The Impact of Revised GSP of EU on LDCs: The Case of Bangladesh

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Abstract:

The European Union (EU) has issued its revised Generalized System of Preference (GSP) on 31 October, 2012 which will be effective from 1st January 2014. The new scheme is expected to include 89 beneficiaries instead of present 176 countries to ensure more impact on countries most in need. Forty nine Least Developed Countries (LDCs) would be there in the Everything But Arms (EBA) scheme as well as 40 other low and lower –middle income countries under general GSP and GSP+. The new GSP+ countries will enjoy zero duties of 91% tariff lines. Thus GSP+ countries will now compete with more strongly with the LDCs. The main objective of the study is to investigate the potential economic impacts of the revised GSP of the EU on LDCs particularly for Bangladesh economy. We have used the computable general equilibrium (CGE) analysis using Global Trade Analysis Project (GTAP) model and database to explore the aggregate impact of the revised GSP as well as sectoral impacts using different partial equilibrium analysis. If EU cuts all tariffs of three countries (Pakistan, India and Vietnam), Bangladesh real GDP will be decreased by 0.35 percent and the welfare loss accounted to be US$ 195 million. The total exports to EU will be reduced by 2.6 percent thus the terms of trade of Bangladesh will be deteriorated sharply. Under new regime, GSP+ beneficiaries would likely to compete with Bangladesh in almost 6300 tariff lines in EU markets and the main competitors of LDCs to EU could be Pakistan, India and Vietnam by getting duty free exports to EU under GSP+ or signing an FTA.

Key Words: GSP; EU; GTAP; LDCs; Bangladesh; Pakistan; India; and Vietnam.