

Metka Stare<sup>1/</sup>

THE GLOBAL SYSTEM OF TRADE PREFERENCES - A CHALLENGE FOR DEVELOPING COUNTRIES

---

Over the last few years, the actions of developing countries, geared towards the realization of certain mechanisms which would support their mutual trade on a global level, have predominantly been concentrated on the establishment of the Global System of Trade Preferences (GSTP). The principal aim of the GSTP is to become a long-term and effective instrument which would provide additional possibilities for trade among developing countries. It would also increase their competitiveness in trade through liberalization of tariff and non-tariff barriers and use of direct trade measures, contribute to better utilization of existing production capacities and, in this way, improve the economic situation of developing countries as a group. The GSTP is also seen as one of the major instruments of South-South cooperation for the promotion of self-reliance, as well as for the strengthening of world trade as a whole.

Following numerous subregional, and regional preferential trade arrangements established among developing countries mostly in the framework of integration groupings, the GSTP appeared as the first global arrangement with much broader scope and objectives than those of the previous trade liberalization efforts launched by developing countries.<sup>2/</sup> Given the fact that complementarity of developing countries is much more pronounced at the global level than within individual regions, the potentials of the GSTP to increase mutual trade seem larger. Although it is primarily a trade instrument, its functioning should be linked with other areas, in particular with industrial, technological,

---

1/ Metka Stare is a research fellow in the Research Centre for Cooperation with Developing Countries, Ljubljana. She is doing research in the field of trade among developing countries. Lately her research topic was primarily the Global System of Trade Preferences among developing countries. She was also a member of the Yugoslav delegation for the negotiations on the establishment of the GSTP in the first half of 1988.

2/ For details on principal elements and characteristics of the GSTP see: Hamza, Guidebook for the GSTP, UNCTAD, GSTP/NC/TP/2, 1987 and Stare, Koliševski, The Global System of Trade Preferences- principles and problems, Research Centre for Cooperation with Developing Countries, 1984.

monetary and financial cooperation of developing countries. It is the very embracement of several sectors that could, through the GSTP, contribute to the long-term socio-economic development of developing countries and improve their position as a group within international economic relations.

On the other hand the GSTP represents an extraordinary challenge to developing countries since it exposes their economies to mutual competition. Within the framework of national economies, some economic entities will benefit from the GSTP and others will loose. However, within the relationships among developing countries, the GSTP should be based on the principle of mutual benefits for all participants, taking into account the relative level of their economic development. The least developed among developing countries should, therefore be ensured of a special preferential treatment, not only in liberalization of tariffs, but also in stimulating the development of their production capacities. Apart from the above mentioned basic principles on which GSTP is founded,<sup>1/</sup> they are providing , inter alia, that the GSTP should comprise a reduction of tariff and non-tariff measures in trade among developing countries, as well as institute direct trade measures. Taking into account different export structures of developing countries, it is very important that GSTP includes manufactures and primary commodities in either processed or unprocessed forms.<sup>1</sup>

Since the GSTP is limited to developing countries members of the Group of 77 many of which are also members of GATT, there appeared a question whether these countries violate basic GATT rules and principles. In the Tokyo Round of Multilateral Tariff Negotiations GATT contracting partners adopted the Enabling Clause which enables differential treatment of developing countries irrespective of the article 1 of the General Agreement (Most Favoured Nation Clause). Among other things the Enabling Clause also provides the following exception to the MFN Clause:<sup>2/</sup>

---

1/ Ministerial Declaration on the Global System of Trade Preferences among Developing Countries(GSTP), Report of the Economic and Social Council, A/37/544, New York, 1982, p.14., Agreement on the Global System of Trade Preferences among Developing Countries, GSTP/MM/Belgrade/10, 12 April 1988.

2/ BTSD, 26th Suppl., Geneva, March 1980, p.203

- regional or global arrangements entered into amongst less developed contracting parties for the mutual reduction or elimination of tariffs and, in accordance with the criteria which may be prescribed by the contracting parties, for the mutual reduction or elimination of non-tariff measures, on products imported from one another.

In this way, differential treatment of developing countries is not provisional exception of the GATT rules any more, but has become a permanent and autonomous rule in international trade. GSTP has obtained legitimacy in the framework of GATT rules.

Successful realization of the GSTP will to a large extent depend upon consistent respect and effective implementation of its basic principles. Yet, it was clear from the outset that this would be very hard to achieve due to different problems and difficulties which appeared already in the preparatory phase.

The crucial issue is that of assuring an equitable distribution of costs and benefits of trade liberalization among participating countries. This is related to the heterogenous character of developing countries regarding the level of their economic development, structure of production, and foreign trade and trade control measures. These differences among developing countries determine, to a certain extent, the potential benefits deriving from trade liberalization for an individual developing country, which in the last instance also implies their varying interests for the establishment of the GSTP. Fundamentally, the higher the existing tariff rates and the higher the share of high-tariff products within total exports, the broader the potential to increase South-South trade on the basis of tariff cuts.

Tariff protection in developing countries usually increases with the degree of processing. Generally, the lowest tariff rates are applied to commodities and the highest to finished manufactures, although the average level of tariffs differs significantly from country to country. The greatest benefits from the reduction of tariffs would therefore accrue to countries with a significant share of manufactures in their exports to other developing countries. For products to which very low tariff rates are already applied (fuels,

developing countries. For products to which very low tariff rates are already applied (fuels, agricultural raw materials and food) the reduction of tariffs could not give a sufficient impetus to South-South trade, which was already confirmed by an empirical analysis.<sup>1/</sup> Consequently, the more developed developing countries with the more diversified production and export structure would be able to increase their export to other developing countries by far larger extent than other developing countries.

In the preparatory phase, many other problems arose which will impede the process of efficient implementation of the GSTP. The coordination of existing trade preferences among developing countries at the sub-regional, regional and inter-regional levels and those envisaged by the GSTP undoubtedly represent a very significant element of the GSTP realization. Notwithstanding the fact that basic principles embodied in the GSTP Agreement define that the GSTP should supplement and not substitute the existing trade preferences in the framework of sub-regional, regional and inter-regional arrangements there is no assurance that the GSTP will bear only positive influence on the cooperation among members of integration groupings.

There exist still other problems, either closely related to the above mentioned or originating in deteriorated economic conditions in developing countries. Such difficulties have been fully reflected in the first round of negotiations and have also directly influenced its outcome. At the Belgrade Ministerial Meeting, held from April 11-13, the Agreement on the GSTP has been signed by 46 developing countries, while the schedules of tariff concessions have been exchanged between 48 developing countries.<sup>2/</sup> The Agreement will come into force 30 days after its ratification by no less than 15 participating countries from three regions.

---

1/ Erzan, Laird, Yeats, On the Potential for Expanding South-South Trade Through the Extension of Mutual Preferences among Developing Countries, 1986, UNCTAD, Discussion Paper No.16, pp.16-17.

2/ 48 developing countries took part in the first round of negotiations on the GSTP, but two of them (Benin and Cameroon) didn't receive in time the necessary credentials authorizing them to sign the Agreement.

Beyond doubt such result represents a significant success for developing countries. Negotiations held in the framework of the GSTP represent the first multilateral negotiations in which developing countries were active participants, simultaneously requesting and offering tariff concessions and negotiating them. This has required much greater efforts from developing countries than the negotiations in the framework of GATT, where these countries were primarily passive recipients of concessions exchanged among major trading partners. In spite of the fact that only one third of developing countries members of the Group of 77 have exchanged concessions in the first round, they have - with an active participation and mobilization of their own resources - initiated a process of making their trade relations more profound and of better learning of each other's potentials.

However, one has to be realistic and admit that the results of the first round of negotiations have above all a political significance. They reflect the political commitment of developing countries to contribute to the strengthening of their self-reliance by providing an active political support and impetus for the establishment and operationalization of the GSTP.

Regarding the possible impact of granted tariff concessions on the expansion of South-South trade, one can say - irrespective of empirical analysis - that the economic effects of the first round of negotiations are very modest, if not marginal, and that at least in some areas they fell short of expectations. Such an outcome was somehow expected, due to the fact that the GSTP Agreement is the first agreement in trade liberalization among developing countries with a multilateral character and that a large number of countries entered the negotiations with too much caution and hesitation. This process required comprehensive preparations and coordination of divergent interests inside individual national economies.

In the first round of the GSTP negotiations 48 participating countries exchanged tariff concessions for around 1500 products at the national tariff line level, representing only a small fraction of South-South trade and, therefore, cannot offer large potential for its increase. Most countries granted tariff concessions for only 5-20 products, while only 3 countries granted tariff concessions for over 100 products. It is surprising to see that 12 countries joined the GSTP Agreement with tariff concessions granted for

only 1-3 products at the national tariff line level. While this can be understood for 3 least developed developing countries, it was not expected for the remaining countries. This confirms the assumption that the interest and confidence in the GSTP differ from country to country and that some countries have granted only the minimum concessions to enter the GSTP Agreement counting on the multilateralization of concessions granted by other countries.<sup>1/</sup>

The least developed developing countries have very poor export structures and can benefit from the tariff concessions granted by other developing countries only marginally. This has also been reflected in the fact that only 6 least developed countries participated in the first round of negotiations. In spite of the fact that the Agreement on the GSTP provides for concrete preferential measures and non-reciprocity in favour of the least developed developing countries,<sup>2/</sup> a small number of participating countries granted tariff concessions in the first round according to this provision. Both of the above mentioned problems would have to be tackled in the further rounds of the GSTP negotiations.

The major drawback of the first round of negotiations on the GSTP is, beyond doubt, its failure to include liberalization of para-tariff and non-tariff barriers and other trade measures. Due to debt-servicing problems and the aggravated situation in their economies a large number of developing countries are lately introducing an ever increasing number of non-tariff barriers with serious effects on their imports, especially from other developing countries.

---

1/ Participating countries have the opportunity to withhold the multilateralization of concessions to countries with which they didn't enter into direct negotiations. In such cases, an individual country can, when ratifying the GSTP Agreement, apply the non-application article.

2/ Non-reciprocity does not mean that the least developed developing countries should not grant any preferences. To become a participant in the first round also the least developed developing countries have to grant some tariff concessions, but not on the reciprocal basis. Otherwise the suppliers from other developing countries would be given the same treatment as the suppliers from developed countries, which was not the aim of the GSTP.

The application of non-tariff measures is widespread in all sectors with no significant differences among them. This implies that non-tariff measures in developing countries are not introduced to protect specific sectors or products but primarily to alleviate balance of payment difficulties. All this leads to a conclusion that the tariff concessions exchanged in the first round cannot materialize to the extent possible due to existing para-tariff and non-tariff measures of a very restrictive character.

Once again the fact has been confirmed that the conclusion of the first round of the GSTP negotiations is only the first, but a significant step, of a long term and complex process towards greater South-South cooperation by continuous actions and measures.<sup>1/</sup> This enables us to put the first round of negotiations into a much broader perspective and look at its achievements not as the final result of the GSTP, but as the beginning of the successive efforts undertaken by the developing countries, with the objective of promoting their trade cooperation and increasing the production and employment in these countries.

The realization of this goal will require complementary actions and measures in three directions; effective implementation of the tariff concessions exchanged in the first round, liberalization of other trade control measures including direct trade measures and sectoral arrangements, and the establishment of instruments and measures in other areas of South-South cooperation which would support and stimulate the expansion of trade among developing countries.

With the implementation of the concessions exchanged in the first round efforts should be made to enlarge the range of products for which concessions were given, to extend the margin of preference, as well as to increase the number of participating countries. Also the problem of para-tariff and non-tariff barriers would have to be tackled, otherwise it would threaten to

---

1/ Belgrade Declaration on the Global System of Trade Preferences among Developing Countries has already called upon signatories and other members of the Group of 77 to undertake preparatory work for the next round of negotiations which would encompass the work of evolving the procedures of various components and modalities of the GSTP and the rules and the guidelines concerning the extension of negotiated concessions. GSTP/MM/BELGRADE/L.1/Rev.2, 8 April 1988, p.4.

diminish the effects of tariff concessions, too. Liberalization of the former measures might start with products for which tariff concessions have already been granted, and proceed with items for which individual developing countries primarily rely on imports. An effort should be made to convert more restrictive measures to less restrictive ones (e.g. to convert quotas to licences, or prohibition to minimum quota for developing countries only).

Direct trade measures on the other hand, are not dependent to such extent on economic policy measures related to protection and fiscal policy or to balance of payment difficulties, and are, therefore much more promising for the further implementation of the GSTP and for the increase of South-South trade. These measures include medium- and long-term contracts, buy-back and other countertrade arrangements, State trading operations, government and public procurement. They could bring in more stability to South-South trade, enable production planning, and eliminate intermediaries from developed countries.

Even in the case that tariff and non-tariff barriers were completely eliminated, South-South trade could not be significantly improved in the long run, due to the existing structure of production, lack of resources for financing mutual trade, poorly developed transport and information infrastructures, technological dependence on developed countries, etc. This indicates that in the long-run the implementation of the GSTP should inevitably be regarded and carried out in a complex way. To this end instruments for the promotion of trade should be linked with stimulative measures in other areas of economic cooperation among developing countries. Only their simultaneous operation would strengthen the cumulative effect towards structural changes in developing countries' economies, greater cooperation among them, and their more autonomous development.