

Special and differential treatment

Effects and implications for small open economies



Esteban Pérez

UNECLAC

Subregional Headquarters for the Caribbean

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.
- Part IV. GATT (1964). Trade and development.
 - Non-reciprocity
- The Tokyo Round and the Enabling Clause.
 - Graduation
 - Voluntary basis
- The Uruguay Round (1986-1994).
 - Adjustment costs
 - “Flexibility within reciprocity”



Special and differential treatment: Its evolution and transformation

- WTO (1994). Sets of provisions (97):
 - 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

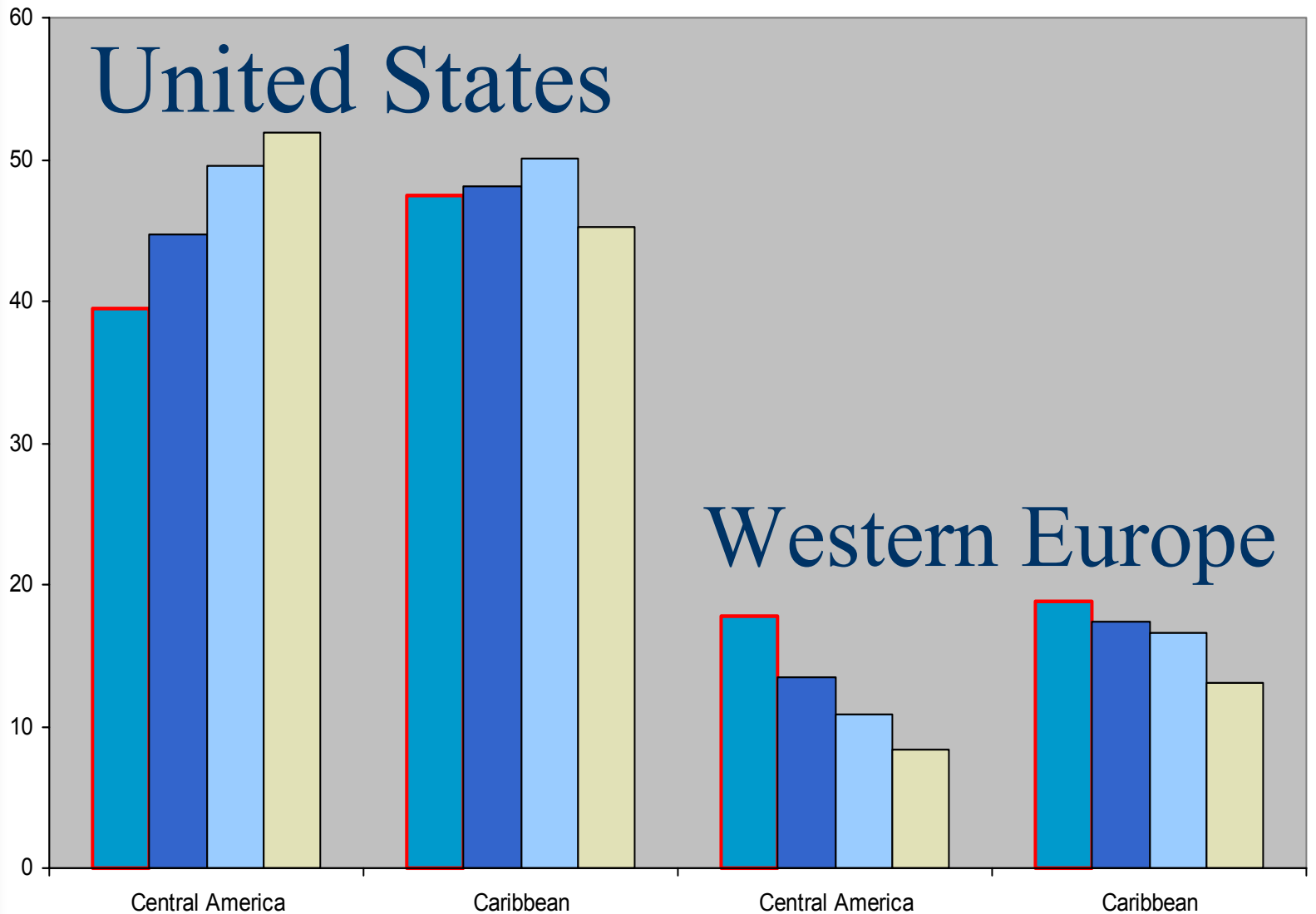


Export trends

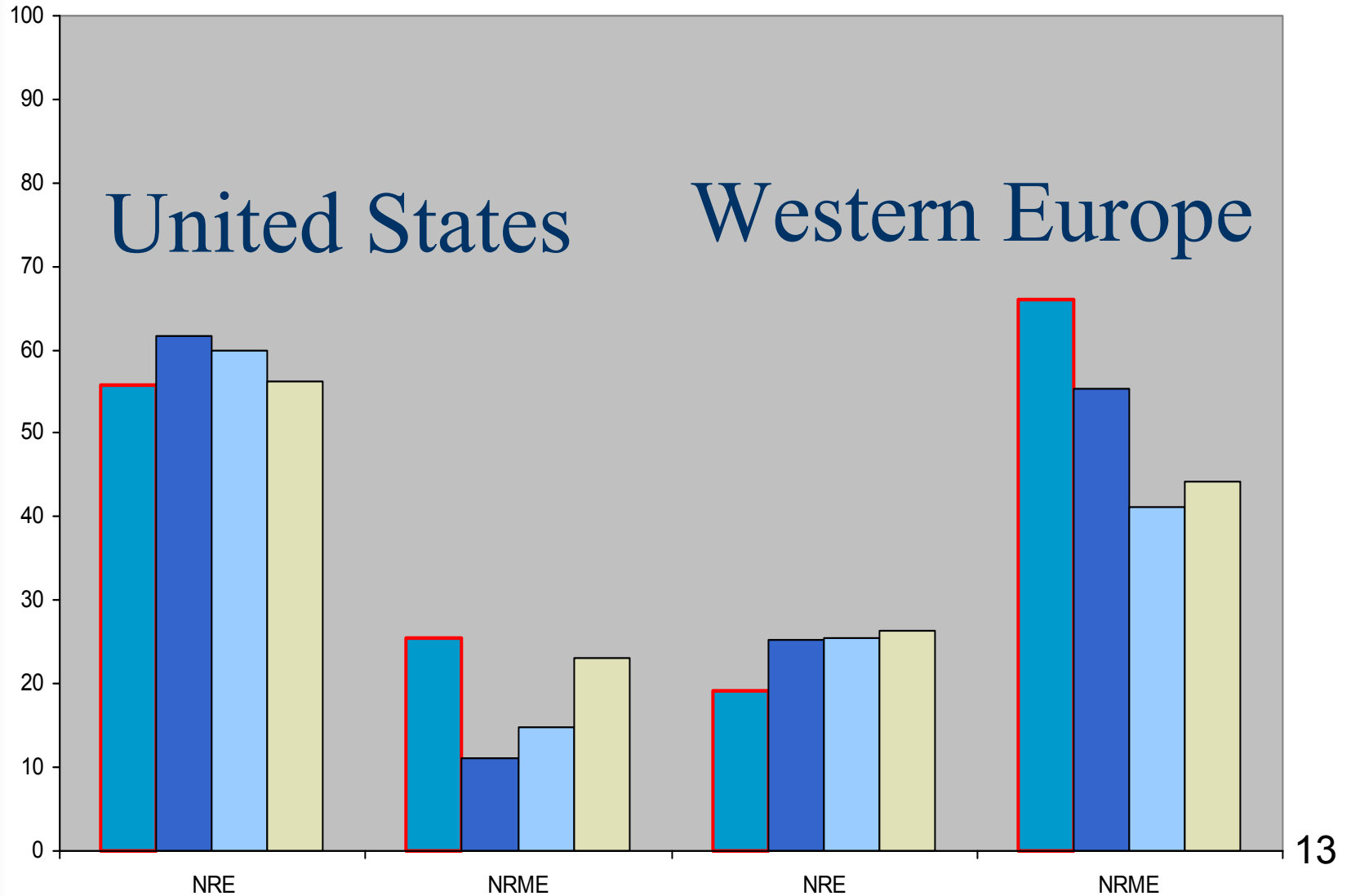
Central America and the Caribbean

- 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)

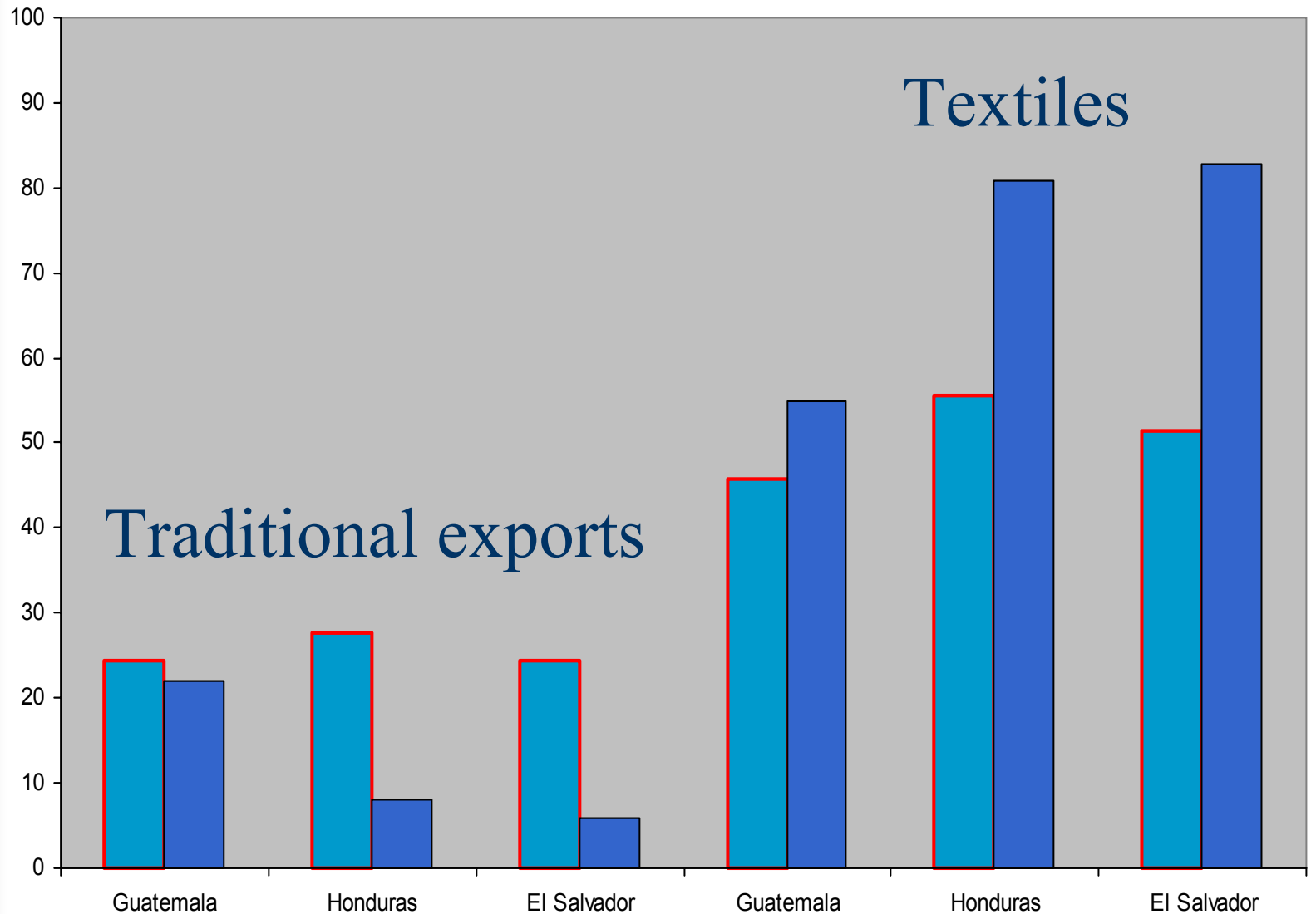
Direction of trade 1985 - 1999



Composition of Caribbean exports 1985 - 1999



Composition of Central American exports 1993 - 1999



Market Share

$\Delta +\%$

Winners

Increases in market share in stagnant markets

Increases in market shares in dynamic markets

$\Delta -\%$

$\Delta +\%$

Losers

Decline in market share in stagnant markets

Decline in market share in dynamic markets

Stagnant Ms

Dynamic Ms

$\Delta -\%$

Caribbean exports to Europe

Market Share

$\Delta +\%$

Winners

85-90	20.8	31.1
95-00	55.6	62.7

85-90	6.13	26.4
90-00	4.0	12.2

$\Delta -\%$

$\Delta +\%$

Losers

85-90	62.5	34.4
90-00	23.2	15.5

85-90	10.3	7.7
90-00	15.5	9.1

Stagnant Ms

Dynamic Ms

$\Delta -\%$

Central American exports to the United States

Market Share

$\Delta +\%$

Winners

85-90	44.7	30.9
95-00	30.9	25.5

85-90	9.4	30.2
90-00	25.5	49.4

$\Delta -\%$

$\Delta +\%$

Losers

85-90	33.4	28.6
90-00	37.5	21.5

85-90	12.2	10.3
90-00	5.9	3.8

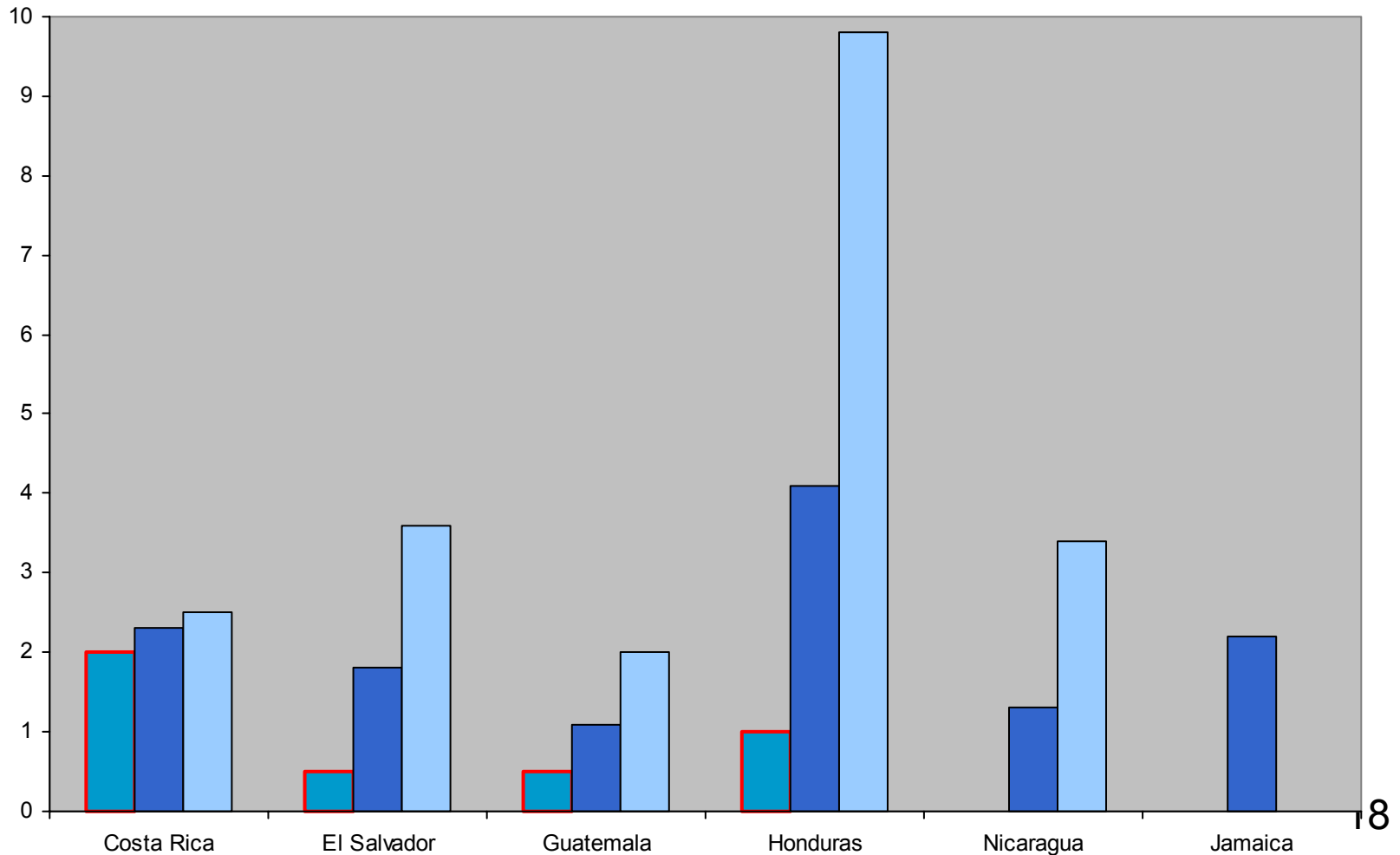
Stagnant Ms

Dynamic Ms

$\Delta -\%$

Value added in free trade zones for the apparel sector

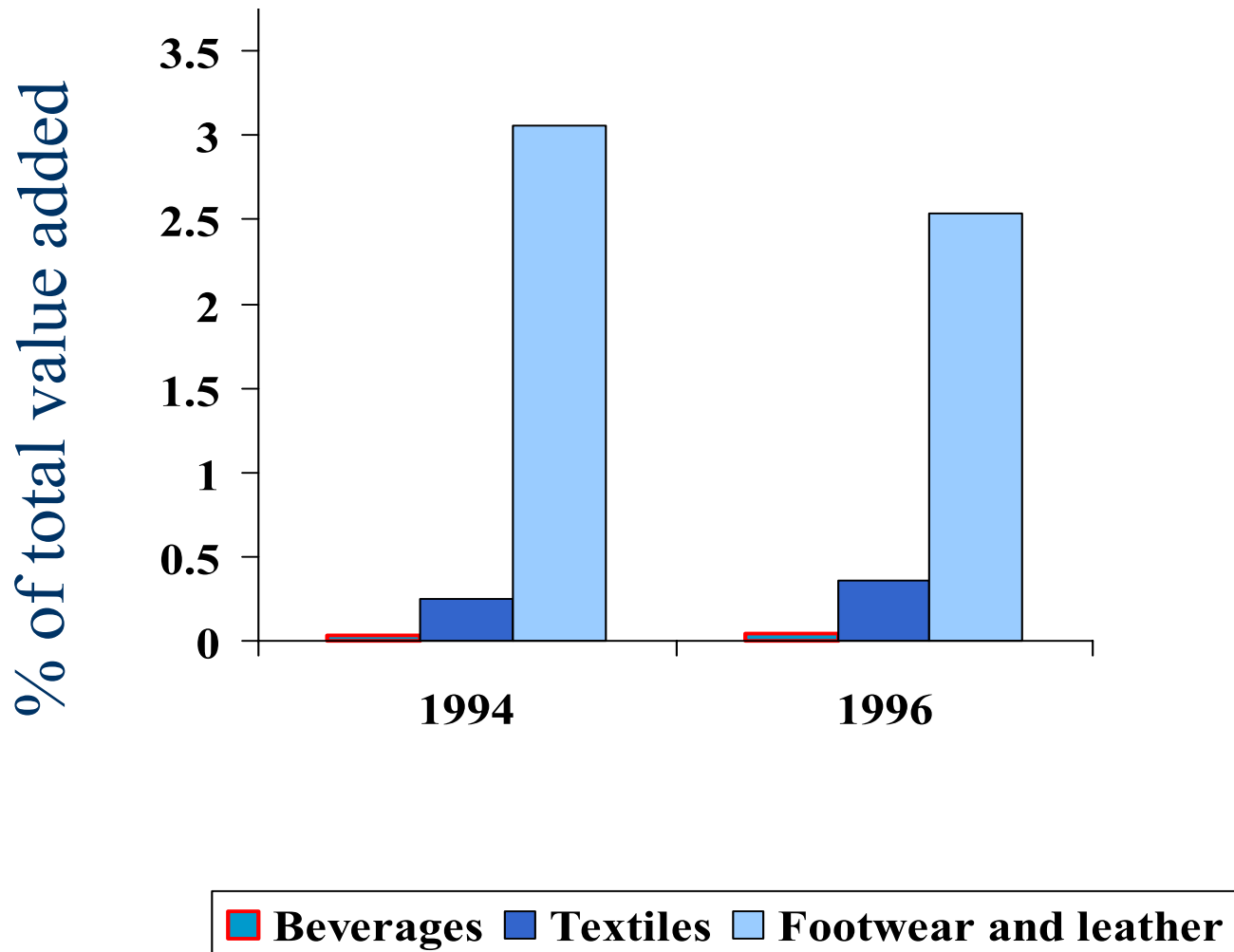
Central America and Jamaica



Value added in free trade zones

The case of the Dominican Republic

1994 and 1996

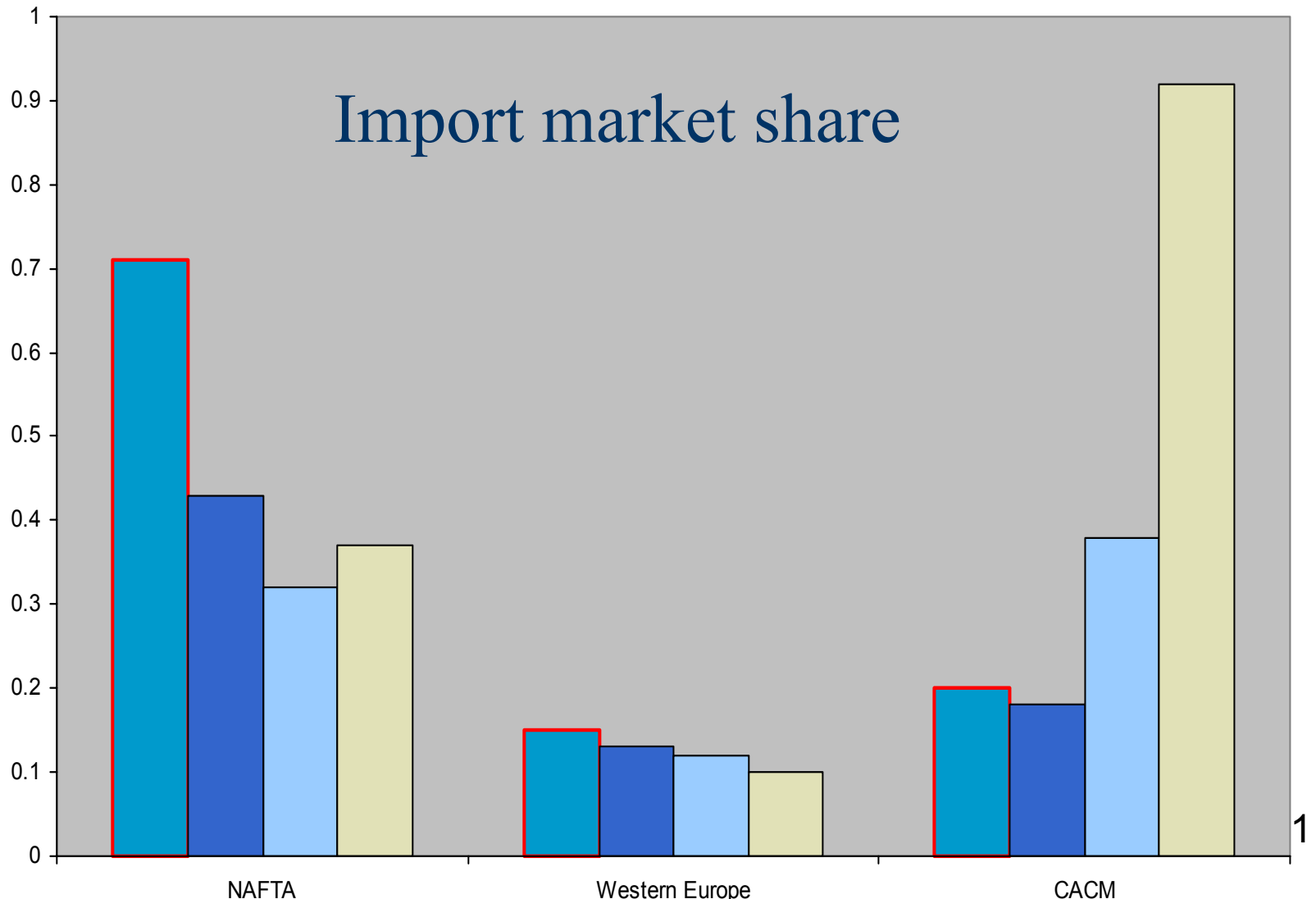




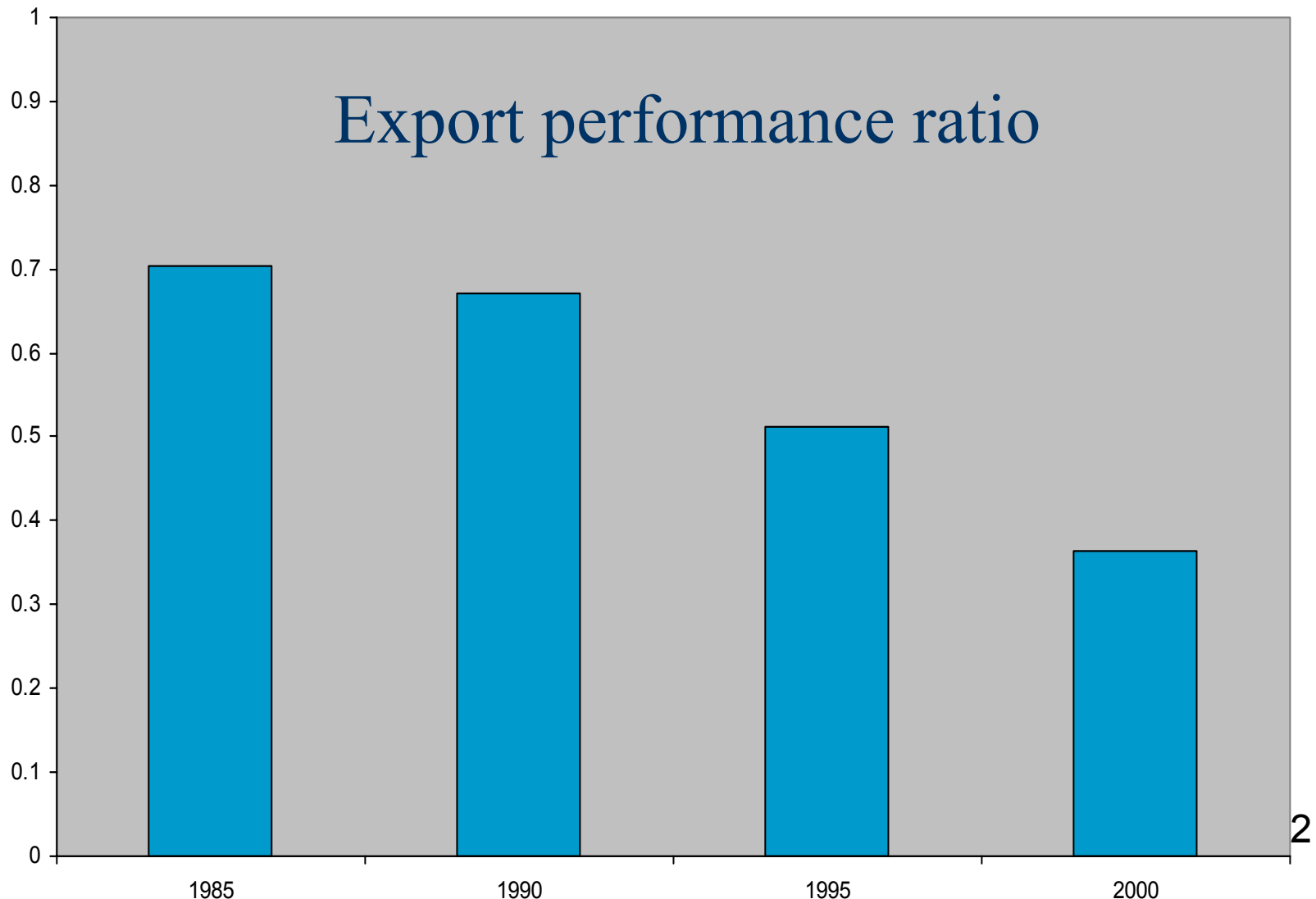
Special and differential treatment and the composition of domestic output. Caribbean and Central America

	50-80	80-90	90-2000
GDP	4.6	1.1	3.5
GDP (Car)	....	2.7	1.8
Exports	4.9	2.3	6.1
Imports	5.7	0.2	7.7
FDI(mill. US\$)	....	71	175
GFCF/GDP	....	25	26
Manuf/GDP (Car)	....	12.7	11.6
Agric./GDP (Car)	....	13.5	9.5
Serv/GDP (Car)	....	39.1	47.2

Special and differential treatment and Caribbean export performance



Special and differential treatment and Caribbean export performance





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.