NEGOTIATIONS ON AGRICULTURAL TRADE LIBERALIZATION: THE TUG OF WAR BETWEEN DEVELOPING COUNTRIES AND THE WORLD TRADE ORGANIZATION

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A DYNAMIC AGRICULTURAL SECTOR IS CRUCIAL FOR ECONOMIC growth, poverty alleviation, and food security in developing countries. Although primary agricultural activities are declining over time as a share of the economy, they still represent about one-fourth of total economic activity and 60 percent of total employment in low-income developing countries. Primary and processed food products account for about 20 percent of these countries’ merchandise trade. Moreover, of the 1.2 billion people living on less than US$1 a day, about 75 percent live and work in rural areas in developing countries (Stiglitz, 2000).

Despite its importance, agricultural growth in developing countries has been hampered over the years by a series of factors. First, as developing countries sought to industrialize their economies, they usually taxed agriculture (Maskus and Lahouel, 2000). The bias against agriculture in developing countries also hurt the poor, who often depended heavily on that sector for income and employment. Although several developing countries have reduced or even eliminated that policy bias since the early 1990s, another negative factor has become increasingly apparent: the subsidization of agriculture in rich countries (Warren and Findlay, 2000).

During the 1980s, these subsidies led to surpluses that rich countries disposed of on world markets with the heavy use of export subsidies. The combination of agricultural protectionism and subsidies in industrialized countries has limited the agricultural growth in developing world, increasing poverty and weakening food security in vulnerable countries (Hoekman, 2000). Those policies have also hurt the rich countries themselves through higher food costs and a larger tax burden on citizens. And rich countries’ claim that the expected benefits of their agricultural policies, in terms of safer food, a cleaner environment, and better income distribution, are larger than the costs rings false, given recent food scares like ‘mad cow disease’ in Europe and Canada, the environmental pollution linked to agriculture in industrialized countries, and the fact that most transfers go to large farmers.

For developing countries, agriculture is perhaps the most important sector to focus on in any round of multilateral trade negotiations (Stiglitz, 2000). The welfare cost to them of the Organization for Economic Co-operation and Development (OECD) agricultural policies is estimated to be well above that of textiles and clothing trade barriers. Indeed for the world as a whole, agricultural policies are more harmful to economic welfare than tariffs on all imports of manufactures, despite agriculture's small share of global Gross Domestic Product (GDP) and trade.

This paper addresses the interests of developing countries in the ongoing negotiations. A question to be asked at the outset is whether these negotiations are important to the developing countries. One answer to this question is given, in part, by the active participation of developing countries in the Special Session meetings that have been held in recent years (Conway, 2000).

Negotiations and Trade Interests before the Uruguay Round (Pre-1986)

International trade and bilateral rules to deal with it have existed throughout recorded history. Improved technology of transport and communications has led to increases in the share of world consumption that is traded, but this share has been significant, in the sense that changes affect income and employment and are matters for macroeconomic policy, for at least a century and half (Hoekman, 2000). This is also the period in which countries’ bilateral
agreements to regulate their trade increased, and started to have some common elements. It is, however, only since the foundation of the General Agreement on Tariffs and Trade (GATT) in 1947 that there has been a common international regulation (Anderson, Hoekman, and Strutt, 1999).

Before the Uruguay Round, for most developing countries-trade was not an essential part of their national economic strategies, and the importance of their trade to the interests of the rest of the world was small, so their own potential interests in negotiating and the potential demand from others to negotiate were both small (Maskus, and Lahouel, 2000). Two technical rules also contributed to their de facto exclusion: until 1990, GATT operated on the basis that the major traders in a commodity negotiated together, and then presented an agreement to the rest and any change in tariff had to be negotiated with ‘principal suppliers’ (Anderson, Hoekman, and Strutt, 1999). There are few commodities for which developing countries were principal suppliers or purchasers (and of these, many were either subject to special arrangements, commodity agreements or protocols or duty-free). And the few agreements on rules were treated as separate from the main agreement, as plurilateral agreements, which countries could elect to join or not. Non-participation in the negotiations did not lead to agreements being imposed on them (Hoekman, 2000).

In the first part of the period from 1947 to 1986, even the developed countries other than the United States (US) could be characterized as weak participants (Conway, 2000). The US was both the principal market and principal provider of both public and private capital to the other developed countries, and it would have been difficult to regard any negotiations as among equals (Hoekman, 2000). On the other hand, the US had strong non-economic motives for building up the economic strength of Europe and later Japan. The trade and monetary crises of the 1970s meant that Europe became both stronger and less dependent on the US than it had been, while the US felt increasingly superior in competitiveness, and therefore less willing to concede to ‘weaker’ partners (Maskus and Lahouel, 2000). ‘Real’ negotiations started to become both possible and necessary. The shift of negotiations from the pre-Tokyo pattern of commodity by commodity negotiations to a more complicated interplay of interests over a wide range of subjects simultaneously meant that developing countries with small shares in trade were not automatically excluded.

Developing country issues were not high on the agenda for GATT negotiations before 1986. Temperate agriculture was effectively excluded while many tropical agricultural products had special arrangements or long-term trading arrangements (Conway, 2000). Clothing and textiles were under the Multi-Fibre Arrangement (MFA) from the 1950s. Many developing countries had special trading relationships with the colonial powers, later the ex-colonial powers, which gave them better than the MFA treatment offered by GATT and thus no incentive to participate in GATT negotiations (James and Anderson (1998). By the time of the Tokyo Round (1973-79), some developing countries were already moving into manufactures and starting to see advantages from negotiations, but most were still eligible for preferences and were not damaged by the trade policies of others. Developing countries had shown their trade strength dramatically with the Organization of the Petroleum Exporting Countries (OPEC) in oil prices in 1973-74. Nevertheless, negotiations in the Tokyo Round were very much based on European Union (EU)-US leadership. “The GATT was hardly involved as the Tokyo Round proceeded towards its intensive final stages” (Messerlin and Zarrrouk, 2000, p. 577).

There were ‘no’ important developing country interests to be addressed in the Round. Commodities remained dominant in most countries’ exports; the EU and the US were united in supporting the continued exclusion of temperate agriculture; and the few developing countries which were exporting manufactures were only starting to face non-tariff barriers (Hoekman, 2000). ‘Voluntary’ export restraints started to spread from imposition on Japan to the more advanced developing countries during the 1970s, and the restrictions on clothing exports were starting to become important, but most developing countries, while facing potential barriers, were either not increasing their exports or diversifying into still uncontrolled sectors.
The Tokyo Round conclusion again allowed plurilateral arrangements on rules to continue, allowed export subsidies to developing countries (Messerlin and Zarrouk, 2000) and thus allowed developing countries to participate only partially in GATT.

Some rule issues started to emerge as areas of developed-developing country negotiation, and therefore for some countries it ceased to be possible to remain outside the negotiations. On customs valuation, the pressure on developing countries came after the EU switched its position from opposition to support the US position. As long as one major player had been on the ‘developing country side’, they had not faced strong pressure (James and Anderson, 1998). Following US-EU agreement, the only concession allowed was additional time to comply. It remained possible, however, to stay outside that part of the agreement altogether, and for this reason, developed countries were under less pressure to find an agreement which the developing countries could accept, and therefore did not need to understand fully the different conditions in some developing countries which made the proposed procedures difficult or impossible to apply. Without a compelling need on either side to reach agreement, no agreement was reached. Most developing countries did not sign the customs valuation agreement; Argentina, Brazil and India signed, but with provision for a five year delay in implementation. These countries had already demonstrated a strong participation in the negotiations.

The Uruguay Round Agreement on Agriculture (1986-94)

By the beginning of Uruguay Round Agreement on Agriculture (Uruguay Round), the position of the developing countries was very different from 1973: trade was more important in their economies. Few countries were already committed to changing from an inward to an outward-orientated approach to development at the beginning of the Uruguay Round, so that access for their exports had become essential for their development strategy, and others moved increasingly to this position during the difficult economic conditions of the late 1980s. Their own trade was becoming significant in world markets: about a quarter of the total, so that other countries wanted access to them (Markusen, 1999).

During the Uruguay Round, there was a major change in the external environment, with the ending of communist rule in Eastern Europe finally challenging the idea that all the GATT members had a common interest in economic growth to defend themselves from the rest of the world. As with other country groupings formed initially to counter external threats (such as the EU), GATT had to draw on the strength of demonstrated advantages over the years in which it had existed and the need for international regulation increased international flows to find a new raison d’etre (Markusen, 1999).

Uruguay Round disciplines were introduced in the areas of market access, export subsidies and domestic support. Prior to the Uruguay Round, only 55 percent of agricultural tariffs in developed countries and 18 percent in developing countries were bound (Markusen, 1999). Furthermore, tariff barriers were reinforced by the widespread use of non-tariff barriers (variable import levies, quotas, minimum import prices, voluntary export restraints). The Uruguay Round mandated the ‘tariffication’ of all previous agricultural trade barriers at the existing level of protection, the binding of these tariffs and their reduction by an average 36 percent over the six-year implementation period (Hoekman, 2000).

Developing countries were allowed the option of binding ‘ceiling tariffs’ which could be set at whatever level they choose and did not have to be based on tariff equivalent calculations. Furthermore, they were only required to reduce these bindings by an average 21 percent over a ten-year period or not at all in the case of least developed countries (LDCs) (Monbiot, 2003). Many chose quite high levels even though, in practice, applied tariffs were often much lower (Messerlin and Zarrouk, 2000). For major agricultural products, developed countries’ tariffs are about twice as high as those of developing countries. Because it was foreseen that tariffication on its own, even with the 36 percent average reduction in bound tariffs, might not create much additional market access, the Uruguay Round introduced Tariff Rate Quotas (TRQs) in those situations where tariffs replaced non-tariff barriers (Monbiot, 2003). The TRQ quantities are set at 5 per cent of domestic consumption at the end of the implementation period (4 per cent for developing countries), while
current access quotas were bound at their 1986-88 levels. TRQs are mainly a feature of developed country schedules because few developing countries engaged in tariffication. Some of these TRQs merely incorporated existing import commitments from developing countries under preferential arrangements, but the amount of new market access created for developing countries by these arrangements has been very small (Messerlin and Zarrouk, 2000).

Developed countries agreed to reduce by 36 percent the value of export subsidies from their 1986-90 base levels and to cut the quantity of subsidized exports by 21 percent over six years. For developing countries, the reduction commitments are two-thirds of those applying to developed countries, and the implementation period was extended to ten years (Messerlin and Zarrouk, 2000). No reductions were required of LDCs. Equally important, the Uruguay Round prohibits the use of new export subsidies where they are not reported in a country's Schedule as having existed in the base period. Bona fide food aid is excluded from these disciplines. Only 27 World Trade Organization (WTO) members reported the use of export subsidies, of which just 10 were developing countries. In value terms, developed countries (and particularly the EU) account for the vast bulk of subsidized exports provided. Developing countries thus have little interest in a continuation of this support mechanism. One of the significant achievements of the Uruguay Round was the recognition that production subsidies to agriculture constituted a potential trade distortion and thus should be regulated in the Agreement on Agriculture (Maskus, and Lahouel, 2000).

This review of Uruguay Round commitments shows that there is far from being a level playing field between developed and developing countries in terms of the provision of agricultural support and protection. Because developed countries entered the Uruguay Round negotiations with much higher levels of support, despite the greater reduction commitments they took on, they still account for the lion’s share of support (Monbiot, 2003). This observation raises the meaning of equal burden-sharing in the negotiations. Should this be interpreted as equality in commitments which, given the inequality in initial positions, must inevitably lead to inequality in outcomes? Or conversely, should it be interpreted as achieving equality in outcomes, even where this would mean differential burden-sharing in terms of commitments (James and Anderson, 1998). There is evidence already in these negotiations that some participants favour this second approach. The US, for example, in its proposal on domestic support, has proposed that all countries move to a common ceiling on domestic support (expressed as a share of the value of agricultural production) by the end of the implementation period of any agreement emerging from this negotiating round. Similarly, many countries propose that there may be agreement on maximum allowable tariff levels at the end of the next round, regardless of initial levels. Finally, the proposal put forward by many countries to eliminate export subsidies by the end of the round would, de facto, also result in an equality of outcome in this area too (James and Anderson, 1998).

Doha Round (2001)

WTO Ministerial Conference, meeting in Doha, Qatar had two main agendas on globalization and development: the perception that the WTO is not responsive to the needs and aspirations of developing countries; and that the developing countries have little to gain by participating in the WTO. The Doha negotiations covered a wide variety of issues, which can be classified into three main categories (Mendoza, 2003). The first one covers those issues addressing market access for goods and services, which include the on-going negotiations on agriculture and services as well as negotiations to reduce or eliminate tariffs, including tariff peaks, and non-tariff barriers in the industrial sector. The second category of negotiating issues includes those which aim to revise, strengthen or modify existing WTO agreements and rules. This category has the widest coverage. It includes negotiations on the subsidies and antidumping agreements; on WTO rules regarding regional trade arrangements; on some aspects of the intellectual property agreement, i.e. negotiations for the establishment of a system of notification and registration of geographical indications for wines and spirits; on clarification regarding the WTO and the trade rules of multilateral environmental agreements; and, finally, negotiations to revise the WTO dispute settlement understanding. The third category of
negotiating issues covers a few ‘new’ issues that were proposed for inclusion in the WTO framework. This category includes investment and competition policies, transparency in government procurement, and trade facilitation (Monbiot, 2003).

In the Doha Round, developing countries followed two basic approaches to varying degrees (Warren and Findlay, 2000). One was to ‘play offence’ by trying to limit the ample legal room industrialized countries have under current WTO rules to subsidize and protect their own agriculture (for which they also have large financial resources). The other is to ‘play defense’ by asking for additional exemptions (that is, ‘special and differential treatment’) to be able to subsidize and protect agriculture in developing countries. The combination of offensive and defensive tactics varies by country and partly reflects the heterogeneity of developing countries in general and of their agriculture sectors in particular (Anderson, Hoekman, and Strutt, 1999).

The Cancun Round (2003)

The Fifth Ministerial Conference took place in Cancun, Mexico in September 2003. The trade talks opened with key speakers’ warning of the importance and urgency of these issues. Kofi Annan, United Nations’ Secretary General said, “We are told that trade can provide a ladder to a better life and deliver us from poverty and despair... Sadly, the reality of the international trading system today does not match the rhetoric.” The host, President Vincente Fox of Mexico, warned, “We can no longer permit well-being to be limited to a few nations. We can no longer postpone the battle against poverty and marginalization” (cited in Cevallos, 2003). However, these talks collapsed (Monbiot, 2003). Richer countries wanted to talk about newer issues that mostly they themselves would have benefited from. On the other hand, poorer countries wanted to finish older (pre-Cancun) issues mostly on agriculture that affected them the most, especially the impact of European and US subsidies on their own agriculture and lack of access to those markets. This impasse led to the end of the talk, but for the first time showed that the developing countries make a successful and united stand to represent their concerns.

At their previous meeting in Doha in 2001, ministers recognized the inequities of the previous round of trade negotiations, the Uruguay Round. Doha was supposed to redress those imbalances. Joseph Stiglitz, a Nobel Prize winner in 2001 for economics, thus wrote before the meeting, “One would have thought that the developing countries would look forward to the meeting as a chance to achieve a fairer global trading system. Instead, many fear that what has happened in the past will happen again: secret negotiations, arm twisting, and the display of brute economic power by the US and Europe aimed at ensuring that the interests of the rich are protected” (Stiglitz, 2003). Stiglitz argues that while some progress has been made in making the negotiations more open and transparent, efforts to go further have met with resistance, and for good reason: “unbalanced processes help ensure unbalanced outcomes. Ironically, the WTO, where each country has one vote, might seem far more ‘democratic’ than, say, the International Monetary Fund (IMF) where a single country, the US, has a veto. Yet the realpolitik of economic power has ensured that the interests of the developed countries predominate” (Stiglitz, 2003).

The Varied Interests of Developing Countries

The differences among developing countries and their agriculture sectors manifest themselves at several levels. Africa, Latin America and the Caribbean, for instance, have more available arable land per capita than Asian developing countries, but land appears to be distributed more unequally in Latin America and the Caribbean. Asia, Latin America and the Caribbean, however, have better infrastructure than Africa. Although all developing regions have experienced increases in trade of fruits and vegetables, Asia, Latin America and the Caribbean have been more dynamic oilseed exporters (Bhagwati and Srinivasan, 1996). Africa has been losing export market share in world agricultural markets. Latin America and the Caribbean are net agricultural exporters, Asia became a net importer in the early 1970s, and Africa, which had a strong positive agricultural balance in the 1960s and 1970s, has experienced deficits since the early 1980s. The direction of trade also varies. Asian countries trade mainly within the region; Latin American and Caribbean countries trade with Europe, the US, and other countries within the region; and Africa trades mostly with Europe.
Using cluster analysis, Stiglitz (2000) shows the large differences in food security status among developing countries. Those countries appear scattered across nearly all levels of food security and insecurity, although none appear in the very high food-secure group. Among food-insecure countries, the profiles also differ: some are predominantly rural (mostly in Africa and South Asia) whereas for others the urban population is more important (like many countries in Latin America and the Caribbean and in transitional economies). Obviously the same policy (such as maintaining high prices for producers) will have different impacts in these two types of countries.

Some countries are food insecure mostly because of low levels of calories and proteins per capita, although they do not use large percentages of their exports to buy food. In the terminology of the study, these countries are ‘consumption vulnerable’ but not ‘trade stressed’ (Michalopoulos, 1999). Other food-insecure countries are a mirror image: they appear trade stressed (using a large percentage of their exports to buy food) but less consumption vulnerable (their current levels of calories and proteins per capita are close to the average for all countries considered). Again, the policy options for these two types of countries are different: the first group may increase imports to improve availability of calories and proteins, whereas increasing imports may not be an option for the second group.

The different positions taken by developing countries in the Doha Round negotiations reflect this heterogeneity. The Cairns Group (an alliance of agricultural exporting countries that includes three developed-country and 14 developing-country members) has mainly emphasized playing offence. It is interesting to note that, although the Cairns Group is usually perceived as encompassing countries that are large commercial exporters, in fact 3 countries in this group are in food-insecure clusters. Other developing countries have emphasized a defensive approach advocating additional levels of support and protection for developing countries (such as the 11 WTO members, including Cuba, the Dominican Republic, Pakistan, Sri Lanka, and others, that presented those proposals under the general name of a “Development Box”) while also asking for a reduction in subsidies and protection in industrialized countries.

Still other countries are trying to coordinate both approaches. India is an interesting case (Warren and Findlay, 2000).

On the one hand, playing offence seems reasonable for a country that in the past few years has emerged as one of the world’s top net exporters of agricultural products. On the other hand, a large percentage of India’s poor population lives in rural areas. Concerns about possible negative impacts on the rural poor have therefore underpinned the defensive components in India’s WTO proposal, embedded in the notion of a Food Security Box (with proposals for additional levels of support and protection comparable to the Development Box) (Hoekman and Mavroidis, 2000).

Acknowledging that heterogeneity, we may still make some general points. As indicated, a dynamic agricultural sector is crucial in developing countries, particularly the poorest ones, and research has shown that agricultural exports appear to be associated with higher levels of growth. Higher growth, if it is broad based and stable, in turn helps reduce poverty. Conversely, closed economies relying on the dynamics of small domestic markets tend to show slower and more halting growth rates. If countries follow their comparative advantage, international trade by labour-abundant, poor developing countries should increase employment and wages, further alleviating poverty (Hoekman and Mavroidis, 2000).

To the extent that poverty is the main cause of food insecurity, international trade opportunities should also help improve food security. The expansion of trade in goods and services over the past decades, along with the decline in food prices resulting from technological advances, has led to sharp reductions in the size of the total food bill of developing countries as a share of total export earnings (Cevallos, 2003). Of course, differences in agro food production and export performance by developing countries depend on several factors, such as income and population growth, natural resource base and climate, and technological progress. But economic policies, in both industrialized and developing countries also have a major impact. The WTO legal framework and negotiations are crucial precisely because of their likely effects on trade and agricultural
policies worldwide (Michalopoulos, 1999). When considering negotiating positions from the point of view of the developing countries, it is important to analyze their policies separately from those of the industrialized countries.

The Price of Agricultural Protectionism

Since the 1970s various studies have tried to quantify the impact that agricultural protectionism in industrialized countries has had on the world (Rodrik, 1997). Those studies have consistently reported that agricultural surpluses in rich countries, generated through protection and subsidies and then dumped onto world markets, have hurt agricultural development in developing countries. Recent simulations by International Food Policy Research Institute (IFPRI) show that those policies by industrialized countries have displaced about US$40 billion in net agricultural exports per year from developing countries and reduced agricultural incomes in those countries by nearly US$30 billion (counting both primary and manufactured agricultural products but not related activities such as trade, commerce, and other services) (Malak, 2000).

Moreover, these estimates may be low because they do not include dynamic effects from additional investments that better market opportunities may elicit or second-round multiplier effects from those agricultural incomes that never materialized. More than half of these displacement effects have resulted from the policies of the EU (and other European countries such as Norway and Switzerland), somewhat less than a third from US policies, and about 10 percent mainly from Japanese policies, with the balance resulting from the policies of other industrialized countries (Hoekman and Mavroidis, 2000). These results should give some pause to the proponents of ‘multifunctionality’ in rich countries who argue that agriculture has additional benefits for their societies, and that; therefore, it must be protected and subsidized. But an important effect of those policies is that agriculture in many poor countries is forced to contract (Markusen, 1999). So whose multifunctionality is being advanced, and whose is being trampled upon? The losses resulting from the displaced production are particularly damaging in the many low-income countries whose economies depend heavily on agriculture and agro industrial production and where most poverty occurs in rural areas (Warren and Findlay, 2000).

Any future WTO negotiations must complete the unfinished business of correcting those imbalances to allow broad-based economic growth in developing countries. In addition to the obvious and compelling humanitarian arguments, enlightened self-interest also dictates that developed countries combat hunger and poverty: poor developing countries continue to spawn health, environmental, military, and humanitarian crises worldwide that directly or indirectly impact developed countries, while poverty and hunger deprive the world of the creative potential and economic contribution of billions of human beings.

Challenges to Liberalization

Three concerns have been raised against the general proposition that the imbalances in trade rules must be corrected. First, it has been pointed out that liberalizing agricultural policies in the industrialized countries may increase the food bill of developing countries that are net food importers. Although the agricultural policies of the rich countries have hurt developing countries that are net exporters, this argument suggests that those same policies may have helped the balance of payments position of developing countries that are net importers of the same products (Hathaway and Ingco, 1995). Second, for those developing countries that have preferential access to the protected markets of rich countries, the liberalization of trade in those markets may lead to the erosion of trade preferences (that is, by having access to a protected market those countries can sell at prices higher than those prevailing in world markets). Finally, some have argued that by expanding their exports, developing countries may worsen poverty and food security because export crops may compete with staple crops and through other mechanisms may affect the poor and women unfavourably (Hertel and Martin, 2000).

The first argument, however, omits the differences in distributional impact within developing countries between consumers and producers and across various types of households. Moreover,
agricultural trade policies in industrialized countries may have had a stifling effect on agricultural and agro industrial production in all developing countries, regardless of their net trade position (Markusen, 1999; Michalopoulos, 1999). Particularly in poor ones, growth in these sectors is usually multiplied throughout the whole economy. Poor developing countries, even net importers, may have lost a substantial source of dynamic benefits. In fact, depressed world prices of many food products caused by agricultural protectionism and subsidies in industrialized countries may have contributed to some developing countries' becoming net food importers, pushing them into a more extreme specialization in tropical products.

A welfare-enhancing approach would be to proceed with the liberalization of markets in rich countries while offering cash grants or other financial schemes to help poor countries with possible balance-of-payment problems. The analysis of the possible impact on the balance of payments must be conducted considering the entire economy in a general equilibrium context, because even if agricultural prices rise, the negotiations may have other price and volume effects on exports and imports that compensate for agricultural price effects.

The second point focuses on the possible erosion of preferences for a number of developing countries that have special market access arrangements with industrialized countries. For low-income developing countries, such preferential access usually represents a large percentage of agricultural exports and sectoral value-added and has important implications for rural employment and the balance of payments. Yet, it is not clear how much countries with access to rich countries’ markets benefit from the current arrangements, considering that the specific mechanisms for operating those preferences may have high administrative costs, may be uncertain over time, and may tilt the distribution of benefits toward domestic importers and away from the exporting developing countries (James and Anderson, 1998). Several options offer greater benefits in national welfare terms than maintaining current levels of protection in rich countries. In some cases, changing the way tariff rate quotas operate could compensate for the erosion of preferences in the short run. One possibility would be to grant import licenses to the exporting countries instead of giving them to domestic importing companies and to reduce to zero the ‘in quota’ tariff for those exporting countries. This approach would transfer the complete quota rent (that is, the difference between the higher domestic price and the lower world price) to the exporting developing countries (James and Anderson, 1998). Another possibility is to transform the equivalent value of the trade preferences lost into foreign aid (Stiglitz, 2000). This approach would mean extending to the affected poor developing countries the same logic applied when industrialized countries compensate domestic producers for the reduction in direct support. These lost preferences should also be calculated considering the economy-wide impact as a whole.

The third question is linked to earlier criticisms of the Green Revolution, later extended to commercialization and international trade. It has been argued first that the limited resources of small farmers could prevent them from participating in expanding markets and lead to worsening income distribution (Maskus, and Lahouel, 2000). Second, and more worrisome, if relative prices shift against the poor or if the power of already dominant actors (large landowners, big commercial enterprises) is reinforced to allow them to extract income from the poor or to appropriate their assets, the poor could become worse off in absolute terms. It has also been argued that food security could decrease if cash crops or export production displaces staple crops and if these changes result in women having less decision-making power and fewer resources (Stiglitz, 2000).

Yet several studies have shown that the Green Revolution – and domestic and international commercialization – can and did yield benefits for the poor because of its effect on production, employment, and food prices, although any uniform attainment of benefits is by no means guaranteed (Conway, 2000). Trade expansion that creates income opportunities for women may also give them greater control over expenditures, with positive effects on child nutrition and development, as well as greater incentives to invest in girls. But there may be a trade-off between income-generating activities and
the time allocated for childcare – an issue currently being analyzed at IFPRI (Malak, 2000). Generally, developing countries need to pursue complementary policies that will increase the physical and human capital owned by the poor and by women, build general infrastructure and services, ensure that markets operate competitively, build effective safety nets, and eliminate institutional, political, and social biases that discriminate against vulnerable groups.

Policy Options for Developing Countries

Although eliminating welfare-reducing policies in rich countries should be paramount in these negotiations, at the same time developing countries need to carefully consider their own agricultural policies. For years many of them have discriminated against agriculture, and although the most obvious macroeconomic biases may be gone, many countries still do not invest enough in agriculture and rural development (Wood, 1997). Several developing countries have expressed concern that further trade liberalization could create problems for their large and predominantly poor agricultural populations. Poor countries have argued for a slower pace in reducing their own tariffs on the premise that industrialized countries should first eliminate their higher levels of protection and subsidization (Stiles, 2000). A related concern has been how to protect the livelihoods of poor producers from sudden negative impacts resulting from unfair trade practices such as subsidized exports and from import surges.

While insisting on a rigid sequence in which developed countries first eliminate all their own distortions seems a sure recipe for stalemate, developing countries seem justified in asking for significant down payments in the reduction of protection and subsidies in industrialized countries (Page, 1994). Also, food-insecure and vulnerable countries need (1) longer transition times that must be used to implement adequate rural development and poverty alleviation strategies, and (2) simplified and streamlined instruments to confront unfair trade practices and import surges that may irreparably damage the livelihoods of small farmers. In particular, in the context of the negotiations it is important to clarify the possible use by developing countries of other trade remedies against domestic and, especially, export subsidies of industrialized countries.

Some observers, however, have argued for maintaining high levels of agricultural protection in developing countries, or even increasing it further, as a way of reducing poverty and promoting food security (Moore, 1998). Sometimes this suggestion is accompanied by the argument that protection ‘does not cost money’ and is easier to implement than subsidies in poor countries (Morrissey, Hewitt, and Velde, 2001). Yet contrary to the common perception that protection is a tax paid by foreigners and collected by governments, much of the implicit tax is paid by domestic consumers and collected privately by producers in the form of higher prices. This tax on food has an obvious negative impact on poor households, which in many developing countries spend more than half of their income on food, and is mainly received by bigger agricultural producers with larger quantities of products to sell. Landless rural workers, poor urban households, and many poor small farmers tend to be net buyers of food. The problems faced by poor farmers and poor consumers are better addressed through policies and investments targeted to them directly. The focus should therefore be on vulnerable groups rather than on crops.

The best approach for developing countries is to eliminate biases against the agricultural sector in their general policy framework and to maintain a neutral trade policy that reduces protection over time. They should use transition periods negotiated in the WTO to increase investments in human capital, land tenure, water access, technology, infrastructure, non-agricultural rural enterprises, organizations of small farmers, and other forms of social capital and political participation for the poor and vulnerable. None of these policies is constrained under the WTO Agreement on Agriculture. The claims that more protection is necessary to shelter small farmers would ring hollow if the current underinvestment in rural development and poverty alleviation in developing countries continues.

More investments targeted to the poor and vulnerable also require additional financial resources from the international community.
Industrialized countries can help by agreeing to significantly reduce their own protectionism and subsidies in the current trade negotiations, while simultaneously making sure there is increased funding by international and bilateral organizations for rural development, poverty alleviation, and health and nutrition interventions. At the same time, governments in developing countries should support macroeconomic stability, good governance, and peace, if they want to overcome poverty and hunger. Without addressing these other key factors, any modification in the WTO agreements will have limited benefits.

Bibliography


