Agricultural Trade Reforms in the Doha Round: A Developing Country Perspective

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Abstract: This paper examines the reform outcome of the Uruguay Round relating to trade in agriculture, the nature of the unfinished reform agenda and policy choices for the Doha Round, with special emphasis on the position of developing in trade negotiations. A key policy inference is that, to be effective, agricultural trade liberalisation should involve simultaneous reforms of the trade regime and domestic production support mechanisms. Concerted international initiatives to provide financial and institutional support for economic adjustment and social safety programs can play an important role in making such comprehensive reforms politically palatable and feasible. While overloading the WTO with matters that fall beyond its purview may be counterproductive, there is certainly a case for a coordinated effort involving the WTO and international development finance institutions. Developing countries should eschew excessive reliance on 'special and differential treatments' and instead strive to make use of multilateral liberalisation commitments to lock in much-needed structural reforms in domestic agriculture.

Key words: Doha Round, World Trade Organisation, trade policy reforms

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1. Introduction

The implementation of the built-in reform agenda of the Uruguay Round Agreement on Agriculture (URAA) is a major challenge for the Doha Round of trade negotiation launched in November 2001. Given emphasis placed by developing-country members of the WTO on agricultural trade liberalisation as the single most important global trade policy issue, progress on agricultural negotiations is central to the successful completion of the Doha Round as a whole. Agricultural negotiations in the Round started with some high hopes, but a range of disagreements soon began to hamper the negotiations, resulting in a failure to meet the April 2003 deadline for deciding the 'modalities' (a work program) for further negotiation. Completing this overdue task was a priority item on the agenda of the WTO Ministerial Meeting held in Cancun in September 2003. However, Cancun trade negotiations collapsed in acrimony because of irreconcilable differences between the EU and the USA (who presented a joint proposal for limited cuts in agricultural subsidies), and the developing countries led by the 'Group of 20' (G-20)[1] (who emphasised 'special and differential treatments' while eschewing commitment to reciprocal liberalisation).

The Doha Round negotiations remain in suspension since the Cancun debacle. However, chances for resuming trade talks in the near future seem high, although concluding the round by the original deadline of 31 December 2004 is a virtual impossibility. In the joint ministerial declaration issued at the conclusion of the APEC summit in Bangkok in the last week October 2003, the US and other Pacific Rim countries expressed willingness to re-launch the Doha Round on the basis of the chairman's text of the Cancun Ministerial Meeting

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[1] A coalition of developing countries (originally comprising 22 members) formed in the lead-up to the Cancun summit to form a common front against the US-EU position on farm subsidies. At the time of writing (May 2004) it comprised 17 countries: Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, El Salvador, India, Mexico, Nigeria, Pakistan, Paraguay, the Philippines, South Africa, Thailand and Venezuela.

('Derbez text'). This also seems to be the position of the non-APEC member countries of the G20. At the annual OECD Ministerial Meeting held in mid-May 2004, the Ministers (informally) agreed upon a timetable for finalising a framework agreement by the end of July, with the aim of meeting the 1 January 2005 deadline for completing negotiations (in all areas, not jut agriculture) (Cahill 2004). The EU have opted to remain in a 'reflective mode' until all other parties make a firm commitment, but would welcome an early resumption of trade talks (Lamy, 2003, p 6). The recent WTO interim ruling (of 26 April 2004) on the 'cotton case' (Economist, 2004)[2], coupled with the expiry of the 'peace clause' on agricultural subsidies[3] in the URAA at the end of 2003 are likely to exert pressure on the USA and EU to negotiate seriously on agricultural trade.

In this context, this paper aims to broaden our understanding of the process of agricultural trade liberalisation initiated in the Uruguay round, achievements to date, and issues involved in the implantation of the Doha Development Round (DDR) reform agenda, with a focus on developing countries. The structure of the paper is as follows: Section 2 provides a stage-setting discussion on the role of agriculture in the national economy and agricultural trade patterns in developing countries. Section 3 describes Uruguay Round reform commitments, followed by an assessment of the reform outcome in Section 4. Section 5 examines policy options for the Doha Round. The key inferences are summarised in the final section.

2. Agriculture in Developing Countries

The economies of the developing countries have changed significantly over the past half a century, reflecting a significant overall decline in the relative importance of the agricultural sector. However, agriculture still accounts for a quarter of GDP in low-income countries. Over three-fourths of the population find livelihood in rural areas, mostly dependent on agriculture (Table 1).

Tables 1 and 2 about here

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2 The case filed by Brazil against subsidies provided by the US government to domestic cotton farmers. These subsidies were a major pint of contention which partly contributed to the collapse of agricultural talks in Cancun (Economists, 2003).

3 Article 13 of the URAA, also known as the 'peace clause', restrains Members from challenging certain agricultural subsidies during the nine-year implementation period

Patterns of world trade in agricultural products largely mirror changes on the output side. The share of agricultural products in total merchandise exports from all country groups has declined significantly over the years (Table 2). The decline measured in terms of gross export earnings, however, overstates the diminishing importance of agricultural imports as most of the manufactured exports from these countries (low income countries in particular) are based on simple domestic processing of imported inputs (garments, in particular). In terms of net foreign exchange earnings, agriculture is much more important than is indicated by gross export earnings.

Commodity composition of agricultural exports from developing countries has been evolving, with significant implications for their interests in international trade negotiations. In particular, there are two important developments. First, the share of agricultural raw materials (the so-called tropical products) in total agricultural exports has declined precipitously, accompanied by a rapid increase in the share of food products (temperate-zone products). Tariffs on agricultural raw materials have been historically low in developed countries (as they are inputs to domestic industries) and the on-going debate on market access for developing country exports relates mostly to tariffs on food products.

Second, within total food exports, the share of processed food has increased dramatically over the past decade (Table 2, Panel b; and Table 3). Powerful forces on both demand and supply sides have underpinned this far-reaching change in world agricultural trade (Athukorala and Jayasuriya 2003). On the demand side, `internationalisation of food habits' - the increased importance of imported processed items in consumption patterns in developed countries as well as in large sections of the populace in many developing countries - appears to play a key role. Factors such as international migration, the communications revolution and international tourism have contributed to this phenomenon. This significant demand-side impetus seems to have been supported by important supply-side developments such as improvements in food technology, refrigeration facilities and transportation that have made processed food items easily tradable across national boundaries.

Table 3 about here

The new export opportunities in processed food deserve special attention in the policy debate on global integration of agricultural resource-rich countries for a number of reasons. First, there is evidence that the degree of income and price elasticity of demand for processed food is very high. This implies that export diversification into this commodity category will bring in significant gains in the terms of trade. Second, unlike in the case of further processing of resources such as minerals and timber, final stages of food processing appear to be labor-intensive. Third, in terms of potential net balance of payments implications, processed food would be even superior to 'conventional' manufactured goods because of lower import intensity. Finally, the expansion of these exports is a powerful vehicle for linking the rural economy in a positive way with the on-going process of economic globalization Athukorala and Sen 1998).

However, exploiting new export opportunities in processed food poses many challenges. In particular, the capacity of developed country exporters to penetrate these markets depends critically on their ability to meet increasingly more stringent food safety standards imposed in developed countries. Not only are these standards typically much higher than those prevailing in developing countries, and often difficult and costly to meet, but they are also subject to frequent changes. Food safety is a 'luxury' good whose demand rises as income levels rise, and greater prosperity tends to be accompanied by increased demand for more stringent SPS standards in developed countries. Moreover, and perhaps more importantly, as traditional trade barriers such as tariff and quantitative restrictions continue to decline, protectionist interests are likely to make increasing use of food safety regulations and other technical barriers to block trade. Meeting international safety standards is far more complicated and costly in the case of processed food than in primary agricultural products. Thus these standards can retard exports by developing country producers even when they are imposed on genuine health and safety considerations because of the limited availability of compliance resources.

Export growth rates reported in Panel C of Table 2 coveys an important message relating to the relative importance of domestic supply versus external demand factors (access to world markets) in determining export success. In all product categories, low and lower middle income countries have generally recorded lower growth rates compared to middle-income and high-income countries. These patterns suggest that overemphasising the external demand factors can lead to wrong policy inferences. Of course, multilateral trade negotiations offer the possibility of improved growth through trade in products where they have a comparative advantage if trading conditions were less distorted. But, liberalisation alone is unlikely to deliver the expected outcome.

Finally, the geographic profile of agricultural exports from developing countries has changed dramatically over the years (Table 4). Nearly 40% of exports are now to other developing countries, compared to less than 20% twenty years ago. At the same time the share of developed country exports to developing countries also have grown. These figures suggest that multilateral approach to trade liberalisation is to the mutual benefits of both groups of countries.

Table 4 about here

3. Uruguay Round Commitments

Under the General Agreement on Tariff and Trade (GATT), the instrument that governed the international trading system during the first half century of the post-war era, the sole focus of multilateral trade liberalisation was on trade in industrial products. While multilateral trade negotiations in the Dillon, Kennedy and Tokyo rounds resulted in significant changes in the restraints to trade in industrial products, the degree of intervention in the trade in agricultural products in fact *increased* persistently from the late 1950s (Johnson 1991). The signing of the Uruguay Round Accord in 1994 set the stage for ending this long-standing anomaly in the international trading system. The Uruguay Round Agreement on Agriculture (URAA) and the Sanitary and Phytosanitary Agreement (SPSA), together with the Dispute Settlement Mechanism (DSM) of the newly formed World Trade Organization (WTO) laid a firm foundation for ending the long-standing disarray in world agriculture.

(a) Agreement on Agriculture

The URAA contains rules and commitments in three key areas: export subsidies, domestic support and market access. The agreement requires developed countries to reduce the share of exports receiving subsidies by 21 percent and the expenditures on subsidies by 36 percent from the base-period (1988-89) levels over a 6-year period.[4] The required reductions in

[4] In the URAA, export subsidies are defined to include all payments from the national budget that are contingent on export performance. Export credit and export guarantees are not included in the definition.

subsidy levels and subsidy coverage for developing countries from 21 percent and 14 percent respectively, and these reductions are to be undertaken over a 10-year period. The least-developed countries have no obligation to reduce export subsidies, but they are required to freeze them at the base level.

Domestic support commitments in URAA aim to reduce trade-distorting domestic supports and keep them within certain limits, and induce a further shift towards measures that are not, or only minimally, distortive of production and trade. The agreement attempts to make a distinction between what constitutes a trade-distorting support of agriculture from the more general support of agriculture and rural development (the 'green box' measures). Two criteria are used in identifying non-trade distorting (Green Box) support: it must be paid out of the government budget and not levied from consumers; and it must not have the effects of providing a price support for the producer. Consequently, the Green Box lists activities such as agricultural research, extension services, pest and disease control and so on as items that do not count as domestic support. Capital expenditures on irrigation and other production and market infrastructure are also included in Green Box, but not recurrent expenditures or preferential user charges on irrigation facilities. Under the 'peace clause' on agricultural subsidies in the URAA, member countries committed not to submit complaints to the WTO on farm support, provided that the subsidies involved did not exceed their 1992 levels. Developing countries are permitted to continue with the latter production support measures or any kind of trade distorting subsidies, provided the beneficiaries are 'low income or resource-poor producers'.

Under the market-access provisions, all WTO members are required to convert all non-tariff barriers (NTBs) affecting agricultural imports into bound tariffs that in the base period (1986-88) provide the same level of protection. Tariffs resulting from this 'tariffication' process are to be reduced over a period of 6 years by and average of 24% by developed countries and over a period of 10 years by an average of 36% by developing countries. For those countries whose tariffs were not previously bound under the GATT, there is no limit on the level of these bindings and no obligation to reduce them during the 10-year phase-in period. The least-developed countries are required only to bind their tariffs; they are exempted from tariff reduction and NTB removal requirements. All developing countries are exempt from the commitment to liberalize trade in any agricultural products which is a predominant staple in their traditional diet.

The URAA tariffication process contains two major loop-holes that enable countries to maintain actual protection at higher levels compared to what it implied by applied (officially declared) tariffs. First, the definition of NTB adopted in the UR Agreement does not cover state trading. The right of WTO members to retain state trading monopolies in export and import trade is recognized in Article XVII of the agreement. The only related provisions are that members should ensure that such enterprises act in line with general commercial principles in a non-discriminatory manner and provide information on their trading mark-ups to trading partners on request. Thus there is room for a member country to subvert the market access commitment by authorizing a state trading enterprise to be the sole importer for goods previously controlled by NTBs.

Second, URAA permitted member countries to use of tariff rate quotas (TRQs) as a means of controlling agricultural trade. TQRs are a special mode of import duty under which a certain volume of imports of a given commodity (the quota) is permitted at a lower tariff, and imports beyond the quota subject to a much higher tariff. In recognition of the possibility that many agricultural producing member countries were likely to set tariffs for some products at prohibitive levels under the tariffication provisions of the AOA, negotiators at the Uruguay Rounds accepted TRQs as a vehicle for imposing minimum market access commitments on agricultural imports. TRQs are obviously less trade distortionary compared to prohibitive tariffs (or general import quotas). But, the market access rules under TQRs generally introduce scope for discriminating in the allocation of TRQs between source countries and domestic importers. In particular, the administration of such quotas tends to legitimise a role for state-owned trading agencies. When such agencies have selling rights on the domestic market in addition to a monopoly on imports of the given products, they can charge excessive mark-ups and thereby distort domestic prices. For these reasons, trade analysts generally consider TRQs a cover element of quantitative management of import trade.

(b) SPS Agreement

The purpose of the Sanitary and Phytosanitary (SPS) Agreement is to strengthen multilateral discipline in the implementation of food-safety standards (SPS standards) in agricultural trade, with a view to achieving the objective of protecting consumers while regulating the use of these standards as a means of non-border trade protection. In order to harmonize sanitary and phytosanitory measures on as wide a basis as possible, the Agreement encourages members to base their measures on international standards, guidelines and recommendations where they exist, most notably the Codex Alimentarius, the International Office of Epizootics (OIE) and the International Plant Protection Convention (IPPC). The Agreement, however, affirms the rights of Members to adopt their own SPS measures (Article 2), subject to the requirement that a measure is applied 'only to the extent necessary' to protect human, animal or plant life or health and is based on scientific principles and evidence.

Members are however allowed to adopt SPS measures 'on the basis of available pertinent information' when 'relevant scientific evidence is insufficient', pending a more objective evaluation based on fuller evidence within a reasonable time (Article 5.7). Moreover, it is expected that Members would accept SPS measures of others as equivalent if the exporting country demonstrates to the importing country that its measures achieve the importing country's desired level of health protection. The Agreement recognises that SPS risks do not correspond to national boundaries, and that there may be areas within a particular country that has lower risks than others, determined by factors such as geography, ecosystems, epidemiological surveillance, and the effectiveness of SPS controls, including pest- or disease-free areas and areas of low pest or disease prevalence.

In order to achieve transparency in SPS standards, Members are required to publish and notify the SPS Secretariat of all proposed and implemented SPS measures. This information is relayed via the 'Notification Authority' within each Member government. Moreover, Members are required to establish an 'Enquiry Point', which is the direct point of contact for any other Member regarding any questions about SPS measures or relevant documents.

4. Uruguay Round Achievements

(a) Market Opening

Under the tariffication commitments of the URAA the WTO member countries have abolished most non-tariff barriers (NTBs) on agricultural imports and declared upper bounds for tariff rates. Consequently, tariffs are now the principal means by which countries protect their domestic agriculture (and industry). This is certainly a revolutionary change in the world trading system.

However, the actual trade flow effect of the transition from NTBs to tariff is not very substantial for the following reasons. First, benefiting from the rather liberal norms for tariffication in URAA, most developing countries have opted for setting high bound tariffs. The fixing of high bound rates by these countries appears to have been motivated by the desire to leave plenty of space for themselves for future maneuvering and bargaining in the tariff negotiation process. The intended purpose of tariff binding was to set a 'benchmark against which future liberalisation can be undertaken'. However, the bindings eventually agreed upon have turned out to be still extremely high, even higher than the actual levels of protection existed at the time of signing the agreement. Second, in most cases the removal of NTBs was combined with, or followed by, increasing applied tariff rates, generally closer to the high bound rates. Third, government mandated import monopolies or State Trading Enterprises (STEs) still control significant share of imports (mostly essential food items) in a considerable number of developing countries.[5] Fourth, many countries (including the EU and the USA) use tariff quotas (TRQs) to protect domestic producers. Under TRQs, small quantities of imports of these products are permitted under moderate tariffs, while applying high tariffs. The market access rules under TQRs generally introduce scope for discriminating in the allocation of TRQs between source countries and domestic importers. In particular, the administration of such quotas tends to legitimize a role for state-owned trading agencies.

The latest available data on applied tariff, bound tariffs, and NTB coverage are summarised in Table 5. A number of interesting points emerge from the data. First, for both

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[5] The agricultural products which remain under trading monopoly of state-owned trading enterprises account for about 40.5% of agricultural GDP in India

agricultural and manufactured goods, the average level of applied tariff in developing countries is more than three times higher compared developed countries. Second, a comparison of tariff rates across the developing countries grouped by income level points to a clear negative relationship between the stage of development and the level of tariff protection. Tariff rates on both agricultural and manufactured goods are much higher, for example, in low-income countries compared to their high-income counterparts. Third, bound tariffs on both manufactured goods and agricultural products are extremely high in developing countries, particularly in low-income countries. It is important to note that the average rates hide exorbitantly high rates (in the range of 100-300%) in some developing countries such as India, Pakistan and Bangladesh (Athukorala 2001). Third, despite URAA tariffication, NTBs still seem to exert considerable influence on agricultural trade, both in developed and developing countries. Interestingly, NTB coverage of agricultural imports is considerably *higher* in developed countries. This reflects the widespread tendency for some developed countries (in particular the EU, the USA and Japan) to use TRQs to protect domestic agricultural producers.

Table 5 about here

(b) Export Subsidies and Domestic Supports

In the areas of export subsidy and domestic support reforms, what was achieved in the Uruguay Round amounted to little more than a standstill. Developed countries currently spend over $300 billions a year supporting their farmers, which amount to 1.3% of the combined GDP of OECD member countries or more than six times the amount these countries spent on foreign aid. As a result of these subsidies, prices received by OECD farmers are on average 31% above world prices measured at the border (Ingco and Nash 2004).

Developing countries naturally cannot afford to subsidise their farmers, and thus across-the-board direct export subsidies, which are WTO inconsistent, are not widely used in these countries. However, a large variety of indirect export subsidies, transport and marketing subsidies, are used. For instance, in India total subsidies on fertilizer, irrigation, electricity and agricultural credit amounts to 2.7% of total GDP or 11% of agricultural GDP. Pakistan has a long-standing system of subsidies on farm inputs- fertilizer, seeds, tube-wells, canal water, electricity and fuel, pesticides, and farm credit. These subsidies amounted to over 3% of the value of agricultural output by the mid-1990s (Athukorala 2001). These subsidies are generally WTO consistent, but they form an integral part of the distortionary economic environment which thwart long-term growth prospects of the agricultural sector in these countries.

(c) The WTO Mechanism for Addressing SPS Issues

The achievements of the WTO mechanism in enforcing effective discipline over the use of SPS measures have certainly lagged behind original expectations (Athukorala and Jayasuriya 2003). Several problems have emerged during the implementation of the Agreement. The Agreement allows too much latitude to importing countries in adopting SPS measures, allowing them to impose measures that impede imports, no matter how unlikely or how inconsequential the risk involved. Further, many of the provisions in the SPS Agreement pose problems in their interpretation and application. For instance, the requirement that Members may adopt more stringent measures if they can base them on 'sound science' is a vague provision which assumes that there exist a *single objective* and *a correct view* of any scientific issue. These problems have raised serious doubts about the efficacy of the whole dispute settlement mechanism in solving SPS-related trade disputes. It is believed that this uncertainty has prevented many countries from further pursuing SPS issues beyond the point of discussion at the SPS committee stage.

The developing countries have so far failed to participate in the implementation of the SPS Agreement as equal partners (Finger and Schuler 2002, Michalopoulos 2001). As of end December 2002, less than 60% of the total developing country membership (113 countries) of the WTO has formally complied with the SPS Agreement.[6] Altogether 154 specific trade concerns were raised during the eight years from 1995 to the end of 2002 at the meeting of the WTO Committee on SPS Measures. Compared to 110 concerns raised by OECD-country members, developing-country and least-developed-country members raised only 77 and 2 concerns respectively. The participation of the latter countries in the SPS dispute settlement process has been even poorer. Up to the end of 2002, there were nineteen disputes brought to the WTO Dispute Settlement Body (DSB) concerning alleged violation of the SPS Agreement. Developing country members invoked dispute settlement only in three of these cases (Athukorala and Jayasuriya 2003).

Poor participation of developing countries in the implementation of the SPS Agreement is due to several reasons. To benefit from the trade rules of the SPS Agreement, developing countries have to set up an appropriate set of institutions, including establishment of ‘enquiry points’ to gain enhanced access to developed country markets. This is excessively costly for many developing countries. World Bank project experience over the past five years in helping a number of developing countries to build their capabilities in this area suggests that the financial resources needed to implement the WTO rules would amount to ‘an entire year’s development budget’ for most of the developing and transitory economies’ (Finger and Schuler, 2000, p. 511). The Dispute Settlement Mechanism (DSM) of the WTO is widely regarded as one of the positive outcomes of the Uruguay Rounds, making a move towards a more ‘automatic’ and ‘rule-oriented’ system. However, the experience with the dispute settlement process over the past five years makes it clear that developing countries do not enjoy a ‘neutral’ playing field, and that they are unable to participate effectively in the WTO dispute settlement process. Even a developing country makes the large initial institutional investments needed to comply with the Agreement, it usually lacks the technical, scientific and legal resources needed to mount or defend a case in the dispute process. For example, most developing countries do not have the specialist knowledge in international law required to benefit from the DSM, and employing international lawyers is an extremely costly proposition.

Further, though the SPS Agreement itself tries to facilitate effective participation of the developing countries in it implementation by encouraging developed-country members to provide technical assistance and accord special and differential treatment to developing countries (Articles 9 and 8) developed countries have failed so far to take any serious steps to assist developing countries in this way. International organisations, such as the UNCTAD, the ITC and the World Bank have to begin to provide this kind of technical assistance. But, these initiatives are still in their early stages and the technical and financial support provided so far falls below what is required. In addition, a major problem is the paucity of much relevant information. There are also concerns about the length of time given between the notification of new SPS measures and their application, and about delays and perceived developed-country bias involved in the standards setting mechanism under the Codex.

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[6] 29 of the 113 developing country members had not reported to the WTO the information on national

There is indeed evidence that the incidence of non-tariff impediments to international trade in agricultural products (processed food in particular) stemming from SPS regulations has begun to increase in recent year. Most of the SPS-related trade disputes handled by the DSM of the WTO have involved developed countries, but this mostly reflects the lack of institutional/financial strength for developing countries to enter into costly legal battle. There are many known episodes of trade disruption cased by SPS concerns of importing countries, involving significant export losses for developing countries. Moreover, there is case study based evidence that suggest that may potential exporters shun entering into export markets because of the potential threat of SPS–based trade restrictions.

As tariff barriers and other conventional forms of NTBs are progressively dismantled as part of the on-going multilateral and unilateral trade liberalisation initiatives, the temptation to use SPS standards (and other non-border measures) as protectionist barriers becomes greater. Given that SPS standards are less transparent than tariff or quotas, there is ample room for tweaking them to make them stronger than necessary for achieving optimal levels of social protection and to twist the related testing and certification (conformity assessment) procedures to make competing imports less competitive.[7] Even when comparable SPS measures are applied in developed countries to both domestic and imported products, they can act to impede imports from developing countries because of asymmetry in compliance cost.

notification authorities and 22 developing country members had not yet established SPS enquiry points.

[7] For example a 1998 EC regulation that raised the maximum permissible level of a certain type of aflatoxin (a toxic substance) in foodstuffs and animal feed to a higher level than international standards specified by the Codex Alimentarius. The new EU standards, which would reduce health risk by approximately 1.4 death per billion a year, would reduce exports worth $670 billion from the 9 African countries, as compared with regulation based on the international (Codex) standard. Another EU regulation requires that diary products be manufactured from milk produced by cows kept on farms and milked mechanically. The EU recently invoked this regulation to ban import of camel cheese from Mauritania, bringing hardship to a small enterprise. An Australian quarantine regulation requires that chicken meat imported from Thailand must be heated at 70 Celsius for 143 minutes to avoid the possibility of carrying a certain disease. This has effectively closed the Australian market for Thai chicken exporter (It is said that the required heat treatment transforms chicken into paper!) (See Athukorala and Jayasuriya 2003 and the work cited therein).

5. Policy Options for the Doha Round

What should be the appropriate policy choices for developing countries for their effective participation in multilateral trade negotiations in the Doha Round (and beyond)? Can they make the best use of multilateral reform commitments to assist long overdue reforms to revitalize domestic agriculture as part of the overall national development strategy? What are the policy options available to developed countries and international development agencies in order to assist effective participation of developing countries in the reform process?

(a) *Reducing Border Restrictions*

The first reform priority should be to built on the promising start made in the Uruguay Round to reform border protection. Perhaps the most important issue requiring immediate attention in this sphere is revision of bound tariffs. The prevailing high rates cannot serve as useful benchmarks for further tariff reduction. In addition, high tariff bounds can be counterproductive for the following reasons.

A major gain expected from a transition from NTBs to tariff is a reduction in the volatility of world market prices. However, high bound rates naturally leave ample room for significant fluctuations below the bound level. A country with very high bound tariffs can set the operative tariff below the upper bound and vary it so as to influence domestic market prices. Prolonged retention of high bound tariffs can harm the ongoing process of unilateral liberalisation process by strengthening the protectionist lobby. High bound tariffs can become a potential target for the protectionist lobby in the clamor for high protection. A formal international commitment in the form of relatively low bound tariffs is a great help in taming the protectionist lobby. Cutting bound tariffs will also enhance the ability of developing countries to participate systematically in the debate on the world trading system.

Lowering bound rates needs to be accompanied by a program for planned reduction of applied tariffs to the levels of industrial tariffs. There is a strong case for widening the coverage of WTO rules to redress loopholes in WTO market access provisions, in particular those relating to the involvement of state trading enterprises in trade, tariff quotas and domestic production subsidies, as part of the multilateral trade negotiations can play a useful role in facilitating future reforms in India.

Relating to tariff cuts, the USA has long demanded that countries with higher tariffs on agricultural products should cut more. The EU demand has been for all countries to cut their tariff by an equal percentage. Under the agricultural deal agreed upon in August 2003, the USA and EU now seek a mixture of these two approaches. The G-22 proposed in Cancun an 'average' formula for cutting tariff, which requires higher tariff cuts by developed countries. Many trade economists are of the view that adopting the Swiss formula would be a desirable compromise of the EU-USA and G-22 positions on this issue.

The developing country strategy so far of attempting to get developed countries to cut tariff without acceding to significant cuts by themselves has the potential to forgo most of the potential economic benefits of the Doha round. Any tariff cuts tilted in favour of preserving high tariffs in developed countries in the guise of providing 'special and differential treatment' is in reality an attempt to help perpetuate inefficient production in these countries. Moreover, an increasing share of agricultural exports (mostly processed food) from developing countries now goes to other developing countries. This share is likely to increase rapidly in years to come, given rapid economic transformation in the East Asian Newly Industrialized countries (NIEs) and rapid catching-up growth in China.

(b) Going Beyond the Border

Developing countries are right to ask for dismantling of export and production related subsidies in developed countries. Continuing high agricultural subsidies in developed countries, in addition to their global economic welfare losses, undermine protagonists of reforms in developing countries.[8] But, the fact that rich countries subsidize their agricultural exports is not a valid economic argument for developing countries to adopt similar distortionary policies. Adding another distortion to an existing distortion will not improve the situation, particularly in world markets where these countries individually do not have market power.

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[8] For example, since early 2001 India has been subsidizing exports of excess stocks of wheat and rice by the related STEs, in violation of the market access provisions of the Agreement on Agriculture. This move was prompted as a direct reaction to the new export subsidies introduced by the US government under the Farm Bill.

In its approach to restoring orderly conditions in world trade, the URAA has gone beyond the border measures that are traditionally the targets of the GATT discipline and focuses on distortionary effects of domestic support and export subsidy measures. However, developing countries have been either largely exempted from these reform commitments or provided with ample loopholes for evading implementation of required reforms. It is important that these exceptions are lifted and loopholes are closed so that developing countries participate as equal partners in the world trading system. A firm multilateral commitment under the WTO would greatly help developing countries to undertake much needed, yet politically hard and socially painful, domestic agricultural reforms. It is unrealistic to assume that reforms in the import trade regime will automatically trigger reforms in other areas. On the contrary, countries always have the option of combining reduction of border protection under WTO commitments with greater reliance on non-frontier policies (such as production subsidies) in order to maintain the level of protection virtually unchanged unless there are binding multilateral commitments that constraint such behaviour.

(c) Domestic Adjustment Assistance for Broadening Reforms

Agricultural reforms along the lines suggested above, notwithstanding their significant potential long run benefits, can cause politically and socially unpalatable socio-economic disturbances in the short run. A good many people might suffer, or may fear they might suffer, during the cause of the adjustment process. In large countries like India and Brazil there is also the further problem that adjustment pains are likely to be unequally distributed among various regions and states. It is important to deal with these transitional problems as part of a rapid planned move toward redressing deep-rooted disarray in domestic agriculture. However, most developing countries do not have the resources (and perhaps also institutional capacity) to finance such programs.

In this context, the provision of financial support for implementing social safety net programs and other initiatives to cushion vulnerable groups against the adjustment pressure can play an important role in making these reforms politically palatable and feasible. While overloading the WTO with matters that fall beyond its purview may be counterproductive, there is certainly a case for a coordinated approach involving the WTO, international aid agencies such as the World Bank, IMF, regional development banks, and individual donor countries. It is important to note that as part of the economic transition thorough global integration in the post-war era, most developed countries have already put in place institutions and policies to handle the downside of openness to trade. There is therefore a strong case for a well-coordinated international initiative to assist developing countries in putting in place similar institutions and policies, if we expect them to become equal partners in the process of removing the remaining impediments to global economic integration (Bhagwati 2004a, Chapter 15).

At the Cancun summit, the IMF and the World Bank announced special trade assistance programs for making needed resources available (in addition to existing country lending levels) for developing countries to face challenging domestic economic adjustment to the impact of any Doha Round liberalisation undertaking. These proposals are certainly steps in the right direction, but there will have to be some tangible progress in their implementation to entice a firm reform commitment from developing countries. This is an area where individual donor countries also can play an important role in facilitating further trade reforms.

(d) Institutional Support to improving capacity to meet SPS standards

The SPS Agreement is of particular significant for agricultural-resource rich developing countries given the emergence of processed food as a dynamic export line. Reformulating the agreement with a view to redressing the trade-impeding impact of the Agreement and to address obstacles faced by developing countries in the implementation of the agreement deserve close attention in future multilateral trade talks.

Apart from these obstacles that constrain effective participation in the dispute settlement process, developing countries have expressed concerns about the manner in which the SPS Agreement currently operates. In particular, they are concerned that in setting sanitary and phytosanitary standards developed countries do not take adequate account of the circumstances of developing countries. It is also alleged that in many cases the time given between the notification of new SPS measures and their application is too short for developing countries to respond in an effective and appropriate manner.

A key constraint in this respect is the low level of technical and scientific know-how in developing countries. Unlike conventional trade policy reforms, SPS regulations cannot be implemented simply through legislative declaration. There is a need for a global framework to support national capacity building and improve the design of international standards. Quite apart from helping countries when they confront a dispute, there seems to be a great need for international initiative to educate developing country exporters and policy makers about the new legislation and on how to comply with internationally adopted food standards. This is certainly and area an area where there is ample room for fruitful ‘aid for trade’ initiatives by the international development community.

(e) Achieving a Balance between SDTs and Multilateralism

Developing countries have been increasingly defensive in trade negotiations under the Doha Round. They have begun to place increased emphasis on minimizing their commitment to reforms by asking for ‘special and differential treatment’ (SDTs) for commitments in all three areas on market access, export subsidy and domestic support. This defensive mentality played a key role in the making of the Cancun stalemate.

Given their relatively disadvantageous initial position in global integration, it is nothing but fair for developing countries to ask for relatively longer period for implementing reform commitments. Moreover, as we have already argued, there is also a strong case for canvassing international support for adjustment assistance for implementing liberalisation reforms. But the quest for wholesale extension of SDTs to cover the key reform commitments is not a good idea for two reasons.

First, reciprocity is the lifeblood of multilateral trade negotiations. Except when it comes to outright development aid (which in any case are also driven by economic and geo-political motives), no country is prepared to give for nothing in their dealings with other countries. The domestic protectionist lobby in developed countries and the politicians who represent it insist that ‘there be a level paying field’ before they agree to abandon their insistence on trade protection and production subsidies (Bhagwati 2004b). Second, the long-term solution to developing country trade and development problems lies in the correction of distortions at their root source, rather than to covering-up issues though SDT. For these reasons, trying to avoid confronting difficult reform commitments by hiding behind SDTs would prove to be a self-defeating strategy.

(f) FTAs: An Alternative to Multilateral Liberalisation?

Recent years have witnessed a proliferation of regional/bilateral free trade agreements (FTAs). In particular, the USA has stepped up the drive to conclude free trade deals with an increasing number of developing countries. The USA has already negotiated bilateral trade agreements with Mexico (in the form of NAFTA), Chile and Singapore, and begun bilateral talks with 14 other countries and promises many more. Japan, China and countries in the ASEAN, and a number of countries in Latin America have also developed new enthusiasm in such arrangements.

This newfound enthusiasm in FTAs is often justified by referring to the lackluster outcome to date of multilateral liberalisation efforts under the WTO. However, FTAs are not an effective substitute for (or a stepping stone to) multilateral liberalisation, particularly when it come to agricultural trade, for two main reasons. First, as the experience with the already-negotiated trade agreements has clearly demonstrated, they tend to leave highly sensitive trade issues such as opening agricultural markets as 'too hard' (Garnaut and Vines 2004). A good recent example is the US-Australia FTA which has left out the highly-competitive sugar industry in Australia, because of strong resistance by the US sugar lobby. For the poor small countries in particular, the chances of getting from a bilateral deal with a large trading nation what they failed to get the Doha round are virtually nil. Second, by their very nature, FTAs are not capable of providing a consistent framework of enforceable rules and disciplines on production subsidies. Put simply, 'production subsidies cannot be cut preferentially for favoured nations' (Bhagwati, 2004b). In sum, for agricultural liberalisation, multilateralism (the WTO route) remains the only viable option.

6. Conclusion

The Uruguay Round was successful in laying a solid foundation for redressing the long-standing disarray in world agriculture. However, the implementation of the agricultural reforms agreed upon in the Uruguay round so far has involved only very modest liberalisation in developed countries, and even less in developing countries. World agricultural trade still remained heavily distorted by significant border controls, export subsidies and various domestic production supports.

Speedy reduction of bound and applied tariffs, widening the coverage of WTO rules to redress loopholes in WTO market access provisions, in particular STE involvement in foreign trade and widespread use of tariff quotas should receive high priority in the future reform agenda. It is not in the long-term interest of developing countries to clamor for SDTs other than asking for a longer implementation period when it comes to market opening, export subsidy and domestic support commitments. They should instead canvas strongly for SDTs in the form of domestic adjustment support for dealing liberalisation reforms. A unified approach that focuses simultaneously on all significant trade and production distortions is the only effective way to ending disarray in domestic agriculture in developing countries. Developing countries are right to ask for greater access to developed country market and to cut trade distorting subsidies in these countries. But these demands should be a part of unified approach which blend reciprocity and long-term commitment to domestic market forms.

A firm commitment by developed countries to continue with promised reforms is also very important for creating an enabling environment for reforms in developing democracies where there is a strong anti-globalisation lobby. However, the major constraining factor on furthering reform is the adjustment pain involved in the dismantling of long-standing production subsidies and consumer price support schemes. Provision of international financial support for implementing required social safety net measures can play an important role in making such comprehensive reforms politically palatable and feasible. While overloading the WTO with matters that fall beyond its purview may be counterproductive, there is certainly a case for a coordinated approach involving the WTO and international developing finance institutions, including regional development banks in this sphere to facilitate the integration of developing countries into the world economy.

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Table 1: The Role of Agriculture in Developing Countries by Region and Income Group

	Share of agriculture in GDP (%)			Rural population (% of GDP)		
Region	1980	1990	2001	1980	1990	2001
East Asia and Pacific	27.7	23.8	14.6	78.8	71.6	62.7
Europe and central Asia	---	16.9	10.1	41.5	36.9	37.2
Latin America and the Caribbean	10.3	8.7	7.8	35.0	28.9	24.2
Middle East and North Africa	10.3	14.6	---	51.9	46.6	42.3
South Asia	38.2	30.5	24.9	77.7	75.0	72.2
Sub-Saharan Africa	17.6	18.0	16.1	79.0	74.2	67.7
Income Group						
Low income	33.7	29.1	23.8	76.4	73.0	69.2
Middle income	15.9	13.9	9.8	62.0	55.1	48.4
Lower middle income	23.6	19.9	12.5	68.3	61.4	54.4
Upper middle income	9.5	8.3	7.1	33.8	27.5	22.8
Low and middle income	18.8	16.5	12.2	68.4	63.4	58.5
High income	4.0	2.8	1.9*	26.9	24.7	22.5

Note :
* Data for 2000 --- Data not available
Source: Compiled from World Bank, *World Development Indicators Database.*

Table 2: World Merchandise Exports by Country Groups, 1980/81, 1990/01,1999/01#

(a) Commodity composition (%)	Total agri. products	Agri. raw material	Primary food	Processed food	Other primary products	Manu-factures	Total
Developed countries							
1980/81	16.6	1.8	7.7	7.2	12.4	70.9	100
1990/91	12.9	1.2	5.0	6.7	8.8	78.3	100
2000/01	10.0	0.8	3.4	5.8	9.4	80.6	100
Developing countries							
1980/81	17.0	2.1	8.3	6.5	62.1	21.1	100
1990/91	16.6	1.9	6.9	7.9	28.9	54.4	100
2000/01	10.6	1.1	3.9	5.5	22.1	67.3	100
Low-income							
1980/81	15.1	1.0	10.1	3.8	94.7	10.3	100
1990/91	20.1	1.3	12.7	6.4	55.8	35.1	100
2000/01	13.8	0.7	8.1	5.6	57.5	43.4	100
Middle-income							
1980/81	21.2	2.7	11.3	7.0	78.4	9.5	100
1990/91	23.3	1.8	10.0	11.7	32.5	45.0	100
2000/01	15.1	1.1	5.9	8.4	19.8	63.6	100
High-income							
1980/81	15.8	2.3	6.2	7.5	41.1	30.9	100
1990/91	13.5	2.0	4.5	6.8	22.1	61.8	100
2000/01	8.5	1.2	2.6	4.6	17.2	72.4	100

Continued

Table 2 (Continued)

(b) Share in World Exports (%)	Total agri. products	Agri. raw material	Primary food	Processed food	Other primary products	Manu-factures	Total
Developed countries							
1980/81	68.4	64.6	67.3	73.8	30.7	88.2	68.9
1990/91	72.0	68.1	70.6	73.9	50.2	82.7	76.9
2000/01	68.3	61.0	66.7	70.3	49.4	73.2	69.6
Developing countries							
1980/81	31.6	35.4	32.7	26.2	69.3	11.8	31.1
1990/91	28.0	31.9	29.4	26.1	49.8	17.3	23.1
2000/01	31.7	39.0	33.3	29.7	50.6	26.8	30.4
Low-income							
1980/81	6.1	3.6	8.6	3.7	23.0	1.3	6.8
1990/91	4.5	2.9	7.2	2.8	12.6	1.5	3.0
2000/01	4.4	2.7	7.4	3.2	14.0	1.8	3.2
Middle-income							
1980/81	9.9	11.4	11.2	7.9	21.9	1.3	7.8
1990/91	9.0	6.9	9.8	9.0	12.9	3.3	5.3
2000/01	10.3	8.3	11.4	10.3	10.4	5.8	6.9
High-income							
1980/81	15.6	20.3	12.9	14.7	24.4	9.2	16.5
1990/91	14.5	22.0	12.4	14.4	24.3	12.5	14.8
2000/01	17.0	28.0	14.5	16.2	26.2	19.2	20.3
(C) Export growth (%)#							
Developed countries							
1980-90	2.1	1.5	1.1	3.0	1.6	3.8	3.3
1990-01	0.8	0.0	0.3	1.3	2.4	2.2	2.1
1980-01	1.4	0.7	0.7	2.2	2.0	3.0	2.7
Developing countries							
1980-90	1.2	0.7	0.4	2.2	-2.3	6.1	1.3
1990-01	1.7	1.5	1.1	2.2	2.6	5.0	3.9
1980-01	1.5	1.1	0.8	2.2	0.1	5.5	2.6
Low-income							
1980-90	0.3	0.2	0.0	1.5	-3.6	4.9	-1.1
1990-01	1.0	0.1	0.7	2.2	3.0	3.9	2.9
1980-01	0.7	0.2	0.3	1.8	-0.3	4.4	0.9
Middle-income							
1980-90	1.4	-1.2	0.3	3.4	-3.3	8.8	0.9
1990-01	1.7	1.4	1.3	2.3	1.4	5.6	3.9
1980-01	1.6	0.1	0.8	2.8	-0.9	7.2	2.4
High-income							
1980/81	1.5	1.6	0.7	1.8	-0.8	5.7	2.2
1990/01	1.9	1.7	1.3	2.2	2.9	5.0	4.2
1999/01	1.7	1.7	1.0	2.0	1.0	5.3	3.2

Note:

* Figures reported in Panels A and B are calculated from two-year average export values.

\# Annual compound growth rate estimated by fitting a logarithmic trend line to US$ export value series

Source: Compiled from UN Comtrade Database.

Table 3: Share of Processed Food in Total Agro-food Exports (%)

	1980/81	1990/91	2000/01
Developed countries	48.1	57.5	62.7
Developing countries	44.0	53.4	58.7
Low-income	27.2	33.5	40.6
Middle-income	38.3	54.0	59.0
High-income	54.8	59.9	64.1
World	46.8	56.4	61.5

Source: Compiled from UN Comtrade database.

Table 4: Direction of Developed and Developing Country Trade (%)

	To developing			To developed		
	1980-81	1990-91	2000-01	1980-81	1990-91	2000-01
From developed countries						
Agricultural products	24.8	23.4	22.7	75.2	76.6	77.3
manufactured products	26.9	26.7	27.7	73.1	73.3	72.3
From developing countries						
Agricultural products	26.9	27.6	36.9	73.1	72.4	63.1
Manufactured products	34.2	33.0	37.0	65.8	67.0	63.0

Source: Compiled from UN Comtrade database.

Table 5: Applied Tariff, NTB Coverage and Bound Tariff by County Groups (%), Circa 1998

	Developed countries	Developing countries (DCs)				
		All DCs	Low income	Middle income	Upper middle income	High income
(a) Applied Tariff						
Agricultural products	6.4	17.0	26.6	19.6	17.3	16.0
Food	6.2	25.0	27.2	20.3	17.9	17.1
Agri. raw material	1.8	14.3	16.1	10.5	10	4.3
Manufactures	3.5	12.4	20.9	13.6	13.5	5.0
(b) Bound Tariff						
Agricultural products	7.2	59.0	86.0	48.0#		29.0
Manufactures	3.8	42.0	64.0	34.0#		17.0
(c) NTB Coverage*						
Agricultural products	27.8	11.8	5.2	12.3	21.7	16.9
Food	6.2	25.0	27.2	20.3	17.9	17.1
Agri. Raw material	14.9	8.4	2.6	8.9	20.1	14

Note: * NTB, non-tariff barriers defined to include licensing, prohibitions, quotas (including tariff quotas), state trading monopolies and administrative pricing. NTB coverage is calculated as a frequency ratio of all HS two-digit product categories under NTB.

Average for middle and upper middle income countries.

Source: Compiled from Finger (2001), Tables 4.2 and 4.2; Hoeckman, Mattoo and English (2002), Tables 11.1 and A-2; and Ingco and Nash (2004), Tables 1.2, 1.3 and 1.5