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GROUP OF FIFTEEN

REGIONAL TRADING ARRANGEMENTS AND THE G-15 COUNTRIES

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It is somewhat significant to note that the establishment of the Group of Fifteen in 1989 was also the time when international trade barriers like customs duties and import quotas began to decline as countries the world over saw the benefits of trade liberalization. The Uruguay Round of international trade negotiations (1986-1994) picked up momentum the same year and culminated in the establishment of the World Trade Organization (WTO) in 1994. Trade liberalization under the WTO 'single package' continued till around the year 2000. This was the time when a large number of countries, including many G-15 countries, reduced custom duties significantly and also began relaxing quotas, subsidies and other non-tariff barriers to trade. World trade expanded very quickly during that period. The decade 1990-2000 was the first time global merchandise exports grew at a rate (6.2%) that was more than double the rate of growth of world GDP (2.3%)[1]. Countries vied with one another to become members of the WTO.

By the beginning of the next decade, countries, especially developing countries, began to realize that while world trade had expanded, it was the rich, developed countries that had benefited the most from multilateral trade liberalization. Governments of the latter group, driven by domestic corporations and business interests, were continuing to press for the opening up of developing country markets, in areas of interest to them, especially services, while exhibiting a stubborn reluctance to allow market access to developing country exports like agricultural products and temporary workers. The Doha Round of negotiations, which was the first round of international trade negotiations to be conducted under the auspices of the WTO, began in 2001 and was meant to take care of the interests of the developing world. However, negotiations have been going on for a full decade without result and have got bogged down mainly on the issue of the reluctance of developed countries to reduce agriculture subsidies substantially. WTO Ministerial meetings that were earlier held every two years have now begun to be organized after longer periods of time. The process of WTO accession remains tedious and time consuming[2]. All this has led to a major slowing down of the rate of trade liberalization under the multilateral trading system and countries have begun to look with considerable interest at the alternative path to trade liberalization via regional trading arrangements (RTAs) and bilateral trade agreements.

Such arrangements, under which two or more countries agree to reduce the trade barriers between themselves, have been proliferating during the past decade, aided by a faltering Doha Round. According to the latest data, some 474 RTAs had been notified as on 31 July 2010, up from 240 in the year 2000. G-15 member countries too have been part of this trend and are currently members of over 50 RTAs. Of these, 17 are regional

[1] http://www.wto.org/english/res_e/statis_e/its2009_e/charts_e/chart01.xls

[2] Russia, the largest economy outside the WTO membership, has been negotiating accession for the past 17 years. In June 2009 it announced that it would be willing to join the WTO only in a group along with trading partners like Belarus.

agreements involving groups of countries while around 35 others are bilateral in nature. Annexe Table 1 lists the various RTAs of which G-15 countries are members[3]. It can be seen from the table that Chile (17) followed by Mexico (12) have the membership of the most number of RTAs. Jamaica by contrast, is a member of just a solitary RTA, the CARICOM. The oldest RTA is the Protocol on Trade Negotiations signed in 1971 of which Brazil, Chile, Egypt and Mexico, among others, are members. The most recent RTA of which a G-15 country is a member is the bilateral free trade agreement between Chile and Malaysia signed in May 2010. The RTA that has the maximum number of G-15 countries as its members is the Global System of Trade Preferences (GSTP), the arrangement for preferential trade among members of the Group of 77 developing countries.

The following section looks at some of the prominent RTAs with one or more G-15 countries as members. There is also a brief analysis of whether membership of the RTA has benefited the concerned G-15 country. For the purposes of this paper, we assume that an RTA is beneficial if it leads to higher volumes of trade among member countries[4].

1) NAFTA

North Atlantic Free Trade Agreement

1. The United States of America
2. Canada
3. **Mexico**

The North Atlantic Free Trade Agreement (NAFTA) was signed by the US, Canada and Mexico in 1994. The agreement mainly introduced preferential trade between Mexico and the other two countries (preferential trade between the US and Canada had existed for the previous three decades). NAFTA provided for the gradual elimination of tariffs and non-tariff barriers over 15 years. The agreement also contained provisions for market access to U.S. firms in most services sectors; protection of U.S. foreign direct investment in Mexico; and intellectual property rights protection for U.S. companies. In separate side agreements, NAFTA also includes provisions related to environmental and labor concerns.

At the time the agreement went into effect, a number of economic studies predicted that the NAFTA would have a positive overall effect on the Mexican economy. For Mexico itself, NAFTA was a major risk – opening itself to an economy 25 times larger in economic terms. The end result has been mixed. NAFTA enabled Mexico to expand its exports significantly to the US and Canada. The country also received large amounts of FDI, as firms from many parts of the world shifted their manufacturing facilities there in order to obtain access to the huge US market at concessional tariffs[5]. On the negative side, NAFTA resulted in a lopsided trade structure for Mexico, with 85% of

[3] Other RTAs/bilateral agreements also exist which remain un notified (to the WTO) as they do not qualify under the specific WTO rules on RTAs such as “substantially all trade” coverage. Obvious examples of these are those trade agreements that have a single or limited sector coverage.
[4] A more scientific analysis would involve considering other factors, like the loss of tariff revenues or the transfer of technical and managerial skills facilitated by RTA membership. However, the difficulty of obtaining country-wise data on such factors has prevented us from carrying out such a precise exercise.
[5] NAFTA favourably impacted the Maquila programme, which facilitated US firms to send components for assembly on the Mexican side of the border and then re-exported to the US, subject to only a small customs duty on the value added in Mexico.

its exports being directed to the US and 50 % of its imports being sourced from that country alone. The dangers of such over dependence came to the fore in the recent financial crisis of 2008-09 where recession in the US economy had an immediate impact on Mexico, which became the first country to receive a financial bail-out package from the IMF in February 2009.

2) MERCOSUR

MERCOSUR (Southern Common Market)

1. **Argentina**
2. **Brazil**
3. Paraguay
4. Uruguay
5. **Venezuela**

This regional grouping was established in 1991 with headquarters in Montevideo, Uruguay, and encompassed Argentina, Brazil, Uruguay and Paraguay. A fifth member, Venezuela acceded in 2006. Mercosur closely approximates a Customs Union, which is characterized by a common external tariff and free trade among member countries. While it has eliminated more than 85% of the internal tariff and non-tariff barriers in merchandise trade, there have been some difficulties in maintaining a common external tariff.

Observers believe that while the benefits of Mercosur may not have been equally shared, all members have benefited from the reduction in internal tariffs. As a result, trade has expanded rapidly among member countries, but especially between the two largest economies, Argentina and Brazil. In 2007, Argentinean merchandise exports to Brazil amounted to $10.5 billion, making it the largest trading partner. The same year Brazil exported $14.5 billion worth of goods to Argentina, making it the second largest trading partner, after the US. The third G-15 member of Mercosur, Venezuela, is still in the process of integrating into the RTA. It is therefore too early to make an assessment of Mercosur membership on Venezuela's trade.

3) US-Chile free trade agreement

US-Chile FTA

1. United States of America
2. **Chile**

Unlike its neighbours who have joined regional trading agreements such as Mercosur or the Andean Community, Chile has preferred to take the bilateral trade agreement route. This country has signed the largest number of bilateral FTAs among G-15 countries including agreements with Australia, Canada, China, Colombia, Costa Rica, El Salvador, India, Japan, Mexico, Korea, Panama, Malaysia, the US, the EU and the European Free Trade Association (EFTA).

Of all Chile's bilateral FTAs, the one signed with the US in 2003 is the most well known. Regarded as an expanded version of NAFTA, the US-Chile FTA has been the model for several bilateral agreements signed by the US during the past decade. The agreement allowed for 97% of all Chilean exports to enter the US market duty free within a period of three years. The FTA has several 'WTO-plus' clauses relating to foreign investment and also includes chapters on environment, labour and the protection of intellectual property rights. According to available data, in the five years since the agreement came into effect, Chile's exports to the US grew 121% from $3.5 billion in 2003 to $8 billion in 2008. Significantly however, US exports to Chile rose by a much higher 331%, from $2.5 billion to $10.8 billion[6].

[6] Website of the California Chambers of commerce, www.calchamber.com

Thus, while Chile may have benefited from preferential access to the US market, the US has clearly benefited more. There has also been some reduction of Chile's policy space with respect to the environment, labour standards, FDI and intellectual property.

4) CARICOM

The Caribbean Community and Common Market or CARICOM is a grouping of 15 countries and dependencies that was established in 1973 and is headquartered in Georgetown, Guyana. One G-15 country, Jamaica, is a founding member of the Group whose members have had duty free access to each other's markets for several years.

Caribbean Community and Common Market

1. Antigua and Barbuda	2. The Bahamas
3. Barbados	4. Belize
5. Dominica	6. Grenada
7. Guyana	8. Haiti
9. **Jamaica**	10. Montserrat
11. Saint Lucia	12. St. Kitts and Nevis
13. St. Vincent & Grenadines	14. Suriname
15. Trinidad and Tobago	

Has Jamaica's trade benefited from membership of CARICOM? According to available data, the country's trade balance with the rest of the Group went from a surplus of $24 million in 1984 to a deficit of $1.63 billion in 2008. Even if the $1 billion imports of petroleum products from Trinidad and Tobago (the main oil exporter in the region) is removed, the trade deficit in 2008 remains at a significant $600 million. Specifically, Jamaica has trade deficits with six out of its 14 Caribbean trading partners, most of whose economies are considerably smaller in size. Critics point out that several billion dollars worth of customs revenues have been lost to the government from the duty free imports conceded due to membership of CARICOM. All this has led to rising calls within the country for the withdrawal of Jamaica from the agreement[7].

5) ECOWAS

The Economic Community of West African States or ECOWAS is a grouping of 15 countries that was established in 1975 with headquarters in Abuja, Nigeria. Two G-15 countries, Nigeria and Senegal are members of ECOWAS. Under its revised charter of 1993, ECOWAS members agreed to the elimination of tariffs in intra-regional trade. However, the dependency on customs revenues by several member countries has meant that this objective has not been achieved. Observers also point to significant non-tariff barriers that exist on imports from member states. As a consequence, growth in intra ECOWAS trade has been small and, according to the WTO, amounts to just 11 % of trade with non-ECOWAS countries[8].

Economic Community of West African States

1. Benin	2. Burkina Faso
3. Cape Verde	4. Cote d'Ivoire
5. Gambia	6. Ghana
7.Guinea	8. Guinea-Bissau
9. Liberia	10.Mali
11.Niger	12. **Nigeria**
13. **Senegal**	14. Sierra Leone
15. Togo	

In 2007, only 5.5% of Nigeria's exports (mainly oil) were traded with ECOWAS countries and just 2.8 % of its imports originated from ECOWAS states. In the case of Senegal, however, the picture is different. Senegal's exports to ECOWAS countries in 2007 amounted to 37% of its total exports, even though just 6.2% of its imports were

[7] See the editorial in the 10 July 2010 edition of the Jamaica Gleaner, the country's leading newspaper.
[8] World Trade Report 2005, WTO.

sourced from there. Senegal also has a trade surplus with all the ECOWAS members except Cote d'Ivoire, Ghana and Nigeria. Nigeria, by contrast, has a trade surplus with just six ECOWAS member states. It appears, therefore, that ECOWAS membership has had a positive effect on Senegal's trade, but not on that of Nigeria.

6) EAC

The East African Community or EAC comprising Kenya, Tanzania and Uganda came into existence in July 2000 with headquarters in Arusha, Tanzania. The group established a Customs Union in 2005 by abolishing internal tariffs and establishing common external tariffs. The Republics of Rwanda and Burundi joined the EAC in 2007, taking total membership to five.

East African Community
1.Burundi
2**. Kenya**
3. Rwanda
4.Tanzania
5. Uganda

Kenya's merchandise exports to Uganda (mostly light engineering goods and processed foods) have nearly doubled from $468 million in 2004 to $820 million in 2007, making it the single largest export destination for Kenya, far ahead of the UK, which occupied second position with exports of $451 million in 2007. Kenya's exports to Tanzania have also improved significantly from $226 million in 2004 to $397 million in 2007, making it Kenya's third largest export destination, ahead of the Netherlands ($396m) and the US ($311m). This data clearly shows that the exports of the only G-15 member of the EAC, Kenya, have gained from membership of the RTA.

7) SADC

The Southern African Development Community (SADC) was formed in 1992 with the ultimate objective of deep regional integration. It currently has 15 members, including one G-15 country, Zimbabwe, and its secretariat is headquartered in Gaborone, Botswana. In the year 2000, 12 out of the 15 members of SADC, including Zimbabwe, decided to enter into a free trade agreement with one another. The relevant trade protocol did not require the abolition of tariffs, but a gradual phasing out of existing tariffs, harmonization of trade procedures and definite rules of origin. Tariffs were reduced by varying degrees, with the more developed RTA members like South Africa and Botswana reducing their customs duties in 2000 itself, middle-income members like Zimbabwe and Mauritius reducing them between 2000 and 2008 and LDCs like Mozambique and Zambia only during 2007-2008.

Southern African Development Community	
1.Angola	2. Botswana
3. D.R. of Congo	4. Lesotho
5. Madagascar	6. Malawi
7. Mauritius	8. Mozambique
9. Namibia	10.Seychelles
11. South Africa	12. Swaziland
13. Tanzania	14. Zambia
15. **Zimbabwe**	

To what extent has Zimbabwe benefited from SADC membership? Trade data shows that three SADC countries, viz. South Africa, the Democratic Republic of Congo and Botswana figured among the top five export destinations of Zimbabwe in 2007 (Japan and the Netherlands being the remaining two). Similarly, three SADC members, viz. South Africa, Botswana and Zambia also figured in the top five sources of imports for Zimbabwe (China and the US being the other two). Indeed, Zimbabwean exports to South Africa have jumped seven times between 2001 and 2007 from $125m to $845m. South Africa is also by far the single largest source of Zimbabwe's imports, sending

$1196m worth of merchandise in 2007, ahead of the $200m sourced from China that year. There appears no doubt of the benefits RTA membership has brought to Zimbabwe's international trade.

8) Euro-Med FTA

Union for the Mediterranean
EU-27
Algeria
Egypt
plus 14 other countries of North Africa & the Middle-East bordering the Mediterranean.

Two G-15 countries, Egypt and Algeria, are members of the Euro-Mediterranean Partnership, a grouping launched in Barcelona in 1995 between the then 15 members of the EU and 10 countries of North Africa and the Middle East bordering the Mediterranean Sea[9]. The free-trade aspect of the agreement was implemented from 1 January 2004. On the EU side, customs duties and quantitative restrictions on Egyptian and Algerian exports were completely dismantled with the exception of textiles and garments, which were subject to quotas. On the Egyptian and Algerian side, import tariffs on European goods were reduced by 25% in the first three years, which was to be followed by further reductions staggered over the next decade and a half.

Have Egyptian and Algerian exports gained from the RTA? Trade statistics show that Egyptian exports to the EU-15 countries have doubled since 2004, while imports have increased by around 1½ times. However, once petroleum exports are excluded, the picture changes dramatically. Non-oil exports from Egypt to the EU-15 countries rose from Euro 1.15 billion in 2003 to Euro 2.7 billion in 2009 i.e. by 135%. By contrast, imports (including oil) from the EU-15 rose from Euro 3.22 billion in 2003 to Euro 12.5 billion in 2009 i.e. an increase of 288%. The trade balance is likely to be all the more skewed in Algeria's case, as that country's export basket is almost entirely composed of hydrocarbons. It appears then, that it is the EU that has been the greater beneficiary of the Euro-Med FTA.

9) ECO

Economic Cooperation Organization	
1. Afghanistan	2.Azerbaijan
3. **Iran**	4. Kazakhstan
5. Kyrgiz Republic	6. Pakistan
7.Tajikistan	8. Turkey
9. Turkmenistan	10. Uzbekistan

The Islamic Republic of Iran is a founding member of the Economic Cooperation Organization (ECO) formed in 1985, which now comprises 10 countries, mostly of Central Asia. The secretariat of ECO is located in Tehran. Member countries of ECO signed a preferential trade agreement in 2003 called ECOTA, under which they agreed to lower tariffs down to a maximum of 15% within 8 years following ratification by the respective governments. ECOTA was ratified by Iran only in March 2008. It is therefore too early to assess its impact on the external trade of Iran.

10) SAFTA

South Asian Free Trade Agreement	
1.Afghanistan	2. Bangladesh
3. Bhutan	**4. India**
5. Maldives	6. Nepal
7. Pakistan	**8. Sri Lanka**

The South Asian Free Trade Agreement (SAFTA) was signed in 2004 between the eight countries of the South Asian Association for Regional Coopera-

[9] The Euro Med Partnership was re-launched in 2008 as the Union for the Mediterranean and now includes 27 EU states and 16 partners across the southern Mediterranean and the Middle East.

tion (SAARC) that is headquartered in Kathmandu, Nepal. Two G-15 countries viz. India and Sri Lanka are signatories to SAFTA. The agreement envisages 0-5 percent customs duties for all products traded among member countries by 2013/14 (2016 for the LDC members).

According to the available data, between 2003 and 2007, India's total trade with SAFTA countries increased from $5.1 billion to $9.6 billion i.e. by 88%. However, during the same period, India's trade with the rest of the world increased from $175 billion to $402 billion, i.e. by a much larger 130%. Sri Lanka's global trade rose by 38% from $13 billion in 2003 to $19 billion in 2007, while its trade with SAFTA countries grew by a higher amount of 66 % from $2.1billion to $3.5 billion. This however hides the fact that the bulk of the increase in Sri Lanka's trade with SAFTA countries is due to its growing trade with a single member country, India, which experts attribute to the bilateral FTA signed between the two G-15 countries in 2000.

Some experts believe that an important reason for the relative lack of success of SAFTA is a near identical export basket among several countries of Southern Asia that is dominated by garment (and textiles) exports.

11) AFTA

The ASEAN Free Trade Area (AFTA) refers to the agreement signed by the Association of Southeast Asian Nations (ASEAN) in 1992 to reduce/eliminate tariffs on trade with each other. Two G-15 countries, Malaysia and Indonesia are signatories to AFTA, which is monitored through the ASEAN secretariat in Jakarta. Among the specific objectives of the RTA was to reduce import duties on intraregional trade to 0-5 percent by 2003 for the original six ASEAN members, which include both the G-15 countries. According to the ASEAN secretariat, this target was achieved on time for 98% of tariff lines[10]. The AFTA agreement was updated in 2003 to provide for four other Southeast Asian countries that had meanwhile joined the Group.

ASEAN Free Trade Area	
1. Brunei Darussalam	2.Cambodia
3. Indonesia	4. Laos
5. Malaysia	6. Myanmar
7. Philippines	8. Singapore
9. Thailand	10. Vietnam

Both Malaysian and Indonesian exports have benefited from membership of the regional trading agreement. According to Malaysia's Ministry of Trade and Industry, over the last 10 years, the country's trade with ASEAN has registered an annual average growth of 10% and now 25% of Malaysia's total trade is with ASEAN countries. Malaysia's exports to Indonesia doubled between 2003 (when the reduced tariff protocol was implemented) and 2007, while exports to the rest of ASEAN also rose significantly. In Indonesia's case, ASEAN accounted for only 10% of exports at the time of the formation of AFTA. By 2006, Indonesia had increased its export share to ASEAN to 18%. Furthermore, Indonesian exports to the four larger AFTA countries viz. Singapore, Malaysia, Thailand and the Philippines more than doubled between 2003 and 2007.

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[10] With effect from I January 2010, ASEAN became a free trade area with tariffs completely eliminated on intraregional trade.

A number of conclusions can be drawn from the experience of G-15 countries with regional trading agreements as described above. Firstly, whenever G-15 countries have formed an RTA with developed countries, it is the latter that have reaped the greater benefit in terms of the incremental increase in exports. This is quite evident from the experience of Mexico in NAFTA, Chile in its bilateral agreement with the US and Algeria and Egypt in the Euro-Med RTA. Secondly, many North-South RTAs tend to narrow the policy space for the developing country partners by including rules and disciplines in sectors like foreign investment, labour and environment standards, intellectual property, movement of skilled personnel etc. NAFTA and the US-Chile agreements are the most striking examples of this. By contrast, South-South RTAs seem to be generally helpful for significantly boosting the trade relations of member countries without any cumbersome conditions. As this paper has shown, Brazil and Argentina have benefited from Mercosur membership as have Malaysia and Indonesia from membership of AFTA; Kenya's exports to neighbouring Uganda and Tanzania have boomed ever since it joined the East African Community and SADC countries are the leading export destinations and import sources in Zimbabwe's global trade. However, as noted in the case of SAFTA and CARICOM, not all South-South FTAs have brought tangible benefits for the member countries. Finally, with exceptions like Jamaica in CARICOM and Nigeria in ECOWAS, it is the larger countries that have derived the greater benefits from membership of a regional trading arrangement.

Some thoughts on an RTA among G-15 countries.

The Panel of External Consultants that examined the challenges facing the Group in 2005 did not support the idea of a G-15 RTA. In their report, the Panel stated *"Under the new wave of regionalism which has swept the world since the late 1980s and early 1990s, there has no doubt been a proliferation of regional grouping among developing countries. There has also been a virtual transformation in the forms and scope of such groupings. But, these groupings fall into an entirely different category. The G-15 transcends these groupings as its ambit, by implication, covers the entire universe of developing countries. The task of the G-15 should be to analyze the trends in new regionalism, and adopt common positions on negotiating issues relating to this phenomenon. Any attempt by the G-15 to compete with these groupings by way of converting itself into a preferential trading arrangement, will militate against the very rationale of the G-15."*[11]

There remain, however, several compelling reasons for considering an RTA among G-15 countries, especially when the Group seeks to revitalize itself by inter alia, attempting to bring tangible benefits to its member countries. The Panel of External Consultants appears to have been guided in its views by a more political conceptualization of the Group - one that sees the Group of Fifteen as a representative of the larger comity of developing countries, and one which does not compete with other developing countries for material benefits.

[11] Paragraph 21 of the Report of the Panel of External Consultants on the Examination of the Challenges facing the Group of Fifteen and Evaluation of its Projects for South-South Cooperation; Geneva, 6 May 2005.

What are the specific reasons that make an RTA among G-15 countries an attractive proposition for its members?

- In the first case, G-15 members stand to benefit from the large size of the Group that comprises one-third of the world's population and has large economies like those of India, Brazil, Mexico and Indonesia as members. All member countries stand to benefit from the economies of scale that become available to their exporting firms as they get preferential access to such an enormous market.
- An RTA among G-15 countries is more likely to be based on equitable and reciprocal measures. For instance, in a G-15 RTA, there is the strong possibility of significant tariff reduction, given the fact that tariffs are still relatively higher in developing countries. Thus, firms in member countries would be able to get larger concessions on customs duties on their exports when compared with the duty concessions they would get in an RTA with a developed country where, average tariffs are already at low levels.
- A G-15 RTA is also more likely to be more balanced in terms of sectoral coverage. Most North-South RTAs are designed to suit the trade interests of the developed partners. For example, most of the bilateral FTAs signed by the US have specific chapters on financial services, telecommunications or electronic commerce – all sectors of interest to US business. A G-15 RTA is likely to cover sectors of interest to businesses in all member countries.
- Most North-South RTAs go beyond trade issues and include rules on FDI, access to skilled workers from the developed country and other 'WTO-plus' conditions such as labour and environmental standards that constrain exports from developing countries and also reduce policy space for developing country governments. A G-15 RTA unlikely to have such clauses that constrain the actions of the businesses and decision makers of member countries.

Are there trade complementaries among G-15 countries that can justify them coming together to form an RTA? A common argument against South-South RTAs is that they are not likely to lead to trade expansion because of the similarity of their exports. This is generally not true and except for a few instances like SAFTA, where many member countries are garment exporters, a significant degree of trade complementarity can be found in trade among developing countries.

Within the G-15, two examples will suffice to show how an RTA will benefit member countries through mutual complementarity in exports and imports. Among the G-15 members, there are several major importers of food grains. Algeria, for example, is one of the world's largest food importers, especially of wheat and maize. However, it obtains these mostly from the EU, especially France, Europe's biggest wheat producer. Like Algeria, Egypt too is a major food grains importer, but its imports are sourced from Russia, France and the US, indirectly buttressing the agricultural subsidy policies of the latter countries. Other G-15 food grain importers are Indonesia, Sri Lanka, Kenya, Nigeria and Senegal. A G-15 RTA would enable these countries to source their food grains from a country like Argentina, which is a major developing country producer and exporter of wheat and maize. The diversion of demand for agricultural products from the US and the EU could also put pressure on these countries to review their agricultural subsidies policies, which are known to undermine agricultural exports from developing countries.

A second example is that of pharmaceuticals, which figure among the top 10 imports of several African and Latin American G-15 countries including Kenya, Senegal, Algeria, Argentina, Brazil, Venezuela and Jamaica. Most of these countries presently obtain their imports from Western pharmaceutical firms at a high price. On the other hand, India has emerged as a major exporter of (generic) medicines, exporting more than $3 billion worth of medicines in 2007. Such countries could benefit substantially from a G-15 RTA, which also would have India as a member[12].

It is possible to argue that 14 out of the 17 G-15 countries are already members of the Global System of Trade Preferences (GSTP).[13]. However, the achievements under the GSTP thus far have been minimal, and have been described as of "little economic or commercial value", despite the fact that the RTA was created as far back as 1988[14]. The pace of the trade negotiations under the GSTP has been painfully slow and this can perhaps be attributed to the relatively large membership of 43 countries. A G-15 RTA with compact membership of 17 countries may be of an optimum size that could facilitate speedy negotiations on the trade concessions, while at the same time, retaining the benefits of economies of scale for its members.

As a word of caution, however, it is necessary to remember that the higher transportation costs of trading goods that a cross-continental RTA would entail, may cut into the savings made in the cost of exporting goods by way of a reduction in customs duties. In general, the Gravity Principle[15] continues to hold in international trade and this is why most RTAs are regional rather than inter-regional. A study of the logistics involved is therefore essential in order to check if a G-15 RTA is economically viable or otherwise. Finally, the finding that larger economies tend to benefit more in an RTA has implications for any proposed G-15 RTA, given that the Group comprises of countries of different sizes and levels of development. It essentially means that there would be the need for providing special and differential treatment to the smaller and poorer member countries so that the benefits are distributed equitably across the membership of the Group.

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The Technical Support Facility
Geneva, October 2010

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[12] A more scientific analysis of trade complementarity among G-15 countries can easily be attempted, using established economic techniques such as Revealed Comparative Advantage (Balassa, 1965, Chen, 1992).
[13] Kenya, Jamaica and Senegal have not joined the GSTP.
[14] Quoted in Article " Progress towards South-South tariff cuts" by Chakravarti Raghavan, Third World Network, Issue 392, 1-15 January 2007.
[15] The Gravity Principle states that trade between two countries is directly proportional to their size and inversely proportional to the physical distance between them.

Annexe Table 1

RTA Membership of G-15 Countries

	Regional Trading Agreement		
Algeria	1. GSTP (1989) 2. Jordan-Algeria (1999) 3. European Community-Algeria (2002) 4. Algeria-Tunisia (2008)		
Argentina	1. Latin American Integration Association (1980) 2. GSTP (1989) 3. MERCOSUR (1991)		
Brazil	1. Protocol on Trade Negotiations (1971) 2. Latin American Integration Association (1980) 3. GSTP (1989) 4. MERCOSUR (1991)		
Chile	1. Protocol on Trade Negotiations (1971) 2. Latin American Integration Association (1980) 3. GSTP (1989) 4. Canada-Chile (1996) 5. Chile-Mexico (1998) 6. Chile-Central America (1999)	7. US-Chile (2003) 8. EC-Chile (2003) 9. Republic of Korea – Chile (2003) 10. EFTA-Chile (2003) 11. Trans-Pacific Strategic Economic Partnership (2005) 12. Chile-India (2005)	13. Chile-China (2006) 14. Chile-Colombia (2006) 15. Chile-Japan (2007) 16. Australia-Chile (2008) 17. Chile-Malaysia (2010)
Egypt	1. Protocol on Trade Negotiations (1971) 2. GSTP (1989) 3. Pan-Arab FTA (1997) 4. COMESA FTA (2000) 5. EU-Egypt (2004)	6. Egypt-Turkey (2005) 7. EFTA-Egypt (2007)	
India	1. Asia-Pacific Trade Agreement (1975) 2. GSTP (1989) 3. India-Sri Lanka (2001) 4. SAFTA (2004)	5. India-Singapore (2005) 6. Chile-India (2005) 7. MERCOSUR-India (2009) 8. India-ASEAN (2010)	
Indonesia	1. GSTP (1989) 2. AFTA (1992)		

	3. Japan-Indonesia (2007)		
Iran	1. GSTP (1989) 2. ECOTA (2003)		
Jamaica	1. CARICOM (1973)		
Kenya	1. East African Community (2000) 2. COMESA FTA (2000)		
Malaysia	1. GSTP (1989) 2. AFTA (1992) 3. Japan-Malaysia (2006) 4. Pakistan-Malaysia (2007) 5. Chile-Malaysia (2010		
Mexico	1. Protocol on Trade Negotiations (1971) 2. Latin American Integration Association (1980) 3. GSTP (1989) 4. NAFTA (1994)	5. Costa Rica - Mexico (1995) 6. Mexico-Nicaragua (1998) 7. Chile-Mexico (1998) 8. EU-Mexico (2000) 9. Israel-Mexico (2000)	10. Mexico-Northern Triangle (2000) 11. EFTA-Mexico (2001) 12. Japan-Mexico (2005)
Nigeria	1. GSTP (1989) 2. ECOWAS (1993)		
Senegal	1. West African Economic & Monetary Union (1975) 2. ECOWAS (1993)		
Sri Lanka	1. Asia Pacific Trade Agreement (1975) 2. GSTP (1989) 3. India-Sri Lanka (2001) 4. SAFTA (2004) 5. Pakistan-Sri Lanka (2005)		
Venezuela	1. Latin American Integration Association (1980) 2. GSTP (1989) 3. MERCOSUR (2006)		
Zimbabwe	1. GSTP (1989) 2. SADC (1992) 3. COMESA FTA (2000)		

Source: World Trade Organization trade statistics (except for Algeria and Iran).