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Institutional factors of international trade: A case of the European Union's Generalized System of Preferences and World Trade Organization

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International trade, a cornerstone of global economic activity, is significantly influenced by institutional framework. This framework comprises a complex array of policies, agreements, and regulations that govern the interaction between nations in the global marketplace. One prominent example of an institutional factor that drives international trade is the European Union (EU) that created one of the largest single markets in the world through its internal market with free movement of goods, services, capital, and labor. The World Trade Organization (WTO) is yet another institutional factor that significantly shapes international trade. In 2014, the European Union established the Generalized System of Preferences (GSP) which sought to provide eligible developing countries with preferential access to the European market by reducing or suspending tariffs on certain imported goods. However, since its formation, it has been questioned whether GSP (later extended to GSP+) is in accordance with the World Trade Organization (WTO) law. This paper explores the role of institutional framework in driving international trade dynamics, highlighting its impact on trade policies, market access, and economic development. In particular, we analyze whether the current EU's GSP aimed to boost sustainable development and good governance is compatible with the entrenched institutions of international trade represented by the WTO rules and laws. We find that despite some contentious elements, no disruptions can be found. Nevertheless, it is crucial for the EU to address and reform the GSP to continuously increase its effectiveness.

Keywords: international trade; European Union; World Trade Organization; institutional factors; generalized system of preferences; developing countries

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Международная торговля, являющаяся краеугольным камнем глобальной экономической деятельности, находится под значительным влиянием институциональной среды. Эта среда охватывает политику, соглашения, правила, которые регулируют взаимодействие между странами на глобальном рынке. Одним из ярких примеров институционального фактора, который стимулирует международную торговлю, является деятельность Европейского Союза (ЕС), который создал один из крупнейших единых рынков в мире на основе своего внутреннего рынка со свободным движением товаров, услуг, капитала и рабочей силы. Всемирная торговая организация (ВТО) является еще одним институциональным элементом, который существенно формирует международную торговлю. В 2014 г. Европейский Союз учредил Всеобщую систему преференций (ВСП), целью которой было предоставить развивающимся странам, отвечающим определенным критериям, преференциальный доступ к европейскому рынку путем снижения или приостановки действия пошлин на определенные импортируемые товары. Со временем возник вопрос, соответствует ли ВСП (позже расширенная до ВСП+) правилам ВТО. В данной статье исследуется роль институциональной среды в обеспечении динамики международной торговли. Особо подчеркивается влияние среды на торговую политику, доступ к рынкам и экономическое развитие. В частности, мы анализируем, совместима ли нынешняя ВСП ЕС, направленная на стимулирование устойчивого развития и надлежащего управления, с укоренившимися институтами международной торговли, представленными правилами и законами ВТО. Мы считаем, что, несмотря на некоторые спорные элементы, никаких сбоев обнаружить не удалось. Тем не менее, следует констатировать, что ЕС крайне важно своевременно реформировать ВСП для постоянного повышения ее эффективности.

Ключевые слова: международная торговля; Европейский союз; Всемирная торговая организация; институциональные факторы; обобщенная система преференций; развивающиеся страны

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Introduction

International trade has always been a critical driver of economic growth and development for countries around the world (Witt et al., 2023). With globalization and the increasing interconnectedness

of economies, the importance of international trade has only amplified in recent decades (Cheng, 2018; Rahman and Alam, 2021; Delios et al., 2021).

However, it is not solely the economic factors that determine the success or failure of international trade relationships. Institutional factors play a crucial role in shaping and facilitating international trade agreements, policies, and regulations (Azmeah et al., 2020; Zahra et al., 2022). Institutional factors include formal rules, regulations, and organizations that govern international trade (Holmes et al., 2013; Kostova et al., 2020). These institutions provide a framework within which countries can engage in mutually beneficial trade while also ensuring fair competition and protection of national interests (Ge et al., 2020; Edler et al., 2023). By creating a predictable environment for businesses to operate in, these institutional factors play a significant role in reducing transaction costs, increasing market access, promoting economic stability, and resolving disputes (Charles and Ochieng, 2023).

The European Union (EU) can be seen as such a complex multifaceted institution that plays a significant role in driving international trade through its policies, regulations, and influence (Roberts et al., 2019; Kardung et al., 2021). As one of the largest economies in the world, the EU has developed a comprehensive framework that promotes trade liberalization and economic integration among its Member States (Jiroudková et al., 2015; Erkisi and Ceyhan, 2019).

At the heart of EU's efforts to drive international trade lies its Single Market, which ensures free movement of goods, services, capital, and labor among its Member States. This harmonized regulatory framework eliminates barriers to trade within the EU and creates a large internal market for businesses to operate in. By providing access to over 450 million consumers, the Single Market enhances economies of scale for companies based within Europe and attracts foreign direct investment (Simionescu et al., 2020; Ketels and Porter, 2021).

The EU operates a common commercial policy that allows it to negotiate trade agreements on behalf of all Member States collectively. This approach strengthens its bargaining power with other countries or regional blocs when negotiating preferential access or reducing tariffs (Kersschot et al., 2020). Through these negotiations, the EU expands market opportunities for its businesses by securing improved market access abroad while ensuring fair competition within its own borders (Strielkowski and Höschle, 2016; Stanojević and Veličković, 2021).

The Generalized System of Preferences (GSP) is another important instrument used by the EU to drive international trade with developing countries (Ornelas and Ritel, 2020). Under this scheme, certain products originating from eligible developing countries are granted preferential access to EU markets through reduced tariffs or tariff exemptions (Borchert et al., 2021). By offering these incentives, the EU promotes economic development in these countries while also diversifying its sources of imports. GSP was later extended into GSP+ that provides additional tariff reductions as an incentive for the developing countries partnering with the EU to ratify the international conventions on human and labor rights, environment, climate, as well as good governance.

As an active member of WTO since 1995, the EU plays a crucial role in shaping global trading rules and ensuring their enforcement among member states. The WTO provides a platform for negotiations on multilateral trade agreements, dispute settlement, and the monitoring of trade policies. The EU actively participates in these processes, advocating for free and fair-trade practices that benefit all its member states.

The EU employs various trade defense instruments to protect its industries against unfair trading practices, such as dumping or subsidization. These instruments include anti-dumping measures, countervailing duties, and safeguard measures. By safeguarding its domestic industries from unfair competition, the EU ensures a level playing field for businesses operating within its borders while also preserving their competitiveness in international markets.

This paper focuses on the role of institutional framework in governing the flows and directions of international trade dynamics by assessing its impact on trade policies, market access, as well as economic development. We aim to explore the various institutional factors related to the EU and WTO that contribute to driving international trade. Moreover, the paper looks into the research question whether the current EU's GSP designed to promote sustainable development and good governance is compatible with the current order of the established institutions of international trade overlooked by the rules and laws of WTO. The paper is structured as follows: in the next section we focus on

describing and defining the institutional framework of international trade. Then we explain the research framework considering the GSP and GSP+ provisions and WTO regulations. The analysis of financial and trade amenities follows. The next section elaborates on the development, finances, and trade, drawing the lessons for the developing countries. Finally, we conclude by deriving the main results and outcomes and providing policy implications.

Defining institutional dimensions in international trade

Institutional framework in international trade refers to the structures and rules established by countries and international organizations to manage and regulate cross-border trade. These include trade agreements, tariff and non-tariff barriers, intellectual property rights, and regulatory standards (Williamson, 1975; Santeramo and Lamonaca, 2022; Wang et al., 2023). Institutions like the World Trade Organization (WTO), regional trade agreements, and bilateral treaties play a critical role in shaping these frameworks.

Trade agreements are a primary component of institutional framework. They dictate the terms of trade between countries, including tariff reductions, quota eliminations, and the standardization of product regulations (Arima et al., 2021). By lowering barriers to trade, these agreements facilitate increased market access, enhance competition, and promote efficiency in global markets. They also provide a platform for dispute resolution, ensuring a stable and predictable trading environment (Maggi and Ossa, 2021).

The WTO, as a global institution, sets the legal and procedural groundwork for international trade. It provides a framework for negotiating trade agreements and a mechanism for resolving trade disputes (Hoekman and Mavroidis, 2021). The WTO's principles of non-discrimination, transparency, and fair competition are central to its role in managing global trade. By fostering a rules-based trading system, the WTO contributes to reducing trade tensions and promoting international economic cooperation (Wolfe, 2020).

Regional trade agreements (RTAs) and economic blocs like the European Union, NAFTA, and ASEAN represent another dimension of institutional frameworks (Nguyen, 2019). These agreements often go beyond what is covered in the WTO, including deeper integration in areas like services, investment, and intellectual property rights. RTAs can significantly impact trade flows by creating larger integrated markets, thereby influencing global trade patterns (Baier et al., 2019).

Institutional framework in international trade faces challenges. Criticisms include the perpetuation of inequalities between developed and developing countries, the complexity and opacity of trade agreements, and the potential for trade disputes to escalate (Xu et al., 2020). Additionally, there is a growing concern about the need to balance trade liberalization with environmental and social objectives and the recent focus on tackling the global warming and climate change as well as pursuing the green growth and achieving sustainable economic development.

To make a historical turn here, it needs to be recalled that the term “institutional economics” was used for the first time by Walton Hamilton in 1918 during a meeting of the American Economic Association and represented the dominant trend in American economics until the 1940s. During that time, institutional economics was seen as a possible unifying element of economic science (Hodgson, 2005; Stilwell, 2019). The institutional approach emphasizes how institutions can influence economic processes and outcomes. It also holds that economic processes are not only influenced by the market mechanisms, but also by political and social forces in the form of various rules and organizations (Ugur, 2010; Volchik and Maslyukova, 2022).

The term “institution” refers to the rules and norms that regulate human interactions (Volchik, 2020). These rules include formal rules, such as laws and regulations, or informal rules, such as rules governing behavior (Hodgson, 2006; Coase, 2013; Rausser et al., 2021). The term “organization” encompasses a group of individuals who come together to cooperate on a common goal they wish to achieve. These might include political bodies (such as parliament, municipal authorities, political parties), or economic bodies (companies), educational bodies (schools), as well as social bodies (clubs) (North, 1990; North, 2016).

Several authors have made important contributions to the development of ideas of the institutional economic approach in relation to the international trade provisions. One of them is Douglass North, who is considered one of the founders of New Institutional Economics (NIE). NIE is an economic theory that emphasizes the role of institutions on economic processes emerging in the 20th century and facing the limitations of neoclassical economics (Basu et al., 1987). According to North, institutions help to regulate economic processes and contribute to the reduction of transac-

tion costs. In terms of methodology, he emphasized the method of historical analysis because of the dynamic nature of institutions (North 1990; North 1991). His contribution within the institutional economic approach is significant and can be easily applied to the provisions of the trade theory.

Another important theorist who has addressed the institutional economic approach that can be used in international trade is Thorstein Veblen. Veblen emphasized the role customs, institutions, and norms play in economic behavior. According to Veblen, cultural and social ties and the environment have a great influence on the economic decisions that people make. Veblen perceived institutions as a kind of superstructure of the customs of human society (Reinert and Viano, 2012; Thompson, 2016).

The role that institutions play in economic processes was also highlighted by William Kapp. Kapp promoted the view that the economy should be seen as a multidimensional system, the study of which requires a multidisciplinary approach. In addition to the role of institutions, Kapp's writings also dealt with ecological economics and "oikonomics", i.e., the management of households. He also criticized the direction of economics towards so-called chrematistics – the accumulation of profit (Gerber, 2016). Apart from that, Geoffrey Hodgson emphasized the role institutions play in shaping economic behavior. Similar to Douglass North, Hodgson promoted the view that the term "institution" refers not only to formal rule but also to informal norm and custom that regulate economic processes (MacKinnon et al., 2009). All of these topics fit rather nicely into the field of international economic relations and the interdependency of global institutions shaping international trade.

Research framework: GSP provisions and WTO regulations

We attempt at identifying whether GSP+ is in accordance with the WTO law. Within the scope of this research, an analysis was conducted using official documents from the WTO and the EU. Our special focus is on Regulation (EU) no 978/2012 of the European Parliament and the Council from the 25th of October 2012 (Regulation), along with its Enabling Clause, as well as on a number of other significant international documents.

We also made a good use of study entitled "The WTO Legality of the EU's GSP+ Arrangement" that outlines one of the most eminent theories on the EU's GSP, particularly regarding its conformity with WTO law focusing on the conformity of the EU's GSP with WTO law before its reform in 2012 (see Bartels, 2007).

Developing countries make up more than 2/3 of the membership of the WTO. Members of the WTO are aware of the vulnerability of the economies of these countries. In accordance with the Decision on Differential and More Favorable Treatment, Reciprocity and Fuller Participation of Developing Countries (also known as the Enabling Clause) approved on the 28th of November 1979 by the Parties to the General Agreement on Tariffs and Trade developed economies can (and should) apply differential and more favorable treatment with regard to trade and relations with the developing and emerging economies. The goal of providing developing countries with preferential and differentiated treatment is to encourage and facilitate commerce. According to the Enabling Clause, this differential and more favorable treatment must be non-reciprocal.

The Enabling Clause constitutes the legal institutional foundation for the Generalized System of Preferences (also known as GSP) and includes three schemes: i) Standard GSP; ii) Special incentive arrangement for sustainable development and good governance (also known as GSP+); iii) Everything but Arms (EBA). However, as soon as GSP and GSP+ were adapted, many scholars began questioning its compliance with the WTO laws and regulations (in particular, the Enabling Case). Whether European Union's GSP+ was not discriminatory to some extent was the subject of a dispute between the Republic of India and the European Communities in 2002.

In 2022, India asked EU to conduct consultations that would tackle the terms of GSP. This was done because India's authorities viewed "the special arrangements for combating the production and trafficking of narcotic drugs and psychotropic substances, as well as the incentive arrangements for the protection of labor rights and the special incentive arrangements for the protection of the environment" as discriminatory and harming for the Indian exports to the EU market¹. In the view of Indian authorities, the general provisions of GSP were aimed at restricting India's exports. What more, the country further

¹ World Trade Organization (2005). European communities – Conditions for the granting of tariff preferences to developing countries. https://www.wto.org/english/tratop_e/dispu_e/cases_e/ds246_e.htm

contended that the Enabling Clause specifies that developing countries should receive preferential treatment that is non-discriminatory and should promote trade with other developing countries².

On the other hand, it should not create obstacles to trade with other countries. According to the Republic of India, the non-discrimination provision states that there shall be no differential treatment between developing countries³.

This dispute came before the WTO's Appellate Body in 2004. In its interpretation of the Enabling Clause, the Appellate Body noted that the non-discrimination provision does not speak of giving the same benefit to all developing countries. According to the Appellate Body, the Enabling Clause states that the same benefit ought to be accorded to the developing countries facing the similar development challenges. In addition, the Appellate Body indicated that it also must be apparent that granting the favorable treatment under the generalized system of preferences will have a positive effect on promoting the advancement of developing countries⁴, along with promoting the solution of financial and trade problems⁵. In its report, the Appellate Body remarked that the preferential treatment with regard to the developing countries should be conducted in accordance with the so-called "Waiver Decision" adapted in 1971⁶. This Waiver Decision provided a 10-year free period from implementing Article 1 of the General Agreement on Tariffs and Trade (GATT) for the developing countries. The provisions from the 2nd session of the United Nations Conference on Trade and Development (UNCTAD) that set a system of generalized, non-reciprocal, and anti-discriminatory preferences were also mentioned in Waiver Decision.

Moreover, when it comes to the dispute between India and EU, the WTO Appellate Body concluded that the EU's special arrangements appeared to be non-compliant with Enabling Clause and with Waiver Decision, as they lacked clearly established criteria for determining the qualifying countries (Bartels, 2007). Bartels' study focuses on the issue of the compliance of GSP+ with WTO law and arguing that the incentive arrangement for sustainable development and good governance was not entirely in line with Enabling Clause and within the interpretation of the Enabling Clause provided by WTO's Appellate Body. This view was novel and quite visionary at that time given the fact that predated the EU's reform of the generalized system of preferences (Bartels, 2007).

Due to Bartels (2007), the GSP+ did not contain clear intentions for supporting the developmental, financial, and trade needs of the emerging countries in accordance with the Enabling Clause. Additionally, the link between the GSP+ and the enhancement of the needs of developing countries as well as the improvement of their needs was also obviously missing (Bartels, 2007).

Analysis of financial and trade amenities

In order to judge whether GSP+ implemented the additional support of the developing countries after its reform conducted in 2012, the Regulation on applying a scheme of generalized tariff preferences needs to be closely scrutinized.

The Regulation states that: *"by providing preferential access to the European Union market, the scheme should assist developing countries in their efforts to reduce poverty and promote good governance and sustainable development by helping them to generate additional revenue through international trade, which can then be reinvested for the benefit of their own development and, in addition, to diversify their economies. The scheme's tariff preferences should focus on helping developing countries having greater development, trade and financial needs"*⁷. Moreover, it also states that *"The Union aims to define and pursue common policies and actions in order to foster the sustainable economic, social and environmental development of developing countries, with the primary aim of eradicating poverty"*⁸.

² Ibid.

³ Ibid.

⁴ World Trade Organization (2004). Report of the Appellate Body. <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=Q:/WTD/DS/246ABR.pdf&Open=True>

⁵ Ibid.

⁶ Ibid.

⁷ Official Journal of the European Union (2012). Regulation (EU) No 978/2012 of the European Parliament and of the Council. <https://eur-lex.europa.eu/legal-content/SK/TXT/PDF/?uri=CELEX:32012R0978&from=SK>

⁸ Ibid.

These provisions mention sustainable development, but also development. In addition, they mention the pursuit of poverty eradication and the promotion of good governance. Within this context, the meaning of the term “development” as well as the term “sustainable development” needs to be analyzed in order to establish how the EU’s GSP was directed to foster the financial and trading needs of the developing countries. The Cambridge Dictionary defines development as: *“the process in which someone or something grows or changes and becomes more advanced”*⁹. Macmillan Dictionary characterizes development as *“change, growth, or improvement over a period of time”*¹⁰. In addition, the Declaration on the Right to Development defines “development” as the following: *“a comprehensive economic, social, cultural and political process, which aims at the constant improvement of the well-being of the entire population and of all individuals on the basis of their active, free and meaningful participation in development and in the fair distribution of benefits resulting therefrom”*¹¹.

For a better understanding of the term development, it is also necessary to look at what can be termed as development goals. Most relevant in this case are the Millennium Development Goals (MDGs), which 189 countries of the world have committed to by signing the United Nations Millennium Declaration of 2000. These development goals have a high degree of legitimacy, given the number of states that have committed themselves to these goals. For this reason, we consider it justified to use them as a source of what can be classified as development goals. The MDGs include:

- 1) *“eradicate extreme poverty and hunger;*
- 2) *achieve basic universal primary education;*
- 3) *promote gender equality and empower women;*
- 4) *reduce child mortality;*
- 5) *improve maternal health;*
- 6) *combat HIV/AIDS, malaria, and other diseases;*
- 7) *ensure environmental sustainability;*
- 8) *global partnership for development”*¹².

When comparing the meaning of the word development and the MDGs with the provisions of Regulation, it is possible to identify an overlap between them. The most significant is the emphasis on the pursuit of poverty eradication, which is also the first goal of the eight MDGs. The EU focuses on enacting unified policies that foster the sustainable growth of developing nations across economic, social, and environmental dimensions. Furthermore, the Declaration on the Right to Development characterizes development as a process encompassing social and economic aspects, which primarily focuses on enhancing the overall well-being of people.

There are many definitions of sustainable development. According to Macmillan dictionary, sustainable development means: *“development of a state or region that does not use more natural resources than can be replaced and therefore does not damage the environment”*¹³. The report “Our Common Future” (also known as “Brundtland Report”) published in 1987 defined sustainable development as follows: *“development that meets the needs of the present without compromising the ability of future generations to meet their own needs”*¹⁴. The Johannesburg Declaration on Sustainable Development speaks of *“interdependent and mutually reinforcing pillars of sustainable development – economic development, social development and environmental protection – at the local, national, regional and global levels”*¹⁵.

As far as sustainable development is concerned, Agenda 2030 also needs to be mentioned. It contains 17 Sustainable Development Goals (SDGs) and was adopted in 2015 by all UN General Assembly. It can be noticed that SDGs greatly overlap with the MDGs, being their update and elaboration.

⁹ Cambridge Dictionary (2023). Development. <https://dictionary.cambridge.org/dictionary/english/development>

¹⁰ Macmillan Dictionary (2023). Development. <https://www.macmillandictionary.com/dictionary/british/development>

¹¹ United Nations Human Rights Office of the High Commissioner (1986). Declaration on the Right to Development. https://www.ohchr.org/sites/default/files/Documents/Issues/Development/RTD_booklet_en.pdf

¹² United Nations (2013). MDG Acceleration and Beyond 2015. <https://www.un.org/millenniumgoals/bkgd.shtml>

¹³ Macmillan Dictionary (2023). Sustainable Development. <https://www.macmillandictionary.com/dictionary/british/sustainable-development>

¹⁴ Federal Office for Spatial Development (1987). Our Common Future. <https://www.are.admin.ch/are/en/home/media/publications/sustainable-development/brundtland-report.html>

¹⁵ United Nations (2002) Johannesburg Declaration on Sustainable Development. https://www.un.org/esa/sustdev/documents/WSSD_POI_PD/English/POI_PD.htm

In addition, it is also possible to identify the financial and commercial interests of developing countries under the GSP, since the Regulation itself states that by granting preferential access to the internal market of the European Union, developing countries will save certain financial resources that developing countries can use to improve and diversify their economies.

Definitions of development, development goals, sustainable development, and the SDGs coincide to some extent. The most significant difference between them is that sustainable development emphasizes environmental protection and resource conservation. After the reforms of 2012 that altered the previous institutional arrangements the support for the growth and the trading and financial needs of the developing economies can be clearly singled out.

Development, finances, and trade: Lessons for the developing countries

Linking to the previous discussion, it is necessary to highlight and question the alignment of the special incentive arrangement for sustainable development and good governance with WTO law, specifically regarding its connection to the enhancement of developing economies' needs.

In paragraph 3 of section c of the Enabling Clause, it is mentioned that when a developed country offers preferential treatment to the emerging countries, these terms must be regulated as follows: *"must be designed and, if necessary, modified, to respond positively to the development, financial and trade needs of developing countries"*¹⁶. In 2004 Report, the WTO's Appellate Body declared that favorable conditions should have a probable impact on addressing the developmental, financial, and trade needs of developing countries¹⁷. In the framework of EU's GSP+ there must be a likelihood that preferential access to the EU's internal market will contribute to resolving the problems of developing countries.

Nevertheless, the unique benefit of the GSP+ stems from the requirement that beneficiaries must ratify and effectively implement 27 international conventions covering human and labor rights, good governance, and environmental protection to gain preferential access to the EU market. These aspects align closely with the broader goals of developing countries' progress. Therefore, GSP+ aims not only to address the economic needs of these nations but also to deal with the challenges related to development, governance, and environmental sustainability.

The reformed European Union GSP+ meets this condition, as the financial resources that developing countries save through preferential access to the EU's internal market can be used to tackle their development, financial and trade problems. Additionally, there is a compelling motivation for developing countries to diligently enforce these conventions. Failing to do so, especially in cases of serious violations, could result in the loss of their preferential market access within the EU.

The WTO's Appellate Body also stated in its report that the need of developing countries under paragraph 3 section c cannot be any need of developing countries, but must be a developmental, financial and commercial need. The existence of such a need must also be recognized in the major international conventions¹⁸. To evaluate if the special incentive arrangement for sustainable development and good governance meets specific criteria, it's essential to verify if the needs targeted by this arrangement are covered in other relevant international conventions. As it has been previously stated, the Regulation outlines that the purpose of granting preferential market access to the European Union is to aid developing countries in poverty eradication, fostering good governance, and advancing sustainable, social, and environmental development.

The fight against poverty is a part of many major international conventions. It is listed as the very first goal of the 17 Sustainable Development Goals adopted by all 193 members of the United Nations. The International Covenant on Civil, Political, Economic and Social Rights states in Article 11, paragraph 1, that: *"The States Parties to the present Covenant recognize the right of everyone to an adequate standard of living for himself and his family, including adequate food, clothing and housing, and to the continuous improvement of living conditions. The States Parties will take appropriate steps*

¹⁶ World Trade Organization (1979). Differential and more Favourable Treatment Reciprocity and Fuller Participation of Developing Countries. https://www.wto.org/gatt_docs/English/SULPDF/90970166.pdf

¹⁷ World Trade Organization (2004). Report of the Appellate Body. <https://docs.wto.org/dol2fe/Pages/SS/directdoc.aspx?filename=Q:/WT/DS/246ABR.pdf&Open=True>

¹⁸ Ibid.

to ensure the realization of this right, recognizing to this effect the essential importance of international cooperation based on free consent”¹⁹.

Furthermore, the principles of good governance are embedded into the Sustainable Development Goal 17 which puts it as the following: “to promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels”²⁰. Principles of good governance are also found, for example, in the Universal Declaration of Human Rights, Article 21 (Universal Declaration of Human Rights adapted in 1948)²¹.

Sustainable, social, and environmental development encompasses a wide range of areas that can be identified in most human rights’ international conventions. When comparing the content of the 27 international conventions that developing countries must ratify to gain preferential access to the EU’s internal market under the GSP+ and the 17 SDGs, we can see that there is significant overlap between them. Thus, it can be asserted that the EU’s GSP+ aims to address the requirements established by the WTO’s Appellate Body in its report.

Conclusions and implications

We demonstrate that the European Union plays a pivotal role in driving international trade at all levels through its institutional factors. The EU Single Market provides an integrated platform for businesses to thrive and access a large consumer base. The common commercial policy allows the EU to negotiate favorable trade agreements with other countries or regional blocs on behalf of all member states collectively. Through initiatives like the GSP or GSP+ and active participation in the negotiations with WTO, the EU promotes fairer global trade practices while supporting economic development in developing countries. Finally, by employing various trade defense instruments, the EU safeguards its domestic industries without compromising their competitiveness internationally.

It can be seen that the most recent reform of the generalized system of preference occurred in 2012 with the aim of enhancing aid to developing countries and adapting to the new challenges of international trade. This reform has once again raised concerns about the conformity of this measure, in particular the GSP+ with the WTO law.

Our results demonstrate that institutional framework plays an indispensable role in shaping the dynamics of international trade. It provides the structure and rules necessary for efficient, fair, and predictable trade relations. Understanding this framework is crucial for comprehending the complexities of global trade, the challenges faced by different stakeholders, and the opportunities for economic development and cooperation. As the global economy continues to evolve, the adaptability and responsiveness of this institutional framework will be key to managing the challenges and harnessing the benefits of international trade.

The main objective of this paper was to determine whether the GSP+ is in accordance with the WTO law. To meet this objective, we worked with the arguments stemming from Bartels (2007) that justify the nonconformity of the GSP+ with the WTO law, and with the 2004 WTO’s Appellate Body Report concerning the dispute between the Republic of India and the European Communities, as well as the 1979 Enabling Clause.

It can be shown that the arrangements of the previous GSP+ could not satisfactorily meet the challenges associated with the support of economic development, financial flows, and international trade that would mean clear benefits for the developing and emerging countries. The EU Regulation applying a scheme of generalized tariff preferences, which gives effect to the current GSP states that the European Union provides help to developing countries to eradicate poverty, promote good governance and sustainable development by providing them preferential access to its market.

Our analysis reveals that the term “development” is absent from the provisions of this Regulation, but an analysis of this term and what it encompasses leads to the conclusion that Regulation contains a provision for developing economies to advance. GSP+ can be faulted for the ambiguous link between this arrangement and the improvement of situation in developing countries.

¹⁹ United Nations Human Rights Office of the High Commissioner (1966). International Covenant on Economic, Social and Cultural Rights. <https://www.ohchr.org/sites/default/files/cescr.pdf>

²⁰ Sustainable Development Goals (2017). Sustainable Development Goals. <https://unstats.un.org/sdgs/report/2017>

²¹ Universal Declaration of Human Rights. <https://www.un.org/en/about-us/universal-declaration-of-human-rights>

Our results confirm that the value-added of EU's GSP (and GSP+ for that matter) is embedded in the efficient implementation of 27 international conventions on human and labor rights, environmental protection and good governance. In this way, in addition to promoting economic growth, the European Union supports the development of these states and encourages them to effectively implement the provisions of these 27 international conventions. Therefore, in our view, there is a clear existing link between GSP and the direct support that positively contributes to the burgeoning of the developing and emerging countries.

As mentioned above, our work concludes that, despite certain shortcomings that the GSP+ has, it is in accordance with WTO law. The current GSP is set to expire by the end of 2023 and the European Commission adopted a proposal for a regulation on a new generalized system of preferences.

When it comes to the pathways for further research, it would not be enough to address all the problem areas of the special incentive arrangement for sustainable development and good governance associated with this topic. Instead, it might be beneficial to focus primarily on the areas that gained significant attention in the 2004 Appellate Body's report prepared by WTO. Our study can perform as a starting point for further research on this issue, especially after the introduction of the reform of the generalized system of preferences that is due to happen in the beginning of 2024. This envisaged reform is likely to alter the institutional framework of international trade and the existing rules of the game for the next years to come.

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