Generalized preferences for the Third World

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GENERALIZED PREFERENCES FOR THE THIRD WORLD

Over the last 10 years an international trade arrangement has been built up which is giving substantial help to the developing countries in their efforts to industrialize. This arrangement is known as the "Generalized System of Preferences". Under it industrialized countries allow most kinds of manufactured and semi-manufactured products from developing countries to enter their markets at preferential rates of import duty, i.e. at lower rates than are applied to imports from traditional suppliers in other industrialized countries.

Reasons for the policy

Perhaps the most disturbing aspect of the world economy is the contrast between the levels of development of North and South — the industrialized countries are relatively wealthy while poverty and malnutrition prevail in most of Asia, Africa and Latin America. This imbalance is universally recognised to be unjust and to be a source of tension that could lead to conflict unless it is rectified.

The development of the Third World requires the mobilisation of substantial financial resources for productive investment in the developing countries. Agriculture must be modernised in order to wipe out malnutrition and to provide a decent life for the majority of the population dependent on that sector. It is equally necessary however to build up industry, so as to create employment opportunities, generate incomes, develop local resources and provide goods to satisfy rising expectations.

One of the principal difficulties facing a developing country when it stars industrializing is that its domestic market will usually not be large enough to sustain manufacturing units of an economic size. Even if neighbouring countries try to create a larger market by coming together in a regional trading group, the progress they can make through mutual trade in manufactured goods is likely to be limited by the fact that they have a similar range of raw materials.

Therefore, the best way to facilitate the setting up of viable industries in developing countries is to make it possible for them to find markets for a significant portion of their output in the developed countries, which, even in periods of recession, have a high absorptive capacity owing to the relative prosperity and the diversity of tastes of their population.

This is what the Generalized System of Preferences sets out to do: create the conditions in which developing countries can establish a sound manufacturing base, help them increase their export earnings and enable them to accelerate their economic growth. By means of preferences, new industries in the developing countries are placed on an equal footing with the domestic industries of the industrialized markets they expect to sell to and are given an advantage over the industries of other developed countries.

Longterm benefits for industrialized countries

Since the economic crisis hit the industrialized countries, there has been an increased reluctance to encourage imports from the Third World. Some Europeans think that industrialization of developing countries means chiefly building more factories in the south of the planet where wage-levels are low and social costs negligible, with the result that the industrial countries' markets will be invaded by low-cost goods that compete unfairly with their own products. Statistics show however that this picture is false. Certainly in isolated cases competition from developing countries does pose difficult problems. But for the most part, the industrialization of the Third World helps contribute to a better balance in international trade, which is in the interest of all partners. In particular, the industrialized countries can find in it one of the most effective means of overcoming their present economic difficulties and of solving their unemployment problems.

If the developing countries attain the objective that they set themselves in the Lima action plan, they will account for a quarter of world industrial production by the year 2000. At the same time, trade between North and South will increase and the volume of exports from the industrialized nations to the Third World will increase ten-fold.

The developing countries' markets could offer the industrialized countries annual sales worth some 117 billion dollars in machinery and 59 billion dollars in chemical products by the year 2000.

The origins of the Generalized System of Preferences go back to 1963. That year, within the framework of the General Agreement on Tariffs and Trade (GATT), European Community governments proposed preferential treatment for industrial and semi-industrial products from Third World countries. It was not until the second session of the United Nations Conference on Trade and Development in New Delhi in 1968 that agreement in principle was reached on setting up for a period of ten years a *Generalized System of Preferences.* A further two years passed before the main elements of the system were worked out. From 1971 on, the industrialized countries began implementing their national schemes conforming to the internationally agreed principles of the system. Because the EEC has competence for the foreign trade of its Member States, it adopted a single scheme, which it introduced on 1 July 1971. This was the first scheme to come into operation. Japan followed a month later, then Norway and several other Western countries. The United States brought its scheme into operation in January 1976. Some of the state-trading countries in Eastern Europe also grant generalized preferences but the share they take of the developing countries' exports of manufactures is very small compared with that of the market-economy industrialized countries.

The European Community played a leading role in promoting the Generalized System of Preferences for a number of reasons.

• Historically, Europe had privileged links with many developing countries. After decolonization its relations had to be at once strengthened and founded on a new basis of cooperation.

• Politically, one of the aims of the Community is to promote peace in the world. A more harmonious sharing of prosperity is needed to secure this. The Community has therefore progressively undertaken a development cooperation policy open to all Third World countries, whether or not they had special relations with any European country in the past.

• Economically, the Third World is a very important trading partner for Europe. In 1979, 36% of Community exports went to developing countries and these countries supplied 40% of the Community's imports.

General principles of the Community's Scheme

The European Community offers generalized preferences to all countries designated as developing countries by the United Nations, as well as to certain dependent territories, such as Hong Kong, Macao and French Polynesia. Furthermore, the European Community gives preferences on a more limited basis to Romania (since 1974) and to China (since 1980). In all, the Community's scheme applies to more than 120 independent countries and around 20 dependent territories.

These preferences are non-discriminatory and unilateral. Non-discriminatory because they are granted to all developing countries. Unilateral because they are not the result of negotiation with the beneficiary country. Nor are they reciprocal since beneficiary countries are not obliged to make comparable concessions to the Community in return.

In order to ensure that the benefits of generalized preferences go solely to developing countries, the rules of the GSP lay down that every consignment should be accompanied by a *certificate of origin* by which the authorities of the exporting country certify that the goods were wholly or substantially produced in their territory. The intention is to exclude from eligibility simple assembly operations which are carried out in the Third World by subsidiaries of firms in industrialized countries and from which the host country gets little benefit in terms of value added. The rules of origin do not preclude incorporation of imported ingredients or components, provided these undergo sufficient working or processing.1/ There is a special concession in the Community's scheme for countries which belong to a

1/ Notes on page 7.

regional grouping (like ASEAN or the Andean Pact) which facilitates such countries in drawing raw materials or components from their partner countries in the region. This facility is intended by the EEC to encourage the process of economic integration within such regional grouping.

The first decade of the Community's GSP

The Community's scheme applied from its inception to all finished and semi-finished industrial products (including textiles) and to a number of processed agricultural products. For **industrial goods** the preference consisted of a *total suspension* of customs duty. In the case of certain products there were limits to the quantity that might enjoy this preference in any one year. These were products of varying degrees of sensitivity, where the Community industry concerned was facing particular difficulties. Once imports of such products reached the limits specified, normal import duties were reimposed. Furthermore no single beneficiary country was permitted to supply more than a certain percentage of the preferential limit. This was intended to ensure that the entire benefit did not go to one very competitive supplier. Once an exporting country reached this percentage (known as the "maximum amount per country" or *butoir*), duty was reintroduced on further imports of the product in question from that country.

Alone among the GSP donors, the EEC from the start offered preferences on **textiles.** Until 1977 these were granted only to independent developing countries, but in that year dependent territories like Hong Kong and Macao began to receive them for the less-sensitive textile items. The following year, in accordance with the newly-extended Multifibre Arrangement (MFA), the Community concluded bilateral agreements with most of the textile-exporting developing countries for the orderly development of their exports to the EEC. As from 1980 the Community's GSP was adjusted to take account of this evolution. Henceforth eligibility for duty-free entry was conditional on concluding such an agreement or on reaching an equivalent understanding, except in the case of least-developed countries. The effect was to ensure that a definite proportion of each partner-country's exports to the Community would enter duty-free. For textile products not covered by the Multifibre Arrangement (for example silk or linen goods) preferences were granted within global ceilings. In addition, customs duties were suspended on coir products from India and Sri Lanka, and on jute products from India, Bangladesh and Thailand on the basis of special arrangements agreed with the Community.

For the **agricultural products** included in the scheme, preferences in most cases consisted of a *reduction* in duties rather than their total suspension, but with no limits in practice on the quantities eligible for preferential access. In the course of the decade, less emphasis was placed on the requirement that eligible products should have undergone significant processing. Quite a number of virtually unprocessed food-items were added over the years and the total number of headings rose from 147 in 1971 to 312 in 1980. The number of cases in which zero-duty was allowed also rose, and in many other cases the duty-cuts were deepened. For only six products[2] were there limits on the quantities eligible for preferential access.

Evaluation of the first decade

Perhaps the most significant feature of the first decade of the Community's GSP was the increase in the volume of trade enjoying preferential treatment. The following table shows the growth in the Community's offer since the first full year of operation, 1972:

Categories	Value in million ECU[3]	
	1972	1980
A Agricultural products	80	1300
B Industrial products	805	6800

These increases in the value of the Community's GSP resulted partly from the enlargement of the EEC itself, partly from periodic increases in the preferential quantities specified in the scheme to take account of the development in world trade, and partly from the inclusion of additional agricultural products and other improvements requested by beneficiary countries.

Despite these improvements, however, the Community recognised that its scheme could be made more effective as an instrument to promote the trade and industrial progress particularly of the least developed countries[4]. It had conducted a sustained programme of seminars throughout the Third World and had published a great deal of information material on how to use the GSP. These efforts no doubt helped to raise the utilisation rate of the scheme from around 40% in the early years to well over 60% by the end of the decade, but it was significant that most of the countries which made best use of the opportunities available under the scheme were relatively well-developed ones like Yugoslavia, South Korea, Brazil and Romania. Why was this? Obviously these were countries which had already attained a certain level of industrialization and whose administration could spear-head an efficient export effort. These advantages enabled them to fill most of the available quotas or ceilings, despite the existence of "maximum amounts per country". Opportunities for industrially or administratively weaker countries were reduced, both by the rapid exhaustion of quotas and by the complexity of the rules of the scheme — a complexity that grew as piecemeal improvements were grafted on year by year. This was something that lay within the Community's power to remedy. Therefore, when it undertook in 1980 to extend the duration of preferences, it also decided to make the scheme easier for the developing countries to use and to increase the benefits which the least developed among them could derive from it.

The reformed GSP

In December 1980 the Community decided that it would continue to grant generalized preferences to all developing countries at least until 1990, by means of a reformed scheme under which every beneficiary country would be more clearly aware of the possibilities open to it, which would be simpler to administer and which would contain special provisions favouring the least-developed countries. To explain these reforms it is perhaps best to look once again at the individual categories of products.

In the *agricultural* sector, in addition to extending to 317 the number of processed products in the preferential list, the Community decided to make permanent a special feature introduced in 1979 in favour of the least-developed countries. This exempts those countries from even the reduced duties applied to most preferential agricultural products, as well as from the six quantitative limits already mentioned.

In the category of *textiles,* the least-developed countries will continue to enjoy duty-free treatment whether or not they have signed voluntary export-restraint agreements with the Community under the Multifibre Arrangement. In addition, for these countries, all limits have been abolished on the quantities of textiles eligible for duty-free entry into the EEC.

The same advantage has been granted to the least-developed countries in the field of *industrial products* other than textiles. It will be recalled that the preferences granted on such products consists of complete suspension of import duty within certain specified limits. From now on, these limits will not apply to the least-developed countries, which will be able to export industrial products to the EEC duty-free and without any risk that, when their trade reaches a certain level, duties will be reimposed.

The concept of *differentiation* has been put into effect in regard to developing countries other than the 36 least-developed, to take account of the fact that, though all developing countries have certain characteristics in common, their levels of economic advancement differ widely. At the same time, the differing procedures adopted to reflect the degree of sensitivity of various industrial imports, which had added to the complexity of the scheme in the 1970s, have been dropped.

The new scheme defines 128 products as sensitive. All the rest (about 1,700 tariff headings) will be non-sensitive. The most competitive supplier countries of each of the sensitive products will be subject to Community quotas broken down into maximum amounts for each Member State of the Community. Once the exporting country reaches this maximum amount, duties may be reintroduced for further imports into the Member State concerned. Exporting countries considered les competitive are subject to a Community-wide ceiling, not divided between Member States, and duties can be reimposed only if the supplying country exceeds that total for exports to the EEC as a whole. Quotas and ceilings will be published at the beginning of each year. For the vast majority of exports, namely the 1,700 or so products that are non-sensitive, only a form of statistical surveillance will be maintained and the introduction of customs duties, though theoretically possible, is very unlikely in practice. These measures in combination are more easily understood and more readily applied by the export authorities of the developing countries, and thus should encourage wider utilisation of the GSP. They also provide an assurance that more of the advantages of the scheme will go to newly-established industries and therefore constitute a more direct incentive for industrialization in the Third World.

The Community is confident that the changes that have been introduced into its GSP for the 1980s, simplifying procedures and differentiating between beneficiary countries broadly on the basis of their need for preferences, will help the scheme to achieve the objectives for which it was conceived, namely to promote more balanced trade with the Third World, to facilitate industrialization in all developing countries and thereby to contribute to their economic progress.

1/ This is a technical term which is defined as "that amount of working or processing that places the final product in a different tariff heading from that of any of the imported ingredients." The tariff nomenclature used by the Community is that of the Customs Cooperation Council, commonly known as the Brussels Tariff Nomenclature (BTN).

2/ viz. tariff-quotas on soluble coffee, cocoa butter, canned pineapple slices and cubes and Virginia-type tobacco; ceiling on cigar wrapper tobacco.

3/ The ECU (European Currency Unit) was worth US$1.41 in 1980. Value of 1972 offer converted at 1980 exchange rate.

4/ As defined by the United Nations the least-developed countries are 36 in number.

Statistical Supplement

THE EUROPEAN COMMUNITY'S TRADE WITH THE ASEAN COUNTRIES

Notes:
1. The following tables are based on statistics published by EUROSTAT (Statistical Office of the European Communities — Luxembourg).
2. As EUROSTAT trade statistics are given in Community units of account (ECU), the figures herein have been coverted to US dollars at current values, viz. 1977: $1.14; 1980: $1.41.
3. Imports are valued c.i.f., exports f.o.b.
4. Goods are classified in accordance with SITC, Rev 2.
5. **Coverage of column headings** ("main categories"):
   a. "Agriculture" comprises sections 0. Food and live animals,
      1. beverages and tobacco.

   b. "Raw Materials" " " 2. Crude materials excluding fuels,
      4. Animal, vegetable oil, fat.

   c. "Industrial products" " 5. chemicals,
      6. basic manufactures,
      7. machines, transport equipments,
      8. miscellaneous manufactured goods.

   d. Included in the "Total" column but not in the "main categories" are
      Section 3. mineral fuels, etc.
      and Section 9. goods not classed by kind.
6. In the period to which these statistics refer, the European Community consisted of nine countries, namely Belgium, Denmark, Federal Republic of Germany, France, Ireland, Italy, Luxembourg, Netherlands and United Kingdom. (On 1/1/1981, Greece became the tenth member country of the Community).

A. EC imports from and exports to the ASEAN countries in 1977 and 1980, by main categories (million US$)

1 EC Imports

Origin	Agriculture		Raw Materials		Industrial Products		Total imports	
	1977	1980	1977	1980	1977	1980	1977	1980
Indonesia	433.2	572.5	257.6	555.5	164.2	334.2	972.4	1,680.7
Malaysia	118.6	200.2	1,002.0	1,536.9	395.6	775.5	1,527.6	2,521.1
Philippines	137.9	242.5	329.5	387.7	158.5	461.1	629.3	1,156.2
Singapore	–	47.9	115.1	245.3	575.7	2,105.1	722.8	2,621.2
Thailand	524.4	917.9	55.9	132.5	275.9	689.5	860.7	1,744.2
ASEAN	1,214.1	1,981.0	1,760.1	2,857.9	1,569.9	4,365.4	4,712.8	9,723.4

2 EC Exports

Destination	Agriculture		Raw Materials		Industrial Products		Total exports	
	1977	1980	1977	1980	1977	1980	1977	1980
Indonesia	47.9	39.5	6.8	8.5	1,144.6	1,689.2	1,232.3	1,765.3
Malaysia	46.7	110.0	5.7	9.9	566.6	1,278.9	637.3	1,459.3
Philippines	35.3	59.2	12.5	11.3	442.3	736.0	503.9	833.3
Singapore	61.6	125.5	11.4	21.1	937.1	2,184.1	1,045.4	2,415.3
Thailand	37.3	77.5	6.8	7.0	557.5	885.5	609.9	1,023.7
ASEAN	229.1	411.7	43.2	57.8	3,648.1	6,773.7	4,028.8	7,496.9

B. EC trade balance with the ASEAN countries in each main category in 1977 and 1980 (million US$)

Origin/ destination	Agriculture		Raw Materials		Industrial Products		Totals	
	1977	1980	1977	1980	1977	1980	1977	1980
Indonesia	–385.3	– 533.0	– 250.8	– 547.0	+ 980.4	+1,355.0	+259.9	+ 84.6
Malaysia	– 71.9	– 90.2	– 996.3	–1,527.0	+ 171.0	+ 503.4	– 890.3	–1,061.8
Philippines	–102.6	– 183.3	– 317.0	– 376.4	+ 283.8	+ 274.9	– 125.4	– 322.9
Singapore	+ 61.6	+ 77.6	– 103.7	– 224.2	+ 361.4	+ 79.0	+ 322.6	– 205.9
Thailand	–486.8	– 840.4	– 49.1	– 125.5	+ 281.6	+ 196.0	– 250.8	– 720.5
ASEAN	–985.0	–1,569.3	–1,716.9	–2,800.1	+2,078.2	+2,408.3	– 684.0	–2,226.5

Note: + means EC surplus; – means EC deficit.

C. EC imports from and exports to the ASEAN countries in each main category, 1980 compared with 1977

percentage increase (+) or decrease (−)

Origin/ destination	Agriculture 1980 vs 1977		Raw Materials 1980 vs 1977		Industrial Products 1980 vs 1977		Totals 1980 vs 1977	
	EC imports	EC exports	EC imports	EC exports	EC imports	EC exports	EC imports	EC exports
Indonesia	+ 32.2	− 17.5	+ 115.6	+ 25.0	+ 103.5	+ 47.6	+ 72.8	+ 43.3
Malaysia	+ 68.8	+ 135.5	+ 53.4	+ 73.7	+ 96.0	+ 125.7	+ 65.0	+ 129.0
Philippines	+ 75.9	+ 67.7	+ 17.7	− 9.6	+ 190.9	+ 66.4	+ 83.7	+ 65.4
Singapore	+ 4,790.0	+ 103.7	+ 113.1	+ 85.1	+ 265.7	+ 133.1	+ 262.6	+ 131.0
Thailand	+ 75.0	+ 106.1	+ 137.0	+ 2.9	+ 149.9	+ 58.8	+ 102.7	+ 67.9
ASEAN	+ 63.2	+ 79.7	+ 62.4	+ 33.8	+ 178.1	+ 85.7	+ 106.3	+ 86.1

D. Structure of EC imports from and exports to the ASEAN countries in 1977 and 1980, by main categories (percentages)

1 EC Imports

Origin	Agriculture %		Raw Materials %		Industrial Products %		Total imports			
							1977		1980	
	1977	1980	1977	1980	1977	1980	mio.US$	%	mio.US$	%
Indonesia	44.6	34.1	26.5	33.1	16.9	19.9	972.4	100	1,680.7	100
Malaysia	7.8	7.9	65.6	61.0	25.9	30.8	1,527.6	100	2,521.1	100
Philippines	21.9	21.0	52.4	33.5	25.2	39.9	629.3	100	1,156.2	100
Singapore	—	1.8	15.9	9.4	79.7	80.3	722.8	100	2,621.2	100
Thailand	60.9	52.6	13.4	7.6	32.1	39.5	860.7	100	1,744.2	100
ASEAN	27.0	23.5	34.8	28.9	36.0	42.1	4,712.8	100	9,723.4	100

2 EC Exports

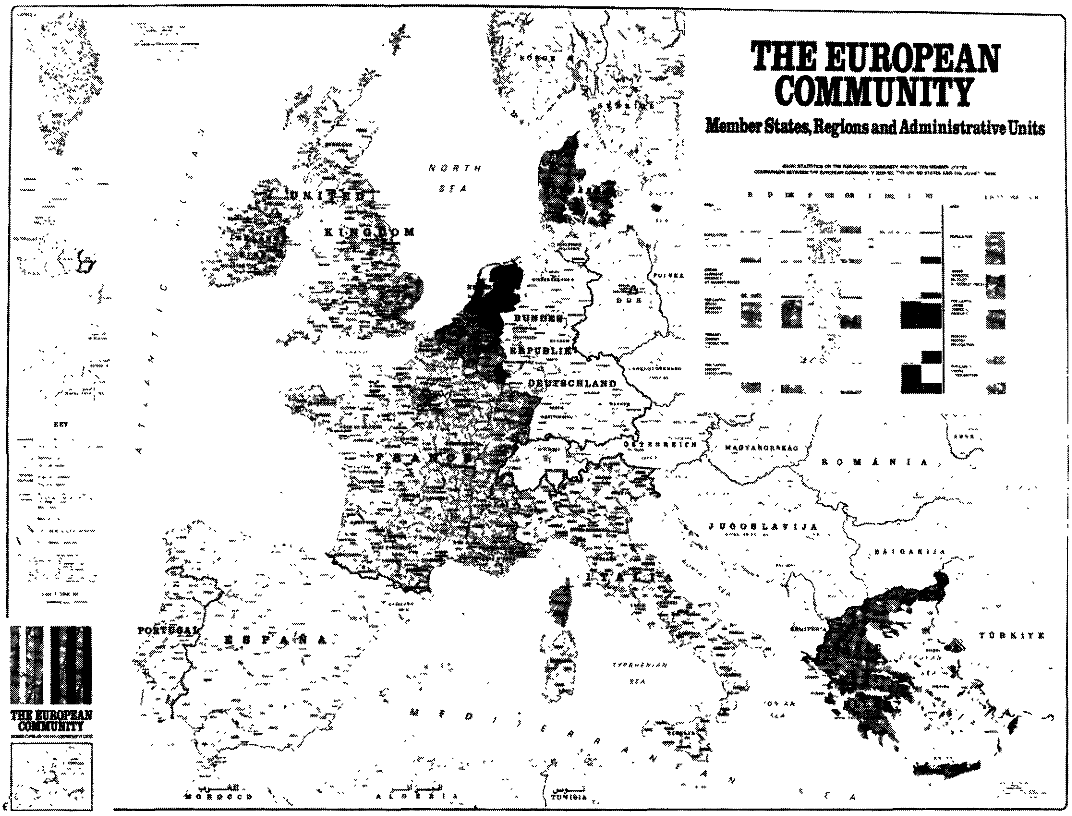
Destination	Agriculture %		Raw Materials %		Industrial Products %		Total exports			
							1977		1980	
	1977	1980	1977	1980	1977	1980	mio.US$	%	mio.US$	%
Indonesia	3.9	2.2	0.6	0.5	92.9	95.7	1,232.3	100	1,765.3	100
Malaysia	7.3	7.5	0.9	0.7	88.9	87.6	637.3	100	1,459.3	100
Philippines	7.0	7.1	2.5	1.4	87.8	88.3	503.9	100	833.3	100
Singapore	5.9	5.2	1.1	0.9	89.6	90.4	1,045.4	100	2,415.3	100
Thailand	6.2	7.6	1.1	0.7	91.4	86.5	609.9	100	1,023.7	100
ASEAN	6.1	5.9	1.2	0.8	90.1	89.7	4,028.8	100	7,496.9	100

EEC-ASEAN trade at a glance

(in million US$*)

	1977	1978	1979	1980
INDONESIA				
EC exports	1,232.3	1,200.1	1,100.1	1,765.3
EC imports	972.4	1,083.3	1,500.1	1,680.7
EC trade balance	+ 259.9	+ 116.8	− 400.0	+ 84.6
MALAYSIA				
EC exports	637.3	925.8	1150.8	1,459.3
EC imports	1,527.6	1,663.7	2,305.7	2,521.1
EC trade balance	− 890.3	− 737.9	−1,154.9	−1,061.8
PHILIPPINES				
EC exports	503.9	689.6	843.9	833.3
EC imports	629.3	730.2	996.0	1,156.2
EC trade balance	− 125.4	− 40.6	− 152.1	− 322.9
SINGAPORE				
EC exports	1,045.4	1,343.6	1,809.8	2,415.3
EC imports	722.8	812.8	1,316.6	2,621.2
EC trade balance	+ 322.6	+ 530.8	+ 493.2	− 205.9
THAILAND				
EC exports	609.9	741.7	1,046.7	1,023.7
EC imports	860.7	1,160.8	1,387.8	1,744.2
EC trade balance	− 250.8	− 419.1	− 341.1	− 720.5
ASEAN				
EC exports	4,028.8	4,900.8	5,951.3	7,496.9
EC imports	4,712.8	5,450.8	7,506.2	9,723.4
EC trade balance	− 684.0	− 550.0	−1,554.9	−2,226.5

Source: EUROSTAT (Statistical Office of the European Communities)
Note: Imports are valued c.i.f., export f.o.b.
* Figures converted from Community units of account (ECU) at current value in US Dollars, viz. 1977: $1.14; 1978: $1.27; 1979: $1.37; 1980: $1.41



Basic statistics of the European Community (10 countries)

Area: 1,658,490 sq.km. (vs USA: 9,363,450 sq.km.; Japan: 372,310 sq.km.)

Population	270,883,000	
Labour Force	116,231,000	100.0%
of which employed in agriculture	8,744,000	94.3%
industry	41,069,000	
services	59,827,000	
unemployed	6,591,000	5.7%
Change in consumer prices	+ 12.0%	
Change in real GDP	+ 1.3%	
Average income per capita	US$8,800 (estimate)	

External trade of the European Community (9* countries) with main regions in 1980

(in million US$)

	Exports	Imports	Balance
World	316,469	382,888	−66,419
of which –			
a. Developed Market-Economies	167,759	189,084	−21,325
b. East European State-Trading Countries	26,397	30,938	− 4,542
c. Developing Countries	117,577	161,532	−43,955

* does not include Greece.

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