



# BRIEFING NOTES ECIDC UNIT

The UNCTAD Unit on Economic Cooperation and Integration among Developing Countries

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## Conclusion of the São Paulo Round of the GSTP: A historical achievement for South-South Economic Cooperation and Integration

***The third round of negotiations of the Global System of Trade Preferences among Developing Countries (GSTP), also known as the “São Paulo Round” was successfully concluded on the 15 of December 2010 after six years of intense negotiations. The GSTP is among the most significant inter-regional trading agreement signed in the decade. The conclusion of the third round creates an opportunity for expansion and diversification of trade among participating countries. Also, it reaffirms the growing role of South-South Economic Cooperation, thus encouraging the participation of other members.***

### **Background information on the GSTP negotiations:**

The establishment of a global system of trade preferences among developing countries was first considered in a series of G-77 meetings held in the period 1976-1981 (See box 1). Regarding UNCTAD's role, the issue was first prompted in 1977 when the establishment of the GSTP was considered a priority area of work of UNCTAD's newly-established Economic Cooperation among Developing Countries (ECDC) Committee. Two previous rounds of GSTP negotiations were held in the period 1986-1988 and 1991-1998, albeit without far-reaching results in economic and trade terms.

### **The São Paulo Round:**

A third round of negotiations, known as the “São Paulo Round”, was launched in June 2004 on the occasion of the UNCTAD-XI quadrennial Conference in São Paulo, Brazil, a moment when developing countries' trade entered an opportune time as developments were more favourable for South-South trade. The trade growth in the South at that time was twice that of the world average and the trade of developing countries among themselves had risen from 24 per cent of their total trade in 1960 to 43 per cent in 2003.<sup>1</sup> Most recently, data indicates that between 1996 and 2009, South-South trade grew at an average of 12 per cent per year, 50 per cent faster than North-South trade,<sup>2</sup> a positive trend to be explored by developing countries enjoying market preferences as in the case of participating countries of the São Paulo Round.

A Ministerial Decision on Modalities of the GSTP “São Paulo Round” was reached on 2 December 2009 in Geneva, leading to an intense period of final negotiations which resulted in the conclusion of the round in Foz do Iguaçu, Brazil (15 December 2010). Contrary to the previous two rounds, which had more

political results, the “São Paulo Round” marks another stage on the relations among developing countries consolidating important progress in economic and cooperation terms. It reflects the new stage of developing countries in the world economy as the major engines of growth. Furthermore, the reform of the negotiating mechanism was equally another positive development which led to the successful end of the negotiations and particularly the decision to abandon the Most Favoured Nations (MFN) clause and the adoption of a unique package of concessions.

### **The role of UNCTAD:**

UNCTAD provides servicing of and support to the Committee of Participants in the GSTP.

### **Does the GSTP conflict with the Doha Round?**

The GSTP Agreement does not conflict with ongoing multilateral negotiations, as it is one of a dozen preferential trade agreements notified to the World Trade Organization (WTO) pursuant to the Enabling Clause,<sup>3</sup> which allows developing countries, through regional or global arrangements, to exchange preferential concessions among themselves without having to extend them to the developed countries. As quoted by the Permanent Representative of Brazil to WTO and other Economic Organizations in Geneva, Ambassador Roberto Azevedo of Brazil, the conclusion of the GSTP “São Paulo Round” was seen at the beginning as an opportunity for complementing market opportunities which could not be achieved by a successful outcome of the Doha Round, which currently faces difficulties to be concluded after nearly nine years of negotiations. As result, developing countries are searching for new alternatives of trade and the south-south context is one great opportunity.<sup>4</sup>

<sup>1</sup> Speech at UNCTAD XI by Ambassador Rubens Ricuperro, Secretary-General of UNCTAD 1994-2005.

<sup>2</sup> Statement by UNCTAD Secretary-General Supachai Panitchpakdi at the Global South-South Development Expo 2010: Closing ceremony, ILO Headquarters, Geneva, 26 November 2010.

<sup>3</sup> Under the rules of the World Trade Organization and paragraph 2 (c) of the GATT 1979 Enabling Clause, developing countries can derogate from the WTO's MFN clause, and enter into regional or global arrangements for mutual reduction or elimination of tariffs and, in accordance with criteria that may be prescribed by the GATT Contracting Parties (and now by WTO), mutual reduction or elimination of non-tariff measures. (KHOR, 2004).

<sup>4</sup> Comments made by Ambassador Roberto Azevedo, Permanent Representative of Brazil to WTO and other Economic Organizations in Geneva during a press conference held in Foz do Iguaçu on the occasion of the signature of the final Protocol of the “São Paulo Round of the GSTP.”

### Box 1. Chronology of major events of GSTP

<b>1976-1981</b>	G-77 Meetings held in Mexico (1976); Arusha (1979) and Caracas (1981) served as platforms for discussing the establishment of an agreement aiming to boost trade and cooperation among developing countries. In 1976, the UNCTAD Committee on Economic Cooperation among Developing Countries (ECDC) was created and one year later, building upon the Mexican City Programme of Action (1976), the first session of the UNCTAD ECDC Committee placed the creation of a GSTP as a special priority of its work.
<b>1982</b>	G-77 Ministerial in New York agrees on the establishment of a Global System of Trade Preferences among Developing Countries (GSTP). A GSTP Committee was established to be supported by UNCTAD.
The First Round <b>1986-1988</b>	The Ministerial Meeting, held in New Delhi in July 1985, gave further impetus to the GSTP negotiation process. The Brasília Ministerial Meeting held in May 1986 launched the First Round of GSTP Negotiations concluded two years later in April 1988 in Belgrade by 48 countries. The agreement entered into force in 1989 but had a limited economic outcome.
The Second Round <b>1991-1998</b>	The second round was launched in Tehran in November 1991 and concluded in December 1998 with 28 countries having exchanged concessions. The second round agreement was not implemented due to an insufficient number of ratifications. A number of factors were identified as to the development of the GSTP, including the clause of Most Favoured Nations, which obliged participating countries to share their results with other GSTP member countries not taking part in the round, the so-called “free riders”. The difficulties with rules of origin and other ongoing multilateral negotiations also diverted the attentions from the GSTP.
The Third Round <b>2004-2010</b>	In 2001, a review process of the GSTP took place and in 2003 the GSTP Committee decided to revitalize the scheme. A negotiating group was established and the Third Round of the GSTP negotiations was officially launched during UNCTAD–XI, held in June 2004 in São Paulo, Brazil, with participation of 22 members of the GSTP. A decision to eliminate the MFN clause boosted negotiations. During UNCTAD–XII in Accra in 2008, an initial agreement on broad modalities was reached and in December 2009, ministers gathered under the auspices of UNCTAD in Geneva have reached an agreement for conclusion of the round (linear cut of 20 per cent of more in a universe of 70 per cent tariff lines). In September 2010, GSTP participants notified the GSTP secretariat on a final list of commitments to take part of the final agreement signed by ministers in Foz do Iguaçu in December 2010 <sup>5</sup> .

Source: UNCTAD, Government of Argentina and G-77

### Signatory members of the final Protocol of the “São Paulo Round”:

Currently, the GSTP has 43 member States, with 22 participating in the São Paulo Round of negotiations and only 11 having signed the final agreement in Foz do Iguaçu. They are: MERCOSUR full member parties (Argentina, Brazil, Paraguay and Uruguay) along with the Republic of Korea, India, Indonesia, Malaysia, Egypt, Morocco and Cuba or the “GSTP 8” (Box 2). To enter

into force the protocol requires ratification by four participants. Mexico<sup>6</sup> and Zimbabwe have also expressed an interest to join the Round and negotiations are advancing with Nigeria, according to Minister Héctor Timerman of Argentina. The Islamic Republic of Iran and Algeria are “prepared to become part of the agreement but as they are not members of the WTO, the issue is still under consideration” according to the Chair of the Negotiating Committee, Ambassador Alberto Dumont of Argentina to WTO.

### Box 2: GSTP Membership and “São Paulo Round” participants

GSTP members (43)	GSTP members participating on the “São Paulo Round” (22)	Signatory members of the final Protocol of the “São Paulo Round” (11) in Foz do Iguaçu
Algeria, Argentina, Bangladesh, Benin, the Plurinational State of Bolivia, Brazil, Cameroon, Chile, Colombia, Cuba, the Democratic People’s Republic of Korea, Ecuador, Egypt, Ghana, Guinea, Guyana, India, Indonesia, the Islamic Republic of Iran, Iraq, Libyan Arab Jamahiriya, Malaysia, Mexico, Morocco, Mozambique, Myanmar, Nicaragua, Nigeria, Pakistan, Peru, Philippines, Republic of Korea, Romania (withdrawn in 2006 to join the EU), Singapore, Sri Lanka, Sudan, Thailand, Trinidad and Tobago, Tunisia, the United Republic of Tanzania, the Bolivarian Republic of Venezuela, Viet Nam and Zimbabwe	Algeria, Argentina, Brazil, Chile, Cuba, Democratic People’s Republic of Korea, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Morocco, Nigeria, Pakistan, Paraguay, Republic of Korea, Sri Lanka, Thailand, Uruguay, Vietnam, and Zimbabwe	MERCOSUR full member parties (Argentina, Brazil, Paraguay and Uruguay) along with the Republic of Korea, India, Indonesia, Malaysia, Egypt, Morocco and Cuba

<sup>5</sup> Ministerial meeting of the Negotiating Committee of the São Paulo Round of the GSTP Negotiations in Foz do Iguaçu, Brazil. December 15, 2010.

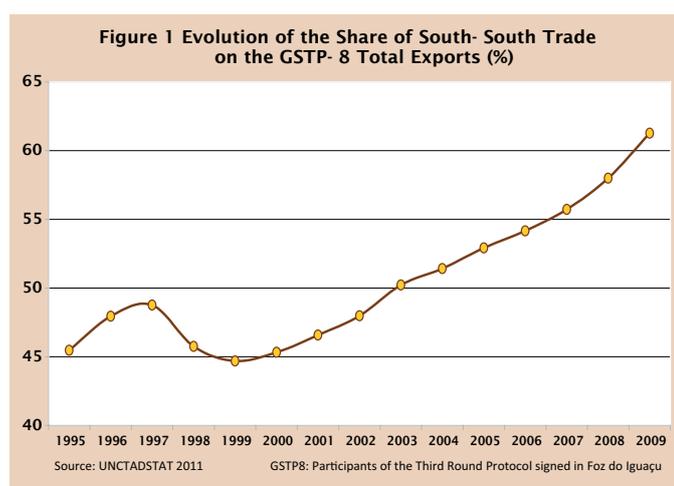
<sup>6</sup> Mexico was a founding member of the G-77 but left the group in 1994 after becoming member of the Organization for Economic Cooperation and Development (OECD). However it remained a member of the GSTP, as it is still a developing country.

## The importance of the GSTP:

The GSTP is a meaningful example of South-South cooperation, as it creates new trade flows, adding value to the already growing interaction in trade, diversification of trade patterns for instance boosting manufacturing trade in some cases and creating new opportunities for investments and finance and development cooperation among developing countries. The conclusion of the São Paulo Round of the GSTP is a historical agreement reflecting the willingness of developing countries to negotiate trade agreements in a balanced way as it leaves space for protecting sensitive sectors of the participating developing countries. It has taken place against a backdrop of difficulties in achieving an agreement in major multilateral negotiations, notably the impasse in the WTO Doha Round. A primary positive element of the GSTP is its flexibility, as it provides a balance between tariff cuts and policy space for participating countries.

As noted by the Brazilian Permanent Representative to WTO<sup>7</sup>, the São Paulo Round provides concrete and significant opportunities of trade with large covering and balance while promoting economic development and diversification of markets. It launched a new model of trade liberalization with a high degree of flexibility and modern rules and disciplines for the participants. On the specific case of MERCOSUR, it is the first time the bloc negotiated and concluded together an interregional agreement as one, marking a further step towards the consolidation of the external economic and trading agenda of MERCOSUL. While the 1998 and 1992 rounds covered a maximum of 651 tariff lines, the São Paulo Round will cover 47,000 products.

According to the Itamaraty (Brazilian Ministry of Foreign Affairs), imports by the 11 countries signing the agreement were around \$1 trillion in 2009<sup>8</sup>, of which only 10 per cent was intra-trade among the 11 signatory countries. This illustrates the potential for increasing trade between these countries in the coming years. For instance, UNCTADSTAT figures indicate that exports to the developing world from the 11 countries signing the Foz do Iguaçu agreement<sup>9</sup> represented over 60% of their total exports in 2009 (Figure 1)<sup>10</sup>.



These countries represent a total of 1.9 billion people, 27 per cent world's population, and a market of \$5 trillion, growing twice the world average growth in the past four years. The majority of the members are emerging economies marked by a steady economic growth in the decade and a dynamic consuming middle class acting as the key drivers of growth as in the case of Brazil, Indonesia and India.

The Round is particularly important in a period when the world still faces a difficult recovery from the 2008/2009 economic and financial crisis, which has adversely impacted on global demand. Economic growth and growing demand generated by emerging southern economies, as the participants of the GSTP, can help contribute to the global recovery.

## What are the potential gains?

GSTP is a preferential trade agreement based on a general formula of concession, paving the way for participating countries to offer reductions of at least 20 per cent on applied tariffs to some 70 per cent of the goods exported within the group of signatory nations. Official sources indicated the agreement will provide tariff reduction on nearly 47,000, mainly manufactured, products. Currently, there are no concrete studies on the potential gains of the agreement, as the list of tariff lines was closed only in November 2010 and the gains go further than only benefits in trade opportunities to sectors such as investments and cooperation opportunities in many areas, for example in promoting alternative shipping routes in the South-South context as the agreement creates new trade volumes as in the case of the MERCOSUR-ASIA route, a potential area of development which are not possible to be quantified at this stage.

An UNCTAD secretariat note presented at the fifty-seventh session of the Trade and Development Board in September 2010 reaffirmed the significance of the market of the 43 participants, some 20 per cent of world imports (Figure 2). Intra-GSTP trade among the 22 participants of the São Paulo Round represents 16 per cent of their total exports. Despite the reduced number participants in the current package, the impact in terms of additional trade is estimated at around \$5.6 billion, representing 4.3 per cent of intra-GSTP total exports. If the same tariff cut approach is extended to all 43 GSTP participants, trade creation would amount to almost \$7 billion.<sup>11</sup>

## Key points:

- The 11 participants of the São Paulo Round of the GSTP represent a total of 1.9 billion people, 27 per cent world's population and a market of \$5 trillion growing twice the world average growth in the past four years;
- The agreement paves the way for participating countries to offer reductions of at least 20 per cent on applied tariffs to some 70 per cent of the goods exported within the group of signatory nations, a balanced preferential trading agreement as it leaves space of 30 per cent tariff lines for protecting sensitive sectors;
- The São Paulo Round of the GSTP covers 47,000 tariff lines compared to 651 tariff lines in the previous two GSTP Rounds held in 1988 and 1992, marking a historical moment in South-South trade relations.

<sup>7</sup> Ambassador Roberto Azevêdo, Permanent Representative of Brazil to WTO and other Economic Organizations in Geneva.

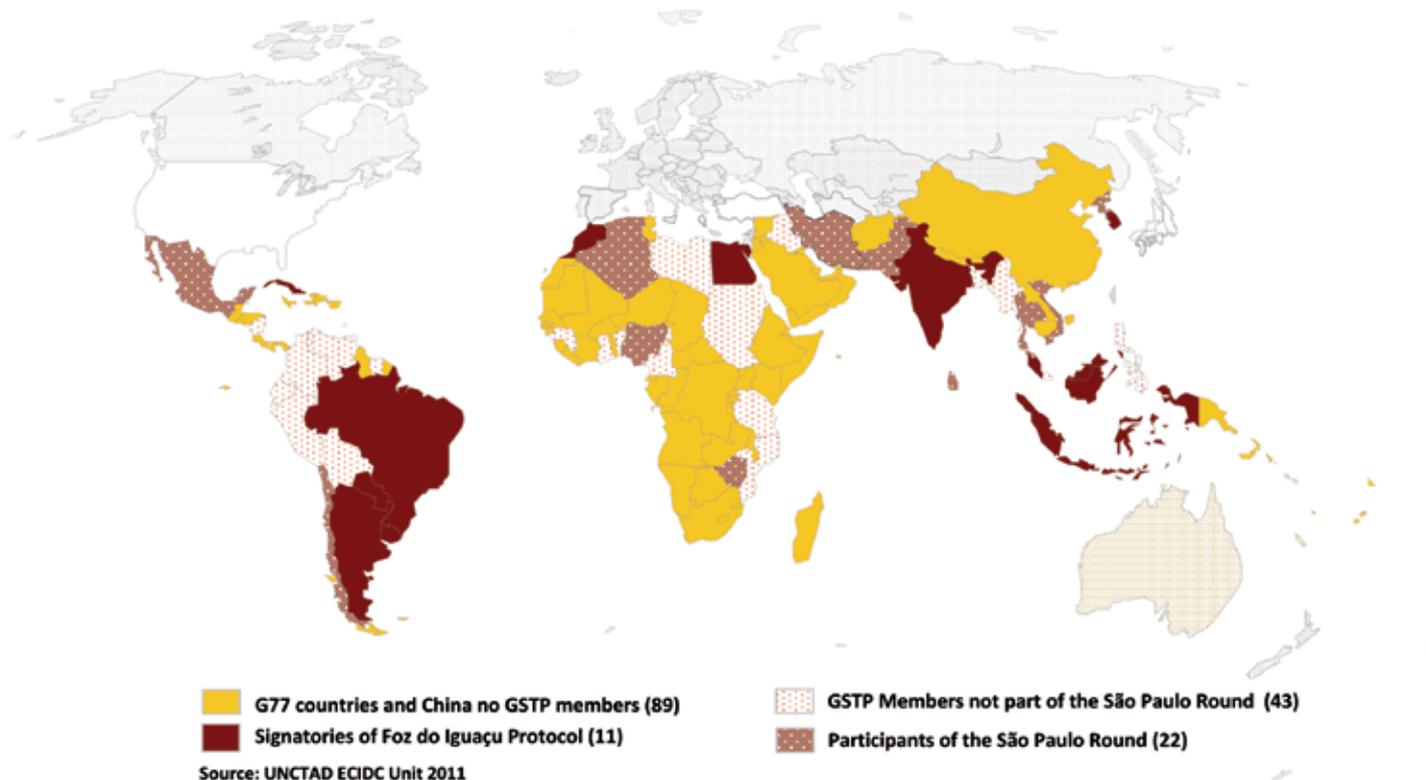
<sup>8</sup> Press Conference of the GSTP Foz do Iguaçu ministerial meeting held on 15 December 2010.

<sup>9</sup> MERCOSUR full member parties (Argentina, Brazil, Paraguay and Uruguay) along with the Republic of Korea, India, Indonesia, Malaysia, Egypt, Morocco and Cuba or the "GSTP8" as informally quoted by the according to the Chair of the Negotiating Committee, Ambassador Alberto Dumont of Argentina to WTO.

<sup>10</sup> UNCTAD STAT 2011 at [http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS\\_referer=&sCS\\_ChosenLang=en](http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?sCS_referer=&sCS_ChosenLang=en)

<sup>11</sup> UNCTAD Trade and Development Board, fifty-seventh session, Geneva 15-28 September 2010.

**Figure 2: Global System of Trade Preferences among Developing Countries (GSTP) Protocol Agreement of the "São Paulo Round", Foz do Iguaçu, Brazil, 15 December 2010**



### **GSTP has a simplified clause for participation:**

Despite being signed by a limited number of signatories, the São Paulo Round remains open for the 11 countries participating in the São Paulo Round and not having signed in Foz do Iguaçu, the 43 GSTP members and also, for the entire G-77 and China membership of 132 countries (Box 3).

#### **Box 3. São Paulo Round Protocol to the Agreement on the Global System of Trade Preferences among Developing Countries (Para. 7)**

Any participant to the GSTP may, at any time after the entry into force of this Protocol, present to the Committee of Participants its intention to accede to this Protocol, through the submission of its proposed schedule of tariff concessions in accordance with the following parameters:

(a) an across-the-board, line-by-line, linear cut of at least 20 per cent on at least 70 per cent of their dutiable tariff lines; or

(b) in the case of Participants with duty-free tariff lines accounting for more than 50 per cent of their total national tariff lines an across-the-board, line-by-line, linear cut of at least 20 per cent on at least 60 per cent of their dutiable tariff lines; and

(c) the proposed schedule of tariff concessions shall be presented in the same format as the schedules annexed to this Protocol.



From left to right: Senior Adviser, GSTP Project, DITC/UNCTAD, Mr. Delfino Bondad; Permanent Representative of Argentina to the WTO and Chair of the Negotiating Committee, Ambassador Alberto Dumont; Minister of Foreign Affairs, International Trade and Worship of Argentina Héctor Timerman; Vice-Chancellor of Brazil, Ambassador Antonio Patriota (and Chancellor from 1 January 2011); Permanent Representative of Brazil to the WTO, Ambassador Roberto Azevedo and the Deputy Secretary-General of UNCTAD, Petko Draganov at the GSTP São Paulo Round Negotiating Committee ministerial meeting held in Foz do Iguaçu, Brazil, 15 December 2010.

Photo Credit: Gustavo Ferreira/ Ministry of Foreign Affairs of Brazil (MRE) 2010.

### **References:**

- The history of UNCTAD 1964-1984.
- Supachai Panitchpakdi statement at the Global South-South Development Expo 2010: Closing ceremony, ILO Headquarters, Geneva, 26 November 2010.
- São Paulo Round Protocol to the agreement on the Global System of Trade Preferences among Developing Countries.
- Khor, South Leaders launch GSTP new round in optimistic mood, Third World Network, 19 June 2004.
- Fossati & Levit, El sistema global de preferencias comerciales entre países en desarrollo: una oportunidad para el comercio exterior argentino. Revista del CEI, numero 17, abril de 2010.

### **For further information:**

UNCTAD: <http://www.unctad.org>

The Group of Seventy-Seven (G-77): <http://www.g77.org>

## ANNEX I

### SÃO PAULO ROUND PROTOCOL TO THE AGREEMENT ON THE GLOBAL SYSTEM OF TRADE PREFERENCES AMONG DEVELOPING COUNTRIES

The parties to the Agreement on the Global System of Trade Preferences Among Developing Countries which participated in the São Paulo Round of Negotiations (hereinafter referred to as "Participants"),

HAVING carried out negotiations pursuant to Article 6 and the Understanding on the Application of Article 9.1 of the Agreement on the Global System of Trade Preferences Among Developing Countries (hereinafter referred to as the "GSTP"),

RECALLING the GSTP and the Ministerial Decision on Modalities of 2 December 2009,  
HAVE agreed as follows:

#### I – Schedules of Tariff Concessions

1. The schedule of tariff concessions annexed to this Protocol relating to a Participant shall become a Schedule to the GSTP relating to that Participant on the day on which this Protocol enters into force for that Participant pursuant to paragraph 10(c) or 10(d). Further, these concessions shall be applied only among the Participants for whom this Protocol enters into force.
2. The Base Rates MFN applied rate of duty in column 3 of the schedules of tariff concessions are indicative. The GSTP margin of preference in column 4 shall be applied to the MFN rate of duty applied on the date of importation. Participants shall make their applied rates publicly available in an updated manner, including through hyperlinks, and inform other Participants of those information sources through the GSTP secretariat.
3. Article 10 of the GSTP shall apply, mutatis mutandis, to this Protocol with effect from the date of entry into force of this Protocol.

#### II – Certification of Origin by Governmental and Non-Governmental Authorities

4. The issuing authority of a GSTP certificate of origin shall be a governmental body. In cases where the issuing authority is a non-governmental body, this entity shall be accredited by the government to issue certificates of origin. Participants shall notify all Participants of their list of accredited bodies and the stamps of the accredited bodies issuing certificates of origin through the GSTP secretariat. Any change in the list shall be promptly provided in the same manner. The GSTP secretariat shall duly inform all Participants of the list and the changes thereto.

#### III – Review of the Results of the São Paulo Round

5. Participants shall undertake a thorough review of the results of the São Paulo Round not later than two years after the date of entry into force of this Protocol. In the course of the review, they will consider, inter alia, increasing the margin of preference and the product coverage, as well as the operation and revision of the GSTP rules of origin, including an examination of the tariff classification criteria and the current value-added rule.

6. During the period from the entry into force of this Protocol to the review of the results of the São Paulo Round, Participants agree to engage, on a voluntary basis, on additional request-and-offer negotiations, the results of which shall be incorporated to this Protocol, through specific additional protocols, and applied to all the Participants for whom this Protocol enters into force.

#### IV – Accession to the São Paulo Round Protocol

7. Any Participant to the GSTP may, at any time after the entry into force of this Protocol, present to the Committee of Participants its intention to accede to this Protocol, through the submission of its proposed schedule of tariff concessions in accordance with the following parameters:
  - (a) an across-the-board, line-by-line, linear cut of at least 20 percent on at least 70 percent of their dutiable tariff lines; or
  - (b) in the case of Participants with duty-free tariff lines accounting for more than 50 percent of their total national tariff lines an across-the-board, line-by-line, linear cut of at least 20 percent on at least 60 percent of their dutiable tariff lines; and
  - (c) the proposed schedule of tariff concessions shall be presented in the same format as the schedules annexed to this Protocol.
8. GSTP Participants in the process of acceding to the World Trade Organization shall be accorded differential treatment and flexibilities within the market access modalities stated above in paragraph 7.
9. The Participants that have ratified this Protocol shall examine the schedule of tariff concession's compliance with the above-mentioned parameters and, on that basis, may agree on a protocol for the accession of the applicant to this Protocol.

#### V – Final Provisions

10.
  - (a) This Protocol shall be open for signature by Participants that have annexed their schedules of tariff concessions, from 15 December 2010 until the day of its entry into force in accordance with paragraph 10(c) hereafter.
  - (b) Any Participant may, at the time of signing this Protocol, declare that by such signature it expresses its consent to be bound by this Protocol (definitive signature) or after signing this Protocol, ratify, accept or approve it by the deposit of an instrument to that effect with the Secretary-General of UNCTAD.
  - (c) This Protocol shall enter into force on the thirtieth day following the day on which instruments of definitive signature, ratification, acceptance or approval have been deposited by at least 4 Participants.
  - (d) For any Participant which deposits an instrument of ratification, acceptance or approval after the entry into force of this Protocol, it shall enter into force for that Participant on the thirtieth day after such deposit.

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11. This Protocol shall be deposited with the Secretary-General of UNCTAD who shall promptly furnish a certified copy thereof and a notification of each acceptance thereto pursuant to paragraph 10(b) here above to each Participant.

IN WITNESS WHEREOF, the undersigned, having been duly authorized to this effect by their respective Governments, have signed this Protocol.

DONE at Foz do Iguaçu, Brazil this fifteenth day of December, two thousand and ten, in a single copy, in the Arabic, English, French and Spanish languages, each text being authentic. The schedules annexed hereto are authentic in the Arabic, English, French or Spanish language as specified in each schedule.

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### **FINAL ACT EMBODYING THE RESULTS OF THE SÃO PAULO ROUND OF NEGOTIATIONS**

1. Representatives of parties to the Agreement on the Global System of Trade Preferences Among Developing Countries which participated in the São Paulo Round of Negotiations met in a special session of the Negotiating Committee at ministerial level in Foz do Iguaçu, Brazil on 15 December 2010 to conclude the negotiations.

2. The representatives agree that the São Paulo Round Protocol to the Agreement on the Global System of Trade Preferences Among Developing Countries and the Ministerial Decision on Arrangements for the Implementation of the Results of the São Paulo Round of Negotiations, as annexed hereto, embody the results of their negotiations and form an integral part of this Final Act.

3. The representatives further agree that signature of this Final Act evidences their political will to take, subject to domestic procedures, such steps as are necessary to give effect to the São Paulo Round Protocol in the negotiation of which they have annexed their schedules of tariff concessions. They also agree to adopt the Ministerial Decision on Arrangements for the Implementation of the Results of the São Paulo Round.

4. This Final Act and the texts annexed hereto shall be deposited with the Secretary-General of UNCTAD who shall promptly furnish to each signatory a certified copy thereof.

Source: Ministry of Foreign Affairs of Brazil, 15 December 2010