The Web of Nations:

The Challenges of Small Vulnerable Economies in a Globalized World

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Geography

5/7/2012

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Introduction: The Many Faces of Globalization

The world we live in today is constantly transforming, and no force has been as instrumental to large-scale change as globalization. This ambiguous term can loosely refer to a host of different issues and can reflect various fields of study in economics, culture and international politics. Recently, it has come to be viewed in both positive and negative contexts: the promotion and dissemination of new ideas, the establishment of the free-market economy, the rise of the World Trade Organization, the rising influence of western media and the subsequent westernization of cultures, and most importantly the growing economic interconnection between countries. Although there is no single clear-cut definition, globalization has been quite appropriately described by author Thomas Friedman as a new international system of the post-Cold War era with "its own unique logic, rules, pressures and incentives." [1] Regardless of its rather elusive definition, globalization is indeed the driving factor that is continuously reshaping the way in which we view the world. More than ever before, people are stripping away old notions of autonomous nation-states and moving towards new prospects of economic and social interdependency. Yet, while globalization does present many great opportunities for many different countries, it also poses some serious challenges for countries that are not so readily equipped for economic integration. This paper aims to explore the more negative aspects of globalization from the perspectives of the nations that are most at risk, namely the small economies that are in danger of being forgotten.

It is sometimes easy to overlook the small countries of the world that do not possess the same economic or political clout as their larger counterparts. Names like the United States and the European Union are globally well known, and newly arrived economies like Brazil, India and

[1] Thomas L. Friedman, *The Lexus and the Olive Tree* (New York, Farrar, Straus, and Giroux), quoted in page 6

China are also establishing themselves as key players in the world economy. Yet tiny countries like the Cape Verde Islands, Antigua and Barbuda, and the islands of Micronesia and the Polynesian Pacific often go completely unnoticed from world view. These tiny countries are only a few examples of Small Vulnerable Economies, (SVEs) countries that face daunting and complex challenges from global integration as they attempt to establish themselves in the world market. SVEs, although dispersed throughout the globe, are largely clustered into a few main geographical regions: the Caribbean, the African and Indian Ocean islands and the Pacific Islands, all of which will be discussed in generalized terms. While, it is certainly true that each of these regions is very distinct, they all share similar drawbacks. By and large, SVEs are characterized as having very small population sizes and very limited natural resources. A large percentage of their revenue comes primarily from agricultural exports, and their small population sizes makes it very difficult for them to establish economies of scale, which makes it impossible for them to compete in the global market. Surprisingly, despite the technological breakthroughs in communications and transportation, these regions remain relatively isolated from the rest of the world, in many cases lacking the proper facilities such as large harbors or airports, which in turn have made travel and trade very problematic. A more technical analysis of SVEs will be addressed in the subsequent chapters, but suffice to say that these small countries are in danger of being swallowed up by the free market economy.

In order to obtain a proper understanding of economic globalization and its more negative consequences on these tiny countries, it is necessary to delve into larger scope of global trade, and to do this requires an in depth look into free trade's biggest promoter: the World Trade Organization (WTO). Since its formation in 1995, the WTO has risen to become an instrumental authority in the world economy and a facilitator of trends towards economic liberalization. Its rules and regulations have changed the nature of international trade policies, promoting neo-liberalist ideals and global economic integration, as well as establishing a multilateral trade system and providing a forum for settling international trade disputes. With over one hundred and fifty three member countries, the WTO's negotiations and subsequent rulings have dramatically altered the manner in which countries now conduct trade.

In its seventeen year existence, the WTO has become the central regulating body of free-trade, establishing new trade frameworks through a system of negotiation rounds. At the highest level of the WTO's administrative structure is the Ministerial Conference, in which all of its members convene to come to certain agreements on trade modalities or policy frameworks involving all aspects of international trade.[2] The outcomes of these conferences often have far-reaching ramifications not only for the future of global trade, but also for the member countries who are involved, particularly the ones most in jeopardy like the SVEs. The liberalization of free trade and the removal of trade preferences in the late 1990s and early 2000s, while beneficial to many larger economies, proved disastrous for SVEs, who lost their traditional market shares. These already disadvantaged nations are being disenfranchised by the globalization process and marginalized by the larger member nations of the WTO. These many issues bring their prospects for a stable economic future into serious doubt. In response to these challenges, many SVEs are pushing for special and differential treatment from some of the WTO's regulations, as they struggle to obtain a greater presence on both the world scene as well as at the negotiating table of the WTO.

[2] James Wiley, *The Banana: Empires, Trade Wars, and Globalization.* (Lincoln, University of Nebraska Press, 2008) 169. For more information on WTO structure, see chapter 8, pages 163 to 180.

Despite its incredible economic clout, the World Trade Organization has in recent years fallen under intense criticism by many of its member countries in wake of its latest negotiation round: the Doha Development Agenda. Commencing in 2001, the Doha Round was meant to address the various issues currently facing the growth of global trade, including issues pertaining to agricultural subsidies and the reduction of tariffs, as well as addressing other pertinent issues like special and differential treatment for the SVEs. However, serious concerns about agricultural subsidies and conflicting political and economic agendas have brought Doha to a standstill. Now going on its eleventh year of negotiations, Doha has become the longest running negotiation round in the WTO's short history, and very little progress has been made to resolve these disputes, which have only resulted in creating a schism between Global North and Global South agendas and bringing into question the WTO's ability to effectively mediate these disputes. This utter lack of consensus among member countries and a complex web of conflicting agendas by the larger members have subsequently stalled the progress of Doha, resulting in the complete breakdowns in negotiations like the collapse of the Cancun Ministerial Conference in 2003. This deadlock has consequentially undermined the effectiveness of the WTO as a regulating entity and raises many questions as to what direction free-trade will ultimately take. It is against this backdrop of seemingly unending debate and deadlock that many SVEs continue to push for special and differential treatment from some of the WTO's regulations that have hindered their chances for a sustainable economic future.

This paper will illustrate the negative aspects of the globalization process by attempting to answer two most important questions. First, in what ways have the conflicting agendas among larger WTO member countries hindered the economic advancements of the SVE nations? Second, what progress, if any, has Doha recently made to resolve these critical concerns of the

SVEs? This paper will serve as a focused analysis of the relationships among the WTO, Doha and the SVE countries. More broadly, however, it will also assess the negative aspects of globalization on the SVEs: the processes of economic marginalization, the lack of consensus among the WTO member nations, and how conflicting agendas and unresolved disagreements have subsequently sabotaged the economic development of these neglected countries.

Chapter II: Big Worries of Small States

What does it truly mean for a country to be small, and what are the social, economic and geographical implications of such a distinction? Terminology is very important in understanding the many dimensions and components of free trade, and in order to properly assess the predicaments of the SVEs, it is necessary to first understand why these countries are labeled as such. A quick breakdown of the WTO's official definition of what constitutes a small nation can shed important light on the reasons behind these distinctions and allow a greater understanding of the economic circumstances of the SVEs within a more global context.

First and foremost, it is important to note that the term SVE is relatively new and was first used in the World Trade Organization's Ministerial Declaration in Geneva in 1998, referring to unspecific small economies threatened with economic marginalization.[3] This definition has since been refined and now refers to:

> Members with economies that, in the period of 1999 to 2004, had an average share of (a) world merchandise trade of no more than 0.16 per cent or less, and (b) world trade in non-agricultural products of no more than 0.1 per cent and (c) world trade in agricultural products of no more than 0.4 per cent
>
> - Revised Draft Modalities for Agriculture[4]

While certainly much clearer, this definition still fails to offer a complete illustration of how these countries, because of their small sizes and geographical remoteness, can become economically vulnerable. However, there is in fact a very strong association between small size and small economies.

[3] Ransford Smith. "WTO Doha Round: Small Economies and Their Interests," *Trade Hot Topics* 55 (January 2009) 1.

[4] Excerpt from the World Trade Organization's Committee of Agriculture. *Revised Draft Modalities for Agriculture*. (December 2008). Section G, Paragraph 157, 28-29.

As one might expect, the term small is relative, and can mean different things to various people or organizations, but in the field of economics, a small economy almost always bears negative connotations. It is important to note that these terms SVEs and Small States were originally conceived and frequently used by the WTO, the World Bank and the United Nations to classify these nations separately from the rest of the Global South. A 2000 Joint Task Force report from the Commonwealth Secretariat[5] and the World Bank classifies small states by identifying a number of geographical, economic and social factors, the first and most obvious being tiny population sizes. According to this report, any country with a population of less than 1.5 million people is considered a small state. Relying on this criteria, the report states that there are currently a total of 44 small-states in the world, collectively constituting a mere 0.4 percent of the world's population as of the turn of the new millennium. That number can be further broken down when considering the geographical features and placement of a vast majority of these nations. Of the 44 small states, 33 of them are island nations primarily concentrated within the three relatively isolated regions of the Caribbean, Africa, and the Pacific.[6]

Population size is not the only criteria that the WTO relies upon for assigning SVE status. There are also a host of economic indicators that are examined and drawn upon, including their limited capacity to generate economies of scale and the relatively high transportation costs due to their small volumes of cargo. While this trait is applicable to all small states, it is particularly problematic among the island nations, as their geographical position and lack of resources make

[5] The Commonwealth Secretariat is the primary intergovernmental and central institution for the Commonwealth of Nations. With 54 associated countries, it serves as facilitator and promoter of international cooperation and economic development.

[6] "Small States: Meeting Challenges in the Global Economy", Report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States (March 2000) 4-5

it extremely difficult for them to diversify their economies.[7] Worse yet, because of this lack of economic diversity, SVEs are much more at risk to external market forces like price fluctuations than developed nations, particularly regarding agricultural exports, one of the principle sources of revenue.

Apart from similar geographical and economic characteristics, however, many SVEs also endured similar colonial experiences, suffering from social and economic exploitation following the European age of Exploration. The forced introduction of the plantation model for valuable cash crops such as sugar, rubber and coffee left indelible impressions on the SVEs' economic development, particularly among the Caribbean and Pacific islands, who even today continue to grow these products out of economic necessity. The early mercantile system established by the dominant colonial powers such as the UK, France and Spain fundamentally reshaped the economic and cultural landscape of those regions, resulting in severe limitations of economic freedom, as well as the establishment of a very unbalanced economic relationship which by design imposed dependency. This economic dependency continues to this day, long after these nations have gained their independence in the decades following World War II, which has led to the rise of powerful multinational corporations and the continued dominance of the Global North for much of their exports and imports.

Although attempts at greater economic diversification have been made over the last few years with varying degrees of success, SVEs remain heavily reliant on agriculture as one of their principle areas of export. It is this economic sector that is most vulnerable to trends in free-trade and the rapid expansion of globalization. It is also a sector in which larger developed nations

[7] "Small States: Meeting Challenges in the Global Economy", 7-11.

completely overshadow their tiny counterparts. Commodities such as bananas, cocoa, cotton, and sugar play integral roles in the economies of the African Caribbean Pacific regions (ACP) that were heavily reliant on the European Union for the bulk of their market shares. A 2002 report from Commonwealth Secretariat concerning the agricultural market shares of small states illustrates exactly how miniscule these shares really are. Focusing on 23 select states between the years of 1998 and 1999, this report indicated that every one of these nations had less than one sixteenth of one percent of world market shares, well below the WTO's parameters of 0.4 percent. Of the 23 selected, the top five economies of Mauritius, the Bahamas, Belize, Guyana, and Fiji collectively represented less than 0.6 percent of world agricultural exports.[8]

All of these factors must be taken into account when trying to discuss the SVEs and their struggle with the global market. However, one must also discuss the enormous political and economic forces of neoliberalism and globalization, and how these forces are damaging the economic wellbeing of small states. The simple reality is that the economic globalization process and the free market ideals that support its growth, have largely superseded the concerns for national government trade regulation. Authors Mark Moberg and Sarah Lyon, in their discussion of the history of globalization, state that "neoliberalism has largely supplanted earlier models of economic development rooted in state regulation of markets and international trade, a project whose origins date to the Bretton Woods conference of 1944 to plan a postwar global economy."[9] That conference laid the groundwork for international organizations like the International Monetary Fund (IMF), the World Bank and the General Agreement on Tariffs and

[8] Michael Davenport, "Alternative Special and Differential Arrangements for Small Economies," *Commonwealth Economic Paper Series* (2002). 13. Chart 2: Share in World Agricultural Trade, Selected Small States, 1998-99.

[9] Sarah Lyon and Mark Moberg eds., *Fair Trade and Social Justice: Global Ethnographies*. (New York. New York University Press, 2010). 2

Trade (GATT), which fostered the growth of free trade, gradually reducing trade barriers and allowing easier movement of goods and capital across national borders. The gradual reduction of protectionist trading policies like tariffs and quotas, as well as the mandatory opening of local markets for many countries of the developing world following the debt crises of the 1980s all helped to establish free trade as the prevailing economic system. This system further solidified itself in the 1990s with the fall of the Soviet block: "free trade - premised on the absence of tariffs, quotas, or state intervention in labor and commodity markets – emerged as the unchallenged economic paradigm virtually everywhere in the global economy."[10] In hindsight, this new system of trade established a very uneven playing field between the advanced economies of the Global North and the small national economies of the SVEs.

It was the eventual dismantling of the GATT and the rise of the WTO in 1995 following the Uruguay Round that truly marked the transition from national economic sovereignty to global liberalization, a fact that had immediate economic repercussions for much of the developing word in general and the SVEs in particular. The WTO's new role as the regulator of global trade was first put to the test by the so-called Banana War, a trade disagreement over the banana industry among the European Union, the ACP states, the United States, and Latin America. This trade war pitted the economic giants against one another, with the SVEs caught helplessly in the middle. The economic relationship between the European Union (EU) and its ACP trading partners was a textbook example of how neoliberalism forever altered the relationship between Global North countries and the small peripheral states. Following the establishment of the Lomé Agreement in 1975, the EC [11] and its ACP trading partners

[10] Lyon and Moberg, 3

[11] The European Community was the forerunner of the European Union. The EU was formerly established in 1992.

established a unique economic relationship that was continuously adapted and renewed through a series of conventions, by which the EU granted its ACP partners guaranteed market shares for their banana exports. In 1993, in its quest for a Single European Market, the EU under Council Regulation 404/93 established “an 857,700 metric ton annual limit for duty-free access to the EU market.” [12] This unique relationship was made possible because of past colonial ties, and despite criticism, this policy of preferential treatment allowed the ACPs to keep their traditional markets, selling their primary sector commodities to the nations of Europe despite their lack of competitiveness. This arrangement however was viewed as a barrier to free trade and was eventually challenged when the United States made a formal complaint to the WTO on behalf of its transnational fruit companies, Dole and Chiquita.[13] The WTO ultimately ruled in favor of the United States, allowing it to impose trade sanctions on the EU, which in turn led to the removal of the quotas after the replacement of the Lomé system by the Cotonou Agreement in 2000. That agreement outlined a new framework for the EU’s relationship with the ACPs, removing preferential treatment in place of a first-come, first-served trade policy, much to the detriment of the ACPs. Although it has undergone two major revisions in 2005 and 2010, Cotonou continues to function as the main outline for EU/ACP cooperation.[14]

The Banana War and the WTO’s rulings represented a new shift in market trends that resulted in declining exports for SVEs. The loss of market shares and the removal of the quota system at the conclusion of the Banana War greatly impacted the already limited agricultural exports of the ACP countries. These market shares have diminished even more since the passing

[12] Wiley, 132

[13] Wiley, 130-139. For more information on the Banana War, see Chapters 8 and 9, 163-203.

[14] The European Commission website: Development and Cooperation- EuropeAid. 2012, accessed May 2012. Available at http://ec.europa.eu/europeaid/where/acp/overview/cotonou-agreement/index_en.htm#top; internet

of Cotonou. A clear illustration of this drastic decline for many SVEs of the Caribbean can be seen from the following figures: the three island countries of Dominica, St. Vincent and the Grenadines and St. Lucia each experienced a decline in overall banana exports. Dominica went from exporting nearly 29,000 metric tons of bananas in 2000 to about 19,000 in 2001, a 45 percent decrease in absolute volume. St Vincent lost about twenty-two percent of its exports, going from 50,000 metric tons of bananas in the year 2000 to about 39,000 in 2001. However, the most drastic overall numerical decrease in export tonnage occurred in St. Lucia, which went from 70,000 metric tons to a mere 40,000 tons in the course of a single year, a 43 percent decline.[15]

The declines in agricultural exports for Small Vulnerable Economies are serious drawbacks of economic globalization. This system of free trade systemically favors larger nations of the Global North or the emerging economies of the developing world that can establish economies of scale. At the same time, it marginalizes smaller states to the economic peripheries, states already disenfranchised by inflexible economies and unfavorable geographical location. These nations are facing a questionable future if current trends stay as they are, because it is simply not possible for them to compete on the global market or sustain themselves on such an uneven playing field. There is, however, a growing awareness of these economic drawbacks, and many SVEs and their supporters are calling for Special and Differential Treatment (SDT) as a means of protecting themselves in the global market. Many Least Developed Countries (LDCs) and SVEs are pushing to be exempt from certain regulations of free trade and instead are hoping

[15] *Small States: Economic Review & Basic Statistics.* 7 (London, Commonwealth Secretariat, Autumn 2002) Figures derived from Chart 1.6 of the review, page 11.

for fair trade, that would potentially allow them to achieve economic sustainability. Fair trade can be summarily described as:

> a trading partnership, based on dialogue, transparency, and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers, especially in the South
>
> -Lyon and Moberg[16]

Because of their small resource base and inflexible economies, many SVEs are pushing for these new measures within the WTO's negotiations, and are pursuing new initiatives to improve their circumstances. However, these SVE initiatives are fighting an uphill battle against the prevailing economic policies as well as the negotiation process of the WTO itself, which quite often tends to be preferential to the agendas of larger economies, much to the frustration of developing countries. The following chapter will deal exclusively with the WTO and its current developmental agenda, the Doha Negotiation Round.

[16] Lyon and Moberg, 4, quoted from G. Moore, *The Fair Trade Movement.* Journal of Business Ethics. 53, 2004.

Chapter III: The Doha Round

The World Trade Organization's Fourth Ministerial Conference in Doha, Qatar, on November 2001 commenced with the objective of resolving key impediments to global trade and continued economic development. This new round of negotiations became 'semi-officially' known as the Doha Development Agenda, whose principal mandate is to resolve disputes between its member countries on the much contested topics of agriculture, services and intellectual property rights, but it also included within its mandate a fundamental objective "to improve the trading prospects of developing countries."[17] This incredibly ambitious and multilateral agenda was initially scheduled to be concluded by 2005, a relatively short deadline considering the long list of important issues it was meant to address. Yet more than a decade after its commencement, Doha has now become the longest running Development Round in WTO history, and within that time, very little definitive progress has been made towards any acceptable resolution.

What is the Doha Development Agenda, how do these negotiations work and why has this deadlock persisted for more than a decade? These simple questions do not have any straightforward answers, as Doha's surprisingly long and intricate history is further complicated by inauspicious geopolitical struggles, intense political debates, and a storm of opposition among member countries over vital issues and parameters of world trade. Providing a complete technical explanation of Doha and its inner workings could easily fill volumes, but such an in-depth analysis would be beyond the scope of this paper. Instead, this chapter will focus on a few key components of Doha, namely its problematic origins, the dispute over agricultural subsidies and the divisions within the negotiations. All of these will be examined in an attempt to illustrate

[17] Citation from the WTO website, available at http://www.wto.org/english/tratop_e/dda_e/dda_e.htm

the fallibility of the Doha process as it currently stands and the subsequent loss of faith in the WTO system as a whole.

It was no accident that Doha negotiations began on November 2001. Doha's very inception was spurred on by a growing desire for new negotiations following the conclusion of the Uruguay Round in 1994, and the enormous shifts in the world's geopolitical and economic landscape of the late 90s and early 2000s. Uruguay not only directly led to the establishment of the WTO as the successor to the earlier GATT system, but it also went well beyond the boundaries of previous negotiations in its measures to promote trade liberalization, encroaching on the interests of national governments and their domestic economic policies.[18] The expansion of the WTO's agenda in the First Ministerial Conference in 1996 further strained the already tenuous relationship between the WTO and a number of its member countries, particularly among the developing nations who did not reap the immediate benefits of trade liberalization. This rising distrust regarding the WTO's agendas brought on a heavy backlash from the developing world, culminating in the collapse of the Seattle Ministerial Conference in 1999.[19]

The breakdown of the Seattle Conference did more than stall the WTO's trade agenda for continued liberalization. Symbolically, Seattle exemplified a growing dissatisfaction among many developing nations over the current trade regime, as well as a loss of confidence in the multilateral trade system in general. As a result, there was tremendous pressure for the WTO and its members to begin a new round of negotiations in which many of those grievances could be

[18] Mark Halle, "Where Are We in the Doha Round?" International Institute of Sustainable Development (IISD). (August 2005) PDF available at http://www.iisd.org/pdf/2005/trade_doha_status.pdf, page 1

[19] Hale, 1.

properly addressed.[20] The terrorist attacks on September 11th and the implementation of the United Nations' Millennium Goals provided further incentive to initiate Doha as a means of promoting international cooperation and improving economic development for many poorer countries.[21] Finally the unresolved issues of Uruguay's Agricultural Agreements already warranted another development round, particularly in the wake of the consequences of imposing tariff reductions on smaller markets.

There is little doubt that the initiation of Doha came at a very critical juncture in the WTO's history. These mounting political and economic circumstances both in the landscape of the global economy and in the different viewpoints over what direction free trade would undertake had placed the WTO in a very precarious position from the beginning. Despite these circumstances, Doha was seen by many in the international community as a necessity, and as a means of resolving many of the issues that free-trade had previously ignored or overlooked. These issues included rules and regulations for trade of agricultural goods, the use of subsidies, the need for assisted economic development, as well as the implementation for special and differential treatment for the less developed countries. Taking place under the umbrella of the WTO's Trade Negotiations Committee and its various subsidiaries, Doha's resolution was expected to be quick and fairly smooth, but the realities and the circumstances surrounding it proved very problematic. Doha's incredibly broad and convoluted multilateral mandate proved to be a major impediment to progress, as the WTO's negotiators could not come to any agreement

[20] Hale, 1

[21] Sungjoon Cho, "The Demise of Development in the Doha Round Negotiations," *Texas International Law Journal,* 45, issue 3. (Spring, 2010). 574

on many of the proposed frameworks for key issues of international trade.[22] These disagreements brought about the complete collapse of the Cancun Ministerial Conference in 2003, when a coalition of 22 developing countries demanded that the US and EU's change their agricultural policies and subsidization. Following this major setback, another attempt to conclude the Doha negotiations was made at the Hong Kong Ministerial Conference in 2005, but this also resulted in very little progress.

After a long intermission, another serious effort to reconvene Doha occurred in 2008, when trade ministers met in Geneva to settle disputes over agricultural subsidies and a new economic initiative of Special Safeguard Mechanisms (SSM). This measure, if implemented, would have allowed developing countries to keep a small percentage of their tariffs to better protect their most important products, a measure that would have certainly aided disadvantaged economies like the SVEs. Unfortunately, these negotiations ended in failure when the United States discontinued negotiations over a dispute against both India and China over their application of SSM. Although among the largest developing economies, both countries were entitled to SSM. However, the US wanted India to restrain its use of SSMs, while it simultaneously pushed China to open its cotton market as a condition for reducing US subsidies. In effect, the United States was attempting to use its subsidies as a bargaining chip to increase its economic reach and advance itself further in newly emerging economies. When the two countries refused to comply, negotiations ceased, leading to the complete collapse of the Geneva conference. This was the last major attempt to bring Doha to a close, and despite pledges to

[22] Ian F. Fergusson. US Committee of Congress CRS report: "World Trade Organization Negotiations: The Doha Development Agenda". Available at http://www.nationalaglawcenter.org/assets/crs/RL32060.pdf, (January 18 2008), 3-7

come to an impending resolution from many WTO members, Doha still remains hopelessly static.[23]

What is the cause of all this opposition? The main reason for this standoff comes primarily from the controversial issues of agricultural subsidies, considered by many economists to be one of the last great obstacles in the path towards free trade. Simply put, a subsidy is:

> money paid usually by [the] government, to keep prices below what they would be in a free market, or to keep alive businesses that would otherwise go bust or to make activities happen that otherwise would not take place. Subsidies can be a form of protectionism by making domestic goods and services artificially competitive against imports. By distorting markets, they can impose large economic costs.
>
> -The Economist[24]

Subsidies serve as one of the Global North's greatest advantages in the global economy, as richer countries can subsidize key goods, particularly in their agricultural sector to give themselves an artificial advantage in the world market. However, just like with tariffs and quotas, subsidies are considered obstacles that fundamentally work against free trade and the natural flow of goods and capital, but this is an area that remains fervently protected by the larger economies of the developed world, the US and European Union in particular. Sungjoon Cho, in his analysis of the history of Doha, stresses the paramount importance of the subsidies issue on the development agenda: "As a development round, the DDA's (Doha Development Agenda) main concern was to reduce or eliminate agricultural trade barriers, such as farm subsidies and farm tariffs, which rich countries had maintained after the launch of the WTO." [25] The negotiation collapses in 2003

[23] Cho, 582

[24] The Economist, "Economics A-Z terms" Economist Newspaper Limited 2012. Accessed May 2012. Definition available at http://www.economist.com/economics-a-to-z/s#node-21529341

[25] Cho, 577

and 2008 served as two such cases in which developed countries and their agricultural subsidies effectively sabotaged the negotiations. Another example of this occurred during the interim period of 2006, when the US, the EU, Brazil, India, Australia and Japan failed to reach an accord on agricultural trade, more specifically on the disputes on "substantial reductions in trade-distorting domestic subsidies, elimination of export subsidies, and substantially increased market access for agricultural products." [26]

The debate over agriculture continues to be the primary source of dispute among the WTO members, a fact that has now led to a schism between the established economies of the Global North and the emerging economies of the Global South. Yet more covertly, this division seems to be motivated by a profound difference in political and economic ideology. Debra Steger and her work on the WTO indicates that the rise of the BRIC countries – Brazil, Russia, India and China - have consequentially shifted the traditional balance of power in the economic landscape at the expense of the economic dominance of developed nations such as Japan, the United States, Canada, and the European Union member states.[27] This new reality has led to the polarization of the major economies of the world, a fact made evident by the breakdowns in Cancun and Geneva. Emerging alliances among developed and developing states have effectively polarized the WTO into two separate camps, each side determined to advance their own personal agendas and flex their political and economic muscle, all the while grinding Doha to a standstill, and in the process, undermining the merits of the World Trade Organization. The subsequent loss of faith in the WTO institution and its inability to effectively reconcile these

[26] Charles E. Hanrahan and Randy Schnepf, "US Committee of Congress CRS report: WTO Doha Round: The Agricultural Negotiations" (September 2006), available http://www.au.af.mil/au/awc/awcgate/crs/rl33144.pdf, 2.

[27] Debra Steger. *Redesigning the World Trade Organization for the Twenty-First Century.* (Ottawa, Wilfrid Laurier University Press. 2010). 4-5

factions have brought the organization into a kind of identity crisis as it struggles to sort out these new realities and adapt to the trends of growing economic alliances. As Steger definitively puts it, “a major challenge for the next decade will be how the international system responds to the dramatic transformation taking place in the global economic and geopolitical landscape.” [28] Whether or not this will lead to a renewed faith in a revised multilateral trade system or something completely different remains to be seen, but only time will tell if the issues of free trade will finally be put to rest.

It is perhaps ironic that the very ills that now keep Doha at bay are in fact the very reasons why such a multilateral trade negotiation is needed in the first place. The failure of the larger G20 nations[29] to reach any kind of consensus not only serves to damage the ultimate objective of increased international cooperation, but more intimately, it also inhibits the growth and continued advancement of small economies like the SVEs. As it currently stands the WTO’s Doha Round remains virtually deadlocked, with neither side budging over the issue of agricultural subsidies. In the meantime, the poorer nations of the world are forced to play along in this economic power struggle, in many cases caught in the middle as they too struggle to find a voice. The following chapter will discuss the effects of Doha on the SVEs, the current hopes for SVE initiatives and the prospects for future gains.

[28] Steger, 5

[29] The economic term G-20 refers to the top 20 world economies. The group consists of the United States, Canada, Mexico, Argentina, Brazil, China, Japan, India, South Korea, South Africa, Saudi Arabia, Indonesia, Turkey, Russia, Australia, the United Kingdom, Italy, Germany, France and the European Union as a whole.

Chapter IV: Present Concerns and Future Resolutions?

The Doha Development Agenda began as a means of reaffirming free trade and ironing out the problems of economic liberalization through increased dialogue and international cooperation. Yet, since its optimistic beginning in 2001, Doha has become a roadblock in the progression of free trade that has fostered division among the many participating nations within the World Trade Organization. It is in this context that one must ask: where do the SVEs fit into this complex web, and how has the stagnation of the Doha Round hindered their attempts at achieving a more stable economic future? More importantly, what provisions has the WTO recently undertaken on their behalf? Answering these questions, however, requires a reevaluation of the Doha Round not from the perspectives of the larger economies, but from the viewpoints of the countries who are most economically at risk.

Prior to Doha, small economies had a difficult time trying to distinguish themselves from the larger developing world. Even more difficult for them was putting forth their initiatives for special and differential treatment. Even after the Ministerial Conference in 1998, many WTO members were still very resistant to the idea of creating a new category of member countries, primarily out of fear that such a new categorical addition might threaten the validity of the three traditional groupings of WTO members: the developed, developing and least developed countries. Author Ransford Smith, in his discussion of this opposition, described how all three of these major groups had their own concerns about the inclusion of small state status and the differential treatment that those countries would receive. Several of the more advanced developed nations, Smith asserted, were wary of including small state status out of fear that "special treatment for small economies would increase the number of so-called free riders[30] in the WTO." [31] Developing nations also voiced their own opposition, stating 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." [32] Much of this resistance stemmed from a lack of a clear definition of a small economy at that time, an issue that was not fully resolved until 2008, long after the Doha Round began.

In spite of the opposition, a coordinated effort from 24 small countries from Africa, the Caribbean and the Pacific did succeed in pushing forward their initiatives onto the negotiating table at Doha, Qatar in 2001.[33] This marked a triumph for the SVEs, as Doha not only recognized their concerns and unique disadvantages, but also included in its mandate goals to improve their economic wellbeing. Seven years after the Uruguay Round in 1994, many within the WTO began to appreciate small economies and their genuine need for special treatment within the fabric of WTO's negotiations. Paragraph 35 of the Doha Ministerial Declaration specifically deals with SVEs, proclaiming:

> We agree to a work programme, under the auspices of the General Council, to examine issues relating to the trade of small economies. The objective of this work is 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.
>
> – Ministerial Declaration[34]

[30] According to the WTO website and glossary, free rider is a term referring to a country that does not make any trade concessions, but takes advantage and profits from the tariff cuts and concessions made by other countries during negotiations.
[31] Smith, 1
[32] Smith, 1
[33] Smith, 2
[34] Excerpt from the World Trade Organization's Doha Ministerial Conference. *Ministerial Declaration.* (Adopted November 14' 2001) Paragraph 35, 7-8

Plainly stated within this declaration is an emphasis that the WTO would not establish a completely new category for SVEs, a concession to the larger economies and their concerns. Regardless, the fact that this provision was even included served as a very astute example of cooperation among the smaller economies of the world and their success in adequately expressing their concerns to the WTO.

The complete debacle of the Cancun Ministerial Conference in 2003 proved to be a major setback for the SVE initiatives. Two years after its declaration, the WTO had yet to fully implement the works program it had promised in the Doha Declaration. However, advocates of the SVE initiatives persisted in voicing their concerns even after the collapse of the Cancun negotiations, prompting WTO Ministers to readdress the issue of the Works Program at the Hong Kong Ministerial Conference in 2005. This conference did make some progress, urging members to adopt new frameworks and modalities for future SVE programs and making clear their intentions not to sub-categorize SVE states.[35] However, once again the disputes between the larger WTO members prevented these negotiations from making lasting progress.

Despite overwhelming concerns and direct or indirect opposition, a number of SVE initiatives were brought forth in the years following the 2005 Ministerial Conference. The first came in October, 2006 when the WTO's General Council agreed to a recommendation from the Committee on Trade and Development (CTD) that small economies be allowed to "designate regional bodies to assist in the implementation of their (national) obligations under three WTO agreements – the Agreements on Sanitary and Phyto-Sanitary Measures, Technical Barriers for

[35] Smith, 2

Trade, and Trade-Related Aspects of Intellectual Property Rights (TRIPS)." [36] This provision was more of a matter of logistical practicality, as small economies simply did not have the means or the resources to implement some of the WTO's more complex policies without assistance. Nevertheless, it marked an important success for small economies within the Doha Round.

The second major initiative for small economies concerned the 1994 Uruguay Round's Agreement on Subsidies and Countervailing Measures, an agreement that caused considerable apprehension from many in the developing world. The Agreement's main objective was to prohibit countries from applying export subsidies to improve their trade performances. This was meant to apply to all member countries with the exception of LDCs after an 8 year grace-period. That period was later extended to 2007, but remained a cause of great concern for many countries, particularly those in the Caribbean and Central America. Yet in response to the continued perseverance of SVEs, that grace-period was again extended to the year 2015.[37]

A third very important advancement for SVEs involved the Doha Round's Agreements on Agriculture and Non-Agriculture Market Access (NAMA). While agriculture remains a heavily contested subject for many developed and developing countries, small economies have managed to advance their agendas for special treatment to some degree, gaining recognition for their unique geographical and economic situations. In both cases, the 2008 modalities for Agriculture and NAMA included provisions for small economies. On the agricultural front, small economies were only required to reduce their tariffs by 24% as opposed to 36% reduction for the rest of the developing nations and 54% tariff reduction for developed nations. In the case of

[36] Smith, 2. Sanitary and Phyto-Sanitary Measures are concerned with food and health standards. According to these agreements, animals and plants used for consumption and trade must meet high quality standards. TRIPS refers to international regulations of intellectual property rights.

[37] Smith, 3

NAMA, small economies would receive more favorable conditions regarding tariff reductions on non-agricultural goods. These conditions are defined by the overall percentage of tariffs levied. For example, a small economy that imposes 50% or more on tariffs would be expected to reduce their tariffs down to 32%, while another economy with 20% tariffs or less would be required to undergo a 5% reduction on at least 95% of tariffed goods.[38] These provisions for small economies have been agreed upon by a majority of WTO members, despite the fact that many of the frameworks for Doha's trade agreements have not yet been fully, or in some cases even partially agreed upon.

The WTO has made its own attempts to alleviate some of the burdens faced by small vulnerable economies. The Hong Kong Ministerial Conference in 2005 saw the launch of the Aid for Trade Initiative (AfT), a work program whose primary aim is to help challenged countries "develop the trade related skills and infrastructure that is needed to implement and benefit from WTO agreements and to expand their trade." [39] This program is based on trade-related assistance and close cooperation among WTO members on both international and regional levels. Willing donor countries of the global north provide much needed relief to disadvantaged countries, who receive different allocations according to various social indicators and per capita income levels.

While initially focusing on the Least Developed Countries, Aid for Trade has since gone on to include small economies as fellow beneficiaries. This new inclusion has received mixed reviews, and debate has arisen as to whether or not including small economies will diminish the effectiveness of AfT on its primary beneficiaries. There has also been some concern that small

[38] Smith, 3

[39] Citation from WTO website, available at http://www.wto.org/english/tratop_e/devel_e/a4t_e/aid4trade_e.htm

economies are receiving a higher proportion of relief on a per capita basis. Furthermore, Aid for Trade relies heavily on money from donor groups, mostly from the developed world, making it subject to fluctuations. For example, Japan went from allocating $80 million in 2006 to allocating absolutely nothing in 2007. The European Commission has consistently been the largest donor of AfT, donating almost $160 million to SVEs in 2007 alone, sixteen times more than the United States that same year.[40] Further concern regarding the future of the Aid for Trade Initiative has stemmed from a general lack of a clear framework and no specific developmental goals, a recurring problem for much of Doha's negotiations. Massimiliano Cali and Dirk Willem te Velde argue that "no donor has specific AfT programmes for this group of [SVE] countries." [41] As a result of this, it has proven very difficult to measure just how effective the program has been at improving trade performances of certain small states, and very little data has been gathered on the issue. The Aid for Trade initiative will need to be restructured to include clearly stated developmental goals that are specifically oriented to improve the economies of SVEs; otherwise these questions will simply remain unanswered.

All of these initiatives could be seen as major successes for SVEs, who are now beginning to form a much more noticeable presence within WTO policy. The problem, however, is Doha's inability to resolve many of the other key issues of its mandate and the lack of commitment from larger countries to cooperate and resolve their internal disputes. The issue over agricultural subsidies continues to be the main roadblock in the resolution of Doha, forcing the SVE initiatives to remain on indefinite hold. As Smith states, "It is exceedingly difficult to

[40] Massimiliano Cali and Dirk Willem te Velde, "Aid for Trade in Small and Vulnerable Economies", *Trade Hot Topics*, 59 (May 2009), 3. Information taken from Figure 3: AfT disbursements to SVEs, by donor and year.

[41] Cali and te Velde, 2

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."[42] Nevertheless, small economies have made enormous strides in advancing their goals despite their numerous disadvantages, not only gaining recognition within the larger circles of the World Trade Organization, but also playing an active and persistent role in the Doha negotiations. Their willingness to cooperate with one another and with the WTO has brought hope for future solutions. Unfortunately, as long as Doha remains stagnant, SVEs will continue to suffer, and their initiatives will never go beyond WTO's negotiating table. The final chapter will analyze and evaluate the current SVE situation as well as discuss possibilities for a resolution to the Doha Development Agenda.

[42] Smith, 5

Conclusion: A Look to the Future

It is not easy to predict in what ways globalization will continue to change the world, or if these changes will be to the benefit or the detriment of the countries and people who comprise it. Today, there are many people in both the developed and developing world who see globalization as a force that fosters marginalization, diminishing the importance of smaller economies and eroding cultural integrity. Others, however, view it as vehicle that promotes improved social, political and economic collaboration that is driving the world towards greater social harmony. Regardless which perspective one might choose, it is absolutely undeniable that globalization and the WTO have brought about radical change in a relatively short span of time, pushing the world towards a much greater level of political and economic integration. More and more, the global community is growing concerned about the free market economy and the parameters of unrestricted trade, while at the same time becoming further alienated by differing ideologies and conflicting economic agendas. Even in this era of great financial uncertainty and volatility, free trade continues to play a central role in the developmental path of many of the world's small economies, and will continue to play such a role in the foreseeable future.

Small economies have now entered a new stage in their economic development, and their fates have become unavoidably intertwined with the success or failure of the Doha Development Agenda. Continuously fighting for their place within the new economic regime, many SVEs have made incredible strides in their pursuit for a more reasonable economic system, and by working together, have managed to forward their own concerns in these trying negotiations. This remarkable level of cooperation allowed SVEs to advance many of their objectives at the Hong Kong Ministerial Conference, earning important recognition for their unique economic status, as well as insisting for fair trade and differential treatment. Yet despite their successes, the entire negotiation process has been crippled by larger state economies and their arguments over trade modalities and frameworks over agricultural subsidies and many other volatile trade issues.

For better or worse, globalization has come to redefine the 21st century in ways that were previously unimagined. An almost paradoxical force, globalization has incited extreme resistance among many of the world's leading countries, while at the same time promoting greater economic interdependency and cooperation. This contradiction is displayed within the Doha Round itself, as member countries struggle to find a balance between trade liberalization and their own economic autonomy. With the continued push for more open dialogue, there is still a strong chance that SVEs can have a viable and meaningful place in this new economic landscape. In light of their efforts, the WTO is starting to recognize their unique situations and more recently has taken steps to assist these nations as they try to adjust to the organization's regulations. The very term SVE has become its own staple of progress, evolving from a generic word into a concrete definition. Small economies have and will most likely continue to play an active role in the Doha negotiations, ensuring that their own needs are not swept away by the unending political and economic debate.

The unfortunate truth, however, is that no matter how much more the SVEs continue to accomplish, their efforts will mean little if the larger issues plaguing the Doha Round remain unresolved. Like so many of their troubles, SVEs are burdened by external forces completely out of their control. Not only are they combatting a flawed negotiating system that appears completely inept to resolve the current disputes among its larger members, but moreover, SVEs are struggling with a system that inherently and historically has favored large developed economies. This fact has contributed greatly to the economic and political schism between the Global North and the Global South over many fundamental issues regarding world trade, particularly on primary sectors like agriculture. Developed economies like those of the United States and the European Union are continuing to subsidize their agricultural sectors, making it extremely difficult for many developing countries to compete. At the same time, the growing economic clout of rising developing economies like Brazil, China and India are threatening to destabilize the traditional balance of economic power and further complicate the matter as they put forward their own demands. With neither side seeming to back down, the likelihood of a compromise in the immediate future is extremely unlikely. Unless these very resistant nations agree to some kind of middle ground or agree to compromise some of their goals, Doha will continue to remain stagnant and unresolved.

This paper has sought to explore the complex dimensions of economic globalization and the WTO structure, as well as shed light on their adverse effects on Small Vulnerable Economies. More research needs to be done into these matters, because a greater understanding of these problematic connections with the WTO, the globalization process and the small economies of the world may lead to future resolutions. Of course, the very last question posed in this paper is also perhaps the most pertinent: why does any of this matter? It is certainly understandable that the larger economies of the world are dealing with their own pressing economic concerns, and it is also true that Doha's own tangled web of conflicting agendas and missed opportunities is its own serious problem that must be resolved. Yet, why should anyone be concerned with the troubles of a few small countries? This final question, however, is also the easiest to answer. Sometimes it is necessary to step away from the bigger picture and more acutely focus on the smaller picture, in this case, the countries that are most in need of help, and most at risk from sustained inaction. It is important not to forget the small economies of the world who continue to struggle under current trends and economic insecurity. More gravely, however, is the fact that the SVEs are in danger of simply being overlooked altogether, much to their great detriment, and it is absolutely vital that their struggles and their efforts not be forgotten.

List of SVE Countries, Region, Population and GDP

Name and Region	Population size (2010)	GDP in $US (Latest)
Africa		
Botswana	2,007,000	14,858,673,700
Cape Verde	496,000	1,648,093,063
Comoros	735,000	541,097,513
Djibouti	889,000	1,049,054,417
Equatorial Guinea	700,000	14,006,302,933
Gabon	1,505,000	13,137,183,781
Gambia, The	1,729,000	806,523,948
Guinea-Bissau	1,515,000	878,517,652
Mauritius	1,281,000	9,723,857,671
Sao Tomé and Principe	165,000	196,806,610
Seychelles	87,000	936,609,214
Swaziland	1,056,000	3,697,606,785
East Asia and the Pacific		
Brunei Darussalam	399,000	10,732,435,034
Fiji Islands	860,000	3,189,296,039
Kiribati	100,000	151,175,994
Marshall Islands	54,038	162,935,850
Micronesia, Fed. States	111,000	297,451,433
Nauru	9,370	N/A
Niue	1,200	N/A
Palau	20,472	171,345,539
Samoa	184,000	573,509,396
Solomon Islands	538,000	678,625,482
Tonga	104,000	348,330,402
Tuvalu	9,827	31,350,804
Vanuatu	240,000	698,753,388
Latin America and the Caribbean		
Antigua and Barbuda	88,000	1,211,324,626
Bahamas, The	343,000	7,701,560,000
Barbados	274,000	4,109,500,000
Belize	345,000	1,401,000,000
Dominica	68,000	466,389,674
Grenada	104,000	773,270,880
St. Kitts and Nevis	52,000	651,701,400
St. Lucia	174,000	1,197,809,020
St Vincent and the Grenadines	109,000	704,776,456
Suriname	525,000	3,251,366,120
Trinidad and Tobago	1,341,000	20,603,922,191
Other Regions		
Bahrain	1,262,000	20,594,899,946
Bhutan	726,000	1,516,078,205
Cyprus	1,103,000	23,132,450,331
Estonia	1,340,000	19,216,566,444
Maldives	394,400	1,908,460,938
Malta	416,000	8,255,629,139
Qatar	1,759,000	98,313,183,980

* Information taken from the World Bank Database.

Abbreviations List

ACP- African Caribbean Pacific

AfT – Aid for Trade

CTD – Committee on Trade and Development

EC – European Community

EU – European Union

GATT – General Agreement on Tariffs and Trade

IMF – International Monetary Fund

SDT – Special and Differential Treatment

SSM - Special Safeguard Mechanisms

SVEs- Small Vulnerable Economies

LDCs – Least Developed Countries

NAMA - Non-Agriculture Market Access

TRIPS - Trade-Related Aspects of Intellectual Property Rights

WTO – World Trade Organization

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