The University of Manchester
Brooks World
Poverty Institute

MANCHESTER
1824

South-South trade and North-South politics: Emerging powers and the reconfiguration of global governance

James Scott [1]

[1] The University of Manchester, Manchester, UK

Brooks World Poverty Institute
ISBN : 978-1-907247-30-9

October 2010

BWPI Working Paper 131

Creating and sharing knowledge to help end poverty

www.manchester.ac.uk/bwpi

Abstract

The emergence of new powers in the global South is reconfiguring the institutions of global governance. New institutions are being formed and old ones revitalised in a rejuvenation of South-South political and economic cooperation. This paper examines the recently agreed round of negotiations within UNCTAD's Global System of Trade Preferences among Developing Countries (GSTP) and its role in this process. It compares the tariff cuts that have been agreed within the GSTP with those that are likely to occur within the Doha Development Agenda (DDA) at the World Trade Organisation. The GSTP is found to be a meaningful agreement that goes a long way beyond the tokenistic efforts of previous GSTP rounds, and provides the participating developing countries far greater market access into each other's markets than will the DDA.

However, this paper also argues that the GSTP can only be understood within the context of the DDA. The most advanced developing countries are pursuing a twin-track process within the arena of global governance. These two, deeply intertwined tracks are used as a means of influencing one another. The GSTP therefore emerges as a strategy of increasing the leverage the emerging powers have within the DDA negotiations.

Keywords: UNCTAD, trade, GSTP, globalised system of trade preferences, Doha development agenda, DDA, preferential trade agreements

James Scott is a Research Fellow with the Brooks World Poverty Institute at The University of Manchester, UK.

1. Introduction

The emergence of new powers in the South is leading to a shift in the institutions of global governance. Unhappy with the General Agreement on Tariffs and Trade (GATT), the developing countries pushed through the creation of the United Nations Conference on Trade and Development (UNCTAD) in 1964. UNCTAD has always been largely moribund, overshadowed by the GATT and reduced to a fringe role. However, it is now being revitalised, most notably with the recent Global System of Trade Preferences among Developing Countries (GSTP).

This paper argues first that the contemporary GSTP should be taken seriously – the GSTP provides meaningful market opening, rather than the tokenistic efforts of the first GSTP deal (GSTP II was not ratified). The paper compares the market access for non-agricultural goods negotiated under the GSTP to that on offer in the current round of WTO negotiations, the Doha Development Agenda (DDA), for four major participating developing countries – Brazil, India, South Korea and Indonesia. It finds that the GSTP offers much greater market access than the DDA as it stands in the modalities set out in the latest negotiating texts. One way of interpreting this is that the emerging powers are seeking to undermine the WTO, as part of a drive to create (or strengthen existing) institutions that challenge the Western-dominated institutions of global governance. However, this paper argues that this would be wrong. There is no will among developing countries to abandon the WTO. Nonetheless, the GSTP must be seen within the context of the DDA. It serves a political purpose for the more advanced developing countries, particularly India and Brazil, by undermining the arguments used by the US and EC concerning the development content of the DDA and the need for market opening in emerging countries. As such, it strengthens the negotiating hand of these emerging powers in the DDA and prevents the US and EC from diverting attention away from their own weak offers.

The emerging powers are argued to be pursuing a twin-track process within the arena of global governance. They continue to participate in the traditional institutions of global governance, while simultaneously engaging in a process of South-South institutional creation and regeneration. These two tracks may appear to be in competition with one another – parallel processes that operate in mutual antagonism. However, this paper argues that they are deeply intertwined, with one track being used as a means of influencing the other. The major players in particular have one eye on each track, using South-South agreements both (i) as a means of strengthening Southern solidarity, reassuring weaker developing partners of their future intentions, and enhancing their soft power; and (ii) as a way of advancing their interests in global institutions. The result is a complex and dialectical interplay between the two tracks, in which both must be considered together to be fully comprehended. For smaller and less advanced developing countries this process has both potential dangers and potential benefits.

This paper unfolds as follows. The following section provides a framework for understanding the resurgence of South-South trade and its relationship with the WTO, through exploring some of the reasons for emerging powers operating through institutions. Section 3 provides some brief background on the GSTP and the WTO negotiations. Section 4 discusses the methodology used for the tariff analysis, before section 5 gives the results of that analysis. Section 6 discusses these results and how the GSTP should be understood, before the final section concludes, including examining the implications of the foregoing analysis for developing countries other than those that can be classified as emerging powers.

2. The emerging powers and global governance

Middle powers, and now emerging powers, are frequently found to use institutions as a key component of their foreign policy. As the emerging powers have grown in economic importance and in political influence, they have used a strategy of both reinvigorating South-South political and economic cooperation and using their stronger global position to change the conventional practices and procedures of the established institutions of global governance.

A number of reasons have been identified for why the emerging powers have increased South-South linkages. First, South-South cooperation is a way of deploying soft power, increasing the linkages between their economies and those of other developing countries, usually couched in the[i] terms of Southern solidarity. The emerging powers are unable to challenge US military dominance in the foreseeable future, with the possible exception of China. They therefore have an interest in increasing their soft power to compensate. Second, new South-based institutions form part of a ‘counter-reaction’ to ‘the harmful effects of globalisation and the arrogance of the G8 vis-a-vis the South’s concerns (exemplified regularly at every WTO meeting)’ (Taylor, 2009: 54). Exasperated with decades of marginalisation within the world trade system, the emerging powers are using their greater economic influence to forge new partnerships, or reinvigorate old ones, that are free from the power-based, dismissive and neo-colonial attitudes that have characterised the interaction between North and South in the institutions of global governance. This is not a new feature of South-South partnership, which has always been used as a way to counter dependence and marginalisation through collective action (Braveboy-Wagner, 2009: 214).

Third, and relatedly, South-South partnership may be sought in an effort to cement and enhance the economic growth that the emerging powers have achieved. This has the consequence of creating institutions that may come to rival older North-South institutions. As Scarlett Cornelisson puts it,

> in seeking international conditions which favour their continued expansion, these states are cohering in alliances which increasingly offer credible challenges to the institutions of trade collaboration and governance upon which the post-war regime of liberalization – and hegemonic enforcement – was built (Cornelissen, 2009: 15).

Fourth, emerging powers may be said to ‘use institutions to fulfil some of the classic power-related functions, above all to signal reassurance to weaker states, especially within their regions’ (Hurrell, 2006: 11). As the emerging powers move ever closer in economic structure to the established powers, their interests are likely to converge. South-South cooperation forms a means of placating the concerns of other developing countries during this process. This is related to the objective of enhancing soft power. Finally, a fifth reason can be put forward, lying in the general tendency of states, particularly in the post-war period, to engage in institution-forming as a standard and almost mechanical aspect of foreign policy. Institutional creation has become a customary mode of behaviour, part of the everyday diplomatic agenda. This is perhaps particularly the case with countries of the global South, which have been found to be ‘more focused than their larger counterparts on participation in international and regional organizations’ (Braveboy-Wagner, 2009: 1). This tendency has led to the colossal growth in the number of international institutions, despite many of them serving little, if any, discernable purpose.

All of these factors play a part in the formation of the GSTP. This paper examines the interaction of these processes of South-South cooperation with the established global organisations (in this case, the WTO). It argues that the GSTP is not part of an attempt to challenge the WTO. Rather, it is part of a more subtle shift in the architecture of global governance that is bringing about overlapping structures of governance, some North-South, some South-South. As Scarlett Cornellison again puts it,

> emergent South-South and North-South multilateral constellations … reflect the development of two tracks (or ‘speeds’) of economic and political multilateralism which run parallel to each other but at different levels of intensity and with differing impact (Cornelissen, 2009: 20).

The emerging powers participate in both of these tracks – India and Brazil have been brought in to the ‘inner circle’ of WTO negotiations forming the ‘new Quad’ with the EU and US, where the negotiations are undertaken and the deals are made before being widened to other members. India and Brazil have also been at the forefront of the push for reinvigorating the GSTP. As such, they are playing a ‘two level game’. The GSTP, this paper argues, cannot be understood on its own, as a stand-alone agreement. Rather, it must be placed within the context of the ongoing DDA negotiations. In this perspective, the GSTP plays a part in strengthening India and Brazil’s negotiating hand through undermining the arguments made by the US in particular concerning the aims of the DDA. This will make finding a deal within the WTO somewhat harder.

3. Background and context: the GSTP, DDA and emerging powers

3.1 Origins of the GSTP

The idea of South-South trade and increasing the linkages between developing countries is not new. When the post-war discussions took place drafting the Charter of the International Trade Organisation (ITO), the developing countries involved pushed for a clause to be included that would allow them to deviate from the principle of Most-Favoured Nation (MFN) in order to agree preferential tariff rates among the less developed countries (Gardner, 1956: 365-368). Though they were successful in this demand, the eventual stillbirth of the ITO and the emergence of the General Agreement on Tariffs and Trade (GATT) as the institution that would govern trade meant that this clause was lost. Since the GATT was planned to be only a temporary agreement to facilitate early tariff cuts primarily among the industrialised countries before being replaced by the ITO, the GATT contained primarily only those articles considered to be necessary for this purpose. The efforts the developing countries made to have provisions included in the ITO Charter that would enable them to pursue their trade interests, including through creating preferential trade agreements, were lost (see Wilkinson and Scott, 2008).

However, the idea of South-South trade preferences was not forgotten and resurfaced in the changes made to the GATT in the 1960s, when developing countries enjoyed a brief period of greater influence over the trade regime. Frustrated with the shortcomings they perceived in the GATT, the developing countries set about creating the United Nations Conference on Trade and Development (UNCTAD), which held its inaugural meeting in 1964. The newly independent countries emerging from colonialism sought an end to the previous asymmetric economic relations between North and South and opposed the neo-colonial relations that they saw replacing them. Sékou Toure, for instance, argued that 'unconditional integration into a multi-national market consisting of highly developed and under-developed nations negates the possibility of industrial development in advance' (Toure 1962: 149). Instead, greater South-South integration was required, to facilitate Africa's industrialisation.

In response to the potential threat to the GATT that UNCTAD represented, the industrialised countries agreed to the inclusion of a new chapter of trade regulation to be included in the GATT, namely Part IV on Trade and Development. The Aims and Objectives (Article XXXVI) of Part IV talked of expanding the trade of less developed countries. Though not explicitly addressed, this clearly opened up the potential to create a South-South preferential trade agreement. However, preferential arrangements violated the MFN principle that was enshrined in Article I of the GATT. Initially this was overcome by the granting of a waiver for each preference system, but pressure from the developing countries to give their preferences a greater legal footing led to the signing of the Enabling Clause (GATT, 1979) as part of the Tokyo Round, which finally granted developing countries the right to grant one another preferential tariff rates, as they had fought for since the beginning of the ITO negotiations.

The first such agreement was negotiated under the auspices of UNCTAD in 1986, and was concluded in 1988. Though perhaps politically significant, it was limited in scope. The concessions exchanged were extremely limited. The second round was held between 1991 and 1998, and ended in 28 developing countries exchanging concessions. However, these cuts were not implemented due to an insufficient number of participating countries ratifying the agreement. Many commentators see the market access negotiated under the GSTP before the present round to have been largely insignificant (for example, see Oxfam, 2004), though others have argued that the GSTP has been successful in increasing trade of capital goods, which was a key initial aim (Endoh, 2005).

The third round, launched in Sao Paulo at UNCTAD XI, has been more successful than the previous two. Agreement was reached in December 2009 on modalities for tariff cuts (UNCTAD, 2009). This decision was adopted during the WTO's Geneva Ministerial Meeting – timing that was far from coincidental, as will be examined below. This agreement was made between 22 members of the GSTP, namely Algeria, Argentina, Brazil, Chile, Cuba, the Democratic People's Republic of Korea, Egypt, India, Indonesia, Iran, Malaysia, Mexico, Morocco, Nigeria, Pakistan, Paraguay, the Republic of Korea, Sri Lanka, Thailand, Uruguay, Vietnam and Zimbabwe. This includes, as will be examined below, many of the emerging powers, with the notable exception of China, which is not a member of the GSTP. It is as yet unclear whether the agreed tariff cuts will be extended to the other members of the GSTP.

3.2 Emerging powers

The present international context offers a more propitious moment to strengthen the GSTP. The effect of the GSTP was always limited by the comparatively small market size developing countries offered. Even if the GSTP led to greater trade among less developed countries, this was of little economic importance compared to trade with the huge markets of the US, EU and (later) Japan. However, the structure of the world economy is undergoing significant alteration due to high growth among a number of developing countries, which is modifying the dominance of the traditional markets. The so-called BRICs (Brazil, Russia, India and China) identified by Goldman Sachs (Wilson and Purushothaman, 2003) are shifting the balance of economic power from West to East and South (see, among an extensive literature, Cornelissen, 2009; Garten, 1997; Hurrell, 2006; Narlikar, 2006; Segal, 1999; Shaw et al., 2009; Wilson and Purushothaman, 2003). In addition to the BRICs, a second tier of countries is emerging that combine fast growth, large markets and sufficient economic and political stability to follow in the wake of the BRICs (for one identification of this group, see Goldman Sachs, 2007). It is clear that new export markets are emerging among developing countries that offer other less developed countries significant opportunities. Though it is a matter for debate which countries should be given this ‘emerging power’ status, many contenders are included in the signatories to the GSTP III, including India, South Korea, Iran, Indonesia, Malaysia, Thailand, Vietnam, Nigeria, Egypt, Chile and Argentina, all of which enjoy a rising proportion of global GDP.

Although access to the EU, US and Japanese markets remains of paramount importance, future demand is coming from elsewhere. With the exception of China (which has relatively low tariffs for a developing country anyway, at an average of 10 percent for non-agricultural and 15.8 percent for agricultural goods), the GSTP can potentially be said to be providing access to these markets. The next section begins to address this issue, by comparing the GSTP deal and the agreement that seems likely to emerge in the DDA. Four countries – India, Brazil, South Korea and Indonesia – are examined as a sample of some of the fastest growing markets.

3.3 GSTP III and the DDA deal

The December 2009 agreement (UNCTAD, 2009) put in place the modalities that will govern the tariff cuts. It was agreed that participants would implement ‘an across-the-board, line-by-line, linear cut of at least 20 percent on their dutiable tariff lines’ (Article 1), covering ‘at least 70 percent of their dutiable tariff lines’ (Article 2).[1] Cuts are to be made on applied MFN tariff rates. Exceptions are made for participants for which more than 50 percent of tariff lines are duty-free, which are required to cut only 60 percent of dutiable tariff lines, and for Algeria and Iran, which are currently acceding to the WTO.

Over 90 percent of intra-GSTP exports are in non-agricultural products (UNCTAD, 2004). In addition, the original aim of developing countries – when they demanded in the ITO negotiations the right to form preferential arrangements – was to facilitate industrial development. They felt (perhaps wrongly) that they would not be able to compete with the industrialised countries in

[1] Dutiable tariff lines are those on which a duty is applied. That is, they exclude tariff lines that have zero duty.

producing industrial goods, but that they could nurture a degree of manufacturing capacity through exporting to other developing countries (Little, 1982: 61). For these reasons this paper focuses on trade in manufactures. Its aim is not to give a calculation of the value of GSTP III in monetary terms, but to evaluate it in the context of the DDA, before the final section examines its political implications.

The DDA has reached a hiatus, but the broad outlines of the likely eventual deal are known from the draft modalities presented after the last bout of serious negotiation in December 2008 (for the NAMA deal, see WTO, 2008a; see also WTO, 2008b, for the agriculture deal). By this point, agreement had been reached that the NAMA modalities would be through the application of a Swiss Formula, rather than through the tiered approach that had previously been envisaged in the July draft. The Swiss Formula gives tariff cuts such that

$$T = (X \times Z) / (X + Z)$$

where T is the new tariff rate, X is the old tariff rate, and Z is a coefficient to be chosen through negotiation. Z operates as the lowest tariff that there will be following the cuts. As such, the lower the value of Z, the bigger the cuts.

The December NAMA Draft (WTO, 2008a) gives three options to developing countries concerning the value of Z and the flexibilities allowed in the cuts. In simplified terms, these are:

(i) Z=20, but with smaller cuts allowed on 14 percent of tariff lines or applying no cut to 6.5 percent of tariff lines.

(ii) Z=22, but with smaller tariff cuts for up to 10 percent of tariff lines, or applying no cut to 5 percent of tariff lines.

(iii) Z=25, but with no flexibilities.

This paper primarily uses option three in its evaluation, though it also examines option one briefly. The inclusion of flexibilities in options one and two makes the analysis much harder, because it is not known which lines will be subject to smaller cuts. In addition, this paper applies the December Draft provision that unbound tariff rates will be initially bound at a rate of 25 percent above their current ad valorum level before the cut is applied.

4. Methodology

The data used in the following analysis is taken from the WTO's Comprehensive Tariff Data service.[2] Though the WTO supplies comprehensive line-by-line data on tariffs at the eight-digit HS code level, this has not been used, due to the applied tariffs being listed in HS2007 codes and the bound tariff rates being listed in HS1996 codes, and no feasible method of converting one into the other.

[2] Available from www.wto.org/english/tratop_e/tariffs_e/tariff_data_e.htm (accessed 1 October 2010).

Instead, this paper uses tariff data at the six-digit HS code level. Data for applied and bound tariff rates was collected. The concordance tables (which convert the changes from HS1996 codes into HS2007 codes) were used to convert the bound tariff lines into HS2007 code. If there was not 100 percent concordance between the code changes (for instance, if one code in HS1996 was split into more than one HS2007 code), that tariff line was removed. All tariff lines that are bound duty free were also removed, as no changes will be made to these by either the GSTP or the DDA.

What results from this is a subset of tariff lines for each country for which it is known that the bound and applied duties are for the same product lines and which can therefore be compared. In order for the subsequent analysis to be valid, this set of tariff lines must be a fair sample of the overall tariff schedule. The averages and standard deviations of the sample were found to be within 0.2 of those of the full dataset in all cases but one, Brazil's average applied rate, for which the sample has an average of 14.6, while the full set of tariff lines has an average of 14.1. The likely effect of this discrepancy on the analysis is discussed in the following section.

It should be noted that there is a problem with using data at the six-digit HS level. Many six-digit tariff lines are further disaggregated at the eight-digit level and beyond. Where this is the case, the WTO data gives an average of these tariffs. The analysis in this paper treats all tariff lines within a six-digit code as being the same, at this average level. Much of the time this is true, or the differences between the tariff levels within a six-digit code are small. However, it should be borne in mind that inevitably this leads to a source of potential inaccuracy in the results, though it is expected that this inaccuracy is small and will have no effect on the overall argument.

5. GSTP vs NAMA: implications of the two agreements

This section examines the implications of the WTO and GSTP III agreements for tariff levels on industrial products in the key markets of Brazil, India, South Korea and Indonesia. It shows that the GSTP III has brought about meaningful market access, especially when compared to the WTO's prospective DDA deal. The DDA agreement will do little more than cut water from the tariff schedule of the four countries examined here. The GSTP by contrast cuts directly into applied tariff rates.

Table 1 examines the effect of the WTO cuts, using option three detailed above. It indicates that for these four countries, most of the WTO cuts will not bite into applied tariffs – that is, the reduction in bound tariff rates does not reduce the rate sufficiently to 'bite' into the applied rates. This is particularly true of India, for which only four percent of tariff lines will see a reduction in applied tariffs. Brazil's figure in Table 3 might be slightly too high, due to the higher applied tariff in the sample compared to that of its overall tariff schedule.

Table 1: WTO tariff cuts at Z=25

Country	Tariff cuts that bite	Tariff cuts of water
Brazil	39%	61%
India	4%	96%
Indonesia	11%	89%
South Korea	39%	61%

Applying a cut using Z=20 (option one) increases the number of tariff lines for which the cuts bite, except for India (Table 3). In fact, Table 2 shows that if India were to choose to apply option three (Z=20 but with no cuts on 6.5 percent of tariff lines), it could apply the WTO's NAMA modalities without generating any new market access, since it could opt to apply no cuts on the four percent of tariff lines for which the cuts would otherwise bite into applied rates.

Table 2: WTO Tariff cuts at Z=20

Country	Tariff cuts that bite	Tariff cuts of water
Brazil	53%	47%
India	4%	96%
Indonesia	19%	81%
South Korea	72%	28%

The GSTP cuts, by contrast, are made directly to applied, rather than bound, tariff rates. As such, there is no water that must be removed before the cut reduces the applied duties. Though the GSTP only brings about cuts in tariffs on 70 percent of tariff lines, because of the water in the WTO bound rates in all the countries examined here the GSTP will affect considerably more tariff lines than the modalities envisaged in the DDA. This is most true of India and Indonesia, for which only four and 11 percent respectively of tariff lines will see any reduction in applied rates, if they apply a Swiss formula with Z=25. For South Korea and Brazil the result is less marked, but even there only 39 percent of tariff lines will see any cut below the applied rate in the WTO cuts, compared to 70 percent brought about by the GSTP.

What of the magnitude of the cuts brought about by the two agreements? Table 3 compares how many tariff lines each agreement cuts by a greater amount, across all tariff lines and across only those for which the NAMA formula bites into applied duties. Table 3 shows that for the vast majority of tariff lines across all four countries examined here, the GSTP will bring about a larger cut. Looking at only those for which the NAMA formula bites into applied tariffs, for Brazil and South Korea around 50 percent of cuts are less than the GSTP reduction.

Table 3: Comparison of the size of WTO (Z=25 and Z=20) and GSTP cuts

Country	All tariff lines using Z=25		Only those lines for which Z=25 bites	
	WTO cuts greater	GSTP cuts greater	WTO cuts greater	GSTP cuts greater
Brazil	21%	79%	53%	47%
India	4%	96%	94%	6%
Indonesia	5%	95%	41%	59%
South Korea	20%	80%	50%	50%

In summary, the analysis here indicates that for the key markets of Brazil, India, Indonesia and South Korea, the cuts in tariffs (and therefore increased market access opportunities) will be greater in the GSTP than in the DDA (as it currently stands). The GSTP will cut very many more tariff lines and by a greater depth than the proposed WTO agreement. As such, the GSTP is not simply rhetorical, as the previous rounds of GSTP cuts may be argued to be. It is a significant change in the participating countries' trade regimes with respect to their trade with other participating developing countries. Though it excludes the developed countries and China, the access that the GSTP gives to the other emerging markets is not insignificant.

That said, the monetary value of the GSTP is small. While it brings about meaningful tariff liberalisation of the participating markets, the real value of the agreement is less significant and could potentially be almost zero. Since only 70 percent of tariff lines are to be cut, the real effect of the agreement will depend on which tariff lines the participating countries choose to exclude. Developing countries' exports, particularly those of LDCs (to which we return below), tend to be concentrated in a relatively small number of products. Cutting tariffs on products that developing countries do not export will not lead to any new trade opportunities. As such, it is impossible to calculate the value of the agreement in dollar terms.

Whatever the true value, it will be economically insignificant. UNCTAD has estimated the value of cutting tariffs among GSTP signatories by 20 percent across all products, and found that this would generate a gain among participating countries of $7.7 billion (UNCTAD, 2004). Since the agreement covers only 70 percent of tariff lines, the real value will probably be less than this – for the reasons stated above, much depends on which tariff lines participants choose to cut. The upshot is that though the tariff liberalisation is significant, the immediate economic *value* of the GSTP is tiny. The combined GDP of the 22 countries that signed the GSTP III agreement is over $6.4 trillion.[3] An increase of $7.7 billion represents a 0.12 percent increase in GDP. This is a one-off gain, not a gain every year (see George, 2010: 34; Weisbrot and Baker, 2005: for a discussion). When compared to the increase in GDP that comes through the normal process of economic

[3] Data calculated from the IMF's World Economic Outlook dataset, available from http://esds80.mcc.ac.uk. No data is available for Cuba and North Korea.

growth, it is trifling. The 22 GSTP signatories grew at an average of 4.2 percent in 2008.[4] If all the gains from the GSTP were to occur instantly on 1st January, these countries would jump to a GDP level that they would otherwise acquire on 12th January purely through normal economic growth. In reality the gains are spread out over a number of years, as it takes time for the factors of production shift, making even this bleak analogy an exaggeration of the benefits.

This is not to write off the GSTP. Even the DDA, which includes all the largest economies, is expected to deliver tiny economic gains when these are compared to GDP and economic growth. Of these gains, developing countries receive only a fraction (Ackerman, 2005; George, 2010). The estimates based on computerable general equilibrium modelling provide large headline figures for the effects of trade liberalisation, but upon further analysis these gains are limited. Full liberalisation of both non-agricultural and agricultural products would benefit the people of the developing world by ‘just over a penny per person per day’ (Ackerman, 2005: 5). The gains from the DDA, which will achieve nothing like full liberalisation, are even smaller. In short, the gains from trade liberalisation are exaggerated and small, while the social and environmental costs can be substantial and are often downplayed (George, 2010). The point is not that South-South trade holds little benefit for developing countries. In truth, trade liberalisation is at best a weak engine of both economic growth and poverty reduction, and this is true of global agreements as well as South-South agreements.

The GSTP may hold a number of potential benefits over deals made within the WTO. First, it is preferential, facilitating the opening up of developing countries’ markets without subjecting them to the full competition from exports from developed countries and China. Participating countries are therefore able to subject domestic industries to greater competition in a staged manner, with less of a threat of domestic production being swamped by more competitive exports from both the established industrial countries of the EU, US and Japan, and those of China. This, at least, was always the theory behind the South-South preferential trade. That said, many participating states are not yet able to compete with the more advanced members of the GSTP, particularly South Korea, India and Brazil. Consequently, the GSTP may still prove to have a detrimental effect on the industrialisation of the less advanced participants. South-South trade preferences should not be portrayed as painless, win-win deals.

A second benefit is that for many developing countries tariffs account for a substantial proportion of government revenue. This is particularly the case for LDCs, for which tariffs provide on average one-third of government revenue and as much as half in some countries (Laird et al., 2005). Trade liberalisation therefore has a negative impact on many developing countries’ fiscal position, as it reduces these revenues (see George, 2010: 25-36 for a discussion). Although in theory other taxes could be raised to compensate for the loss while still releasing overall economic gains, in reality most developing countries lack the capacity to implement such tax regimes. Though the GSTP will have an impact on tariff revenues, this effect is somewhat muted, because it does not affect imports from other countries, most notably the developed countries. Only around 25 percent of GSTP country imports come from other GSTP countries (UNCTAD, 2004). As such, three-quarters of imports revenues are unaffected by the deal. The GSTP therefore provides greater access into

[4] This is substantially higher than that for 2009, when the world was in a recession. However, it is lower than they were achieving in the years up to the emergence of the financial crisis, and includes a 14 percent GDP decline in Zimbabwe. Data calculated from the World Economic Outlook dataset.

some of the fastest growing markets in the world from which future demand will originate, but does not suffer from one of the principal costs of trade liberalisation.

Thirdly, even cutting out the water in tariff schedules is a major concession by developing countries, with significant implications for their future ability to follow the path of industrialisation that has been successfully applied first by Western countries and subsequently by the newly industrialised countries of Asia (Chang, 2005). Binding tariffs in the WTO removes the opportunity for developing countries to use targeted tariff protection as part of an industrial policy. The GSTP leaves in place a far greater degree of flexibility, as it maintains the right of signatories to raise their tariffs up to the level currently bound at the WTO, so long as a 20 percent margin is maintained for members of the GSTP. As such, it has less of the damaging implications associated with the WTO NAMA deal.

6. Undermining the WTO?

It is possible to view the GSTP as a step in the direction of the emerging powers of the South challenging the North-dominated WTO through shifting the site of trade liberalisation negotiations to UNCTAD. This would, however, be wrong for a number of reasons. First, no developing countries wish to abandon the WTO. Though they abhor its exclusionary process of negotiations, in which most developing countries are given little if any meaningful opportunity to participate in and shape the direction of trade negotiations (see Jawara and Kwa, 2004), they are aware that without the WTO the most powerful nations would be unconstrained in their trade regime. The WTO also covers a much wider set of trade issues than just tariffs. Though some of these are problematic for developing countries, particularly intellectual property rights, the WTO provides the only restraint (though it is severely limited) on rich countries' agricultural subsidies and the only forum in which to negotiate their reduction.

Though the GSTP should therefore not be seen as challenging the WTO, it must be understood within the context of the DDA. The GSTP is partly an end in itself, to achieve the four purposes set out in section 2 above, but it is also being pursued with an eye to strengthening the position of the emerging powers in the WTO. At its launch the DDA was packaged as a 'development' round, in order to bring developing countries onboard and overcome their opposition to the launching of a new round. This has subsequently proved to be highly problematic, due to the unwillingness of the developed countries to make the kind of concessions that the developing countries demanded in the name of operationalising that 'development' content. Consequently, through the nearly 10 years of DDA negotiations, there has been a struggle over what the development content of the DDA should be. The EC and US position on this has been that the focus of the development content must be the degree to which the DDA opens up the markets of the emerging powers, particularly Brazil, India and China, as it is here that economic growth and therefore future demand is occurring. For example, US trade representative Ronald Kirk, in his statement to the opening session of the 2009 Geneva Ministerial Meeting, argued that

> While developed countries will continue to have a significant role in the global economy, advanced developing countries are playing an ever-increasing role as well. According to the International Monetary Fund, 58 percent of global economic growth between now and 2014 will be provided by China, India, Brazil, Argentina, South Africa and the ASEAN countries.

> *The creation of new trade flows and meaningful market opening, particularly in key emerging markets, is required to fulfil the development promise of Doha.* (WTO 2009, emphasis added).

The EC position has been similar, for which it was criticised by UK Parliament's International Development Committee, as being 'contrary to the idea of a development round' (House of Commons International Development Committee 2006: 3).

Those advanced developing countries being targeted by the US and EU have always fought against the demands for market opening, arguing that it was clearly the intention in the DDA work programme that developing countries (including them) would be granted special and differential treatment and that they would not be required to make the same level of market opening commitments as the developed countries. The developing countries considered the last round of trade negotiations (the Uruguay Round) to have been strongly biased against them, with high costs in areas such as intellectual property and weak to non-existent disciplining of agricultural subsidies in the agreement on agriculture. For them, the DDA was about redressing this imbalance and the asymmetries of previous rounds (Wilkinson, 2006).

The GSTP is a way of undermining the US and EC argument. The more advanced developing countries can argue that the DDA need not include greater opening of their markets for other developing countries – that has already been achieved by the GSTP. By signing the GSTP agreement, the major emerging powers have effectively closed off one of the key lines of defence being used by the US to shift attention away from its own highly criticised offers in market access and agricultural subsidies.

The GSTP should therefore be seen as part of a two-level game. Though it is not insignificant in its own right, the emerging powers that have been the principal driving forces behind it are partially using it instrumentally as a means of improving the strength of their position within the WTO. It is significant that the GSTP deal was announced at the WTO Ministerial Meeting in 2009, though it has, in principle, nothing to do with the WTO. This was justified on the fact that the WTO Ministerial brought together all the trade ministers from the participating countries, but it can also be seen as a means of sending a message to the other WTO members.

A similar effect is found in the more recent announcement by India and Brazil that they will be moving towards granting duty-free quota-free market access to all LDCs, an example of what Mark Langan has termed 'normative concessions' (Langan, 2009). On 18 March they informed the Committee on Trade and Development in the WTO that they are in the final stages of agreeing a preferential deal giving duty-free quota-free access covering 80 pe cent of tariff lines to LDCs, and will subsequently be expanding it to reach 100 percent (WTO 2010). Again, this deal is partly about increasing soft power, reassuring other developing countries and maintaining the idea of Southern solidarity, but it is also about undermining the US position. It was agreed at the Hong Kong Ministerial meeting of 2005 that, as part of the special and differential treatment provisions, the developed countries would offer LDCs duty-free quota-free market access, but at US insistence this was on only 97 percent of tariff lines, rather than all 100 percent (WTO 2005: Annex F). This was heavily criticised, however, as it was pointed out that the very narrow range of products LDCs export means that much of their trade could be excluded from the deal. For instance, the 97 pe cent agreement allowed around 300 tariff lines to be excluded from the deal, when 20-25 lines currently account for around two-thirds of Bangladesh's total exports (Oxfam, 2005: 15).

The India-Brazil offer of 100 percent duty-free quota-free market access should again be seen within this context. It is a means of increasing the pressure on the US to improve its offer within the DDA, and cement the carefully cultivated (though highly challenged) claim that India and Brazil are representing the developing world as a whole within the WTO negotiations.

7. Conclusion

The previous rounds of GSTP negotiations were limited in their results, with the first achieving only limited concessions and the second not ever being ratified. This paper has examined the latest round of negotiations and compared its impact on non-agricultural tariffs to the likely package that will emerge from the DDA. It has argued that the GSTP III has potentially gone beyond the tokenistic efforts of previous rounds, although the economic value of the agreement is very small and could be close to zero, depending on how it is implemented. Nonetheless, it remains the fact that the agreed cuts are significantly greater than those on the table within the DDA, in which the four countries examined here are primarily cutting water from their tariff schedules.

This paper has also argued that the GSTP is part of a wider set of South-South institutions that are being formed or revitalised due to the high growth rates seen in a number of developing countries. This is creating an overlapping mesh of two processes of governance, one South-South and one South-North. The emerging powers – particularly India and Brazil, though not confined exclusively to these two – are involved in both processes and their actions in each are intertwined. South-South partnership, this paper has argued, is being used as a means of influencing the North-South track, in this case to increase the leverage the major nations of the South have over the traditional institutions of global governance.

This process has possible positive and negative implications for other developing countries. Strengthening the hand of India and Brazil within the WTO negotiations is likely to make finding an eventual agreement even harder. It is hard to see the US being able to get an agreement through Congress that involves cutting into US agricultural subsidies and opens the US market without the counterbalancing opening of China, India and Brazil. Though this does not imply that the DDA will be shelved (there is little desire for that), it suggests that an eventual agreement may be little more than face-saving, or will repeat the Tokyo Round approach of using variable geometry – a series of plurilateral agreements, rather than a single undertaking. Both approaches hold pitfalls for the less powerful developing countries. They will see no significant reduction of agricultural subsidies and are less able to participate in plurilateral agreements.

Much also depends on the way in which the GSTP is implemented. If the major emerging powers choose to implement it in such a way as to include in cuts the relatively narrow range of products that are of interest to less developed countries, it could prove to be of value to them. This will be the real test of Southern solidarity. The challenge for the smaller developing countries is to use that notion of Southern solidarity as a fulcrum to exert influence on the more powerful countries that have been admitted to the inner circle of negotiators within the WTO, and through them to influence the overall DDA package. As high growth and rapid industrialisation increasingly drive apart the commercial interests of the less developed from the emerging developing countries, this may prove to be a tall order.

Bibliography

Ackerman, F. (2005). 'The shrinking gains from trade: A critical assessment of Doha Round projections'. Working Paper No. 05-01. Medford, MA: Global Development and Environment Institute, Tufts University.

Braveboy-Wagner, J. A. (2009). *Institutions of the Global South* (Abingdon, UK; New York: Routledge).

Chang, H.-J. (2005). *Why Developing Countries Need Tariffs: How WTO NAMA Negotiations Could Deny Developing Countries' Right to a Future* (Geneva: South Centre).

Cornelissen, S. (2009). 'Awkward embraces: Emerging and established powers and the shifting fortunes of Africa's international relations in the twenty-first century'. *Politikon, 36*(1), 5-26.

Endoh, M. (2005). 'The effects of the GSTP on trade flow: mission accomplished?' *Applied Economics, 37*, 487-496.

Gardner, R. N. (1956). *Sterling Dollar Diplomacy: Anglo-American Collaboration in the Reconstruction of Multilateral Trade* (London: Oxford University Press).

Garten, J. E. (1997). *The Big Ten: The Big Emerging Markets and How They Will Change Our Lives* (New York: Basic Books).

GATT (1979). 'Differential and more favourable treatment: Reciprocity and fuller participation of developing countries: Decision of 28 November 1979, 3 December, L/4903'.

George, C. (2010). *The Truth about Trade: The Real Impact of Trade Liberalization* (London and New York: Zed Books).

Goldman Sachs (2007). *The N11: More Than an Acronym* (New York: Goldman Sachs).

House of Commons International Development Committee (2006). *The WTO Hong Kong Ministerial and the Doha Development Agenda: Volume I* (London: The Stationery Office Limited).

Hurrell, A. (2006). 'Hegemony, liberalism and global order: What space for would-be great powers?' *International Affairs, 82*(1), 1-19.

Jawara, F. and Kwa, A. (2004). *Behind the Scenes at the WTO: The Real World of International Trade Negotiations*. (London; New York: Zed Books).

Laird, S., Vanzetti, D. and de Codoba, S. F. (2005). *Smoke and Mirrors: Making Sense of the WTO Industrial Tariff Negotiations. Policy Issues in International Trade and Commodities, Study Series no. 30* (New York and Geneva: UNCTAD).

Langan, M. (2009). 'ACP-EU normative concessions from Stabex to private sector development: Why the European Union's moralised pursuit of a "deep" trade agenda is nothing "new" in ACP-EU Relations'. *Perspectives on European Politics and Society, 10*(3), 416-440.

Little, I. M. D. (1982). *Economic Development: Theory, Policy, and International Relations* (New York: Basic Books).

Narlikar, A. (2006). 'Peculiar chauvinism or strategic calculation? Explaining the negotiating strategy of a rising India'. *International Affairs, 82*(1), 59-76.

Oxfam (2004). 'Oxfam background briefing on South-South trade and GSTP', 14 June. Available online from: www.oxfam.org.uk/resources/policy/trade/index.html (accessed 1 October 2010).

Oxfam (2005). 'What happened in Hong Kong? Initial analysis of the WTO Ministerial'. Oxfam Briefing Paper No. 85 (Oxford: Oxfam).

Segal, G. (1999). 'Does China matter?' *Foreign Affairs, 78*(5), 24-36.

Shaw, T. M., Cooper, A. F. and Chin, G. T. (2009). 'Emerging powers and Africa: Implications for/from global governance?' *Politikon, 36*(1), 27-44.

Taylor, I. (2009). '"The South will rise again"? New alliances and global governance: The India-Brazil-South Africa dialogue forum'. *Politikon, 36*(1), 45-58.

Toure, S. (1962). 'Africa's future and the world'. *Foreign Affairs*, 41(1), 141-151.

UNCTAD, (2004). 'GSTP trade: Current trends and implications of intra-GSTP tariff reductions'. Available online from http://www.unctadxi.org/Secured/GSTP/Articles/GSTPPresentationPuri.ppt (accessed 1 October 2010).

UNCTAD (2009). 'Global system of trade preferences among developing counties (GSTP): Ministerial decision on modalities, 2 December, SPR/NC/MM/1'. (Geneva: UNCTAD).

Weisbrot, M. and Baker, D. (2005). 'The relative impact of trade liberalization on developing countries'. In E. Hershberg and C. Thornton (eds.), *The Development Imperative: Toward a People Centred Approach* (New York: Social Science Research Council).

Wilkinson, R. (2006). *The WTO: Crisis and the Governance of Global Trade* (Abingdon, UK: Routledge).

Wilkinson, R. and Scott, J. (2008). 'Developing country participation in the GATT: A reassessment'. *World Trade Review, 7*(03), 473-510.

Wilson, D. and Purushothaman, R. (2003). 'Dreaming with the BRICs: The Path to 2050'. Global Economics Paper no. 99 (New York: Goldman Sachs).

WTO (2005). 'Doha Work Programme: Ministerial Declaration, adopted on 18 December 2005', 22nd December, WT/MIN(05)/DEC'.

WTO (2008a). 'Fourth revision of draft modalities for non-agricultural market access, 6 December TN/MA/W/103/Rev.3'.

WTO (2008b). 'Revised draft modalities for agriculture, 6 December, TN/AG/W/4/Rev.4'.

WTO (2009). 'Remarks of United States Trade Representative Ron Kirk at the Opening Plenary of the 7th Session of the WTO Ministerial Conference November 30, 2009 – Geneva, Switzerland'. Available online from www.wto.org/english/thewto_e/minist_e/min09_e/min09_statements_e.htm.

WTO (2010). 'Brazil, India to push ahead on duty-free schemes for the poorest countries'. WTO News Item, 18 March. Available online from: www.wto.org/english/news_e/news10_e/devel_18mar10_e.htm (accessed 1 October 2010).

The University of Manchester
Brooks World
Poverty Institute

MANCHESTER
1824

Executive Director
Professor David Hulme

Research Director
Professor Armando Barrientos

Contact:

Brooks World Poverty Institute
The University of Manchester
Humanities Bridgeford Street Building
Oxford Road
Manchester
M13 9PL
United Kingdom

Email: bwpi@manchester.ac.uk

www.manchester.ac.uk/bwpi

The Brooks World Poverty Institute (BWPI) creates and shares knowledge to help end global poverty.

BWPI is multidisciplinary, researching poverty in both the rich and poor worlds.

Our aim is to better understand why people are poor, what keeps them trapped in poverty and how they can be helped - drawing upon the very best international practice in research and policy making.

The Brooks World Poverty Institute is chaired by Nobel Laureate, Professor Joseph E. Stiglitz.

www.manchester.ac.uk/bwpi