

# **Exploring Potential of South-South Agreements including Global System of Trade Preferences (GSTP)\***



**June 4, 2004**

**ESCWA Report to the Forum on “Multilateralism and Regionalism: The New Interface”, a pre-event of the Eleventh Session of the UNCTAD XI scheduled in 8 June 2004 in Sao Paulo, Brazil.**

**\* This version has not been edited officially by the United Nations.**

**Exploring Potential of South-South Agreements including  
Global System of Trade Preferences (GSTP)**

## **Abstract**

Inequities in the world trading system drag down export growth in the countries of the South and hurt poor people. In the absence of an agenda of their own, the South will have little option but that of reacting to the initiatives of the North and of focusing efforts on damage control. Therefore, a major strategic objective for the south is to overcome this unequal relationship in the world trading system. These matters can best be dealt with if developing countries undertake a serious effort to compare experiences and policy responses and determine jointly the basis of a common stand. That stand should induce changes, where necessary, in the international rules of the game and the institutional structure through which these rules are negotiated or determined with the objective of reintroducing balance and equity in these agreements.

## **I. Introduction**

Standard economic theory holds that a completely liberalized global market is the most efficient way to foster growth, because each country specializes in producing goods and services in which it has a comparative advantage. Yet, in the majority of cases cutting trade barriers and opening markets did not necessarily translate into development. Rich countries and large multinationals dominate the global marketplace and create very unequal relations of power. As a result, trade is inherently unequal and poor countries experience increasing unemployment, poverty and income inequality.

The failure of the latest round of international trade talks under the WTO in Cancun<sup>1</sup> may have represented a major setback for the efforts of developing countries to obtain better terms for their involvement in the international economy. In order to offset their disappointments that developing countries' issues and concerns have been demoted or transferred to future rounds, countries of the South need to cooperate.

In addition, inadequate national capacities to produce and sell on world markets were another reason for the increasing importance for regional cooperation. Pooling of regional resources and development of interregional trade are the main practical methods for building the required capacity. A higher level of cooperation not only can help identify alternate and sometimes cheaper sources of goods between the trading partners, but it can also undermine the dominance of other trading partners. So, for strategic reasons this cooperation can also be used as a tool.

From the perspective of the poor South, there are basic underlying problems in the WTO system. The methods and manner of decision-making and dispute settlements on important issues, and the manner of implementation of agreements, are often unfavorable to the interests of developing countries, especially those that have neither the negotiating skills nor the relevant technical and legal resources. Despite the recognition in the WTO agreement that reciprocal and mutually advantageous arrangements directed to the reduction of all types of barriers to trade and to the elimination of discriminatory treatment in international commerce, there are severe limitations upon accelerated development through trade reciprocity. This is particularly so when the participating countries span different stages of development.

---

<sup>1</sup> The issues that led to this failure are: reducing trade-distorting farm support, slashing tariffs on farm goods and eliminating agricultural-export subsidies; cutting industrial tariffs, especially in textiles; freeing up trade in services; and negotiating global rules in four new areas known as the "Singapore issues"—namely in rules of competition; investment; transparency in government procurement; and trade facilitation.

In what follows challenges posed by the existing world trade system are identified by ESCWA. Additionally, modalities for ensuring that the system is fair and facilitates development efforts are also explored.

## II. Inequities in the World Trading System

Inequities in the world trading system drag down export growth in developing countries and hurt poor people. To name a few, sources of such inequities are:

- Escalating tariffs
- Quotas
- Agricultural subsidies
- Dumping exports
- Arbitrarily defined food safety standards.

Agricultural subsidies run around US\$1 billion a day, roughly six times aid. There are many ways to quantify that: Seventy-five percent of the people in Sub-Saharan Africa live on less than US\$2 a day, Japanese support to rice producers amounts to 700 percent of production costs, which effectively shuts out exports from Thailand and other producers. Direct budget subsidies to producers by the EU cost around \$100 billion annually, and depress world market prices in sugar, dairy, and wheat. The US spends \$50 billion annually on direct support to its agriculture sector alone. Annual cotton subsidies to US farmers of more than \$3 billion (three times US foreign aid to Africa) crowds out poor but efficient farmers in West Africa.<sup>2</sup>

Market restrictions and direct subsidies not only hurt poor people in developing countries, they also have damaging effects in richer countries: heavy budgetary burdens and high taxation, higher food prices paid by consumers (heavy subsidies shut out exports originating from other countries resulting in limited supplies), reduced availability of government funding for pressing needs, and environmental stress due to high usage of fertilizers. Moreover, most of this support goes to a relatively small number of relatively influential interest groups.

Other barriers that developing countries face:

- Industrialized countries impose higher tariffs on processed imports. This creates hurdles for countries trying to move up the technology ladder, discouraging them from expanding their processing industries and diversifying exports, and therefore leaving them dependent on commodities, whose prices are often volatile. Industrialized countries on average charge each other tariffs of about 1 percent on their imported manufactures, but collect 5 percent from East Asia, 6 percent from the Middle East, and 8 percent from South Asia.<sup>3</sup>
- Annual notifications of new technical barriers to the WTO increased from about 10-20 in the early 1980s to over 400 in 1999. Low- and middle-income countries reported that, from 1996 to 1999, they were unable to meet sanitary and phytosanitary requirements on more than 50 percent of their potential exports of fresh and processed fish, meat, fruit, and vegetables into the EU (OECD, 2001a). In fact, these measures were viewed as more important barriers than tariffs and quotas.<sup>4</sup>
- Least Developed Countries have **preferential access to industrial country markets, authorized under the Generalized System of Preferences (GSP)**. The benefits of many GSP schemes have been limited however. They divert trade from other countries that are often just

---

<sup>2</sup> World bank, Global Economic Perspectives 2004: Realizing the Development Promise of the Doha Agenda

<sup>3</sup> IMF, Market Access for Developing Countries. Finance and Development, Sept. 2002, Vol. 39, #3

<sup>4</sup> OECD, 2001, Agricultural Policies in Emerging and Transition Economies: Special Focus on Non-Tariff Measures.

poor. Preferential tariffs may be costly for their beneficiaries because they are contingent on adherence to rules of origin or environmental conditions. In addition, given the complicated system of determining rules of origin and the uncertainties in its administrative regulations and standards, only 40 percent of products eligible for preferential access actually come into the rich countries using these preferences.<sup>5</sup>

- Despite two decades of trade liberalization, tariff levels are highest in developing countries. Developing countries have high tariffs that restrict trade among them. The Simple average tariff in least developing countries is (17.9 percent) compared with (5.2) percent in developed countries.<sup>6</sup>
- High protection in middle-income countries hurts their poor neighbors in the same way as trade barriers in rich countries. For example, Latin American exporters of manufactures face average tariffs in Latin America that are seven times higher than tariffs in industrialized countries. East Asian exporters face tariffs in other East Asian countries that are 60 percent higher than in rich nations.<sup>7</sup> Accordingly, developing countries will benefit from arrangements that will facilitate South-South trade, provided that these are introduced gradually.

Low-income countries that today heavily tax their imports will find they can benefit from domestic reforms that lower the costs of imported inputs, increase domestic competition that spurs productivity growth, and lead to expanded exports. They can gradually move away from an over dependence on trade preferences towards production based on their comparative advantages if they foster a gradual process of economic integration and trade within their respective regions. The concerns of small and poor countries could have been addressed in the latest global trade talks in Cancun and the GSP system would then have contributed more towards their development if sanitary and phyto-sanitary and other restrictions were eased.

According to the World Economic Outlook, if all trade restrictions on agriculture were removed, it would lead to an increase in world welfare of something like US\$125 billion. Of this, US\$25 billion would accrue to the developing countries, though a very large part of that comes from developing countries removing their own barriers to trade and not simply the wealthier countries removing their barriers to developing country trade.<sup>8</sup> Furthermore, it is argued that a “good” WTO agreement that addresses the concerns of developing nations, could produce about \$290-\$520 billion in income gains to both rich and poor countries, lifting an additional 144 million people out of poverty by 2015.<sup>9</sup>

The above overview, not only suggests the elements of a common trade related agenda and platform but also underlines the logic of joint efforts to pursue South interests on trade related matters through regional and South-South (S-S) cooperation.

An agenda for the South requires identification of inequities and deficiencies in the existing agreements in a comprehensive manner and the formulation of detailed proposals backed by interested developing countries, who will need to take effective steps within the current framework of the WTO, to promote changes intended to reintroduce balance and equity in the international agreements.

---

<sup>5</sup> World Bank, Global Economic Perspectives 2004: Realizing the Development Promise of the Doha Agenda.

<sup>6</sup> IMF, market Access for Developing Countries. Finance and Development, Sept. 2002, Vol. 39, #3

<sup>7</sup> World Bank, Global Economic Perspectives 2004: Realizing the Development Promise of the Doha Agenda.

<sup>8</sup> World Bank, Trade and Developing World Press Conference, Sept., 2002

<sup>9</sup> World Bank, Global Economic Perspectives 2004: Realizing the Development Promise of the Doha Agenda.

Regional trading arrangements among developing countries should be encouraged also in order to help them overcome their small size handicap. Further, there should be an encouragement of joint efforts by developing countries for creating productive linkages of their investment, raw materials, labor, production and marketing. **The idea should be to go beyond the traditional newly established Global System of Trade Preferences (GSTP), which provides the context within which more than 40 developing countries have agreed to exchange trade preferences with respect to customs duties to promote trade among themselves. The GSTP needs to be strengthened and extended, both in terms of the number of countries and in scope so as to include investment, production and marketing.**

Through extending GSTP to investment, production and marketing, South-South (S-S) cooperation will facilitate and coordinate the sharing of skills, knowledge and expertise in different areas, i.e. health, food security, environment, science and technology, water, and gender issues in development, so that each country learns productively from the experience and novel solutions of others. Their distinctive development experiences comprise an authentic treasure house of knowledge. There is no reason why developing countries cannot evaluate successes in other spheres, which should be extended to learning from each other in production and trade. We know that in the field of social development, there are positive examples of low-income countries that have attained levels of social indicators that are comparable to averages attained by industrial countries and there is no reason not to exchange experiences here as well as in production and trade where some developing countries have also done well in recent decades. Successes of several East Asian countries in “Growth Triangle” cooperation has encompassed cross border transfers of investment, labour, technology and managerial skills. There is no reason why such experiences of South-South cooperation should not be replicated through learning and cooperation. The ESCWA Region with its abundance of capital in some countries and abundance of labour and other resources in other member countries can be a candidate for similar cooperative efforts following in the footsteps of some East Asian “Growth Triangles”.

It would be naïve to assume that (S-S) cooperation on such issues will ever be a complete substitute for cooperation with the more technologically advanced countries of the North because that is where most of the world’s advanced science and technology is undertaken. At the same time, it would be equally naïve to pretend that cooperation with the North is sufficient to guarantee building the necessary capacity for addressing such issues in the South. Indeed, many of the challenges of the South are of little interest to investors and countries of the North.

One of the main benefits of (S-S) cooperation is the understanding that such cooperation is based on the recognition of mutual advantages. These advantages involve not only cheaper sources of imports and larger markets for exports, but also strategic advantages. This is important because a joint economic perspective driven by mutual economic interests within the South can strengthen stands against economic pressure. This requires relative independence from the North, where developing countries are presently heavily dependent upon for their supplies. Therefore, locating and fully utilizing all trading potentials within the South is necessary. Subsequently, this kind of (S-S) cooperation can then create strategic advantages in trading negotiations with more powerful countries.

Advocacy of (S-S) cooperation is not new. Expanded intra-south cooperation was adopted as an objective at the Bandung Conference in 1955. ASEAN, CARICOM, MERCOSUR<sup>10</sup> are all among the successful examples of economic cooperation at this level. The GSTP among developing countries came into effect in 1989 with a membership of 40 countries. Under its arrangements

---

<sup>10</sup> See Appendix II, for more on the establishment and membership of these organizations.

relating to tariffs, non-tariff barriers and direct trade, measures are negotiated on a product-by-product basis among developing country membership.

The December 2003 Marrakech Meeting<sup>11</sup> on South-South cooperation identified ways and means of strengthening and expanding cooperation among different countries in economic and social areas, namely, trade and investment, food and agriculture, health and education, and information and communication technology. This Meeting provided an opportunity to explore the possibility for exchanges of resources, expertise and experience in the areas identified above.

### **III. How South-South Cooperation Can be Enhanced**

Before the potential of a regional agreement can be fully realized, better institutional mechanisms to facilitate dispute settlement and registration problems must be addressed. In addition, countries must encourage associations to organize seminars and delegate exchanges to encourage greater cooperation between businessmen, launch new professional associations to strengthen linkages, promote research and ultimately improve trade and cooperation.

Agreements between comparative equals have the potential to work given a mutual understanding of common goals, perspectives and mechanisms. In an environment where Northern countries have secured both economic dominance and their respective interests with the use of trade, locating alternative trading relationships that can replace and/ or complement those with the North are necessary.

Geographical proximity is a major determinant of trade generally, and is an important reason for intra-regional trade specifically. This grants significant advantage on neighboring countries. Therefore, developing a network of road systems to link countries and direct flights, can add to the price advantage that proximity bestows upon neighbors and will contribute tremendously to regional economic integration. Once geographical proximity is taken into account, and trade barriers are lowered, there would emerge a more tangible potential for exports of developing countries.

Developing countries need to attract FDI that brings technology and resources from the North and also from other developing countries whose share of global FDI flows is steadily rising at the present time. South-South cooperation based on mutual agreements relating to investment can be a source for financing development while North-South Cooperation needs to open markets of the North where they are restricted and bring new technology and their managerial and “ know-how” spillovers into the South.

In order to reduce the causes and consequences of famine and malnutrition through exchanges of experience and expertise among developing countries, more advanced developing countries can provide experts and technicians to help agricultural workers and farmers increase production. In addition, given a rising demand for water, developing countries need to compare and exchange experiences in water resources management and development as this will relieve constraints on their output of food and probably promote greater S-S trade in food and agro-industrial products.

There is a considerable potential for (S-S) cooperation in health and education. Several developing countries have highly qualified human resources that can be made available to other developing countries in need. Such cooperation will aid in combating disease hence relieving poorer societies from sickness that saps energy and reduces labour utilization and productivity. Needless to stress, productivity is a major contributor to competitiveness in trade.

---

<sup>11</sup> See Appendix I for more on the Marrakech Declaration and the Framework of Implementation.

Of particular importance to the future of the southern countries is the cooperation in technical research and development. Scientific research is very often extremely expensive to undertake and maintain. Joint or coordinated research institutes or programs, with various countries specializing in different aspects of specific fields of interest can make the most effective use of the limited resources which poor countries can devote to scientific research and development. Joint collaborative efforts in disseminating the results of research can foster and expand markets for new products and processes, hence providing good commercial bases for development through S-S cooperation.

Another interesting possibility of S-S cooperation is in the tourism industry. Projects could be readily developed among neighboring countries to design and promote regional packages and touristic facilities that will benefit cooperating countries. Such cooperation will have greater chances of successes when tourist destinations are geographically proximate and also when North-South linkages for tourism are well established.

#### **IV. Conclusion and Recommendations**

ESCWA maintains that it is time for the South to confront the challenges posed by the current world trading system and to ensure the system is fair, equitable and facilitates their development efforts. Therefore, a major strategic objective for the South is to overcome this unequal and inferior relationship in the world trading system. These matters can best be dealt with if developing countries undertake a serious effort to compare experiences and policy responses and determine jointly the basis of a common stand to effect changes where necessary in the international rules of the game as well as the institutional structure through which these rules are negotiated and determined.

Other valuable experiences have been reported from many developing countries, that other countries can learn from; micro-finance programmes, grass roots movements for environmental protection, agrarian reform, special employment schemes, efficient urban transport systems, child and maternal nutrition, low cost housing, gender equality in access to education, health and employment, social security programmes for low income groups, family planning programmes, and the use of information technology. All these can contribute to development cooperation initiatives in the South.

However, the main agenda for the South needs to match the priorities of the developed countries in multinational negotiations with their own priorities and identify and pursue the adaptations, modifications and objectives that reflect common Southern interests, and especially in trade-related issues.

South-South cooperation should also be seen as an essential means of contributing to the national efforts of developing countries with a view to attaining MDGs. Here, the relationship between (S-S) and (N-S) cooperation can be expressed in triangular cooperation arrangements where the expertise of developing countries, with the financial support of developed countries, can be used to assist developing countries at a less advanced stage of development.

This regionalism should incorporate a reduction in tariffs and other trade barriers that will enable the enlargement of markets, which triggers export-oriented investment and subsequently economic growth. However, in the short-run, trade liberalization will create winners and losers. Adjusting to it will result in a rift between groups who have the skills and mobility and those who don't. Without a gradual phase-in, the result may be a severe tension between generations and between big and small businesses.

The global drive towards liberalization of trade can open up fresh opportunities for trade and investment in developing countries. Developing countries of the South must work to strengthen regional economic groupings if they are to have a stronger bargaining position at global negotiations.

S-S cooperation faces a challenge when it comes to the situation of the small and poor countries. This challenge arises because of the wide range of participating countries with different sizes and stages of development. Small countries that are at a less advanced stage of development have a limited ability to engage in the reciprocity game that is at the heart of S-S cooperation and the manner in which it operates. Therefore, less advanced developing countries, which might be reluctant to expose their domestic industries to more competition from bigger and more advanced developing countries, should demand unreciprocated market access and bigger tariff cuts for a certain period of time until their industries grow to maturity and harvest all the economies of scale in production that will allow them to compete on an equal basis with foreign firms.

## **Appendix I**

This appendix contains excerpts from the Marrakech Declaration, Framework of Implementation and some of the areas identified by the meeting for specific action.<sup>12</sup>

### **Marrakech Declaration**

- Reaffirm that south-south trade should be enhanced and further market access from developing countries must continue to stimulate south-south trade, including through the launching of new round of negotiations within Global System of Preferences among the developing countries (GSTP), which could take place in UNCTAD-XI in June 2004.
- Express concern about the fluctuations in commodity prices and the declining terms of trade continue to impede development and growth in many commodity-dependent countries hindering them from achieving the MDGs.
- Reaffirm the importance of south-south solidarity, and in this regard reject the imposition of laws and regulations with extraterritorial impact and all other coercive measures, including unilateral sanctions against developing countries, which contribute in impeding their economic growth and development and are inconsistent with the principles of the international law and UN charter.
- Identify priorities for immediate implementation in the areas of regional cooperation, trade and investment, food and agriculture, water, health, education and information and communications, including through sharing of best practices.

### **Marrakech Framework of Implementation**

- Urging the members of the GSTP to fully benefit from this instrument for the revitalization of (S-S) trade and strengthen its effectiveness, by expediting the ratification of tariff commitments negotiated in next rounds.
- Supporting activities and measures, in particular in the framework of WTO related to the access to markets of developed countries of products of developing countries.
- Exchanging experiences and expertise in the area of agricultural production with the aim of enhancing productivity and food security, and supporting, in the context of the special program of food security undertaken under the auspices of FAO in which the s-s cooperation is a fundamental component and undertaking to fully use its potential in order to enhance solidarity among developing countries and to allow developing countries to benefit from the experiences and expertise of other developing countries in food production.
- Working towards a greater s-s cooperation to successfully combat disease, including sharing experiences, expertise and best practices, as well as, cooperative arrangements in procurement of preventive and curative drugs.
- Sharing experiences and expertise on programs especially related to women and children.
- Developing s-s cooperation on debt management with the support of relevant organizations including UNCTAD, using experiences and expertise of developing countries.
- Promote the exchange of scientific and technological know-how and the sharing of experiences and best practices among developing countries on water issues.
- Establishing and strengthening regular mechanisms of consultations, communications and sharing of information and experiences among regional and sub-regional economic groupings as well as development of supportive networks.
- Supporting bilateral initiatives undertaken by some developing countries for debt cancellation to benefit LDCs.
- Continuing also all initiatives aimed at enhancing market access for the products of export interest to LDCs.

---

<sup>12</sup> For more information see: <http://www.g77.org/marrakech/documents.htm>

- Continuing to pay special attention to the situation of post conflict developing countries, in particular LDCs, with a view to enabling them to rehabilitate and reconstruct, as appropriate, political, social and economic infrastructures and to assist them in achieving their development priorities.
- Promoting cooperation in the exchange of scientific and technological know-how in sourcing, efficient management, prevention and sustainable use of water.

**The following are some of the areas identified by the Conference for specific action:**

**1) Marrakech on renewable Energies (RE)**

Every year 40 to 60 billion US dollars are spent with energy infrastructure and one trillion dollars are spent with direct energy purchasing and even more in consumption infrastructure. Small positive shifts in the way these resources are used could strongly influence a shift to sustainable development. The experience achieved by developing countries in such a way could be successfully exchanged with financial help from the developed ones. Many countries in Africa, Asia and Latin America utilize a considerable amount of wood fuel in their energy matrixes. Biomass technologies (using sustainable wood plantations and agricultural crops) are sufficiently well developed, making these systems competitive in many cases.

Developing countries can create a network for information exchange and capacity building, transfer of technologies and establishment of reference centers in developing countries to coordinate actions among the countries in each region. The fact the markets for these new energy systems are yet too small and are expensive, so it is important to promote (RE) technologies and target the expansion of (RE) applications, which could be done through south-south cooperation

**2) Marrakech on Food Security and Water**

(S-S) cooperation provides an ideal and relatively low cost way of sharing practical experience between developing countries, which have led the way in various aspects of agricultural and rural development and others, which have made slower progress. FAO is harnessing this potential through s-s cooperation program that supports the implementation of the special program for food security, which supplies experts and technicians. In relation to food security there is a need for complementary investments in expanded agricultural research. Better use could also be made of the findings of international research institutes. Also there is need for better market access and improved financial services.

There has been a rapid increase in the demand for water, coming from agriculture, industry and expansion in household usage and hence for the need to introduce measures to improve water use efficiently. Optimizing the use of shared water resources could become a catalyst for coordinated s-s action. And finally encourage linkages between research institutions, supporting study tours and integrating environmental protection in s-s cooperation related to food security and water resources development.

## **Appendix II**

**MECOSUR:** Mercado Común del Sur; Mercosur or Common Market of the South, Argentina, Brazil, Paraguay and Uruguay signed the Treaty of Asunción, Paraguay, on March 26, 1991.

The first phase was the creation of a free-trade zone. The second phase, which began on Jan. 1, 1995, converted the free-trade zone to a customs union. Third phase, to be implemented at some future date, would be a full common market.

**ASEAN:** The Association of Southeast Asian Nations was established on 8 August 1967 in Bangkok, Member countries: Indonesia, Malaysia, Philippines, Singapore, Thailand, Brunei Darussalam, Vietnam, Laos, Myanmar and Cambodia.

**CARICOM:** Caribbean Community and Common Market, Organization of Caribbean nations and dependencies that was established in 1973 by the Treaty of Chaguaramas. It replaced the former Caribbean Free Trade Association (Carifta), which had become effective in 1968. Members include Antigua and Barbuda, The Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname, and Trinidad and Tobago. Anguilla, the British Virgin Islands, the Cayman Islands, and the Turks and Caicos Islands have associate member status, and Aruba, Bermuda, Colombia, the Dominican Republic, Mexico, the Netherlands Antilles, Puerto Rico, and Venezuela maintain observer status.