	- 10.1	- 2049	- 5.1

$$^a \text{ GTC} = \left[(m_{EC}^1 - m_{EC}^0) - (m_{US}^1 - m_{US}^0) \right] C_{EC}^1 \text{ resp.}$$

$$^b \text{ TD} = \left[(m_{US}^{*1} - m_{US}^{*0}) - (m_{EC}^{*1} - m_{EC}^{*0}) \right] C_{EC}^1$$

where GTC and TD denote gross trade creation and trade diversion respectively, m denotes the ratio between imports from beneficiaries and apparent consumption, m* denotes the ratio between imports from non-beneficiaries (non-LDCs) and apparent consumption C, the indices 0 and 1 the years 1972/73 and 1974/75 average and the indices EC and US the importing areas of the European Community (including UK, Ireland and Denmark) and the USA plus Canada.

Appendix Table 2 : Gravity Model Analysis for the Effect of EEC GSP Beneficiary Status on Bilateral Trade Flows^a

Import Category		Constant	Regression coefficients on explanatory variables						\bar{R}^2	n
			Y_1	Y_j	N_1	N_j	D_{1j}	P_{1j}^{GSP}		
1978	Total GSP items	-0.040	0.427 (2.59)**	0.888 (3.48)**	0.024 (0.16)	0.024 (0.09)	-0.426 (3.98)**	-1.11 (3.37)**	0.665	140
	Sensitive industrial products	-3.306	0.229 (0.81)	1.207 (2.75)**	-0.031 (0.17)	-0.031 (0.89)	-0.404 (2.21)**	-1.609 (2.84)**	0.428	133
	Semi-sensitive industrial products	2.437	0.170 (0.80)	0.837 (2.53)**	0.255 (1.30)	0.067 (0.18)	-0.631 (4.57)**	-2.020 (4.74)**	0.602	140
	Non-sensitive industrial products	-0.428	0.793 (4.35)**	0.594 (2.11)**	-0.209 (1.25)	0.439 (1.40)	-0.635 (5.38)**	-1.106 (3.04)**	0.717	140
	Sensitive textiles	-0.241	-0.381 (2.20)**	1.512 (3.98)**	0.71 (4.05)**	-0.944 (2.03)**	-0.545 (3.11)**	^b	0.305	122
	Non-sensitive agri- cultures	-8.189	0.381 (1.82)	1.202 (3.71)**	0.027 (0.14)	0.137 (0.38)	-0.281 (2.07)**	-0.287 (0.69)	0.515	137
1979	Total GSP items	-1.730	0.502 (2.90)**	0.993 (3.56)**	-0.032 (0.21)	-0.107 (0.34)	-0.427 (3.91)**	-0.798 (2.39)**	0.642	140
	Sensitive industrial products	-5.059	0.299 (1.16)	1.108 (2.66)**	-0.136 (0.58)	-0.245 (0.53)	-0.143 (0.88)	-0.516 (1.04)	0.358	133
	Semi-sensitive industrial products	1.382	0.474 (2.02)**	0.671 (1.77)	-0.008 (-0.04)	0.199 (0.46)	-0.663 (4.45)**	-1.147 (2.53)**	0.537	139
	Non-sensitive industrial products	-3.561	0.769 (4.11)**	0.958 (1.26)	-0.212 (1.25)	0.065 (0.34)	-0.611 (5.68)**	-1.245 (3.44)**	0.726	140
	Sensitive textiles	2.790	-0.397 (2.12)**	1.212 (2.56)**	0.793 (4.25)**	-0.498 (0.93)	-0.672 (3.62)**	^b	0.309	131
	Non-sensitive agri- cultures	-12.509	0.296 (1.28)	1.618 (4.33)**	0.109 (0.52)	-0.505 (1.20)	-0.128 (0.87)	0.07 (0.16)	0.515	138
1980	Total GSP items	0.240	0.410 (2.37)**	0.858 (4.89)**	0.022 (0.14)	0.093 (1.20)	-0.424 (4.02)**	-1.014 (3.05)**	0.668	140
	Sensitive industrial products	-3.900	0.225 (0.86)	0.975 (3.67)**	-0.053 (0.24)	-0.049 (0.16)	-0.074 (0.46)	-0.751 (1.49)	0.381	133
	Semi-sensitive industrial products	-1.553	0.444 (2.11)**	0.946 (4.44)**	-0.063 (0.33)	-0.026 (1.06)	-0.544 (4.25)**	-1.152 (2.85)**	0.608	140
	Non-sensitive industrial products	-2.724	0.717 (3.83)**	0.857 (4.53)**	-0.135 (0.82)	0.195 (0.91)	-0.558 (4.90)**	-1.419 (3.96)**	0.738	140
	Sensitive textiles	-2.889	0.240 (0.96)	0.959 (3.78)**	0.202 (0.90)	-0.146 (0.51)	-0.628 (4.13)**	2.756 (5.74)**	0.530	133
	Non-sensitive agri- cultures	-9.262	0.253 (1.13)	1.365 (6.04)**	-0.035 (0.18)	-0.414 (1.62)	-0.087 (0.64)	0.073 (0.17)	0.478	135

^a Estimated by the following trade flow equation :

$$\log X_{ij} = a_0 + a_1 \log Y_1 + a_2 \log Y_j + a_3 \log N_1 + a_4 \log N_j + a_5 \log D_{1j} + a_6 P_{ij}^{GSP}$$

where X_{ij} = the dollar value of i's exports to j (in thousands of EUA, EEC import value data were used); Y_1, Y_j = the nominal GNP of countries i and j in millions of US-dollars; N_1, N_j = the populations of countries i and j in millions; D_{1j} = the geographical distance between the commercial centres of i and j in miles; P_{ij}^{GSP} = a dummy variable for trade between the EEC countries and GSP beneficiaries which takes values 1 and 0 to indicate the status of GSP beneficiary or non-beneficiary of country i; log = refers to natural logarithms.

Exporting countries i, which are non-beneficiaries = Australia, Austria, Canada, Finland, Japan, Norway, Sweden, Switzerland, Taiwan and the United States. Exporting countries i, which are beneficiaries = Argentina, Brazil, India, Malaysia, Mexico, Romania, Singapore, South Korea, Thailand, Yugoslavia. Importing countries j = West Germany, France, Italy, Benelux, UK, Ireland and Denmark.

The values in parenthesis are t-statistics; an asterik means significant at the 5 percent level.

^b F-level insufficient for further computation in a step-wise regression analysis.

Appendix Table 3 : Percentage Share of GSP-Receiving Imports in GSP Tariff Items, 1978-1981, by GSP Categories and EC Member Countries

	Year	Sensitive industrial products (except textiles)	Semi-sensitive industrial products (except textiles) ^a	Non-sensitive industrial products (except textiles)	Sensitive textiles	Semi-sensitive textiles	Non-sensitive textiles	Sensitive agricultural products (tobacco type Virginia, cocoa butter, canned ananas)	Semi-sensitive agricultural products (raw tobacco)	Non-sensitive agricultural products	Total agricultural products, semi-manufactures and manufactures
EC	1978	14.9	29.1	31.2	7.1	49.8	65.0	25.3	31.1	40.6	26.8
	1979	12.4	40.1	33.7	8.8	63.2	62.9	42.5	35.2	18.4	26.2
	1980	16.6	40.8	34.3	11.7	50.4	71.0	47.9	20.1	38.2	30.9
	1981	38.2		36.2	9.5	37.9	71.3	34.5	44.1	44.1	32.8
West Germany	1978	14.8	42.9	57.1	5.3	70.4	64.9	40.5	79.0	56.3	36.5
	1979	11.5	46.1	57.0	4.2	71.8	57.7	37.9	74.4	17.5	29.9
	1980	10.6	46.5	54.0	6.1	54.4	81.3	33.1	20.2	52.2	32.8
	1981	39.5		51.2	7.6	43.2	69.5	34.0	52.9	52.9	34.6
France	1978	8.7	24.0	20.8	9.6	42.8	31.1	2.9	7.7	24.0	19.1
	1979	8.5	15.8	22.4	10.2	64.5	38.3	2.7	-	14.3	16.2
	1980	7.9	6.9	21.7	11.7	56.3	43.8	2.9	-	25.5	14.9
	1981	12.2		23.9	12.5	44.5	48.2	4.2	41.7	41.7	20.3
Italy	1978	8.5	16.4	17.1	0	1.3	30.7	0	38.1	28.2	16.2
	1979	6.8	76.7	24.2	17.9	31.9	42.8	42.4	-	14.4	31.2
	1980	7.7	79.1	25.2	19.6	41.5	31.1	100.0	-	28.9	47.0
	1981	62.6		33.1	17.6	23.2	27.8	47.7	30.3	30.3	46.9
Benelux	1978	10.1	15.6	15.8	0.3	1.8	72.8	3.3	-	51.2	17.1
	1979	9.3	12.5	18.3	0.7	-	68.8	23.1	-	20.2	15.7
	1980	10.5	24.3	28.3	19.1	29.4	68.5	23.4	25.1	44.8	27.1
	1981	53.2		42.1	7.6	32.8	74.5	19.5	51.3	51.3	40.4
UK	1978	21.2	34.7	31.8	16.5	48.3	92.8	28.0	11.1	38.7	30.1
	1979	17.2	44.8	33.4	20.7	82.1	90.3	53.6	56.2	30.0	33.3
	1980	33.5	37.7	31.3	16.2	52.0	89.5	64.8	22.9	35.0	32.1
	1981	26.4		35.7	9.7	33.6	98.6	46.1	39.7	39.7	27.8
Ireland	1978	15.6	11.7	28.7	7.7	10.7	56.7	35.9	-	23.7	19.6
	1979	12.4	13.2	37.8	9.4	9.0	100.0	40.1	0	23.2	22.1
	1980	12.3	25.1	33.3	8.5	15.1	39.6	45.0	2.1	20.0	24.0
	1981	19.1		58.2	10.9	25.2	100.0	34.3	98.1	98.1	33.3
Denmark	1978	29.2	34.4	69.3	26.1	67.8	79.5	67.0	75.3	80.9	45.1
	1979	24.6	48.9	58.6	16.6	71.7	78.7	61.1	65.8	14.5	33.1
	1980	29.4	47.0	60.0	10.0	47.7	98.0	63.1	55.9	48.6	37.2
	1981	43.9		61.8	8.7	31.9	95.6	47.6	38.5	38.5	35.5
Greece	1981	0.8		1.7	0.5	0.1	13.4	5.1	-	1.4	1.7

^a Abandoned in 1981.

Source: Microfiche data provided by the Statistical Office of the European Communities.

Appendix Table 4 - EEC GSP Imports from the Ten Largest Beneficiaries, 1973 and 1981

1973			1981		
Beneficiaries	Share in GSP receiving imports from total beneficiaries	Share in MFN dutiable imports in GSP items from total beneficiaries	Beneficiaries	Share in GSP receiving imports from total beneficiaries	Share in MFN dutiable imports in GSP items from total beneficiaries
Yugoslavia	33.9	33.4	Romania	9.4	1.9
South Korea	10.1	6.5	Brazil	8.7	5.2
Brazil	8.5	4.8	Venezuela	7.2	0
Iran	6.9	11.5	Hongkong	7.0	17.9
Argentina	5.7	3.5	China	6.9	3.7
Hongkong	5.1	11.3	India	6.9	4.5
India	4.9	3.6	South Korea	6.6	10.0
Singapore	4.1	6.3	Saudi Arabia	4.5	4.8
Mexico	3.8	2.5	Malaysia	4.4	2.6
Pakistan	3.8	2.7	Philippines	4.1	1.8
Total of the ten largest suppliers	86.8	86.1	Total of the ten largest suppliers	65.7	52.4

Sources: Axel Borrmann et al., op.cit. - Statistical Office of the European Communities.

Appendix Table 5 : Share of EEC Member States in GSP-Receiving Imports of Sensitive and Semi-Sensitive Items, 1978 - 1981

Category	Year	West Germany	France	Italy	Benelux	UK	Ireland	Denmark	Greece	EC
Sensitive industrial products (except textiles)	1978	33.8	8.1	4.0	10.2	38.1	0.8	5.0	—	100.0
	1979	29.4	9.2	5.1	9.4	41.5	0.8	4.8	—	100.0
	1980	21.3	7.6	4.4	6.9	55.4	0.7	3.8	—	100.0
	1981	22.1	7.1	40.0	16.4	12.1	0.3	2.0	0.0	100.0
Semi-sensitive industrial products (except textiles)	1978	50.9	7.7	10.5	10.1	16.3	0.7	3.8	—	100.0
	1979	35.1	6.2	32.2	5.5	15.2	0.4	5.4	—	100.0
	1980	25.5	4.0	49.1	10.1	8.3	0.4	2.7	—	100.0
	1981	—	—	—	—	—	—	—	—	100.0
Sensitive textiles	1978	37.1	15.0	0	0.6	37.8	0.4	9.0	—	100.0
	1979	22.2	14.9	15.0	1.1	41.7	0.5	4.6	—	100.0
	1980	22.8	9.8	13.4	18.6	32.5	0.3	2.6	—	100.0
	1981	31.9	13.7	14.0	8.7	28.5	0.6	2.6	0	100.0
Semi-sensitive textiles	1978	63.1	9.5	0.2	0.4	21.8	0.1	4.8	—	100.0
	1979	67.6	8.6	3.1	0	18.3	0	2.4	—	100.0
	1980	52.5	18.6	5.8	6.6	13.9	0.1	2.5	—	100.0
	1981	49.3	17.1	7.2	9.3	15.1	0.0	2.0	0	100.0
Sensitive agriculture (tobacco type Virginia, cocoa butter, canned ananas)	1978	27.4	1.0	0	1.6	63.9	2.5	3.7	—	100.0
	1979	14.9	0.5	4.1	7.7	69.5	1.7	1.6	—	100.0
	1980	16.2	0.5	8.2	7.9	64.2	1.4	1.6	—	100.0
	1981	25.7	0.9	3.9	9.2	55.9	1.8	2.3	0.3	100.0
Semi-sensitive agriculture (raw tobacco)	1978	56.5	1.7	5.1	—	15.3	—	21.5	—	100.0
	1979	37.4	—	—	—	29.7	0	32.8	—	100.0
	1980	34.8	—	—	45.2	10.6	0	9.7	—	100.0
	1981	33.6	0.0	0.0	39.4	20.4	0	6.6	—	100.0

Sources: Eurostat, Microfiche Statistics.

Appendix Table 6 : Utilisation Rate^a of Tariff Quotas for Sensitive GSP Items on the West German Market 1977 and 1982,
by Major Beneficiaries

Beneficiary				Brazil	Hongkong	India	Singapore	South Korea	Thailand	Yugos- lavia
Utilisation Rate		All products ex- cluding textiles	1977	9.7	25.6	2.9	0.9	41.6	5.0	30.1
			1982	96.6	99.6	83.2	97.4	97.1	-	100.0
		Textiles	1977	17.4	61.5	25.0	8.6	18.8	14.0	11.0
			1982	98.6	82.1	75.6	68.0	99.5	89.3	-
Percentage share of products in GSP-receiving imports of sen- sitive items on which the MFN tariff was re- imposed within	the first month of the year	All products ex- cluding textiles	1977	11.4	49.4	4.8	18.2	50.9	1.6	9.5
			1982	18.3	40.1	-	-	27.1	-	40.5
		Textiles	1977	16.3	-	41.4	15.9	43.2	85.5	6.8
			1982	94.7	35.9	18.9	9.0	37.2	18.8	-
	the first quarter of the year	All products ex- cluding textiles	1977	23.6	78.1	4.8	18.2	82.2	1.6	91.7
			1982	46.1	84.5	-	-	65.3	-	100.0
		Textiles	1977	41.4	37.5	97.2	100.0	81.9	99.7	9.5
			1982	97.7	62.8	77.8	55.9	86.9	54.3	-
	the first half of the year	All products ex- cluding textiles	1977	23.8	87.0	39.5	18.2	82.2	1.6	93.4
			1982	46.1	84.5	-	-	73.7	-	100.0
		Textiles	1977	43.4	37.5	97.3	100.0	83.3	99.7	9.5
			1982	97.9	67.7	77.8	55.9	94.0	64.1	-
	the year	All products ex- cluding textiles	1977	79.1	87.0	39.5	18.2	82.2	1.6	93.4
			1982	54.8	95.7	-	99.7	95.9	-	100.0
		Textiles	1977	96.2	37.5	97.3	100.0	96.5	100.0	23.6
			1982	97.9	91.5	88.7	73.3	99.9	89.1	-

^aPercentage share of GSP-receiving imports in tariff quotas guaranteed for individual beneficiaries on individual EC member countries' markets.