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The Different Approaches to Differentiation

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Over the past decade, the world has witnessed significant changes in economic flows, geopolitical realities and poverty patterns, and this is expected to continue. These changes have created new needs, capacities and responsibilities for developing countries, donors and the research community. They also challenge traditional development ideas, tools and actors. Central to these changes are the needs and roles of MICs, particularly emerging economies, in a new poverty landscape.

Following a period of economic growth, many developing countries have now graduated from being Low-Income Countries (LICs) to Middle-Income Countries (MICs), and this trend looks set to continue over the next decade. At the same time, the deepening economic crisis in Europe has ushered in a period of austerity, with public expenditure under increased scrutiny to show results and value for money. In many developing countries, stronger economic growth means aid is becoming a less important source of development finance, while trade concessions and other forms of cooperation are increasingly important. However, the arbitrary boundaries of the MIC income group masks the varying needs and capacities of the countries. Persistent pockets of poverty, vulnerability to shocks and an increasingly important role in multilateral fora mean MICs are still central to global poverty reduction.

Differentiation

The European Commission (EC) has initiated a series of reforms to its trade and development policies, in an effort to 'differentiate' between the diverging needs and capacities of developing countries. Considering that the European Union (EU) is currently the world's largest importer and the largest provider of Aid for Trade (AfT), and provided 60% of global official development assistance (ODA) in 2010, these policy shifts can have significant impacts for individual developing countries as well as the international development agenda.

The EC has taken a multifaceted approach towards 'differentiation', which involves not just differentiation in trade policy (as discussed by Stevens in Essay 5, but also in aid, climate change and shock facilities (see Griffith Jones and te Velde in Essay 12). A comparative summary of these approaches can be seen in the table below. While differentiation among developing countries seems to reflect economic motives – both at home and abroad – it is also the result of domestic and foreign policy concerns. As emerging economies become stronger players in an increasingly competitive and multipolar world, we expect more emphasis and discussion on EU graduation in the coming decade across the areas of trade, aid and climate change. We need to see the current EC communication in this light.

Different approaches to EU differentiation among developing countries: comparing recent developments

	Trade	Aid	Climate	Shock facilities
Examples of relevant schemes	Generalised System of preferences (GSP), GSP+, Everything but Arms (EBA)	Differentiation, differentiated development partnerships	Common but differentiated responsibilities (CBDR)	FLEX mechanism, V-FLEX , Food Facility
Concept	GSP preferences should focus on countries most in need.	Evaluation of developing country 'capacity' and 'potential EU impact' in aid allocation process.	Emerging economies can afford to increase commitments; their role is crucial to lower emissions.	Shock-absorbing schemes cushion impacts on the poor and protect critical spending categories to sustain growth.
Recent developments	In 2011, the EC launched a proposal to reform the GSP; this includes the most radical change in the eligibility of states since the GSP was created three decades ago, as a result of which the number of beneficiaries would be cut from 176 states to about 80.	In 2011, the EC proposed a new development strategy – An Agenda for Change – which updates the vision established in the European Consensus on Development (2005) and introduces 'differentiation' and 'differentiated development partnerships'.	At COP 17 in Durban (2011), key emerging economies agreed to pursue a legal framework on carbon emissions, establishing the Durban Platform. Central to the deal was the EU, LDC and Alliance of Small Island States (AOSIS) alliance that emerged.	FLEX (established 2000, revised 2004 and 2008) aimed at safeguarding socioeconomic policies affected following a fall in export earnings. The temporary V-FLEX (established 2009) addressed impacts of the global financial crisis and was based on forecast development finance gaps. The Food Facility (established 2008) responded to rising/volatile food prices.
Basis for differentiation	GSP membership will be reduced, leading to higher imports tariffs on: • All imports from Upper-Middle-Income Countries (UMICs) that do not have a Free Trade Agreement (FTA) with the EU — 'income graduation'; • Some imports from those Low-Middle-Income Countries (LMICs) and LICs not covered by the GSP+ regime – 'product graduation'.	New aid allocation criteria to reduce/stop bilateral aid according to: • OECD Development Assistance Committee (DAC) income categories (UMICs excluded); • Gross Domestic Product (GDP) (countries with more than 1% of global GDP excluded); • Additional criteria considered: Human Development Index (HDI), Economic Vulnerability Index, aid dependency, economic growth and FDI. Differentiated development partnerships including loans, technical cooperation, support for trilateral cooperation.	The present legal criteria for CBDR (Article 10 of the Kyoto Protocol) divides countries into three main groups with differing climate change commitments: • Annex I (industrialised countries that were members of the OECD in 1992, plus countries with economies in transition (EITs)); • Annex II (OECD members of Annex I, but not EITs); • Non-Annex I (mostly developing countries). Following Durban, carbon emission targets will be extended to all parties, with substantial commitments for Brazil, Russia, India, China and South Africa (BRICS). However, the criteria have not been agreed yet.	FLEX pays according to past export earnings; V-FLEX looks at predicted finance gaps and incorporates some elements of vulnerability. • FLEX: Eligibility depends on a 10% (2% in the case of least developed, landlocked, island, post-conflict and post-natural disaster states) loss of export earnings from goods. The drop must be 0.5% or more of GDP. • V-FLEX: Allocation depends on a loss of government revenues or declines in forecast fiscal financing gaps adjustments for vulnerability and sufficient absorptive capacity. • Food Facility: Allocation depends on poverty, need; potential social and economic impact related to reliance on food imports, social vulnerability, political stability and macroeconomic effects on food price developments.
Countries affected by recent changes to differentiation	The number of countries eligible for GSP trade concessions will fall from 175 to about 80. • Eight countries will face product graduation: China, India, Indonesia, Iraq, Nigeria, Thailand, Ukraine and Viet Nam; • 17 UMICs that do not have FTAs negotiated will be excluded.	Countries funded through the Development Cooperation Instrument (DCI): • 17 UMICs: Argentina, Brazil, Chile, China, Colombia, Costa Rica, Ecuador, Kazakhstan, Iran, Malaysia, Maldives, Mexico, Panama, Peru, Thailand, Venezuela and Uruguay; • Two LMICs with more than 1% of global GDP: India and Indonesia; • Exceptions: South Africa and Cuba.	The BRICS are expected to engage in emission reduction.	• LICs and MICs are eligible through the African, Caribbean and Pacific states (ACP); a question emerges over MICs and Small and Vulnerable Economy states (SVEs).
Main issues	• UMICs are not a proxy for 'the most competitive developing countries' (e.g. China will remain in but Cuba will be excluded). • Likely beneficiaries will be HICs, which export the affected goods. • Is it just protectionism?	• The EC should publish detailed criteria/formula and country-by-country impact assessments. • Limited funding allocated to the differentiated partnerships. • Could it be applied to the EDF?	The BRICS hold the key to change, but it is challenging to broker a binding deal that they will sign up to.	• These schemes are for ACP countries, but there are questions as to which countries should receive what payments. • How to redesign these facilities to focus more on the most vulnerable countries, in particular LICs? • Needs to incorporate resilience.

References

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