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Directions for the Twenty-first Century

AGRICULTURAL TRADE BARRIERS, TRADE NEGOTIATIONS, AND THE INTERESTS OF DEVELOPING COUNTRIES

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AGRICULTURAL TRADE BARRIERS, TRADE NEGOTIATIONS, AND THE INTERESTS OF DEVELOPING COUNTRIES*

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* The views expressed in this paper are those of the author and do not necessarily reflect the views of the UNCTAD secretariat.

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Executive Summary

Rural growth is necessary for reducing rural poverty. But rural regions cannot generate sustained growth in agricultural demand unless they trade with cities, neighbouring countries, and the rest of the world. That is the first problem. The second is that world trade in agricultural and agro-industrial products has grown slower than general trade – and developing countries have not been able to capture as large a share of trade growth in agriculture as in industry. This has constrained agricultural growth and diversification in the developing world.

The slower growth in agricultural trade – and the difficulties of developing countries in conquering a share of that growth – is not surprising. Both developed and developing countries have faced massive barriers to agricultural trade over this century. Their joint negative impact on agricultural growth rates in the developing world is a major reason for the slow progress in rural development and rural poverty reduction.

Developing countries have reduced the anti-agricultural barriers in their policy regimes considerably. But the developed countries' agricultural policy reforms and the Uruguay Round of trade negotiations made only a modest start in dismantling barriers to agricultural and agro-industrial trade. These constraints to agricultural trade – particularly the agricultural protectionism in industrial countries – continue to inflict enormous welfare losses on the developing world, exceeding those from restrictions in textile trade by a factor of three. (They also continue to inflict large welfare losses on developed countries.) And they more than negate the grant aid provided.

A key question for UNCTAD to consider is: can the barriers to international trade in agriculture and agro-industrial products be reduced far enough and fast enough to enable a poverty reduction strategy for the rural developing world to be based primarily on agricultural growth and rural non-farm employment rather than on a heavy reliance on social programmes and social safety net?

In looking at policy constraints to the growth of agricultural demand, much has been said about the counter-productive interventions and barriers of developing countries. Good progress has been made in dismantling these interventions, but many interventions remain.

We argue here that developing countries have to continue their agricultural policy reforms. However, the main focus has to be on the constraints on agricultural trade imposed by developed countries – and on the prospects for reducing them in the forthcoming round of WTO negotiations. Export subsidies should be outlawed, domestic producer subsidies reduced, access under tariff quotas increased, tariff escalation on processed agricultural products removed, and the level and the dispersion of bound tariffs on agricultural imports reduced.

UNCTAD should define its functions and work programme in partnership with the WTO, FAO, IMF and the World Bank. These should include:

- Providing a forum for developing countries on trade and related issues;
- Maintaining trade-related databases and providing information;
- Undertaking high-quality analyses;
- Providing technical assistance in norms and standards and in dispute settlement;
- Advocating better market access in industrial countries;
- Helping to build coalitions and seeking common developing country positions in multilateral trade negotiations.

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AGRICULTURAL TRADE BARRIERS, TRADE NEGOTIATIONS, AND THE INTERESTS OF DEVELOPING COUNTRIES

Hans Binswanger and Ernst Lutz[*]

INTRODUCTION

More than two thirds of the poor in the developing world live in rural areas. The poverty there is not only wider spread, but also deeper, as measured by income and by nutritional status. Ironically, hunger prevails in areas that grow food.

A poverty reduction strategy, whilst taking advantage of opportunities for rural-urban migration, needs to address directly the question of how to improve and sustain the livelihoods of rural people where they live. Rural growth is necessary for rural poverty reduction, but it is not enough, as Brazil dramatically shows.[1] Growth must generate employment on farms and in the rural non-farm sector. This outcome is more likely to occur where family farms dominate, rather than large, capital-intensive commercial farms.

The paper by Stewart (1999) for this Round Table investigates how to achieve widely shared rural growth. It focuses on the demand-side conditions in the agricultural sector that are required to fuel the engine of rural growth. It is true, with economic development, that the share of agriculture in the rural economy declines in favour of rural non-farm activities. But these activities can only rarely be the driving force for rural growth. The reason is that most non-farm activities in villages and rural towns are linked to agriculture through forward, backward and consumer-demand linkages. In order to fuel their growth, the demand must thus come from agricultural growth.

Of particular importance to this are the consumer-demand linkages. Higher agricultural profits and labour incomes stimulate the local production of labour-intensive consumer goods, services and construction activities. Thus, under most circumstances, agricultural demand growth

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[1] Between 1950 and 1987, the Brazilian economy grew at an average annual rate of 6.7 per cent. Agricultural output grew less rapidly, at an annual rate of 4.4 per cent, while agricultural employment grew at only 0.9 per cent (World Bank, 1990). The share of people living in urban areas rose from 68 per cent in 1980 to 75 per cent in 1991 (World Bank, 1995), but the massive rural-urban migration was unable to compensate for the absence of rural employment growth. While poverty (headcount index) in 1991 was 10.8 per cent for urban areas, it stood at 32.1 per cent for rural areas.

is a necessary condition for rural non-farm growth and for rural growth in general.[2] But we all know that the demand for basic staple food is inelastic with respect to income and prices. That is why rural regions cannot generate sustained growth rates in agricultural demand unless they trade with cities, neighbouring countries and the rest of the world.

We consider two facts: world trade in agricultural and agro-industrial products has grown slower than general trade, and developing countries have not been able to capture as large a share of trade growth in agriculture as in industry. This has constrained agricultural growth and diversification in the developing world.

The slower growth of agricultural trade and the difficulties of developing countries in conquering a share of that growth is not surprising. Both developed and developing countries have erected massive barriers to agricultural trade over the course of this century. Their joint negative impact on agricultural growth rates in the developing world is a major reason for the slow progress in rural development, and for rural poverty reduction over the last half century.

That is why the World Bank's rural development strategy states:

> Without improved demand for developing countries' agricultural products, the agricultural growth needed to generate employment and reduce poverty in rural areas will not come about. Therefore, the World Bank Group will actively promote greater access to OECD country markets for the agricultural and agro-industrial products of its client countries, and support actions in the WTO to achieve this objective (World Bank, 1997: 61).

Over the past 15 years or so, developing countries have significantly reduced the anti-agricultural barriers of their policy regimes. But the developed countries' agricultural policy reforms and the Uruguay Round of GATT negotiations made only a very modest start in dismantling barriers to agricultural and agro-industrial trade. This is why the constraints to agricultural trade continue to inflict enormous welfare losses on the developing world – losses that exceed those from restrictions in textile trade by a factor of three. (They also continue to inflict equally large welfare losses on the developed countries).

A key question for UNCTAD is whether agricultural growth rates in developing countries can rise fast enough for agriculture to become a major engine of rural development and poverty reduction. Can the barriers to international trade for agriculture and agro-industrial products be reduced far enough and fast enough for a poverty reduction strategy for rural areas of the

[2] Of course, rural development should exploit other sources of growth whenever possible. Other sectors, which sometimes fuel rural growth independently by of agricultural growth, are tourism, mining and handicrafts. They can be quite important for specific regions. However, for countries as a whole, they are rarely sufficiently important in quantitative terms to make up for the absence of agricultural growth. Handicrafts, in particular, suffer from very serious demand-side constraints. There are also some notable exceptions, where industrialization in sectors independent of agriculture has helped transform rural areas, such as the village and township industries of China, and rural industrialization in Taiwan Province of China. These cases benefited from extremely high population densities in the rural areas affected. In China, moreover, the village and township industries are often near dynamic urban centres with adequate infrastructure, rather than in remote, marginal areas.

developing world to be based primarily on agricultural growth and rural non-farm activities rather than on social programmes and safety nets?

In looking at policy constraints to growth in agricultural demand, much has been said about the counterproductive interventions and barriers put in place by developing countries themselves. Considerable progress has been made in dismantling these interventions, but many interventions remain. While second-generation agricultural policy reforms are needed, the main focus of this paper is on the constraints that developed countries impose on agricultural trade, and on the prospects of reducing them in the next round of WTO negotiations.

I. TRADE AS THE ENGINE OF GROWTH AND POVERTY REDUCTION

The share of total developing country exports in world exports increased from 19 per cent in 1973 to 28 per cent in 1980 (partly due to high oil prices), and have remained stable at 22 to 23 per cent. From 1985 to 1995 the shares of exports from Asia increased from 10 per cent to 15 per cent, while those from Africa dropped from about 4 per cent to about 2 per cent (WTO 1996). The Middle Eastern countries also lost about half their market share, while Latin America largely held its ground.

Agricultural trade has been lagging significantly behind trade in manufactured products. World trade in all manufactured products expanded at 5.8 per cent from 1985 to 1994, while agricultural trade grew at only 1.8 per cent during the same period. One of the reasons for this difference is the high agricultural protection in industrial and developing countries.

The share of developing country agricultural exports in total world agricultural exports has been decreasing steadily over time, from 40 per cent in 1961 to 27 per cent in 1990. It increased to 30 per cent in 1996 due to a temporary rise in commodity prices. Of all the major developing economy regions, only East Asia and the Pacific increased their market share of agricultural exports, while all other regions lost shares. Africa's loss in share was particularly striking, decreasing from 8.6 per cent in 1961 to 3.0 per cent in 1996.

The change in shares of agricultural exports in world exports over time reflects mainly different growth rates in volume terms; for the period 1973–1996, agricultural exports of OECD countries expanded at 3.2 per cent, compared with 2.7 per cent for developing countries. The shares in agricultural exports of economies in East Asia and the Pacific grew at 4.2 per cent per annum, while those for African countries reached only 0.3 per cent.

Exports in manufactures of developing countries did much better than their agricultural exports, steadily increasing from 7 per cent of world exports in manufactures in 1973, to 20 per cent in 1995. These exports now account for more than 62 per cent of total developing country exports (WTO, 1996).

Why have developing countries failed to keep or increase their share in world agricultural exports? Aside from protectionism, including export subsidies in industrial countries, there may have been a limited response in developing countries to trade opportunities. The World Bank, therefore, actively encourages policy and institutional reforms in developing countries that will create a more favourable incentive framework enabling them to benefit more from international trading opportunities.

There are many good examples of developing countries that have succeeded in establishing a strong market position in selected export products, particularly in non-traditional ones: Brazil has done very well in sugar, soybeans and orange juice; Thailand, in addition to its traditionally strong position in rice, has developed other export products such as cassava; Bangladesh developed shrimp exports from a very small base to a major export industry; Kenya's non-traditional exports (fresh fruits, vegetables and flowers) are doing well; and Tanzania has increased its cashew nut exports significantly during the last decade. A good example of a successful country is also Chile, where reliability in quality, timeliness of delivery, and other contractual conditions have contributed to a strong market position. Chile may be somewhat exceptional because it has strong technical capacities to stay at the forefront and anticipate developments in the phytosanitary and other areas. It also has the capacity to support and defend its position in trade disputes, whereas others may need technical assistance from the international community.

Overall, international trade has been one of the important engines of growth for industrial and developing countries. Agricultural trade can be equally important for growth of the agricultural sector, inducing non-farm employment and thus stimulating the whole rural economy. Aggregate agricultural exports are a robust explanatory variable for agricultural growth (Scandizzo, 1998).[3] In short, the agricultural sectors of countries with outward-looking policies and small distortions in their incentive frameworks have benefited from international trade in agricultural commodities. Adding value to locally-grown agricultural products is one of the keys to an agriculture-led industrialization strategy. Hindering this potential today is tariff escalation in industrial countries – that is, tariff rates which increase with the degree of processing – that hurts the developing countries and must be reduced. In addition, developing countries need to pursue prudent development strategies conducive to efficient local processing.[4]

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[3] The composition of exports is also important: some primary commodities are under pressure from weak markets, and countries specializing in their production and exports may not gain as much (or may even lose in terms of demand-led growth), as countries with more diversified products do (Scandizzo, 1998).

[4] This does not mean banning raw material exports (such as logs) altogether, which can lead to increased smuggling and induces inefficient production (for example, furniture). It may mean some initial protection of local industry by giving it a cost advantage (for example, by an export tax), but later such protection should be gradually reduced.

II. WHAT ARE THE LOSSES FROM AGRICULTURAL TRADE AND POLICY AND THE GAINS FROM LIBERALIZATION? AND WHO ARE THE LOSERS?

Agricultural protection in OECD countries still harms developing countries. According to Anderson, Hoekman and Strutt (1999), the farm policies of OECD countries – even after the reforms under the Uruguay Round have been taken into account – cause annual welfare losses of $19.8 billion for developing countries (or 44 per cent of $45 billion – table 1). That is more than three times the losses that developing countries incur from OECD countries' import restrictions on textiles and clothing.

The real income gains to households in poor countries from OECD agricultural policy reform would thus be large. The average net gains would range from $1 per capita in South Asia to $4 in South East Asia, $6 in sub-Saharan Africa, and $30 in Latin America. The average producer household in the major developing country regions would gain, while consumer households with a food deficit would lose. But the gains for producers would exceed any losses for consumers. The resulting dynamic multiplier effects for the rural areas and developing economies would also benefit consumers in the long run.

The OECD countries themselves are incurring significant welfare losses from their own distortionary policies – $62.9 billion a year (or 29 per cent of $217 billion – table 1). The main losers are the large numbers of consumers, who pay higher prices for food products than they otherwise would for such commodities as milk, sugar, bananas. The main gainers are the relatively small groups of producers, who will mount the strongest opposition to the much-needed liberalization. Because OECD consumers would gain more than producers would lose, consumers could, in principle, compensate producers for their losses and still be better off. It seems, therefore, that ways should be found in OECD countries to develop compensation mechanisms, so that producers do not oppose liberalization.

Agricultural trade reform would increase world food prices and hurt low-income food-importing countries, especially their poorest consumers. That elicits much anxiety. But the expected price increases are not large, about 4 to 6 per cent for wheat, rice and coarse grains (Valdes and Zietz, 1995), and many of these commodities show a downward trend in real prices over time. In addition, the terms-of-trade losses under the Uruguay Round tended to be relatively small – in only a few countries did the estimated welfare change constitute more than 1 per cent of GDP. And the least developed countries (LDCs) had the option to remove domestic barriers, allowing them to convert their small loss into a net gain (Ingco, 1997).

Concerns about the possible impact of the Uruguay Round on poor countries were recognized by the ministers at the Marrakech meeting. This was reflected in the Ministerial Decision, "Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries". The intent of the Decision was to make sure that food aid could continue to meet the needs of developing countries. Rather than set quantitative targets, the Decision encouraged activities under the Food Aid Convention. But

Table 1

Effects on economic welfare (equivalent variation in income) of removing distortions to various goods markets post-Uruguay Round, by major economic regions, 2005

(Percentage and 1992 US$ billion per annum, difference from post-UR base case in 2005) [a]

	Percentage contribution from removing distortions in:					Net benefit from removing distortions in all goods markets of OECD and developing economies
	OECD economies' markets for:				Developing economies' markets for all goods	
	Agriculture and food processing	Textiles and clothing	Other manufactures	All goods (Sum of columns 1–3)		
Region	*(Per cent)*					*(Billion US dollars)*
All OECD economies	29 (-50)	-3 (192)	42 (6)	68 (-37)	32 (98)	217 (20)
All developing economies	44 (97)	21 (84)	-23 (76)	42 (75)	58 (-249)	45 (-106)
ALL ECONOMIES [b]	32	3	2	62	38	260

Source: Calculations by Anderson, Hoekman and Strutt (1999) using the Global Trade Analysis Project (GTAP) model.

a Numbers in parentheses are the percentages of each result due to the change in terms of trade, most of the rest being the change in allocative efficiency.

b Includes "former Soviet Union and Central Europe" and "rest of the world", hence is not just the sum of OECD and developing economies.

whether the Decision had any noticeable effect on assistance to developing countries is unclear. Shipments amounted to 9.7 million tons a year from 1990/91 to 1994/95, and to 6.1 million tons a year from 1995/96 to 1997/98 (Tangermann and Josling, 1999). The new Food Aid Convention (effective 1 July 1999) reduced the minimum annual contributions of cereals to 4.9 million tons.[5]

Another major concern was that agricultural trade liberalization would remove the ability of countries to deal with external price shocks. But the freer world trade is, the less volatile world food prices become, since surpluses and deficits can be evened out more easily when there are more trading partners with different climatic conditions for growing food crops (Bale and Lutz, 1979; Zwart and Blandford, 1989).[6] And aside from the scarcity of financial and other resources, there are hardly any constraints on the part of WTO for least developed food-deficit countries to deal with the issue of national food supplies.

The policy positions of industrial countries on development and trade often conflict. They make pronouncements on aiding the poorest, and give aid, but trade policies substantially negate the assistance provided. In 1998, grant aid amounted to $5.4 billion, and export credits to $4 billion. But the costs of industrial country agricultural protectionism to developing countries are stupendous: the welfare losses alone are $19.8 billion, more than three times the grant aid flows and about twice the grant aid and export credits combined! [7]

These issues are being discussed internally in the EU, particularly in the Directorate for Development (DG8). And they are heatedly debated in the context of the renewal of the Lomé Convention. Also of great importance is the future direction of the Common Agricultural Policy (CAP) after the expected expansion of the EU into Eastern Europe. Budgetary pressures will not permit extending an unrevised CAP to countries in Eastern Europe as this would mean a large expansion in subsidies. Even at lower internal EU prices, the Central and Eastern European countries joining the EU would be expected to expand their production, so that the degree of self-sufficiency of the EU as a whole would not change much, if at all.

Put differently, developing countries can expect limited opportunities in the future for expanding their exports to the EU. They would, however, benefit from a reduction, or outright

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[5] One problem with food aid that should be noted is the tendency for shipments to increase when prices are low and to contract when prices are higher, and when the needs in low-income developing countries may also be higher.

[6] Note also that different trade restrictions, or combinations thereof, have different levels of exporting domestically-generated instability to the world market.

[7] Overall official development assistance from OECD/DAC Members and the multilateral development agencies, which includes grants, export credits and loans, increased by $3.2 billion, to a total of $51.5 billion (OECD, 1999). This represented 0.23 per cent of the combined GNP of the member countries. The crisis in confidence in emerging markets, which started in Asia in 1997, and later affected the Russian Federation and Latin America, led to a sharp fall in net private flows to developing countries and transition economies, from $242.5 billion in 1997 to $100.2 billion in 1998. Since the fall in total private flows was many times greater than the rise in official flows, the total net resource flows to these countries fell by over 40 per cent, from $325 billion to $181 billion (OECD, 1999).

ban, on export subsidies. Without such subsidies, the EU would have to set internal prices somewhat lower, so that it would be less likely to have surpluses – that is, it would have to become slightly less self-sufficient. More importantly, the disruptions of the international market from surplus disposal of the EU would be reduced, especially in periods of low world prices, as in the second half of the 1990s.

A new form of non-tariff protectionism is becoming more common: keeping out imports of goods produced by production processes not permitted in the country. Call it "production process protectionism". The motive for banning a production process is usually articulated on environmental or social grounds. Examples include attempts to keep out products which are produced by using: biotechnology ("genetically modified organisms"), certain pesticides, types of fishing nets, forest management practices, poultry or livestock production facilities that are judged to endanger the welfare of animals, and labour practices (child and prison labour). We hope these issues will not hinder progress on the long unfinished agenda of the next round of trade negotiations.

III. WHAT HAS THE URUGUAY ROUND ACHIEVED FOR AGRICULTURAL TRADE?

Agricultural trade has had a long history of exceptional treatment in GATT. Although non-tariff barriers were prohibited for non-agricultural goods, quantitative restrictions were permitted by GATT for agriculture under certain circumstances. Over time, these circumstances were broadened, allowing the use of quotas, variable levies and other protective measures in almost every country. There was also protection by ordinary tariffs, but these were bound for only 55 per cent of the products in developed countries and only 18 per cent in developing countries (Hathaway and Ingco, 1996).

In export competition, too, agriculture got special treatment under GATT rules. Whereas export subsidies were prohibited for industrial products, they were allowed in agriculture "as long as the country using them did not gain more than an equitable share of the world market" (Article XVI:3). In practice, the equitable share concept proved useless, subverting GATT discipline over the use of export subsidies for agricultural products. Thus, most countries in the OECD used (and continue to use) them, causing world market prices to be lower than they would be otherwise, and harming producers in exporting countries who have a genuine comparative advantage but lack support through government subsidies. Export subsidies are also the key means for industrial countries to dispose of surpluses, produced inefficiently at high cost. They are thus a tool for rich countries to prop up their protectionist agricultural policies.

The Uruguay Round did bring agriculture under some multilateral discipline and agreement on a partial, gradual liberalization. Behind this progress was the possibility of measuring agricultural protection and support much better (because tariffs replaced quotas), and, thus, of comparing countries' intervention policies, and agreeing on verifiable cuts in interventions.[8] These measures revealed far greater barriers to trade in agricultural goods than in industrial goods.

Given agriculture's previous exclusion from GATT, perhaps more was achieved than could have been expected at the beginning of the Round. But the results and associated benefits for farmers in developing countries have been modest (International Agricultural Trade Research Consortium, 1997).

Under the Agriculture Agreement in the Uruguay Round, tariffs are to be reduced by 36 per cent by 2001 in the industrial countries, and by 24 per cent by 2005 in developing economies.[9] The parties also agreed to limit domestic and export subsidies. Developed countries must reduce by 36 per cent the value of direct export subsidies from their 1986–1990 base and they must cut the quantity of subsidized exports by 21 per cent over six years. For developing countries, the required reductions are two thirds of those applying to developed countries, and the implementation period is extended to 10 years. No reductions in export subsidies (where they exist) are required for the LDCs. One problem with this part of the Agreement has been that unused export subsidies can be carried over from one year to the next and shifted between commodities.

On domestic subsidies the Agreement acknowledged, for the first time, that domestic agricultural policies can distort trade if income transfers are linked to the volume of production. The Agreement categorized (in "boxes") domestic agricultural policy measures by how much they distort trade. It bound the magnitude of trade-distorting subsidies, required reductions in this support relative to those in a base period, and encouraged their replacement with direct payments fully "decoupled" from the volume of production.[10]

Unfortunately, the Agreement to reduce trade-distorting agricultural support bound and cut only the aggregate support to the agricultural sector, rather than requiring uniform cuts in support afforded all commodities. As a result, the support for some politically powerful commodities rose relative to that for other commodities. There was almost no progress in reducing subsidies for sugar and dairy products – two of the most politically powerful agricultural interests in high-income countries. These continuing barriers to production and trade ("peaks") need to be reduced more than proportionately in the next round.

[8] See also the paper of Alan Winters presented at the High-level Round Table, Bangkok (February 2000), which makes a passionate plea for further improvements in measurement.

[9] FAO has provided assistance to developing countries with implementing the Uruguay Round Agreement, such as with the production of manuals and technical assistance. The World Bank has organized joint workshops with FAO, such as the one in Santiago, Chile, November 1995 (FAO/World Bank, 1997), and in Kathmandu, May 1996 (World Bank/FAO, 1999).

[10] The Agreement acknowledged that there are many legitimate public goods functions of government in agriculture (listed in the "green box") and suggested no restriction on them.

Although the United States and the European Union did not make cuts in their internal support for such commodities in the Uruguay Round, the negotiating process pushed both to reduce their subsidies and shift significant portions to direct payments decoupled from the volume of production ("blue-box" exceptions).[11]

Under the Agreement developed countries had to convert all non-tariff barriers into bound tariffs. The problem is that developed and developing countries often choose to bind their tariffs at rates higher than the actual tariff equivalents. This "dirty" tariffication provides little, if any, reduction in protection – it only makes protection more transparent (Hoekman and Anderson, 1999).

Final bindings for the EU for 2000 are almost two thirds higher than the actual tariff equivalents for 1989–1993 (Anderson, Hoekman and Strutt, 1999) and for the United States more than three quarters higher (Ingco, 1995). Binding tariffs at such a high level allows countries to set the actual tariff below that level, and to vary it so as to stabilize the domestic market in much the same way the EU has done with its system of variable levies, even after 1995 (Tangermann, 1999). This implies little, if any, actual benefit from replacing non-tariff barriers with tariffs. It also implies little, if any, reduction in the price fluctuations in international food markets, which tariffication was expected to deliver.[12]

Until all countries' internal prices are relinked to world markets, world prices will continue to be much more volatile than is desirable. With the decoupling in United States and EU agricultural price supports, neither is accumulating much in the way of public stocks of commodities, which previously stabilized world markets.

The Uruguay Round Agreement provided for the first time, a minimum of market access – another seemingly important objective. All countries are obliged to ensure that imports make up at least 5 per cent of a good's consumption by the end of the transition period. Minimum access is being provided under "tariff quotas", considerably undermined, however, by State trading agencies with monopoly power and exclusive rights (Ingco and Ng, 1998).

The Agreement on Agriculture recognized that "the long-term objective of substantial progressive reductions in support and protection resulting in fundamental reform is an *ongoing process*" (emphasis added). And it committed the signatories to reopen this issue by the end of 1999, in order to carry forward the liberalization embarked upon the Uruguay Round (Croome, 1998).

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[11] The "blue box" comprises US and EU direct payments to farmers who restrict their output, or at least some inputs. These were granted exemption from challenge under the Blair House agreement to the Uruguay Round talks. In the next round, the "blue box" should be eliminated.

[12] The reason is that the more stable domestic prices are kept, the more domestic instability is exported onto the world market.

The Agreement on the Application of Sanitary and Phytosanitary (SPS) Measures, linked with the Agreement on Agriculture, recognizes the right of Governments to take measures to ensure food safety and to protect animal and plant health. It requires that such measures be applied only to the extent necessary to meet these ends, and that they be based and maintained on scientific principles and evidence. But, first, the SPS measures were not developed as part of the WTO process, and left out the developing countries. Second, the measures are input-based (e.g. one must have stainless steel up to a height of 2 metres on all walls) rather than based on the quality of the end product (e.g. level of *E. coli* bacteria must be less than some limit). Third, in some cases, environmental concerns are used to serve protectionist ends. Fourth, even when the scientific basis of the restriction is sound, many developing countries have difficulties knowing what the applicable standards to their exports are, and how to meet them. This causes problems for many countries, such as Burkina Faso for meats, Kenya for fresh fruits and vegetables, and Papua New Guinea for canned tuna, respectively (Croome, 1998).[13] And, finally, the cost of meeting legitimate SPS standards is large: Finger and Shuler (1999) estimated that meeting SPS requirements plus custom and intellectual property reform would cost a country some $150 million, which is more than the development budget of many LDCs.

Developing countries need help in this area. There is an important role here for UNCTAD, FAO, the World Bank and others (Krueger, 1999) to provide both technical and financial assistance for upgrading facilities to meet the requirements.[14]

The Uruguay Round introduced important differences in the obligations of developed and developing countries in agriculture, with special exemptions for the 48 LDCs. The exemptions allow LDCs to have bindings for tariffs rather than tariff equivalents; lower rates of reductions in tariffs and domestic support; and delayed tariffication for rice. In addition, they can use investment and input subsidies for low-income producers, subsidize low-income consumers, subsidize marketing and transport, and prohibit exports, unless they are net exporters. The LDCs are also exempt from commitments to reduce tariffs. Thus, contrary to popular assertions, the exemptions imply that there are almost no binding constraints in WTO rules on the ability of the LDCs to intervene in their agricultural trade, or to subsidize, and otherwise promote, their agricultural sectors.

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[13] At a workshop in San José, Costa Rica, 26–27 August 1999, which the World Bank helped to organize, it was noted that most developing countries are working towards developing their own food safety strategies, particularly in response to opportunities and challenges presented by the SPS Agreement. However, there is still a lack of priority-setting in the sector with regard to investments, for example in export versus domestic products, or niche market products versus staples. Most countries still have poor institutional arrangements for addressing agricultural health and food safety – with too many agencies and not enough coordination among them – and poor enforcement of existing regulations. In addition, most systems are still heavily biased towards the public sector.

[14] As one specific action, the World Bank will continue to assist with the organization of regional workshops to discuss these issues as well as with consultations during the negotiations.

IV. WHAT SHOULD THE AGRICULTURAL AGENDA BE FOR THE FORTHCOMING WTO NEGOTIATIONS?

The Uruguay Round has been very important in putting agricultural trade on the agenda and starting the liberalization process. But a large unfinished agenda remains. For example, even if the Uruguay Round is fully implemented, and China and Taiwan Province of China join the WTO by 2005, the agriculture and food processing sector will still have twice the average tariffs of the textiles and clothing sector – and nearly four times those for other manufactures (Anderson, Erwidodo and Ingco, 1999). That makes it all the more important to adopt a bolder agenda for the next round, from which developing countries have much to gain.[15] One problem is that they have different perceived interests, and that could make it difficult to agree on a common agenda. In Latin America, for example, Chile, Argentina, Brazil and Uruguay belong to the Cairns Group, which favours deeper trade liberalization and strongly opposes export subsidies. Meanwhile, the English-speaking Caribbean countries are still pressing for trade preferences and are rather uncommitted to a more open trade regime for their economies.[16]

Although not homogenous, the developing countries have a common interest in strengthening the system, given their limited bargaining power compared to the United States, the EU, or Japan. It is in their interest to define the agenda, and to participate in the new round's substantive negotiations (Valdes, 1998; Tangermann and Josling, 1999).

Reform of domestic and trade policies in agriculture is the single most important agenda item for developing countries in the forthcoming trade negotiations.[17] However, negotiating agricultural trade demands trained policy analysts and negotiators. Given the limited capacity in developing countries, it is difficult for them to face these challenges and to take advantage of opportunities. An important role for international agencies is to assist the developing countries in building the appropriate local capacities for negotiation. The new round of negotiations must seek to:

- *Outlaw farm export subsidies*. Nothing less than a ban on farm export subsidies is needed to bring agriculture into line with non-farm products under the GATT. Credit subsidies need to be quantified and included in the export subsidies.

- *Reduce domestic producer subsidies further*. This will involve binding aggregate support levels as well as support for individual commodities, outlawing carryovers of "savings" from year to year, and cutting high peaks.

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[15] Dynamic gains tend to be even larger than the calculated static gains.

[16] The World Bank, in collaboration with FAO, WTO and various regional organizations, has been assisting developing countries by organizing seminars, such as a workshop in Chile, 23–26 November 1998, and in Geneva, 19–20 September 1999. The key objectives were to stimulate wide ranging discussions on agricultural trade issues in the context of the forthcoming WTO negotiations.

[17] For detailed discussions of the agricultural trade agenda from the viewpoint of developing countries see Tangerman and Josling (1999) and Anderson, Erwidodo and Ingco (1999).

- *Increase access under tariff quotas* significantly from the current 5 per cent of consumption.

- *Get the level and dispersion of bound tariffs on agricultural imports of high-income countries down substantially*, for example, to the applied average tariff rates for manufactured goods. As in domestic support, the high "peaks" should be cut more than proportionately. This is important, since the process of tariffication under the Uruguay Round may have actually increased the dispersion of tariff levels.[18]

A reduction in the dispersion of tariffs would benefit agro-processing industries in developing countries now hindered by "tariff escalation" in industrial countries. Raw materials face low tariffs, but the rates increase with processing. This provides high rates of effective protection to value-adding industries in importing countries and hinders exporting countries from generating more employment, value-added, and export revenue through processing their raw materials prior to exporting them. Developing countries may not have a comparative advantage processing all their raw materials, but tariff escalation by industrial countries clearly hinders development in this high-potential area, and gives processing firms in rich countries an unfair advantage.

Although OECD countries themselves would benefit greatly from reducing or abolishing their high agricultural protection, they may not be willing to do so without some reciprocal changes in developing countries – for instance, in liberalized investment and competition policies. Thus, to allow for "give-and-take" in the next round – and to liberalize the access of processed and unprocessed agricultural commodities from developing economies to industrial economies – the negotiations may need to include new trade issues of interest to the rich countries. This is why developing countries, in terms of their negotiating strategy, should agree to include such other agenda items as services, intellectual property rights, and manufactured products.

One question for developing countries is whether to push for the preservation or expansion of preferential treatment by individual industrial countries (or country blocs), or to concentrate on obtaining tariff reductions from industrial countries that are applicable to all economies.

Under the Generalized System of Preferences, agricultural products have not been important elements. Temperate zone agricultural products have been largely excluded from preferential treatment or have received it only within tight quotas, and for unprocessed tropical products (except sugar), the generally applicable developed country tariffs are zero, or relatively low, anyway (Tangermann and Josling, 1999). But the developing countries should, if they can,

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[18] This is because the Uruguay Round provided for a simple unweighted average reduction of 36 per cent, with a minimum cut of 15 per cent for each tariff. Thus, many countries cut tariffs on important commodities by the minimum and made bigger percentage cuts on items of less domestic sensitivity.

keep what they have already got – for example, by having these preferences "bound" in the Millennium Round.

Preferences under the Lomé Convention for the African, Caribbean and Pacific group of countries have also been unimportant in the aggregate. They may have been significant for individual countries – and for such commodities as sugar, bananas and beef – but the transfer aid in this form has been very inefficient. For example, for bananas alone, it costs consumers in the EU about $2 billion a year, while only $150 million reaches its target (Borrell, 1999). One reason for the inefficiency is that, when the quota is fully utilized, a quota rent accrues, and so far the EU has given this rent to EU firms, thus limiting the potential benefit to ACP countries. Also, there are many uncertainties about the future benefits under the Convention.[19]

For sugar, the EU and the United States grant quota-restricted access to their highly protected markets. Producers in those countries as well as some exporting countries gain, while consumers in industrial countries and efficient producers lose. The overall losses of the highly distorted sugar policies amount to an estimated $6.3 billion annually (Borrell and Pearce, 1999). The small net transfer in aid via the quotas should not be used as an excuse against liberalizing the sugar markets during the Millennium Round.

If the new round can reduce agricultural tariffs by 40 per cent or more across the board, preferences would become less important and would cease to be relevant once trade is liberalized. This is why developing countries should not rely on negotiations for special preferences, but should, instead, use their limited negotiating resources and limited leverage to focus on reducing most-favoured nation tariffs (applicable to all countries) and removing industrial country export subsidies.

V. WHAT IS THE UNFINISHED AGENDA FOR AGRICULTURAL REFORM IN THE DEVELOPING COUNTRIES?

Developing countries have to continue to remove domestic policy distortions across the board to reap the enormous benefits of reform. This will counter the anti-agricultural and anti-rural bias in the trade regime. It will also open trade among developing countries, a good potential source of demand for their agricultural sectors. Distortions in need of reform have often included high protection of manufactured goods and services, overvalued exchange rates, and direct taxation of agriculture (Schiff and Valdes, 1992 – dated, but still relevant). Removing them would improve the allocation of resources and increase investment and profitability in agriculture. And removing them in all goods markets could bring gains to developing economies of $26 billion a year (table 1).

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[19] It has been ruled that the Lomé Convention is not in accordance with WTO rules. A waiver was granted, but it needs to be renewed annually, thus putting pressure on the EU to bring the Agreement or its successor into conformity with WTO rules. A WTO dispute settlement panel also ruled that quantitative restrictions by the EU for bananas were violating the rules.

Some other desirable policy moves are listed below:

- Entry and arbitrage barriers, if significant, should be brought down to move toward regulatory regimes more supportive of growth and development;

- State trading entities should lose the exclusive right to import and export and to control domestic supply and distribution of agricultural commodities;

- Governments can be more proactive in promoting export diversification away from a limited set of unprocessed primary commodities. They could fund part of the cost of searching for new markets, because the private sector will underinvest in this, given the "public-good" nature of this activity and the associated "free-rider" situation;

- Opening trade would increase the number of processing technologies, and expand the productivity and value added of agricultural products beyond the bounds of traditional agriculture. But success in this depends on good management to ensure time-coordinated sales contracts, temporary storages and quality controls in all phases of the product cycle.

The new round of trade negotiations might cover trade-impeding measures of domestic regulatory regimes, including subsidies, State trading, export controls, competition law, procurement practices, and setting and enforcing product standards. But even if it does not, unilateral, domestic regulatory reform in agriculture would pay off in many countries.[20]

VI. ASSISTING DEVELOPING COUNTRIES IN AGRICULTURAL TRADE

As UNCTAD seeks to define its role and decide upon the functions in which it should take the lead, it could perhaps operate as the OECD does for its members, but serving developing country interests, by:

- Providing a discussion forum for them on trade and related issues;
- Maintaining trade-related databases and providing information;
- Undertaking high-quality analyses;
- Providing technical assistance in norms and standards and in dispute settlement;
- Advocating better market access in industrial countries;
- Helping to build coalitions and achieve common developing country positions in multilateral trade negotiations.

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[20] In addition to reforms, and for broad-based development to take place, there is, of course, also a need for improved financial intermediation and infrastructure investments in transportation, storage facilities and communications networks.

It seems sensible for UNCTAD to define its functions and its work programme in partnership with WTO, FAO, the IMF and the World Bank. These organizations and other possible partners should agree, if they have not already done so, on who takes the lead, for what, and on how to coordinate their efforts most efficiently.

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