



WHY CAMBODIA?

EU's incoherence in Trade Preferences under the EBA scheme



On February 11 2020 the EU Commission announced the very first withdrawal (partially) of an Everything but Arms (EBA) status. It affects Cambodia, due to serious and systematic violations of the human rights principles enshrined in the International Covenant on Civil and Political Rights. This can be seen as a bad start in a new decade, but what happened and what can we learn for the decade 2020-30?

The withdrawal amounts to around one-fifth or €1 billion of Cambodia's yearly exports to the EU. Unless the European Parliament and the Council object, this will take effect on 12 August 2020. Despite the rhetoric in EU's press release, by e.g. Josep Borrell: "The European Union will not stand and watch as democracy is eroded, human rights curtailed, and free debate silenced", the decision was

moderate, as also a full withdrawal was a possible option. This gave room for further dialogue between Cambodia and the EU and to continue urgently needed talks. with each other and not about each other. A personal meeting of a Cambodian delegation with Trade Commissioner Phil Hogan is needed, to solve the problem before the ASEM Summit, which will otherwise harm the European-Cambodian relations.

Flashback

On February 11 2019 the European Union announced, that a procedure to temporarily suspend trade preferences for Cambodia will be launched. At this date the potential withdrawal of the EBA preferences became the most relevant topic in the Cambodian-EU-Relations. A strong debate about the

impact, the meaning and the responsibility of the decision started, as EBA is of high importance for the Cambodian Economy and especially for the garment industry and their millions of workers. That the EU started the official withdrawal procedure, was a very bold step that never happened before to any other country benefitting from EBA. It did not even happen to those who clearly have a worse Human Rights record than Cambodia. Those and the potential negative effects on the vulnerable population brought suspicion that the EU might have double standard's in the trade decisions for least developed countries.

What is EBA?

EBA is part of the European Union's Generalized Scheme of Preferences. Since 1971, the EU Generalized Scheme of Preferences ('GSP') has assisted developing countries in their efforts to reduce poverty, promote good governance and sustainable development. By providing preferential access to the EU market, the GSP helps

developing countries generate additional revenue through international trade. The special arrangement grants full duty-free, quota-free access for all products except arms and ammunition, for countries classified by the UN as Least Developed Countries. There are currently 49 EBA beneficiaries. EBA entered into force on 5 March 2001.

Why is the Cambodian EBA case so interesting?

The EU can temporarily withdraw Standard GSP or EBA preferences in exceptional circumstances, notably in cases of serious and systematic violation of principles laid down in the human rights and labor rights conventions listed in the GSP Regulation. For EBA which is in power now for more than 18 years there is no case of withdrawal in the past, not even a formal withdrawal procedure was launched to any country. In this terms Cambodia is unique. But there are a three cases where trade preferences were suspended under the GSP and GSP+ scheme (see table below).

Country subject to withdrawal	Violations of human rights/labor rights leading to withdrawal of preferences
1997 Myanmar/Burma, GSP	Forced labor
2007 Belarus, GSP	ILO Conventions on freedom of association and on collective bargaining
2010 Sri Lanka, GSP+ (downgraded to GSP)	International Convention on Civil and Political Rights (ICCPR); Convention against Torture (CAT); Convention on the Rights of the Child (CRC)

How is the decision been made in the EU?

The decision making procedure of withdrawing EBA is a delegated act, which means that the Commission is the main player and decision maker. Council and Parliament can object the decision. Once the Commission has adopted the act, Parliament and Council generally have two months to formulate any objections. If they do not, the delegated act enters into force. The Council of Ministers decides by qualified majority vote. The European Parliament decides by majority of its members. EBA beneficiaries are not treated equally by the European Union. There is no universal procedure for withdrawal, even if some factors have to be in place like human and labor rights violations and the level of trade with the EU.

Why Cambodia?

In the academic literature, before the Cambodian case, several factors are described that lead to GSP withdrawal decisions in the EU: Before trade preferences are withdrawn, foreign policy sanctions and an ILO inquiry have to be in place; if the EU has strategic and commercial interests trade preferences are not withdrawn; and there has to be a manifest connection between the human and labor rights violations and government action. As there were neither an ILO inquiry or Foreign Policy Sanctions against Cambodia, the EU decision making looks inconsistent. The main factor is the commercial and strategic interest of the EU. Both are not significant enough in Cambodia, which made it likelier for the EU to withdraw.

The impact of an EBA withdrawal for Cambodia

Assuming that the economic development and protection of vulnerable groups is important for the Cambodian government, the stakes are high for the Cambodian economy as duty-free textile and footwear exports to the EU are up to 11% and 17%, respectively. This competitive advantage has fueled an export boom: Cambodia's exports to the EU (mostly shoes and clothing), have grown by 630% since 2008, and now make up 39% of the country's total exports. This in turn has helped to keep the economy growing at a steady 7% a year, and to lift one-third of the country's population out of poverty between 2007 and 2014. Suspending the EBA could put some of these achievements at risk by making the country's exports less competitive. Around 2 million Cambodians depend on the textile industry, including 750.000 employees. The decision comes at a bad time, as China another big economic partner for Cambodia is in deep trouble, with the corona virus, the trade war with the US and the democratic movement in Hong Kong.

What's next? Key Take-Away for this decade

- EU's trade policy towards trade beneficiaries is inconsistent and needs to be reformed. At the same time this inconsistency gives room for the beneficiary to keep the preferences when a smart diplomacy is applied e.g. in Myanmar. Therefore, Cambodia can solve the issue, but has to change its strategy and tactical maneuvers.
- Human rights and labor rights play an increasing role in EU's external trade

policies, beneficiaries need to be aware of it. There might be further cases for withdrawal of trade preferences as the EU is using its economic leverage as an agent for democracy and human rights. At the same time the leverage is shrinking due to the surge of regional powers.

- The current situation between Cambodia and the EU is also negatively affecting the ASEM summit. Therefore, the conflict needs to be solved until the Asian and European leaders will arrive in Phnom Penh. This important event gives Cambodia the chance to fix the complicated EU-Cambodian relations in long term.
- Cambodia needs the experienced EU and European partners if it firmly intends to achieve sustainable and inclusive development as the current Asian socio-economic development models are under pressure. This means for both parties to redefine its relations by looking beyond traditional recipient-donor relations.
- Cambodia should make itself independent from decisions of one economical or military power. It means strategically to strengthen multilateralism and the rule-based world order. It means economically to deepen the market integration of ASEAN with the ultimate goal of having a single market and work on “ASEAN plus X” Free Trade Agreements, including one with the European Union.

