

Special and Differential Treatment for Developing Countries

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Special and differential treatment (SDT) has a long history in the General Agreement on Tariffs and Trade (GATT) and the World Trade Organization (WTO). In the GATT, developing countries were relieved of some obligations and thus were 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 import restrictions for balance of payments reasons.¹ Because developing countries commonly suffered from chronic balance of payments problems, this essentially voided any value for other countries of “concessions” that developing countries 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 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 nonreciprocity became elevated to the level of principle when the GATT contracting parties added Part IV in

* <unnumbered note>>Comments from Bernard Hoekman and other participants are appreciated, but the author retains responsibility for the ideas herein.

1964, formally relieving developing countries 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 Differential and More Favorable Treatment, Reciprocity, and Fuller Participation of Developing Countries, better known as the “enabling clause.”

In addition, SDT was built into many of the agreements that make up the WTO. In particular, it became 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, commonly known as the July Framework Agreement (WTO 2004). The task ahead is to elaborate on the details of tariff cutting, tariff caps, tariff rate quotas (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 special and differential treatment in the agricultural negotiations.³ The first section addresses the strategic issues that face both sets of 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.

<A>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. But that fact begs the question of how much SDT developing countries should 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 strategy implies that options

should be ranked by economic merit, particularly with respect to their impact on growth and development, followed by consideration of the political price to be paid as a way of gaining those benefits.⁴ Because 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 a zero-sum game and may result in overall negative economic benefits.

A developing-country strategy of gaining the most economic benefit possible 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 nonreciprocity are two examples of depreciating assets. The value of preferences has been steadily eroded with cuts in most-favored-nation (MFN) tariffs. Moreover, the removal of quotas and their replacement by tariffs tend to make preferences more difficult to administer. Reciprocity is being eroded in a different way, through the conversion of nonreciprocal preference systems operated by the European Union and the United States 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 nonreciprocity enshrined in the WTO becomes less valuable.

Given these developments, developing countries might consider agreeing to an end to preferences in return for compensation in trade and aid, and to relinquish the “right” to nonreciprocity in return for specific market access benefits. 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) to avoid changes that might themselves be beneficial in the longer run (such as developing agriculture and other competitive sectors) 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 movement of labor) in exchange for concessions on issues such as preferences and nonreciprocity 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 either in terms of schedules of tariffs and allowed subsidies or in the form of differentiation in the rules.

Concessions in the outcome of negotiations for developing countries, including the depth of cuts in tariffs and the timing of such cuts, are foreseen in the July Framework Agreement's provisions on agriculture, which give the developing countries 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 for 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. That 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 contribute 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 they do modify the general rules in a way 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 lower and may decrease further over time. For example, differential rules on

implementation of quality standards could be expensive in the long run, if as a result developing countries lag even further behind international standards. In contrast, 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 gaining economic advantages from political agreement.

Special and differential treatment needs to be looked at from the viewpoint of the developed countries as well as the developing world. 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. The value of these losses to developed countries depends crucially on which commodities are involved and which countries make use of such flexibility in the provisions. Against this loss of market access, developed countries have to weigh the benefits of reaching an agreement.

The question, therefore, is whether there are aspects of SDT that could be packaged as a “win-win” proposition, that is, one that might allay opposition from legislatures in developed countries that might object to conceding on points of interest for the sake of international development. One “win-win” proposition would be raising standards in developing countries, 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 term *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 Brazil, China, and India, to whom developed countries are less than eager to give nonreciprocal 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.

The view that developing countries should not all be treated alike has considerable merit. 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 the number of countries that are covered. At the same time, 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; 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 subsets of countries.

That raises the question whether it is desirable for the multilateral trade system to encourage the proliferation of 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 nondiscrimination. But does one want a multitiered 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 everyone, with monitored opt-outs for other aspects of the agreement (in contrast 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 changes in them would have on the nature of the WTO as an organization (Barton

and others 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 that they do not offset the benefits all countries (including developing countries) gain from having a liberal, nondiscriminatory trade system. The agricultural talks are at the center of the search for such a compromise.

<A>SDT in the Agricultural Talks<<end>>

The obligation to afford developing countries SDT is mentioned in the preamble of the Uruguay Round Agreement on Agriculture and embedded in several provisions of that agreement. The preamble states that developed-country members should improve market access for agricultural products of particular interest to developing countries. There was no systematic attempt to operationalize this statement in the URAA negotiations, however, 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 years for developed countries).

<table 3.1 near here>

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. Paragraph 44 of the declaration 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).

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 Group of 20 and the Group of 90 developing countries are committed to meaningful SDT, although developing countries differ considerably on what that might mean.

The commitment to meaningful SDT is specifically included in the July Framework Agreement (WTO 2004). Paragraph 1 of the framework reaffirms that provisions for SDT are an integral part of the WTO agreements, and it calls on the WTO Committee on Trade and Development 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.⁵

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 achieving a balanced outcome. Such provisions are detailed in each of the substantive parts of the framework. Paragraph 6 of the annex states that SDT remains an integral component of domestic support and includes longer implementation periods and lower reduction coefficients, as well as continued access to the Article 6.2 allowance for developing countries to exclude certain domestic support policies from the aggregate measure of support for the purposes of reductions. Paragraph 22 of the annex 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 for such purposes as transportation and marketing) to be continued “for a reasonable period” after the phasing out of developed-country subsidies on exports. In addition, paragraph 24 of the framework agreement obliges countries 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,” declaring that SDT 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 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, although 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), but no specifics are given.

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, commitments made by developed countries, in the direction of greater market access and lower subsidies, are likely to be the most valuable type of SDT but to 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 such an agreement is 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.

<table 3.2 near here>>

<>*Lower Reduction Commitments for Tariffs*<<end>>

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 for both groups of countries but allows smaller cuts and a longer time period for developing countries. So the issues remaining to be negotiated are the size of the target cuts for developing countries, and the length of the transition period.

The size of the target cuts 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 countries the applied tariff is (or is scheduled to be) zero for some trade partners as the result of a preferential trade agreement, giving an even 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 earlier, it provides a useful bargaining chip for use during this round. Specifically, the developing 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 obtained as much market access as they might have done.

One should also consider whether a longer transition period for developing countries is a significant advantage. 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, although 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 so far 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 tradeoff is likely to be between the number (and hence coverage) of the special products and the number of 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 an opportunity to limit the scope of sensitive products by using the special product category sparingly.

Other aspects of market access also give developing countries an opportunity to influence the degree of market opening that they achieve in the round. The issue of the tariff cap is still to be negotiated, and developing countries must decide whether to accept such a discipline on their tariffs. 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 to do so would increase their influence over the height of the cap set for developed countries.

<>Better Access for Developing Countries<<end>>

The negotiating text presented at the end of the Cancún Ministerial, known as the Derbez text (WTO 2003a), 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 not have had much impact in any case. 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, because so many countries in its African, Caribbean, and Pacific group already have duty free access.

The framework takes up the suggestion, contained in the Derbez text and championed by the EU, that developed countries (and developing countries in a position to do so) should grant least developed countries access that is both duty free and quota

free. But this part of the framework suffers from the “best efforts” syndrome (that is, developed countries have made no commitment) that has rendered much of SDT ineffective on previous occasions (Michalopoulos 1999). If made effective, however, 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 2003b) in their tariff schedule reductions. But that approach may run counter to the overall desire to improve market access for developing countries. Preferences are one of the declining assets mentioned above, and negotiating compensation for the reduction of preferences may be better than attempting 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

The framework agreement endorses the creation of a special safeguard mechanism for developing countries (as suggested in the Harbinson draft, incorporated in the EU-U.S. proposal of August 2003, and included in the Derbez text that survived the Cancún Ministerial). This safeguard mechanism had been accepted by the Group of 20 and other developing countries, although 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 drops and import

surges could give countries the security they need to stabilize domestic markets without creating too much temptation to protect inefficient sectors in the longer run.

Several issues are still under discussion regarding 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 that could have a cost in negotiating terms. Developed countries would see too wide a range of commodities covered by the SSM as a way for developing countries to limit 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 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 that accompanied tariffication. This safeguard has been used by the EU and Japan, and less often by the United States. But it has aroused opposition from exporters. If this particular safeguard 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<<end>>

The framework agreement provides developing countries with lower reductions in the aggregate measure of support and longer implementation periods. They would also be exempt from the requirement to reduce de minimis. 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 reducing the 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 (see table 3.1)—perhaps including credit subsidies—are worth pursuing if they would make it less likely that developed countries would challenge such policies in the dispute settlement process. Enhanced provisions under Green Box (such as allowing more policies that stimulate output expansion) would also be useful, along with some further degree of assurance that developing-country 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<<end>>

Discussion on the export competition pillar of the agricultural negotiations in the Doha 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 activities 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. 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 a concession in order to achieve a more valuable overall result.

<A>So What Makes (Economic) Sense?<<end>>

Bearing all these factors in mind, what are the elements that should be included in an agreement that makes economic sense for both developing and developed countries?

First, safeguards have economic rationale and should be made a centerpiece of the specific rules applying to developing countries. The cost may be that the special safeguard mechanism for developed countries 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. Protecting development policies from WTO challenge may help acceptance of reform.

It also makes sense, at least from an economic viewpoint, to focus 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 would have to be some distinctions made among developing countries. Differentiation by type of problem would help targeting of SDT. SDT would also have 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 access to developed country markets than otherwise, and less reduction in trade-distorting support. But these costs 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.

<A>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 policies for 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 relief 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 interests and economic benefits from trade. If SDT is purely a reaction to domestic pressure, then the cost 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 negotiation of a package that includes constructive SDT that addresses real problems and yields 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, including aspects that 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.

<<A>>Endnotes<<end>>

1. The original balance of payments provision was contained in Article XII, but in the Review of the GATT in 1954–55, an explicit provision for developing countries was included, in Article XVIII. This article also allowed developing countries to impose quantitative restrictions on infant industry grounds, but the balance of payments clause was by far the most used.

2. Part IV comprises three articles: Article XXXVI expresses the principle that development should be an objective of the trade system and includes nonreciprocity 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. Despite 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.

3. The more general issue of special treatment under the rule of the WTO is 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.

4. Notice that this approach 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 (Brazil, China, and India) can offer significant economic concessions to “win” political goals.

5. One can, for instance, envisage the Committee on Trade and Development arriving at somewhat different recommendations from those agreed in the Agriculture Committee. If that is to be avoided, one of the committees would need to take the leading role in the talks.

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.

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Table 3.1: Flexibility for Developing Countries in the URAA

Article	Provision
6.2	Investment subsidies generally available, input subsidies for low-income farmers, and incentives to move out of illicit narcotics exempt from reduction commitments
6.4 (b)	Higher aggregate measure of support de minimis for developing countries (5 percent)
9.2 (b)	Lower rate of reduction for export subsidy commitments
9.4	Marketing subsidies and internal transport subsidies excluded from reduction commitments
12.2	Exemption for developing-country importers from consultation obligations when using export restrictions
15.1	Special and differential treatment reflected in reduction commitments two-thirds that of developed countries
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

Source: Matthews (2003), drawing on WTO (2001).

Table 3.2 Categories of Special and Differential Treatment in Agriculture in the July Framework Agreement

<i>Category</i>	<i>Developing country</i>	<i>Developed country</i>
Concessions in tariff schedules	Smaller tariff reductions over a longer period	Take into account erosion of preferences
	Designation of special products	Reduce tariff escalation
	Longer implementation period for elimination of export subsidies	Liberalization of tropical products markets
	Smaller cuts in domestic support over a longer period	Market access for “alternative” products
	Higher de minimis for domestic support	Increased technical assistance for trade capacity
	No reduction commitments for least developed countries	Duty- and quota-free access for least developed countries, where possible
Differentiation in rules	Special safeguard mechanism	Decision on low-income food-deficit countries
	Article 9.4 exemption stays Article 6.2 stays	Export credits allowed as appropriate to the Decision
	Special consideration in talks on state trading enterprises	Ad hoc temporary finance for developing country imports

Source: Author.