Chapter 3

Special and Differential Treatment for Developing Countries

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Special and Differential Treatment (SDT) has a long history in the GATT and the WTO. In the GATT, developing countries were relieved of some obligations and thus granted differential treatment in several parts of the Agreement. This has influenced the role that the developing countries were able to play in the development of the trade system. Most notably, developing countries were allowed, under Article XVIII:B, to maintain quantitative restrictions for balance of payments reasons.¹ As it was very common for developing countries to suffer from chronic balance of payments problems, this essentially voided any value for other countries of “concessions” that they might have made in reducing tariff levels. Binding such tariffs was similarly of little meaning where trade was controlled by quantitative restrictions. Thus developed countries expected little in the way of reciprocal tariff concessions in the periodic rounds of trade

* Comments from Bernard Hoekman and other participants are appreciated but the author retains responsibility for the ideas herein.

¹ The original balance of payments provision was contained in Article XII, but this was complemented in the Review of the GATT in 1954-5 by the inclusion of an explicit provision for developing countries contained in Article XVIII. This article also allowed quantitative restrictions on infant industry grounds for developing countries, but the balance of payments clause was by far the most used.
negotiations. Developed countries themselves made full use of the concept of reciprocity in successive trade rounds, particularly in the Kennedy Round (1963-68), to reduce trade barriers on manufactured goods. But agricultural and textile products, of export interest to many developing countries, were not subject to the same process of liberalization. The combination of this sectoral bias, and the lack of reciprocity, reinforced the notion that the GATT was a rich-country club.

Recognition by developed countries of the problems faced by developing countries in the trade system began to emerge as early as the 1950s. But the solutions did not result in fuller inclusion in the system. The practice of non-reciprocity became elevated to the level of principle when the GATT contracting parties added Part IV in 1964, in which developing countries were formally relieved of their obligation to offer reciprocal concessions. Part IV did include some more positive aspects of inclusion, but most were of an exhortatory nature, and did not impose any obligations on developed countries.\(^2\) In 1979, the differential rules were encompassed in the Decision on

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\(^2\) Part IV comprises three articles: Article XXXVI expresses the principle that development should be an objective of the trade system and includes non-reciprocity as a step toward that goal; Article XXXVII lays out some ways in which developed countries can assist developing countries; and Article XXXVIII provides for “joint action” to deal with development issues. In spite of its symbolic significance, Part IV did not change the legal obligations of either developed or developing countries in the GATT. One institutional development survives from Part IV: the Contracting Parties agreed to set up a Trade and Development Committee to consider the implementation of the exhortations. However, the United Nations Conference on Trade and Development (UNCTAD) was convened in 1964 and became the preferred focus for developing-country issues. See Hudec (1987) and Finger and Winters (1998) for fuller discussions of Part IV of the GATT.
Differential and More Favorable Treatment, Reciprocity, and Fuller Participation of Developing Countries, better known as the “enabling clause.”

In addition, SDT has now been built into many of the agreements that make up the WTO. In particular, it is an integral part of Uruguay Round Agreement on Agriculture (URAA), and was emphasized in the Doha Development Agenda and reinforced in the Framework Agreement of August 1, 2004 (WTO 2004). The task ahead is to elaborate on the details of tariff cutting, tariff caps, TRQs, and so on, in a way that gives meaning to the commitments to developing countries.

This chapter explores, in a qualitative way, the costs and benefits to developing and developed countries of different types of SDT in the agricultural negotiations. The first section addresses the strategic issues that face both the developing countries and the developed countries as they proceed in the negotiations cycle. The second section discusses in more detail the SDT provisions that are in the URAA and that have been incorporated in the Framework for the agricultural talks. The final section discusses the economic and political merits of these provisions.

Strategic issues for negotiations

Given the acceptance already of some degree of SDT, the developing countries do not need to expend significant negotiating capital establishing the case for extending it.

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3 The more general issue of special treatment under the rule of the WTO are discussed in Hoekman (2004). Josling (2004) discusses the question of the negotiating value of some of these broader developing country provisions, such as Part IV and the Enabling Clause.
But this begs the question of how much SDT should developing countries demand? If too much is requested, the chance of a satisfactory outcome to the round is reduced. If too little is demanded, the developing countries may have lost an opportunity for significant “gains”. But the nature of the negotiations is that political success (in terms of achieving a concession, for example) may not have much or any economic value. So one strategy would be to search for the outcome that maximizes the economic benefit for developing countries over time given their limited political clout. This implies that options should be ranked by economic merit, particularly with respect to their impact on growth and development, and then the political “price” for them be considered as a way of gaining those benefits.\(^4\) As economic benefits from open trade are a positive-sum game, it should be possible to attract developed countries to such an outcome. By contrast, political benefit-seeking is often zero-sum game, and may result in overall negative economic benefits.

A strategy of gaining most economic benefit for their political clout might have two key elements: selling off depreciating assets in negotiations and use negotiating power to build market position for the future. Preferences and non-reciprocity are two examples of depreciating assets. The value of preferences has been steadily eroded with cuts in MFN tariffs. Moreover, the removal of quotas and their replacement by tariffs tends to make preferences more difficult to administer. Reciprocity is being eroded in a different way, through the conversion of non-reciprocal preferences systems operated by

\(^4\) Notice that this is likely to result in a different outcome from the alternative strategy of maximizing political advantage by giving economic concessions. Only a few large developing countries (China, India and Brazil) can offer significant economic concessions to “win” political goals.
the EU and the US to fully-reciprocal free trade areas. Developing countries are concluding that guaranteed market access through a free trade area is a better basis for development than unilateral preferences given at the whim of the legislature of the developed country, even if it implies opening up import markets to the free trade partner. As more countries grant reciprocal access so the non-reciprocity enshrined in the WTO becomes less valuable.

This would suggest that developing countries might consider agreeing to an end to preferences in return for compensation in trade and aid, and relinquishing the “right” to non-reciprocity in return for specific benefits in terms of market access. Such a strategy in the multilateral negotiations would convert the stance of developing countries from a defensive use of political power (specifically the power to slow down the talks and limit the scope of the WTO) in order to avoid changes that might themselves be beneficial in the longer run (developing competitive sectors such as agriculture) to an offensive approach focusing on speeding up the negotiations on issues of economic interest (such as agriculture and textiles, as well as services that require labor movement) in exchange for concessions on issues such as preferences and non-reciprocity that are of dubious and declining economic value.

To be more specific, it is useful to examine the menu of SDT choices from which the developing countries can choose. Each item comes with a price tag. There are basically two types of SDT: those that directly involve developing countries, and those that are implemented by developed countries. Negotiated outcomes in turn can be expressed in terms of schedules of tariffs and allowed subsidies or can be in the form of differentiation in the rules.
Concessions in the outcome of negotiations for developing countries, including depth of cuts in tariffs and the timing of such cuts, are foreseen in the Framework for Agriculture to give the developing country more time to make adjustments. The most important of these are cuts in tariffs to improve market access. However, to the extent that the protective trade policies that are subject to discipline are not in the longer run interest of the developing countries themselves, the delaying of cuts does not satisfy the criteria of increasing economic value over time. By contrast, targeted actions by developed countries, such as larger tariff cuts on products of export interest to developing countries, or increased technical assistance for trade-related aims, do have the possibility of increasing economic value over time, and so are consistent with the criteria laid out above.

One issue that could be addressed with advantage is whether some developing countries should also be required to lower tariffs further on products of interest to other developing countries. This could be done specifically on a product by product basis or it could involve a commitment from middle income countries. The increase in south-south trade that would result would be beneficial to the countries concerned (so long as significant trade diversion was avoided) as well as contributing to the acceptability of the package as a whole to developed countries.

Special rules for developing countries, such as special safeguards, are beneficial only if the rules refer to a modification to the general rules that either assists the development process or at the least does not impede it. Special safeguards may shelter weak but potentially profitable industries from the vicissitudes of international markets. But if the special rules imply a movement away from desirable developments then their
value is much less and may even decrease over time. For example, differential rules on issues such as implementation of quality standards could be expensive in the long run, as developing countries lagged further behind international standards. Special rules for developed countries that are designed to assist developing countries, such as export credits tied to food security and *ad hoc* temporary finance for developing country purchases, could have a positive impact on development, and be consistent with the criteria for economic advantages from political agreement.

STD needs to be looked at from the viewpoint of both the developing and the developed country. What do developed countries “lose” from granting SDT to developing countries? In the case of smaller and more delayed tariff cuts, the losses are in potential market access. Their value to developed countries depends crucially on which commodities are involved and which countries make use of such flexibility in the provisions. Against this market access loss, developed countries have to weigh the benefits of reaching an agreement.

This raises the question as to whether there are aspects of SDT that could be packaged as a “win-win” proposition? This would imply less opposition from legislatures in developed countries who might object to conceding on points of interest for the sake of international development. Raising standards in developing countries would represent one such situation, where further integration in the world economy could benefit other countries as well as those undergoing the change. In a broader perspective, helping developing countries to raise incomes through trade should have a positive payoff for all members. But the politics of employment and wages is commonly argued to be a zero- or
negative-sum game, and developing country gains may be seen as evidence of losses to the developed world.

From the point of view of the developed countries, one topic has raised more concerns than any other. Should all developing countries get the same SDT? The category of “developing country” is not defined in the WTO. That designation is self-declared by countries, leading to a natural reluctance to “graduate” to developed-country status. The need to face this issue has been emphasized by the increasing success in trade of countries such as India, China and Brazil, for whom developed countries are less than eager to give non-reciprocal benefits in trade talks. Indeed, those countries that do need extra time, or special consideration, may be disadvantaged by the spreading of such treatment to all developing countries.

There is considerable merit in the view that developing countries should not be treated as all alike. Particular SDT elements may be inappropriate for all developing countries, and the extent of concessions to those that do need them may be limited by number of countries that are covered. On the other hand, any differentiation among developing countries threatens to open up the system to conflicting demands.

So the question remains whether self-designation should be allowed to continue? One group has argued that SDT can never be meaningful as long as near-developed countries can also be classified as developing countries (IPC 2003). Objective rules may be needed for efficient targeted assistance, and monitoring by the international community may also be needed. But any differentiation leads to the problem of graduation from one category to another, and raises issues of instability and adverse incentives. Political incentives would also suggest that countries are unlikely to relinquish
the right to self-designate. Hoekman (2004) concludes that self-designation as developing countries is likely to survive, but that specific SDT provisions could be targeted to particular circumstances that can themselves be monitored. Thus the developing country category itself would become less important as the SDT provisions themselves cover more objective sub-sets of countries.

This raises the question as to whether it is desirable for the multilateral trade system to proliferate groups of countries treated differently in the rules? Some differentiation of a more objective kind than exists at the moment is probably inevitable if agreement is to be reached. Targeting rules to different circumstances has advantages that are hard to ignore, even in a trade system based on non-discrimination. But does one want a multi-tier WTO? Would the “variable geometry” discussed for the expanding EU fit in a multilateral trade system? Hoekman (2004) argues for a “core” of principles that apply to all, with monitored opt-outs for other aspects of the agreement (as opposed to the Tokyo Round Codes, which were opt-in pacts with no link to development criteria).

Even more fundamental in any consideration of differential rules is the impact that this implies for the nature of the WTO as an organization (Barton et al. 2005). Should the rules of the multilateral trade system be targeted to assist development? Is the WTO an appropriate place for such “results-oriented” trade rules? There may be other more appropriate ways of assisting development, and even assisting developing countries to integrate into the trade system. But whatever the merits of such a parsimonious approach, it is likely that the WTO itself would not survive in its current form if it were to ignore development issues and the demands of developing countries for differentiation in commitments and rules. So the task is to incorporate these concerns and realities in
such a way as not to offset the benefits that all countries (including developing countries) gain from having a liberal, non-discriminatory trade system. The agricultural talks are at the center of the search for such a compromise.

**SDT in the agricultural talks**

The obligation to afford developing countries STD is mentioned in the preamble of the UR Agreement on Agriculture and embedded in several provisions of that agreement. The preamble states that developed country members should provide for greater improvement in market access for agricultural products of particular interest to developing countries. However, there was no systematic attempt to operationalize this in the URAA negotiations and it is not reflected in the schedules of concessions. Most of the specific manifestations of SDT came in the form of flexibility of commitments undertaken by developing countries (Table 3.1), along with a provision for a longer transition period (of up to ten years, rather than the six for developed countries).

The inclusion of SDT in the agricultural talks was further emphasized in the Doha Development Agenda. Specifically, in paragraph 13 (on agriculture), the Ministerial Declaration affirmed that SDT for developing countries “shall be an integral part of all elements of the negotiations on agriculture and shall be embodied in the schedules of concessions and commitments and as appropriate in the rules and disciplines to be negotiated.” It emphasizes that these aspects of SDT should be operationally effective and enable developing countries to take account of their development needs.
44 returns to the theme and states that “all SDT provisions shall be reviewed with a view to strengthening them and making them more precise, effective and operational” (WTO 2001).

In addition to the inclusion of SDT in the Doha Development Agenda and the fact that it is embedded in the URAA, there are compelling political reasons for taking such provisions seriously. A degree of SDT satisfactory to developing countries will be necessary for an agreement on an outcome of the talks. Both the G-20 and the G-90 are committed to meaningful SDT, though there are significant differences among developing countries as to what this might mean.

The commitment to meaningful SDT is specifically included in the August 1 Framework (WTO 2004). Paragraph 1 of the Framework reaffirms that provisions for SDT are an integral part of the WTO agreements, and calls on the Committee on Trade and Development (CTD) to complete the review of agreement-specific proposals and give recommendations to the General Council by July 2005. Other WTO bodies are instructed to give recommendations to the Council by the same date, although it is not clear how well coordinated such recommendations are likely to be.  

In the section of the Framework dealing with the task of establishing modalities for agriculture (Annex A), the need to incorporate “operationally effective and meaningful provisions” for SDT is emphasized in the second paragraph as a way of

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5 One can, for instance, envisage the CTD arriving at somewhat different recommendations than those agreed in the Agriculture Committee. Or, if this is to be avoided, one of the Committees would need to take the leading role in the talks.
achieving a balanced outcome. This is detailed in each of the substantive parts of the Framework. Paragraph 6 states that SDT remains an integral component of domestic support, including longer implementation periods and lower reduction coefficients, as well as continued access to Article 6.2 (the allowance for developing countries to exclude from the AMS for the purposes of reductions certain domestic support policies).

Paragraph 22 provides for longer implementation periods for the phasing out of export subsidies (of all forms) and allows the provisions of Article 9.4 (the use of export related subsidies such as for transportation and marketing) to be continued “for a reasonable period” after the phasing out of developed country subsidies on exports. In addition, the Framework Agreement obliges countries (paragraph 24) to ensure that disciplines on food aid and export credit programs do not interfere with the actions necessary under the Decision on Measures Concerning the Possible Negative Effects of the Reform Program on Least-Developed and Net Food-Importing Developing Countries (The Decision). This is reinforced in paragraph 26 by a provision that in special circumstances “ad hoc temporary financing arrangements” can be established based on criteria to be negotiated.6

The most significant aspects of SDT in the Framework are those related to market access. Paragraph 39 ties SDT to the issues of food security and “livelihood security”, and declares that it will be integral to commitments on tariff reductions, the number and treatment of sensitive products, the expansion of TRQs and the implementation period. In addition, developing countries will be able to designate a number of products as Special

6 The Framework also promises that developing countries that have state trading enterprises to preserve price stability and ensure food security will receive special consideration with respect to their monopoly status.
Products, based on criteria of food security, livelihood security, and rural development needs. These products would be subject to “more flexible” treatment (presumably lower tariff reductions or TRQ expansions). The establishment of a Special Safeguard Mechanism (SSM) has been agreed, for use by developing countries, though whether developed countries can maintain the SSM remains to be negotiated. Both expedited liberalization of trade in tropical products and a need to take into account existing preferences are mentioned (paragraphs 43 and 44) though without any specifics.

These agreed elements of SDT are grouped in Table 3.2 under the categories mentioned above: rules and commitments undertaken by developed and developing countries. The potential value of the most significant of these elements to developing countries is discussed below. But in general, one could conclude that commitments made by developed countries, in the direction of greater market access and lower subsidies, would be the most valuable type of SDT but require more political capital to achieve in negotiation. Agreement that developing countries give less in the way of concessions is perhaps the easiest route, but also less likely to be useful. Rules are likely to be more difficult to negotiate than concessions and be more divisive of the trade system.

Lower reduction commitments for tariffs

It is generally agreed, and explicit in the Framework Agreement, that developing countries should cut tariffs using a formula similar to that used by developed countries. The Framework Agreement mandates a tiered formula, as for developed countries, but with smaller cuts and a longer time period for developing countries. So the questions that
remain for negotiation are: what should be the target cuts for developing countries, and how long should be the transition period?

This raises an interesting possibility for developing countries. Currently, most developing countries have considerable gaps between bound and applied tariffs, as a result of ceiling bindings in the Uruguay Round. For many the applied tariff is zero (or scheduled to be) for some trade partners as the result of a preferential trade agreement, giving a greater gap. This “gap” is obviously worth something at the bargaining table, but it falls into the category of a diminishing asset. So on the principle suggested above, it provides a useful bargaining chip for use during this round. Specifically, the developed countries could leverage their willingness to give up the gap between applied and bound rates, and even the difference between MFN and preferential rates, in exchange for real market access in developed countries (where the gap between applied and bound rates is less). If developing countries emerge at the end of the round with considerable “gaps” intact then they will not have got as much market access as they might have done.

The question as to whether a longer transition period for developing countries is a significant advantage is also worth considering. Clearly, when the transition period involves difficult administrative changes (what Hoekman calls resource-intensive rules) then more time is useful. And if painful domestic adjustments have to be made, involving new investments, retraining and adjustment assistance, then there is also an argument for more time, though not quite so compelling. But if the domestic cost is minimal and the benefits from greater market access are palpable then a slow transition may not be particularly valuable as a negotiating prize. So it may be that the bound-applied gap could
be traded off for greater market access in developed countries if developing countries were not also trying to slow the transition down.

In addition to the tariff reduction schedules, the negotiators will have to deal with the question of Special Products, linked to commodities significant for rural development and food security. As that criterion could possibly be stretched to include most import items in developing countries (except high-value processed or exotic foods) then the issue of how widely to cast the net is important. Much of the discussion has been about whether there should be a formula to define what products are special or whether individual countries can nominate such commodities. But ultimately the important trade off is likely to be between the number (and hence coverage) of the Special Products and the Sensitive Products that developed countries (and developing countries) will be able to nominate. If developed countries choose to make extensive use of the “Sensitive Product” category to shelter products of interest to developing country exporters, then the likelihood of widely drawn criteria for Special Products increases. Or to put it the other way, the developing countries have the opportunity to limit the scope of Sensitive Products by using the Special Product category sparingly.

Other aspects of market access also give the opportunity for developing countries to influence the degree of market opening that they achieve in the round. The issue of the tariff cap is still “for negotiation,” and developing countries must decide whether to accept such a discipline on their tariffs. But given the great distortions that high tariffs create, if indeed they allow any trade at all, it is not clear why developing countries should not accept such a tariff cap, knowing that this would increase their influence over the height that it would be set for developed countries.
Better access for developing countries

The negotiating text presented at the end of the Cancún Ministerial, known as the Derbez text (WTO 2003b), suggests that developed countries “seek to provide” duty-free access for a portion of their imports from developing countries. This provision is not in the Framework Agreement, and would in any case have been without much impact. Negotiations over the share of imports so covered would have been difficult, and not necessarily have led to much market opening. The concept would certainly have favored the EU as so many countries in its African, Caribbean and Pacific group already have duty-free access.

For the least-developed countries the Framework takes up the suggestion in the Derbez text, and championed by the EU, that developed countries (and developing countries in a position to do so) should grant duty- and quota-free access for LDCs. But this part of the Framework suffers from the “best efforts” syndrome that has rendered much of SDT ineffective on previous occasions (Michaelopoulos 1999). However, if made effective, this provision would set a useful precedent that could be built upon to help developing countries as a whole.

Are preferences worth preserving? The Framework Agreement states that participants would “take into account” the importance of preferences (as in the Harbinson draft modalities paper, WTO 2003a) in their tariff schedule reductions. But this may run counter to the overall desire to improve market access for developing countries.
Preferences are one of the declining assets mentioned above, and it may be better to negotiate compensation for the reduction of preferences than to attempt to maintain them.

The Framework Agreement endorses the Harbinson solution to tariff escalation problems, which suggested that tariffs on raw and processed goods be reduced in such a way as to lessen the impact of tariff escalation. This provision is of considerable interest to developing countries. It would be constructive if developing countries were to formulate a strategy in this area based on the perceived impact of tariff escalation on their economies. This could be useful to developed countries who have less incentive to do such calculations themselves.

**New Special Safeguard Mechanism (SSM)**

The Framework Agreement endorses the creation of a Special Safeguard Mechanism (SSM) for developing countries (as suggested in the Harbinson draft, incorporated in the EU-US proposal of August 2003, and included in the Derbez text that survived the Cancún Ministerial). This had been accepted by G-20 and other developing countries, though the technical details will not necessarily be easy to negotiate. An SSM is both politically necessary and of potential economic benefit. Small, open economies are particularly vulnerable to changes in world market prices. A simple, transparent mechanism for temporary levies triggered by both price falls and import surges could give countries the security they need to stabilize domestic market without too much of a temptation to protect inefficient sectors in the longer run.
Several issues are still under discussion with respect to the operation of the SSM. One is how wide the commodity coverage should be. From the developing country perspective there would seem to be a benefit from a wide coverage, but this could come at a cost in negotiating terms. Developed countries will see too wide a range of commodities covered by the SSM as a way of avoiding any market penetration, particularly if the trigger price is set high and the trigger quantity set low. Developing countries should make sure that they know what coverage and trigger conditions are essential to them and make this known.

One benefit of an SSM is that it could take the place of the “price band” systems that are in place in several South and Central American countries. Such bands, which trigger additional tariffs, have been ruled contrary to the GATT (at least as they were implemented in Chile.) A WTO-consistent and reasonably uniform agricultural safeguard would simplify trade decisions and lower costs. The main issue is whether to have a parallel safeguard for developed countries, through a continuation of the Special Safeguard (SSG) that accompanied tariffication. This safeguard has been used by the EU and Japan, and less often by the US. But it has aroused opposition from exporters. If the SSG were to continue, its procedures, and in particular the selection of world prices, should be made more predictable and less prone to use for protection.

**Domestic support**

The Framework Agreement provides for lower reductions in AMS, and longer implementation periods. Developing countries would be exempt from the requirement to
These provisions are of minimal value to most developing countries, as they have not notified any amber box policies. So not much capital should be expended on lengthening the time and weakening the terms of the disciplines on domestic support. In fact, as the developing countries have made the reduction of level of support in the developed countries a major plank in their proposals, this item would be a good candidate for showing that they do not want different rules for the sake of political victories if the economic advantage is small. Instead, maximum pressure can be brought by developing countries to persuade developed countries to remove their supports.

Two provisions in the Framework may be somewhat more useful. Enhanced provisions under Article 6.2 (perhaps to include credit subsidies) are worth pursuing if this makes it less likely that such policies will be challenged by developed countries in the dispute settlement process. Enhanced provisions under Green Box (such as to allow more policies that stimulate output expansion) would also be useful, along with some further degree of assurance that developing policies that conform to the Green Box would be granted some shelter. The Peace Clause, if the issue is raised again, could usefully be limited to cover developing countries. The broader concept of a Development Box may be a useful label but not worth much at the negotiating table: most development policies are already in the Green Box.

**Export provisions**

Negotiations on the Export Competition pillar of the Agreement on Agriculture in the current round is focused on the elimination of export subsidies, both those that are...
explicit and those that are embedded in other programs such as food aid, export credits and the activity of state trading enterprises. The schedule for the elimination of export subsidies is extended for developing countries as part of SDT. Moreover, the special provisions already in the URAA are to be preserved.

Removing export subsidies in developed countries has become a major goal of developing countries. It would not be fruitful in negotiating terms to argue strongly for SDT in this area, where few policies are employed, and to do so would risk weakening the pressure on the developed economies to remove their own subsidies quickly. This seems to be one area where the developing countries could offer back a concession in order to achieve a more valuable overall result.

So what makes (economic) sense?

Safeguards have economic rationale, and should be made a centerpiece of the specific rules applying to developing countries. The cost may be that the SSG may have to be prolonged as well, but that could be done with some tightening of the conditions. In addition, a broader Green Box could be (marginally) helpful. Protection of development policies from WTO challenge may help acceptance of reform.

It makes sense, at least from an economic viewpoint, to focus the SDT on those countries that are not in a position to undertake the full set of WTO obligations or accept commitments. This means that there has to be some distinctions made among developing countries. Differentiation by type of problem would help targeting of SDT. This also
means that SDT needs to be built into development plans and coordinated with regional and multilateral development agencies.

How much negotiating capital would be expended to get these advantages? And what would the cost be in terms of other objectives of developing countries? Presumably developing countries would get less improved access to developed country markets than otherwise, and less reduction in trade-distorting support. But this could be offset by other concessions. Why not “sell” parts of SDT that are not so economically beneficial while they still have value at the bargaining table?

By the same token, developing countries can make the deal more attractive to developed countries by showing a willingness to open up markets. Tariff reduction commitments by developing countries that are too modest will reduce pressure for domestic reform: the economic case is weak for blanket exemptions even for the least developed countries. The widespread use of the Special Products category risks distorting the domestic economy and encouraging the use of Sensitive Products by developed countries, so it should be used sparingly if at all.

Any package that emerges is going to have to appeal to interests in developed countries that support trade expansion. Selling the round on its development components alone will be difficult. But ignoring developing countries requests is also not a recipe for progress. So the task is to craft a package that has economic benefits for both developed and developing countries and does not exceed the political limits of support for liberalization. A package with deep cuts in domestic support, the elimination of export subsidies, and ambitious tariff cuts combined with strong safeguards and adequate policy space for developing countries could be possible.
Conclusions

Certain structural problems exist in developing countries that make them particularly vulnerable to rapid liberalization, and it has long been recognized that not all countries have the capacity to take advantage of export possibilities. But if open economies grow faster, an underlying premise of the trade system, then encouraging countries to delay opening may be perpetuating asymmetries rather than reducing them. Permissive SDT needs to be matched with positive policies to encourage participation of developing countries, including developing supply capacity and transferring technology. Trade and aid policies must be more coordinated. In addition, regulatory systems differ among countries, and the capacity to implement agreed regulatory frameworks can be lacking in developing countries. Again the approach to this problem could combine some temporary relief from obligations (so long as this does not exclude goods from export markets) with assistance to develop the necessary regulatory capacity.

Developing countries are faced with the potential conflict between concessions to domestic interest and economic benefits from trade. If SDT is purely a reaction to domestic pressure then the cost of this is delayed reform at home and less market access in the developed countries. Such an outcome is not in the interests of any group of countries. But the construction of a package that includes constructive SDT addressing real problems and yielding economic benefits to developing countries is in the interests of all. Developed countries should be willing to “pay” for more market access in developing
countries by agreeing to safeguards and trade assistance. This way they can help to integrate these countries into the trade system to the mutual benefit of all countries. Middle income countries should consider what they can contribute as well as what benefits they can derive: opening up their markets in products of interest to other developing countries could stimulate south-south trade.

Developing countries should focus on what is most useful to them in the way of derogations from general rules, and be prepared to forgo other rule-based aspects of SDT even when these have been accepted in the past. By forgoing some of the elements of SDT that are of little long run economic value to them, developing countries are more likely to be able to secure those rules that are most beneficial. Developed countries must accept that some derogations will be needed to get an agreement and attempt to inform domestic constituencies of the longer run benefits of fuller integration of developing countries in the trade system.
References


Development and Rural Poverty under Globalization: Asymmetric Processes and Outcomes,’ 8-11 September, University of Florence.


Table 3.1: Flexibility for developing countries in the Uruguay Round Agreement on Agriculture

Provision:

Article 6.2  Investment subsidies generally available, input subsidies for low income farmers, and incentives to move out of illicit narcotics exempt from reduction commitments
Article 6.4 (b)  Higher AMS *de minimis* for developing countries (5 percent)
Article 9.2 (b)  Lower rate of reduction for export subsidy commitments
Article 9.4  Marketing subsidies and internal transport subsidies excluded from reduction commitments
Article 12.2  Exemption for developing country importers from consultation obligations when using export restrictions
Article 15.1  SDT reflected in reduction commitments two-thirds that of developed countries
Article 15.2  Developing countries have a ten year transition period: least developed countries not required to undertake reductions
Annex 2  Governmental stockholding programs and domestic food aid and subsidy programs included in Green Box
Annex 5  Exemption from tariffication for some staples subject to conditions

Table 3.2: Categories of Special and Differential Treatment in agriculture

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<th>Developing</th>
<th>Developed</th>
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<td>Concessions in schedules</td>
<td>Smaller tariff reductions over a longer period</td>
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<td>Designation of special products</td>
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<td></td>
<td>Longer implementation period for export subsidy elimination</td>
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<td>Smaller cuts in domestic support over a longer period</td>
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<td>Higher <em>de minimis</em> for domestic support</td>
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<td>No reduction commitments for LDCs</td>
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<tr>
<td>Differentiation in Rules</td>
<td>Take into account erosion of preferences</td>
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<td></td>
<td>Reduce tariff escalation</td>
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<td>Liberalization of tropical products markets</td>
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<td>Market access for “alternative” products</td>
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<td>Increased technical assistance for trade capacity</td>
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<td>Duty- and quota-free access for LDCs where possible</td>
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<td>Decision on LIFD countries</td>
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<td>Export credits allowed as appropriate to the Decision</td>
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<td></td>
<td><em>Ad hoc</em> temporary finance for developing country imports</td>
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</tbody>
</table>

Source: author.