

European Union Trade Policy and the Poor. Towards Improving the Poverty Impact of the GSP in Latin America

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AIETI
- **Contact:**
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- **Start Date:**
September 2003
- **End Date:**
February 2004
- **Value:**
€47,990
- **Countries/ Regions Covered:**
Latin America

Background and Objectives of the Research

The focus of this paper is on the countries in the Andes and Central America which are less integrated into the international economy than the rest of Latin America. For these poor countries, the GSP is the only trade instrument offered by the EU in the short to medium term because the European Community considers they are not currently in a condition to assume a free trade agreement with the EU. Since the GSP is the only option available to the Andean and Central American countries, it is important for the EU to ensure that this preferential trading system helps these countries in realizing their development goals by following proactive measures aimed at reducing poverty.

Since the paper was published the situation has changed in two ways, although they do not fundamentally alter the analysis. The first major change is that a new preferential regime came into force in January 2006; it takes into account some of the paper's recommendations, but it is too soon to determine its results in terms of trade creation and poverty impact. The second modification has to do with broader EU-Latin American relations. The bi-regional summit in Vienna may announce the initiation of negotiations for an Association Agreement between the EU and Central America, although until this comes into effect in a number of years the GSP will continue functioning so it will continue to be the EU's main trade instrument for this zone.

In order to provide an in-depth analysis of the GSP in these two subregions, the paper undertakes two country case studies. For this purpose the paper selects Bolivia, which is one of the poorest Latin American countries, and Costa Rica, which has a fairly high GDP per capita and one of the highest human development indices in the region.

Research Findings

In the face of increasing poverty and income inequalities amid stagnant economic growth in the Latin American region, this report makes the case for effective and extended EU cooperation with Latin American countries under the GSP (Generalized System of Preference) in order to help the region in its fight against poverty. Though orthodox economists oppose non reciprocal preferences like the GSP on the grounds that they are anti-trade and that, on balance, the system actually delays a poor country's efforts to liberalize, the paper points out that the GSP has approximately doubled the volume of trade between signing partners. However, the paper also suggests that the countries which have benefited most from the GSP are primarily Asian economies. Some Latin American countries have also gained from GSP but for the poorest countries in the region, the impact of the GSP has been insignificant at best.

Based on the country analysis, the findings are as follows:

- The former GSP regime was (and the present regime is likely to be) of most benefit to those who least need it. For

In cooperation with



example, globally, trade dynamos such as China concentrate close to a third of the benefits on offer through the EU's preferential scheme, while the benefits accruing to Bolivia – a country with greater obstacles to world economic integration – are minuscule.

For countries which have critical political, social and economic problems, there is little the GSP or any similar trade instrument can do to foster growth, development or poverty reduction. Therefore the GSP may only work if the conditions are right. For example, in the case of Bolivia, the GSP could be successful only if significant efforts are made to buttress local institutional capacity and a more direct aid is provided to the most deprived communities.

- Under the former GSP regime, products from sectors that succeeded in increasing their market share in the EU could be “graduated” from its benefits

through a unilateral and not altogether transparent mechanism. The new regime seems to have eliminated this mechanism which was critically analysed in the paper.

Policy Recommendations

In the light of the general discussion in the paper on the perceived role of the EU in the economic development of Latin America in general and evidence from country case studies on GSP in particular, the paper recommended that the following measures be implemented to make the benefits of GSP more durable:

- First, the graduation system needs to be thoroughly revised, both conceptually and with regards to its implementation. It is unfair to graduate an entire sector on the basis of the activities of a few multinational corporations as has occurred in Costa Rica.
- The GSP scheme could be consolidated on a more permanent basis, without the revisions to which it is currently subjected. An ever changing GSP regime undermines any positive incentives to

investment in preference-receiving sectors. If benefits were extended on a, say, fifteen year basis, the EU would give a clear signal regarding the seriousness of its intention to help Latin American countries strengthen their exporting capacities.

- Safeguard clauses in the GSP need to be redrawn to reduce the degree of discretion in their application. Enhanced knowledge of the European markets should be ensured through deeper coordination between the Commission and the GSP member states in Latin America to enable export-oriented sectors in the region to benefit fully from the GSP.

The new GSP regime (referred to as the “GSP+”) addressed the first recommendation. Although the current regulation covers a 10-year period, in practice it may be subject to unilaterally-imposed changes. Finally, the discretionary nature of the GSP remains and little seems to have been done to improve understanding of the regime among lower-income producers and, more importantly, to assist them in taking advantage of its potential benefits.

For further information on this research project, please visit:

EC-PREP website: www.ec-prep.org

Website where study can be found: www.ucm.es/info/icei/

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EC-PREP is supported by the UK Department for International Development (DFID). In 2001, DFID, in collaboration with the European Commission, launched the European Community's Poverty Reduction Effectiveness Programme (EC-PREP). The main objective of this research initiative is to produce findings and policy recommendations that support and contribute to improving the European Community's effectiveness in attaining poverty reduction targets via its external assistance programmes. The programme has funded 13 Research Projects and 10 Commissioned Studies, which relate to one or more of the six focal areas of EC's development policy. More information about the research funded by EC-PREP can be found on www.ec-prep.org.