Special and differential treatment
Effects and implications for
small open economies

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What is Special and differential treatment?

- Address the concerns of developing and least developed countries. A problem of numbers.
- Developing countries are at a disadvantage in relation to developed countries. Weakness
- Policies to maximize sustainable development are different according to the levels of development.
  - Assisting developing countries is in the interest of developing countries.
  - Developing countries need time to ‘catch-up’.
Special and differential treatment
Issues and debate

- Descriptive.
- Political and dominated by dogma
- Effects are not analyzed
- The debate is really about smallness
- The debate has two contending camps
  - Small means vulnerable (Commonwealth Secretariat)
  - Small...certainly but in fact better off (Easterly)
Special and differential treatment
Issues and debate

- Must look at impacts
- Trade issues must be placed in a broader context
  - Sectoral policies
  - Structural change
  - Composition of external demand
Contents

- The evolution of the concept of special and differential treatment from GATT to the WTO.

- The export specialization trends. The Central America and Caribbean cases.

- Export specialization and the composition of external demand and domestic output.

- Special and differential treatment and export performance.
Special and differential treatment: Its evolution and transformation

- GATT 1947 and 1954-1955. Article XVII.
  - Non-reciprocity
- The Tokyo Round and the Enabling Clause.
  - Graduation
  - Voluntary basis
  - Adjustment costs
  - “Flexibility within reciprocity”
Special and differential treatment: Its evolution and transformation


  - Increasing trade opportunities
  - Safeguard interest of developing countries
  - Flexibility in commitments
  - Transitional time periods
  - Technical assistance
  - Measures to assist the least-developed countries
Special and differential treatment: Its evolution and transformation

- Positive steps
  - Market access
  - Technical assistance
  - Flexibility in commitments
  - Implementation in a manner favorable to developing economies
  - Technical assistance
  - Implementation favouring developing countries
Special and differential treatment: Its evolution and transformation

- Differential commitments
  - Exemptions
  - Non-reciprocity
- Protection
- Industry and balance of payments
  - Time extensions
Special and differential treatment: Its evolution and transformation

How does the WTO operationalise:

- Market share or preferential arrangements
- Exceptions to rules
- Transitional time periods
Export trends
Central America and the Caribbean

- The United States and Western Europe are the main trade partners.
  - 45-50% of imports
  - 50%-65% of exports
- Central America and the Caribbean:
  - System of Generalized Preferences
  - Caribbean Basin Initiative (CBI and CBEREA)
  - Lome Conventions (Cotonou agreement)
Direction of trade
1985 - 1999

United States

Western Europe
Composition of Caribbean exports
1985 - 1999

United States  Western Europe
Composition of Central American exports 1993 - 1999

Textiles

Traditional exports

Guatemala
Honduras
El Salvador
Guatemala
Honduras
El Salvador
Percentage of imports

Rising Stars

Missed Opportunities

Declining Stars

Increases in market shares in dynamic markets

Decline in market shares in stagnant markets

Increases in market share in stagnant markets

Decline in market share in dynamic markets

Winners

Losers

Stagnant Ms

Dynamic Ms

\[ \Delta^-\% \]

\[ \Delta^+\% \]
### Caribbean exports to Europe

#### Market Share

<table>
<thead>
<tr>
<th>Period</th>
<th>Winners</th>
<th>Losers</th>
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<tbody>
<tr>
<td>85-90</td>
<td>20.8</td>
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<td>95-00</td>
<td>55.6</td>
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<td>85-90</td>
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<td>90-00</td>
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#### Percentage of Imports

<table>
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<tr>
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<th>90-00</th>
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<tbody>
<tr>
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<td>4.0</td>
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<td>10.3</td>
<td>15.5</td>
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<tr>
<td>Retreats</td>
<td>55.6</td>
<td>23.2</td>
</tr>
<tr>
<td>Missed</td>
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#### Stagnant Ms

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<tr>
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<td>3.47</td>
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<tr>
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<td>85-90</td>
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#### Dynamic Ms

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#### Winning vs. Losing Ms

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Central American exports to the United States

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<th>∆−%</th>
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<td>30.9</td>
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**Central American exports to the United States**

**Market Share**

- **Winners**
  - 85-90: 44.7%
  - 95-00: 30.9%
- **Lose**
  - 85-90: 9.4%
  - 90-00: 25.5%

**Dynamic Ms**

- 85-90: 33.4%
- 90-00: 37.5%

**Stagnant Ms**

- 85-90: 12.2%
- 90-00: 5.9%

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Value added in free trade zones for the apparel sector
Central America and Jamaica
Value added in free trade zones
The case of the Dominican Republic
1994 and 1996
Special and differential treatment and the composition of domestic output. Caribbean and Central America

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Special and differential treatment and Caribbean export performance

Import market share

- NAFTA
- Western Europe
- CACM
Special and differential treatment and Caribbean export performance

Export performance ratio
Lessons for smaller economies

- Mismatch between export specialization and external demand.
- Mismatch between export specialization and the composition of domestic output.
- External and fiscal constraints.