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# THE REVISED GENERALIZED SYSTEM OF PREFERENCE SCHEME OF EUROPEAN UNION: IMPLICATION FOR BANGLADESH

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Working Paper



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**THE REVISED GENERALIZED SYSTEM OF PREFERENCE  
SCHEME OF EUROPEAN UNION:  
IMPLICATIONS FOR BANGLADESH**

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This study examines the major changes in the revised EU GSP scheme and their impact on Bangladesh's export by identifying the major competitors, using quantitative tools. The affected items of Bangladesh, as revealed in the study, are mainly knit and woven textile articles. In the short run, the revised scheme may not affect Bangladesh's export, especially in the readymade garment (RMG) sector but in the long run competitor like Pakistan may grab the EU market by enhancing its capacity.

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## ACRONYMS

BRCA Bilateral Revealed Comparative Advantage

EBA Everything But Arms

ECSC European Coal and Steel Community

EU European Union

FKI Finger-Kreinin Index

GATT General Agreement on Tariff and Trade

GSP Generalized System of Preference

HS Harmonized System

OCT Overseas Countries and Territories

LDC Least Developed Countries

RECPI Relative Export Competitive Pressure Index

RMG Ready Made Garments

SMART Single Market partial Equilibrium Simulation Tool

TRTA Trade Related Technical Assistance

UNCTAD United Nations Conference on Trade and Development

WITS World Integrated Trade Solution

## I. INTRODUCTION

The European Union is the single most important destination of Bangladesh's export. EU's contribution to Bangladesh's total export has been more than half over last 3 decades. In FY 2013-14, Bangladesh's export to the EU was US\$ 16.40 billion, which represents 54.36% of Bangladesh's total export. Importance of the EU is more prominent in Bangladesh's RMG export, representing 62.26% of its total RMG export. Everything but Arms (EBA) initiative under the EU GSP Scheme is the key to the strong presence of the EU in Bangladesh's export. Bangladesh has been very successful in utilizing the duty free and quota free market access facility provided under the EBA. In fact, over the period, the EU has modified its rules of origin and other requirements for making its GSP scheme more development-friendly, and Bangladesh has gradually improved its capacity to meet these requirements. As a result, GSP utilization rate of Bangladesh in the EU market has increased gradually over the years. During the period between 2000 and 2013, this rate has increased from 48.6% to 95.7%. Thus, the EU and its EBA initiative have significant influence on Bangladesh's export in particular and on Bangladesh's economy as a whole.

Recent revision of the EU GSP scheme, which has come into effect on 1 January 2014, has introduced important changes to the scheme. These changes necessitate an in-depth assessment of the revised scheme and its probable impact on Bangladesh's export. This Paper aims to make such assessment using the existing trade analytical tool and SMART simulation. The Paper is divided into four sections. First section assesses the changes in the revised GSP scheme of the EU and identifies the concerns for Bangladesh. Second section analyses probable implication for Bangladesh on the basis of empirical evidence using quantitative tools. Third section focuses on impact analysis using SMART. Finally, section four draws conclusion.

## II. OVERVIEW OF EU GSP SCHEME AND RECENT CHANGE

The European Union is one of few countries, which responded promptly following the approval of the waiver from Article 1 of the GATT for 10 years authorizing developed countries to introduce GSP schemes after the adoption of the concept of Generalized System of Preferences in 1968 by the United Nations Conference on Trade and Development (UNCTAD). Since the introduction of the GSP Scheme in 1971, the EU's approach towards it has evolved over the years. At the initial phase, GSP was applied in the framework of a 10-year programme (1971-1981) through different regulations for industrialized products, textile products, agricultural products and those covered by the European Coal and Steel Community (ECSC) Treaty, which were adopted on a yearly basis. It was subsequently renewed for a second 10-year period (1981-1991). Pending the outcome of the Uruguay Round of global trade negotiations, the 1981-1991 scheme was extended with various amendments until 1994. The GSP system in place through



1994 relied heavily on quantitative limits for duty-free or reduced-duty industrial and agricultural products. The third cycle of the EU GSP scheme, introduced in 1994, covered the period 1995-2004. The first phase of this cycle started on 1 January 1995 through adoption of basic legislative acts concerning industrial and agricultural products. The scheme brought about major changes to its structure and three key features, namely tariff modulation, country-sector graduation and special incentive arrangements.

“Tariff modulation” represented a radical departure from schemes adopted until 1994 whereby quantitative limitation of GSP imports applied. These limitations were replaced by reduced rates of duty classified according to four categories of product sensitivity: (1) very sensitive products: 15% preferential margin; (2) sensitive products: 30% preferential margin; (3) semi-sensitive products: 65% preferential margin; and (4) non-sensitive products: duty-free entry.

The second element was the introduction of an open policy of graduation, containing the criteria for country-sector graduation and the third element was a special incentive arrangement for beneficiary countries complying with certain requirements relating to labour standards and environmental norms (operational on 1 January 1998). These special incentives were in the form of an additional margin of preference granted to those countries.

For the second phase, from 1 July 1999 to 31 December 2001, the EU revised its GSP scheme by extending product coverage for LDCs. On additional products, LDCs were provided preferential margin, which was effective from March 1998.

For the period from 1 January 2002 to 31 December 2004, the EU put in place the third phase of the scheme by adopting Council Regulation (EC) No. 2501/2001. In this phase, the EU did away with four categories of lists and introduced two categories: sensitive and non-sensitive. While duty free access was provided to non-sensitive items, preferential margin was granted to all products under sensitive lists in three forms: (1) 3.5% reduction from MFN ad-valorem duty for all products except textile and clothing; (2) 20% reduction of duty for textile and clothing products; and (3) 30% reduction for tariff lines with specific duties.

In addition, the third phase also continued special incentive arrangements with some modifications regarding (i) Special incentive arrangements for protection of labour rights; and (ii) Special incentive arrangements for protection of environment. Countries complying with labour or environmental standards were provided additional preferential margins. This phase also included EBA initiative, which was promulgated on 28 February 2001 by extending duty free and quota free market access to all LDCs for all products excluding Arms. The scheme also extended duty free access to countries combating drug production and trafficking for specific products.

The fourth phase of the EU GSP scheme started in 2006 under the framework ‘Developing countries, international trade and sustainable development: Function of the

Community's generalized system of preferences (GSP) for the 10-year period from 2006 to 2015'. The first regulation was issued in June 2005 for the period between 2006 and 2008. Major changes proposed in this regulation were inclusion of GSP+ scheme for sustainable development and good governance instead of special incentive arrangement. Countries meeting the criteria for vulnerability and complying with 27 conventions on core human and labour rights, environment and governance were eligible for GSP+ benefit, which included duty free access to all products covered by the GSP scheme.

The second regulation of this phase was made effective from 1 January 2009 to 31 December 2011 and extended until 31 December 2013. Basic structure of the scheme remained broadly unchanged.

The third regulation of this phase was issued on 25 October 2012 and has come into force on 1 January 2014. While maintaining the basic structure, the new regulation has brought changes in some areas, such as beneficiary countries, product coverage, eligibility criteria for GSP + beneficiary countries.

As regards rules of origin during the period between 1993 and 2010, EU applied those under Regulation No 2454/93 of 2 July 1993. In November 2010, the EU introduced major changes to its rules of origin, which included more relaxed and separate criteria for determining the country of origin for LDCs, more provisions for cumulative rules of origin and self-certification system from 1 January 2017.

#### A. RATIONALE BEHIND THE MODIFICATION MADE IN GSP 2014 SCHEME

The rationale behind the 2012 GSP reform as stated by the EU authorities is to make preferences more effective for countries that need these most. Given the successful integration of more advanced developing countries and enhanced competitiveness of their products in world market, there is not enough justification for continuing GSP facilities for those countries. Besides, many countries that enjoyed GSP facilities under the 2008 scheme have been enjoying better tariff treatment through alternative arrangements. Therefore, the EU's focus in recent reform was modification of eligible country list. The GSP+ arrangement has had a positive impact on the ratification of international conventions on core human and labour rights, environment and good governance. For this reason, GSP+ arrangement has been modified to provide stronger incentives for additional countries to sign up and implement relevant international conventions. Third, the regulation was made operational for 10 years until 31 December 2023 instead of three years for making the scheme stable and predictable. In addition, the interval between promulgation of the regulation and the date of coming into force of the regulation was kept more than one year so that economic operators get enough time to adapt to the new regulation. Fourth, in order to ensure uniform conditions for the implementation of this regulation, implementing powers have been conferred on the EU Commission in accordance with the rules and general principles

concerning mechanisms for control by the Member States of the Commission's exercise of powers.

## B. MODIFICATIONS BROUGHT IN THE 2014 GSP SCHEME

As mentioned earlier, while no changes have been brought to the basic structure of the scheme, the new regulation has modified a number of specific provisions which have implications for export of the beneficiary countries under the 2008 regulations. These changes include modifications in beneficiary country list, eligibility criteria for GSP+, product coverage, product graduation etc. These are elaborately discussed in the following sections.

### 1. BENEFICIARY COUNTRY

The current regulation has done away with the single concept of the beneficiary countries. Instead, it has brought the new concept of eligible countries and beneficiary countries. From the previous list of beneficiary countries, which contained 176 countries, the regulation has introduced a list of eligible countries containing 153 countries. In doing so, the regulation has excluded 33 overseas countries and territories (OCTs) and added 10 new countries. Because of the alternative arrangement of the EU with the OCTs, 33 OCTs have been excluded from the GSP scheme. While the status of eligibility of GSP scheme for 153 countries of eligible list will be retained, not all countries will be in the list of beneficiary countries i.e., all countries will not enjoy GSP benefit. As per latest amendment of the country lists, only 88 countries are in the beneficiary list eligible to enjoy GSP benefit. In preparing the list, 22 high and upper middle income countries have been excluded, although they may be included in the list in future if they are not considered as high and upper middle income countries. 34 countries, which have preferential market access arrangements with the EU, have also been excluded from the beneficiary list as they have been enjoying preferential treatment under those arrangements. In addition, out of 10 new eligible countries, 9 have not been included in the beneficiary list seemingly for their status as high and upper middle income countries. These changes imply that 33 OCTs and 34 countries having preferential arrangement with the EU are unlikely to be affected since they have already been enjoying preferential access in the EU market. However, export of 22 high and upper middle income countries may be affected by these changes as they are going to face MFN duty. Depth of such impact will depend on the competitiveness of their products. This may, in turn, benefit the countries which will continue to enjoy preferential market success in the EU market if export products of these countries compete with those of the excluded countries. According to latest amendment, 4 more countries will be excluded from the beneficiary list from January 2015.

### 2. STRUCTURE OF THE EU GSP SCHEME

As mentioned earlier, GSP 2014 has not brought any changes to the basic structure of the scheme. However, some of the provisions have been modified to match the scheme with changes in the country list and make the scheme more predictable.

**Standard GSP:** There are basically no changes in the Standard GSP. GSP beneficiary countries will continue to enjoy duty free access on the products under non-sensitive lists and preferential margin (20% reduction on textiles, 3.5% point's reduction in *ad-valorem* rate on the products other than textiles and 30% reduction on specific duty) on items under sensitive list. Only changes proposed in the scheme are inclusion of 15 additional tariff lines in non-sensitive list and transfer of 4 tariff lines from sensitive to non-sensitive list. 88 countries will be entitled to enjoy standard GSP facilities although among those, 49 LDCs will enjoy more attractive treatment under EBA and 10 countries will enjoy GSP+ benefit. In fact, as of January 2014, 29 countries will enjoy standard GSP facilities and 4 out of those will be excluded from list from 1 January 2015.

**GSP+:** Special incentive arrangement for sustainable development and good governance, popularly known as GSP+ will continue to remain applicable under 2014 GSP Scheme. However, unlike the previous scheme which contains the same list for standard GSP and GSP+ with duty free access, the new regulation will introduce new list for GSP+ with slightly broader coverage. Besides, in order to match the criteria for GSP+ benefit with the reduced number of beneficiary countries and to attract more countries to avail of the opportunity under GSP+ scheme, changes have been made in vulnerability criteria. In 2014 GSP scheme, lack of diversification in export of any beneficiary country is determined using share of export of seven largest GSP sections eligible for GSP of any beneficiary country in its total export of all GSP eligible products to EU, threshold level of which is fixed at 75%. Earlier, the share of the threshold level was determined from the share of five largest GSP sections. Change is also brought to the threshold level of determining the lack of integration in international trading system. Earlier, threshold was fixed at less than 1%, which represents share of a beneficiary country's export of the products eligible for GSP benefit in total export from beneficiary countries of those products to the EU for last consecutive three years. Now, threshold level is 2%. As a result of these changes, countries such as Pakistan, Ukraine and the Philippines which were not eligible for GSP+, have become eligible for applying for GSP+ benefit. As per the latest EU notification, 35 countries (2 countries: Iran and Maldives will be excluded from the GSP+ eligibility list as Iran has already been excluded from beneficiary list and Maldives will be excluded from 1 January 2015) from the beneficiary list are eligible for applying for GSP+. However, as per provision of the 2014 regulation, eligible countries in order to avail of GSP+ benefit must apply to the EU at any time during the applicability of the regulation and make binding commitment to ratify 27 conventions on core human and labour rights and on environment and governance, as well as agree to cooperate in monitoring. Earlier, GSP+ eligible countries had to apply within two years and make binding commitment to ratify and implement the conventions, to report and accept monitoring. Due to changes in the number of beneficiary countries as well as in the criteria of GSP+ eligibility, 13 countries namely El Salvador, Guatemala, Panama, Armenia, Bolivia, Costa Rica, Cape Verde, Ecuador, Georgia, Mongolia, Peru, Pakistan

and Paraguay have been granted GSP+ plus facilities, as of January 2014. Earlier, 16 countries were enjoying GSP+ benefit. Among the 13 new GSP+ beneficiary countries, 12 were enjoying benefit earlier and the newcomer is only Pakistan. Thus, in real sense, inclusion of Pakistan in GSP+ list is a major development of the new GSP scheme.

**EBA:** The regulation continues to grant duty free access to all LDC products except arms. Only change is the exclusion of Maldives from and inclusion of Myanmar and South Sudan in the EBA beneficiary list.

An estimate, based on the EU HS2012 combined nomenclature available from the WTO, shows that standard GSP beneficiary countries will enjoy preferential access without payment of any duty on 32.12% products and with reduced duty on 33.66% products, while GSP+ beneficiary countries will enjoy preferential access for 64.15% products without payment of duty and with reduced duty for 2.23% products. EBA beneficiary countries will continue to enjoy duty free access for 99.77% products. Table 1 displays the product coverage under the new schemes:

**Table 1:** Product Coverage of the EU 2014 GSP Scheme

Regime	Treatment	GSP		GSP +		EBA	
		Number	Share in Total	Number	Share in Total	Number	Share in Total
MFN	Zero	2,307	24.59%	2,307	24.59%	4	0.04%
	Non-Zero	904	9.63%	848	9.04%	18	0.19%
GSP	Zero	3,014	32.12%	6,019	64.15%	9,361	99.77%
	Non-zero	3,158	33.66%	209	2.23%	0	0.00%
		9,383		9,383		9,383	

*Source:* Authors' estimation using EU HS2012 combined nomenclature

### 3. PRODUCT GRADUATION

The 2014 regulation continues to apply product graduation. Under the EU GSP scheme, graduation only takes place if the average value of imports of products under GSP Section from a GSP beneficiary country for three consecutive years exceeds the threshold calculated as a percentage of import from GSP beneficiary countries in the total value of the EU imports of such products from all GSP beneficiary countries. In such cases, GSP is suspended in respect of those products originating from that country. The threshold level in the GSP 2014 has been changed and made 17.5% for products other than textiles and 14.5% for textiles taking into account the reduced number of beneficiary countries. Another important change brought to the product graduation scheme is that product graduation will now be applied only to standard GSP beneficiary countries while earlier it was applied to GSP+ beneficiary countries as well. However, despite the increase in threshold, 27 sections of China, 1 section of Costa Rica, 2 sections of Ecuador, 6 sections of India, 3 sections of Indonesia, 1 section of Nigeria, 1 section of Ukraine and 3 sections of Thailand have been suspended from GSP benefit. The numbers of countries as well

as sections were much less in the previous regulation. Nevertheless, Vietnam has regained its preference on footwear due to the changes, which was suspended under earlier regulation.

#### 4. CHANGES IN OTHER PROVISIONS

There are practically no modifications/changes in other provisions such as, temporary withdrawal of GSP preferences and safeguard measures. The 2014 GSP regulation continues to provide a mechanism for temporary withdrawal of GSP preference in case of serious and systematic violation of core human and labour rights conventions. As regards safeguard measures, EU manufacturers/producers may now request for safeguard measures, while earlier they did not have such rights. Most important change made in 2014 regulation is conferring the power to the Commission to take decision and adopt delegated act for implementing of some provisions of the regulation.

#### 5. FINDINGS

Although the 2014 GSP regulation has not brought any changes to the basic structure of the EU scheme, changes made in the provisions within each element of that structure have implications for beneficiary countries. Table 2 summarizes the major changes. For Bangladesh as well as other GSP beneficiary countries, exclusion of 33 OCTs and 34 countries having alternative arrangement will have no impact, while exclusion of 22 countries from 1 January 2014 and 4 other countries from the beneficiary list may be beneficial to Bangladesh's export to the EU, provided there is similarity of products exported by those countries and Bangladesh. On the other hand, inclusion of Pakistan in GSP+ may adversely affect Bangladesh's export, in case of similarity in products exported. On the same coin, inclusion of south Sudan and reinstatement of Myanmar may have negative impact on Bangladesh's export to the EU.

**Table 2: Summary of Major Changes of Revised EU GSP with Former EU GSP**

Subject of Differences	Scheme 732/2008	Reformed Scheme 978/2012
1. Beneficiary country	<ul style="list-style-type: none"> <li>▪ Single concept of beneficiary country.</li> <li>▪ 176 beneficiary countries.</li> </ul>	<p>New concept of eligible countries and beneficiary countries.</p> <ul style="list-style-type: none"> <li>▪ Eligible Countries               <ul style="list-style-type: none"> <li>➤ 153 (exclusion of 33 OCTs countries addition of 10 new countries)</li> </ul> </li> <li>▪ Beneficiary countries               <ul style="list-style-type: none"> <li>➤ 88 (exclusion of 34 countries having alternative arrangement with the EU and 31 high and upper middle income countries among 9 are newly eligible countries from the list of eligible countries)</li> </ul> </li> </ul>

Subject of Differences	Scheme 732/2008	Reformed Scheme 978/2012
<b>2. Structure of EU GSP Scheme</b>	1. Standard GSP 2. GSP Plus 3. EBA	No changes
<b>2.1 Standard GSP</b>	Duty free on non-sensitive items and preferential rate on sensitive items	No change in standard GSP preferential margin but 15 additional tariff lines have been included in non-sensitive list and 4 tariff lines have been transferred from sensitive to non-sensitive list.
<b>2.2 GSP Plus</b>	<ul style="list-style-type: none"> <li>▪ Same product list for GSP and GSP plus with duty free access on items under sensitive list.</li> <li>▪ Eligibility criteria <ul style="list-style-type: none"> <li>➢ Import of 5 largest product sections from a GSP beneficiary country exceeds 75% of total imports from GSP beneficiary countries into the EU in all products eligible for GSP benefit.</li> <li>➢ Import of products eligible for GSP from a beneficiary country represents less than 1% of imports of products eligible for GSP from all GSP beneficiary countries.</li> </ul> </li> <li>▪ Requirement of application by the GSP beneficiary country within two years for being eligible for GSP Plus if the aforesaid criteria are fulfilled.</li> </ul>	<ul style="list-style-type: none"> <li>▪ Separate list of product with broader coverage for GSP plus countries.</li> <li>▪ Eligibility criteria <ul style="list-style-type: none"> <li>➢ Number of sections has been increased to 7.</li> <li>➢ Threshold level has been increased to 2%.</li> <li>➢ Flexibility for any GSP beneficiary countries to apply for GSP plus benefit at any time.</li> </ul> </li> </ul>
<b>2.3 EBA</b>	Duty free access to all LDCs for all products except arms.	Exclusion of Maldives from EBA list and inclusion of Myanmar and South Sudan.
<b>3. Product Graduation</b>	<ul style="list-style-type: none"> <li>➢ Graduation applies to both standard GSP and GSP plus.</li> <li>➢ Any section will be graduated from GSP benefit from a particular country, if the import of products covered under this section from that country exceeds threshold of 15% (for textile section 12.5%) of total imports of products covered by that section from all GSP beneficiary countries.</li> </ul>	<ul style="list-style-type: none"> <li>➢ Graduation applies to only standard GSP.</li> <li>➢ Threshold level has been raised to 17.5% (for textile section 14.5%)</li> </ul>
<b>4. Changes in other provisions</b>	<ul style="list-style-type: none"> <li>▪ <i>Safeguards</i> <ul style="list-style-type: none"> <li>➢ EU producers did not have the right to apply for safeguard</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ <i>Safeguards</i> <ul style="list-style-type: none"> <li>➢ EU producers may request for safeguard measures.</li> </ul> </li> </ul>

Subject of Differences	Scheme 732/2008	Reformed Scheme 978/2012
	measures.	➤ Provides power to the Commission to take decision and adopt delegated act for implementing of some provisions of the regulation.

### III. PROBABLE IMPLICATIONS OF 2014 GSP SCHEME FOR BANGLADESH'S EXPORT TO THE EU

#### A. EXPORT PERFORMANCE OF BANGLADESH IN THE EU

Bangladesh is highly dependent on the EU market for its export. As mentioned earlier, export to the EU accounts for more than 50% of Bangladesh's total export. As can be seen from the export statistics available from Euro Stat (Table 3), during the period between 2000 and 2013 Bangladesh's export to the EU has increased more than threefold. Such robust performance is attributable to the GSP facilities provided the EU. As evident from GSP utilization rate in 2013, 95.7% of Bangladesh's export to the EU entered duty free, while the same was 48.6% in 2000 – a quantum leap by any standard. Over the period, Bangladesh has increased its capability to meet the rules of origin criteria of the EU GSP scheme.

**Table 3: Bangladesh's Export to the EU Since 2000**

*[Values are in Million Euro]*

	Total Export	Export under GSP	Utilization Rate
<b>2000</b>	3,127.88	1,521.47	48.6%
<b>2005</b>	4,116.21	2,661.22	64.7%
<b>2010</b>	6,690.33	5,355.94	80.1%
<b>2012</b>	9,360.56	8,822.33	94.3%
<b>2013</b>	10,399.08	9,956.43	95.7%

*Source: Authors' Calculation using Data available from Euro Stat*

Thanks to the introduction of LDC friendly rules of origin in 2011 Bangladesh's export to the EU has increased by 50% between 2010 and 2013. As evident from the statistics presented at table 4, woven RMG sector has largely benefited from the relaxation of rules of origin, which resulted in a sharp increase in utilization rate as well as in export of woven garments. However, it is observed that the EBA initiative, which was introduced in 2001, has no impact on product diversification in the EU market. Rather, Bangladesh's export to the EU is increasingly concentrated on 5 top HS chapters, confined to clothing and home textiles. Such concentration is likely to increase in future. Thus, it can be assumed that any competitive pressure from other countries in these sectors may negatively affect Bangladesh's export growth to the EU market. Therefore, any impact analysis will require thorough analysis of competitiveness of this sector at more disaggregated level.



**Table 4: Export Performance of Bangladesh to the EU**

[value in Million Euro]

Chapter	Description	Jan.-Dec. 2000			Jan.-Dec. 2005			Jan.-Dec. 2010			Jan.-Dec. 2012			Cumulative Growth
		Total Export	Share in total Export	GSP Utilization	Total Export	Share in total Export	GSP Utilization	Total Export	Share in total Export	GSP Utilization	Total Export	Share in total Export	GSP Utilization	
61	Articles of apparel and clothing accessories, knitted or crocheted	1,346.0	43.0%	69.0%	2,201.7	53.5%	84.9%	4,072.6	60.9%	94.2%	5,130.9	54.8%	96.0%	11.8%
62	Articles of apparel and clothing accessories, not knitted or crocheted	1,244.1	39.8%	14.3%	1,336.5	32.5%	28.0%	1,783.1	26.7%	45.6%	3,265.9	34.9%	93.4%	8.4%
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	69.7	2.2%	86.7%	132.1	3.2%	93.2%	248.6	3.7%	85.6%	274.1	2.9%	94.4%	12.1%
3	Fish and crustaceans, molluscs and other aquatic invertebrates	178.2	5.7%	95.2%	171.0	4.2%	64.8%	231.0	3.5%	96.6%	251.0	2.7%	99.1%	2.9%
64	Footwear, gaiters and the like; parts of such articles	41.0	1.3%	85.8%	57.9	1.4%	92.2%	105.4	1.6%	91.4%	140.9	1.5%	98.1%	10.8%
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	62.7	2.0%	19.8%	40.6	1.0%	13.9%	41.2	0.6%	22.0%	29.1	0.3%	25.0%	-6.2%
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	13.0	0.4%	98.2%	15.5	0.4%	81.6%	37.7	0.6%	97.5%	43.0	0.5%	96.8%	10.5%
41	Raw hides and skins (other than furskins) and leather	92.3	3.0%	90.5%	57.7	1.4%	90.1%	34.8	0.5%	80.9%	52.0	0.6%	81.2%	-4.7%
24	Tobacco and manufactured tobacco substitutes	6.3	0.2%	11.4%	7.4	0.2%	45.4%	21.1	0.3%	57.9%	21.4	0.2%	82.2%	10.7%
69	Ceramic products	13.2	0.4%	99.2%	17.0	0.4%	95.3%	13.5	0.2%	97.0%	11.2	0.1%	99.7%	-1.3%
<b>1-99</b>	<b>Total</b>	<b>3,127.7</b>	<b>98.0%</b>	<b>48.7%</b>	<b>4,116.0</b>	<b>100.0%</b>	<b>64.7%</b>	<b>6,690.0</b>	<b>100.0%</b>	<b>80.1%</b>	<b>9,359.6</b>	<b>100.0%</b>	<b>94.3%</b>	<b>9.6%</b>

Source: Authors' calculation based on data available from Euro Stat.

## B. IMPLICATION OF EXCLUSION OF CERTAIN COUNTRIES FROM GSP BENEFICIARY LIST ON BANGLADESH

As mentioned earlier, the 2014 GSP Scheme have excluded 22 countries from the list of beneficiary countries from 1 January 2014 and another 4 will be excluded from 1 January 2015. In order to assess the implication of this exclusion on Bangladesh's export, similarity in export structure of these countries with that of Bangladesh to the EU market has been examined using Finger-Kreinin Index (FKI). FKI estimates show that there is hardly any similarity between the export patterns of Bangladesh and those countries except for China and Macao (Table 5). However, the most prominent export sectors of Bangladesh were outside the scope of GSP for China for a long time and export of Macao to the EU in these prominent sectors is very small. In addition, total export of other excluded countries in textile and clothing was to the tune of only Euro 472 million, which is negligible compared to Bangladesh total export. Therefore, graduation of these countries from the list of GSP beneficiary countries is likely to bring benefit to Bangladesh.

**Table 5: Finger-Kreinin Index for Bangladesh with Countries Graduated from GSP Beneficiary List**

Country	FKI	Country	FKI
United Arab Emirates	0.03	Oman	0.02
Argentina	0.05	Palau	0.03
Bahrain	0.00	Qatar	0.00
Brunei Darussalam	0.06	Russian federation	0.01
Brazil	0.03	Saudi Arabia	0.01
Belarus	0.03	Uruguay	0.04
Cuba	0.04	Venezuela	0.02
Gabon	0.00	Azerbaijan	0.00
Kuwait	0.00	China	0.15
Kazakhstan	0.01	Ecuador	0.04
Libya	0.00	Iran	0.01
Macao	0.17	Maldives	0.03
Malaysia	0.02	Thailand	0.09

*Source: Authors' Calculation using Data available from Euro Stat*

## C. IMPLICATION OF DESIGNATING GSP+ BENEFICIARY COUNTRIES ON BANGLADESH'S EXPORT TO THE EU

According to the criteria set out by the 2014 GSP regulation, 35 beneficiary countries are eligible for applying for GSP+ benefit. FKI estimates show that out of the 35 GSP+ eligible countries, Bangladesh has visible similarity in export pattern with Pakistan, Sri Lanka, Syria, Mongolia and Tonga (Table 6). Among those, exports of Syria, Mongolia and Tonga in major

export sector (RMG and Home textiles) are negligible. Therefore, it can be deduced that Bangladesh's export to the EU is unlikely to face any challenge, if GSP+ eligible countries barring Pakistan and Sri Lanka are granted GSP+ benefit. According to the latest decision of the EU, 13 countries<sup>1</sup> including Pakistan have been granted GSP+ benefit. 9 other GSP+ beneficiary countries were also getting GSP+ benefit earlier and evidence shows that there was no adverse effect on Bangladesh's export due to their GSP+ status. Therefore, key concern for Bangladesh export to the EU is Pakistan. The next section will assess the probable impact at more disaggregated level. However, it is to be mentioned that Sri Lanka was getting GSP+ benefit during the period between 2005 and 2010. Hence, it is useful to look at Sri Lanka's export performance in the EU market and its effect on Bangladesh's export before going to assess implication of GSP+ benefit of Pakistan.

**Table 6: Finger-Kreinin Index for Bangladesh with the Countries Eligible for GSP+ Benefits**

Potential GSP Plus Countries	FKI	Potential GSP Plus Countries	FKI
Armenia	0.10	Bolivia	0.02
Azerbaijan	0.00	Cook islands	0.00
Cape Verde	0.10	Ecuador	0.04
Congo, democratic republic of	0.01	Iraq	0.00
Costa Rica	0.01	Kyrgyz, republic	0.01
El Salvador	0.06	Marshall islands	0.00
Georgia	0.03	Micronesia	0.03
Guatemala	0.06	Mongolia	0.19
Honduras	0.09	Nauru	0.01
Iran, Islamic Republic of	0.01	Nicaragua	0.09
Maldives	0.03	Niue	0.00
Nigeria	0.01	Panama	0.05
Pakistan	0.37	Paraguay	0.01
Philippines	0.07	Peru	0.05
Sri Lanka	0.60	Tajikistan	0.08
Syrian Arab Republic	0.18	Tonga	0.73
Ukraine	0.05	Turkmenistan	0.02
Uzbekistan	0.01		

*Source: Authors' Calculation using Data available at Euro Stat*

#### D. EXPORT PERFORMANCE OF SRI LANKA DURING THE PERIOD BETWEEN 2005 AND 2010

Sri Lanka was granted GSP+ benefit in 2005 and the country enjoyed duty free access on all sensitive items till 2010, when the facility was withdrawn due to non-compliance of the

conventions pertaining to core human and labour rights, environment and governance. During this period, Sri Lanka has been able to increase its export to the EU. However, evidence does not show that this was due to GSP+ benefit. In fact, during this period, although GSP utilization rate of Sri Lanka as well as its export to the EU has increased, it could not use full benefit of duty free access granted under GSP+ and GSP utilization rate could only reach up to 58.74% in 2009 (Table 7). Perhaps for that reason, export of Sri Lanka to the EU continued to increase even after withdrawal of GSP+ benefit. Comparison of Bangladesh’s export performance during the period between 2005 and 2010 with that of Sri Lanka shows that Bangladesh’s export under GSP has increased at a cumulative growth rate of 15%, while the same was 17.3% in case of Sri Lanka. During the period, GSP utilization rate by Bangladesh was 80.1%, which was only 57.7% in case of Sri Lanka. As a result, Sri Lanka could not put any competitive pressure on Bangladesh. Relative low utilization of GSP+ benefit by Sri Lanka may be attributed to Sri Lanka’s inability to comply with the rules of origin requirement of the EU GSP scheme. However, gradually at a later stage, Sri Lanka increased its capacity for compliance. Therefore, it can be inferred that country’s ability to comply with the rules of origin criteria of the EU GSP scheme will be a key determinant for effective utilization of GSP+ benefit.

**Table 7: Export Performance of Sri Lanka to the EU and GSP Utilization by it Since 2004**

*[Values are in Million Euro]*

Year	Total Export	Export under GSP		GSP Utilization Rate
		Zero Duty	Non Zero Duty	
2004	1,552.24	189.48	245.81	28.04%
2005	1,583.29	446.73	123.10	35.99%
2006	1,882.59	925.55	2.85	49.32%
2007	2,082.13	1,110.38	3.80	53.51%
2008	2,146.37	1,237.41	4.19	57.85%
2009	2,027.89	1,188.47	2.73	58.74%
2010	2,190.47	976.30	287.40	57.69%
2011	2,407.24	368.14	805.01	48.73%
2012	2,539.23	361.56	710.04	42.20%

*Source: Author’s calculation using data available at Euro Stat*

#### E. PROBABLE IMPLICATION OF GSP+ BENEFIT FOR PAKISTAN & FALL OUT FOR BANGLADESH

Experience of Sri Lanka suggests that country’s ability to avail of the opportunity of GSP+ benefit depends on its capacity to comply with the rules of origin, which can be judged from the GSP utilization rate of that country. Export performance of Pakistan during the period between 2006 and 2012 shows that Pakistan has gradually increased its capacity to comply with the rules of origin criteria of the EU GSP scheme, and as of 2012, utilization rate of GSP by Pakistan was 79.18% (Table 8). Most striking phenomenon in the utilization rate is that high level of utilization is coming from the export of non-zero preferential products. Since GSP+ offers duty free access

to products that are subject to preferential scheme under Standard GSP, Pakistan seemingly will be able to take full advantage of GSP+ benefit. Analysis of GSP utilization rate at disaggregated level, for top 10 chapters of Bangladesh's export, shows that utilization rates of Pakistan in products covered under Chapter 61, 62 and 63 is very high. A comparison of utilization rates by Bangladesh on those products shows that despite Bangladesh's enjoying more relaxed rules of origin as an LDC, utilization rates of Bangladesh and Pakistan in the products covered under these chapters are more or less same (Table 9). So, it can be deduced that unlike Sri Lanka, Pakistan will be in a position to avail of the opportunity created by EU GSP+ and is likely to put competitive pressure on Bangladesh's export to the EU.

**Table 8: Export Performance of Pakistan to the EU and GSP Utilization by it Since 2006**

[Values are in Million Euro]

Year	Total Export	Export under GSP		GSP Utilization Rate
		Zero Duty	Non Zero Duty	
2006	3,306.52	308.48	1,998.34	69.77%
2007	3,454.74	338.32	2,237.75	74.57%
2008	3,631.43	394.87	2,383.36	76.50%
2009	3,311.54	355.66	2,285.32	79.75%
2010	3,819.21	426.34	2,634.88	80.15%
2011	4,601.89	447.30	3,179.38	78.81%
2012	4,082.28	446.39	2,785.94	79.18%

Source: Author's calculation based on the data available from the Euro Stat

**Table 9: EU GSP Utilization by Pakistan and Bangladesh in Top 10 Export Chapters of Bangladesh in 2012**

[Values are in Million Euro]

Chapter	Description	Pakistan			Bangladesh		
		Total Export	Share in Total Export	GSP Utilization	Total Export	Share in Total Export	GSP Utilization
61	Articles of apparel and clothing accessories, knitted or crocheted	509.83	12.49%	92.92%	5,130.91	54.82%	95.98%
62	Articles of apparel and clothing accessories, not knitted or crocheted	753.01	18.45%	93.55%	3,265.87	34.89%	93.37%
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	897.81	21.99%	96.08%	274.10	2.93%	94.35%
03	Fish and crustaceans, molluscs and other aquatic invertebrates	0.04	0.00%	0.00%	251.00	2.68%	99.08%

Chapter	Description	Pakistan			Bangladesh		
		Total Export	Share in Total Export	GSP Utilization	Total Export	Share in Total Export	GSP Utilization
64	Footwear, gaiters and the like; parts of such articles	52.47	1.29%	96.89%	140.87	1.51%	98.12%
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	0.51	0.01%	69.88%	29.11	0.31%	25.04%
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	7.48	0.18%	88.54%	43.04	0.46%	96.76%
41	Raw hides and skins (other than furskins) and leather	83.03	2.03%	87.58%	52.00	0.56%	81.15%
24	Tobacco and manufactured tobacco substitutes	2.45	0.06%	70.28%	21.38	0.23%	82.21%
69	Ceramic products	2.08	0.05%	91.18%	11.22	0.12%	99.66%
1-99	Total	4,082.28	100.00%	79.18%	9,359.56	100.00%	94.26%

**Source:** Author's calculation based on the data available from the Euro Stat

Top three sectors (Chapter 61, 62 and 63) of Bangladesh cover almost 92.62% of the total export to EU. At the same time, export of Pakistan in these sectors represents 52.93% of Pakistan's total export to the EU. So, it can be deduced that these sectors are of high priority for both Pakistan and Bangladesh. Therefore, Bangladesh's export is likely to face intense competition from Pakistan to EU market. To assess the competition likely to be faced by Bangladesh from Pakistan in the EU market, FKI has been estimated for these sectors (Table 10). It has been found that FKI in respect of total export of Bangladesh and Pakistan is not high, however, FKI is relatively high in home textile (Ch 63-70%) followed by woven garments (Ch 62-60%) and Knit garments (Ch 61-49%). In order to assess the degree of competition that Bangladesh may face from Pakistan, Relative Export Competitive Pressure Index (RECPI) has been applied. It has been observed that RECPI is low for overall export as well as export of woven and knit garments of Bangladesh and as a result competitive pressure on these two sectors from Pakistan will be low. However, competitive pressure from Pakistan on Home textile is very high (Table 10). Thus, it can be assumed that Bangladesh will face stiff competition from Pakistan in home textile.

**Table 10: The FKI and RECPI of Bangladesh and Pakistan at 2-Digit and 8-Digit HS Code Level**

Sectors	Level of Aggregation	FKI	RECPI
All Products	2 Digit	0.37	0.14
	8 Digit	0.27	0.07
Chapter 61-Articles of Apparel & Clothing Accessories,	8 Digit	0.49	0.03

Knitted or Crotched			
Chapter 62- Article of Apparel & Clothing Accessories, not Knitted or Crochet	8 Digit	0.60	0.24
Chapter 63- Other made up of Textile Articles; sets Worn Clothing and Worn Textile Articles Rags	8 Digit	0.70	2.62

*Source: Authors calculation using data available at Euro Stat*

In order to assess whether Bangladesh will be in a position to face the competitive pressure from Pakistan, further analysis has been carried out to estimate the Bilateral Revealed Comparative Advantage (BRCA) between Bangladesh and Pakistan at six digit HS code level. BRCA has been estimated for three markets considering the fact that if BRCA is estimated only for the EU market, it may not give an accurate picture as Bangladesh has been enjoying duty free access in the EU while Pakistan has been paying duty in this market. Therefore, BRCA has also been estimated for the US market, where both the countries face similar market access treatment and for the world market. Common HS lines from top 100 export items of Pakistan and Bangladesh in three consecutive years were selected for estimating the BRCA. The list comprises 30 products in 6-digit HS lines, which account for more than 60% export of Bangladesh to the EU.

Estimation of BRCA of Bangladesh over Pakistan in the EU market shows that Bangladesh is not in an advantageous position in leather and most of the home textile products (**Annex 2**). On the other hand, results of BRCA in the US market shows that Bangladesh falls back to reap advantage in some product lines of knitwear, leather and home textile (**Annex 3**). Surprisingly, results of BRCA estimation in the world market show that Bangladesh has disadvantage only in some of the home textile products (**Annex 4**). Compilation of the results of BRCA in these three markets shows that Bangladesh might have disadvantage in 25 HS lines out of 30 HS lines (Table 11). As can be seen from the results, BRCA of Bangladesh over Pakistan is very low in leather and home textile, hence Bangladesh is likely to face stiff competition in these product lines. Comparison of per KG unit price also shows that in most of the HS lines Bangladesh's unit prices to the EU are higher than those of Pakistan (**Annex 5**). As regards some product lines in apparel sector too, there is the likelihood of competitive pressure from Pakistan. However, given the comparative advantage in those lines in the world market, Bangladesh might successfully avoid adverse effect in these lines.

**Table 11: BRCA of Bangladesh over Pakistan in EU, USA and World Market in 25 HS Lines of Disadvantage to Bangladesh**

HS CODE	Product label	2010			2011			2012		
		EU	USA	WORLD	EU	USA	WORLD	EU	USA	WORLD
410712	Grain splits leather "incl. parchment-dressed leather", of the whole h	0.17	0.30	4.90	0.21	0.00	2.07	0.21	0.00	1.10
410799	Leather "incl. parchment-dressed leather" of the portions, strips or s	0.98	0.03	1.20	0.64	0.00	1.38	0.44	0.07	1.69

HS CODE	Product label	2010			2011			2012		
		EU	USA	WORLD	EU	USA	WORLD	EU	USA	WORLD
420292	Containers,with outer surface of sheeting of plas or texmaterials,nes	N/A	0.19	1.26	N/A	0.34	24.48	0.23	0.63	7.57
610120	Mens/boys overcoats, anoraks etc, of cotton, knitted	0.55	0.22	5.01	0.90	0.09	5.30	N/A	0.12	7.95
610220	Womens/girls overcoats, anoraks etc, of cotton, knitted	N/A	0.35	160.45	N/A	0.31	72.62	1.60	0.34	27.82
610342	Mens/boys trousers and shorts, of cotton, knitted	1.64	0.38	2.88	1.19	0.29	2.21	1.22	0.23	3.09
610510	Mens/boys shirts, of cotton, knitted	3.80	0.29	1.66	4.53	0.25	2.20	3.61	0.30	2.41
610610	Womens/girls blouses and shirts, of cotton, knitted	9.86	0.92	5.75	N/A	0.75	6.35	N/A	1.37	10.10
610711	Mens/boys underpants and briefs, of cotton, knitted	N/A	N/A	4.37	2.50	0.89	4.20	2.77	2.47	6.11
610831	Womens/girls nightdresses and pyjamas, of cotton, knitted	4.91	N/A	7.91	3.53	0.61	9.62	N/A	1.11	10.31
610910	T-shirts, singlets and other vests, of cotton, knitted	18.71	0.65	12.27	18.20		14.82	20.26	0.78	15.21
611020	Pullovers, cardigans and similar articles of cotton, knitted	7.52	0.72	73.22	5.60	0.54	50.57	4.40	0.51	61.65
621142	Womens/girls garments nes, of cotton, not knitted	0.48	0.29	2.69	0.37	0.30	5.99	0.58	0.20	5.79
621143	Womens/girls garments nes, of man-made fibres, not knitted	N/A	0.47	38.65	N/A	0.59	25.60	0.43	0.49	17.79
630210	Bed linen, of textile knitted or crocheted materials	N/A	0.00	0.00	0.03	0.00	0.02	N/A	0.00	0.00
630221	Bed linen, of cotton, printed, not knitted	0.21	0.02	4.13	0.26	0.02	3.08	0.18	0.02	4.81
630222	Bed linen, of man-made fibres, printed, not knitted	0.13	0.02	3.30	0.16	0.11	2.12	0.11	0.09	4.39
630231	Bed linen, of cotton, nes	0.20	0.01	0.18	0.19	0.02	0.20	0.18	0.01	0.21
630232	Bed linen, of man-made fibres, nes	0.12	0.01	2.01	0.09	0.00	2.95	0.07	0.00	3.26
630260	Toilet&kitchenlinen,of terry towels or similar terry fabric, of cotton	0.08	0.10	0.16	0.10	0.10	0.18	0.08	0.10	0.17
630291	Toilet and kitchen linen, of cotton, nes	0.13	0.29	0.97	0.12	0.30	0.74	0.10	0.28	1.14
630391	Curtains/drapes/interior blinds&curtain/bdvalances,of cotton,not knit	0.10	0.00	0.13	0.10	0.01	0.18	0.17	0.01	0.26
630790	Made up articles, of textile materials, nes, including dress patterns	0.09	0.04	0.29	N/A	0.03	0.27	N/A	0.10	0.39
640399	Footwear, outer soles of rubber/plastics uppers of leather, nes	0.93	27.69	3.16	0.78	46.89	2.17	0.72	142.71	2.19
740400	Waste and scrap, copper or copper alloy	0.07	N/A	1.00	0.03	N/A	0.72	0.03	N/A	0.27

**Source:** Authors Calculation using data available at World Integrated Trade Solutions (WITS)



The disadvantage list shows that 26 products are more or less affected as they have relative disadvantage in EU or US market. Table 14 analyses per KG price of the products to EU market. Annex 6 reflects that Bangladesh demands higher price in most of the products, especially textile products. Thus, although these products have some advantage in EU market, higher pricing will cause them face strong competition from Pakistan. Competition in respect of these 26 top export products from Pakistan should be a matter of concern for Bangladeshi exporters to EU market.

#### IV. EFFECT OF GSP PLUS BENEFIT TO PAKISTAN ON BANGLADESH'S EXPORT: A QUANTITATIVE ANALYSIS

A number of assessments on the benefit of Pakistan in availing EU GSP+ were carried out after the European Union announced its new GSP regulations. As published in Pakistan's Daily newspaper "Daily Times", on 7 November 2013, the Ministry of Commerce announced that the GSP plus benefit in the EU market will enable Pakistan's textile sector to increase its export by \$500 million to \$1 billion annually through maximizing its utilization. According to Pakistan Yarn Merchants Association, Knitted and woven apparel export is expected to grow by \$280 million annually as GSP Plus goes into implementation.

According to an estimate by the Trade Development Authority of Pakistan (Mujib, December 2013), Pakistan's export to the EU will increase by US\$ 381 million in 2014 and US\$ 399 million in 2015. Among the apparel items, men's woven trousers and shorts (HS heading 6203), women's woven shorts and skirts (HS heading 6204), men's shirts Knitted (HS heading 6105), men's knitted trouser and shorts (HS heading 6103), Knitted panty hoses (HS heading 6115) and Knitted T-Shirt (HS heading 6109) are likely to be benefited from GSP+ facilities.

According to a study carried out under the Trade Related Technical Assistance (TRTA II) Programme of Pakistan, there is a huge potential for Pakistan in certain items in Chapter 63 as well as Chapter 61 and 62. The study also reveals that "Bangladesh and India cannot be considered as Pakistan's competitors in the EU market in products of Ch 61 and 62 for the reasons that : (i) the volume of their (Bangladesh and India) exports, respectively \$ 4.73 billion and \$ 4.46 billion in Ch 62, and US\$ 3.40 billion and US\$ 8.54 billion in Ch 61, are beyond the reach of Pakistan's manufacturing and export capacity in the near and medium-term future, and; (ii) their products cater to different segments than Pakistan."

Despite these speculative reservations, the fact that Pakistan will be a major gainer from EU GSP+ scheme remains well founded. However, it is not clear whether this gain will come at the cost of decline of export of other countries. In this section, an effort has been made to quantify the benefits of Pakistan and probable effect on export of other countries using SMART trade policy tools of WITS. SMART simulation technique, developed by the UNCTAD secretariat in cooperation with the World Bank, is a simple tool for quantification of the effects on trade flows induced by changes in market access conditions. SMART trade policy tool estimates the impact on trade of the partner countries due to changes in market access conditions in a country by

estimating trade creation and trade diversion effect. Annex 7 shows the basic structure of the SMART Quantitative tools.

Simulation exercise reveals that as a result of GSP+ benefit, export of Pakistan is likely to increase by around US\$ 1.3 billion, which is similar to results of other findings. However, major portion (75%) of this benefit will come from trade creation, while around 25% will come from trade diversion. Simulation shows that trade diversion effect of GSP+ will result in diversion of export mainly from China, Turkey, Bangladesh and India. However, the export diversion will be minimal as the values are tiny compared to total exports of these countries to the EU (Table 12).

**Table 12: Result of SMART Simulation**

[Value in US\$ Million]

Partners	Trade Creation	Trade Diversion	Total Trade	Export Before	Export After
Bangladesh	0	-47	-47	11,334	11,287
Pakistan	971	307	1,278	2,939	4,217
Cambodia	0	-4	-4	2,179	2,175
India	0	-27	-27	10,641	10,613
China	0	-105	-105	57,224	57,119
Vietnam	0	-5	-5	5,618	5,613
Sri Lanka	0	-4	-4	1,927	1,923
Turkey	0	-57	-57	23,469	23,412
Rest of World	0	-114	-114	103,128	103,014
<b>Total</b>	<b>971</b>	<b>0</b>	<b>971</b>	<b>194,990</b>	<b>195,962</b>

Source: Authors' calculation using SMART Tools of WITS

Simulation exercise for top 10 sectors of Bangladesh's export (table 13) shows that Pakistan's benefit will mainly come from the home textile (HS chapter 63) followed by woven and knit apparel. While major portion of benefit in home textile will come from trade creation, trade is likely to be diverted from other countries as well. However, In case of Bangladesh, trade diversion will mainly occur in Chapters 61, 62 and 63, although the amount is negligible.

**Table 13: Results of the SMART Analysis in Top 10 Export Sectors of Bangladesh in the EU Market**

[Value in US\$ Million]

Chapter	Description	Pakistan			Bangladesh		
		Trade Creation	Trade Diversion	Total Trade Effect	Trade Creation	Trade Diversion	Total Trade Effect
03	Fish and crustaceans, molluscs and other aquatic invertebrates	0.0	0.0	0.0	0.0	0.0	0.0
24	Tobacco and manufactured tobacco substitutes	0.0	0.0	0.0	0.0	0.0	0.0
41	Raw hides and skins (other than furskins) and leather	62.5	2.2	64.7	0.0	-0.1	-0.1

Chapter	Description	Pakistan			Bangladesh		
		Trade Creation	Trade Diversion	Total Trade Effect	Trade Creation	Trade Diversion	Total Trade Effect
53	Other vegetable textile fibres; paper yarn and woven fabrics of paper yarn	0.4	0.0	0.4	0.0	0.0	0.0
61	Articles of apparel and clothing accessories, knitted or crocheted	99.5	80.0	179.5	0.0	-12.3	-12.3
62	Articles of apparel and clothing accessories, not knitted or crocheted	94.6	118.4	213.0	0.0	-22.2	-22.2
63	Other made-up textile articles; sets; worn clothing and worn textile articles; rags	711.7	102.1	813.8	0.0	-12.1	-12.1
64	Footwear, gaiters and the like; parts of such articles	2.7	3.9	6.6	0.0	-0.1	-0.1
69	Ceramic products	0.0	0.0	0.0	0.0	0.0	0.0
87	Vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	0.0	0.0	0.0	0.0	0.0	0.0
	Total	971.4	306.6	1,278.0	0.0	-46.7	-46.7

*Source: Authors' calculation using SMART Tools of WITS*

At the disaggregated level, major items of export, where trade diversion of Bangladesh are the highest, are typically T-shirt (610910) (US\$ 2.54 million); Jerseys, pullover, cardigans, waistcoats and other (611020) (US\$ 3.20 million); men's or boys suits of cotton (620342) (US\$ 16.14 million); women or girls' suits (620462) (US\$ 4.66 million); bed linen of cotton (630221) (US\$ 4.11 million); bed linen of man-made fiber (630222) (US\$ 1.26 million); bed linen (630231) (US\$ 4.28 million). These are the top export items of Bangladesh in EU market that are to be diverted to Bangladesh.

## V. KEY FINDINGS OF THE STUDY

Analysis of the revised GSP scheme and quantitative analysis carried out for estimation of implication on Bangladesh's exports draws the following key findings:

1. The basic structure of the EU GSP scheme remains unchanged although number of beneficiary countries has come down to 88.
2. Changes in eligibility criteria for GSP plus benefit have created the opportunity for 35 countries to avail of the opportunity of GSP plus benefit.
3. Exclusion of a number of countries from GSP beneficiary countries will not benefit Bangladesh as export products of those countries are not similar to Bangladesh.
4. Among the eligible GSP plus beneficiary countries, Pakistan, Sri Lanka, Syria, Mongolia and Tonga have higher export similarity indices with Bangladesh. However, exports of Syria, Mongolia and Tonga to the EU market are negligible. Therefore, Bangladesh is

unlikely to get any competitive pressure from these countries, if they are granted GSP plus benefit.

5. As of 2014, among the 10 GSP plus beneficiary countries, only Pakistan has export similarity with Bangladesh.
6. Possibility of availing of the GSP plus benefit will mainly depend on the country's ability to comply with the rules of origin and evidence shows that despite the fact that Sri Lanka enjoyed GSP plus benefit during the period between 2005 and 2010, it could not benefit much because of its inability to meet the rules of origin requirements.
7. GSP utilization rate of Pakistan is very high, particularly in the major export products of Bangladesh, which confirms that Bangladesh is likely to have competitive pressure from Pakistan in its major export products.
8. Results of Finger-Kreinin index and Relative Competitive Pressure Index show that among the three major export sectors of Bangladesh (woven apparel, Knit Apparel and Home textile), Bangladesh is likely to face strong competitive pressure from Pakistan in Home textile.
9. Results of Bilateral Relative Comparative Advantage index show that Bangladesh is in disadvantageous position vis-à-vis Pakistan mostly in leather and home textile. There are also some HS lines in knit and woven apparel where Bangladesh may face competition. Per KG unit export prices of those products of Bangladesh are higher than those of Pakistan.
- 10.** SMART simulation exercise shows that Pakistan's export to the EU is likely to increase by \$1 billion. However, major share of this increase will come from trade creation. There will also be trade diversion from China, India, Bangladesh and Turkey.
11. Trade diversion from Bangladesh is likely to take place in T-shirt (610910), Jerseys, pullover, cardigans, waistcoats and other (611020), men's or boys suits of cotton (620342), women or girls' suits (620462); bed linen of cotton (630221), bed linen of man-made fiber (630222), and bed linen (630231).

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## VII. ANNEXES

### ANNEX 1: NOTES ON FINGER-KREININ INDEX (FKI), RELATIVE EXPORT COMPETITIVE PRESSURE INDEX (RECPI) AND BILATERAL REVEALED COMPARATIVE INDEX (RCA)

#### 1. Finger-Kreinin Index (FKI)

The Finger-Kreinin (FK) index provides a way of measuring how similar is two sets of numbers. The FKI reveals the degree of similarity between either the structure of imports or exports, or the structure of production between two countries. The FK index also compares the export patterns of two countries into a given market (eg. Bangladesh and Pakistan's exports to the world or to the EU). Another way of thinking about this is that it compares how similar are the imports of a given country from two different suppliers. The FKI ranges between 0 and 1. If 0, the two structures are completely different. The products that a country  $i$  exports are not exported by country  $j$  and vice versa. If 1, the two structures are identical. Both countries export the same products to the destination country and with the same intensity-however countries may differ in size. The formula for measuring FKI to a destination country is-

$$FK_{i_1 i_2 j} = \sum_k \min \left[ \left( \frac{x_{i_1 j}^k}{X_{i_1 j}^k} \right), \left( \frac{x_{i_2 j}^k}{X_{i_2 j}^k} \right) \right]$$

Where,  $i_1$  and  $i_2$  are two source countries and  $j$  is the destination country  $x^k$  refers to the trade flow in product  $k$ ;  $X$  to the total trade flow, so  $\frac{x_{i_1 j}^k}{X_{i_1 j}^k}$  is the share of product  $k$  in country  $i_1$  total exports to the destination partner ( $j$ ).  $\frac{x_{i_2 j}^k}{X_{i_2 j}^k}$  is the share of product  $k$  in the competitive country's  $i_2$  total exports.

#### 2. Relative Export Competitive Pressure Index (RECPI)

The Relative Export Competitive Pressure Index (RECPI) is designed to explore the average degree of competition country  $i_1$  faces in country  $j$ 's market from country  $i_2$ , by taking into account both the structure and level of competing countries' trade. Country  $i_1$  will be interested in the value of country  $i_2$ 's exports to country  $j$ , and also in the extent to which country  $i_2$ 's exports are in direct competition with country  $i_1$ 's exports.

The Relative Export Competitive Pressure Index (RECPI) is defined for exporter  $i_1$  with respect to competitor  $i_2$  in market  $j$  as:



$$RECPI = \frac{\sum_k s_{i_1j}^k x_{i_2j}^k}{\sum_k s_{i_1j}^k x_{i_1j}^k}$$

where k refers to the product,  $i_1$  to the reporting country,  $i_2$  to the competitor country, and the s and x data refer to a given export destination, country j.  $x_{ij}^k$  is the value of country i's exports to country j of good k, and  $s_{ij}^k$  gives the share of good k in country i's exports to country j. The RECPI is a summary measure which aggregates information from across a range of sectors, subsectors or products. if the product of both countries are dissimilar in the market j. The RECPI index is 0. The countries are not competitive in the market j. thus The RECPI provides a summary measure of the degree of competition one country faces from another country in a particular market.

### 3. Bilateral Revealed Comparative Advantage

The Balassa index of Revealed Comparative Advantage (RCA) gives an indication of those industries in which a given country may have a comparative advantage. The standard RCA is computed in comparison to world trade. It is also possible to calculate the variation of bilateral RCA. The RCA is a way of identifying in which sectors or products a country appears to be competitive either vis-a-vis the world, or another country, or in a particular market. The BRCA uses as denominator the exports of a selected comparator country - country j. The RCA is calculated by comparing the share of exports of country i to the world (any particular market) to the share of exports of country j to the world. The indicator then becomes a bilateral RCA, and shows the products for which country i has revealed comparative advantage, with respect to country j. The RCA index ranges from 0 to infinity. If  $RCA > 1$ , the country has a revealed comparative in the product. The formula of calculating RCA is:

$$BRCA1_{ijw}^k = \frac{\left(\frac{x_{iw}^k}{X_{iw}}\right)}{\left(\frac{x_{jw}^k}{X_{jw}}\right)}$$

Where i and j are two competitive countries and w indicates world. K is the different sector. which is the same formula as for the RCA, but where trade with the world (Any particular market) is compared country j's trade with the world.

ANNEX 2: BILATERAL RCA OF BANGLADESH OVER PAKISTAN IN EU MARKET

HS CODE	PRODUCT DESCRIPTION	BRCA		
		2010	2011	2012
410712	Grain splits leather "incl. Parchment-dressed leather", of the whole hides and skins of bovine "incl. Buffalo" or equine animals, further prepared after tanning or crusting, without hair on (excl. Chamois leather, patent leather and patent laminated leath	0.17	0.21	0.21
410799	Leather "incl. Parchment-dressed leather" of the portions, strips or sheets of hides and skins of bovine "incl. Buffalo" or equine animals, further prepared after tanning or crusting, without hair on (excl. Unsplit full grains leather, grain splits leath	0.98	0.64	0.44
420292	Travelling-bags, insulated food or beverage bags, toilet bags, rucksacks, shopping-bags, map-cases, tool bags, sports bags, jewellery boxes, cutlery cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers			0.23
610120	Overcoats, car coats, capes, cloaks, anoraks, incl. Ski jackets, windcheaters, wind-jackets and similar articles of cotton, for men or boys, knitted or crocheted (excl. Suits, ensembles, jackets, blazers, bib and brace overalls and trousers)	0.55	0.9	
610220	Women's or girls' overcoats, car coats, capes, cloaks, anoraks, incl. Ski jackets, windcheaters, wind-jackets and similar articles of cotton, knitted or crocheted (excl. Suits, ensembles, jackets, blazers, dresses, skirts, divided skirts, trousers, bib an			1.6
610342	Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted (excl. Swimwear and underpants)	1.64	1.19	1.22
610462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted (excl. Panties and swimwear)	4.55	3.94	4.44
610510	Men's or boys' shirts of cotton, knitted or crocheted (excl. Nightshirts, t-shirts, singlets and other vests)	3.8	4.53	3.61
610610	Women's or girls' blouses, shirts and shirt-blouses of cotton, knitted or crocheted (excl. T-shirts and vests)	9.86		
610711	Men's or boys' underpants and briefs of cotton, knitted or crocheted		2.5	2.77
610831	Women's or girls' nightdresses and pyjamas of cotton, knitted or crocheted (excl. T-shirts, vests and négligés)	4.91	3.53	
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	18.71	18.2	20.26
610990	T-shirts, singlets and other vests of textile materials, knitted or crocheted (excl. Cotton)	1.2	1.04	1.47
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of	7.52	5.6	4.4

HS CODE	PRODUCT DESCRIPTION	BRCA		
		2010	2011	2012
	cotton, knitted or crocheted (excl. Wadded waistcoats)			
611030	Jerseys, pullovers, cardigans, waistcoats and similar articles, of man-made fibres, knitted or crocheted (excl. Wadded waistcoats)	23.39	22.92	16.87
611120	Babies' garments and clothing accessories of cotton, knitted or crocheted (excl. Hats)			7.64
620193	Men's or boys' anoraks, windcheaters, wind jackets and similar articles, of man-made fibres (not knitted or crocheted and excl. Suits, ensembles, jackets, blazers, trousers and tops of ski suits) [01/01/1988-31/12/1991: men's or boys' anoraks, incl. Ski-j	1.48		
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts, of cotton (excl. Knitted or crocheted, underpants and swimwear)	1.3	1.27	1.27
620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibres (excl. Knitted or crocheted, underpants and swimwear)	1.95	2.07	2.44
620452	Women's or girls' skirts and divided skirts of cotton (excl. Knitted or crocheted and petticoats)	1.66	1.32	2.06
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton (excl. Knitted or crocheted, panties and swimwear)	1.46	1.61	1.58
620920	Babies' garments and clothing accessories of cotton (excl. Knitted or crocheted and hats)	4.41	3.76	
621142	Women's or girls' tracksuits and other garments, n.e.s. of cotton (excl. Knitted or crocheted)	0.48	0.37	0.58
621143	Women's or girls' tracksuits and other garments, n.e.s. of man-made fibres (excl. Knitted or crocheted)			0.43
630210	Bed-linen, knitted or crocheted		0.03	
630221	Printed bed-linen of cotton (excl. Knitted or crocheted)	0.21	0.26	0.18
630222	Printed bedlinen of man-made fibres (excl. Knitted or crocheted)	0.13	0.16	0.11
630231	Bed-linen of cotton (excl. Printed, knitted or crocheted)	0.2	0.19	0.18
630232	Bedlinen of man-made fibres (excl. Printed, knitted or crocheted)	0.12	0.09	0.07
630260	Toilet linen and kitchen linen, of terry towelling or similar terry fabrics of cotton (excl. Floor-cloths, polishing-cloths, dish-cloths and dusters)	0.08	0.1	0.08
630291	Toilet linen and kitchen linen of cotton (excl. Of terry fabrics, floor-cloths, polishing-cloths, dish-cloths and dusters)	0.13	0.12	0.1
630391	Curtains, incl. Drapes, and interior blinds, curtain or bed valances of cotton (excl. Knitted or crocheted, awnings and sunblinds)	0.1	0.1	0.17
630790	Made-up articles of textile materials, incl. Dress patterns, n.e.s.	0.09		

HS CODE	PRODUCT DESCRIPTION	BRCA		
		2010	2011	2012
640391	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather, covering the ankle (excl. Incorporating a protective metal toecap, sports footwear, orthopaedic footwear and toy footwear)		2.05	1.73
640399	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather (excl. Covering the ankle, incorporating a protective metal toecap, sports footwear, orthopaedic footwear and toy footwear)	0.93	0.78	0.72
740400	Waste and scrap, of copper (excl. Ingots or other similar unwrought shapes, of remelted copper waste and scrap, ashes and residues containing copper, and waste and scrap of primary cells, primary batteries and electric accumulators)	0.07	0.03	0.03

**Source:** Author's Calculation using data available at World Integrated Trade Solution (WITS)

ANNEX 3: BRCA OF BANGLADESH OVER PAKISTAN IN THE USA MARKET

HS CODE	PRODUCT DESCRIPTION	BRCA		
		2010	2011	2012
410712	Grain split whole bovine and equine leather, without hair on, prepared after tanning or crusting, not of heading 4114	0.30	0.00	0.00
410799	Bovine and equine leather, not whole, nesoi, without hair on, prepared after tanning or crusting, not of heading 4114	0.03	0.00	0.07
420292	Container bags, boxes, cases and satchels nesoi, with outer surface of sheeting of plastics or of textile materials	0.19	0.34	0.63
610120	Men's or boys' overcoats, carcoats, capes, cloaks, anoraks, ski-jackets, and similar articles of cotton, knitted or crocheted	0.22	0.09	0.12
610220	Women's or girls' overcoats, carcoats, capes, cloaks, anoraks, ski-jackets and similar articles of cotton, knitted or crocheted	0.35	0.31	0.34
610342	Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted	0.38	0.29	0.23
610462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted	1.44	1.10	0.66
610510	Men's or boys' shirts of cotton, knitted or crocheted	0.29	0.25	0.30
610610	Women's or girls' blouses and shirts of cotton, knitted or crocheted	0.92	0.75	1.37
610711	Men's or boys' underpants and briefs of cotton, knitted or crocheted	1.56	1.70	2.47
610831	Women's or girls' nightdresses and pajamas of cotton, knitted or crocheted	1.02	0.89	1.11
610910	T-shirts, singlets, tank tops and similar garments of cotton, knitted or crocheted	0.65	0.61	0.78
610990	T-shirts, singlets, tank tops and similar garments, of textile materials nesoi, knitted or crocheted	3.48	2.27	1.77
611020	Sweaters, pullovers, sweatshirts, vests and similar articles of cotton, knitted or crocheted	0.72	0.54	0.51
611030	Sweaters, pullovers, sweatshirts, vests and similar articles of manmade fibers, knitted or crocheted	13.18	9.82	9.51
611120	Babies' garments and clothing accessories of cotton, knitted or crocheted	5.98	5.17	5.30
620193	Men's or boys' anoraks, ski-jackets, windbreakers and similar articles of manmade fibers, not knitted or crocheted	15.80	23.30	20.23
620342	Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, not knitted or crocheted	4.78	5.50	5.71
620343	Men's or boys' trousers, bib and brace overalls, breeches and shorts of synthetic fibers, not knitted or crocheted	44.97	60.75	21.40
620452	Women's or girls' skirts and divided skirts of cotton, not knitted or crocheted	11.67	13.63	11.22
620462	Women's or girls' trousers, bib and brace overalls, breeches and shorts of cotton, not knitted or crocheted	3.28	3.15	2.26

HS CODE	PRODUCT DESCRIPTION	BRCA		
		2010	2011	2012
620920	Babies' garments and clothing accessories of cotton, not knitted or crocheted	14.22	12.69	13.62
621142	Women's or girls' garments nesoi, of cotton, not knitted or crocheted	0.29	0.30	0.20
621143	Women's or girls' garments nesoi, of manmade fibers, not knitted or crocheted	0.47	0.59	0.49
630210	Bed linen, knitted or crocheted	0.00	0.00	0.00
630221	Bed linen, printed, of cotton, not knitted or crocheted	0.02	0.02	0.02
630222	Bed linen, printed, of manmade fibers, not knitted or crocheted	0.02	0.11	0.09
630231	Bed linen (other than printed) of cotton, not knitted or crocheted	0.01	0.02	0.01
630232	Bed linen (other than printed) of manmade fibers, not knitted or crocheted	0.01	0.00	0.00
630260	Toilet and kitchen linen of cotton terry toweling or similar cotton terry fabrics	0.10	0.10	0.10
630291	Toilet and kitchen linen of cotton, other than of terry fabrics	0.29	0.30	0.28
630391	Curtains (including drapes), interior blinds and curtain or bed valances of cotton, not knitted or crocheted	0.00	0.01	0.01
630790	Made-up textile articles, nesoi	0.04	0.03	0.10
640391	Footwear, with outer soles of rubber, plastics or composition leather and uppers of leather nesoi, covering the ankle	4.99	4.52	3.33
640399	Footwear, with outer soles of rubber, plastics or composition leather and uppers of leather nesoi, not covering the ankle	27.69	46.89	142.71

*Source: Author's Calculation using data available at World Integrated Trade Solution (WITS)*

ANNEX 4: BRCA OF BANGLADESH OVER PAKISTAN IN WORLD MARKET

HS CODE	PRODUCT LABEL	BRCA		
		2010	2011	2012
410712	Grain splits leather "incl. Parchment-dressed leather", of the whole h	4.90	2.07	1.10
410799	Leather "incl. Parchment-dressed leather" of the portions, strips or s	1.20	1.38	1.69
420292	Containers,with outer surface of sheeting of plas or texmaterials,nes	1.26	24.48	7.57
610120	Mens/boys overcoats, anoraks etc, of cotton, knitted	5.01	5.30	7.95
610220	Womens/girls overcoats, anoraks etc, of cotton, knitted	160.45	72.62	27.82
610342	Mens/boys trousers and shorts, of cotton, knitted	2.88	2.21	3.09
610462	Womens/girls trousers and shorts, of cotton, knitted	6.29	9.25	11.22
610510	Mens/boys shirts, of cotton, knitted	1.66	2.20	2.41
610610	Womens/girls blouses and shirts, of cotton, knitted	5.75	6.35	10.10
610711	Mens/boys underpants and briefs, of cotton, knitted	4.37	4.20	6.11
610831	Womens/girls nightdresses and pyjamas, of cotton, knitted	7.91	9.62	10.31
610910	T-shirts, singlets and other vests, of cotton, knitted	12.27	14.82	15.21
610990	T-shirts,singlets and other vests,of other textile materials,knitted	3.32	2.91	4.88
611020	Pullovers, cardigans and similar articles of cotton, knitted	73.22	50.57	61.65
611030	Pullovers, cardigans and similar articles of man-made fibres, knitted	689.43	336.19	166.21
611120	Babies garments and clothing accessories of cotton, knitted	15.33	14.55	17.87
620193	Mens/boys anoraks and similar articles,of man-made fibres,not knitted	101.27	1675.18	1471.92
620342	Mens/boys trousers and shorts, of cotton, not knitted	4.45	5.22	5.74
620343	Mens/boys trousers and shorts, of synthetic fibres, not knitted	9.39	7.79	8.83
620452	Womens/girls skirts, of cotton, not knitted	4.10	3.05	3.74
620462	Womens/girls trousers and shorts, of cotton, not knitted	4.29	3.76	4.36
620920	Babies garments and clothing accessories of cotton, not knitted	39.21	40.62	49.72
621142	Womens/girls garments nes, of cotton, not knitted	2.69	5.99	5.79
621143	Womens/girls garments nes, of man-made fibres, not	38.65	25.60	17.79

HS CODE	PRODUCT LABEL	BRCA		
		2010	2011	2012
	knitted			
630210	Bed linen, of textile knitted or crocheted materials	0.00	0.02	0.00
630221	Bed linen, of cotton, printed, not knitted	4.13	3.08	4.81
630222	Bed linen, of man-made fibres, printed, not knitted	3.30	2.12	4.39
630231	Bed linen, of cotton, nes	0.18	0.20	0.21
630232	Bed linen, of man-made fibres, nes	2.01	2.95	3.26
630260	Toilet&kitchenlinen,of terry towelg or similar terry fab,of cotton	0.16	0.18	0.17
630291	Toilet and kitchen linen, of cotton, nes	0.97	0.74	1.14
630391	Curtains/drapes/interior blinds&curtain/bdvalances,ofcotton,not knit	0.13	0.18	0.26
630790	Made up articles, of textile materials, nes, including dress patterns	0.29	0.27	0.39
640391	Footwear,outer soles of rubber/plast uppers of leather covg ankle nes	14.88	338.78	298.42
640399	Footwear, outer soles of rubber/plastics uppers of leather, nes	3.16	2.17	2.19
740400	Waste and scrap, copper or copper alloy	1.00	0.72	0.27

**Source:** Author's calculation using data available at World Trade Integrated Solution (WITS)



ANNEX 5: PER KG EXPORT UNIT PRICE OF BANGLADESH AND PAKISTAN IN EU MARKET

HS CODE	DESCRIPTION	2010		2011		2012	
		BD UNIT PRICE	PAK UNIT PRICE	BD UNIT PRICE	PAK UNIT PRICE	BD UNIT PRICE	PAK UNIT PRICE
410712	Grain splits leather "incl. Parchment-dressed leather", of the whole hides and skins of bovine "incl. Buffalo" or equine animals, further prepared after tanning or crusting, without hair on (excl. Chamois leather, patent leather and patent laminated leather, and metallised leather)	16.14	9.86	20.00	12.79	20.62	14.41
410799	Leather "incl. Parchment-dressed leather" of the portions, strips or sheets of hides and skins of bovine "incl. Buffalo" or equine animals, further prepared after tanning or crusting, without hair on (excl. Unsplit full grains leather, grain splits leather, chamois leather, patent leather and patent laminated leather, and metallised leather)	14.59	18.27	17.33	19.20	19.07	20.96
420292	Traveling-bags, insulated food or beverage bags, toilet bags, rucksacks, shopping-bags, map-cases, tool bags, sports bags, jewellery boxes, cutlery cases, binocular cases, camera cases, musical instrument cases, gun cases, holsters and similar containers, with outer surface of plastic sheeting or textile materials (excl. Trunks, briefcases, school satchels and similar containers, handbags and articles carried in the pocket or handbag)	5.26	5.80	6.23	6.69	9.35	7.40
610120	Overcoats, car coats, capes, cloaks, anoraks, incl. Ski jackets, windcheaters, wind-jackets and similar articles of cotton, for men or boys, knitted or crocheted (excl. Suits, ensembles, jackets, blazers, bib and brace overalls and trousers)	10.42	7.47	13.72	8.86	12.06	9.52
610220	Women's or girls' overcoats, car coats, capes, cloaks, anoraks, incl. Ski jackets, windcheaters, wind-jackets and similar articles of cotton, knitted or crocheted (excl. Suits, ensembles, jackets, blazers,	10.32	6.86	13.80	10.62	12.53	11.71

HS CODE	DESCRIPTION	2010		2011		2012	
		BD UNIT PRICE	PAK UNIT PRICE	BD UNIT PRICE	PAK UNIT PRICE	BD UNIT PRICE	PAK UNIT PRICE
	dresses, skirts, divided skirts, trousers, bib and brace overalls)						
610342	Men's or boys' trousers, bib and brace overalls, breeches and shorts of cotton, knitted or crocheted (excl. Swimwear and underpants)	9.05	7.86	10.92	9.24	10.22	9.60
610510	Men's or boys' shirts of cotton, knitted or crocheted (excl. Nightshirts, t-shirts, singlets and other vests)	9.01	9.60	11.24	10.88	11.20	12.85
610610	Women's or girls' blouses, shirts and shirt-blouses of cotton, knitted or crocheted (excl. T-shirts and vests)	10.34	8.98	12.54	10.61	13.19	9.45
610711	Men's or boys' underpants and briefs of cotton, knitted or crocheted	10.63	7.68	13.21	9.11	12.97	10.89
610831	Women's or girls' nightdresses and pyjamas of cotton, knitted or crocheted (excl. T-shirts, vests and négligés)	8.10	6.82	10.55	8.75	10.13	9.18
610910	T-shirts, singlets and other vests of cotton, knitted or crocheted	8.02	8.13	10.05	9.98	10.18	10.23
611020	Jerseys, pullovers, cardigans, waistcoats and similar articles, of cotton, knitted or crocheted (excl. Wadded waistcoats)	11.09	7.94	13.32	9.24	13.51	9.37
621142	Women's or girls' tracksuits and other garments, n.e.s. of cotton (excl. Knitted or crocheted)	13.31	5.54	15.35	7.56	19.19	6.79
621143	Women's or girls' tracksuits and other garments, n.e.s. of man-made fibres (excl. Knitted or crocheted)	11.44	6.89	15.27	8.17	18.16	8.97
630210	Bed-linen, knitted or crocheted	4.67	4.05	7.23	5.36	5.18	4.74
630221	Printed bed-linen of cotton (excl. Knitted or crocheted)	5.74	5.41	7.21	6.94	6.27	6.39
630222	Printed bedlinen of man-made fibres (excl. Knitted or crocheted)	4.64	4.29	6.21	5.30	5.30	5.19
630231	Bed-linen of cotton (excl. Printed, knitted or crocheted)	5.56	4.95	7.27	6.72	7.08	5.99
630232	Bedlinen of man-made fibres (excl. Printed, knitted or crocheted)	4.08	4.36	5.09	5.22	4.93	4.92

HS CODE	DESCRIPTION	2010		2011		2012	
		BD UNIT PRICE	PAK UNIT PRICE	BD UNIT PRICE	PAK UNIT PRICE	BD UNIT PRICE	PAK UNIT PRICE
630260	Toilet linen and kitchen linen, of terry towelling or similar terry fabrics of cotton (excl. Floor-cloths, polishing-cloths, dish-cloths and dusters)	3.58	3.71	4.69	4.66	4.59	4.46
630291	Toilet linen and kitchen linen of cotton (excl. Of terry fabrics, floor-cloths, polishing-cloths, dish-cloths and dusters)	4.11	3.21	4.65	4.32	4.40	4.08
630391	Curtains, incl. Drapes, and interior blinds, curtain or bed valances of cotton (excl. Knitted or crocheted, awnings and sunblinds)	4.85	4.60	5.74	5.96	5.38	5.58
630790	Made-up articles of textile materials, incl. Dress patterns, n.e.s.	3.61	3.95	4.33	4.84	4.22	4.68
640399	Footwear with outer soles of rubber, plastics or composition leather, with uppers of leather (excl. Covering the ankle, incorporating a protective metal toecap, sports footwear, orthopaedic footwear and toy footwear)	12.73	12.05	13.74	12.68	15.38	13.35

Source: Author's Calculation using data available at Euro Stat

## ANNEX 6: SMART TOOLS: TRADE CREATION AND TRADE DIVERSION

The SMART is a useful tool for the analysis of trade policy effect. This tool was developed by the UNCTAD secretariat in cooperation with the World Bank as a simple tool for quantification of the effects of trade flow induced by policy changes in market access condition. The present study projects the impact of GSP+ benefit offered by the EU to Pakistan. The total effect of a reduction in tariffs due to GSP+ benefit on the EU imports from Pakistan is represented in SMART as the sum of two components, namely:

- 1. Trade Creation (TC):** This measures the increase in EU imports from the Pakistan owing to a decrease in the relative price of these imports vis-à-vis domestically produced goods, resulting in a net increase in EU's total imports.
- 2. Trade Diversion (TD):** These measures the increase in EU imports from Pakistan owing to a decrease in the relative price of these imports vis-à-vis imports from other countries resulting in a different geographical composition of imports, whereby imports from the Pakistan increase at the expense of imports from other sources, with a little or no change in total EU imports.

These quantitative analyses are performed at the six digit level of the Harmonized System using the SMART analysis tool of WITS. For projecting the trade affect, it was assumed that Pakistan will enjoy duty free access on majority of the products in the EU, while tariff structure will remain same for other countries.

In order to estimate trade creation three factors are considered:

- (i) The current volume of imports from the relevant commercial partner ( $M$ );
- (ii) The elasticity of import demand ( $E_m$ ), defined as percentage change in the demand for imports when the price of the imports on the domestic market increases by 1 percent; and
- (iii) The change in the tariff.

Thus equation of trade creation is:

$$TC = E_m \times M \times \frac{T_1 - T_0}{T_0} \text{-----(1)}$$

Where,

$M$ =Imports

$E_m$ =Elasticity of import demand with respect to domestic price of imports;

$TC$ = Trade creation;

$T_0$  = Tariff faced by Pakistan before availing the GSP+ facility;

$T_1$  = Tariff faced by Pakistan after availing the GSP+ facility.

For the purpose of the study, SMART default parameter 0.99 is utilized as elasticity of import demand.

Trade diversion is estimated using two steps approach. First, SMART estimates the relative price change ( $dRP/RP$ ), which indicates the change in the price of imports from Pakistan relative to the price of imports from other sources as a result of GSP+ benefit to Pakistan while tariffs from other sources remain unchanged. Formula for calculating the relative price changes Formally, equation (2):

$$\frac{dRP^{Pk}}{RP^{Pk}} = \frac{\frac{1+T_1^{Pk}}{1+T_1^{Other}}}{\frac{1+T_0^{Pk}}{1+T_0^{Other}}} - 1 \text{ -----(2)}$$

Where,

RP= Relative price

$T_0^{Pk}$  = Tariff on import from Pakistan before GSP+ benefits to Pakistan

$T_1^{Pk}$  = Tariff on import from Pakistan after GSP+ benefits to Pakistan

$T_0^{Other}$  = Tariff on import from other countries before GSP+ benefits to Pakistan

$T_1^{Other}$  = Tariff on import from other countries after GSP+ benefits to Pakistan

After estimating the relative price change, trade diversion (TD) is calculated by applying the following formula (3):

$$TD^{Pk} = \frac{M^{Pk} \times M^{Other} \times E_s}{M^{Pk} + M^{Other} + M^{Pk} \times \frac{dRP^{Pk}}{RP^{Pk}} \times E_s} \text{ -----(3)}$$

Where

$E_s$ =Elasticity of substitution between imports from Pakistan and import form other sources.

TD= Trade diversion.

$M^{Pk}$ = European Union import from Pakistan.

$M^{Other}$  = European Union import from other sources.

This indicates the increase in Pakistan's exports to the EU market — over and above that due to trade creation — which results in the displacement of EU imports from other sources. For the purpose of the, SMART default parameter -1.5 is utilized as elasticity of import substitution.