

## THE IMPACT OF GSP+ ON SRI LANKAN EXPORTS

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The European Union (EU) grants preferential access to its imports from developing countries under several trade agreements. Generalized System of Preference (GSP+), through which current beneficiaries make use of 6,421 product coverage and duty free treatment, is an additional preference for the vulnerable countries which ratify and implement international standards in the fields of human rights, core labour standards, sustainable development and good governance. Immense escalation of a number of preferential trade agreements has directed countries to review the achievement of the expected targets particularly the growth in exports.

The present study evaluated the impact of GSP+ on Sri Lankan agricultural and manufacturing exports to EU markets quantifying export creation and diversion effects using the Gravity model of trade analysis. It used cross sectional data of gravity variables from countries including Sri Lankan major export countries, EU, SAARC and current GSP+ beneficiaries accounting for 53 countries in total, for the year 2006. Total agricultural export flow was used as the dependent variable with a number of independent variables including traditional gravity variables vis-à-vis, Gross Domestic Product (GDP), geographical distance, and country specific variables such as presence of Regional Trade Agreements (RTAs), trade under GSP+, colonial relations and common language.

Results revealed that the coefficients of all universal gravity variables namely product of GDP, distance between countries, common language and colonial relations produced expected signs (1.086, -1.63, 0.817 and 1.493 respectively), and are statistically significant. GSP+ was found to be net export creating for agricultural exports. However, the results found that there is an indication of significant intra block export diversion (2.035) and net export diversion (0.932) in manufacturing exports. The individual country impact indicated that Sri Lanka is having a greater positive impact for manufacturing exports (4.006) than that of the agricultural exports (1.71). Further, all the countries that are having ties with other Regional Trading Agreements showed positive significant impacts on both agriculture and manufacturing exports.

**Key words:** Trade Preferences, GSP+, Trade Creation & Diversion, RTAs, Agricultural Trade