

## **THE IMPACT OF GENERALIZED SCHEME OF PREFERENCE (GSP+) ON PAKISTAN'S TEXTILE EXPORTS**

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### **Abstract**

*Objective of the study is to evaluate the available economic evidence on the operation and effects of the European Union's Generalized System of Preferences (GSP) on the textile exports of Pakistan. The prospects of duty-free exports under the GSP Plus access for textile and clothing suggest enormous scope for Pakistan's exports expansion. The study critically assesses the granted GSP Plus status and its relationship with textile exports of Pakistan. Both, primary and secondary data is used to measure the effect of GSP. Data of textile exports is taken from the official website of State Bank of Pakistan while a questionnaire is structured for collecting primary data. Our findings suggest that GSP has substantial impact on exports of Pakistan regarding textile because it provide duty free access to EU Countries and gives a competitive edge over other Asian countries. The tariff advantages provided by the GSP Plus status are powerful and must be exploited. This preferential duty regime will enable Pakistan to secure sustainable market access to the EU. The Government and industry also need to invest in higher technology, standards compliance, certification, quality control, packaging and demand driven output. The GSP Plus status will not be there forever; therefore, investment must be made to make this sector more competitive in long term.*

**Keywords:** *GSP, Textile Exports, Trade Preference, European Union, Textile Industry, Pakistan*

## INTRODUCTION

The Textile and Clothing industry is one of the oldest, biggest and most worldwide commercial enterprises. It is the normal "starter" industry for nations occupied with export orientated industrialization (Gereffi 2002) and is labor-intensive. Pakistan's export around the world creates great competition among different export oriented countries of world. Their execution is in sharp complexity to that of other Asian export oriented countries especially in Southeast Asia, progressed textile exporters like, China, South Korea and Hong Kong. What is exceptional for these nations is the increment in the world market share in the vicinity of institutional restrictions like, MFA (multi-fiber arrangement).

In Pakistan, Textile Industry focuses on the spinning. Significant part of yarn processed (of great quality) is exported instead of its value additions. This is a structural shortcoming of Pakistan's industry. The Pakistan's yarn importing nations like Japan, Hong Kong, and South Korea which have recently established textile industry convert it into high value goods and earn much higher prices in international market. These nations don't grow cotton but they have transformed their textile industry in dynamic value-added sector keeping in view the demand of textile items in international market.

### Generalized Scheme of Preference (GSP)?

Generalised System of Preferences is a mechanism or a formal system through which developed countries like USA and European Union give relaxation in tariffs to under developed countries which lies under membership of WTO to export their goods to Europe or USA. There are five arrangements which are available under the GSP scheme for beneficiary countries.

First "the general arrangement",

Second, "the special incentive arrangements for the protection of labor rights",

Third, "the special incentive arrangements for the protection of the environment",

Fourth, "the special arrangements for the least developed countries" and

Fifth "the special arrangements to combat drug production and trafficking".

In 1960, the UNCTAD (United Nations Conference on Trade and Development) floated the idea of making lower tariff trade policy for LDC's and developing countries. In 1971, General Agreement on Tariffs and Trade (GATT) followed the lead of UNCTAD and enacted two waivers to the MFN that permitted tariff preferences to be granted to developing country's goods. Both these waivers were limited in time to ten year periods. Then in 1979, the GATT granted a full exemption to most favored nations (MFN). These exemptions were given to only nominated members who are so called WTO members. The new GSP of Europe offers leverage in tariffs in term of duty free access and/or lowering tariffs to developing, least develop (LDC's) and/or

under develop countries. Main objectives of the Europe's GSP are: to help those countries that have potential of credible commitment and really needy of trade preferences.

### ***Types of arrangement under EU GSP***

European generalized scheme of preference has following three different types of arrangements.

#### ***General arrangement***

Under the general arrangements, beneficiary countries have duty free access for non-sensitive originating products. From 1st January 2014, there are 31 countries which are awarded general arrangements. Countries are Azerbaijan, China, Colombia, Cook Islands, Guatemala, Honduras, India, Indonesia, Iran, Iraq, Kyrgyzstan, Maldives, Marshall Islands, Micronesia, Nauru, Nicaragua, Nigeria, Niue, Panama, Philippines, El Salvador, Sri Lanka, Syria, Tajikistan, Thailand, The Congo, Tonga, Turkmenistan, Ukraine, Uzbekistan and Vietnam.

#### ***GSP-plus arrangement***

Under the entitlement of GSP+, beneficiary countries are provide the duty free access for most of the originating products. From 1st January 2014, there are ten countries to whom European Union has awarded GSP+ and they will be benefited from GSP+ arrangements. Beneficiary countries are: Armenia, Bolivia, Costa Rica, Cape Verde, Ecuador, Georgia, Mongolia, Peru, Pakistan and Paraguay. Out of these countries, Pakistan is the country which has taken this status first time for duration of four years through which it will entitle to take duty-free access to the market of Europe. Out of 592 members, 406 have given vote in the favor of Pakistan for granting this status.

#### ***Everything except Arms (EBA) arrangement***

Everything but arms (EBA) arrangement for European Union is the duty-free and quota-free access for all originating products except for arms and armaments for the least developed countries (LDC's). EBA was introduced first time by EU in March 2001 and main purpose of the scheme is to develop poorest countries of the world. From January 2014, there are 49 least-developed countries those became under the entitlement of EBA arrangement with some revisions. In revisions, South Sudan has been included and Maldives has been removed from EBA beneficiary countrieslist. To enter into the EBA beneficiary countries is automatic and no further actions can be taken to get its entitlement like GSP (general) and GSP+. The barrier of time limit is not applied on it.

## **Pakistan qualified for GSP+**

The scheme was revised in Regulation No. 978/2012 with same objectives to promote business and trade in LDC's who have no or less access to the European market. GSP+ has applied, typically on Pakistani products which are being exported on or after January 01, 2014. After revision, number of beneficiary countries will be reduced from 176 to 87 only. 49 LDC's will continue to receive duty and quota free access. 38 low/lower income countries which are classified by the World Bank, will receive tariff reduction and 35 out of these 38 countries will receive full duty free access under the general arrangement of GSP+. Iran and Azerbaijan are declared as upper middle income countries by the World Bank and they are not eligible under regulation no. 154/2013. In revisions of GSP, there is addition of 15 new tariff lines from which four are added as sensitive and four as non-sensitive and four are added in GSP+ arrangements.

Pakistan is classified as Lower Middle Income country by the World Bank. Pakistan had a GNI per capita of \$2650 in 2010, \$2750 in 2011 and \$2880 in 2012. The graduation threshold to upper middle income is \$4086 GNI per capita. Share of seven largest sections of GSP covered imports from Pakistan to the EU represented 87.66% in 2013. Pakistan's share of seven largest sections of GSP covered imports had been around 90% which is above the threshold level of 75%. Share of Pakistan's total GSP imports into the EU was reported to be 1.6%. Pakistan's share of GSP covered imports into the EU had been less than 2%. Pakistan has agreed to implement the 27 conventions relating to human and labor rights, environment & good governance. Pakistan might face difficulties in implementing some laws especially relating to human and labor rights due to devolution of these to the provinces. Pakistan has agreed to ratify the 27 conventions relating to human and labor rights, environment & good governance. Pakistan has accepted regular monitoring and reporting requirements imposed by each convention. Capacity for monitoring and reporting needs to be developed (Pakistan Business Council).

This preferential duty regime will not suffice to secure sustainable market access to the EU. They are merely a catalyst. The government and industry need to invest in higher technology, standards compliance, certification, quality control and packaging, and demand-driven output. The GSP Plus status will not be there forever; therefore, investment must be made to make this sector competitive on a sustained basis. It is also to be noted that the GSP Plus advantages perceived to accrue to Pakistan may attract strong defensive action from EU competitors like Italy, Portugal and Greece in textiles and Romania in clothing; and offensive actions from non-EU competitors like Bangladesh, India and China. How to face these

defensive and offensive actions will be a real challenge for Pakistan and its textile industry in near future.

### **Statement of Problem**

Our main research problem is to investigate the likely impact of GSP Plus on Pakistan's textile industry exports to the European Union. It is generally assumed that GSP status will likely boost Pakistan's textile exports significantly. But how much, it is the focus of this research paper.

### **Objectives of the Study**

The objective of this study is to identify do Pakistani firms getting better advantage of the opportunities that have opened to them in backdrop of Pakistan being granted GSP Plus status.

The main objectives of the study are:

1. To identify the "high potential" tariff lines for Pakistan's exports into the EU that can take advantage of GSP Plus.
2. To estimate how much Pakistan can increase its exports to the EU in post GSP plus period. This includes a comparison of tariffs applicable of imports into the EU's from Pakistan's major competitors as well as their current shares.

### **Scope of Study**

The European Union has granted the Generalized Scheme of Preferences (GSP) Plus status to Pakistan in December 2013. This status is likely to increase access to the EU market through duty free imports of GSP-eligible products. The grant of the GSP Plus status is effective from January 1, 2014. This is indeed a positive development. The prospects of duty-free under the GSP Plus access for textile and clothing suggest enormous scope for Pakistan's exports expansion.

### **LITRATURE REVIEW**

Gallezot (2003) explores the situation of access to the EU's farming current market as well as the preference border along with insurance policy coverage of EU preferential regime through the perspective of put on tariff procedures with imports. He states the special of his or her tactic will be which he is rolling out his or her examination of tariff procedures simply by investigating put on duties as well as the duties really utilized by importers.

Candau et al. (2004) analyzed how effective are generally EU's preferential deals inside approving their companions enhanced marketplace accessibility pertaining to each agriculture as well as makes. Particularly, the particular authors examine the length of time choices are

generally really made use of by simply exporters, whenever stepping into the particular EU's marketplace.

Grynberg and Silva (2004) based on Topp (2001) approximate your insurance coverage, utilization as well as duty fee with the European Union GSP regimen, as well as examine their results using numbers to the other European Union preferential regimes and the GSP regimes associated with other QUAD nations.

Curran et al (2006) concentrate on preference erosion within the European market place within from your developing nation view as well as provide rates of preference margins as well as employment prices for your European GSP routine as well as ACP tastes. These people make an effort to recognize by far the most weak nations; thus, your writers do not recognize concerning preferential packages (EU GSP tastes usually are not isolated).

Lower et al (2006) appraisal insurance policy coverage from the European GSP plan and also provide distinct rates connected with desire border for those European personal preferences for every named beneficiary state along with intended for distinct aggregations connected with countries (e.g., LDCs).

McQueen (2007) conducted empirical analysis about European Union in addition to GSP regime in order to find out of which both breadth regarding coverage regarding dutiable goods as well as the detail regarding tastes are generally higher in the European Union [GSP] plan as compared to in the us.

Brenton (2003) discussed involving exports which often inquired preferential usage of the particular Western European marketplace beneath the EBA in the benefit involving exports which is the particular MFN duty is usually nonzero (with the particular different involving apples, rice along with sugar). Typically, 50% involving exports in the non-ACP international locations inquired duty no cost entry within EBA to the Western European marketplace in 2001. Meaning in which at least 50% of exports from these international locationstowards Western European didn't receive preferential gain access to along with compensated this MFN tariff charge. By contrast, for the vast majority of this ACP nations apart from Lesotho, the writer detects "no-take up" associated with inclinations under the EBA, looked as a lot less than 5% associated with their exports towards Western European ). Throughout 2001, exports liberalized within EBA amounted in order to 0.03% for everyone EBA nations; 0.04% for ACP nations solely; along with 0.01% for non-ACP nations.

Actherboch et al (2003) examine on-line regarding EBA pertaining to LDCs of which EBA offered a limited extra personal preference insurance policy coverage (and does not easily simplify regulations regarding origin). Nevertheless, benefits critical benefits are located at sectoral amount. LDCs exports regarding hemp will relish some sort of personal preference

margins regarding more than 60% when compared with most competition, while exports regarding new solutions (mainly berry and nuts) will relish personal preference margins of up to 15% (as a consequence of elimination regarding periodic tariffs).

Lippoldt and Kowalski (2005) estimations consist of -0.02% regarding Gross Domestic Product (Rest regarding SSA) to help -0.21% regarding Gross Domestic Product (Moz'que in addition to Bangladesh) Many creating nations around the world take pleasure in beneficial contentment increases liberalization by means of Europe.

Mensbrugge (2006) liberalizes unilaterally every one of the entire world, the particular MFN contract deals are usually fixed at 0 as well as the inclination border for low-income imports sheds for you to absolutely nothing. Most benefits accumulate for you to existing GSP beneficiaries, particularly midsection earnings places with Latina America (US\$ 8.5 bn).

Textile and clothing is the basic need of human being, the demand of textiles all over the world is about 18 trillion US dollars and it is expected to increase by 6.5% (Spinanger 1995). The Asia is the central source of providing textile goods to the European Union, United State of America and many other countries of the globe.

Pakistan is the principal exporter involving fabric merchandise specially 100 % cotton fabric products supplier and also exporter on this planet market place at present Pakistani fabric products shed its competition inside the international marketplaces as a result of tough opposition in direction of its competitors like The Indian subcontinent, Bangladesh and also China (Spinanger 1995).

Textile exports associated with China really worth is about fifty-five million ALL OF US money even though Pakistan Exports really worth\$USD 13.8 million . Within 2004 Ministry associated with linen business has established the actual a few season linen insurance plan 2009-2014 and plan to enhance the prospective associated with exports associated with linen things coming from really worth ALL OF US buck 13. 8 million in order to really worth ALL OF US buck 30 million at the end f 2014. (PACRA 2011).

Because of unproductive budget with regard to sheet market Ministry involving Linen Market failed to implement techniques and also setup with the plans (five years plan 2009-2014) a already have massive certain financial obligations beneath strategies for your in business practice however it in addition has challenges for you to execution and also timely achievement with the standard needs involving market (Amin 2012). Total involving Rs 24,75.000 was assigned that is up against the authorized money program involving Rs. 123 thousand with regard to 2009-12. In contrast your value involving projects in excess of Rs. 6 thousand tend to be imminent at arranging commission rate with regard to past couple of years, thinking the



sheet market involving Pakistan confronts critical troubles as a result of absence involving amenities like petrol and that is key factor for your sheet market.

Throughout Goal (2012), 1000s of sheet market career holders and cases as well as every day income individuals turned out on streets connected with Faisalabad location these people used four tires, yelled slogans the other government as a result of shortage connected with power in addition to propane shortage to be able to sheet market triggering this kind of 10% small size in addition to mid-sized sheet industrial facilities shut down. Caused by each one of these conditions sheet market is unable to match the domestic require at the least, is unable to consume it is domestic silk cotton to be able to follow upload orders by the due date.

For seeing that Pakistani sheet competition are worry these are enjoying tax assistance and also availability of essential wants for the business such as electricity and also gas and so forth by federal government which can be furthermore an underlying cause of which putts Pakistani sheet exports at trouble place within the world-wide marketplaces (Lall and Wignaraja 1995). It was furthermore an essential position within the summation regarding sheet insurance plan 2009 to help 2014, that the sheet business regarding Pakistan must help make exempt from heap shedding and in addition exempted form gas fault it will be offered the goal such as fertilizer business (Amin 2012).

This textile market connected with Pakistan offers solid interferences around the economic climate. This market plays a crucial part to the creation connected with employments on the laborforce on the nation. This market is usually confronted the actual general shortage connected with strength and also gasoline it's got misplaced money 1 billion dollars really worth exports from the initial 1/2 the actual monetary year 2012 and it may well shed money two billion dollars from the minute 1/2 of the latest year because of the general shortage on the gasoline and also electrical power many industries closed downed the creation items type Faisalabad and also Karachi and also migrated for you to dangerous nations around the world the item brought about to increase the actual being out of work fee in the united states. According to Muzimmil Sultan, Leader Faisalabad Slot provided connected with Trade and also Sector "at lowest 2 hundred, 000 staff misplaced their particular work opportunities considering that past year". According to APTMA's chairman Mohsin Aziz the actual bad times in sheet exports size really worth money 305 Trillion in dec-2011 was stunning the reason on the drop connected with exports was the vitality general shortage.

Bangladesh is usually assignee in the LDC (least designed countries) acquiring unique entrance to EU Market segments this linen things coming from Bangladesh include cost-free job having access to EU market segments beneath EBA (Everything however Arms) Plan. This particular access is available with regard to only lowest designed places (LDS). This particular



system creates this Bangladeshi linen products additional reasonably competitive while evaluate to individuals places that are not getting the advantages of everything however alternative plans such as Pakistan (Sarwar 2012).

### **Distinction of Study**

The study is to consider how the EU's GSP system is working for the betterment of growth and development objectives through encouraging the trade of developing countries, especially those most in need. The issue of growth and development objectives clearly raises a set of wide-ranging and interlinked issues to do with the domestic constraints and distortions within individual countries, as well as the relationship between these and the external environment they face, their internal stance with regard to trade policy, and more broadly the domestic policy agenda. In this light it needs to be recognized that the external trading environment, such as the GSP system, can at best only be a facilitator, albeit potentially a significant one, towards the meeting of the growth and development objectives. It is therefore only likely to be successful when combined with an appropriate domestic institutional environment and appropriate domestic policies. It is also worth noting that even with regard to trade objectives, the extent to which the EU's GSP scheme could impact on any given developing country will also depend on the importance of the EU in that country's overall export markets.

### **Conceptual Framework**

The EU is not only one of the largest trading partners of Pakistan, but is actively engaged and contributing effectively to socio-economic development of Pakistan. Trading relations have, however, weakened over the years. One-third of Pakistan's exports went to the EU in 1995-96. But declined to one-fourth in 2000-01 and further declined to almost 10 percent by 2010-11. The slower pace of economic activities in Pakistan since 2007-08 and the emergence of the European debt crisis in the aftermath of the great recession appear to be the reason behind the weakening of trade relations. While approximately 12 percent of Pakistan's remittances come from the EU, foreign investment from there has declined rapidly in recent years. Almost 35 percent foreign investment originated from the EU in the mid-1990s. It increased to 43 percent in 2000-01 but declined drastically to 11.5 percent by 2010-11. Factors like the economic slowdown, less than satisfactory security environment, energy bottlenecks, and poor governance since 2007-08 appear to have contributed towards making Pakistan a less desirable destination for foreign investment.

European countries introduced the GSP in 1971 with a view to helping developing countries develop and diversify their exports. Under the GSP, the European countries either

eliminated or reduced import tariff on specified products exported by approved developing countries, including Pakistan. This tariff preferential regime has been extended to GSP Plus through additional tariff reductions to vulnerable developing countries. The objectives of GSP Plus have been to assist developing countries in reducing poverty, improving governance and promoting sustainable development.

The tariff advantages provided by the GSP Plus status are powerful and must be exploited by our exporter and government. However, they are not the only factor that can make Pakistan more competitive in the EU market. Tariff preferences under GSP Plus are subject to quantity restraints and safeguards. These instruments are not applied to exports under MFN rates (more than one-half of all MFN tariff lines are set at zero percent and another one-quarter are below five percent). The EU buyers, therefore, prefer imports cleared under MFN because they are more reliable and sustainable and are not subject to quantity restraints and safeguards as well.

The GSP Plus status granted to Pakistan is conditional on the ratification and implementation of 27 international conventions in the areas of human rights, labor standards, environment and good governance. Adoption of these conventions will assist Pakistan in integrating into the cross-border supply chain which will strengthen manufacturing activity and further promote its exports. Pakistan has ratified almost all the conventions. The most critical aspect of these conventions is that their compliance will be strictly monitored by the EU through the unnamed third parties from civil society or NGOs.

Another critical challenge pertaining to the compliance would emanate from the 18th Amendment to the constitution. As a result of the 18th Amendment, there has been a shift of power relevant to the conditions of GSP Plus from the federal to the provincial governments. While the federal government has worked hard to get the GSP Plus status and is responsible for monitoring and reporting of the 27 conventions, implementation of the corresponding domestic legislation is largely the responsibility of provincial governments, perhaps not yet ready for compliance. The federal government must establish a supervisory body to coordinate with provincial governments in this respect.

The extension of the EU's GSP preferences to Pakistan will certainly boost its competitiveness, but ultimately success in accessing the EU market in greater quantities will depend on Pakistan's ability to meet EU consumers' demand both in terms of quantity and quality, to increase its production efficiency, to invest in technologies and skilled manpower, and to be able to withstand its competitors' defensive and offensive actions. GSP Plus alone will not suffice. The short-term advantages of tariff preferences under GSP Plus must wisely be invested for long-term goals, not short-term profit.

## RESEARCH METHODOLOGY

### Data

In this study, both Primary and Secondary data have been used for more reliable and authentic sources. Primary data is the data which is fresh and collecting first time for any study. In the present study, a questionnaire which consists of 15 questions has been used for recording the response from the respondents. All questions used in the study are dichotomous in nature.

### Sampling Design

A sample of 26 companies listed at Karachi Stock Exchange and located in the province of Punjab has been taken. The respondents are the persons who are closely related to textile sector and working in the selected sample companies. Questionnaire distributed to two hundred and fifty stakeholders of textile and 208 replies were received which we used for our analysis.

Most studies used quarterly, regular or even twelve-month time series and panel data. In this study, two data set is used one is monthly data of textile exports of Pakistan considering the period starting January 2007 to August 2014. However, the 84 observation on monthly basis which covers exactly past five years give us generous data on the relationship between GSP (Generalize Scheme of preference) and textile exports, which add some similar and comparative studies at somewhere else.

### Hypothesis of the study

**H0:** Generalized Scheme of Preferences (GSP+) has negative impact on Textile Exports of Pakistan.

**H1:** Generalized Scheme of Preferences (GSP+) has positive impact on Textile Exports of Pakistan.

### Research Model

$$\text{TEXTILE EXPORTS}_{it} = \alpha + \beta \text{GSP}_{it} + \varepsilon$$

Where GSP is Independent Variable and Textile Exports of Pakistan is dependent variable.

### Estimation Techniques

We have used the following three techniques to analyze the data:

1. Frequency distribution percentage method.
2. Content Analysis through graphical presentation.
3. Ordinary Least Square Method.

## ANALYSIS

### Descriptive Analysis

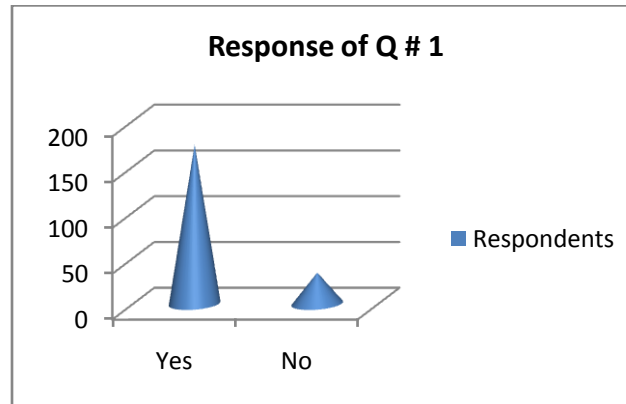
Frequency Distribution of Individual Questions

Questions	Frequency	Percent	Valid %	Cumulative %
Do you believe that GSP is a big opportunity for Pakistan?	34	16.3	16.3	16.3
	174	83.7	83.7	100.0
	208	100.0	100.0	
Do you believe that GSP helps Pakistani products to enter the EU market?	6	2.9	2.9	2.9
	202	97.1	97.1	100.0
	208	100.0	100.0	
Do you believe that GSP helps to increase investment, both domestic and FDI?	116	55.8	55.8	55.8
	92	44.2	44.2	100.0
	208	100.0	100.0	
Do you believe that GSP helps to increase Pakistan's share in the world trade?	9	4.3	4.3	4.3
	199	95.7	95.7	100.0
	208	100.0	100.0	
Do you believe that GSP helps to increase your company's worth in share market?	5	2.4	2.4	2.4
	203	97.6	97.6	100.0
	208	100.0	100.0	
Do you believe that GSP play an important role in the economic development of Pakistan?	167	80.3	80.3	80.3
	41	19.7	19.7	100.0
	208	100.0	100.0	
Do you think that GSP will increase employment opportunities in Pakistan?	62	29.8	29.8	29.8
	146	70.2	70.2	100.0
	208	100.0	100.0	
Do you think that GSP will help to decrease poverty level?	189	90.9	90.9	90.9
	19	9.1	9.1	100.0
	208	100.0	100.0	
Do you think that GSP will increase per capita income of the people attached with export sector?	184	88.5	88.5	88.5
	24	11.5	11.5	100.0
	208	100.0	100.0	
Do you think that GSP will bring technological improvement?	192	92.3	92.3	92.3
	16	7.7	7.7	100.0
	208	100.0	100.0	
Do you think that GSP will improve competitiveness of Pakistan's export sector?	203	97.6	97.6	97.6
	5	2.4	2.4	100.0
	208	100.0	100.0	
Do you think that GSP motivate foreign investors to form partnership with Pakistani companies?	91	43.8	43.8	43.8
	117	56.3	56.3	100.0
	208	100.0	100.0	
Do you think that GSP will improve the skill of Pakistan's balance of payments (BOP)?	19	9.1	9.1	9.1
	189	90.9	90.9	100.0
	208	100.0	100.0	
Do you think that GSP will help to improve the skill of Pakistani workers?	190	91.3	91.3	91.3
	18	8.7	8.7	100.0
	208	100.0	100.0	
Do you think that GSP will help to improve the quality of Pakistani products?	187	89.9	89.9	89.9
	21	10.1	10.1	100.0
	208	100.0	100.0	

**Q: 1. Do you believe that GSP is a big opportunity for Pakistan?**

In the response of 1<sup>st</sup> question, 174 respondents response is in positive which means that 84% respondents confirmed that GSP is really a big opportunity for Pakistan as well as Textile products to export to the European countries. This is shown in Figure1

Figure –1 GSP as a big opportunity for Pakistan

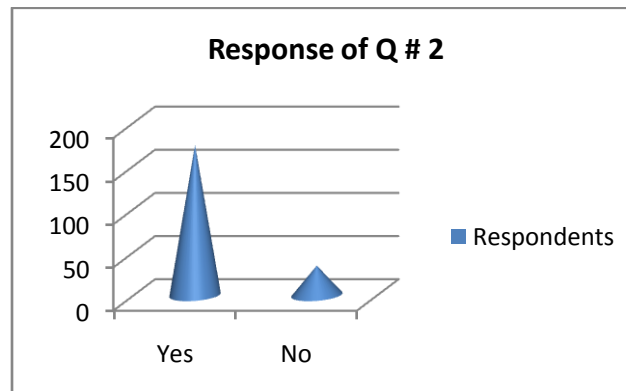


Through GSP, Pakistan has easy excess to European market with preferential trade. It has directly beneficial to the firms those are already engaged in exporting textile goods as now they are exporting with duty free and ultimately they are getting an extra edge over it. It is also beneficial for new entrants in the industry that they can export their goods at lower cost to Europe due to leverage in duty and easy access to European market.

**Q: 2 Do you believe that GSP helps Pakistani products to enter the EU market?**

In the response of 2<sup>nd</sup> question, 97% respondents have given their response in the favor of the question that GSP is helpful for Pakistani firms and exporters to enter and capture European market.

Figure –2 Pakistani products and European Market

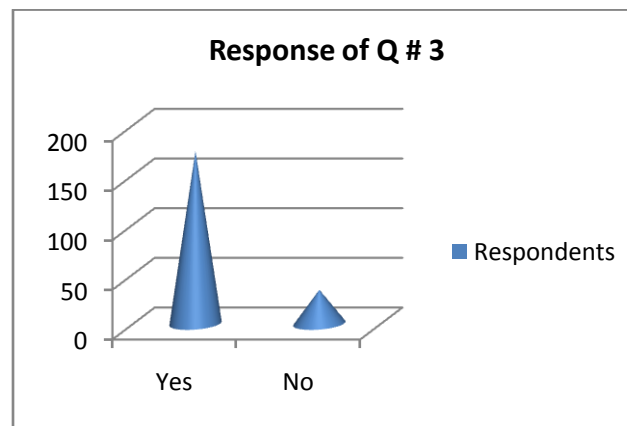


European Union has granted this trade preference to Pakistan so that easy access to be given to Pakistani products to enter in their market. Although both parties will get benefits through this preference but maximum benefits will be gained by Pakistan. Through preferential trade the economy of Pakistan will also grow in the long term.

**Q: 3** *Do you believe that GSP helps to increase investment, both domestic and FDI?*

In the response of 3<sup>rd</sup> question, 92 out of 208 i.e 44% respondents given their response in the favor while 116 respondents (56%) are against the statement that GSP helps to increase FDI and domestic investment. The same has shown in Figure

Figure –3 GSP and possibility of increase in investment



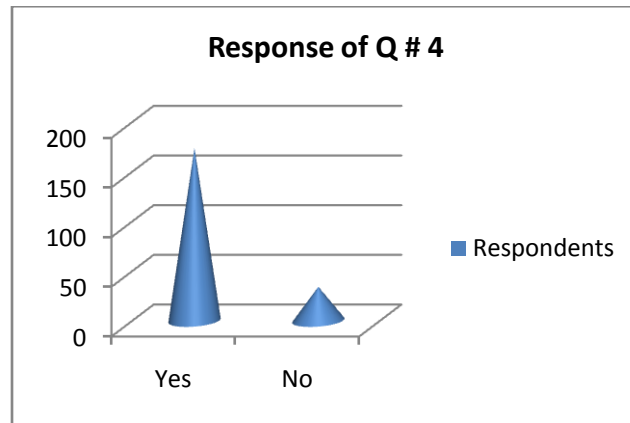
Although GSP has itself attraction for new investors to invest in the preferential lines to get maximum benefits but due to fluctuated government situation, instable political environment and shortfall of energy, foreign and domestic investors are reluctant to invest in Pakistan and Pakistan industrial sector. Textile sector is totally based upon electricity and natural gas and in the absence of these resources; textile companies cannot earn their desired profits.

**Q: 4** *Do you believe that GSP helps to increase Pakistan's share in the world trade?*

In the response of 4<sup>th</sup> question, 95.6% respondent's response is in the favor of the statement that GSP helps to increase Pakistan share in the world trade.

Firms related to textile and textile related article's exports are struggling to maximize their exports under GSP trade preference. When the export of an individual firm will increase, it will also raise the export graph of Pakistan. By increasing exports at country level will also increase share of Pakistan in the world market (see figure 4).

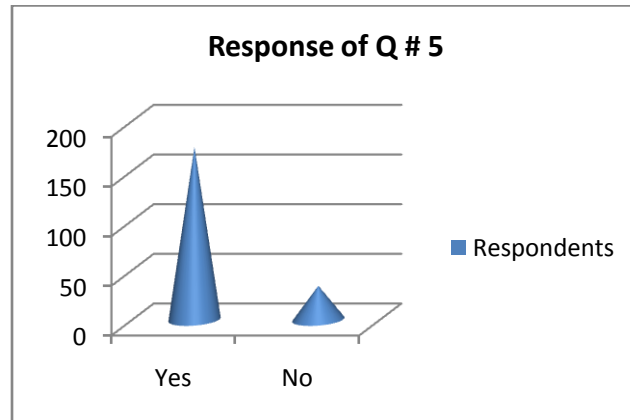
Figure –4 GSP and Pakistan's share in the world trade



**Q: 5** *Do you believe that GSP helps to increase your company's worth in share market?*

In the response of 5<sup>th</sup> question, 97.6% respondents have given their response in the favor of question that GSP is helpful in increasing their company's worth in share market. It has been reflected in Figure 5.

Figure –5 GSP and Company's worth increment in Stock Market



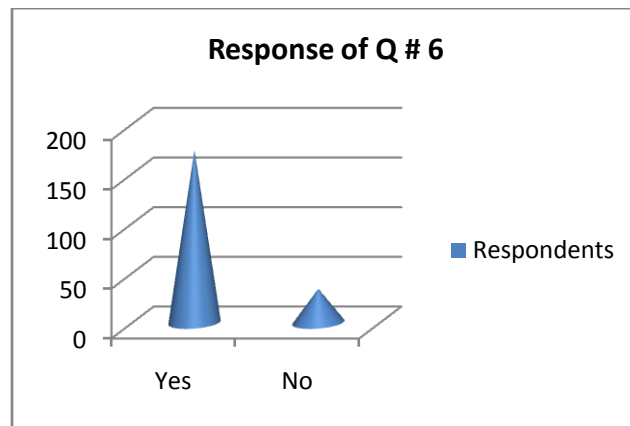
As GSP is in the favor of exporting companies and now they have an extra edge to export their goods without paying duty and other trade barriers so they put their all efforts in maximizing the exports. By increasing their exports under GSP will ultimately increase their market share in the current market. Textile firms which will work efficiently and have competencies over their competitors can be get maximum share in the competitive market.



**Q: 6** *Do you believe that GSP play an important role in the economic development of Pakistan?*

In the response of 6<sup>th</sup> question, 80.3% respondents have given their response in negative. According to their response, GSP trade preference will not play any role in economic development of Pakistan. Same reflecting in the Figure below.

Figure –6 Role of GSP in Pakistan's Economic Development



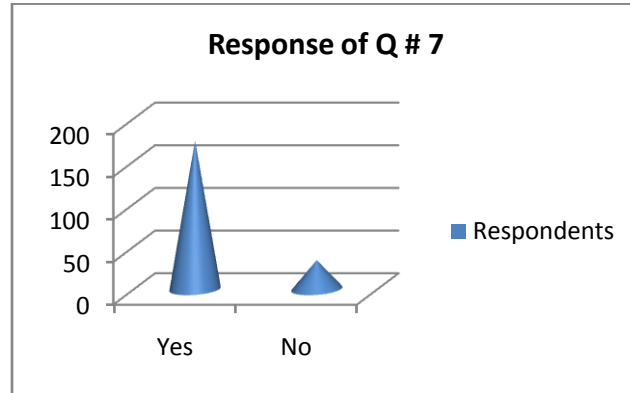
There are many other factors which play important roles in economic development of any country like growth of human capital indexes, decrease in inequality figures, structural changes to improve general population's quality of life etc. In the absence of these essential elements economic condition cannot be improved in any country. Although GSP is helpful in increasing trade to Europe, especially in textile goods but only this factor cannot play vital role in boosting the economic condition of Pakistan. FDI, domestic investments, political situation, democratic government stability, real implementations of long term plans, which if are stable and smoother in the country, a country may go forward towards in the race of economic development.

**Q: 7** *Do you think that GSP will increase employment opportunities in Pakistan?*

In the response 7<sup>th</sup> question, 146 respondents (70%) confirmed that through GSP, employment opportunities will increase in the country.

After application of GSP preference, companies are engaged in increasing their exports through increasing their working hours, by increasing manpower and by upgrading technology to improve the production processes which ultimately cause increase in employment opportunities in the country. Rest 30% respondents are not in the favor of the statement as according to their point of view, GSP will not have any effect in increasing employment opportunities (see figure 7).

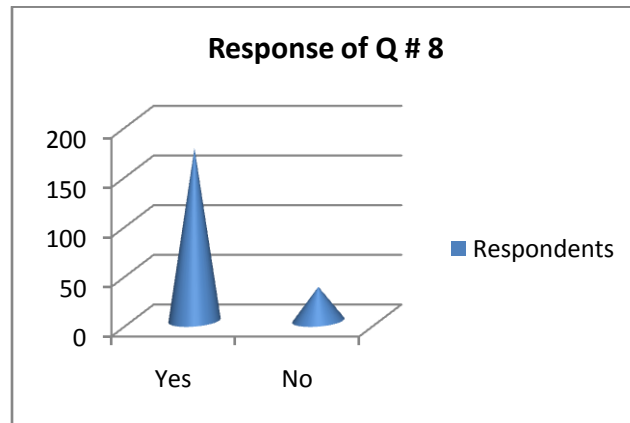
Figure –7 Possibility of employment opportunities in Pakistan due to GSP



**Q:8** Do you think that GSP will help to decrease poverty level?

In the response of 8th question, only 9% has given their feed back in yes while 91% are not in the favor of statement. According to 189 out of 208 respondents, GSP is not a helping tool in decreasing poverty level in Pakistan.

Figure –8 Impact of GSP on Poverty level in Pakistan



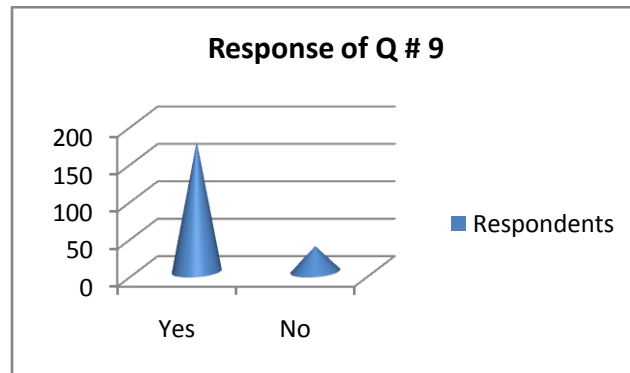
According to majority of respondents, most of the companies and their owners are taking benefits through this scheme. There will not be any directly or indirectly effect of GSP on working class who are surviving below poverty line. People engaged in laborious work are getting only their minimum wages/salaries and not getting any part from GSP preference.

**Q: 9** Do you think that GSP will increase per capita income of the people attached with export sector?

In the response of 9<sup>th</sup> question that whether GSP will increase per capita income of the people attached with export sector, 88.4% respondents disagree with the statement. According to their

opinion, GSP will not play any positive roles in increasing per capita income of the people attached with export companies.

Figure –9 Impact of GSP on per Capita Income of export sector employees

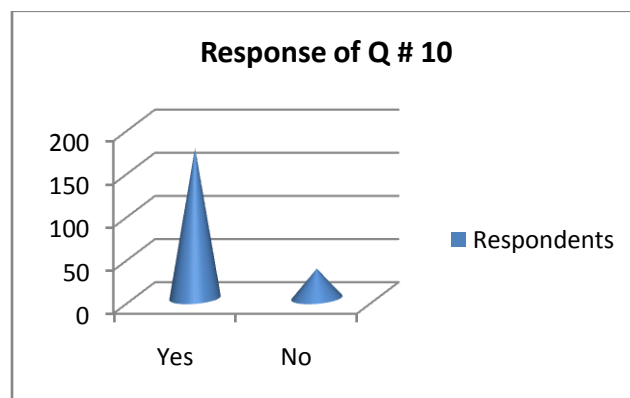


According to response of majority respondents, the people linked with export sectors will get benefit in the sense that there will be continuity in their jobs and they will get their earnings without any delay or discontinuity but monetary benefits are for the employers. Owners are multiplying their earnings by taking duty free access and other tariff concessions by European Union and on the other hand they are not increasing wage rate, salaries or any other fringe benefit to their employees.

**Q: 10** *Do you think that GSP will bring technological improvement?*

In the response of 10<sup>th</sup> question, 192 respondents give their feedback against the statement. According to their response, GSP will not bring any technological improvements in Pakistan.

Figure –10 Relationships between GSP and Technological Improvement

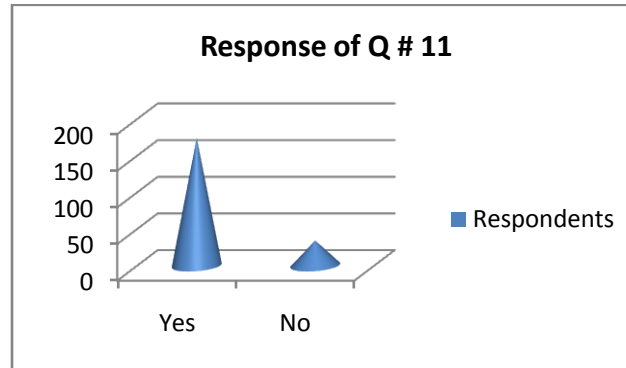


According to majority of respondent's opinion, GSP will not be helpful in bringing technological improvements in the country.

**Q: 11** *Do you think that GSP will improve competitiveness of Pakistan's export sector?*

In the response of 11<sup>th</sup> question, 98% respondents have given their response against the statement that through GSP, the competitiveness of Pakistan's export sector will not be improved.

Figure –11 Competitiveness of Export Sector and GSP

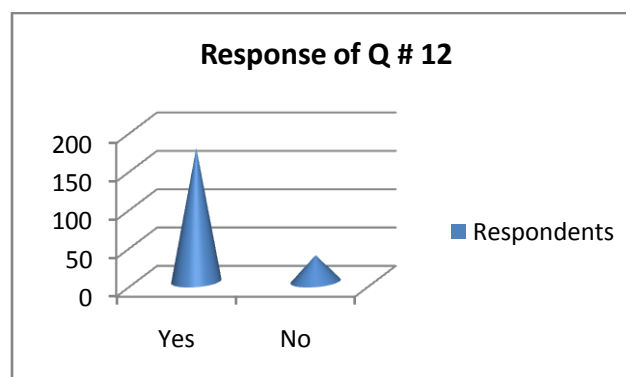


Most of the respondents stated that GSP will not improve competitiveness of Pakistan's export sector. They further argued that although GSP will increase exports of the country but it will not helpful in improving competitiveness due to perplex situation of Government, uncontrollable energy crises and misunderstanding of political parties. In the current scenario, Pakistan's export sector cannot improve its competitiveness.

**Q: 12** *Do you think that GSP motivate foreign investors to form partnership with Pakistani companies?*

In the response of 12<sup>th</sup> question, 44% respondents give their response in positive while 56% respondents given their response in negative. So majority disagree with the statement that GSP will help in motivating foreign investors to invest in Pakistan.

Figure –12 GSP, a motivating tool for Foreign Investors

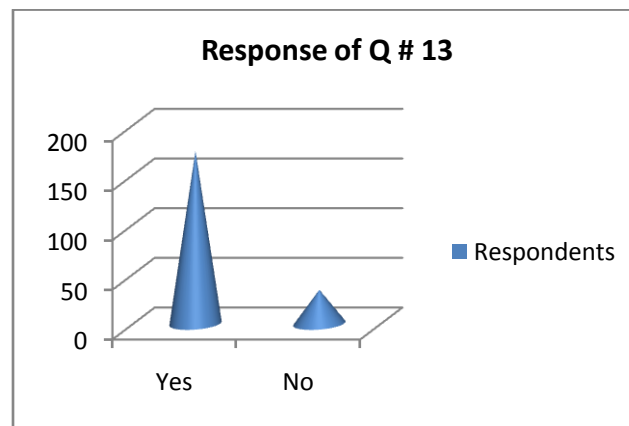


Main hurdle in attraction of FDI is current political and energy crises situation due to which new investors are reluctant to invest in Pakistan. Although it is a good achievement to get GSP title from European Union but unfortunately we have not ideal situation and useful resources through which we can get maximum benefits through it.

**Q: 13** *Do you think that GSP will improve the skill of Pakistan's balance of payments (BOP)?*

In the response of 13<sup>th</sup> question that whether GSP will improve the skill of Pakistan's balance of payments, 90.9% respondent's response is in positive. 189 respondents strengthen the statement and agreed that GSP will improve the skill of Pakistan's BOP (Balance of Payments).

Figure –13 GSP and improvement in Balance of Payments



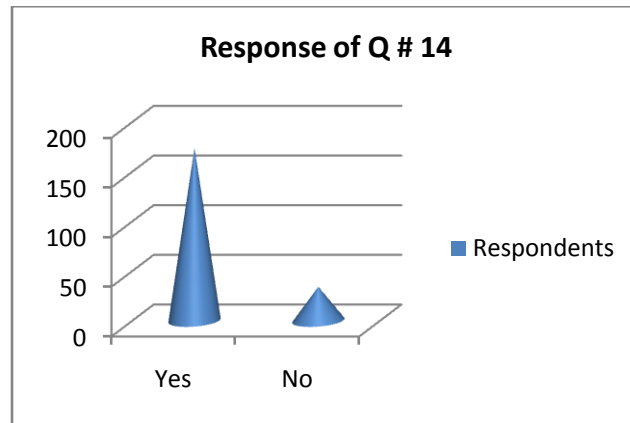
Through GSP trade preference, exporters have duty free access to Europe market and exporters are continuously struggling to maximize their exports by applying different technical and motivational tools. By taking this facility (GSP) as an extra edge, exporters are getting more earnings/payments internationally which will ultimately help Pakistan to reduce balance of payments in the world market.

**Q: 14** *Do you think that GSP will help to improve the skill of Pakistani workers?*

In the response of 14<sup>th</sup> question, 91% respondents given their response in negative that GSP will not help in improving skills of Pakistani workers linked with export sector.

GSP is basically trade preference which is offered to Pakistan to boosting up exports in selected products line and owners of the companies are getting benefits through it. To increase production level, some companies are using advance technologies but these companies are few in number while most of the companies are not using advance technology. So according to majority's response, GSP is not helpful in improving skills of people (See figure 14).

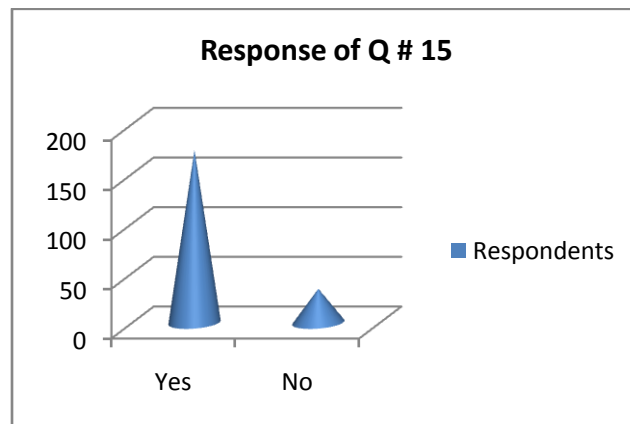
Figure –14 Role of GSP in improving skills of people



**Q: 15** *Do you think that GSP will help to improve the quality of Pakistani products?*

In the response of 15<sup>th</sup> question 90% respondent have given their response in negative. According to their opinion, GSP will not help in improving the quality of Pakistani products.

Figure –15 Role of GSP in improving the Quality of Products



Majority respondent's response is in negative as they proposed that if textile exporters will not take some corrective measures to maintain quality parameters, they will lose business in future. From January 2014 after application of GSP, exporting companies have given their full attention towards maximization of exports rather than technological improvements in the process or any further advancement in production processes.

## Regression Analysis

The results of our statistical tests and model by following the analytical tools are discussed in the below table. We applied these statistical tools in Eview 7.

Table 2 - Regression Results using Eview7

Dependent Variable: EXP				
Method: Least Squares				
Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.011495	0.011196	3.026723	0.0375
GSP	0.003829	0.039471	4.021015	0.0433
R-squared	0.780905	Mean dependent var		0.011562
Adjusted R-squared	0.779759	S.D. dependent var		0.099558
S.E. of regression	0.100142	Akaike info criterion		-1.741734
Sum squared resid	0.852417	Schwarz criterion		-1.685046
Log likelihood	77.76542	Hannan-Quinn criter.		-1.718907
F-statistic	0.000442	Durbin-Watson stat		2.064393
Prob(F-statistic)	0.983283			

Results mentioned in table 1 shows positive relationship between GSP (Generalize Scheme of Preferences) and textile exports of Pakistan.

It's evident from p-values and t-statistic that the variable including constant term inside the model tends to be highly major. As far since the overall fit on the model is concerned the coefficient involving Determination( $R^2$ ) as well as the adjusted coefficient involving determination( $R^2$  (adj) and F statistic show which the model is an excellent fit.

The value of  $R^2$  is 0.780905 which shows that the variation in textile exports is 78.09% due to GSP.  $R^2$  tells that how much model is goodness of fit and explained by explanatory variables means how much change in percentage occurs in dependent variable by a one unit change in independent variable.

Probability value ( $P$ ) reveals the significance of the independent variable. If p value is below than 0.01, 0.05, 0.10 then the independent variable significantly affects the dependent variable. In the above table one asterisk shows the independent variables are significant at 10%, two asterisk shows the independent variables are significant at 5%, whereas three asterisk shows the independent variables are significant at 1%.



Usually the coefficient of the variable is usually interpreted since the change inside the response dependant on a 1-unit change inside the corresponding instructive variable keeping all variables presented constant. The results for the co-efficient show high T-statistic i.e., (4.021015) which is greater than 2 and p-value is also significant at 5% due to which the model rejects the null hypothesis. So, from results alternative hypothesis is accepted.

Table 3- Descriptive Statistics (n=87)

Description	Export
Mean	0.011562
Median	0.002847
Maximum	0.337432
Minimum	-0.229245
Std. Dev.	0.099558
Skewness	0.389438
Kurtosis	3.353513

Histogram as well as Descriptive statistics on the residuals involves the Jarque-Bera statistics for assessment normality. When the residuals are typically distributed, the histogram needs to be bell-shaped and also the Jarque-Bera statistic really should not be significant. This test is employed is intended for residuals coming from least squares, two-stage minimum squares, nonlinear minimum squares, as well as binary, bought, censored, as well as count designs. The Jarque-Bera statistic comes with a X2 distribution with two examples of freedom beneath null speculation of generally distributed errors.

Jarque-Bera is really a test statistic for testing whether or not the series is commonly distributed. The test statistic steps the difference with the skewness in addition to kurtosis with the series along with those from the normal distribution. The statistic is calculated as:

$$\text{Jarque-Bera} = \frac{N-k}{6} \left( S^2 + \frac{K-3}{4} \right)^2$$

Where  $S$  is the skewness,  $K$  is the kurtosis, and  $k$  represents the number of estimated coefficients used to create the series.

Underneath the null hypothesis of your normal syndication, the Jarque-Bera figure is spread as X2 with 2 examples of freedom. The documented Probability may be the probability that your Jarque-Bera figure exceeds (in complete value) the observed value beneath the null hypothesis-a modest probability value leads to the rejection with the null hypothesis of your normal syndication.

## FINDINGS & DISCUSSION

This study provides in depth analysis of EU trade preferences for the LDCs and the other beneficiaries. It presents product and country coverage of the preferences and a detailed analysis of the structure of EU imports from other countries..

The analysis shows that the EU offers preferences on all imports from the LDCs (except arms and ammunition), while the US extends preferences to three quarters of all imports, EU preferences are better utilized and EU imports more goods duty free than does the United States.

The statutory goals of the GSP are to promote economic development of under-developed countries, enhanced trade, rather than aid, as a more efficient way of promoting economic development and promote trade liberalization in developing countries. It is difficult to assess whether or not the program alone has achieved these goals, however, because the GSP is only one of many such foreign aid initiatives used by the United States to assist poorer countries. Economic success within countries is also related to internal factors, such as governance, stability, wise policy decisions, availability of infrastructure to foster industry, and legal/financial frameworks that encourage foreign investment.

The econometric analysis shows that EU trade policy towards the LDCs and the AGOA beneficiaries, by and large, has generated almost twice as much import compared to US policy, when imports of mineral fuels are excluded from the analysis.

The impact of GSP plus is robust because according to Pakistan Bureau of Statistics data released on December 20,2014 “Exports of textile and clothing was increased to 7.01 percent in 2014 as compared to 2013.” Federal Textile Minister, Abbas Khan Afridi said: “ We are expecting higher growth because of preferential access to European markets” (Daily Dawan, dated 21.12.2014 Karachi-Pakistan). This is evident Pakistan has made breakthrough in its exports of European Union in the first year. It is likely that the quantity of exports will increase further in the coming years.

## CONCLUSION

The GSP Plus facility granted to Pakistan by European Union has multidimensional effect on textile producing and textile importing countries. It may be noted that the GSP Plus advantages may attract strong defensive action from EU competitors like Italy, Portugal and Greece in textiles and Romania in clothing; and offensive actions from non-EU competitors like Bangladesh, India and China. How to face these defensive and offensive actions will be a real challenge for Pakistan textile industry in near future. The extension of the EU's GSP preferences to Pakistan will certainly boost its competitiveness, but sustainable success will

depend on Pakistan's ability to meet EU consumers' demand both in terms of quantity and quality, to increase its production efficiency, to invest in technologies and skilled manpower, and to be able to withstand its competitors' defensive and offensive actions.

## RECOMMENDATIONS

As evident from the literature, GSP has been the topic of interest for researchers particularly in developing countries. So a very big scope is available for further research in this field. As far GSP and Pakistan is concerned, its relationship with the exports of textiles is undertaken in this study but there are still many sector that are included in provided GSP list are remained to be explored. Moreover, the impact of GSP and GSP plus on all the developing countries with respect to macro-economic variables can be study and their comparison with Pakistan will be very interesting in this context that helps the government of Pakistan to revise the country trade policies and implement new.

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