WTO Doha Round: Small Economies and Their Interests

Ransford Smith*

**Background**

The first reference to small economies in a World Trade Organization (WTO) Ministerial document will be found in the Ministerial Declaration adopted in 1998 at a meeting in Geneva. In paragraph six of that document, Ministers expressed deep concern at the marginalisation of least developed countries (LDCs) and of “certain small economies”, and recognised the urgent need to address this situation.

This was the beginning of an increasing and concerted effort by small economies to gain both the recognition of their concerns and special treatment in the WTO. It is to be noted, at the outset, that this objective was much more ambitious and far-reaching in the context of the WTO than it might seem to be at first sight. This is so because three groupings have traditionally existed in the WTO. These are developed countries, developing countries, and a sub-category of the latter – least developed countries. Indeed, those who sought to advance the interests of small economies faced initially opposition from a significant cross-section of members. Some developed countries were concerned that special treatment for small economies would increase the number of so-called free riders in the WTO, while a number of developing countries, in particular the more advanced, were concerned that a new grouping would impede the building of a common front among developing countries on issues in the WTO, and especially in trade rounds. Furthermore, many of the latter were insistent that there should be no differentiation among developing countries beyond the long-established grouping i.e. LDCs.

It is perhaps fair to say that even among the least developed countries themselves, even though, because of political correctness, and the strength of their instinct towards solidarity, this was not often expressed, there was some concern at the advent of an emergent grouping seeking special treatment similar to that which had been, up to now, restricted in the WTO to LDCs, a well defined category of countries, formally recognised by the United Nations. An obvious danger would be the possible onset of ‘special treatment fatigue’ on the part of the WTO, and even the wider international community.

An important and relevant question from the outset was – who are the small economies? In some ways this is a question that has still not been answered entirely satisfactorily, even though, within the WTO, there has been progress on the issue. But for much of the Doha Round process thus far this key issue was left unclear. There is in fact a well founded view that in some ways this lack of clarity was advantageous, since it made it easier to maintain the position – some might say the fiction – that a new category

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*This article by Commonwealth Deputy Secretary-General Ransford Smith is based on his speech delivered at the Royal African Society/Overseas Development Institute Workshop, held at the Houses of Parliament, London, UK, on 19 November 2008. Views expressed here are those of the author and do not necessarily reflect those of the Commonwealth Secretariat or of Commonwealth Member Governments.
was not being established among developing countries in the WTO. The lack of clarity also served, to some extent, to diminish resistance among the membership since, without a formal definition of small economies, hope could continue to beat in the breasts of marginally situated members that they would eventually be classified as small economies and share in any special treatment that materialised.

A watershed in regard to the small economies initiative was the Doha Ministerial Declaration adopted in 2001. Ministers undertook at that time to place the needs and interests of developing countries at the heart of the Doha Round. Paragraph 35 of the Declaration launching the Round is specifically devoted to small economies. In the Declaration, Ministers agreed to establish a Work Programme, under the auspices of the General Council, to examine issues relating to the trade of small economies. They stated that the objective of the Work Programme would be “to frame responses to the trade related issues identified for the fuller integration of small, vulnerable economies into the multilateral trading system, and not to create a sub-category of WTO members.” [Emphasis added]

Interestingly, as had been the case before it came into being, the establishment in the WTO of a Work Programme on small economies did not mean that the question of definition was addressed. This was neatly side-stepped by a working methodology which entailed focusing on the trade-related problems facing small economies, and on framing responses to these characteristics. This would be done primarily by submitting proposals to negotiating and other bodies in the WTO. Among the various characteristics and trade-related problems identified as being specific to small and vulnerable countries were physical isolation and geographical distance to main markets, lack of adequate market access opportunities for export, small domestic markets and diseconomies of scale, low levels of production and competitiveness, low levels of economic diversification, and dependence on one or few commodities.

While there was no formal definition of small economies, the key players that were active in advocating the cause of the grouping, and in sponsoring proposals in the WTO, are easily identifiable. The main protagonists, numbering about 24, were drawn primarily from the Caribbean, Central America, and the Pacific. They include Antigua and Barbuda, Barbados, Belize, Cuba, Dominica, Dominican Republic, El Salvador, Fiji Islands, Grenada, Guatemala, Honduras, Jamaica, Mauritius, Nicaragua, Papua New Guinea, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Solomon Islands, and Tonga. Barbados co-ordinated the activities of the grouping.

The concerted advocacy by these countries was successful in maintaining high level political support for their concerns at the WTO. Thus, after endorsing the launching of a Work Programme on small economies at the outset of the Doha Round in 2001, Ministers returned to the subject at the Hong Kong Ministerial, four years later, in 2005.

In their Declaration adopted at Hong Kong, they reaffirmed their commitment to the Work Programme on small economies and urged members “to adopt specific measures that would facilitate their further integration into the multilateral trading system, without creating a sub-category of WTO members.”

Two elements from the Hong Kong Declaration might be noted. Ministers on that occasion urged the adoption of specific measures, and also, once again, as they had done at Doha when the Round was launched, they repeated the mantra about not creating a sub-category of members.

Let me now provide a few examples of the initiatives taken by small economies to address their interests and the response of the WTO membership so far to these proposals. While in some instances the incremental value and benefits attending an initiative may be debated, the collective impact has been a deepening recognition of small economies and their particular concerns in the WTO and, indeed, in the wider global economy.

### Main Small Economy Proposals

(i) One of the earliest positive outcomes was approval by the General Council, in October 2006, of a recommendation submitted to it from the Committee on Trade and Development that small economies should be allowed to designate regional bodies to assist them in the implementation of their (national) obligations under three WTO Agreements – the Agreements on Sanitary and Phyto-Sanitary Measures (SPS), Technical Barriers to Trade (TBT), and Trade-Related Aspects of Intellectual Property Rights (TRIPS). Small economies had argued that an important trade-related issue affecting their fuller integration into the multilateral trading system was their limited capacity to implement complex rules and procedures under some WTO agreements, and therefore to undertake these through regional mechanisms would be beneficial.
(iii) Significant advances have been made in two important areas of the Doha negotiations. Although the Doha Round agreements on Non-Agricultural Market Access (NAMA) and Agriculture remain works in progress, small economies have made advances in gaining recognition of their concerns. Both the Agriculture and NAMA July 2008 draft modalities texts have taken on board proposals by small economies, and while the texts have not been concluded, there appears to be concurrence by the wider membership on these elements. In Agriculture, while developed countries would be expected to undertake a minimum overall average cut in tariffs of 54 per cent, and other developing countries (except for LDCs) would undertake an overall average cut of 36 per cent, small economies would be required to reduce their tariffs by 24 per cent. Importantly, small vulnerable economies (SVEs) will also have a choice as to whether or not to apply in agriculture the tiered tariff reduction formula. And should they decide to apply the formula, they would be entitled to moderate the proposed cuts applicable to other developing countries by ten percentage points in each tier.

In regard to the NAMA negotiations, small economies have pressed for modulated obligations, and have voiced concerns related to potential loss of tariff revenue from reduced tariffs, and regarding the capacity of their fledgling industries to compete. The application of the proposed Swiss formula in NAMA, as reflected in the draft modalities text, would result in general in no tariff higher than 26 per cent for developing countries, and none higher than 9 per cent for developed countries. However, in the case of small economies, the modalities provide for reductions that would appear to be significantly less than for other members. The NAMA draft modalities provide that if the small economy average tariffs are at or above 50 per cent, they shall be reduced to an overall average between 28 to 32 per cent; overall tariffs at or above 30 per cent but below 50 per cent to be reduced to an overall average between 24 to 28 per cent; and overall tariffs at or above 20 per cent but below 30 per cent, to be reduced to an overall average ceiling of 18 per cent. For small economy tariffs below 20 per cent a minimum line by line reduction of 5 per cent on at least 95 per cent of tariff lines will be required. In NAMA, it seems evident that the reductions proposed for SVEs will be less than for many other members.

The exception to the foregoing is, of course, LDCs. It must be underscored that LDCs (32 of which are WTO members) are exempt from undertaking tariff cuts in NAMA and in Agriculture, and as well exempt from undertaking subsidy reductions in agriculture, and thus continue to be primary beneficiaries of special treatment accorded WTO members.

Definition of Small Economies

A major advance in the recent consideration of small economies issues in the WTO, and specifically in the context of the Agriculture and NAMA negotiations, is that the negotiations in these two areas have imparted some clarity to the concept of small economy. Certain defining characteristics have been agreed on.

It has been agreed that to be eligible as a small economy and qualify for special treatment in NAMA and Agriculture, the following should apply:

*the country’s average world share between 1999-2004 should not have exceeded 0.16% of global merchandise trade; 0.1% of NAMA trade; and 0.4% of Agriculture trade.*

On this basis, some 45 countries would qualify as small economies in NAMA and Agriculture. The
resulting list includes countries that have not been active proponents in regard to the small economy cause, and certainly some that have shown little interest in being associated with the small economy Work Programme in the WTO\. Finally, it is emphasised that the draft modalities are just that at this stage and will remain so until the Round is successfully concluded. Nevertheless, it is evident that significant new ground has been broken by the small economies.

### Other Initiatives in the WTO by SVEs

While the progress made in NAMA and Agriculture can be considered among the main accomplishments so far, it should be noted that the SVEs have, since the launch of the Work Programme, tabled more than 30 different proposals in the areas of NAMA, Agriculture, Services, Fisheries, TRIPS, SPS and TBT, Trade Facilitation, Accession and Aid for Trade.

Small economies have been quite active in the rules negotiations. In regard to the negotiations on rules and procedures governing regional trade agreements, they have sought, with the African, Caribbean and Pacific Group of States (ACP, to which many small economies belong), the introduction of greater flexibility under Article XXIV of the General Agreement on Tariffs and Trade (GATT) 1994 for developing countries entering into regional trade agreements with developed countries, this in areas such as the length of transition periods and the scope of product coverage.

On fisheries subsidies, SVEs have maintained a particularly high profile in the negotiations, a consequence of the fact that many of them are small island and coastal states. The small economies have cautiously welcomed certain provisions in the November 2007 Chairman’s text on fisheries, in particular exemption from the list of prohibited subsidies of access fees and incentives for on-shore fish processing industries, and artisanal fisheries.

Not surprisingly, given the geographic isolation of some small economies, their undeveloped infrastructure, steep transportation and other related costs, as well as their relatively open economies, they have taken a keen interest in the negotiations in trade facilitation. A proposal similar to that approved by the General Council in regard to the TRIPS, SPS and TBT Agreements, has been submitted by them in the Trade Facilitation negotiation. They have tabled a proposal seeking to have SVEs and other developing countries pool their resources on a regional basis to implement any obligations resulting from the Trade Facilitation negotiation.

Many SVEs are services dependent economies and rely on a single or a very limited range of services exports. In services, SVEs have supported a multilateral and inclusive negotiating process, have urged respect for the current architecture of the General Agreement on Trade in Services (such as the positive list approach), the retention of flexibility for developing countries to liberalise fewer sectors than developed countries, and have consistently emphasised the importance of improved market access in services sectors of export interest to developing countries.

### Divergence and Convergence in Negotiating Positions of SVEs and African Countries

It is important to emphasise that the WTO is an organisation of multiple and sometimes fluid alliances among members. The SVEs and many African countries have numerous common interests as developing countries in areas such as improved market access, enhanced flexibilities, modulated commitments and obligations, and increased attention to capacity-building and supply side strengthening. They share also a common interest in ensuring transparent and inclusive procedures in the WTO.

Many SVEs and African member states share as well common historical and trade links with the European Community – and this has influenced their negotiating positions on agriculture and regional trading arrangements in particular. In this context it should be noted that on the issue of preferences and preference erosion, small economies, with proponents on both sides of the divide within their ranks, have wisely chosen not to be active through the small economies grouping on this issue, which indeed has tended to pit Caribbean and African small economies, who benefit from preferences in the market of the European Union, against Central American small economies. The preference issue has thus tended to play out through other groups, such as the ACP. But, generally, in many other areas including Rules, Dispute Settlement, Trade and Environment and Trade Facilitation, SVEs and African countries share both common interests as well as overlapping membership in groups like the

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\(^1\)The countries in the list are: Albania, Antigua and Barbuda, Armenia, Barbados, Belize, Bolivia, Botswana, Brunei Darussalam, Cameroon, Cuba, Dominica, Dominican Republic, Ecuador, El Salvador, Fiji Islands, FYR Macedonia, Gabon, Georgia, Ghana, Grenada, Guatemala, Guyana, Honduras, Jamaica, Jordan, Kenya, Kyrgyzstan, Macao, Mauritius, Moldova, Mongolia, Namibia, Nicaragua, Panama, Papua New Guinea, Paraguay, St Kitts and Nevis, St Lucia, St Vincent and the Grenadines, Sri Lanka, Suriname, Swaziland, Trinidad and Tobago, Uruguay, and Zimbabwe. Details can be found in the WTO document TN/AG/W/4/Rev.3 dated 10 July 2008 (Annex I, pp.58-60).
earlier mentioned ACP, the G33, the G90, and the WTO’s Informal Group of Developing Countries.

Many African countries are LDCs. As indicated earlier, least developed countries are exempt from tariff and subsidy commitments in Agriculture and from tariff commitments in NAMA. Likewise, in the case of Services, LDCs are exempt from making offers. LDCs also enjoy more favourable conditions of market access, particularly as a result of the undertaking by developed countries – made at the Hong Kong Ministerial in December 2005 – to provide duty free and quota free access for 97 per cent of products originating in LDCs. It is not evident that in the context of the WTO, African countries, and especially LDCs, on the one hand and, on the other, small economies, are engaged in a competitive battle or in a zero-sum game to advance their interests. On the defensive side, with a common desire to limit commitments and obligations, their interests have tended to be aligned. On the offensive side, primarily in regard to market access, they suffer from a common lack of trade armoury and are both interested in supply side strengthening and in access conditions that are superior to that provided to more efficient producers, including more advanced developing countries. The strongest resistance to the emergence of SVEs, as indicated earlier, actually came from this latter constituency as some cautioned against or sought to prevent what they saw as the fragmentation of developing country interests and a potential weakening of developing countries as a negotiating bloc in the WTO. It is fair to say, however, that among developing countries a diversity of interests has always existed, albeit anchored in certain important commonalities, and it is this recognition of differing circumstances that gave birth to the SVEs.

**Implications for SVEs of the Stalemate in the Doha Negotiations**

It is exceedingly difficult to quantify the losses that would be incurred by SVEs should the Doha negotiations fail or drag on indeterminately. Conversely, it is very difficult to quantify their gains should the Round conclude on terms largely faithful to the modalities now on the table. The primary advance so far, specific to SVEs, is the limiting of the market opening that they would need to undertake in NAMA and in Agriculture. The other important advance, this one already agreed on, will allow SVEs to continue to provide certain export incentives – formally classified by the WTO as prohibited subsidies – until 2015. Orthodox economists may debate whether these gains are in fact beneficial to SVEs: suffice it to say that the SVEs themselves seem to be in no doubt that employment and output in their countries would suffer should they not be allowed these flexibilities.

In the final analysis, the main benefit to SVEs from the Doha negotiations will likely derive not from the specific flexibilities accorded them, but from the increase in global income and global welfare that a successful Round would contribute to, and, importantly, the extent to which small economies are able to share in this. The picture is not particularly encouraging. Most SVEs are overwhelmingly dependent on a few products and a few markets. Furthermore, most exports of Caribbean SVEs enter the European Community and the United States duty free under existing trade agreements, while those of the Pacific SVEs enter Australia and New Zealand under similar conditions. The ability of SVEs to derive significant benefits from these arrangements, and from liberalisation at the multilateral level, is dependent on their competitive position, and particularly on whether they are able to address the supply side constraints which have prevented them from taking full advantage of preferential access over many years. Both Aid for Trade and broader development assistance, as well as sound domestic policy frameworks, will be essential to reversing this situation. The Doha Round is an important element, but not necessarily the defining event, in ensuring progress for SVEs in this regard.

One consequence of the stalemate in the Doha negotiations that is often commented on is the increased pressure on countries to conclude bilateral and regional trade agreements. This development does not auger well for SVEs as it will dilute their preferences and erode their competitive position in major markets – such as the United States and the European Union – much more decisively than a successful multilateral trade round would.

**Conclusion: Vital Stake for Small Economies**

A final and critical consideration is the importance to small economies of the rules-based multilateral trading system, with the attendant predictability and due process that it provides in trade relations, and that are best ensured and safeguarded at the multilateral level. This is perhaps the most vital stake that small, vulnerable economies have in the Round and in the multilateral trading system. A not inconsequential caveat here is that the nature of the rules does matter. The small economies’ long – and eventually successful – campaign to delay the application of the full force of Article 3 of the Uruguay Round Subsidies Agreement to them has shown quite clearly that this is in fact the case.
International Trade & Regional Co-operation (ITRC) Section at the Commonwealth Secretariat

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ITRC is entrusted with the responsibilities of undertaking policy-oriented research and analysis on trade and development issues and providing informed inputs into the related discourses involving Commonwealth Members. The ITRC approach is to scan the trade and development landscape for areas where orthodox approaches are ineffective or where there are public policy failures or gaps, and to seek heterodox approaches to address those. Its work plan is flexible to enable quick response to emerging issues in the international trading environment that impact particularly on two highly vulnerable Commonwealth constituencies - least developed countries (LDCs) and small states.

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ITRC Recent Activities

ITRC's most recent activities focus on assisting member states in the WTO Doha Round and the Economic Partnership Agreement (EPA) negotiations involving the African, Caribbean and Pacific countries (ACP) and the European Union (EU), undertaking analytical work on a range of trade policy and development issues, and supporting workshops/dialogues for facilitating consensus building on issues of our members' interest, exchange of ideas, and disseminating results from informed analysis.

Selected Recent Meetings/ Workshops supported by ITRC

27 January 2009: ACP-EU High Level Political Meeting on EPAs, London, UK
8-10 October 2008: African Workshop on Economic Partnership Agreements- Reaping the Benefits on the EPAs, held in Addis Ababa, Ethiopia
9-10 September 2008: Meeting on Private Enterprises and EPAs, held in Addis Ababa, Ethiopia
2-3 September 2008: Regional Meeting on Climate Change and Trade, held in Port Louis, Mauritius
28-29 August 2008: Regional Dialogue on ACP-EU Fisheries Relations, held in Windhoek, Namibia
28-30 August 2008: 1st South Asian Economic Summit, held in Colombo, Sri Lanka
4-5 August 2008: Business Implications of EPA Negotiations for EAC, held in Kigali, Rwanda
12-13 August 2008: Global Partnership for Development, held in New Delhi, India
25 July 2008: Seminar on Commonwealth Trade Policy Activities, held in London, UK
8 July 2008: Meeting of Geneva Group of Commonwealth Ambassadors, held in Geneva, Switzerland
7-8 April 2008: Workshop on Economic Partnership Agreements, held in Cape Town, South Africa
24 March 2008: Regional Seminar on Trade Regimes in South Asia, held in Dhaka, Bangladesh
### Selected ITRC Publications

<table>
<thead>
<tr>
<th>Author(s)</th>
<th>Title</th>
<th>Publisher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Razzaque, M. A. (ed) (forthcoming)</td>
<td>Trade, Migration and Labour Mobility</td>
<td>Cameron May.</td>
</tr>
<tr>
<td>Grynberg, Roman and Newton, Samantha (eds)</td>
<td>Commodity Prices and Development</td>
<td>Oxford University Press.</td>
</tr>
</tbody>
</table>

### On-going Policy Research Projects

- Aid for trade in small states
- Impact of the EC’s Fisheries Regulation on Commonwealth developing countries
- Commonwealth Investment Framework Agreement
- Trade effects of Government Procurements on developing countries
- Development issues under EPAs
- Development aspects of trade-related issues and trade in services
- Pre-feasibility study on the Pacific Single Market and Economy
- Implications of the EPAs on Pacific ACP and CARIFORUM
- Issues of investment within the ECOWAS region in relation to ACP-EU Arrangements
- Issues of investment within SADC and COMESA regions in relation to ACP-EU Arrangements
- The development impact of the Doha Round on least developed countries (LDCs)
- The impact on small vulnerable economies (SVEs) of the Doha negotiations on agriculture, non-agricultural market access (NAMA), trade in services and development issues
- The impact of trade preference erosion on recipient countries
- Overcoming non-policy obstacles to the export of developing countries
- Services trade and domestic regulation in selected Commonwealth developing countries
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- Development-oriented approaches to negotiating investment issues within regional trading arrangements
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- South Asian Free Trade Agreement (SAFTA) and potential implications for members Creating country trade negotiating strategies
- The rise of Brazil, India, China and South Africa (BICS) and implications for other developing countries
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| Coherence in trade policy: the case of Economic Partnership Agreements (EPAs)                     |
| The effectiveness of aid for trade: Some empirical evidence                                      |
| Services Trade and Domestic Regulation: Issues for Developing Countries                           |
| Agriculture and Rice Trade Liberalisation: Potential Implications for South Asian Countries      |
| Aid for Trade and Economic Partnership Agreements                                                |
| Aid for Trade: A Diversity of Issues and Viewpoints                                              |
| An Appraisal of the Hong Kong Ministerial Meeting                                                |

**ISSN:** 2071-8527 (print)  **ISSN:** 2071-9914 (online)

Series editor: Dr Mohammad A Razzaque.
Produced by the Economic Affairs Division of the Commonwealth Secretariat

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