



Issue Paper

CUTS
International
London
Resource
Centre

2/2005

Special & Differential Treatment for Developing Countries in the Doha Round

Vague Good Intentions

What is currently on the table is a combination of vague good intentions at the general level: development is an 'integral part of the Doha Ministerial Declaration', whereby developed countries 'should' open their markets to least developed countries (LDCs); and at the specific level, that developing countries should be allowed to make smaller reductions against their own tariffs. The general proposals do not meet the developing countries' demands for enforceable commitments and the specific ones merely extend the type of rule differentiation offered in the last Uruguay Round. However, developing countries have not formulated a new model for S&DT.

The discussion now must be different from that in the Uruguay Round for three reasons. Firstly, developing countries are now active participants in the Round, and have made it clear that they will not be party to a consensus settlement until they see clear gains. Secondly, bilateral initiatives since 1995, by the European Union (EU) for the LDCs and by the US for Africa, have demonstrated that preferential treatment is valuable, and therefore, this is something to seek and try to keep. Thirdly and finally, the commitments inside and outside the World Trade Organisation (WTO) to reducing poverty mean that the results of the Round will be judged by different standards.

Diverse Developing Country Interests

Designing a 'developmental' outcome that helps all developing countries is not straightforward. The effects of a deal in the Round will be different for different countries. The characteristics of individual developing members of the WTO are too diverse. Their interests and priorities vary to a much higher degree than among the 'developed members', a much more homogenous group of countries.

For most developing countries the Doha Round will – if it succeeds – bring increased market access, in both developed as well as other developing markets. Increased access for all developing countries means lower preferences for some. For many countries, the gains will exceed any losses, but there remains a small number of countries for which these gains are too meagre to compensate for their preference losses.

The Costs of Adjustment

Some developing countries will face costs of adjusting to a less distorted trading system, if the current Round achieves this. The preferences that they have received will be reduced, and therefore, their rents from higher prices and in most cases also the volume of their exports will fall, reducing their income. Consequently, they will suffer significant losses if trade is liberalised. Total world welfare will be increased because removing protection will remove trade distortions, with the gains going to both the currently protecting countries and the currently non-preferred developing countries.

Some of the currently preferred countries will gain because their exports will rise. However, the problem is that there remains a small number of countries for which these gains are too small to compensate for their preference losses. Hence, the

criterion that S&DT should increase the benefits to developing countries from trade suggests action is necessary. Because it is only a small number of countries, the cost of providing them with funds to meet the losses is also small.

Given the rhetoric and the frequent references to development in the 2001 Doha Declaration and the 2004 'July package', the Doha Round will be very much judged on whether it has delivered on the developmental aspects. The issue of 'special & differential treatment' (S&DT) is thus at the core of the negotiations but not much seems to have come out of the discussions in concrete terms.

WTO Compensation Fund

Developing countries need non-repayable support from the developed world in order to be able to make the investments in physical and human infrastructure, and in productive capacity, to permit alternative production. Compensating these countries through a fund would of course be a major new initiative for the WTO and could seem inconsistent with its role as a trade agency. The reason for suggesting it is that the other proposals for dealing with the problem of preference erosion are more unsatisfactory and difficult. Alternative gains from trade (in goods) are either too small or (in services) too sensitive.

Postponing liberalisation hurts more people in developing countries than it helps.

Previous S&DT in the Doha Declaration and existing WTO agreements has often been of a 'best endeavours' nature. Such clauses have raised expectations, but have not been enforceable. As a result, they have led to dissatisfaction. It is, therefore, absolutely necessary that the fund proposed here is bound in a way that the commitments by the more developed WTO members will be legally irrevocable.

Good Intentions Not Enough

The development side of the Round must also avoid creating new problems. The preferences, which are now an obstacle, were the result of past good intentions for development, but good intentions are not enough. This suggests two other requirements for a development round.

First, any new differentiation for developing countries must be as clearly defined, limited, and enforceable as any other WTO provisions. Where there is a risk that helps for some developing countries comes at the cost of discrimination against others, there must be provision for those who lose either to give their consent or to receive appropriate alternative support.

Second, any new general provisions must recognise that most members of the WTO are now developing countries. Rules must be designed in a way that do not require new special treatment, as this would now apply to a majority of members. When it was founded, GATT was what today would be called a group of like-minded countries, a group of major traders accepting a particular system of international economic relations.

This meant that the members could assume agreement on a common approach to most rules. As it expanded, it has acquired *de facto* status a different aspect of being the organisation that regulates most international trade.

This has given countries which might not be 'like minded' an incentive to group together to avoid the costs of exclusion from both trade and rule-making. At the same time, the existing members have started to believe that universality of membership is an additional goal of the WTO. If the WTO members now accept that the organisation should aim for universal membership, in order to ensure that the benefits of certainty and predictability apply to all trade by its members, then there are two possibilities. First, some countries are permanently 'different' and second, the certainty that some will not share the same approach to all rules. To simplify this implies that the WTO must either limit its rules to those which can benefit and be accepted by all members or allow permanent derogations for countries with different economies or different approaches to economic policy.

The Doha Round will not be successfully concluded unless the question of S&DT is confronted and addressed in a way that gives some security for the countries, which have benefited from it in the past and which creates a legally and developmentally sound system for the future.

This argument is developed further in: Sheila Page and Peter Kleen, 'Special & Differential Treatment of Developing Countries in the World Trade Organisation' (www.egdi.gov.se)

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