# REFORM OF THE WORLD TRADE ORGANIZATION:

## SPECIAL AND DIFFERENTIAL TREATMENT

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Special and differential treatment (SDT) is among the most pressing issues for WTO reform. SDT – the principle that developing countries should be granted various exemptions and exceptions from WTO rules and allowed greater scope to use tariffs, subsidies and other protectionist trade measures to foster economic development – is a cornerstone of the WTO system. However, amid the rise of major emerging economies like China, the central challenge today is to ensure that SDT is designed and operationalized in a fashion that does not undermine global development objectives. At present, WTO members are allowed to self-designate as developing countries. A new approach to SDT is needed, including a fair and balanced criteria to determine which countries should have access to SDT, based on their economic capabilities and level of development.

Although a number of WTO members have proposed that China no longer be granted SDT, China insists that it should be entitled to the same SDT given to other developing countries. However, while China remains a developing country, as the world's biggest trader and second largest economy, its trade policies have profound global implications. Allowing China to access SDT is increasingly problematic due to the harmful effects of its trade policies on other developing countries. Over the last decade, for instance, China has emerged as the world's largest subsidizer of both agriculture and fisheries. Many developing countries depend heavily on these sectors for exports, incomes, and food security. As a result, exempting China from WTO disciplines by granting it access to SDT threatens to jeopardize efforts to achieve crucial global development and environmental objectives.

Agriculture and fisheries – two current areas of active multilateral negotiations at the WTO – both exemplify the problem with allowing major economic powers like China to self-designate as developing countries in order to access SDT.

### Agricultural Subsidies

Since the collapse of the Doha Round, WTO members have been seeking to negotiate a standalone agreement to reduce agricultural subsidies. One of the key stumbling blocks has been the issue of SDT for China and other large emerging economies.

Subsidies provided by richer countries give their farmers an unfair advantage in global markets, while depressing global prices and undermining the livelihoods of millions of poor farmers in the developing world. There is widespread consensus that reducing agricultural subsidies would increase the welfare of developing countries. Historically, rich countries like the US and EU were the principal source of the problem; however, the global landscape of agriculture subsidies has changed dramatically. As China has grown richer, it has become the world's largest subsidizer of agriculture. China provided approximately US$212 billion in support (including both market price support and direct subsidies) to its farmers in 2016, vastly more than the EU ($100 billion), US ($33 billion), Canada ($5 billion) or any other country.[1] Yet China is refusing to accept any disciplines on its agricultural subsidies on the grounds that it should be entitled to SDT.

Cotton provides a striking illustration of the harmful effects of China's agricultural subsidies for other developing countries. Reducing cotton subsidies is seen as a key means for the WTO to contribute to global development. Cotton is of crucial importance to the "Cotton-4" group of West African cotton producers (Mali, Chad, Benin, and Burkina Faso), as well as many other developing and least-developed countries in Africa and throughout the world. These countries depend heavily on cotton exports for employment, government revenue and foreign exchange. Cotton is one of the most important export crops in sub-Saharan Africa, with some 15 million people directly dependent on it for their livelihoods.[2] Burkina Faso, for example, which has an average income of just $790 per year, relies on cotton for 59% of its export revenues. African cotton producers are among the world's most competitive, but they face lower prices and unfair competition due to heavy subsidies in richer countries. Cutting subsidies would boost cotton prices and incomes for poor farmers, and lead to a significant shift in production to African countries.

While the US was once the chief source of the cotton subsidy problem, China has now surpassed the US as world's largest cotton subsidizer. Over the past decade, China provided a massive $41 billion in cotton subsidies – almost six times more than the $7 billion provided by the US.[3] China alone accounts for nearly three-quarters of all cotton subsidies worldwide. Like the US, China is a relatively inefficient cotton producer, with production costs roughly four times those of some African countries.[4] But subsidies and other trade measures have made China one of the world's largest cotton producers. China's subsidies artificially increase its own cotton production, displacing imports and depressing global prices, reducing the incomes of farmers globally. In addition, China also imposes tariffs as high as 40% on cotton imports.

China's heavy subsidies and import barriers cause significant hardship to poorer and weaker countries. While China remains a developing country, it is vastly richer than the African cotton-producing countries, with a per capita GDP of over $10,000 compared to an average of just $900 among the Cotton-4.[5] China claims that its cotton subsidies are intended to foster its own rural development. However, there are alternative policy mechanisms – such as providing direct income payments delinked from production, or investing in rural health care and education – that

[1] OECD. 2017. *Agricultural Policy Monitoring and Evaluation*. Paris: OECD.
[2] Meyer, Gregory, and Emiko Terazono. 2014. "Cotton farmers feel a chill in the market as prices wear thin." *Financial Times*. December 10.
[3] International Cotton Advisory Committee (ICAC) data.
[4] ICAC. 2016. "Production and Trade Policies Affecting the Cotton Industry." International Cotton Advisory Committee, Washington, DC.
[5] IMF data.

China could use to achieve the same objective without the harmful spillover effects of its current policies.

The Cotton-4 and other African countries have been actively pushing for a WTO agreement to eliminate global cotton subsidies. But China has refused to accept any new WTO disciplines on its subsidies. China insists that, as a developing country, it should be entitled to SDT and exempted from any requirement to reduce its subsidies. The reality, however, is that China is now the primary source of the cotton problem. Exempting China's subsidies from WTO disciplines by granting it SDT would severely undermine the efficacy of any new disciplines. It is impossible to address the cotton problem without tackling China's subsidies.

**Fisheries Subsidies**

Fisheries subsidies provide a second illustration of the problem of granting SDT to China. The UN Sustainable Development Goals identified the need for a WTO agreement to eliminate harmful fisheries subsidies as a urgent international priority. Fisheries subsidies is currently one of the sole active areas of negotiations at the WTO, and achieving a successful agreement is seen as essential to demonstrating the continued relevance of the institution and its system of global trade rules. The goal is to achieve a "triple win" – an outcome that is positive for trade, development and the environment.

The world is in the midst of a global fisheries crisis. Overfishing has led to the rapid depletion of fish stocks, causing the productivity of fishing harvests to plummet. The UN Food and Agriculture Organization estimates that 90% of global fish stocks are already fully exploited and almost a third are being fished at a biologically unsustainable level. Subsidies have played a major role in the current crisis by fueling overcapacity and overfishing ("too many vessels chasing too few fish"). An estimated $35 billion in fisheries subsidies are provided annually, with the vast majority going to large-scale, industrial fishing operations.[6] Subsidies allow fleets to intensify and broaden the scope of their fishing, building and operating larger boats that can travel greater distances and remain at sea for longer periods. It is estimated that more than half of current global fishing activity in the high seas would not exist without subsidies.[7]

Propelled by subsidies, overfishing causes severe damage to fragile marine ecosystems and undermines the sustainability of global fisheries. But this is not just an environmental issue. It is also a critical issue for global poverty and development. Many developing countries depend heavily on fisheries for food security, employment and livelihoods, and are acutely vulnerable to plummeting fish harvests. The harmful effects of subsidies are felt most keenly in these poor countries, where competition from subsidized foreign fishing fleets has been devastating.

Subsidies have enabled countries with large industrial fishing fleets to exploit resources far beyond their own waters – including off the coasts of Africa, Central and South America, and the

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[6] Sumaila, U. Rashid, Naazia Ebrahim, Anna Schuhbauer, Daniel Skerritt, Yang Li, Hong Sik Kim, Tabitha Grace Mallory, Vicky W. L. Lam, and Daniel Pauly. 2019. "Updated estimates and analysis of global fisheries subsidies." *Marine Policy* 109:103695.
[7] Sala, Enric, Juan Mayorga, Christopher Costello, David Kroodsma, Maria L. D. Palomares, Daniel Pauly, U. Rashid Sumaila, and Dirk Zeller. 2018. "The economics of fishing the high seas." *Science Advances* 4(6).

South Pacific – at the expense of local fishing communities. West Africa, for example, has some of the world's richest fishing grounds, but its fish stocks are rapidly being depleted by heavily-subsidized foreign ships. Locals fishing from hand-hewn canoes are competing against industrial "mega-trawlers" with mile-long nets that scoop up everything from seabed to surface. Declining fish stocks have resulted in falling incomes for local fisherfolk – many of whom live in conditions of poverty and severe hardship – along with reduced domestic food supply.

In the past, the primary source of the problem lay with developed countries like the EU and Japan. But China now dominates the global fishing industry: it has the world's largest and furthest-ranging industrial fishing fleet, which accounts for an astonishing 42% of global fishing activity – outstripping the next 10 biggest countries combined.[8] China has become the world's largest fisheries producer, consumer, importer and exporter. Most importantly, China is now also the world's biggest subsidizer.[9]

As the dominant player in this sector, with a heavily subsidized fleet, a meaningful fisheries agreement is simply not possible unless China is willing to reign in its subsidies. Yet China is seeking to exempt its subsidies from disciplines by insisting on access to SDT as a developing country. This would contravene the entire purpose of constructing disciplines and have severely negative implications for the many developing countries that rely on the sustainability of global fisheries resources for their economic welfare.

**Conclusion**

These cases – agriculture and fisheries subsidies – highlight the pressing need for reform of WTO rules governing access to SDT. Since China is the largest subsidizer of both agriculture and fisheries, allowing it to exempt its subsidies and other trade policies from WTO disciplines through SDT threatens to undermine important global development and environmental objectives. Amid the rise of large emerging economies like China, the establishment of more restrictive criteria for granting SDT is essential to ensuring that this important development tool is not abused by major economic powers.

[8] Kroodsma, David A., Juan Mayorga, Timothy Hochberg, Nathan A. Miller, Kristina Boerder, Francesco Ferretti, Alex Wilson, Bjorn Bergman, Timothy D. White, Barbara A. Block, Paul Woods, Brian Sullivan, Christopher Costello, and Boris Worm. 2018. "Tracking the global footprint of fisheries." *Science* 359(6378):904-08.

[9] Sumaila, U. Rashid, Naazia Ebrahim, Anna Schuhbauer, Daniel Skerritt, Yang Li, Hong Sik Kim, Tabitha Grace Mallory, Vicky W. L. Lam, and Daniel Pauly. 2019. "Updated estimates and analysis of global fisheries subsidies." *Marine Policy* 109:103695.