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TREATMENT OF ASYMMETRIES: A REVIEW OF THE ISSUES

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Introduction

The need for treatment of asymmetries among countries in integration arrangements is due to wide differences with regard to size, human resources, degree of industrial and technological development, geographical circumstances, power and other attributes. As a result, countries differ widely in their ability to benefit from trade liberalisation and other aspects of integration. Special remedial measures, therefore, have to be built into the architecture of integration schemes arrangements to address the disadvantages experienced by particular countries or groups of countries. The fact that the subject has been included in the programme of the Rio Group, with frequent references to ‘the special needs of small and vulnerable economies’¹, indicates a strong recognition of the existence of asymmetries within this grouping, especially those related to size and to vulnerability; and a political desire to devise practical measures to address them.

In Part 1 of this paper, we review existing asymmetries of various countries within the Rio Group, particularly those related to size and vulnerability, and their implications. In Part 2 we review the treatment of asymmetries in global and regional trade arrangements. Finally, in Part 3 we suggest some conclusions that may be drawn for the programme of the Rio Group.

I. Asymmetries in the Rio Group

A. Types of asymmetries

Romero², in discussing asymmetries in the South American community of nations, groups these into two main categories as follows:

1. Structural asymmetries

- (a) Size of economies
- (b) Per capita income
- (c) Access to infrastructure
- (d) Geographic conditions
- (e) Quality of institutions

¹ Rio de Janeiro Declaration, 2004; para. 6; Cusco declaration, 2003; para. 21; *Report of the Pro Tempore Secretariat of the Activities of the Rio Group during 2005*; p. 2. Treatment of Asymmetries as a subject for the Group was reaffirmed at the Ministerial Meeting in Georgetown, Guyana in June 2006.

² Antonio Romero, *Un Nuevo tratamiento de asimetrías en la integración sudamericana: documento preliminar*. Caracas: SELA (Unpub.) August 2006.

- 2. Public policy asymmetries** (provision of public goods that assist production and investment)
- (a) Investment financing
 - (b) Export promotion
 - (c) Fiscal incentives
 - (d) Subsidies
 - (e) Publicly-funded Research and Development
 - (f) Technical assistance
 - (g) Macroeconomic policy
 - (h) Physical infrastructure
 - (i) Security and justice system
 - (j) Quality of institutions

Size falls into the category of structural asymmetries (although it also impacts public policy asymmetries, for example, diseconomies of scale and critical mass problems in the provision of physical infrastructure in small economies). The main consequences of size-related asymmetries are associated with production costs and vulnerability. These have been the subject of a large number of studies over the years undertaken by academic researchers as well as by intergovernmental organizations. The studies concur that small economies are particularly vulnerable, with ‘characteristics and parameters that severely constrain their trade and development and lead to their marginalisation’³. In 2000, the Commonwealth Secretariat and the World Bank⁴ published a jointly-authored study on the special challenges faced by small economies. The World Trade Organization (WTO) Secretariat reviewed the subject in 2002⁵. The specific vulnerabilities of Caribbean Small Island Developing States (SIDS) in economic, environmental and social terms were extensively discussed in a report by the Economic Commission for Latin America and the Caribbean (ECLAC) Subregional Headquarters for the Caribbean⁶ in 2005.

³ World Trade Organization, Committee on Trade and Development, Work Programme on Small Economies. *Issues relating to the Trade of Small Economies, Revision* Communication from Barbados, Belize, Bolivia, Cuba, Dominican Republic, El Salvador, Fiji, Guatemala, Haiti, Honduras, Jamaica, Mauritius, Nicaragua, Papua New Guinea, Paraguay, Solomon Islands, Sri Lanka, Trinidad and Tobago. WT/COMTD/SE/W/1/Rev.1* . 3 May 2002, para. The intergovernmental organisations that have examined the issue include the United Nations, World Bank, UNCTAD, FAO, the Commonwealth Secretariat, the Free Trade Area of the America's Consultative Group on Small Economies, and its Tripartite Commission of OAS, ECLAC and IDB.

⁴ *Small States: Meeting Challenges in the Global Economy. Report of the Commonwealth Secretariat/World Bank Joint Task Force on Small States*. April 2000

⁵ WTO, Committee on Trade and Development; *Trade and Economic Performance: The Role of Economic Size?* WT/COMTD/SE/W/5 23 October 2002

⁶ UNECLAC, 2005: *Caribbean Small States, Vulnerability and Development*. Available online at: <http://www.eclac.cl/publicaciones/PortOfSpain/0/LCCARL60/L.60.pdf> .

To summarise the principal findings of these studies:

- (a) All vulnerability indices that have been computed show vulnerability as being inversely correlated with size and as highest amongst the smallest economies.
- (b) Economic volatility has also been shown to be greater amongst small economies.
- (c) Underlying the vulnerability of small economies are small populations, limited natural resource base, high trade-dependence, and high product and market concentration of exports.
- (d) Many have been reliant on preferential trading arrangements that take account of these disadvantages, and are therefore impacted by preference erosion arising out of the new rules of the multilateral trading system.
- (e) Further inhibiting their ability to adjust and diversify into internationally competitive activities are the prevalence of small firms without economies of scale, domestic market imperfections, limited quality manpower, absence of critical mass in production, compounded by new multilateral trading rules regarding the use fiscal incentives of foster export manufacturing.
- (f) Small economies that are landlocked, or are small island states that are fragmented, geographically dispersed and remote from world markets; suffer particular disadvantages with regard to transport costs and the costs of public administration.
- (g) The impact of natural disasters in small economies is magnified by virtue of their small size. Small Island Developing States (SIDS) are especially vulnerable to the effects of global climate change.

B. Indicators of size

There are several ways of measuring size; the most important being size of population, total land area or arable land area, endowment of natural resources, endowment of physical capital and endowment of human capital. A multi-dimensional approach is necessary; as disabilities in one area can be compensated by favourable endowments in another (and vice versa). A composite index that captures four dimensions of size has been developed by Guitierrez⁷. Known as the 'PSPH Index', it is made up of four components: (i) population, used as an indicator of the size of the labour force; (ii) land area, an indicator of the natural resource endowment; (iii) aggregate GDP, as an indicator of the absolute size of the physical capital stock; and (iv) the Human Development Index, as an indicator of the endowment of human capital per capita. The PSPH Index has the virtue of allowing for differences among countries other than in population, which is the most frequently used indicator of size; differences that may at least partially attenuate the disadvantages inherent in smallness as measured by a solitary

⁷ See Gutiérrez, Mario A. (1996). *Observaciones respecto a las economías pequeñas en el proceso de integración económica en el Hemisferio Occidental*. El Trimestre Económico, Mexico, pp. 1,171-1,227.

indicator. It can therefore be used as one indicator of the degree of asymmetries among countries that captures both its ‘natural’ and its ‘man-made’, or accumulated, attributes.

We have updated the last published values of the components of the PSPH Index, and have recomputed the Index itself for the members of the Rio Group, using the latest available data. These are shown in table 1. The table also shows the data for all Caribbean Community (CARICOM) countries, since this is the largest single group of small economies in the Latin American and Caribbean region and CARICOM is represented in the Group by Guyana. The data in the table can be used to make direct comparisons among countries in population, GDP, land area, per capital GDP and level of Human Development; as well as the value of the PSPH Index itself.

Table 1: Rio-Group Countries: Indicators of Size

Country	Population 000 2004	Land Area 000 sq km 2004	Total GDP, PPP \$B 2005	HDI 2003	PSPH Index	Ratio PSPH Index Highest/Lowest	Rank PSPH Index
Brazil	186405	8459.4	1627.3	0.792	43.136	10784.0	1
Mexico	107029	1908.7	1052.4	0.814	13.949	3487.2	2
Argentina	38747	2736.7	558.8	0.863	12.168	3042.0	3
Colombia	45600	1038.7	354.3	0.785	6.899	1724.8	4
Peru	27968	1280	174.1	0.762	6.629	1657.3	5
Venezuela	26749	882.1	173.6	0.772	5.105	1276.2	6
Bolivia	9182	1084.4	26.2	0.687	4.608	1152.1	7
Chile	16295	748.8	205.9	0.854	3.727	931.6	8
Ecuador	13228	276.8	56.5	0.759	2.015	503.7	9
Paraguay	6158	397.3	30.5	0.755	1.899	474.8	10
<i>Cuba</i>	<i>11269</i>	<i>109.8</i>	<i>44.4*</i>	<i>0.817</i>	<i>1.347</i>	<i>336.6</i>	<i>11</i>
Guatemala	12599	108.4	56.3	0.663	1.204	301.0	12
Honduras	7205	111.9	20.1	0.667	0.911	227.8	13
Uruguay	3463	175	35.2	0.84	0.871	217.6	14
Nicaragua	5487	121.4	20.2	0.69	0.825	206.3	15
Guyana	751	196.9	3.4	0.72	0.770	192.4	16
Dominican Republic	8895	48.4	67.4	0.749	0.752	188.0	17
Suriname	449	156	2.1*	0.755	0.601	150.3	18
Haiti	8528	27.6	3.4	0.475	0.567	141.8	19
El Salvador	6881	20.7	36.5	0.722	0.547	136.9	20
Panama	3232	74.4	25.5	0.804	0.498	124.5	21
Costa Rica	4327	51.1	43.2	0.838	0.479	119.8	22
<i>Jamaica</i>	<i>2645</i>	<i>10.8</i>	<i>11.7</i>	<i>0.738</i>	<i>0.233</i>	<i>58.2</i>	<i>23</i>
Belize	270	22.8	2.2	0.753	0.100	25.0	24
<i>Trinidad & Tobago</i>	<i>1305</i>	<i>5.1</i>	<i>18</i>	<i>0.801</i>	<i>0.086</i>	<i>21.5</i>	<i>25</i>
<i>Bahamas</i>	<i>323</i>	<i>10</i>	<i>5.3b</i>	<i>0.832</i>	<i>0.052</i>	<i>12.9</i>	<i>26</i>
<i>Barbados</i>	<i>270</i>	<i>0.4</i>	<i>3.9*</i>	<i>0.878</i>	<i>0.017</i>	<i>4.3</i>	<i>27</i>
<i>St Lucia</i>	<i>161</i>	<i>0.6</i>	<i>1.1</i>	<i>0.772</i>	<i>0.013</i>	<i>3.4</i>	<i>28</i>
<i>St Vincent & the Grenadines</i>	<i>119</i>	<i>0.4</i>	<i>0.8</i>	<i>0.755</i>	<i>0.010</i>	<i>2.4</i>	<i>29</i>
<i>Dominica</i>	<i>71</i>	<i>0.8</i>	<i>0.4</i>	<i>0.783</i>	<i>0.008</i>	<i>2.1</i>	<i>30</i>
<i>Grenada</i>	<i>103</i>	<i>0.3</i>	<i>0.9</i>	<i>0.787</i>	<i>0.008</i>	<i>2.0</i>	<i>31</i>
<i>Antigua & Barbuda</i>	<i>77a</i>	<i>0.4</i>	<i>1</i>	<i>0.797</i>	<i>0.006</i>	<i>1.4</i>	<i>32</i>
<i>St Kitts & Nevis</i>	<i>46</i>	<i>0.4</i>	<i>0.7c</i>	<i>0.834</i>	<i>0.004</i>	<i>1.0</i>	<i>33</i>

Note: Countries in italics are not members of the Rio Group, but all except Cuba are members of CARICOM, represented in the Group by Guyana. The PSPH Index is a size indicator combining population, land area, aggregate GDP, and human capital as measured by the Human Development Index

Source: Updated version of Annex 1 of the 2003 ACS report on "International Trade Negotiations and Small Economies in Latin America and the Caribbean: Asymmetries and Special and Differential Treatment from the 3rd Brainstorming Meeting on the Treatment of Small Economies in International Trade Negotiations in Caracas, Venezuela. Sources of updated data include: World Bank- World Development Indicators online database available on the website: <http://devdata.worldbank.org/dataonline/>. United Nations Statistical Division available on <http://unstats.un.org/unsd/snaama/selectionbasicFast.asp>

Note: Index= $a-2001, b-2002, c-2003, *1999$ PPP; $PSPH = (100/3) \times \{[(pop./max.pop) \times (HDI/max.HDI)] + (area/max.area) + (GDP/max.GDP)\}$
Population Max., Land Area Max., and GDP Max. For 2004 in the Hemisphere is United States and are 298213, 9159 & 10763.9 while
HDI Max. For 2004 is Canada's 0.949.

One virtue of the table is that it demonstrates that the recognition by the Rio Group of ‘treatment of asymmetries’ has a firm foundation in economic realities. In other words, the table shows the extent to which wide asymmetries exist among members of the Group. Using the value of the PSPH Index as a metric, the ratio of the ‘largest’ economy to the ‘smallest’ within the Group is 431: 1 (Brazil: Belize). If *all* Caricom States are included the ratio is 10,784:1 (Brazil: St Kitts/Nevis). It seems likely that these asymmetries are as wide as, if not wider than, those that exist within any geographical grouping of developing countries.

Based on the PSPH indices, Romero⁸ (2003: 200) has suggested the following three-fold classification of Latin American and Caribbean Countries that were taking part in the Free Trade Agreement of the Americas (FTAA) negotiations:

- (a) **Group 1.** Relatively large economies⁹: (3) Brazil, Mexico and Argentina.
- (b) **Group 2.** Mid-sized economies¹⁰: (4) Colombia, Peru, Venezuela and Chile.
- (c) **Group 3.** Small economies¹¹: (25) Bolivia, Ecuador, Paraguay, Guatemala, Dominican Republic, Uruguay, Honduras, Nicaragua, Guyana, El Salvador, Costa Rica, Panama, Surinam, Haiti, Jamaica, Trinidad and Tobago, Belize, Bahamas, Barbados, Dominica, Antigua & Barbuda, Grenada, St. Lucia, St. Vincent and the Grenadines, and St. Kitts & Nevis.

However, he emphasises that it would be important to complement this categorisation with a qualitative assessment with a politically negotiated definition in order to reach consensus on the subject. We are not suggesting the adoption of this three-fold classification here, but indicating the range of size categories that exists when a multi-dimensional measure of size is applied.

C. Indicators of vulnerability

Considerable empirical work has been done on the measurement of vulnerabilities that allows us to relate these to size. Following the first United Nations Conference on the environmental problems of SIDS (Global Conference on Small Island Developing States, Barbados, 1994), the United Nations commissioned technical work on vulnerability indices for developing countries, including economic vulnerability, ecological and/or environmental vulnerability, and a composite of both. Several indices have been developed and the values have been computed for most countries that comprise the Rio Group. These are shown in tables 2, 3, 4 and 5.

⁸ Antonio Romero, Asymmetries and Special and Differential Treatment in the Free Trade Area of the Americas. Document presented at the 2003 ACS/SELA Seminar on “International Trade Negotiations and Small Economies in Latin America and the Caribbean: Asymmetries and Special and Differential Treatment from the 3rd Brainstorming Meeting on the Treatment of Small Economies in International Trade Negotiations in Caracas, Venezuela.

⁹ Even though these nations are classified as relatively large economies, they are also considered to be “developing countries”, and are, therefore, eligible to receive “special and differential treatment” in the ongoing international trade negotiations, in accordance with the multilateral norms governing this matter (See Section IV of this document).

¹⁰ These countries have an economic dimension between 5% and 10% of that of the United States.

¹¹ Countries with an economic dimension of less than 5% of that of the United States.

From the tables we can see that the small countries of CARICOM almost invariably have the highest scores in all three indices. CARICOM countries comprise the 11 highest scoring countries on the World Bank Composite Vulnerability Index (WBVI) and the Briguglio Vulnerability Index (BVI). These two indices capture both economic and environmental vulnerability. CARICOM countries are also nine out of the highest 10 for the United Nations Economic Vulnerability Index (UNEVI). The very small countries of the Organisation of Eastern Caribbean States (OECS) fall in the top 11 in all three Indices, except for Antigua and Barbuda, which is 14th in the United Nations EVI. Barbados, Belize, Guyana and Jamaica also fall in the top 11 in the two indices that include environmental vulnerability.

On the whole, the other smaller economies of the Rio Group have the next highest scores in the combined economic/environmental indices. For example, by Romero's classification of 'small economies', these occupy the next 13 places in the BVI and the next 12 places in the WBVI, and the 16 places (after the top 10) in the UNEVI.

There are some notable exceptions to the general association of size group with vulnerability. Uruguay, a small economy, has a low score on all three indices. This is because of the diversification and content of its exports, its relatively low vulnerability to natural disasters, and its good transport and communication links with neighbouring countries. Costa Rica has a low score on the UNEVI but its relative vulnerability increases when environmental vulnerability is taken into account. Venezuela, a mid-sized economy, scores higher on the WBVI than several small economies, due to its export dependence and the concentration of its exports. Chile also has a higher WBVI than several other economies with a lower PSPH Index.

Table 2: World Bank Composite Vulnerability Indices for Rio Group Countries

Country	Trade Dependence Index	Vulnerability to Natural Disasters Index	UNCTAD Diversification Index	Composite Vulnerability Index	Rio Group Rank	World Rank
<i>Antigua/ Barbuda</i>	90.5	430.77	0.832	11.246	1	2
<i>Bahamas</i>	45.33	491.28	0.85	10.433	2	4
<i>Dominica</i>	50.33	261.97	0.769	8.122	3	12
Guyana	85.75	85.17	0.885	7.953	4	13
<i>Grenada</i>	44	228.26	0.845	7.848	5	15
<i>Jamaica</i>	61.2	130.86	0.85	7.484	6	18
<i>St Lucia</i>	68.33	92.88	0.88	7.449	7	19
Belize	55.4	28.19	0.952	6.652	8	23
<i>St Vincent and the Grenadines</i>	47.75	74.8	0.865	6.563	9	24
<i>St Kitts & Nevis</i>	59	21.43	0.85	6.362	10	29
<i>Barbados</i>	53.2	0.46	0.759	5.67	11	38
Honduras	33.2	15.77	0.864	5.373	12	46
Paraguay	32.8	18.55	0.86	5.346	13	47
<i>Trinidad & Tobago</i>	38.4	0.13	0.781	5.264	14	49
Costa Rica	39.6	37.49	0.718	5.09	15	57
Ecuador	29	31.66	0.808	5.05	16	64
Chile	29.4	24.76	0.794	5.016	17	68
Panama	38.4	8.93	0.701	4.995	18	69
Suriname	12	0	0.933	4.921	19	78
Nicaragua	23.2	44.39	0.825	4.92	20	79
Venezuela	28	1.09	0.769	4.887	21	81
Dominican Republic	24.6	79.83	0.793	4.858	22	83
Bolivia	19	92.17	0.797	4.691	23	93
Haiti	8.5	114.35	0.833	4.474	24	96
Peru	10.8	93.17	0.807	4.461	25	97
El Salvador	19	47.19	0.72	4.434	26	98
Guatemala	18.2	2.66	0.727	4.431	27	99
Uruguay	20.6	0.75	0.688	4.378	28	101
Colombia	17.2	7.62	0.631	4.078	29	105
Argentina	7.4	60.34	0.564	3.539	30	109
Brazil	9	63.01	0.517	3.433	31	110
Mexico	15.4	5.54	0.384	3.194	32	111

Countries in italics are CARICOM states that are represented in the Rio Group by Guyana.

Source: Adapted from Report on Latin America and the Caribbean Small State Conference, St Lucia, Feb 1999- "Small States: A composite Vulnerability Index". This index demonstrates that output volatility can be explained in part by three highly significant factors: a country's openness -measured by the average exports of goods and non factor services as a percentage of GDP; its lack of diversification, as measured by UNCTAD diversification index; and for small states is susceptibility to natural disasters , as measured by the proportion of the population affected by such events as estimated over a relatively long period of time. <http://lnweb18.worldbank.org/External/lac/lac.nsf/c3473659f307761e852567ec0054ee1b/629bfd942b112e2852567fc00530409?OpenDocument> This website was accessed in September 2006.

Table 3: Briguglio Vulnerability Indices, Rio Group of Countries

COUNTRY	Exposure to Foreign Economic Conditions Index	Insularity & Remoteness Index	Proneness to Natural Disasters Index	Vulnerability Index	Rio-Group Rank	World Rank
<i>Antigua & Barbuda</i>	115.95	83.24	38	0.843	1	1
<i>St Kitts & Nevis</i>	90.35	35.65	28	0.733	2	5
<i>St Lucia</i>	94.05	20.26	81.17	0.715	3	6
<i>St Vincent/ Grenadines</i>	74.5	16.46	35.99	0.649	4	9
<i>Grenada</i>	71.5	34.84	n/a	0.635	5	10
<i>Bahamas</i>	73.6	32.21	n/a	0.633	6	11
<i>Jamaica</i>	51.37	23.46	64.4	0.631	7	12
Belize	68.95	17.34	7.15	0.611	8	15
<i>Dominica</i>	51.6	12.93	141.3	0.6	9	18
<i>Barbados</i>	47.5	46.03	n/a	0.595	10	20
Guyana	62.25	10.26	n/a	0.519	11	33
Dominican Republic	36.93	21.23	2.31	0.512	12	34
Panama	71.72	4.56	4.25	0.503	13	36
Haiti	18.75	29.09	9.21	0.461	14	48
Paraguay	28.83	14.13	5.08	0.458	15	49
Bolivia	15.82	20.82	84.16	0.45	16	52
El Salvador	21.75	10.04	52.32	0.432	17	59
Honduras	24.12	8.65	34.82	0.428	18	61
<i>Trinidad & Tobago</i>	35.62	8.1	n/a	0.416	19	66
Guatemala	19.33	13.16	12.8	0.409	20	69
Chile	32.45	3.88	5.9	0.377	21	77
Suriname	32.2	5.34	n/a	0.368	22	80
Ecuador	24.23	5.82	2.52	0.349	23	87
Colombia	16.82	4.67	5.56	0.292	24	100
Uruguay	20.02	3.39	1.01	0.261	25	106
Mexico	15.82	3.79	2.91	0.254	26	107
Peru	9.55	6.5	8.45	0.24	27	109
Argentina	11.58	1.95	3.2	0.157	28	113
Brazil	7.83	2.27	3.21	0.11	29	114

Source: Adapted from Appendix A of Lino Briguglio (1995), "Small Island Developing States and Their Economic Vulnerabilities".

Appendix A ranks the countries using varying weights for the sub-indices: Exposure to foreign economic conditions, Insularity and remoteness and Disaster proneness. Subjectively (but intuitively) these subindices were weighted 50%, 40% and 10% respectively and the results were quite similar to those where equal weighting were used- that is, SIDS were seen as more vulnerable than others. The subindices are measured in different units, therefore there is a standardisation procedure required.

*Exposure to Foreign Economic Conditions refer to dependency on foreign trade, dependency on narrow range of exports(X), dependency on imported technologies, and degree to which the economy is a price-taker, but for this index only the ratio of Exports and Imports as a percentage of GDP is used due to data constraints, that is, $[\text{Exports}(X) + \text{Imports}(M)]/\text{GDP}$ expressed as a percentage (%).

**Insularity and remoteness measure delays and cost indivisibilities in foreign trade. A meaningful way of measuring this is FOB/CIF but this is not used in this index. What is used is a ratio of transport and freight cost to export proceeds as remoteness and insularity cannot be measured in a direct way. $[\text{Transport Costs} + \text{Freight Cost}]/\text{Merchandise Exports}$ expressed as a percentage (%).

***Data for Disaster proneness were adapted from a 1990 report published by UNDRO. Disaster damage is calculated as money damage in relation in GDP. Non-significant disasters (impact of < 1% of GDP). A 20-year period was covered by the report (1970-89). The UNDRO report produced a total index which was adjusted by excluding disasters of a political nature (civil strife). Note that some countries were not considered to be disaster prone and values are given as (N/A).

****Rank within data Set. Costa Rica, Cuba, Nicaragua and Venezuela were not included in the table ranking 114 countries.

Other variables were not included because of their non measurability or their relationship to economic performance and not economic fragility.

Table 4: United Nations Economic Vulnerability Indices for Rio Group Countries

Country	United Nations EVI	Rio Group Rank
<i>St Lucia</i>	56.99	1
<i>Dominica</i>	56.05	2
<i>St Vincent & the Grenadines</i>	51.65	3
Guyana	51.41	4
<i>St Kitts & Nevis</i>	50.26	5
<i>Haiti</i>	45.61	6
Dominican Republic	45.54	7
<i>Bahamas</i>	45.37	8
Suriname	44.28	9
<i>Grenada</i>	43.67	10
Nicaragua	43.16	11
Paraguay	43.05	12
<i>Cuba</i>	41.5	13
Antigua & Barbuda	41.2	14
Belize	40.47	15
<i>Trinidad & Tobago</i>	39.03	16
<i>Barbados</i>	36.54	17
Honduras	35.73	18
Venezuela	33.79	19
<i>Jamaica</i>	31.18	20
Ecuador	29.4	21
Panama	28.89	22
El Salvador	28.36	23
Bolivia	27.24	24
Peru	26.13	25
Guatemala	25.99	26
Chile	25.09	27
Colombia	24.28	28
Uruguay	24.09	29
Costa Rica	23.99	30
Mexico	15.47	31
Argentina	15.22	32
Brazil	15.2	33

The UN Economic Vulnerability Index is used by WTO members as one of the criteria officially recognised in the definition of LDC. Countries with a score of >31 is considered vulnerable; >36 highly vulnerable/LDC

Source: Adapted from Annex 2 of "Data Paper 5: Small Vulnerable Economy Issues and the WTO" by Grynberg and Remy in the 24th, Commonwealth Parliamentary Conference of Members from Small Countries, September 2004, Quebec City, Canada. Countries in italics are not members of the Rio Group, but all except Cuba are members of CARICOM, represented in the Group by Guyana

Information was sourced from UN ECOSOC (2001). This paper can be accessed on: www.cpahq.org/SCC5_pdf_media_public.aspx.

D. Indicators of global insertion

Another way to consider the effect of size is to examine the insertion into the global economy of different countries and groups of countries. For this, we use the classification of merchandise exports into the categories of: (a) primary commodities; (b) labour-intensive and resource-based manufactures; (c) manufactures with low-skill and technology intensity; (d) manufactures with medium skill and technology intensity; and (e) manufactures with high skill and technology intensity. Categories (d) and (e) enjoy the highest rate of growth in world merchandise trade; their shares in world merchandise exports grew from 40.2 to 52.6 per cent over 1985-2000 (table 5). They represent industries with high research and development intensity, high rates of technological progress, and greatest opportunity to appropriate economic rents. Thus, one way of analysing and assessing the insertion into the global economy of particular countries and groups of countries is to disaggregate their merchandise exports into these categories.

**Table 5: World Imports by Skill and Technology Intensity,
Percentages**

PRODUCT GROUP	1985	2000
A. Primary Commodities	23.2	12.4
B. Natural resource based manufactures	19.6	15.7
C. Manufactures with low skill and technology intensity	14.4	15.7
D. Manufactures with medium skill and technology intensity	28.5	29.7
E. Manufactures with high skill and technology intensity	11.7	22.9
F. Other	2.6	3.6
Total	100.0	100.0
<i>Categories A,B & C</i>	<i>57.2</i>	<i>43.8</i>
<i>Categories D & E</i>	<i>40.2</i>	<i>52.6</i>

Source ECLAC, *Globalisation and Development*, 2002; table 2.3

Tables 6 and 7 show the distribution of exports in these categories for Rio Group countries. With two exceptions (Mexico and El Salvador), the bulk of merchandise exports of these countries is at the low end of the skill/technology spectrum; that is in primary commodities, labour-intensive and resource-based manufactures, and manufactures with low-skill and technology intensity. This proportion is highest for the small and mid-sized economies. Whereas three of four of the large economies have between 68 and 79 per cent in the first three categories; 15 out of 16 small and mid-sized economies have between 80 and 96 per cent of their merchandise exports in these categories. Accordingly, three large economies have between 16 and 31 per cent of their merchandise exports in medium and high skill and technology goods; while for 15 of 16 small and mid-size economies, the corresponding share is 1-22 per cent; 11 of these having shares of well under 10 per cent.

One limitation of this analysis is the absence of services. Service exports account for the greater share of exports of goods and services for the majority of CARICOM States; being especially significant in the Bahamas, Barbados, Jamaica and most of the members of the small economies of the OECS.

Approximately 70 per cent of service exports consist of tourism, with the remainder spread among travel, etc. Tourism would be considered to be a resource-based service export, so it is unlikely that inclusion of services would change the general pattern of the export concentration of the smaller economies of the Group in the low end of the technology spectrum. However, it does point to the need to emphasise services in the promotion of trade between the small countries of the Caribbean subregion and the larger countries of mainland South and Central America.

**Table 6: Exports by Type and Technological Intensity,
Rio Group of Countries**
Percent total exports of country

Country	Year	Primary Commodities	Labour Intensive and Resource-Based Manufacturers	Manufactures with low skill and technological intensity	Manufactures with medium skill and technological intensity	Manufactures with high skill and technological intensity	Unclassified	Total
Argentina	2004	54.0	22.2	3.5	10.3	9.6	0.4	100.0
Belize	2003	86.2	8.6	0.4	4.0	0.7	0.1	100.0
Bolivia	2004	47.4	46.5	0.3	2.0	2.2	1.6	100.0
Brazil	2004	42.0	15.8	10.4	19.3	11.7	0.7	100.0
Chile	2004	83.0	7.0	1.3	1.8	5.5	1.2	100.0
Colombia	2004	33.7	38.5	7.1	6.1	9.7	4.9	100.0
Costa Rica	2004	37.1	10.1	2.2	10.8	38.4	1.3	100.0
Dominican Republic	2001	46.9	21.7	20.3	3.2	7.4	0.5	100.0
Ecuador	2004	88.1	7.2	1.1	1.5	1.7	0.4	100.0
El Salvador	2004	36.0	30.7	8.6	8.2	13.6	3.0	100.0
Guatemala	2004	65.9	20.4	5.6	5.6	1.3	1.1	100.0
Guyana	2004	57.0	22.9	0.2	0.3	0.8	18.8	100.0
Honduras	2003	70.1	10.4	3.7	4.8	7.0	4.1	100.0
Mexico	2004	7.6	22.4	5.3	37.3	26.4	1.2	100.0
Nicaragua	2004	82.2	3.9	2.6	0.8	3.9	6.7	100.0
Panama	2004	88.8	6.0	0.5	0.6	2.6	1.5	100.0
Paraguay	2004	87.3	8.1	0.9	1.0	2.6	0.1	100.0
Peru	2004	59.4	16.1	0.8	1.4	2.8	19.5	100.0
Uruguay	2004	60.6	25.0	1.4	5.9	5.9	1.2	100.0

Table 7: Exports by Technological Intensity and Size Group

Country /Group	PSPH Index	% EXPORTS		
		A,B & C	D & E	Total
<i>'Small' and 'Mid-sized'</i>				
Belize	0.100	95.2	4.7	100.0
Panama	0.498	95.3	3.3	100.0
Costa Rica	0.498	49.5	49.2	100.0
El Salvador	0.547	75.3	21.8	100.0
Dominican Republic	0.752	88.9	10.5	100.0
Guyana	0.770	80.1	1.1	100.0
Nicaragua	0.825	88.7	4.6	100.0
Uruguay	0.871	87.0	11.8	100.0
Honduras	0.911	84.2	11.7	100.0
Guatemala	1.204	91.9	7.0	100.0
Paraguay	1.899	96.2	3.6	100.0
Ecuador	2.015	96.4	3.2	100.0
Chile	3.727	91.4	7.4	100.0
Bolivia	4.608	94.3	4.2	100.0
Venezuela	5.105	95.3	4.5	100.0
Peru	6.629	76.3	4.2	100.0
Colombia	6.899	79.3	15.8	100.0
<i>'Large'</i>				
Argentina	12.168	79.6	19.9	100.0
Mexico	13.949	35.2	63.6	100.0
Brazil	43.136	68.2	31.0	100.0

A, B, & C: Primary commodities, labour intensive and Resource-Based Manufacturers, and manufacturers with low skill and technology intensity.

D & E: Manufactures with medium and high skill and technology intensity

II. Treatment of asymmetries: Review of hemispheric and global arrangements

A. Overview

Treatment of asymmetries in trade and integration arrangements involving countries in the hemisphere consists mainly of measures for Special and Differential Treatment (SDT) in trade agreements. SDT is a standard feature in these agreements, whether among developing countries or between developing and developed countries. SDT provisions address asymmetries in levels of development, size, vulnerability and other economic circumstances. In 18 of these arrangements recently reviewed, explicit SDT was present in 55 per cent, including the majority of South-South agreements; and implicit SDT was present in 45 per cent¹². South-South SDT takes account of asymmetries in level of development, size, vulnerability, level of indebtedness, and being island or landlocked; case-by-case determination is also provided for. The occurrence of different types of SDT measures is shown in table 8.

Table 8: SDT Measures in 18 Trade Agreements

TYPE	% AGREEMENTS
Safeguard measures	78
Extended transitional periods for implementation of liberalisation	78
Technical assistance and capacity building	78
Additional flexibilities	61
Special funds	50
Measures for improved trade opportunities	39

Source: From Iza Lejarraga, "SDT in Regional Trade Arrangements", *OECD Global Forum on Trade Special and Differential Treatment: Thinking Outside the Box*, 28-29 June 2005, Bridgetown, Barbados, p. 125

B. MERCOSUR

Although the Treaty of Asunción does not formally refer to the SDT, several practices in Mercosur amount to SDT for the two smaller members, Uruguay and Paraguay. Under the Trade Liberalization Programme, Paraguay and Uruguay were given one additional year to complete the obligations; a larger list of exceptions to intraregional trade liberalization, and more flexible Rules of Origin in the case of Paraguay. Several differential elements of treatment were also granted in the agreement on Customs Union and Common External tariff, which followed completion of the Trade Liberalization Programme (Bouzas 2003:10-11). Recently there has been agreement on the financing of a regional fund whose main purpose is to compensate the smaller members for the unequal gains from market integration. Annual financing was set at \$100 million, with 70 per cent to come from Brazil and 20 per cent from Argentina.

¹² Iza Lejarraga, "SDT in Regional Trade Arrangements", *OECD Global Forum on Trade. Special and Differential Treatment: Thinking Outside the Box*, 28-29 June 2005, Bridgetown, Barbados, p. 125

C. CARICOM

Differential levels of trade obligations, and compensatory funding are integral parts of the Revised Treaty of Chaguaramas for the creation of the Caricom Single Market and Economy (CSME). Chapter Seven of the Revised Treaty deals with the treatment of Disadvantaged Countries, Regions and Sectors. Disadvantaged Countries are the Less Developed Countries (LDCs) of the Community and any other Member State that may require transitional or temporary support measures as a result of natural disasters, dislocation caused by the operation of the CSME, temporary low levels of economic development, or formal designation as a Highly Indebted Poor Country (HIPC). The six OECS countries, Haiti, Belize and Guyana are nine of the 12 CSME participating countries that meet these criteria. One of the principal measures identified is the establishment of a Regional Development Fund to provide financial and technical assistance to governments and private enterprises which satisfy the relevant criteria. Plans for the setting up of this Fund are well advanced, with initial capitalisations set at. The Fund will become fully operational by the end of 2006.

Other provisions made in Chapter Seven of the Revised Treaty are special measures to attract investment and industries, temporary derogations from Treaty obligations, and other measures to assist industries to become efficient and competitive and to support structural diversification and infrastructural development. Eligible members have made use mainly of these provisions that relate to extended time periods for, and greater exceptions to, implementation obligations for the Single Market.

D. Other integration schemes

SDT for the Treatment of Asymmetries is also recognised in other integration schemes in the LAC region. The Latin American Integration Association (ALADI)¹³ differentiates members into three groups according to their level of development: (i) “Relatively Less Developed”, (three countries); (ii) “Intermediate Developed” (six countries); and (iii) other (three countries). Relatively Less Developed and Intermediate countries benefit from non-reciprocal treatment, cooperation programmes and technical assistance. In the Andean Community the two least developed members (Ecuador and Bolivia) receive preferential treatment; in the case of Bolivia the circumstance of being a landlocked country is also recognised. In the architecture proposed for the FTAA, differences in size and levels of development were explicitly recognised. Ministerial statements from the Summits of the Americas specifically mandated trade ministers to take account of such asymmetries in the negotiations, and a Working Group on Small Economies was tasked with monitoring and reporting regularly to the Trade Negotiations Committee and making inputs into the work of the nine negotiating groups. At the time of the suspension of the FTAA process, one of the principal measures under consideration was a Hemispheric Cooperation Programme aimed at trade-related capacity building within the smaller and less developed economies.

¹³ 11 of the 12 members of the Latin American Integration Association (ALADI) are members of the Rio Group: four members of MERCOSUR, five members of the Andean Community, and Mexico and Chile

E. Plurilateral trade agreements

CARICOM's trade agreements with Venezuela (1992) and Colombia (1994) provide for "asymmetrical reciprocity" (ECLAC 1997: 55). The Caricom-Venezuela Agreement on Trade and Investment of 1992 commits Venezuela to a phased elimination of all tariff and non-tariff barriers to Caricom imports; while Caricom is to grant Most Favoured Nation Treatment to imports from Venezuela. The Caricom-Colombia trade agreement of 1994 contains essentially the same features. Both agreements contain other provisions on technical regulations, the service sector, and dispute settlement; the agreement with Venezuela also covers treatment of investment, double taxation and transport.

F. IIRSA

The Initiative for Integration of Regional Infrastructure in South America (IIRSA) is not formally a mechanism of SDT in trade. Nonetheless, it may be considered under the rubric of treatment of asymmetries since it will act as a method of funding for infrastructure development for the smaller and less developed countries of the South American region, facilitating trade expansion and inflows of investment capital for accelerated economic growth. IIRSA was launched in 2000 with a strategic vision of continental-wide physical integration driven by telecommunications, energy and transport. It is designed around seven physical 'hubs' from North to South and East to West in these infrastructure sectors; with 31 projects approved for execution over 2005-2010. Most of the hubs involve improved infrastructure to one or more of the smaller countries of the region; i.e. Ecuador, Bolivia, Paraguay, Uruguay, Guyana and Suriname. The projects are to be supported financially by the Inter-American Development Bank (IDB), the Andean Development Corporation (CAF), the Brazilian Development Bank, and the Financial Fund for the Development of the River Plate Basin (FONPLATA).

G. Bilateral programmes

Certain bilateral cooperation programmes among countries that are members of the Rio Group can be considered to be *de facto* recognition and treatment of asymmetries. This is the case where a bilateral programme is between a larger, more developed State, or financially relatively well-endowed State; with a State or States that are smaller, less developed, or financially stressed. Examples of this are bilateral initiatives launched by the Government of Venezuela in the field of energy and financial cooperation with countries of the Caribbean, Bolivia and Argentina; Brazilian technical cooperation programmes with several Latin American countries and Mexico-Caricom cooperation programmes for the provision of scholarships in higher education. Such bilateral programmes have grown rapidly in recent years and their potential for expanding the Treatment of Asymmetries among members of the Group should be recognised.

H. Treatment of asymmetries in the South American Community of Nations (CASA)

Treatment of asymmetries is a major issue of the South American Community of Nations (CASA). At the Brasilia Summit of 2004 the Presidential Declaration mandated the convening of a forum on "A New Treatment of Asymmetries in South American Integration" with the

expectation that this would ‘contribute to suggestions for the reduction of asymmetries in the region and for ways of ensuring that economic relations among members would produce benefits for all’¹⁴. Asymmetries within the group are very wide, and have been growing. The two largest countries—Brazil and Argentina—account for 60 per cent of the group’s GDP, while the six smallest are only 5 per cent (Romero 2006: 7). Furthermore asymmetries in the level of development have grown in the past 15 years; in spite of a great expansion in intraregional trade and in spite of the existence of measures for special and differential treatment to the less developed countries within regional trade agreements (6). It is now recognised that trade-related SDT is insufficient to bring about income convergence and that additional measures are necessary in the form of funding programmes aimed at establishing the conditions for attracting greater foreign investment and expanding exports, which will increase levels of income and employment (7).

A recent document by Romero (2006) proposes that a programme for CASA on treatment of asymmetries should consist of two pillars as follows:

1. Market access measures

(a) Convergence of special and differential treatment provisions of existing regional agreements.

(b) Non-tariff measures to assist enterprises to take advantage of market access in the compliance with technical norms including sanitary and phytosanitary regulations, efficiency of customs administration, trade facilitation and transport facilities.

(c) Improvement of physical infrastructure for integration, utilising IIRSA projects for example.

(d) Cooperation in macroeconomic policies that bring about stability.

2. Financing and support measures

(a) Regionalisation of financial institutions especially the Andean Development Fund (CAF), FONPLATA and national development funds.

(b) Establishment of a Solidarity Fund for Structural Convergence.

(c) Horizontal cooperation among countries in technical assistance and training.

(d) Joint or coordinated action vis-à-vis international cooperation programmes, to mobilise additional resources and improve the efficiency with which existing resources are used, for example in technical assistance and training.

¹⁴ Romero 2006: 5

(e) A High Level Group consisting of representatives of countries and regional secretariats, tasked with preparing concrete pilot projects in each of the above (Romero 3-4).

I. Global forums

The disadvantages associated with small size and vulnerability are recognised in all of the agreements and forums in which members of the Rio Group participate. However there is wide variation in the definition or criterion of smallness and in the method of according it special treatment. In addition different dimensions of the *problematique* have been addressed in separate forums and in a more or less *ad hoc* manner. Hence the subject of small vulnerable economies is handled by the WTO; the situation of SIDS has been the subject of global environmental conferences in 1994 and 2004; and some small economies have been the beneficiary of initiatives taken under the HIPC programme. One positive contribution that the Rio Group can make is support for small country concerns in different negotiating theatres and global forums. The Group could go further, and consider initiating an international campaign aimed at securing a comprehensive, multi-dimensional global framework that recognises and addresses the peculiar circumstances of small countries in the emerging system of global governance in its several manifestations. Two major lacunae that presently exist is the absence of agreement on treatment of small vulnerable economies in the WTO, and the absence of adequate support to make the SIDS Plan of Action fully operational.

J. WTO initiatives

Recognition of the special situation of small economies was first made at the 2nd Ministerial Conference in 1998. The 4th Ministerial in 2001 mandated a work programme on issues related to trade of small economies as part of the agreement on the Doha Development Agenda. The specific objective of the work programme was 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 new sub-category of WTO members”. The Declaration of the 6th Ministerial (Hong Kong) includes a commitment on Incremental Software Evolution for Real-Time Applications (InSERT). However, no clear consensus on a package of SDT for SVEs has emerged in the WTO. The members of the Rio Group can play a useful role by lending their support to the resolution of several issues in a manner supportive of the needs and circumstances of small and vulnerable economies.

The first issue is the meaning and content of Special and Differential Treatment. The WTO agreement embodied significant changes in the meaning attributed to SDT and in the kind of measures it involves from previous General Agreement on Tariffs and Trade (GATT) agreements; changes that have since been challenged by the developing countries. SDT had previously implied or involved the principle of non-reciprocal preferential market access of a more or less permanent nature for developing countries; non-reciprocity was now treated as a transitional stage towards their acceptance of reciprocal rights and obligations. Much of the flexibilities that had previously enabled developing countries to pursue development policies was also removed by the Trade-related aspects of Intellectual Property Rights (TRIPS) and Trade related Investment Measures (TRIMS) agreements, the Single Undertaking, the new emphasis of SDT on technical assistance for the implementation of WTO obligations and on ‘best endeavour’

clauses (rather than legally enforceable obligations); and on the operation of the Dispute Settlement Mechanism¹⁵. Developing countries have, therefore, raised several of these concerns under the general rubric of ‘implementation issues’; but at the time when the Doha Round was stalemated in July 2006 no agreement had been reached.

A second issue is the definition of an SVE and hence the determination of eligible countries for entitlement to special treatment. The Small Economies Group in the WTO, which has been active in pressing the issue, is self-selected in membership. The elasticity in concept and membership of SVEs has fuelled opposition from many countries, including several developing countries, to the creation of a new sub-category of WTO members for SDT purposes. There is a fear that this will undermine the principle of non-discrimination that is central to the WTO, to the detriment of other developing countries and the integrity of the WTO agreement as a whole.

However there are numerous precedents in WTO agreements for the granting of special treatment to small economies in that “the WTO also recognises other sub-groupings within the broader category of developing countries...either explicitly or implicitly through the creation of *de minimis* thresholds that in effect distinguish small states and often entitles them to special and or preferential treatment”¹⁶. Such provisions are to be found in at least five WTO agreements¹⁷ and in three other areas¹⁸. Furthermore, the problem of elasticity of membership could be addressed by agreeing on a criterion that is based on percentage share of world trade. For example, using a criterion of 0.05 per cent of world trade would admit 86 WTO members, accounting in the aggregate for a mere 1.5 per cent of world trade, to the category of SVE. If one excludes LDCs, which are already the beneficiaries of special provisions, this group of SVEs is only 1.1 per cent of world trade. Latest information from Geneva is that agreement-specific criteria were being discussed at the time the Doha talks broke down; based on

- up to 0.4 percent of global trade in agriculture (agriculture talks)
- up to 0.1 percent of global trade in non-agricultural goods (NAMA theatre)
- up to 0.16 percent in global trade overall

The proposed criteria would lead to inclusion of 22 WTO members, the majority in the Small Economies Group, which includes six members of the Rio Group and three other CARICOM States. The Rio Group should give strong consideration to the endorsement of this proposal and, in that context, lend its political and diplomatic support to the effort to give practical expression to measures for SVEs in the WTO¹⁹.

¹⁵ A useful summary is provided by Lewis et al. 2003: 30-36

¹⁶ Dr Roman Grynberg and Jan Yves Remy, “Small Vulnerable Economy Issues and the WTO”, 24th CPA Conference of Members from Small Countries, Quebec City, September 2004; p. 5; www.cpaq.org/SCC5_pdf_media_public.aspx; sourced 10 May 2006.

¹⁷ The agreements on Agriculture and its related Decision, on Subsidies and Countervailing Measures, on Implementation of Article VI of GATT 1994, on Safeguards, and on Textiles and Clothing.

¹⁸ The Doha Declaration on Technical Cooperation and Capacity Building, the Trade Policy Review Mechanism., and the formula for contributions to the WTO budget. For details see Grynberg and Remy, pp. 5-7

¹⁹ My analysis draws heavily on the paper by Dr Roman Grynberg and Jan Yves Remy, “Small Vulnerable Economy Issues and the WTO”, 24th CPA Conference of Members from Small Countries, Quebec City, September 2004; www.cpaq.org/SCC5_pdf_media_public.aspx; sourced 10 May 2006.

The third issue relates to the content of SDT measures for SVEs in the WTO. Other proposals of the Small Economies group that are worthy of the support of the Rio Group are, viz:

- (a) Non-reciprocity in regional trade agreements with developed countries, and not requiring SVEs to make concessions in RTAs that are inconsistent with their development, financial and other needs.
- (b) Improving the operation of various WTO Agreements as they affect SVEs; i.e. the agreements on Subsidies and Countervailing Measures (ASCM), Safeguards, Sanitary and Phytosanitary (SPS) and Technical Barriers to Trade (TBS). These involve allowing exceptions and flexibility in implementation and simplification of procedures.

The Rio Group should consider the inclusion of a declaration of support for these principles in its next Summit Declaration.

K. Environment and the Caribbean Sea

There is a compelling case to put the environmental issues of concern to SIDS²⁰ and the protection of the Caribbean Sea on to the agenda of the Rio Group under the rubric of the treatment of asymmetries. SIDS suffer from major environmental asymmetries, represented by the acute disproportion between their contribution to global climate change and the degree to which they suffer from its consequences. SIDS are responsible for only a small fraction of the greenhouse gases released into the atmosphere that give rise to global warming; but the impact of the resulting sea level rise, floods, hurricanes, and coral bleaching on their economies is disproportionately high. Damage to Caribbean SIDS from recent weather-related disasters has been documented²¹. The Rio Group should play a valuable role by giving strong diplomatic support for the accelerated implementation of the SIDS Programme of Action, the implementation and strengthening of the Kyoto Protocol, and support for Caribbean SIDS projects on disaster management and mitigation and adaptation to global climate change.

Twelve members of the Rio Group are States of the Greater Caribbean that border the Caribbean Sea or lie within it. Threats to the ecological integrity of the Caribbean Sea have been documented in the recently concluded sub-global Millennium Assessment for the Sea, which states that “The ... Sea has been critically assessed and ranked by expert consensus as having the highest priority for conservation of any marine eco-region in the whole of Latin America and the Caribbean”²². In effect, the States of the Greater Caribbean—Caricom and others—have a responsibility of environmental stewardship of the Sea to the hemispheric and global communities. The inter-governmental organization responsible for cooperation on the Caribbean Sea is the Association of Caribbean States (ACS), which has this as one of its focal areas. All 12 Greater Caribbean States that are also members of the Rio group are also members of the ACS.

²⁰ The SIDS grouping includes the Dominican Republic and all of the CARICOM insular states, which are represented in the Group by Guyana.

²¹ UNECLAC, 2005: *Caribbean Small States, Vulnerability and Development*. Available online at: <http://www.eclac.cl/publicaciones/PortOfSpain/0/LCCARL60/L.60.pdf>

²² John Agard and Angela Cropper, Caribbean Sea Millennium Assessment Report. Report prepared for the Global Millennium Assessment Port of Spain, 2005 (Draft); p. 15

In March 2006 the ACS created the **Caribbean Sea Commission** with a view to promoting and achieving the preservation and sustainable use of the Caribbean Sea, through the formulation of guidelines for coastal and marine management²³. The Commission is currently chaired by Barbados, with Panama and Guatemala Vice Chairpersons²⁴. The Commission has two permanent members – the ACS Secretary General and ECLAC. It will develop a plan of action and programme of activities in support of the ACS initiative to have the international community declare the Caribbean Sea a Special Area in the Context of Sustainable Development. The Charter of the ACS contains a commitment to the “preservation of the environmental integrity of the Caribbean Sea, by deploying the collective capabilities of their peoples in developing and exploiting its resources on an environmentally sound and sustainable basis, in order to enhance the quality of life of present and future generations of Caribbean peoples”.

III. Lessons for Treatment of Asymmetries in the Rio Group

A. Overview

Treatment of asymmetries by means of special measures is a well-established principle and practice in agreements at the global, hemispheric and regional levels. They are present both in North-South and South-South agreements. These measures are of three main types: (i) SDT as part of the architecture of trade agreements; mainly longer time frames for import liberalisation, larger number of sensitive products that can be protected, and more liberal rules of origin; (ii) financing instruments of various kinds as compensation for losses of revenue, income and employment and to promote economic convergence; and (iii) supply side capacity building measures in the form of financial and technical assistance for the public and private sectors. Most measures are of the SDT type and these are a feature of the majority of integration schemes and trade agreements among members of the Rio Group. As suggested by Romero (2006), there is a need for harmonisation of SDT measures across integration schemes and trade agreements in Latin America and the Caribbean, as this would be a considerable aid to foreign investment in the smaller and less developed economies.

However, both theory and experience suggest that SDT by itself will produce only limited benefits to the smaller and less developed countries in the form of export expansion. The small size of firms, structural supply rigidities and constraints, market information imperfections and weak transport links all militate against the ability of exporters from small economies to take advantage of market access liberalization granted by larger economies. These theoretical considerations are borne out by the very modest response of trade flows from smaller economies to asymmetrical trade liberalization that has already been granted.

B. Towards a new paradigm

²³ ACS Agreement No. 6/06 of the Ministerial Council.

²⁴ Other members of the Commission are Aruba, Costa Rica, Cuba, France (in respect of Guadeloupe, Martinique and French Guiana), Mexico, Trinidad and Tobago, the United Nations Environment Programme and Senator Angela Cropper, Environmentalist from Trinidad and Tobago. Information Sourced from ACS website www.acs-aec.org 13 November 2006

Hence, there is need for a ‘paradigm shift’ in the treatment of asymmetries. The Rio Group is well positioned to initiate this; given the political recognition that it has given the issue, and the strategic position of its members in the South American Community of Nations. A new approach would place greater emphasis on supply side measures to complement SDT, which address mainly market access issues. The supply side constraints may be divided into public sector infrastructure issues and private sector, firm-level constraints. The main types of measures are finance and technical assistance. Thus, there is need for substantial expansion of financing and technical assistance for smaller economies that is targeted at the provision of infrastructure especially transport, and the strengthening of their firms’ production, managerial, technological and marketing capabilities in export markets in the larger economies.

For this it will be necessary to identify micro-level factors that have impeded the expansion of exports from the smaller countries of the LAC region to take advantage of asymmetrical trade preferences granted by larger LAC countries. This would provide indicators for the development of policy instruments aimed at addressing these factors. Similarly, lessons should be drawn from success stories of firms based in smaller LAC countries in exporting to larger countries; for example firms from Trinidad and Tobago exporting to Venezuela and Colombia. The potential of services as an arena of export expansion also needs to be pursued. For example, that there is significant untapped potential in tourism between the English-speaking Caribbean and the Spanish and Portuguese countries in South and Central America. Major issues to be addressed in this area are data availability, language, air transport, and the costs of tour packages and the activities of tour operators generally. The ACS has been active in the promotion of multi-destination tourism and sustainable tourism in the Greater Caribbean and its experience could be used to good advantage. The task is to develop proposals for measures to facilitate the expansion of tourism between the two subregions.

The potential of services other than tourism is another area for investigation. One possibility here is language training studies. Hence, the feasibility of the English-speaking Caribbean becoming a significant platform for the export of English language training services to the Spanish and Portuguese-speaking region could be aggressively explored by examining issues related to costs, standards and certification. The attractiveness to Latin American investors of establishing a bilingual labour force in the English-speaking countries could also be assessed; as well as that of other export services with potential, such as legal, accounting, health and educational services.

With regard to infrastructure, the IIRSA initiative for the integration of the physical infrastructure of South America centred on transport, energy and telecommunications constitute in reality a major set of measures on the supply-side. Strategically used, IIRSA could be the basis of a bridge between continental South America and the Caribbean islands through Guyana and Suriname. It is necessary, however, to examine additional and supporting elements for the proposed land links to serve as a means of opening continental markets to exports of goods and services from the insular Caribbean and vice versa. For example, there is the matter of improvements to port facilities in Georgetown, Guyana, and Paramaribo, Suriname.

Next, there is the matter of production complementation, business cooperation, technology transfer and intraregional investment. An earlier study (ECLAC 1997: 9-12) discussed these possibilities; but there is a need to identify particular industries where this can take place, and specific firms and firm groups from the two subregions where these possibilities can be further explored. Another question to be addressed is how the policy and legal environment might be improved to facilitate such linkages.

Finance is already a subject on the agenda of the Rio Group under the rubric of Innovative Financial Mechanisms. The ECLAC 1997 study (p.10) had recommended the participation of Caricom in CAF, but this matter has yet to be explored. CAF was launched in 1968 to further Andean integration, and has grown to become one of Latin America's most successful initiatives in integration. CAF now has subscribed share capital of \$2.36 billion; in 2002 its approvals totalled \$2.88 billion. CAF's membership has been expanded to include the five MERCOSUR member States, Mexico and six other countries outside of the Andean region including two Caribbean countries, Jamaica and Trinidad and Tobago. Sixteen private banks are also members. Its operations now include "knowledge and technology transfer, competitiveness, governance, democracy, reaffirmation of ethical values, modernization of the State, decentralization, strengthening of financial systems, and privatization". CAF also operates a Human Development Fund and technical cooperation programme. (<http://www.caf.com>; sourced on 12/04/06).

What is needed is an examination of the concrete possibilities of CAF becoming a source of financial support for development and integration among the smaller countries of the region. This could be either directly, or via participation in subregional financial institutions, such as the Caribbean Development Bank (CDB) and the Central American Integration Bank.

Finally, treatment of asymmetries should not be limited to economic matters. Asymmetries in environmental vulnerability associated with small size and geographic circumstances are acute, and affect most of the Rio Group's smaller members. Larger members of the Group can provide tangible material support to smaller members by bilateral programmes of assistance to disaster management and mitigation and adaptation to climate change. They can also provide political and diplomatic support to hemispheric and global initiatives for the protection of the Caribbean Sea, and the implementation of the Programme of Action on SIDS.