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WORKING
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Apparel Export from Sri Lanka to the EU: A Product Level Analysis of the Impact of GSP+

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Introduction

Sri Lanka is a beneficiary of the European Union's (EU's) GSP+ scheme that provides duty-free access to 66% of tariff lines (over 7,200 products), including textiles and fisheries. Only eight developing countries were eligible to receive GSP+ concessions as of 2021. To be a beneficiary, a developing country must have ratified 27 international conventions on human and labour rights, the environment, and good governance. Sri Lanka, which became a recipient of GSP+ in 2005, lost this status in August 2010 for not complying with three required international conventions: the International Covenant on Civil and Political Rights, the Convention against Torture, and the Convention on the Rights of the Child.[1] Sri Lanka was reinstated as a GSP+ recipient on the 19th of May 2017, with the EU trade commission stating that Sri Lanka adequately met the entry requirements.

Concerns about losing GSP+ concessions resurfaced with the EU parliament passing a resolution on June 10th, 2021, calling the EU Commission and the European External Action Service (EEAS) to use GSP+ as leverage to push for the advancement of Sri Lanka's human rights obligations and demand the repeal or replacement of the Prevention of Terrorism Act (PTA).[2] The EU parliament requested these agencies "to carefully assess whether there is sufficient reason, as a last resort, to initiate a procedure for the temporary withdrawal of Sri Lanka's GSP+ status and the benefits that come with it."[3]

For Sri Lanka, a major area of concern is the impact on apparel exports to the EU, a key beneficiary of the concessions. Apparel contributes the most to Sri Lanka's export revenue, accounting for 40-45% of the country's total exports. The EU is the second largest market for Sri Lankan apparel after the USA, making up 42% of Sri Lanka's total apparel exports between 2015-2019. A fallback from GSP+ to standard GSP (which is enjoyed by 11 developing countries at present) will increase the import tariffs faced by Sri Lankan apparel from zero to 9.6% on average.

Given these factors, obtaining an EU GSP+ concession is considered very important for the country in general and the apparel sector in particular. However, an important but less publicised fact is that only 49% of apparel exports from Sri Lanka utilised these concessions since the country regained GSP+ access in 2017.[4] The low utilisation is largely attributed to the GSP scheme's stringent rules of origin (ROO) requirements that exporters must meet to benefit from concessions. Duty-free access is only given to apparel manufactured in Sri Lanka from a yarn stage. In other words, Sri Lankan exporters who import fabric from outside to make their garments are not permitted to enter the EU market duty-free. However, fabrics made in SAARC countries and the EU are exempt from this rule. According to the GSP scheme's Rules of Origin (ROO) cumulation conditions, garments made from

[1] European Commission, Press release– "EU regrets silence of Sri Lanka regarding preferential import regime",5 July 2020, at https://ec.europa.eu/commission/presscorner/detail/en/IP_10_888, [Last accessed: 05January 2022].
[2] European Parliament, "European parliament resolution of 10 June 2021 on the situation in Sri Lanka, in particular the arrests under the PTA, 10 June 2021, https://www.europarl.europa.eu/doceo/document/TA-9-2021-0290_EN.html .
[3] Ibid.
[4] This is an average of the GSP utilization rates for Sri Lanka for 2018 and 2019. The year 2020 was excluded due to the COVID-19 complications.
Source: UNCTAD, 'GSP Utilization', 2022, at www.gsp.unctad.org [Last accessed: 05January 2022].

fabrics made in SAARC and the EU can be claimed as originating from Sri Lanka.[5] It is important to note however, that of the total textiles imported into Sri Lanka, 66% is sourced from countries outside the EU and SAARC. As such, the GSP utilisation rate is a critical factor that will determine the impact of losing GSP+. As a result of varying levels of utilisation of the concessions, the impact will not be felt by all apparel products uniformly: some products will be more affected than others.

This working paper aims to evaluate the impact of GSP plus at a product level, based on the level of utilisation of the concessions. It reviews the disaggregated impact of losing GSP+ concessions on individual products at the HS 6-digit level.[6] It aims to do so by assessing the reliance on GSP+ of the top 20 apparel products exported to the EU. These products account for 74% of the value of total apparel exports from Sri Lanka to the EU.

Product level analyses of reliance on GSP+ provide valuable insights for exporters as well as policymakers. Understanding the distribution of impact across different sub-sectors, the level of competitiveness of the products in the absence of GSP+, and the degree of dependence on concessions is important to assess the overall impact of losing preferential access to the EU market. In addition, the study also sheds light on the adjustments made by exporters in response to the unpredictability of concessions continuing due to the country graduating out of concessions or the government not adhering to the conventions, both of which are beyond the control of exporters.

[5]European Commission, "Do you want to Export to the EU? Export Helpdesk is the right tool to use. Generalized Scheme of Preferences Clothing", at https://trade.ec.europa.eu/doclib/docs/2013/may/tradoc_151169.pdf [Last accessed: 28 December 2022].

[6] HS - Harmonized System was developed by the World Customs Organization to assess product concentration and composition of exports. The level of detail in the classification of products depends on the HS level specified. For example, a product classified at a 6-digit level is more specific than one classified at a 4-digit level.

Methodology

As mentioned above, this study looks at the impact of losing GSP+ on the top 20 apparel products imported by the EU from Sri Lanka at the HS 6-digit level, accounting for 74% of the value of apparel imports from Sri Lanka to the EU. The products were selected based on the average value of imports between 2015-2020.

The study looks at two criteria to assess the product's dependence on GSP+ concessions.

1) *Average utilisation rate of GSP concessions, for two periods with GSP+, i.e., 2005-2009 and 2018-2019.* The indicator used is the share of exports of a product that utilized the concessions as a percentage of the total exports of that product to the EU. This reflects the ability of a product to meet the ROO that requires garments to be manufactured from a yarn stage in Sri Lanka to benefit from GSP+ concessions. A higher utilisation rate indicates a greater ability to meet the ROO criteria.

The export performance of the product. The indicator used to measure this is the change in market share at the beginning and the end of each period with and without GSP+.[7] The market share is measured as the percentage of imports of a product from Sri Lanka out of the total imports of that product into the EU. Three periods considered for this analysis are 1) the period Sri Lanka first gained GSP+ (2005-2009); 2) lost GSP+ (2010-2016), and 3) regained GSP+ (2017-2019).

While tariff concessions are undoubtedly a factor that affects competitiveness, it is not the only factor, and it may not even be the most important factor that determines competitiveness and performance. Price, quality, reliability, and production capacity are some other elements that affect the export performance of apparel products. For example, increased competition resulting from the complete phase-out of the Multi-fiber Arrangement (MFA)[8] in 2005 may have negatively affected the performance of some apparel products leading to a decline in market share despite Sri Lanka gaining preferential access to the EU market the same year.

Another limitation is that the second period with GSP+ at just two years is shorter than the first period and may not be sufficient to evaluate the full impact of regaining concessions. It may be fair to expect exporters to require more time to adjust their supply chains and win back buyers who have moved on to source from other destinations. However, the analysis was unavoidably limited to these two years due to the large impact on trade patterns caused by the pandemic and aftershocks on supply chains, making it extra challenging to use 2020/21 data to understand the impact of GSP+.

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[7] Market share has been used as an indicator of performance instead of growth rates of export values, as it will account for organic changes in demand in the EU market, which would also impact the performance of Sri Lanka's exports in the EU. However, it should be noted here that the performance of competitors, which may also have an impact on Sri Lanka's market share independent of the impact of GSP+, would not be captured in this assessment and is assumed to be constant.

[8] The MFA was an arrangement where quotas were imposed on the quantity of apparel products developing countries could export to developed countries, with the intention of protecting the apparel industries of developed countries, including the EU. However, from 1995, these quotas were gradually removed with a complete phase out by 2005. This resulted in an increase in the market share of Sri Lanka's competitor countries such as China that were subject to the MFA quotas, likely leading to a decline in Sri Lanka's market share during this period.

The analysis relied on EU import statistics published by the International Trade Centre (www.trademap.org). The level of utilisation of GSP+ for each product was obtained from UNCTAD (www.gsp.unctad.org).

Key findings

- **The performance of seven products varies in line with the gain and loss of GSP+**

Of the 20 products assessed, 14 products were classified as having a high GSP utilisation rate (i.e utilisation was above 30% for both periods considered). Of these 14 products, seven products have shown a strong dependence on GSP+ with their export performance indicating strong alignment with Sri Lanka losing and gaining GSP+. As shown in Exhibits 1 and 2 below, these products gained market share during the two periods with GSP+ (i.e., 2005-2009 and 2016-2019) and lost share during the period without (i.e., 2009-2010). These seven products account for 36% of total apparel imports from Sri Lanka to the EU.

Exhibit 1: Average utilisation rate (% that utilised the concessions out of total imports of the EU)

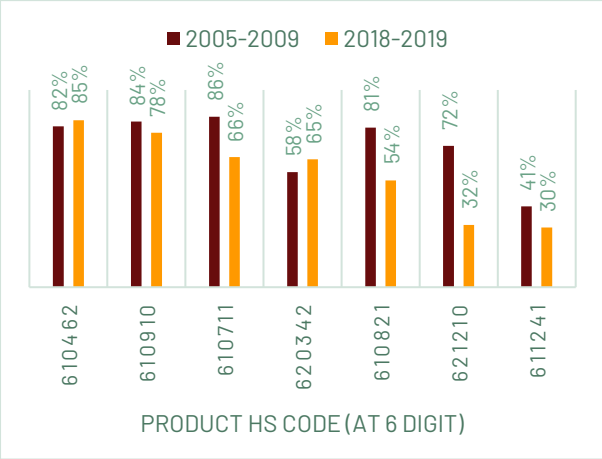
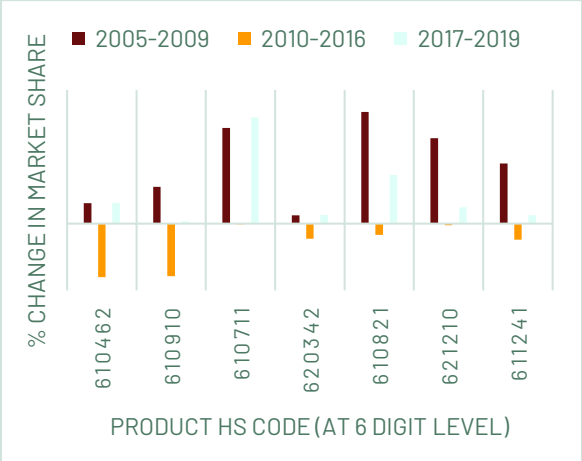


Exhibit 2: Export performance (% change in market share in periods with GSP+ and without)



However, the magnitude of the impact of losing GSP+ varied across products. For example, two products- cotton underpants and briefs for men (610711) and brassieres (621210)- recorded only a marginal reduction in market share (less than 0.1%), demonstrating their resilience to the loss of GSP+. Further, both these products have experienced a decline in GSP utilisation rates, indicating reduced reliance on GSP+ over time. The decline in utilisation has been more pronounced in the case of brassieres, where it dropped by 40.2% between 2005-2009 and 2018-2019. Further, in the case of brassieres, the concession rate of 6.5% is lower compared to 12% on average for other products. These two products, however, showed a higher degree of the positive impact of gaining GSP concessions compared to some other products such as cotton briefs and pants for women (610821) that experienced only a marginal positive impact of having GSP+ and a small negative impact of losing GSP+.

Overall, the positive impact of GSP+ on export performance appears to be higher when the country first gained the concessions (2005-2009) compared to regaining them in 2017. The only exception to this trend was cotton underpants and briefs for men (610711), where the second period gain was higher than the first. Further, the average utilisation rate is also lower for five of the products in the second period, compared to the initial period with GSP+. This could reflect either the exporters strategically reducing their reliance on the scheme due to its unpredictability or in preparation for

the country graduating out of the scheme once it becomes an upper middle-income country. (Refer to Annex 2 for details of all 20 products).

- **Two products are not affected by the loss and five are not affected by the gain of GSP+**

Of the remaining seven products that recorded high utilisation rates, two products- women's underpants and briefs of man-made fibre (610822) and cotton babies' garments (611120)- have recorded continuous growth in market share in all three periods, including during the period that the country lost duty-free access to the EU market. Despite both these products experiencing some decline in the level of utilisation in the second period, compared to the first period, the level of utilisation remains high even in the second period (Exhibit 3). These two products accounted for 10% of total apparel imports from Sri Lanka to the EU. These two are examples of products that while benefiting from concessions are not heavily reliant on them and remain competitive even in their absence.

Exhibit 3: Average utilisation rate (% that utilised the concessions out of total imports of the EU)

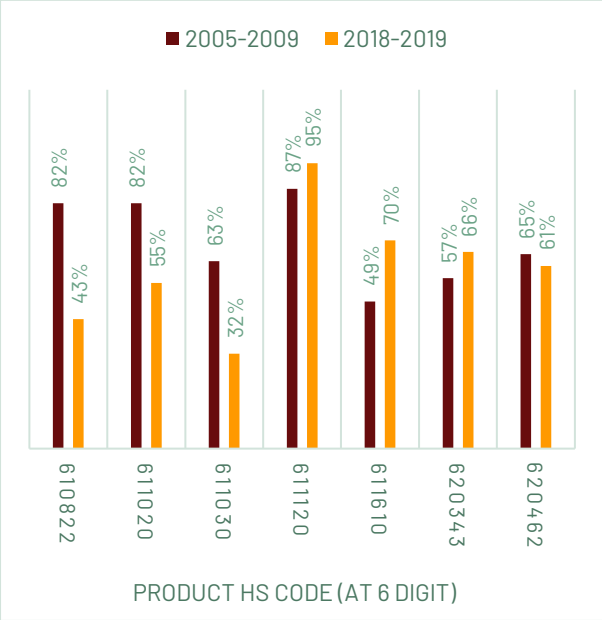
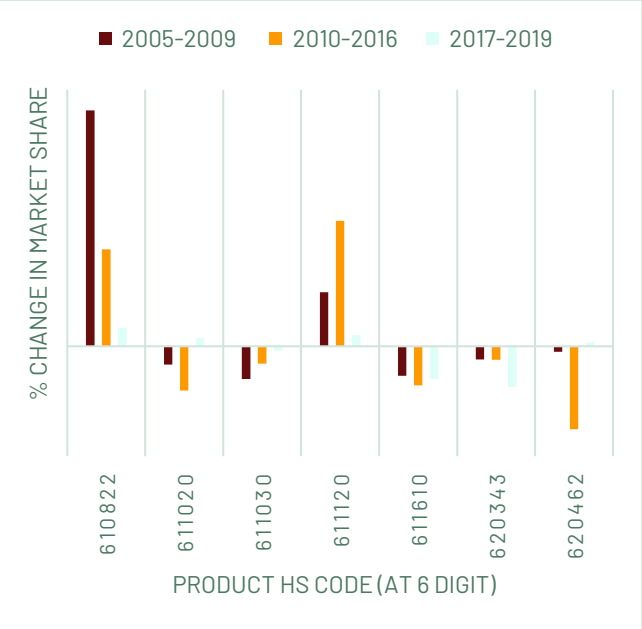


Exhibit 4: Export performance (% change in market share in periods with GSP+ and without)



In contrast, five of the products, despite recording higher levels of utilisation, failed to convert duty-free access into improved performance. For three of these products- jerseys and pullovers of manmade fibres (611030), gloves (611610), and men's trousers and shorts (620343)- the market share continuously declined, including during periods with GSP+ (Exhibit 4). These products appear to be struggling to remain competitive, even with duty-free access to the EU market.

The market share for the two remaining products - jerseys and pullovers etc. of cotton (611020) and women's or girls' trousers of cotton (620462) - continued to decline in the first two periods just gaining market share slightly in the third period between 2017-2019 when Sri Lanka regained GSP+. This indicates that despite high utilisation, GSP+ has not made a significant difference to product performance in the EU market.

- **Six products have failed to benefit from GSP+**

Six of the 20 products recorded low utilisation rates (i.e utilisation was below 30% in either of the two periods considered). Five products recorded utilisation rates of 30% or less in both periods and one product (610990) recorded a fall in the utilisation rate from 48.3% in the first period to below 30% in the second period (Exhibit 5). These 6 products accounted for 14% of total apparel imports from Sri Lanka to the EU. Low levels of utilisation indicate that the products have failed to benefit from concessions (or failed to meet the stringent ROO). As such, GSP+ is unlikely to be a key determinant of their export performance. Overall export performance for all six products remains weak, with one product, [women's or girls' dresses of synthetic fibres (620443)], recording a continuous decline in market share and four products failing to recover their market share since 2010. Although one product - men's or boys' shirts of cotton (620520) - has continued to grow, its market share gains have been very small (Exhibit 6).

Exhibit 5: Average utilisation rate (% that utilised the concessions out of total imports of the EU)

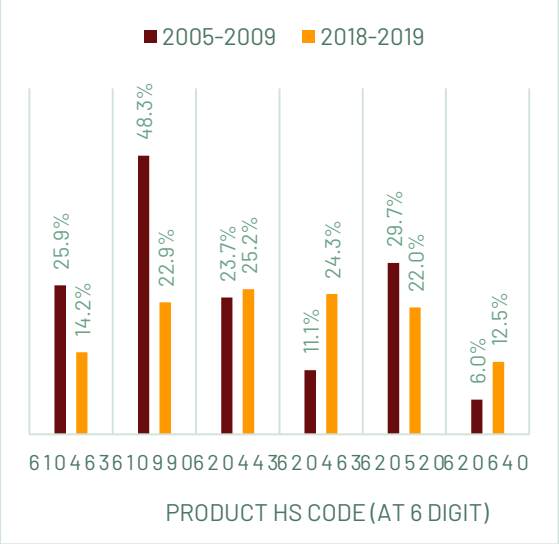
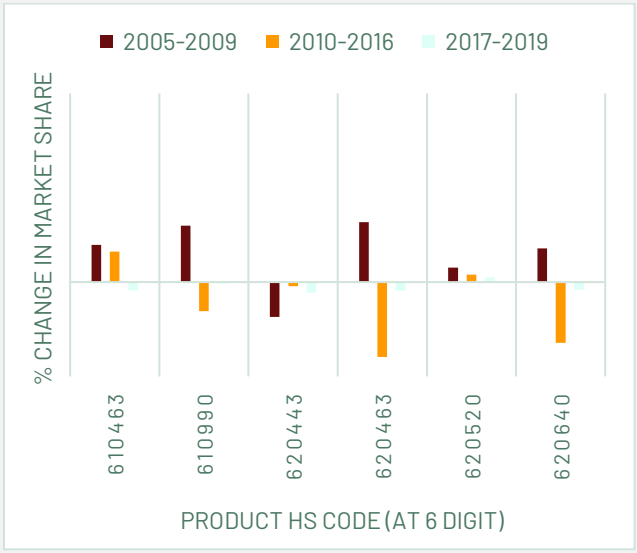


Exhibit 6: Export performance (% change in market share in periods with GSP+ and without)

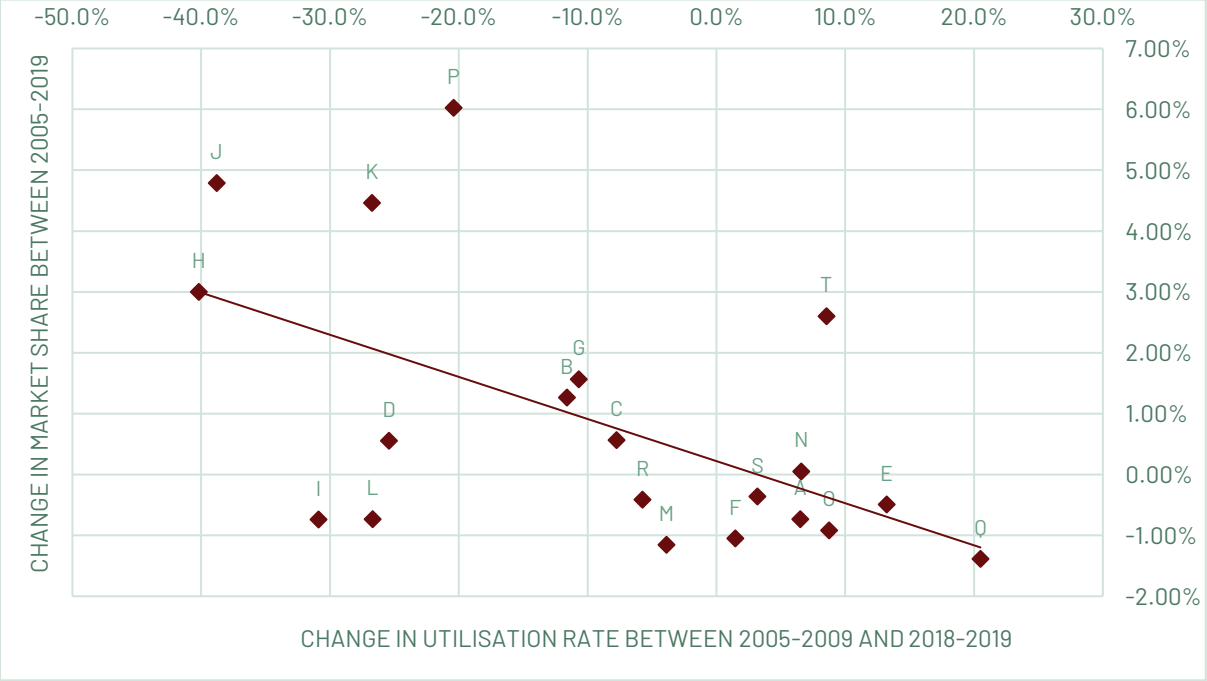


- **Products gaining market share have recorded a decline in utilisation rates**

As shown in Exhibit 7, there is a negative relationship between the overall change in market share and the overall change in GSP+ utilisation rate. Products which experienced a growth in market share in the EU between 2005-2019 have also seen a decline in their GSP+ utilisation rate over the same period. This indicates that these products have become competitive on their own, reducing the need to overly rely on GSP+ concessions. By being less reliant on GSP+, companies also retain the flexibility to source the best quality fabric at the most reasonable prices from anywhere in the world, as opposed to being compelled to source from Sri Lanka to qualify for concessions. This can also be a source of strength and competitiveness for some products.

In contrast, products whose market share has declined over the period have seen an increase in the GSP utilisation rate. This indicates that products struggling to remain competitive on their merit are increasing their reliance on GSP+ concessions as a source of competitiveness.

Exhibit 7: Relationship between change in GSP+ utilisation rate and growth in market share between 2005-2019 (refer to Annex 2 for products indicated by the labels)



A decline in market share, however, does not always mean that the value of exports has also declined. For example, during the period 2005-2019, of the ten products that experienced an overall decline in market share, five experienced a decline in its export value and five products saw an increase in export value (refer to Annex 3 for details). Some products may experience a decline in value despite an increase in market share because of a decline in the overall market demand for the product. On the other hand, some products may see their export value increasing despite a reduction in market share, due to increased demand for the product in the market. Their declining market share in a growing market is an indication of the relatively weaker competitiveness of Sri Lankan products against the products of competitors (i.e., imports from competitors are growing faster than imports from Sri Lanka).

Conclusion

The findings of this study reveal that the impact of GSP+ on apparel products is not uniform, and it is important to make note of this when assessing the overall impact of losing concessions on apparel exports. A key factor often overlooked in the discussions on the impact of potential loss of concessions is the level of utilisation of concessions (which is indicative of products' ability to meet ROO). For example, of the 20 top apparel products analysed, the export performance of six products (14% value-wise) is unlikely to be affected by the loss of GSP+, due to a very low level of utilisation of concessions.

The analysis also shows that higher levels of utilisation do not automatically translate into better performance during periods with concessions and vice versa. For example, having GSP+ has not prevented the continuous decline of the market share of some products, despite their higher utilisation rates. In contrast, some other products that have high levels of utilisation have seen continuous growth in market share irrespective of gain or loss of GSP+ demonstrating higher levels of competitiveness in the EU market. The analysis also shows that products that show higher levels of resilience during periods without GSP+ (which is indicative of competitiveness derived from factors other than duty-free access) tend to benefit more from GSP+ concessions.

The analysis also shows that the products that managed to gain market share have also gradually reduced their reliance on GSP concessions as portrayed by their reducing GSP+ utilisation rates. Further, the analysis shows that the level of utilisation has come down for better-performing products and it has increased for products with weak performance.

The above findings suggest that a product-wise approach would be more useful for exporters and policymakers when evaluating the consequences of GSP+ and the strategies for dealing with Sri Lanka potentially losing GSP+. It is incorrect to assume that the apparel sector as a whole is highly dependent on GSP+ and thus direct related policy decisions on the entire sector under this assumption. Further as noted above, the more competitive products have reduced their reliance on GSP+ over time.

This analysis also shows that a country's ability to benefit from concessions such as GSP+ is greater when the competitiveness of products derived from other factors such as quality, reliability, timeliness of delivery etc. is higher. In contrast, if products are inherently uncompetitive, concessions alone cannot help improve their market performance. Hence, policymakers can help Sri Lankan apparel and other export products succeed in the EU as well as other export markets by creating an enabling environment that nurtures internationally competitive products/businesses. This will support export products that benefit from preferential market access but are not overly reliant on preferential access for their success.

Annex 1: Summary of the findings

Category		Products	No. of products	Market share			Value of Imports of EU from Sri Lanka					Utilisation rates		
				2005-2009 - had GSP+	2010-2016 - Lost GSP+	2017-2019 - Regained GSP+	Average 2005-2009 (In USD 000s)	Average 2015-2019 (In USD 000s)	Change in value between the 2 periods (In USD 000s)	% of the total exports of imports by the EU	% of the total exports of imports by the EU of the 20 products	Average 2005-2009	Average 2018-2019	Change in Utilisation between the 2 periods
High Utilisation Dependent	Growth in line with gaining and losing GSP+	610462, 610711, 610821, 610910, 611241, 620342, 621210	7	1.79%	-0.65%	0.90%	727	776	49	36%	48%	72%	59%	-13%
High Utilisation Not Dependent	Consistent decline in all periods	611030, 611610, 620343	3	-0.34%	-0.32%	-0.35%	167	237	70	11%	15%	56%	56%	-1%
	Consistent growth in all periods	610822, 611120	2	1.98%	1.52%	0.20%	100	205	105	10%	13%	84%	69%	-15%
	Puzzling relationship	611020, 620462	2	-0.2%	-0.9%	0.1%	243	95	-148	4%	6%	74%	58%	-15%
Low Utilisation		610463, 610990, 620443, 620463, 620520, 620640	6	0.59%	-0.46%	-0.11%	181	309	128	14%	19%	24%	20%	-4%
	Total		**20**	0.93%	-0.35%	0.26%	1417	1621	204	76%	100%	57%	48%	-9%

Source: ITC Trademap, UCTAD database on GSP Utilisation

Annex 2: Top 20 products selected for the assessment

Label	HS Code	Description	% of total apparel imports of the EU from Sri Lanka (2015-2019)
H	621210	Brassieres of all types of textile materials, whether or not elasticated, incl. knitted or crocheted	11%
Q	611610	Gloves, mittens and mitts, impregnated, coated, covered or laminated with plastics or rubber, knitted or crocheted	7%
T	611120	Babies' garments and clothing accessories of cotton, knitted or crocheted (excluding hats)	6%
N	620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excluding knitted or crocheted, underpants and swimwear)	5%
R	610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	5%
P	610711	Men's or boys' underpants and briefs of cotton, knitted or crocheted	5%
D	610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excluding cotton)	4%
J	610822	Women's or girls' briefs and panties of man-made fibres, knitted or crocheted	4%
K	610821	Women's or girls' briefs and panties of cotton, knitted or crocheted	4%
S	610462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted (excluding panties and swimwear)	3%
B	610463	Women's or girls' trousers, bib and brace overalls, breeches and shorts of synthetic fibres, knitted or crocheted (excluding panties and swimwear)	3%
A	620640	Women's or girls' blouses, shirts and shirt-blouses of man-made fibres (excluding knitted or crocheted and vests)	3%
M	620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excluding knitted or crocheted, panties and swimwear)	2%
O	620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres (excluding knitted or crocheted, underpants and swimwear)	2%
L	611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excluding wadded waistcoats)	2%
C	620520	Men's or boys' shirts of cotton (excluding knitted or crocheted, nightshirts, singlets and other vests)	2%
G	611241	Women's or girls' swimwear of synthetic fibres, knitted or crocheted	2%
F	620443	Women's or girls' dresses of synthetic fibres (excluding knitted or crocheted and petticoats)	2%

I	611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted (excluding wadded waistcoats)	1%
E	620463	Women's or girls' trousers, bib and brace overalls, breeches and shorts of synthetic fibres (excluding knitted or crocheted, panties and swimwear)	1%
		Other apparel products	24%

Source: ITC Trademap, UCTAD database on GSP Utilisation

Annex 3: Assessment by product

HS Code	Utilisation rates			Change in market share			Category	Value of Imports of EU from Sri Lanka (In USD Mn)			
	Average 2005-2009	Average 2018-2019	Change in Utilisation between the two periods	First gained GSP+ (2005-2009)	Lost GSP+ (2009-2016)	Regained GSP+ (2016-2019)		Average 2005-2009	Average 2015-2019	Change in value between the first period and second period	% of total apparel imports of the EU from Sri Lanka (2015-2019)
621210	72%	32%	-40%	2.6%	-0.05%	0.5%	Dependent on GSP+	159	245	86	11%
611610	49%	70%	20%	-0.4%	-0.5%	-0.4%	Consistent decline in market share in all periods	77	155	78	7%
611120	87%	95%	9%	0.7%	1.7%	0.2%	Consistent growth in market share in all periods	42	118	76	6%
620342	58%	65%	7%	0.2%	-0.5%	0.3%	Dependent on GSP+	123	117	-6	5%
610910	84%	78%	-6%	1.1%	-1.6%	0.1%	Dependent on GSP+	261	116	-145	5%
610711	86%	66%	-20%	2.9%	-0.02%	3.2%	Dependent on GSP+	49	109	60	5%
610990	48%	23%	-25%	1.2%	-0.6%	0.0%	Low Utilisation	47	91	44	4%
610822	82%	43%	-39%	3.2%	1.3%	0.2%	Consistent growth in market share in all periods	58	87	29	4%
610821	81%	54%	-27%	3.3%	-0.3%	1.5%	Dependent on GSP+	68	83	15	4%
610462	82%	85%	3%	0.6%	-1.6%	0.6%	Dependent on GSP+	49	71	22	3%
610463	26%	14%	-12%	0.8%	0.6%	-0.2%	Low Utilisation	8	58	51	3%
620640	6%	13%	7%	0.7%	-1.3%	-0.2%	Low Utilisation	40	58	18	3%
620462	65%	61%	-4%	-0.1%	-1.1%	0.1%	Puzzling relationship	153	53	-100	2%
620343	57%	66%	9%	-0.2%	-0.2%	-0.6%	Consistent decline in market share in all periods	40	51	11	2%
611020	82%	55%	-27%	-0.2%	-0.6%	0.1%	Puzzling relationship	90	41	-49	2%
620520	30%	22%	-8%	0.3%	0.2%	0.1%	Low Utilisation	17	37	20	2%
611241	41%	30%	-11%	1.8%	-0.5%	0.2%	Dependent on GSP+	19	36	17	2%
620443	24%	25%	1%	-0.7%	-0.1%	-0.2%	Low Utilisation	18	34	16	2%
611030	63%	32%	-31%	-0.4%	-0.2%	-0.1%	Consistent decline in market share in all periods	49	31	-19	1%
620463	11%	24%	13%	1.3%	-1.6%	-0.2%	Low Utilisation	52	30	-22	1%

Source: ITC Trademap, UNCTAD database on GSP Utilisation