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From Development to Differentiation: Just how much has the world changed?

Abstract

Given the divergent growth performances of developing countries since the establishment of the WTO, there is a growing debate on whether these can still be collectively categorized as 'developing' and whether those that have enjoyed sustained growth over the past quarter century should continue to receive special treatment in the context of trade, and by implication other international negotiations. This paper traces the history and reasons for the emergence of special and differential treatment provisions in the trade negotiations. It examines various development indicators in order to assess whether the developing world has evolved to the extent that a change in this basic principle of the multilateral trading system is required. The paper argues that the economic and social gaps between developed and developing countries remain significant despite the gains in some countries over the last quarter century. Moreover, the policy challenges of 21st century facing all parts of the developing world, including those triggered by the growing digital divide and environmental degradation, are mounting just as the commitment of advanced economies to international development cooperation is waning. The paper concludes that development goes much beyond trade and includes multiple economic, social and environmental challenges and their interaction, the consequences of which can only be fully assessed by countries themselves who should, consequently, be allowed to self-declare their development status.

Key words: Special and Differential Treatment; WTO and Development; Digital Divide, Infrastructure divide, Fiscal divide, Development Divide

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1. Introduction

In November 2001, a new trade round was initiated by the members of the World Trade Organization (WTO) which placed developing countries needs and interests at the centre of negotiations. Coming shortly after the international community had endorsed a series of millennium development goals, the aim was to make the trading system more sensitive to developing country challenges and, in particular, to make trade a more powerful vehicle for alleviating extreme poverty.[1] This was not a sui generis exercise.

The unlevel playing field facing developing countries in the international trade arena was acknowledged during the first United Nations conference on trade and employment and in the subsequent negotiations to establish an International Trade Organisation (Graz, 2016). While those initial efforts were thwarted with the abandonment of the ITO project, the 1954-55 Review of the General Agreement on Tariffs and Trade (GATT) -- the sole institutional survivor from the earlier discussions -- a provision under Article XVIII was included allowing developing countries to maintain quantitative restrictions for balance of payment reasons. In 1957, a decade after its first trade round was completed, the GATT appointed a group of economists to examine why the international trading system that had emerged from the ruins of the Second World War was still failing to stimulate the trade of less developed countries. The so-called Haberler Report (named after the Austrian economist who chaired it) identified chronic obstacles to such trade due to tariff and other barriers in advanced economies but also blamed the policies adopted by the "underdeveloped countries" themselves in support of import substitution industrialization. The Report led to the creation of Committee III in GATT tasked with helping to promote exports in those countries and in 1964, GATT added Part IV in which developing countries were formally relieved of their obligations to offer reciprocal concessions. However, with no concession made in the sectors of interest to the developing countries, such as agriculture and textile products, GATT remained a rich-country club.[2]

As a growing number of developing countries gained their political independence, they turned to the United Nations as a more reliable body to discuss the challenges they faced in the international trading system. The aim was an ambitious reform agenda which positioned their weak trade performances in the asymmetric structures and practices of the international division of labour, in particular the ways in which gaps in the multilateral rules, biases in international markets and the undue economic power of big international firms had perpetuated their dependence on commodity exports and created obstacles to industrial progress. The United Nations Regional Commissions were the first port of call for discussing these issues but as it became clear that all developing countries were facing much the same trade and development challenges regardless of their geographical location, there was a more concerted push for a comprehensive United Nations conference on trade and development to examine these issues; in 1964 the hosting of that conference in Geneva led to the establishment of a permanent secretariat (UNCTAD) to follow up on the challenges and recommendations that had been discussed.[3]

The debate on trade and development can be approached from many angles but at its centre is an insistence by developing countries that they face a very different set of challenges when integrating into the global economy from those at the top of the development ladder -- and who had fashioned the multilateral order at the end of the Second World War -- requiring an approach to international cooperation tailored to their distinct needs. Over the years, a variety of compensating mechanisms have been introduced, albeit in a somewhat ad hoc manner, to address the biases, asymmetries and gaps in the system that impede catching up by poorer countries, including various forms of development assistance, multilateral lending arrangements, dedicated policy support institutions and derogation from the multilateral rules.

[1] The call for a new trade round promised to address more than development concerns, but also to boost the reputation of the fledgling WTO after the problems in Seattle, to confirm the commitment of the international community to the liberal economic order after the attacks on 9/11 and to boost global economic confidence in the face of a series of shocks, see Moore, 2000.

[2] See Josling (2006).

[3] For a longer discussion of these debates, see Toye and Toye (2004) and Mazower (2012).

The record of these various mechanisms certainly deserves a detailed assessment, however, since the 1990s and more intensely since the 2008 financial crisis, advanced economies have been rolling them back and pushing instead for the uniform application of rules and responsibilities that apply regardless of a country's economic status and position in the international division of labour. This pushback has been particularly noticeable in the case of trade, beginning with the Uruguay Round and extended through a plethora of free trade agreements and investment treaties. The Doha Development Agenda (DDA) launched in 2001 was seen as a partial correction to this trend. However, and despite the DDA having failed to achieve tangible progress, a concerted effort is again underway to fully delink multilateral trade rules from development concerns by insisting that poorer countries can no longer be collectively categorized as developing given divergent growth performances in recent years but rather should be judged on a case by case basis in accordance with specific negotiations. Moreover, special treatment in the trading system to help offset the economic and technological disadvantages with those at the top should no longer be tolerated as these disadvantages, it is claimed, are no longer collectively shared and the countervailing measures are open to abuse by emerging economies, distorting the system and undermining its effectiveness and stability.

This paper begins with a brief history of the trade and development debate and the reasons for the emergence of special and differential treatment (SDT) provisions in negotiations. It next provides an examination of various development indicators in order to assess whether and to what extent the developing world has evolved beyond common features and challenges, closing the gaps on advanced economies to the point that a change in the basic principles of the multilateral trading system is required. It concludes by discussing the ongoing rationale for the self-declaration principle on development status in the WTO.

2. Development-Oriented Trade Policy: A Short History

Since Adam Smith, economists have made a link from increased trade flows to the "wealth of nations" with a broad consensus around the idea of trade as an "engine of economic growth"; while economic development is no longer identified with the singular goal of faster growth but a multi-dimensional challenge which requires the effective mobilization and channeling of various resources, trade has retained its standing as a driver of sustainable development (Vaggi, 2018).

For standard economic theory, specializing according to comparative advantage allows countries to reap efficiency gains from moving to a production and exporting profile that concentrates on using their relatively abundant resources and importing goods that otherwise embody relatively scarce resources; countries with plentiful supplies of unskilled labour and little land will produce and export basic manufactures, while importing capital goods and primary inputs from countries with the appropriate structure of endowments. Even countries which are lagging behind in all sectors can benefit by following this path. This "win-win" logic has been described as "the deepest and most beautiful result in all of economics" (Findlay, 1991:99).

On this basis, the policy conclusion is, invariably, rapid trade liberalization along with complementary measures to deregulate markets (particularly the market for labour) and remove other government measures that "distort" prices and stymie international competition. A vast academic industry has sprung up employing sophisticated models and statistical techniques which purport to prove a direct link from trade liberalization through increased trade flows to rapid economic growth, poverty reduction and improved social welfare. Trade simulation exercises, which seem to multiply whenever multilateral or regional trade negotiations are getting underway (or getting stuck), offer headline-grabbing multi-billion dollars gains from trade liberalization, often accompanied by finger wagging at those who are reportedly stalling or opposing the process.

While the argument is much admired for its mathematical elegance, it rests on a set of severely restrictive assumptions whose distance from reality has troubled generations of economists beginning with Adam Smith, no less, who insisted that a universal system of free international trade was more a utopian ideal than a coherent blueprint for policy and that the costs of adjusting to it required that it be done "only by slow gradations, and with a good deal of reserve and circumspection" (cited in Panić, 1988:124). Smith's conclusion followed from his observation of an uneven world of underutilized resources in which lagging regions faced a set of unfavourable circumstances.[4] Smith also recognized, that whatever the causes of the initial gaps among countries, the free movement of goods, technical know-how and factors of production could give an advantage to those who opened up an early lead, allowing them to maintain or extend that lead at the expense of later developers.[5]

While Smith's observations have been obscured by conventional trade models, development economists, historians and policy makers, have long recognized the implausibility of a world populated by small firms, with perfect information about consumer tastes and available production technologies, where learning or scale economies are absent, and immobile factors of production fully employed (Toner, 1999; Schlefer, 2019). This has cast a cautionary shadow over simple calls for rapid trade liberalization, with economic divergence as plausible an outcome as narrowing income and technology gaps, and an acknowledgement that, under some circumstances, "the roulette wheel of evolving comparative advantage" can lead to "genuine harm" (Samuelson, 2004:142).

In reality, trade takes place among countries at very different levels of development and is shaped by a variety of forces other than factor endowments, including economic structure, firm size, technological learning and political power. This makes for a much more uncertain trading environment than allowed for in standard trade models and implies that trade policy will be poorly designed if it is focused on achieving some single best outcome rather than on making tangible gains from an evolving set of trading relations among partners of varying degrees of economic power and sophistication.

In this world, trading possibilities are created rather than given, and market entry can, as a consequence, be slow and expensive, historical accidents have long-run economic consequences, and "market forces do not select a single, predetermined outcome, instead they tend to preserve the established pattern, whatever that pattern may be" (Gomory and Baumol, 2000). Indeed, as Gomory and Baumol insist, given that the modern trading system is so different from the implicit 18th-century historical setting of the free-trade model, the analysis of how trade works needs to start from a very different set of stylized facts. This would also suggest that a "win-win" outcome is just one among a range of possibilities in a more open trading system and that international market forces, in conjunction with varying national capabilities, can produce results that are beneficial for some but detrimental to others.

While there is considerable disagreement over how to weigh up the potential losses from trade and even more on what to do about it,[6] there is general agreement that in this world what a country produces and exports matters, i.e., whether it exports apples or iPhones is important for its development process and prospects. This was the lesson drawn by the first catch-up economy, the United States which, under the guidance of Alexander Hamilton who as its First Secretary of the Treasury ruptured its agrarian destiny, actively pursued a pro-industrialization agenda through high tariff barriers, big infrastructure projects and support for technological learning (Cohen and de Long, 2016). This catch-up challenge has become harder as manufacturing processes (and the goods they produce) have become more and more sophisticated generating a more complex and also more fragmented division of labour that has acquired an ever larger international reach and with ever large productivity gains for those already at the top of the industrial ladder.

By reinforcing the advantage of industrial as opposed to primary producers, a post-war generation of development economists understood that trade could contribute to polarised development outcomes between 'centre' and 'periphery' (as coined by Prebisch 1950, 1959) but also, by privileging certain activities, locations and firms, could lead to a fragmented international division of labour marked by huge asymmetries in economic power and very unequal outcomes (Hymer, 1972; UNCTAD, 2018). Whether through polarization or

[4] Smith offered a number of reasons why some countries lagged behind, including unfavourable cost conditions (which led some countries to forsake manufacturing); a hostile policy environment (which included insecure property rights and misguided trade policy); weak infrastructure (which augmented geographical obstacles to market expansion); and small or scattered populations (which limited the division of labour).

[5] In his Lectures on Jurispudence published before The Wealth of Nations, Smith noted that "it is easier for a nation, in the same manner as for an individual, to raise itself from a moderate degree of wealth to the highest opulence, than to acquire this moderate degree of wealth" Vaggi and Groenewegen (2003:113). On this recognition it seems fair to conclude that Adam Smith merits the title of father of special and differential treatment.

[6] A seminal paper by Joan Robinson (1937) introduced the term "beggar-thy-neighbour" to the trade policy debate.

fragmentation pressures, the resulting room for potential slippages between trade, trade policy and development implied that even if countries enjoyed increased trade flows, and even achieved higher shares in global trade, they might at the same time fall short in terms of more meaningful development goals like poverty reduction, increased employment, stronger welfare provisions, low emissions growth, etc. It was precisely such possibilities that led developing countries to establish UNCTAD in 1964 and to strengthen their position in the trading system by promoting the right to non-reciprocal and preferential treatment, as adopted by the UN General Assembly (in 1974) in the Charter of Economic Rights and Duties of States (Finger 2007: 5).

The asymmetric interdependence that shapes the relationship between trade and development has been consistently emphasised by UNCTAD's Trade and Development Reports (TDR, 1988-2011), which recognize the merits of multilateral trade rules and discipline in global economic governance but also highlights the need to apply these rules flexibly to all developing countries. The need for sufficient policy space for developing countries in international trading rules is one abiding consequence of this analysis.[7] But special and differential treatment (SDT) is another of the ways for developing countries to align trade integration with their various developmental priorities, such as poverty alleviation, food security, economic diversification, employment generation, etc.

Special and differential treatment has not been exclusively limited to the area of international trade but has also been applied across the multilateral system including to the use of financial instruments, debt and development aid. However, it has been more systematically applied in the area of trade, where, up until the Uruguay Round, there was consensus that developing countries needed SDT to allow them to access and benefit from international markets as they faced far more serious challenges than developed countries. Although, the term SDT was coined much later, developing countries were allowed flexibilities in the use of tariffs and quotas under the non-reciprocity in the tariff reductions (GATT Part IV of 1964) and generalized systems of preferences (Enabling Clause of 1979). Both these instruments were linked to "border measures" applied for facilitating their exports and allowing them "policy space" for protecting infant industries, diversifying the structure of their economies and addressing balance of payments problems. The idea of granting developing countries preferential tariffs in the industrialized countries' markets was originally presented by Raul Prebisch, the first Secretary General of UNCTAD at its initiating conference in 1964 and was adopted at UNCTAD II in 1968.

However, in the Uruguay Round, the trade agenda extended beyond 'border measures' to include 'within-the-border" areas like services, domestic support measures, intellectual property regimes, etc. This implied moving to a much deeper pattern of economic integration. Developing countries accepted this expansion of commitments into new areas of interest largely to developed economies, on the promise that those economies would, in exchange, agree to open up areas of interest to them, namely agriculture and textiles & clothing. It is well established in the literature, that this promise has gone largely unfulfilled and the gains to developed countries from a combination of lower tariff barriers in developing countries with the inclusion of "trade-related" issues in the Uruguay Round far outweighed any gains to developing countries from improved access to Northern markets. Moreover, limited institutional capacity of developing countries further restricted their gains from the deeper integration Agenda of the Uruguay Round.[8] At the same time, the Uruguay Round provided the base from which future trade agreements at the regional and bilateral level were negotiated with even more demanding -- 'WTO-Plus' – conditions for developing countries and with significant implementation costs (Finger and Schuler, 2001).

Special and differential treatment was formerly adopted as part of the newly established trade architecture under the WTO, allowing developed countries to treat developing countries more favorably than other WTO Members and giving some special rights and privileges to developing countries in order to offset the biases and mitigate the disadvantages they continued to face in the international trading system and to help them with implementing multilateral trade agreements. These include: Provisions aimed at increasing the trade

[7] This is one of the lessons to be drawn from the successful East Asian economies which successfully combined export orientation and import substitution industrialisation by using a variety of strategic trade (and related) policies, see for example UNCTAD TDR 1996, 1997 and 2003.

[8] See Michalopoulos (2000); on the exaggerated and unbalanced gains to developing countries promised from the Uruguay Round see, Finger and Nogues. 2002, and from the Doha Round, see Polaski 2006 and Ackerman and Gallagher, 2008.

opportunities of developing country Members; Provisions under which WTO Members should safeguard the interests of developing country Members; Flexibility of commitments, of action, and use of policy instruments; Transitional time-periods; Technical assistance; and Provisions relating to LDC Members (WT/COMTD/W/239).

In the Doha Declaration of 2001, WTO members called for a review of special and differential treatment provisions “with a view to strengthening them and making them more precise.” However, SDT was increasingly seen as a means for rebalancing the gains from the Uruguay Round rather than an essential tool for addressing the systemic biases of the trading system (Tortora, 2003). Recognizing the domestic challenges faced by all developing countries, whether big or small, developing countries were given SDT to facilitate implementation of the Agreements of the Uruguay Round as well as the WTO Agreements which promised to be more development-centric.

3. Growth and poverty trends in the era of hyperglobalization

A significant feature of the global economy over the past 30 years has been the slowdown in growth and rising inequality in the advanced countries. Since the financial crisis of 2008, itself related to these trends, recovery has been sluggish in most of these countries. The contrast with their performance in the three decades following the end of the Second World War is particularly striking, pointing to the failure of policy choices in the recent period.

This performance also contrasts with that of the developing world, particularly since the start of the millennium when growth began to pick up across all regions (UNCTAD, 2016, chapter II). On many accounts, and particularly after the financial crisis, which hit advanced economies harder than developing economies, it was argued that growth in the South had “decoupled” from the North, driven by new “growth poles” in an emerging multipolar world (Canuto, 2010). While there are certainly endogenous drivers in the recent growth surge across the South, it was also heavily dependent on a set of circumstances in the advanced economies that favoured the exports of developing countries, including their willingness to tolerate mounting debt levels to maintain aggregate demand, and a highly unbalanced policy mix adopted by these same countries after they were hit by financial crises in 2000 and again in 2008 which triggered large capital flows to the South. As conditions (and policies) in advanced countries have changed, growth in the South has slowed down and talk of a “great convergence” in incomes between North and South has also cooled (World Bank, 2016).

Much of the discussion on contrasting economic performances between developed and developing countries has, moreover, failed to recognise that the nature of globalization has itself been transformed since the early 1980s through the deregulation of financial markets, growing corporate power including with the spread of global value chains and ascendant neo-liberal policy-making with profound consequences for growth dynamics everywhere (UNCTAD, 2017 and 2018). It is this “hyperglobalized” world economy into which developing countries have been integrating over the past three decades; and it is against this backdrop that the inherently complex task of measuring and evaluating development takes place (Dutt, 2014, chapter 2).

3.1 Has poverty reduction transformed the world since 1995?

The claim that many developing countries no longer need SDT, even as an adjustment tool, rests to a considerable extent on poverty numbers. While on some measures, global poverty has been falling for over two centuries, the pace seems to have picked-up rapidly in the recent period (Roser and Ortiz-Ospina, 2017).[9] The number of people classified as being in extreme poverty (defined by the World Bank as $1.90 per day, 2011 PPP) has fallen from 1.9 billion in 1990 to 735 million in 2015, which is around 10 per cent of the global population.

[9] Roser and Ortiz-Ospina (2017). Global Extreme Poverty, Our World in Data. https://ourworldindata.org/extreme-poverty.

However, determining what is an appropriate poverty target to make historical and cross-country comparisons, or indeed what is an appropriate statistical approach to measuring poverty, is far from being a closed debate.[10] The World Bank provides poverty data across regions using a benchmark figure of $1.90, but also includes data for $3.20 and $5.50 (Table 1); the differences in terms of the absolute numbers and incidence of poverty from adopting these different benchmarks are sizeable both within and across countries. For example, the spread in East Asia and the Pacific goes from just 73 million in 2018 using $1.90, to over 850 million for $5.50, with most of that increase accounted for by China; and while extreme poverty ($1.90) is the most widespread and persistent challenge for sub-Saharan Africa, the largest numbers of poor people (under $5.50) are in South Asia.

Taking the higher World Bank measure ($5.50) and estimating the extent of poverty, with and without China, it can be seen that the number of people below the poverty line has not declined in the world (excluding China) and that China itself still has a long way to go to eliminate poverty (Figure 1); also, excluding China, the decline in the number of people below poverty line in the world, is much smaller using the $1.90 (2011 PPP) and $3.20 (2011 PPP) benchmarks. Moreover, many scholars have argued that even the higher World Bank benchmark is an underestimation of the global poverty challenge. According to Jason Hickel,[11] if we measure global poverty at $7.40 per day, the number of people living under this line is estimated to have increased dramatically since measurements began in 1981, reaching some 4.2 billion people in 2018; and the Harvard economist Lance Pritchett suggests that a more realistic figure should be between $10 to $15 per day, adding to the poverty challenge everywhere in the developing world (Pritchett, 2013).

Table 1. Poverty estimates for reference year 2013: Comparison of April 2018

	Survey coverage (per cent)	$1.90: headcount ratio (per cent)	$1.90: number of poor (mil)	$3.20: headcount ratio (Per cent)	$3.20: number of poor (mil)	$5.50: headcount ratio (Per cent)	$5.50: number of poor (mil)
East Asia and Pacific	97.7	3.6	73.2	17.6	352	42.5	853
Europe and Central Asia	90.7	1.6	7.7	5.8	27.7	14.1	67.8
Latin America and the Caribbean	91.6	4.5	27.8	11.3	69.5	27.1	166
Middle East and North Africa	77.7	2.7	9.6	14.5	52	42.7	153
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]