



No. 74
JUNE 2019

POLICY BRIEF

Key points

- Strengthening the Global System of Trade Preferences will require ensuring the entry into force of the results of the São Paulo Round negotiations concluded in 2010, and its implementation of the agreed tariff reductions to realize expected benefits in trade, employment and welfare.
- Preliminary UNCTAD research suggests a potential welfare gain of US\$14 billion from market opening for the 11 countries that signed on to the São Paulo Round Protocol.
- Participation by more countries, deepening of market integration and extending the areas of cooperation, potentially through a new round of negotiations, would further increase expected gains significantly.



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ENERGIZING SOUTH-SOUTH TRADE: THE GLOBAL SYSTEM OF TRADE PREFERENCES AMONG DEVELOPING COUNTRIES

The Second High-Level United Nations Conference on South-South Cooperation - BAPA+40 Conference, held on 20-22 March 2019, reaffirmed the importance of strengthening South-South trade cooperation, including the Global System of Trade Preferences among Developing Countries.¹ The Agreement on the Global System of Trade Preferences offers a viable and, currently, unique interregional platform for consolidating and energizing global South-South trade cooperation.

South-South trade potential

Since the great recession of 2008 and adoption of stimulus and adjustment measures by countries to revive their participation in global trade and boost economic growth, trade and economic performance has recovered but remained weak as compared to the pre-recession years. However, while the global economy has entered a period of slow trade and economic growth, South-South trade has made major strides.

South-South trade expanded rapidly and its share in developing countries' total exports increased significantly. The value of South-South merchandise trade increased almost seven-fold, from US\$0.6 trillion in 1995 to US\$5 trillion in 2017.² Its share in developing countries'

total exports rose from 42 per cent to 57 per cent. In 2017, one quarter of world total trade was conducted among developing countries. Research also shows that South-South trade fosters trade in non-traditional exports, including higher value added and technology-intensive manufactured goods.³

Yet the potential of South-South trade, particularly on an interregional scale, has yet to be fully exploited. The bulk of South-South trade is still intra-Asian and revolves mainly around China.⁴ Interregional South-South trade cooperation linking different developing regions – Asia, Africa and Latin America and the Caribbean – can be significant in enhancing the South-South trade landscape.

¹ General Assembly resolution 73/291, of 15 April 2019, Buenos Aires outcome document of the second High-level United Nations Conference on South-South Cooperation, annex, paragraph 20.

² Unless otherwise specified, all trade figures are from the UNCTADstat database.

³ UNCTAD, 2009, *Policy Issues in International Trade and Commodities, Study Series, No. 42, Is South-South Trade a Testing Ground for Structural Transformation?* (United Nations publication, New York and Geneva). The proportion of technology-intensive products has been consistently higher in South-South trade than in South-North trade. In 2017, 33 per cent of total South-South exports consisted of high-technology-intensive products, as compared to 28 per cent for South-North exports.

⁴ In 2017, intra-Asian exports accounted for 76 per cent of total South-South exports, and the exports of China alone to Asia, for 21 per cent.

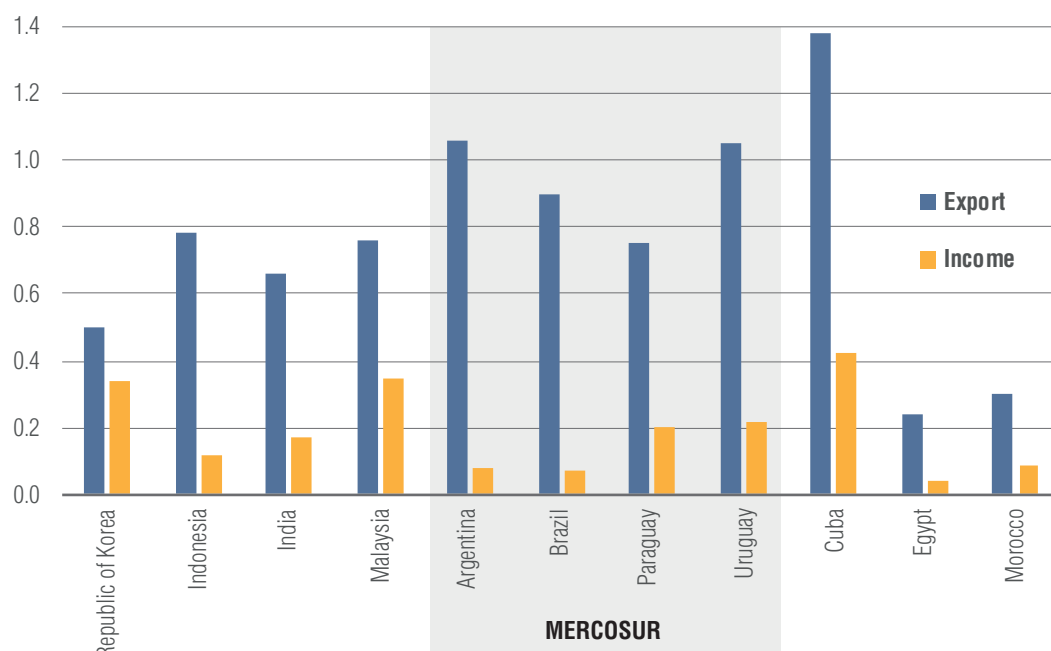
A unique platform for global South–South trade relations

Established in 1989 with UNCTAD as its secretariat, the Global System of Trade Preferences among Developing Countries – also known as GSTP – has a membership of 43 developing countries.⁵ It has provided a unique platform for interregional South–South trade cooperation for three decades. The Global System of Trade Preferences provides a framework for preferential tariff reductions among its parties and for the pursuit of other related measures of cooperation to stimulate trade between them. Preferential tariff reductions are agreed through successive rounds of negotiations conducted among the parties. Three rounds of negotiations have taken place, the latest being the São Paulo Round, launched in 2004 and concluded in 2010. Eight signatories, with the four countries of

Mercosur—the Southern Common Market – counting as one signatory, adopted the São Paulo Round Protocol, which contains the results of the negotiations, including tariff reduction commitments. Through these commitments, existing tariffs on up to 70 per cent of products traded would be reduced by 20 per cent for the signatories that ratify the São Paulo Round Protocol.

The São Paulo Round Protocol will enter into force after ratification by at least four of its eight signatories: Cuba, Egypt, India, Indonesia, Malaysia, Morocco, the Republic of Korea and Mercosur (Argentina, Brazil, Paraguay and Uruguay), counted as one signatory. To date, the Protocol has been ratified by India (2010), Malaysia (2011) and Cuba (2013). One additional ratification will bring it into force,⁶ though this has not yet materialized due to slow progress on ratification, possibly given

Figure 1
Potential export and income change from the São Paulo Round tariff cuts
(Percentage)



Source: UNCTAD simulation.

⁵ Algeria, Argentina, Bangladesh, Benin, Plurinational State of Bolivia, Brazil, Cameroon, Chile, Cuba, Democratic People's Republic of Korea, Ecuador, Egypt, Ghana, Guinea, Guyana, India, Indonesia, Islamic Republic of Iran, Iraq, Libya, Malaysia, Mexico, Morocco, Mozambique, Myanmar, Nicaragua, Nigeria, Pakistan, Paraguay, Peru, Philippines, Republic of Korea, Singapore, Sri Lanka, Sudan, Thailand, Trinidad and Tobago, Tunisia, United Republic of Tanzania, Uruguay, Bolivarian Republic of Venezuela, Viet Nam and Zimbabwe. The 22 participants in the São Paulo Round are: Argentina, Brazil, Paraguay and Uruguay (the four countries of Mercosur), Algeria, Chile, Cuba, Democratic People's Republic of Korea, Egypt, India, Indonesia, Islamic Republic of Iran, Malaysia, Mexico, Morocco, Nigeria, Pakistan, Republic of Korea, Sri Lanka, Thailand, Viet Nam and Zimbabwe.

⁶ Two of the four Mercosur members, Argentina and Uruguay, completed their ratifications in 2016 and 2017, respectively; Brazil and Paraguay must ratify the Protocol to complete Mercosur's ratification.

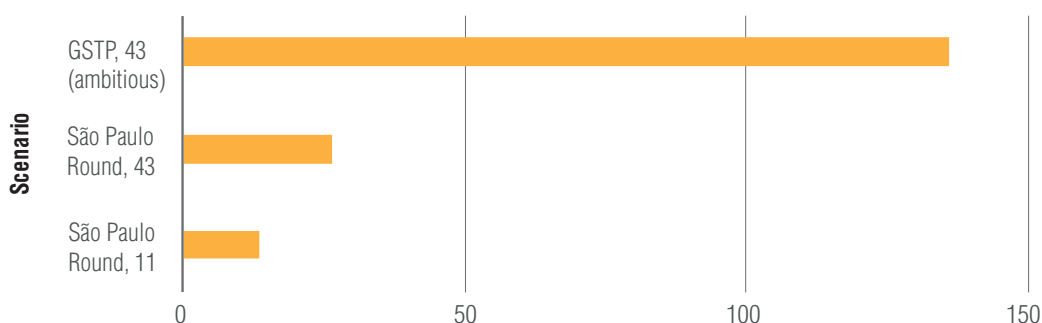
changing economic circumstances and policy priorities. Consequently, the liberalization of trade among the participating countries has been held back.

Based on a simulation using a computable general equilibrium model,⁷ the Global Trade Analysis Project model, preliminary UNCTAD estimates suggest that implementation of the São Paulo Round by all of its current signatories would result in shared welfare gains of US\$14 billion. Figure 1 shows how this overall gain would affect each country's income through increased exports to, and reduced costs of imports from, other São Paulo Round countries. Exports of Cuba, as well as Mercosur members, could be expected to increase most from market opening under the São Paulo Round Protocol, while income effects would be the greatest in Cuba, Malaysia and the Republic of Korea. The projected export and income gains are variably and positively associated with increases in employment levels in each country.

These results indicate a win-win outcome, albeit modest, for these 11 São Paulo Round participants (including the four individual members of Mercosur). The increase in welfare would grow and

be shared more broadly among Global System of Trade Preferences countries through wider and deeper participation in the São Paulo Round Protocol (figure 2). The São Paulo Round was negotiated among 22 countries, though only 11 countries finally signed on to the São Paulo Round Protocol. So enlarging the signatories of the São Paulo Round Protocol to include the 22 countries, and even further to all 43 members of the Global System of Trade Preferences, could significantly expand benefits and boost South-South trade. For instance, under this expanded scenario, UNCTAD estimates show that the welfare gains would nearly double for these 11 countries, from US\$14 billion to US\$27 billion, if the São Paulo Round results were implemented by all 43 Global System of Trade Preferences countries. Under an even more ambitious scenario, where intra-group tariffs of all 43 countries are eliminated and technical regulations (such as sanitary and phytosanitary measures and technical barriers to trade) are addressed through regulatory cooperation, the UNCTAD simulation estimates that the income gains would rise to nearly US\$140 billion for the same 11 countries.

Figure 2
Estimated income gains under varied liberalization scenarios
 (Billions of United States dollars)



Source: UNCTAD simulations.

Abbreviation: GSTP, Global System of Trade Preferences among Developing Countries.

⁷ For further information on the Global Trade Analysis Project, see www.gtap.org.

Policy implications

In view of the dynamic growth of South–South trade amid generally weak global trade performance, its latent potential has yet to be adequately exploited, especially on an interregional basis. Taking into account the recent outcome of the BAPA+40 Conference, which reaffirmed the Global System of Trade Preferences among Developing Countries, this unique platform should be revitalized as a key catalyst for stimulating and sustaining interregional South–South trade in support of economic growth and development of developing countries. That revitalization requires scaling up efforts by developing countries to renew political will and engagement in the Global System of Trade Preferences:

- First, the signatories to the São Paulo Round Protocol that have not yet ratified it should accelerate domestic ratification of the protocol, with a view to securing the number of ratifications by parties necessary to ensure effective entry into force of the Protocol.
- As a second step, other developing countries not signatories to the São Paulo Round Protocol or to the Global System of Trade Preferences among Developing Countries, including some major, large and dynamic economies, could consider acceding to the Protocol. This would promote a wider participation of Global System of Trade Preferences members in the São Paulo Round Protocol, including through accession by countries other than the original signatories to the Protocol.
- In a third step, parties to the Agreement on the Global System of Trade Preferences among Developing Countries could consider further deepening of

market integration among participating countries. Members of the Global System of Trade Preferences could consider expanding product coverage and deepening tariff cuts in future negotiations to transform the current preferential trade arrangement into a free trade agreement, combined with improved rules of origin.

- Lastly, members could consider widening the areas of cooperation, including beyond tariffs to address non-tariff measures and pursue trade facilitation to reduce trade costs.

The Global System of Trade Preferences among Developing Countries has provided a strong platform for South–South trade and economic cooperation over the past 30 years that should be more fully exploited. The São Paulo Round negotiations concluded with a result – the Protocol – whose entry into force is awaiting ratifications by several of the parties. UNCTAD simulations suggest that implementation of the São Paulo Round Protocol could result in significant net positive trade and welfare gains. Capitalizing on the Round’s achievement to dynamize South–South trade potential would help developing countries to harness gains from trade for economic diversification, greater resilience and structural transformation. UNCTAD stands ready to support Global System of Trade Preferences participants in consolidating the results achieved and bringing new impetus for liberalizing trade under the platform to strengthen South–South trade cooperation, economic growth and development.

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