Global System of Trade Preferences among Developing Countries (GSTP)

Briefing for Paraguay

20 April 2023
1. Background, Principles and Structure
Background

**Origin**

- Conceived by G77 as a **platform for South-South trade cooperation**.
- Negotiated within UNCTAD and established in 1989.

**Main Objective**

- To promote structural changes contributing to a balanced and equitable process of global economic development.

**Implementation**

- Economic co-operation among developing countries and a framework for preferential tariff reduction (≠ FTA).
Concession extended to all (negotiating) GSTP participants, not to non-members (conditional MFN)

GSTP

Preferential Tariff Reduction Scheme
- Includes other tools for cooperation among developing countries

Scope of cooperation also includes
- Non-tariff measures
- Medium and long-term contracts
- Sectoral agreements long-term

Three “rounds” of GSTP negotiations

Legally covered by the Enabling Clause
- Exempted from GATT MFN principle

Rules of origin
Based on value added (50%)

Unique framework for South-South partnership.
Structure

President of the Committee of Participants (COP)

• Call and chair the COP

The Committee of Participants (COP)

• Promote further negotiations
• Review disputes and make recommendations
• Establish subsidiary organs
• Adopt appropriate regulations and rules as necessary for implementation

Decisions shall be taken by two-thirds majority on matters of substance and a simple majority on matters of procedure.

UNCTAD

• Support the operation as the Secretariat since its creation
2. Rounds of Negotiations
Rounds of Negotiations

1st Round
- 1800 tariff lines
- Withdrawal of Yugoslavia & Romania reduced the economic value

2nd Round
- 24/43 participated
- 900 tariff lines
- Suspended in 2004

3rd “São Paulo” Round
- Not yet into force
The São Paulo Round

- Launched in 2004 at **UNCTAD XI**.
- 22/43 countries participated.
- “Modalities” agreed in 2009.
- Concluded in December 2010 in Foz do Iguaçu, Brazil.
- 8 participants (or 11 countries) signed:
  - Argentina, Brazil, Paraguay, Uruguay (Mercosur), Republic of Korea, India, Indonesia, Malaysia, Egypt, Morocco and Cuba.
  - Total imports $1.4 trillion, 13% of which intragroup.
The São Paulo Round

- Reduced applied tariffs by 20% on 70% of tariff lines (effective & flexible).
- The margin of preference shall be applied to the MFN rate of duty applied on the date of importation (evolving preference margin).
- Total of 47,000 HS codes items covered.
- Possible welfare gains of $14 billion estimated.
State of Play

- **Four ratifications** are necessary for the entry into force:
  - India, Malaysia, Cuba have ratified
  - Argentina, Brazil & Uruguay among Mercosur members have ratified.
- **One more ratification needed** for the entry into force.

Sub-Committee of Signatories (SCS)

- Possible modification of Rules of Origin (max foreign content of 50%)

Possible review after 2 years from the entry.
Possible impact of the São Paulo Round

1. The SPR tariff cuts would apply **20 per cent cuts to 70 per cent of dutiable tariff lines** in eight SPR signatories.

2. Existing bilateral and regional trade agreements would make SPR tariff reduction redundant for intra-regional trade partners.

3. Positive trade preferences still exist for more than 90 per cent of export values and traded products of inter-regional trade.
3. Relevance and potential of the GSTP
Way Forward

- Dynamic South-South trade
- Gains from SPR implementation
- Stalemate in the MTS
- Renewed impetus by BAPA+40 outcome on SSC (2019)
- Potential to support post-COVID South-South trade under the polycrisis
- Strategic asset of the G77 & China
- UNCTAD@60 (2024) & UNCTAD16 (2025)
South-South trade

- From $600 billion in 1995 to $5.3 trillion in 2021.
- Volume is now higher than that of North-South trade and it is growing faster than the world average.
- Developing countries accounted for 45% of world exports in 2021.
- South-South trade represented 24.4% of world trade in 2021.
- South-South trade accounted for 57% of high-tech exports of developing countries in 2021.
- It fosters non-traditional exports and promotes export diversification and complementarity in developing countries.
Tariffs are still a relevant barrier to trade

Applied Average MFN tariff rates by economy and sector, percentage (2022)

- São Paulo signatories: 18.4%
- GSTP members: 14.6%
- High-Income Countries: 2.1%

Legend:
- Blue: Average MFN Agricultural
- Yellow: Average MFN Industrial
**Agricultural exports are diversified among GSTP members**

**São Paulo Round signatories, values in US$ thousands, 2021**

<table>
<thead>
<tr>
<th>Mercosur</th>
<th>Indonesia</th>
<th>India</th>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil seeds &amp; oleaginous fruits, 46'163'186</td>
<td>Meat &amp; meat preparations, 27'627'148</td>
<td>Vegetable oils and fats, 29'563'818</td>
<td>Vegetable oils and fats, 15'639'230</td>
</tr>
<tr>
<td>Cereals &amp; cereal preparations, 19'487'706</td>
<td>Vegetable oils and fats, 29'563'818</td>
<td>Natural rubber &amp; similar gums, 4'016'964</td>
<td>Coffee, tea, cocoa, spices &amp; preparations, 4'627'050</td>
</tr>
</tbody>
</table>

**Countries included:**
- Cuba
- Egypt
- India
- Indonesia
- Republic of Korea
- Malaysia
- Morocco
- Mercosur
In 2021, GSTP countries absorbed 78.3 per cent of total exports from Paraguay and 46.3 per cent of its imports.

**Imports**
- GSTP relevance for key Paraguay imports:
  - 100% from GSTP countries
  - 98.8% from GSTP countries
  - 89.4% from GSTP countries

**Exports**
- GSTP relevance for key Paraguay exports:
  - 100% to GSTP countries
  - 73.7% from GSTP countries
  - 76.5% from GSTP countries
Opportunities in renewable energy products

- A new round of the GSTP offers an opportunity for a **wide sectoral decarbonization** in developing countries.

- Average MFN tariffs applied for renewable energy products by developing countries are on the order of 4.5 per cent and above 6 per cent for LDCs.

- **Removing these tariffs and addressing NTMs** on these goods among GSTP participants would allow a faster renewable energy transition.

- **An expansion of the provision of renewable energy-related services** would help GSTP participants meet the National Determined Contribution under the Paris Agreement.

- A faster integration of renewable energy products value chains among GSTP participants will help promote **local zero-emission energy generation** from renewable energy sources such as wind, solar and geothermal.
4. Way Forward
Way Forward

Complete the SPR ratifications

Deepen and expand SPR benefits
- Tariff cuts
- Coverage
- Membership

Launch a new negotiation round
- Agriculture
- Renewable energy

Expand the scope of cooperation to new areas
- NTMs
- Services
- Trade facilitation
- E-commerce
- Technology transfer

• GSTP participants to consider
• The support of G77 & China is essential
• UNCTAD 16 could provide a renewed impetus and guidance
The Work of the Secretariat

Consultations with GSTP Participants
- Review of SPR results
- GSTP revitalization
- Harmonization and update of schedules
- Administration

Technical note on SPR tariff concessions
- Comparative analysis on updated tariff information
- Ascertain effective preference margins
- More to come – Trade data

GSTP website
- Dedicated website reserved for GSTP participants only
- Documents, archives and announcements
- To be launched 2023
- Public outreach (Wikipedia)

Analysis on the overall GSTP framework
- Areas of cooperation – Tariffs, NTMs, services, direct trade measures
- Sectoral cooperation

Revitalize GSTP as a unique instrument of cooperation among G77. Major achievement towards 60th anniversary of G77 and UNCTAD in 2024.
Conclusion

• Brazil’s ratification of SPR in December 2022 created a much-needed forward movement.

• UN Trade Forum (8 May) on “The South-South trade partnership for accelerating the SDGs achievement” with the keynote message by Mr. Ricupero, former UNCTAD Secretary General.

• The COP to take stock and consider the way forward for SPR implementation and future initiatives, in view of UNCTAD@60 and UNCTAD16.

• Decide next steps when Technical Panel diverges.

• Paraguay has an important role to play.
Thank you!