Policy Brief, No. 01
2022

Addressing the EU's GSP+ Dilemma

An assessment of Pakistan's GSP+ status

Tom Wilms
Junior Researcher, EIAS

March 2022

Abstract

Keywords: *EU, GSP, Pakistan, Trade*

The EU's beneficial trade scheme for vulnerable, low-income countries, the GSP+ framework, is currently under review. Meant to aid developing countries' efforts of lifting their most deprived parts of society out of poverty, it is supposed to incentivise social and environmental conditions in countries such as Pakistan. Yet, there is plenty of criticism revolving around transparency, objectivity and effectiveness of the framework. This EIAS Policy Brief examines areas of potential improvement of the scheme along the case of Pakistan.

First introduced in 1971, following the first and second UNCTAD[1] conferences, the European Union's General Scheme of Preferences (GSP) aimed to reduce poverty by supporting developing countries' integration into the global market. The EU's GSP framework has undergone considerable change and has continuously been amended over the years. As of today, it is composed of 3 distinct schemes, which apply to different groups of countries mostly based on their development status as assessed by the World Bank.

Those schemes are:[2]
1. The standard GSP for low and lower-middle income countries, which entails a partial removal of customs duties on two thirds of tariff lines,
2. The GSP+ programme, which reduces tariffs on those products to 0% for vulnerable low and lower-middle income countries on the basis that they implement 27 international conventions intended to foster social, environmental and political sustainability,
3. The Everything But Arms (EBA) scheme, which provides least developed countries with duty-free and quota-free access to the European market for all products except arms and ammunition.

The EU is in the process of reviewing its GSP, GSP+ and EBA schemes for 2024-2034 as the current framework expires at the end of 2023. This EIAS Policy Brief will provide an overview of the GSP+ programme by using the case of Pakistan, which is one of the 6 current GSP+ beneficiaries in Asia, along with Sri Lanka, Kyrgyzstan, Mongolia, the Philippines and Uzbekistan. The GSP+ scheme is a special trading arrangement that provides developing countries with preferential access to the European markets to increase exports. GSP+ beneficiaries are required to ratify 27 prerequisite conventions related to human rights, labour rights, good governance and environmental protection.

Pakistan is a major beneficiary of the trading opportunities offered by GSP+.[3] Since 1 January 2014, Pakistan has been benefiting from generous tariff preferences (mostly zero duties on two thirds of all product categories) under the GSP+ arrangement aiming to support sustainable development and good governance. As a result of its GSP+ status, more than 78% of Pakistan's exports enter the EU at preferential rates. As things stand, the European Commission has decided to retain Pakistan's GSP+ status.[4]

While initially set up to incentivise developing nations to improve human rights, the scheme is often perceived as being unilaterally imposed by the EU, given that in contrast to bilateral free trade agreements, the contents of the scheme are not subject to negotiations. It is carried out in such a way that it is more beneficial to importers in the EU,[5] as it sets up GSP+ beneficiary countries against one another. This is done by creating a fierce competition, often leading to the eventual undoing of potential benefits of the GSP+ programme. Ultimately, the core purpose of the GSP+ arrangement is to have a positive impact on the labour conditions for the most vulnerable groups in Pakistan's society. Yet, this message is still not reaching the top levels and is not enforced enough to Pakistan's industry stakeholders. In fact, much of the advantages of the EU's preferential trade scheme in Pakistan are pocketed by the business elite and modern Zamindars (feudal landlords), with little positive impact on the poorest levels of society as envisioned by the GSP+ framework.

The implementation of GSP+ presents a considerable dilemma for beneficiary countries. The scheme is aimed to benefit those countries with the most socially deprived populations, mainly consisting of unskilled, cheap labour forces employed in highly labour-intensive industries. For beneficiary countries it is thus important to maintain their GSP+ status as a means of providing job growth to spur socio-economic development. In fact, no beneficiary can afford to lose GSP+ privileges, as exports would decrease and the country would fall behind its regional competitors.[6] On the other hand, while a country may wish to further develop its economy and high-end innovative sectors, it may risk evolving into a middle-income level country and losing its GSP+ status by doing so. Therefore, GSP+ contradicts its original intention, as the scheme incentivizes countries to remain poor and slow down innovation, in order to retain existing trade privileges. In the case of Pakistan, this encourages the continuation of a feudal system of exploitation[7] of the poorest levels of society, which directly benefits the (feudal) landlords and business elites.[8] Hence, the EU's present GSP+ approach serves as an incentive to beneficiary countries to remain poor or to declare themselves poor while syphoning the benefits of the scheme to offshore bank accounts.[9]

Furthermore, instead of focusing on a limited number of conventions which beneficiaries can easily comply with (and which would facilitate simpler and more effective monitoring on behalf of the EU), the EU is frequently adding new conventions to the GSP+ status. By adding even more conventions, the EU dilutes the value of each convention to the point where beneficiaries struggle to comply and monitoring becomes difficult and unrealistic.

This creates fierce competition between GSP+ beneficiary countries in the same region, who operate within the same sectors, as is the case in South Asia with Pakistan and Sri Lanka being awarded GSP+ status and Bangladesh (EBA) listed as a Least Developed Country (LDC). These countries are struggling with similar unskilled labour endowments across similar labour-intensive industries (such as garment, leather, carpet, aquaculture and food processing, construction and kilns industries, etc.). The EU is putting these countries in jeopardy by forcing them to comply with the aforementioned conventions in order to be granted or to maintain their GSP+ status. This competition is so fierce that industry and companies have to squeeze on wages, labour conditions and environmental constraints to remain competitive.[10] It is thus important to examine these perverse side-effects of the EU's current iteration of GSP+ in its present reviewing process.

Local NGOs, academics, trade unions and civil society groups in Pakistan continue to be very critical of how far Pakistan is complying in reality with the basic principles on which the GSP+ status has been granted by the EU.[11] On paper, a number of laws and regulations already exist or have been introduced by the Pakistani government to comply with the aforementioned conventions. Yet, Pakistan has been failing to comply with some of the most basic elements of these conventions, and both control mechanisms and enforcement procedures are still seemingly lacking.

Against the findings of the EU's monitoring missions,[12] it can be observed that labour conditions and the protection of children and women's rights have not been improving sufficiently in Pakistan. In fact, despite being officially outlawed for years, bonded labour arrangements (debt slavery; the most common form of modern slavery) continue to be widespread. These arrangements are particularly concentrated in rural areas, where there are few opportunities for education and employment. Many of Pakistan's estimated 60 million illiterate people[13] live in rural areas and have no other option but to sell their workforce for minuscule wages to local landlords, who charge the workers and their families for living on their properties. Trapped in a downward spiral of rising debt, with little to no prospect of change, an estimated 3 million people in Pakistan effectively live as indentured servants.[14]

Furthermore, child labour[15] is commonplace in those areas, given that children often have no choice but to support their families, thus being unable to attend school and obtain a formal education. There are currently more than 2 million child labourers in Pakistan.[16] Overall, women and children are part of the most vulnerable groups in society and are often being exploited, subjected to human trafficking[17] and forced to work under inhumane and bonded labour conditions, putting them at great risk of experiencing sexual violence. Law enforcement in this regard remains rather weak, particularly outside of the densely populated Punjab province, which accounts for a disproportionate 98% of convictions[18] of human traffickers in the country.

Therefore, there exists a large gap between Pakistan's pledge to implement core international conventions, as required under the GSP+ framework, and actual compliance. However, EU monitoring practices remain rather elusive and lack transparency,[19] even though the EU began to publish biennial monitoring reports on individual countries in 2014. Besides receiving data for example from the International Labour Organisation (ILO), the European Commission conducts its monitoring process through external consultants whose ability to access relevant information and remote areas[20] in the respective countries can be questioned. Also civil society actors are excluded from the monitoring process.[21]

The Pakistan Workers Confederation (PWC) reported a "state of near non-implementation"[22] with regard to many of the ILO's core labour conventions. According to its reports, serious deficiencies prevail in terms of adherence to safety standards, the right to unionise,[23] or equal treatment of women. However, such deficiencies do not merely apply to rural areas, as the Punjabi city of Sialkot exemplifies. Being a global hub for the production of surgical instruments and sports equipment (about 70% of global football manufacturing[24] takes place in Sialkot), many multinational companies operate factories in the city. Yet, as the PWC reports,[25] many workers in Sialkot earn below the minimum wage. Moreover, even though the GSP+ conditionalities require all workers receive social security cards, so far barely 10% of the workforce have actually received them, according to the workers rights group Labour Qaumi Movement.[26] Meanwhile, Salman Shah, a former finance minister and current adviser to Punjab province's chief minister on economic affairs stated that, "only 2.5% of GDP is being spent on providing social safety to the working class; it should be 10% at least,"[27] adding that, "we want to increase it but International Monetary Fund's conditions don't allow us to do that."[28] Generally, progress on workers rights and conditions has been slow since gaining GSP+ beneficiary status in 2014,[29] and Pakistan has yet to ratify inter alia the ILO's 1970 Minimum Wage Fixing Convention.[30]

Despite the lack of compliance, the EU has not suspended Pakistan's GSP+ benefits, which highlights a major point of criticism voiced against the scheme: there is no uniform definition with regard to the effective implementation of GSP+ conditionalities. Thus far, only four countries (Myanmar, Belarus, Sri Lanka and Cambodia) have ever been sanctioned with the withdrawal of their varying GSP statuses by the European Commission, for different reasons, with Sri Lanka being the only GSP+ beneficiary ever to have its status revoked. There is a great lack of clarity and an apparent need for a transparent, standardised procedure that clearly outlines which milestones need to be achieved to retain GSP+ status and under what conditions it must be revoked. Otherwise, the EU subjects itself to accusations of favouring those countries that it deems to be useful [31] for its geopolitical and geo-economic agenda.

So far, core weaknesses of the current GSP+ programme persist. Overall, GSP+ needs to be overhauled, as it should not function as a support scheme of an enduring feudal system of exploitation as is the case in Pakistan. The EU should push Pakistan to address its existing deficiencies in-depth in order to maintain its GSP+ status. This could potentially be achieved by setting a time limit for beneficiary countries to comply with the necessary conventions, as the lack of a road map for implementation and the corresponding absence of clear target dates, create no incentives for countries to comply rapidly, as there is presently a lack of urgency to do so. Instead, failing to comply (respectively failing to reach certain milestones) within a given period (such as 5 years) should lead to the suspension or even withdrawal of the GSP+ status. It would also show the EU's commitment to upholding its own principles and values and help to avoid unfair competition between GSP+ beneficiaries. In this regard, having a well-defined road map would also help to compare progress among countries in the same region, respectively among those who rely on similar sectors, such as Pakistan and Sri Lanka, with greater objectivity. This would make the scheme much more transparent and could potentially compel beneficiaries to use their GSP+ advantages more effectively.

Beyond that, businesses in countries such as Pakistan would greatly benefit from the implementation of necessary reforms and from the ensuing compliance with required conventions, particularly those related to labour rights and conditions. Empirical studies have found that improved working conditions directly translate to increased productivity.[32] In fact, evidence suggests that, "factories experience a 5.9% boost in profitability when workers perceive improvements in working conditions traditionally associated with 'sweatshops' including improvements in their sense of physical security and assurance in wage payments. Similarly, profitability is 7.6% higher where workers experience a comfortable environment and trusting workplace."[33] Therefore, there is a direct correlation between the well-being of workers and the output of their respective factories. Hence it follows that with few investments in improved working conditions, as a consequence of a more formalised and objective GSP+ conditionality mechanism, it would be possible for beneficiaries to substantially increase profits both in the short- and long term, as maltreatment of workers immediately decreases workers' productivity and factories' profitability.

In addition, the EU should evaluate whether the awarding of the 3 different GSP statuses purely based on the World Bank's assessment of countries' respective income levels is the best way to go forward, considering that it incentivizes beneficiary countries to remain below a certain poverty threshold, thus ultimately inhibiting innovation and economic development. While the development of innovative industries can greatly impact a country's economic output and increase overall income levels, those industries are often less labour-intensive. Therefore, the overwhelming majority of unskilled workers will experience little to no raise of income levels, despite the country surpassing a certain threshold, as more than 70% of the workforce in Pakistan is employed in the informal sector, which is characterised by unskilled labour.[34] Yet, a corresponding withdrawal of GSP+ benefits due to few well-performing "lighthouse" industries within a country, would mainly affect unskilled workers in labour-intensive industries, as those industries make up the largest share of exports to the EU, thus profiting most from the scheme.

Furthermore, the EU should stop adding new conventions to the GSP+ framework for the time being. While the Commission's latest proposal even suggested adding another 5 conventions on top of the 27 existing ones,[35] both the EU and the beneficiary countries are already struggling with the current ones. On the one hand, as previously mentioned, adding more conventions will only dilute the value of the already existing ones and will put more pressure on the countries, while effectively minimising the chances of the actual implementation of any of them. On the other hand, the EU is already unable to monitor compliance with the current conventions; adding additional ones would thus merely serve to diminish its own credibility and increase unnecessary bureaucracy. Instead, the EU should attempt to decrease the level of bureaucracy related to the scheme and rather focus on a number of core conventions with a more realistic implementation, which may actually be credibly monitored.

In light of the ongoing GSP, GSP+ and EBA review process, it would be crucial to develop a concise, critical and comprehensive evaluation and feedback mechanism, so as to effectively assess the extent to which Pakistan is complying with the standards set by the EU. A main focus should be centred on the assessment of labour rights, especially those concerning slave labour and the protection of children's and women's rights in the different sectors of Pakistan's economy, as the risks of exploitation remain significant. Furthermore, special attention should be given to the EU's monitoring process and the implementation by Pakistan of its GSP+ status.

Increased attention should also be given to informing EU consumers on the conditions under which goods for the EU markets are manufactured and produced in Pakistan, in view of its compliance with GSP+ standards. At present, public awareness on these issues is still lacking among the wider EU population as well as among relevant stakeholders at the institutional, academic and civil society level.

References

[1] United Nations Conference on Trade and Development (n.d.). *Generalized System of Preferences*. https://unctad.org/topic/trade-agreements/generalized-system-of-preferences

[2] European Commission (2021, September 21). *Generalised Scheme of Preferences (GSP).* https://ec.europa.eu/trade/policy/countries-and-regions/development/generalised-scheme-of-preferences/

[3] European Commission (2021, June 03). *Countries and Regions – Pakistan*. https://ec.europa.eu/trade/policy/countries-and-regions/countries/pakistan/

[4] Ibid.

[5] Amfori (2021, February). *The EU GSP: gains, sustainability…progress?* Position Paper. https://www.amfori.org/sites/default/files/amfori-2021-03-09-amfori-Position-Paper-The-EU-GSP.pdf

[6] Wijesinghe, A. & Munasinghe, E. (2021, September 28). *GSP+ Withdrawal: How Would it Impact Sri Lanka's Economy?* Institute of Policy Studies. https://www.ips.lk/talkingeconomics/2021/09/28/gsp-withdrawal-how-would-it-impact-sri-lankas-economy/

[7] The Economist (2918, January 04). *Pakistan still suffers from feudalism*. https://www.economist.com/asia/2018/01/04/pakistan-still-suffers-from-feudalism

[8] Jawad, S. (2016, August 21). *Feudal Lords continue to dominate the 'democratic' system*. Pakistan Today. https://archive.pakistantoday.com.pk/2016/08/21/feudal-lords-continue-to-dominate-the-democratic-system/

[9] Shah, M.A. (2019, May 27). *Flight of dirty money abroad more serious for Pakistan: RUSI*. The News International. https://www.thenews.com.pk/print/476817-flight-of-dirty-money-abroad-more-serious-for-pakistan-rusi

[10] See 5

[11] Pakistan Today (2019, November 21). *Pakistan urged to honour int'l conventions before GSP-Plus review*. https://profit.pakistantoday.com.pk/2019/11/21/pakistan-urged-to-honour-intl-conventions-before-gsp-plus-review/

[12] European Commission & High Representative of the Union for Foreign Affairs and Security Policy (2020, February 10). *The EU Special Incentive Arrangement for Sustainable Development and Good Governance ('GSP+') assessment of Pakistan covering the period 2018 – 2019.* https://ec.europa.eu/transparency/documents-register/api/files/SWD(2020)22_0/de00000000002391?rendition=false

[13] Ministry of Federal Education and Professional Training (n.d.). *Adult Literacy*. Government of Pakistan.
http://mofept.gov.pk/ProjectDetail/NjQ4ZTg2NjItOWM2NC00Y2IxLTkzMDgtMjU2OTFhMjA4NzNh

[14] Jillani, S. (2019, December 25). *Life of slavery — the perpetuation of bonded labor in Pakistan*. Deutsche Welle.
https://www.dw.com/en/life-of-slavery-the-perpetuation-of-bonded-labor-in-pakistan/a-51792298

[15] Bureau of International Labor Affairs (2021). *2020 Findings on the Worst Forms of Child Labor*. US Department of Labor.
https://www.dol.gov/sites/dolgov/files/ILAB/child_labor_reports/tda2020/Pakistan.pdf

[16] Ali, K. (2019, November 21). *Pakistan failing to improve labour rights despite GSP+*. Dawn.
https://www.dawn.com/news/1517943

[17] US Department of State (n.d.). *2020 Trafficking in Persons Report: Pakistan*.
https://www.state.gov/reports/2020-trafficking-in-persons-report/pakistan/3

[18] Ibid.

[19] Francis, R. (2021, September 09). *EU Generalised Scheme of Preferences to be toughened up*. Borderlex.
https://borderlex.net/2021/09/09/eu-general-systems-of-preferences-to-be-toughened-up/

[20] Sharma, M. (2019, February 25). *Is the GSP meant to profit the EU or create development successes?* Friends of Europe.
https://www.friendsofeurope.org/insights/is-the-gsp-meant-to-profit-the-eu-or-create-development-successes/

[21] See 19

[22] Pakistan Workers Confederation (2017). *GSP+ and Labour Standards in Pakistan*. Executive Summary. https://pwf.org.pk/executive-summary-of-the-report-for-the-year-2016-2017/

[23] See 16

[24] Cooper, H. & Molloy, C. (2020, December 28). Almost 70% of the world's soccer balls are made in one city in Pakistan — here's what it's like inside one of the factories. Business Insider.
https://www.businessinsider.com/sialkot-pakistan-soccer-ball-factory-bola-gema-2020-12?r=US&IR=T

[25] See 22

[26] Bari, M. (2020, December 03). *Are Pakistan's workers benefiting from EU's GSP+ scheme?* Deutsche Welle. https://www.dw.com/en/pakistan-eu-gsp-benefits-for-workers/a-55811932

[27] Shamil Shams, S.K. (2020, June 05). *Coronavirus: Pakistani government lays off thousands of workers to revive economy*. Deutsche Welle.
https://www.dw.com/en/coronavirus-pakistani-government-lays-off-thousands-of-workers-to-revive-economy/a-53699236

[28] Ibid.

[29] See 16

[30] International Labour Organization (n.d.). *Up-to-date Conventions and Protocols not ratified by Pakistan*.
https://www.ilo.org/dyn/normlex/en/f?p=NORMLEXPUB:11210:0::NO::P11210_COUNTRY_ID:103166

[31] See 20

[32] International Labour Organization (2016, November 08). *Good working conditions can also increase productivity and profits*.
https://www.ilo.org/newyork/news/WCMS_534476/lang--en/index.htm

[33] Better Work (2015, March). *Research Brief: Working Conditions, Productivity and Profitability Evidence from Better Work Vietnam*. International Labour Organization & International Finance Corporation.
https://betterwork.org/wp-content/uploads/2017/04/ILO-1513-Research-Brief-for-DP-No.-17-Are-Sweatshops-Profit-Maximizing.pdf

See also: Brown, D. & Domat, G. & Veeraragoo, S. & Dehejia, R. & Robertson, R. (2015, March). *Are Sweatshops Profit-Maximizing? Answer: No. Evidence from Better Work Vietnam*. Better Work Discussion Paper no.17. International Labour Organization & International Finance Corporation.
https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&ved=2ahUKEwia0-iplJj2AhVcIMUKHdQGDSIQFnoECAQQAQ&url=https%3A%2F%2Fusers.nber.org%2F~rdehejia%2Fpapers%2FDP%252017%2520web.pdf&usg=AOvVaw0oYSn5VE1GlTG-wWU5cYnM

[34] Gender Concerns International (n.d.). *EU's Review of Pakistan's GSP+ Status*.
http://www.genderconcerns.org/news/EUs-Review-of-Pakistans-GSP-Status/

[35] European Commission (2021, September 22). *Commission proposes new EU Generalised Scheme of Preferences to promote sustainable development in low-income countries*.
https://trade.ec.europa.eu/doclib/press/index.cfm?id=2303

European Institute for Asian Studies – EIAS a.s.b.l.
26 Rue de la Loi, 10th Floor
B-1040 Brussels

Tel.: +32 2 230 81 22
E-mail: eias@eias.org
Website: www.eias.org

LinkedIn: European Institute for Asian Studies
Facebook: EiasBrussels
Twitter: @EIASBrussels