

GSTP for Enhancing South-South Trade

by Bhagirath Lal Das

In the course of the tariff negotiations in the World Trade Organization, it is often asked whether it is not desirable for the developing countries to undertake obligations in the WTO to reduce their industrial tariffs in the interest of improving the prospect for South-South trade. The simple answer is: No.

Expansion of South-South trade is of course a desirable objective, but the route of WTO tariff negotiations is not the appropriate one to achieve this objective. There are more appropriate alternative ways for the developing countries to reduce their tariffs to stimulate South-South trade. These are: (i) tariff negotiations in the regional arrangements among the developing countries, and (ii) tariff negotiations in the framework of the Global System of Trade Preferences (GSTP).

South-South trade will be enhanced more by reducing tariffs among the developing countries in these two alternative frameworks rather than in the WTO framework (e.g., the ongoing WTO negotiations in the area of market access for non-agricultural products). The implications of tariff negotiations in these frameworks are explained below.

Reduction of tariffs in any framework is, of course, likely to enhance trade to some extent. And reduction of tariffs on a particular product in a developing country will improve the prospect of another developing country that has developed supply capacity in that product. But the point for consideration is whether the developing countries should, in order to achieve this objective, reduce their tariffs in the WTO negotiations or whether they should do so in the other two alternative frameworks.

Let us first take up the implication of tariff reduction by the developing countries in the WTO negotiations. Once an obligation is undertaken for reduction of tariff in the WTO framework, it is applicable on a "most-favoured-

nation" (MFN) basis among all countries that are members of the WTO. Thus it is available for use by all countries, developed and developing alike, without discrimination. If a developing country reduces its tariff in the WTO framework, both the developed and developing countries will have the opportunity to compete for export to that developing country. In such a situation, the benefit to the developed countries is likely to be much more as they have generally higher supply capacity and better export infrastructure.

On the other hand, if a developing country reduces its tariff in the framework of the regional arrangements among the developing countries, where such arrangements exist, the benefit of the reduced tariff is limited to the developing countries that are members of the particular regional arrangement. Reduction of tariff in this framework will help expand the prospect for trade among these developing countries. The benefits in this case will be shared by the members of the regional arrangement and will not be available to the other developing countries and the developed countries. Of course, in this case, the scope of expansion of export prospects is limited to exports to the countries that are members of the regional arrangement.

Another alternative, wider in scope, is to reduce the tariff in the framework of the GSTP. The GSTP is an agreement among the developing countries for mutual reduction of tariffs. It has several benefits for the developing countries over reducing the tariffs in the WTO framework.

Firstly, as mentioned above, since the benefit is extended only to the developing countries, their exporters get special advantage over those of the developed countries who do not get this benefit. The exporters of the developing countries will face less competition to that extent. Secondly, the producers in the importing developing countries are less exposed to the risk of competition from imports, as

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imports from the developed countries will not get this benefit. Thirdly, the importing developing countries will face less tariff loss for the same reason. Fourthly, there may be an incidental, but important, benefit in as much as it may encourage investment in the developing countries, since the production in these countries will gain enhanced market access in other developing countries.

Further, tariff concessions among the developing countries under a programme like the GSTP are permitted under the Enabling Clause of the General Agreement on Tariffs and Trade (GATT) (a GATT decision of 28 November 1979 with the formal title of "Differential and More Favourable Treatment, Reciprocity and Fuller Participation of Developing Countries"). Thus, they do not require a waiver in the WTO.

The GSTP is being administered by a secretariat located in the United Nations Conference on Trade and Development (UNCTAD). After the framework of the GSTP was prepared by the Group of 77 developing countries in 1982, a process was started for working out the techniques and modalities of negotiations and then for the first round of negotiations on the exchange of tariff concessions. This process culminated in the Agreement on GSTP among the Developing Countries on 13 April 1988. The original members comprised 40 countries, and they were later followed by four countries, bringing to 44 the total number of participating countries. The total number of products covered by the tariff schedules of all the participating countries in this first round and those of the four countries which joined the agreement later was 1,547, of which as many as 757 products were accounted for by only one country, Yugoslavia. The simple average margin of preference was about 33%.

The second round of negotiations was carried out during 1990-98. Twenty-four countries participated in making concessions. The total number of products covered by the tariff schedules of the individual participants was about 900. The simple average margin of preference was about 28%. The results of the second round have not been ratified so far and thus they are not yet operative.

Obviously the programme has not garnered an enthusiastic response from the participating developing countries. The number of countries joining the programme is small, the number of countries agreeing to give concessions is smaller. The product coverage is low.

Clearly the developing countries have not attached adequate importance to the programme so far. They have been too occupied with the negotiations in the GATT/WTO framework and thus have devoted only marginal attention to the GSTP framework. Also there is a feeling among some developing countries that the GSTP has limited relevance since the prospect of enhancing their trade with other developing countries is limited. They foresee much higher benefits from expanding market access in the developed countries. That may be so in some cases, but it should not detract from the importance of expanding their market access in the developing countries. And for that, the appropriate instrument is the GSTP, as explained above. Further, inter-developing-country trade may have a robust potential for the future.

As mentioned above, tariff concessions by the developing countries under the GSTP programme should be preferable to those under the WTO framework for achieving the objective of enhancing South-South trade. There is thus a need for the developing countries to infuse new life into the GSTP.

Of course, this does not mean that the developing countries should not enter into a tariff-reduction exercise in the GATT/WTO framework at all. They should certainly do that too, but with the clear objective of obtaining concessions from the developed countries in return for the concessions they themselves offer. Thus, the GATT/WTO framework should be utilized for exchanging concessions with the developed countries, whereas the GSTP framework should be utilized for exchanging concessions among the developing countries. It is possible that there may be some common concessions given in the two frameworks, but the objective of making concessions in these separate frameworks as explained above should be clear to the developing countries.

To move the GSTP process forward, it is important for the developing countries to be convinced that it is more beneficial for them in achieving the objective of expanding their trade with other developing countries. To examine this point, they should take a set of products of mutual trade interest among them and estimate the effects of reduction of tariffs in the GSTP framework. The effects should be estimated in terms of both expanded market access in the developing countries and the risks to the domestic production. Similar estimates should be made for an alternative situation of making the same tariff concessions in the WTO framework, where the benefits are available also to the developed countries. Of course, a commonsense approach alone would indicate that the former will be more beneficial for the expansion of South-South trade and will, at the same time, expose the domestic production to lesser dangers. But quantitative estimates of the differential benefits and risks will probably be more convincing.

Once the developing countries are convinced about the benefits, they should work towards new negotiations on an ambitious scale that can give them quick results and benefits. For example, instead of the request-offer approach of negotiations on the basis of individual tariff lines, they may adopt the method of across-the-board concessions and/or sectoral concessions.

The primary consideration, of course, is that the developing countries should appreciate the economic and political need to further develop mutual links. The instrument of the GSTP can be just an initial link in that regard, one that leads further to production and financial links among the developing countries for their mutual benefit.

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