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Agricultural Trade Liberalization in a New Trade Round

*Perspectives of Developing Countries and
Transition Economies*



*Edited by
Merlinda Ingco
L. Alan Winters*

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*The World Bank
Washington, D.C.*

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Foreword

Bringing agricultural policies under the mainstream of World Trade Organization (WTO) discipline was a major achievement during the Uruguay Round (UR). The UR established a rules-based framework for agricultural trade and took an important first step in reducing agricultural protection and trade distortionary policies. But much remains to be done to deepen the actual liberalization process in agricultural trade. For major agricultural products exports from developing countries, import protection remain prohibitively high in industrial countries. Developing countries have a great deal to gain from further progress in trade and domestic policy reform and in further opening of global markets for their exports. Advancing this process during the next round of WTO negotiations will be important to cash in on previous efforts, as well as to make future progress easier. The World Bank has a comparative advantage in aiding this process in several ways during the next WTO round, including keeping it up to speed and responsive to the needs of developing countries.

Negotiations in the WTO have commenced at a time when protection for agriculture is around the highest ever estimated. World agricultural markets continue to be distorted by the high levels of support provided in Europe, North America, and several developing countries. In 1999, support to agriculture in OECD countries amounted to US\$360 billion. The losers from these arrangements are widespread. Consumers in countries that provide market-distorting support are denied the benefits from competitively produced food and agricultural products, while taxpayers are forced to subsidize high-cost, often environmentally damag-

ing production. Such market insulating policies depress and destabilize world market prices, disadvantaging the producers in economies that cannot afford or are not willing to provide protection. Efficient farmers are thwarted in their efforts to realize their economic potential by extensive import barriers that are far higher, on average, than for non-agricultural products.

One of the main objectives of WTO trade negotiations over the past two decades has been to integrate developing countries more fully into the world trading system. For most of the Global Agreement on Tariffs and Trade (GATT) era, developing countries were, to a large extent, "free riders" that were not bound tightly to GATT disciplines. The single undertaking of the Uruguay Round substantially changed this imbalance by requiring developing countries to accept all the negotiated agreement, including those containing provisions that would be difficult for many of them to implement in the prescribed period.

Strengthening the capacity of developing countries to participate in and benefit from more open markets is critical for poverty reduction. A global trading system that enhances market access, creates opportunities for poor countries to boost exports, and promotes sound agriculture and rural sector policies and institutions can provide significant gains for the poor, particularly the rural poor. Food security in poor countries requires access on an assured basis to world market supplies, as well as agricultural raw materials for encouraging light manufacturing in rural areas. Hence, developing countries have a great stake in building an efficient global trading system and maintaining global mar-

ket stability. However, they often lack the capacity to participate effectively and negotiate with trading partners in industrial countries. More important, the requirements and implementation of the new WTO agreements have often taxed the limited human, institutional, and infrastructure resources of many developing countries.

Given the importance of the agricultural sector and the global trading system in poverty reduction in developing countries, the World Bank launched in May 1999 an integrated program of research and capacity building with the aim of assisting developing countries, particularly the poorest countries, to participate more effectively in the new trade talks and to derive greater benefits from integration in the global trading system. The program, financed in part by grants from the United Kingdom Department for International Development (DFID) and the Government of the Netherlands, takes up agriculture trade issues (at the global, regional, and country level) and the new trade agenda with potentially important implications for agricultural trade and growth performance of developing countries. The motivation behind the World Bank research program is that, despite the much more substantial unilateral trade reforms carried out by developing countries than their trading partners in industrial countries since the 1980s, developing countries missed an opportunity at the Uruguay Round to advance or "lock-in" their own liberalization and to press the industrial countries for improved access to their markets. Though the Uruguay Round succeeded in converting all non-tariff import barriers in agriculture to tariffs, the degree of protection was minimally reduced. In some cases, the applied protection has increased under the high bound tariffs agreed in the Uruguay Round. Thus, issues of "backsliding" from previous unilateral liberalization, now "legal" under the UR Agreements, are critical. Indeed, significant trade barriers and distortions remain in global agricultural markets following the implementation of the Uruguay Round Agreement in 1995. In some sensitive sectors, new forms of protection have been implemented.

The World Bank program includes a series of analytical papers on key issues under the "built-in" agenda, as well as the new trade issues in the WTO that impact developing countries. Research and analyses of key interests and options at the regional and country level are highlights of the program. Initial capacity building is carried out by supporting efforts of regional and national researchers, as well as developing country analysts and governments which evaluate their policy options, identify their interests, and formulate negotiating objectives and strategies. Knowledge dissemination is pursued through national consultations, regional workshops, and training activities, and is carried out in partnerships with the World Bank Institute, regional research networks, non-governmental organizations (NGOs) and UN organizations (FAO, UNCTAD, UNDP). Access to key data and information which otherwise are not easily available is facilitated through database development and Websites. A handbook on agricultural trade issues is being prepared for policymakers and trade negotiators that provides information, in an accessible and operationally relevant form, about the key issues on the agricultural negotiating agenda. Country-specific technical assistance is also available. The program also aims to identify approaches for Bank lending and non-lending assistance for long-term capacity building in international and regional trade, and to strengthen the capacity of client countries to benefit from more open trade in domestic, regional, and international markets. A global conference in October 1999 and five regional workshops in December 1999 and 2000 (for South Asia, Latin America, Central Africa, West Africa, and Sub-Saharan Africa) have been held under the auspices of the program.

Why is it so important for developing countries to support the launch of a new Round and to participate actively in the new WTO negotiations? The answer is not simple because developing countries now have widely differing priorities and diverse interests depending on their level of development, on their obligations under regional integration initiatives, and on their dependence on trade in agri-

culture and commodities, manufacturing, and services. Coalitions among developing countries now devise common positions that attempt to bridge the gap between industrial and developing country interests. This volume contains several of the regional studies presented at the conference and regional workshops, revised and updated to take account of comments and peer review received following the meetings. The papers in this volume are intended for policy makers, analysts, and other stakeholders from both industrial and

developing countries. These papers will provide them with valuable insights into the diverging issues, perspectives, and interests of different regions and countries in the new WTO negotiations in agriculture.

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Abstract

This Discussion Paper contains seven studies designed to (1) review and assess the impact of the implementation of the Uruguay Round Agreement on Agriculture (URAA), and (2) to analyze the key issues, interests, and options for developing countries in the new WTO round of multilateral trade negotiations in agriculture. Six regional case studies are presented: Sub-Saharan Africa, South Asia, Latin America, East Asia, Central and Eastern Europe, and Industrial Countries. A quantitative analysis of the dynamics of multilateral liberalization in food and agricultural trade is also presented. Some of the key conclusions to emerge from the studies are presented in this abstract.

First, much preparatory work was achieved in bringing agriculture fully into the multilateral trading system during the Uruguay Round (UR). A significant achievement was the development of a broad framework for reductions in trade-distorting policies. The Uruguay Round was also successful

in negotiating reduced volumes of subsidized exports and in providing at least minimum levels of access to markets. There were, however, a number of limitations both in what was agreed to and in how the Agreement in Agriculture has actually been implemented. The analyses of actual implementation of the UR Agreement in Agriculture show that the work achieved during the Uruguay Round will be of limited value unless market distortions in agriculture can be reduced substantially toward levels for other major traded goods in the new trade round. If the potential gains from more liberal agricultural trade are to be achieved in the new WTO trade talks, it is important that the limitations of the URAA are addressed and that policy induced distortions to agricultural production, trade and prices are substantially reduced. The new WTO trade talks in agriculture provide an opportunity to continue the fundamental reform of trade-distorting policies.

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1. Introduction

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Agriculture and agricultural exports continue to play a significant role in the economic life of most countries, especially in the developing world. The Uruguay Round Agreement on Agriculture (URAA) established new rules for world trade in agricultural commodities, initiated modest reductions in protection, and mandated new talks to continue the negotiation of trade liberalization agreements. World Trade Organization (WTO) members agreed "that negotiations for continuing the process of substantial progressive reductions in support and protection will be initiated one year before the end of the implementation period (2000)." Agriculture is therefore an integral part of the "built-in agenda" that was agreed on in the Uruguay Round and will be a central focus of attention in the new round of trade negotiations. Concerned that in the past developing countries have not played an active role in the international trade agreements, the World Bank organized a conference in October 1999 to analyze issues and options for developing countries prior to the December 1999 World Trade Organization meetings in Seattle, Washington, USA. Papers included in this book were commissioned for the conference to highlight the main trade issues of importance in different regions of the world, and thus to form a basis upon which developing countries could develop positions during that upcoming round of trade negotiations. The papers include perspectives from Africa, South Asia, East Asia, Latin America and the Caribbean, Central and Eastern Europe, and industrialized countries, as well as a final chapter on multilateral agricultural policy reform. This first chapter summarizes the regional perspectives that are discussed in greater detail in the following chapters.

The studies and the conference itself, revealed both diversity and similarities between the problems and needs of different regions and individual countries. The pace of economic reform has been far faster in East Asia and Latin America, for example, than in Africa and South Asia. The former two regions are also more involved in other trade groups than the latter. These factors and others tend to influence the position of a given region on a variety of trade issues, and make it hard to distinguish areas of common concern that provide a strong bargaining platform. Overall, the studies underline the importance that developing countries should place on strengthening their participation in future negotiations and reviewing the domestic policies that affect their ability to do so.

Africa

The paper by T. Ademola Oyejide examines the key issues, interests, and options for Sub-Saharan African countries in the new trade negotiations. T. Ademola Oyejide advocates active, informed participation by African nations in trade negotiations, given the vital importance of agriculture to economic growth in the region. He points out that the Uruguay Round (UR) was unique in that it explicitly specified a set of multilateral disciplines on the production and trade of global agricultural products, in an attempt to overcome several policy distortions. The UR was viewed as a first step, and its achievements have been limited. But it served the important purpose of focusing attention on agricultural trade, and thus, it is hoped, stimulating poli-

cymakers and negotiators to give more careful consideration to their goals during subsequent rounds.

Africa depends on agriculture for 35 percent of its gross national product (GNP) and for employment of two-thirds of its population. Perhaps more than in any other region of the world, agricultural production and exports are crucial to the well-being of Africa; yet agricultural technology and resources are less advanced than in other regions, and tax and fiscal policies often harm agricultural producers. Moreover, Africa's food exports are few, and depend heavily on the performance of three main products (coffee, cocoa, and cotton), for which the region suffered market-share losses between the 1960s and the mid-1990s. Overall agricultural growth lagged seriously in the 1970s and 80s, although some improvements appear to have occurred during the 1990s.

Low productivity, reduced areas dedicated to cropland, and poor irrigation systems—compared to other regions in the developing world—have put Africa at a major disadvantage. Oyejide suggests that one of the concerns of African countries in the Millennium Round of agricultural trade negotiations should be to ensure that new rules permit Africa to use appropriate non-price support measures to facilitate the development of its agricultural sector.

The post-UR multilateral trade regime poses many potential problems for Africa. For example, the region imports vast amounts of grain and other agricultural products. The impact of liberalization on the price of imported food could add as much as 10 percent to the region's annual import bill. Even low-income food-deficit (LIFD) countries would be negatively affected. The URAA recognized the need for assisting LIFD countries to cope with the impact of its new provisions on international food prices and the effect of reduced subsidies on food exports from industrialized countries. But none of the measures spelled out in the WTO decision (increased food aid, technical assistance to improve agricultural productivity, and others) have, in fact, been implemented. Other provisions of the URAA, Oyejide notes, have resulted in reduced trade preferences for numerous countries. While the estimates of these

losses vary, analysts agree that they are likely to occur and further hurt nations in the region.

The URAA imposes few obligations on African nations, Oyejide notes, because the major agricultural trade distortions that it addressed are absent in most African countries, many of which in any case receive "special and differential treatment" (SDT) due to their "least-developed" status. Although African countries have undertaken many economic reforms to free up the agricultural sector, most had already been implemented prior to the URAA, and thus were not "counted"—a problem shared with East Asia.

Oyejide urges African policymakers to sharpen their focus on the structure and needs of the agricultural sector to ensure more favorable results during upcoming negotiations. Africans should not oppose the trend toward liberalization, but rather seek concrete forms of technical assistance. Another area of interest for Africans would be further market-access improvements that result in the reduction of tariff peaks and eliminate tariff escalation, especially for agricultural products. Finally, the chapter points to the pressing need for overcoming the structural and technological constraints that have kept agricultural production low. Meeting this need may call for use of public resources, given the predominance of smallholders in African agriculture. Thus African trade negotiators should work in international forums to ensure that these changes are viewed positively—as a step in Africa's progress toward becoming internationally competitive—rather than as "breaking the rules." Finally, Oyejide suggests a need to revisit such categories as "developing" and "least developed" and create more objective criteria for establishing the basis of special and differential treatment. Oyejide concludes that SSA countries have a lot at stake in a world trading system whose multilateral agreements defines the broad rules under which agricultural production and trade will occur. The agricultural sector in SAA remains pivotal to the overall growth and development of the economy. Just as it has for other regions of the world, the new trade negotiations would have important im-

plications for African agriculture. These effects can be expected from at least three directions. First, a new agreement on agriculture will define the broad market access conditions for African agricultural exports. Second, it will also determine the conditions of access into Africa's markets for the importation of a wide range of processed and unprocessed agricultural products. Third, the new trade negotiations would present new challenges on Africa's agricultural development, strategy and policies.

South Asia

The analysis by Prema-chandra Athukorala focuses on four countries in South Asia: Bangladesh, India, Pakistan, and Sri Lanka. The URAA was completed at a time when countries in South Asia had already embarked on significant unilateral trade liberalization reforms. Athukorala shows that Sri Lanka took advantage of the opportunity provided by the URAA to significantly liberalize agricultural trade and to lock-in ongoing unilateral trade reform by binding its tariffs at low levels. India and Pakistan, by contrast, bound their tariffs at high levels and did not provide binding commitments for the removal of remaining non-price border restrictions. Bangladesh also bound its URAA tariffs at high levels, despite unilateral liberalization carried out in recent years. Massive domestic production subsidies in all four countries, and export taxes and restrictions in India and Pakistan, are prominent elements of the agricultural trade regimes in the region. Hence, the trade policy reform agenda in India and Pakistan should involve simultaneous reforms of import and export regimes and domestic production support mechanisms. Given the nature of the political economy of agricultural trade policy, it is unrealistic to assume that reforms in the import trade regime will automatically trigger reforms in other areas. Provision of financial support for implementing required social safety net measures can play an important role in making such comprehensive reforms politically feasible. Based

on the South Asian experience, the key policy options for the new round of multilateral trade negotiations include reductions of the high bound tariffs, provide institutional support, and improve the capacity of these countries to meet the new international standard required under the Sanitary and Phytosanitary Agreement.

The study expresses optimism about the economic benefits of trade liberalization for the four countries, but warns that social safety nets will be required during the transition period, since, as in Africa, agriculture employs a significant proportion of the population (35 percent in Sri Lanka and up to 50 percent in the others countries in South Asia). While the importance of agricultural exports has declined in the four countries studied, the role of processed agricultural products (fish, fruits, and vegetables) has grown substantially.

All four countries have experienced loss of market share in several main agricultural commodities, which the author attributes to a "significant anti-export bias" in the countries' incentive structures. He describes a range of protectionist and distortionary agricultural trade policies that have penalized farmers in South Asia and kept raw materials prices low. Yet the study shows that all four countries, especially Sri Lanka and Bangladesh, have made admirable progress toward eliminating these distortions during the 1980s and 90s. India and Pakistan, however, still retain complex import restrictions and domestic subsidies. Although by the mid-1990s each country had achieved IMF "Article VIII status," liberalization of agricultural trade has lagged behind that of overall international trade—unlike, for example, Latin America, where all sectors have been affected more or less equally.

Of the three main trade-reform areas addressed by the URAA, only regulations on market access are pertinent to South Asia—in particular, the requirement that participating countries convert all non-tariff measures (NTMs) affecting agricultural imports into ad valorem, or specific, tariffs. Athukorala provides an analysis of a variety of NTMs in use in South Asia and discusses the issue

of tariff binding and its implications in the four countries. He concludes that one of the most important areas upon which South Asian countries should focus in future trade negotiations is the reduction of bound tariffs, which could undermine the ongoing process of unilateral liberalization by strengthening protectionist lobbies in the region. He also suggests that South Asian and other developing countries should seek more assistance in the use of WTO dispute-settlement mechanisms, which are used far more frequently by industrialized than developing countries. Finally, Athukorala suggests that South Asian countries need improved capacity to meet sanitary and phytosanitary standards (SPS) to make their products more competitive in global markets.

East Asia

Malcolm Bale's study of several East Asian developing economies points to some aspects unique to these countries—such as the 1997–98 financial crisis and the heavy presence of alternative organizations to regulate trade—which may lead East Asian countries to be more aloof than others from multilateral trade negotiations and the WTO process. He posits that the URAA did not offer meaningful gains to East Asia, the costs of participation are high, and earlier assurances of assistance have not materialized. Thus Bale suggests that East Asia is likely to adopt a “wait and see” attitude in the upcoming round of global trade negotiations.

Bale reviewed the experience of East Asian countries as they emerge from a period when their economies were rocked by financial crisis. Bale concludes that the Asian crisis spilled over onto the agricultural sector and some countries faced the issue of food insecurity for the first time in many years. Moreover, many of the countries feel that the benefits to agriculture of the last trade round are more illusory than real and that, with the maturing of Asia-Pacific Economic Cooperation (APEC), they now have a viable alternative. As a result,

Bale concludes that East Asian countries are likely to approach the new negotiations with a great deal of caution—if not skepticism. If industrial countries are to overcome this and draw East Asian countries fully into the process of liberalization, they must be prepared to take the time to understand the legitimate concerns of these countries and respond to them in a genuine and sympathetic manner.

International trade represents a large proportion of GNP in East Asian countries, and the region has a competitive agriculture sector in which exports play a strong role. Nonetheless, as is the case in South Asia, agriculture's overall role in national economies has declined in recent decades; and like Africa, agriculture is a very important source of employment and income for the poor. Exchange rate policies are particularly important to the facilitation of trade in East Asian economies, Bale states, citing the benefits of currency devaluation to the rural poor and farm sector in countries worst hit by the 1998 economic crisis. Moreover, the rural sector served as a social safety net for the urban poor, who returned to rural areas and benefited from rising prices for farm products. On the other hand, the crisis raised issues of food insecurity for the first time in many years, focusing greater attention on the agricultural sector and its needs.

The importance of agricultural trade to the countries of East Asia means that the region has a significant stake in global trade negotiations, especially in regard to tariffs and market access. But many of the countries struggled to overcome the fallout from the financial crisis, and are enmeshed in a series of domestic reforms that generally have taken precedence over trade reform. At present, agricultural protection is considerably higher than industrial protection, and East Asian countries are interested in further cuts in bound tariffs, tighter controls over export subsidies, stronger commitments on domestic policies, and deepening the protocols on SPS.

Bale suggests that the flexible approach to trade reforms of organizations such as the APEC group is more compatible with the needs of East Asian

countries than that of the World Trade Organization. Like South Asian countries, those in East Asia feel that the WTO process is dominated by Organization for Economic Cooperation and Development (OECD) countries, who can better afford large-scale participation and are more able to manipulate the rules in their own favor. Also like Africa, East Asia would like to receive “credit” for the reforms undertaken unilaterally prior to the Uruguay Round. Bale urges that industrialized countries, if they wish to achieve the full cooperation and participation of East Asia, take the time to listen to these countries’ legitimate concerns and respond to them in a meaningful way.

Latin America and the Caribbean

Julio Paz Cafferata and Alberto Valdés examined the new trade issues facing Latin America and the Caribbean (LAC) in the next WTO round. Cafferata and Valdés conclude that there is considerable diversity among countries in terms of both priorities and positions. Five key factors determine the cross-country heterogeneity that characterize the differences among LAC countries including: (1) net trade position, (2) participation in regional trade groups, (3) composition of agricultural exports, (4) level of economic development, and (5) agricultural export potential.

Cafferata and Valdés, argue that despite the importance of upcoming trade negotiations to all countries in the region, individual country priorities are likely to differ sharply. The five main factors that will determine these differences are: net trade position, participation in regional trade groups, composition of agricultural exports, level of economic development, and agricultural export potential. For example, while the Caribbean is highly dependent on imports, the Southern Cone and Central American countries are net exporters. Central America and the Caribbean export tropical

products, while the Andean and Southern Cone countries export temperate-zone agricultural products. A common factor is that most countries in the region export large quantities of fruits and vegetables.

Many LAC countries had already begun to take unilateral steps toward liberalizing trade prior to the Uruguay Round. The political changes that sparked this trend also mean that, with stronger democratic processes in place, more social forces will seek to influence each country’s position in trade talks. Agricultural trade liberalization under the UR created winners and losers; winners were often exporters of nontraditional agricultural products, while producers of traditional cereal and dairy products now face lower levels of protection and are thus likely to lobby to improve their position through future reforms.

Among the issues liable to be of particular importance to LAC countries is the question of sanitary and phytosanitary agreements. Especially because they export quantities of fruits and vegetables, these countries, like those in South Asia, may require technical and financial assistance to meet SPS standards. Another concern is particular to the countries of the Caribbean: under trade liberalization they may well be squeezed between potentially higher import prices and lower prices for their exports, and will thus need some form of relief. LAC (especially Caribbean) countries also share a problem with Africa: the potential loss of preferential market access in industrialized countries under new trade rules. Finally, the authors note that rising tariffs on processed and semi-processed products will be of increasing importance to countries in the region. They conclude by summarizing the likely positions of net agricultural exporters and those who are net importers, foreseeing a major difference of opinion over whether to eliminate or maintain Special Safeguards.

Central and Eastern Europe

Natalija Kazlauskiene and William H. Meyers describe the similarities and differences that influence the trade stance of 12 Central and East European countries (CEEC) analyzed in this chapter. These countries share one key characteristic that is likely to influence their overall stance during trade negotiations—their recent transition from centralized toward market-oriented economies. But, as the authors note, the point at which a country became a member of the WTO (before or after the URAA) will influence its position on a number of specific issues. Pre-URAA accession countries include the Czech Republic, Hungary, Poland, Romania, and the Slovak Republic. Those that joined after the UR or are still in the process of acceding include Albania, Bulgaria, Croatia, Estonia, Latvia, Lithuania, and Slovenia. Another factor that could strongly influence the stance of the CEEC countries is their common desire to join the European Union (EU). The authors note that this could be a decisive factor in defining the strategy of CEEC countries during the Millennium Round.

Because they are “transition” economies, the CEEC share such problems as weak market and policy institutions and low human and physical capital. The changes required to become competitive in the global marketplace will take time, which should be recognized during trade negotiations. None of the countries has formulated a consistent, transparent, long-term policy on agriculture. Development levels among the countries are quite disparate; per capita gross national product ranges from a low of under US\$800 in Albania to nearly US\$10,000 in Slovenia. The disparity in numbers of people employed in agriculture is similarly wide, ranging from 4.2 to 64 percent. Except for Albania, the contribution of agriculture to GDP in

CEEC was below 20 percent, and in many countries below 10 percent. The share of agricultural exports in total exports rarely exceeds 15 percent.

The interests, options, and negotiating objectives of the various CEEC are liable to be heavily influenced by the differences in their current WTO commitments. Pre-UR members of the Global Agreement on Tariffs and Trade (GATT) generally succeeded in binding their commitments on import tariffs, market access, and export subsidies at relatively high levels. Post-UR newcomers, however, faced protracted bilateral and multilateral negotiations to set these commitments according to a much tighter schedule, and generally had far less flexibility. As a result, the authors point out, there tends to be considerably more “water” in the pre-UR member’s bindings, and thus more room for painless cuts. Moreover, the level of bound tariffs differs considerably for major, tradable, sensitive commodities; for example, Slovenia’s tariff for wheat is 5 percent, while Romania’s is 240 percent. In addition, pre-UR WTO members were able to negotiate non-zero commitments on export subsidies for major commodities.

Despite such differences, the authors predict that the issues of most importance to the CEEC at the upcoming trade negotiations will include changes in modalities or disciplines on domestic support, market access, non-tariff measures, export competition, safeguard provisions, and state trading. The positions of new and older members may differ on some issues, and Central and East European countries may decide to align with the EU to advance their chances of joining that economic group. Conclusions regarding the likely stance to be taken must be understood in the context that, to date, the CEEC have not undertaken any sort of policy coordination, either among themselves or with external entities.

Industrialized Countries

The paper by Stefan Tangermann examines the key issues and options for major industrialized countries. Tangermann shows that the URAA required changes in the implementation, if not direction, of domestic agricultural policies in industrial countries. In industrialized countries, these changes coincided with domestic policy reforms. Significant policy changes were made, in the context of the URAA, in the European Union and Japan. Canada also had to change some of its policies. The United States modified some commodity programs fundamentally, but not necessarily in response to the URAA. In Australia and New Zealand, the changes required were less pronounced. Tangermann evaluates the positions of major industrialized countries for the next round. Somewhat like in the Uruguay Round, the EU tends to defend its current policies, as reformed again under Agenda 2000, and argues against an ambitious negotiating agenda in agriculture. The United States and the Cairns Group, on the other hand, have issued strong statements requesting elimination of all export subsidies and other forms of trade-distorting support. While most of the Cairns Group countries might well be prepared to accept significant further tariff reductions and removal of tariff peaks, the United States is more cautious on that front. With recent large ad hoc support payments to U.S. farmers, the United States may have specific views on the future of the domestic support provisions. Japan's emphasis on the "multifunctionality" of agriculture and in particular the need for food security does not easily translate into a concrete position on WTO rules and commitments. In defense of high support and protection, some industrialized countries (as well as some developing countries) stress the need to consider "non-trade concerns" in the next round. The last part of the paper discusses the possible role of such concerns in the negotiations. It also addresses some issues that did not yet figure prominently in the Uruguay Round, but are increasingly referred to in the current debate. These issues include policy responses to consumer con-

cerns, the treatment of genetically modified organisms, the environmental function of agriculture, and animal welfare.

Protection and domestic support levels in most developing countries are disparate, but they are generally lower than in many northern hemisphere OECD countries. Successful agricultural negotiations would change the balance of agricultural production away from high support countries to low support countries. Trade liberalization in agriculture will affect different developing countries differently. Agricultural exporters will gain from higher and more stable prices. Farmers as a group in agricultural importing countries would benefit but import costs could rise. To enable such countries to benefit from multilateral reforms, it is important for negotiations to be broad based, providing additional opportunities for items in which these countries have a comparative advantage. Much preparatory work has gone into bringing agriculture fully into the multilateral trading system. However, that work will be of limited value unless market distortions in agriculture can be reduced substantially toward levels for other major traded goods.

This chapter examines the interests and options of Australia and New Zealand, Canada, the EU, Japan, and the United States in future agricultural trade negotiations. Tangermann begins by exploring the impact of the UR agreements on industrialized countries, concluding that, overall, policy changes have been minimal, with the exception of the elimination of Section 22 of the Agricultural Adjustment Act in the United States. Only modest improvements in market access can be cited. Some form of export subsidies continues in most countries, and the EU and United States in particular have yet to take steps in the area of domestic supports. Nonetheless, Tangermann stresses that there have been no efforts by industrialized countries to weaken decisions already made, and on the whole, they are moving toward compliance with the URAA.

Industrialized countries are likely to approach the different aspects to be treated in upcoming ne-

gotiations from differing perspectives. Reviewing the different positions, Tangermann concludes that the EU will argue against an ambitious negotiating agenda, while the United States and the Cairns Group (of which Australia and New Zealand are leading members) will seek the elimination of all export subsidies and other forms of trade-distorting supports. But the U.S. may not be as open as Cairns Group countries to further tariff reductions and removal of tariff peaks, and is likely to be sensitive on the issue of domestic supports. Japan, which tends to see agriculture as a means to food security, will have to find a way to address the contradictions inherent in promoting both open trade and self-sufficiency.

This chapter also explores three issues not addressed during the UR, but which are likely to be raised by consumers and social groups in industrialized countries, and thus to have an impact on their positions in future negotiations: food safety, genetically modified organisms (GMOs), and animal welfare. The problems associated with beef hormones exploded with the outbreak of “mad cow” disease and have created disputes among EU countries and with the United States. Overall, technical issues in the food and agricultural sector, especially the use of GMOs, are likely to persist well into the future. Consumer attitudes will play a key role in these issues, indicating that the concern of developing countries about their capacity to meet SPS is well placed. Tangermann points out that consumer perceptions about food safety at the national level will almost certainly be extended to imported foodstuffs. Other consumer-related issues are agricultural imports considered dangerous to the environment or immoral, in the sense of being cruel to animals.

Dynamics of Multilateral Agricultural Policy Reform

The paper by Ivan Roberts, Troy Podbury, Neil Andrews, and Brian S. Fisher presents a quantitative analyses of the dynamics of multilateral agricultural policy reform in the context of the WTO trade negotiations in agriculture. The key findings of the analyses show that the largest benefits from reducing support-induced distortions would be achieved by targeting the largest support reductions to those items with the largest distorting policies. These are mainly in large northern hemisphere OECD economies and include a wide range of commodities in Japan and western European countries and some commodities in the United States. Roberts and others highlight the range of systemic issues that must be addressed for a successful outcome of the new trade negotiations as follows.

- First, base periods for support reductions should be representative of normal years, or cuts must be sufficient to achieve actual reductions in support.
- Second, methods of measuring support should be agreed so that the scope for exaggerating support levels is minimized.
- Third, safeguards should provide protection only against large falls in world price, or against import surges that would harm domestic markets. Safeguards should not be used to exclude imports under normal world market conditions.
- Fourth, the import tariff quota mechanism, while opening markets somewhat, can also be used in much the same way as import quotas. Ideally, tariff quotas should be transitory, with tariff reductions sufficient for trade to exceed the tariff-quota quantity.
- Fifth, a move toward genuinely decoupled domestic support could, in time, achieve many of the economic gains from liberalization while allowing a level of assistance. For decoupling that is minimally market dis-

torting, the prices that farmers receive for output must be the world market price and marginal costs should not be affected by support payments. Even then, it will take time for distortions to fall markedly because of capacity overhangs from previous support. If farmers believe they can affect future support by current production decisions, support will not be minimally distorting.

- Sixth, production-limiting (blue box) arrangements as currently applied lock in distorted production capacity. They are only partly decoupled. Having them fully decoupled would be an advance. If not, they should be subject to cuts like other distorting policies.
- Seventh, the elimination of export subsidies appears to be a reasonable objective. However, it would be a hollow victory if export subsidies were merely replaced by other forms of distorting support. This would be an example of a wider potential problem that applies to other forms of support as well. Care must be taken to prevent reductions in support for one area being replaced with distorting support in others.

Roberts, Podbury, Andrews, and Fisher concur that positive, but modest, results have come from the URAA and suggest a range of issues that should be addressed to ensure a successful outcome to future trade negotiations on agriculture. The key to obtaining economic benefits from trade liberalization, they posit, is to advance toward a situation in which domestic agricultural prices in all countries are similar to, and vary with, world market prices.

Among the main achievements of the UR cited by the authors were the development of a broad framework for negotiating and implementing reductions in agricultural support, the negotiation of reductions in the volume of subsidized exports, and the provision of at least minimum levels of access to markets. But numerous steps remain to be taken to further reduce policy-induced distortions to agricultural production, trade, and prices. Industrialized countries have not fully complied with the spirit of the UR, even when they have remained within the letter of the agreement, as the authors point out in a discussion on decoupling and production-limiting arrangements. Many developing countries, meanwhile, lack the institutional framework (markets, property rights, legal systems) needed to realize their economic potential and thus receive the full benefits of agricultural liberalization. Therefore the position of developing countries in future negotiations could either advance liberalization efforts or stymie them by defending existing supports and not pressing industrialized countries toward further liberalization.

Some of the issues that must be addressed to advance beyond the agreements at the UR include: *safeguards*, which should protect only against large drops in world prices or import surges that would harm domestic markets; *tariff quotas*, which should be transitory; and *export subsidies*, which should be eliminated and not replaced by other form of distorting support. The next round of negotiations, the authors note, represent an ideal opportunity to achieve fundamental reform of distorting policies and ensure that market distortions in agriculture are reduced to a level similar to other major traded goods.

2. Agriculture in the Millennium Round of Multilateral Trade Negotiations: African Interests and Options

T. Ademola Oyejide

Introduction

The Uruguay Round (UR) of multilateral trade negotiations has created something of a record in the history of the series of trade negotiations as the first to explicitly specify a set of multilateral disciplines on the production and trade of world agriculture. The Uruguay Round Agreement on Agriculture (URAA) was intended to limit several policy distortions that substantially affect the conditions under which both agricultural production and trade take place worldwide. As a first step, URAA's coverage—as well as the achievements within that agreement—are inherently limited. It is partly for this reason that URAA itself contains a provision (Article XX) which mandates that new negotiations should be initiated by 1 January, 2000.

Countries of Sub-Saharan Africa (SSA) should pay particular attention to, and participate actively in, the new negotiations on agriculture for a number of reasons. These countries have a lot at stake in a world trading system whose multilateral agreements defines the broad rules under which agricultural production and trade will occur. For many of them, the agricultural sector remains pivotal to the overall growth and development of the economy. Just as it has for other regions of the

world, the URAA is bound to have important implications for African agriculture. By the same token, a new or revised agreement on agriculture that emerges from the Millennium round will also affect the agricultural sector of many SSA countries. These effects can be expected from at least three directions.

First, a revised or new agreement on agriculture will define the broad market access conditions for African agricultural exports. Second, it will also determine the broad terms and conditions for the importation into Africa of a wide range of processed and unprocessed agricultural products. The third and perhaps more long-term effect could be associated with the challenges and constraints that the rules of the new world agricultural production and trading system may impose on the choice of agricultural development strategy and policies by various African countries.

The desire to ensure that these effects are beneficial for the development of African agriculture should motivate an active and effective participation by African countries in the proposed new round, since it is primarily through such involvement that they can ensure that their interests are fully reflected in the design of the new rules. In articulating their interests within the context of the

new negotiations, however, African countries must begin with a clear understanding of the key characteristics of their agricultural sector, the demands placed on it by the aspirations for rapid overall economic growth, and the development strategy and policies which are required to enable the sector to develop in the desired direction. A relation between these considerations and the external policy environment faced by African agriculture should begin to suggest the negotiating interests that African countries should articulate and pursue as well as the set of negotiating options with which they will be confronted.

This broad perspective guides the sequencing of the various parts of this paper. Thus, the next section reviews the state of African agriculture, focusing in particular on its production and export performance and the proximate factors to which this performance can be ascribed. Since many of the disciplines embodied in URAA amount to attempts to liberalize (or at least limit certain policy distortions affecting) agricultural production and trade, the third section explores the extent to which African agricultural production and trade regimes have been liberalized through both unilateral and multilateral initiatives. This section then goes on to ask what remains in the agenda of agricultural liberalization in SSA countries and whether the multilateral process can assist African countries in completing this agricultural reform agenda. In the fourth section, analytical attention shifts away from African domestic policy environment to a survey of external barriers facing African agricultural exports. Key among the issues discussed in this section are the main barriers in Africa's major markets (especially the question of tariff peaks and tariff escalation), the magnitude of the losses from preference erosion, and the consequences for African food import and food security of continued multilateral liberalization of world agricultural production and trade. Section five derives a range of African negotiating interests and options from the analysis of the domestic policy environment and external barriers against African agricultural exports. In doing this, it identifies some unfinished business of the UR and

unfulfilled promises of the URAA. It suggests a more transparent and coherent definition of "special and differential treatment" (SDT) for the developing and least-developed countries in the WTO framework, and it argues that a more consistent application of SDT provisions in the URAA would enable many African countries to cope better with the demands of a multilaterally disciplined global agricultural production and trading system. The last section offers some concluding remarks.

The State of African Agriculture

The agricultural sector is strategic to the long-term growth and development of most SSA countries. In fact, the region's high dependence on the agricultural sector for income, employment, and export earnings is one major reason for its relatively large stake in any multilateral negotiations that will define a new set of rules to govern global agricultural production and trade regimes. A few numbers illustrate this dependence. For instance, the agricultural sector contributes about 35 percent of the region's GNP, accounts for up to 40 percent of total export earnings, and serves as the primary source of income for as much as two-thirds of the population of the typical African country. There are variations (in some cases, quite wide) around these averages, of course. Most notably in several African countries, the mineral and mining sector challenges agriculture's dominance, particularly in relation to foreign exchange earnings. These exemptions notwithstanding, the World Bank (1993) estimates that a 1 percent growth in African agriculture tends to generate a 1.5 percent growth in overall economic growth due to the sector's stimulating effects on industry, transport, and other services. Based largely on this rather close link between the growth performance of African agriculture and that of the economy as a whole, another study (ADB 1998: p 31) argues that "transforming agriculture and ex-

panding its productive capacity is a prerequisite, possibly the most important precondition, for improving living standards in Africa.”

But the transformation of African agriculture has not occurred. Hence, rather than stimulating overall economic growth, the agricultural sector may have dragged it down in many African countries, at least until very recently. The growth performance of African agricultural production has been basically unsatisfactory, having deteriorated steadily over the 1960–1990 period. During the first third of this period, the volume of agricultural production achieved an annual average growth rate of 2.5 percent. This growth performance fell to an annual average of 1.4 to 1.5 percent over the next two decades. Since the average production growth rates were below the rate at which African population expanded over this period, the average annual growth rate of per capita output fell from 0.2 percent during 1960–70 to –1.1 percent in 1970–80 and fell further to –5.1 percent between 1980 and 1990. The output growth performance of African agriculture compares rather poorly with those of other developing regions over the 1960–90 period. In particular, over the last decade of this period, average annual growth rate of agricultural production in the East Asia and Pacific regions was as high as 4.7 percent, that of South Asia was 3.0 percent, while the Latin America and Caribbean region’s corresponding average annual agricultural growth rate was 2.0 percent.

Tentative evidence indicates, however, that the agricultural sector of many African countries has been going through a recovery phase in the 1990s. Thus, many of these countries were able to achieve real agricultural output average annual growth rates of over 2 percent during the first half of the 1990s, and during 1990–97, the growth rate of agricultural value-added in Africa was well in excess of 4 percent per year. But whether this apparent recovery can be translated into rapid and sustainable growth of the agricultural sector remains to be seen. Certainly, the usually observed pattern of importance of agriculture in GDP as development proceeds has not occurred in Africa. As table 2.1 shows, agricul-

tural value-added as a proportion of GDP fell from 18 to 16 percent in the developing countries between 1980 and 1997. The corresponding regional figures show a decline from 28 to 19 percent in the East Asia Pacific region, and a fall from 38 to 27 percent in South Asia over the same period. The Latin America and Caribbean region maintained the same 10 percent proportion in both 1980 and 1997. But in the SSA region, the share of agricultural value-added in the GDP actually increased from 22 to 25 percent over the 1980–97 period. This suggests that in spite of its apparent recovery in the late 1990s, African agriculture has not performed as well as that of the other developing regions and, most probably as a result, African economies have failed to achieve the kind of structural transformation that seems to lie behind the decline in the relative significance of agriculture in the more rapidly growing economies of other regions of the developing world.

The performance of African agricultural exports parallels, by and large, that of agricultural production. Thus, the volume of agricultural exports fell from the early 1970s to the early 1980s; then it picked up from around the mid-1980s. There was, however, a steep rise in the unit value of agricultural exports during the first half of the 1970s, which powered a fairly rapid increase in African agricultural export earnings until 1977. But as the unit value fell back and export volume stagnated

Table 2.1. Agricultural Value-Added/GDP Ratio (Percent) By Region

<i>Country</i>	<i>1980</i>	<i>1997</i>
Developing countries	18	16
East Asia and Pacific	28	19
Latin America and Caribbean	10	10
South Asia	38	27
Sub-Saharan Africa	22	25

Source: World Bank, 1980-1997, *World Development Report*.

subsequently, the value of agricultural exports declined through mid-1980, until both resumed an upward trend in the early 1990s.

Several characteristics of African agricultural exports deserve mention, since they underpin the sector's fragility. First, Africa is more heavily dependent on agricultural exports than any other developing country region. Second, African is also the most heavily dependent on a narrow range of agricultural export commodities. Table 2.2 demonstrates this historic and continuing lack of diversification. This table shows that the same set of nine commodities accounted for about 70 percent of the region's total agricultural export earnings between 1970 and 1995. The top three of these (cocoa, coffee, and cotton) contributed about 55 percent of total agricultural export earnings during 1970–79 and accounted for roughly 44 percent in 1990–95. This level of export concentration places great strains on many African countries that are, as a result, quite literally at the mercy of world commodity price fluctuations (Oyejide 1993).

Table 2.2. Africa's Commodity Export Earning as Percent of Total Value of Agricultural Exports

<i>Agricultural exports</i>	<i>1970–79</i>	<i>1990–95</i>
Banana	0.7	1.2
Cocoa	20.6	17.7
Coffee	24.7	14.4
Cotton	9.2	11.8
Groundnut	2.4	4.3
Rubber	1.7	2.3
Sugar	5.6	9.1
Tea	2.5	4.9
Tobacco	3.1	8.9
Percent of total	70.4	70.7

Source: African Development Bank, 1998.

One might conclude from this heavy concentration on a narrow range of agricultural export crops that African's specialization would give the region an edge in world trade. But the reverse appears to have been the case. As table 2.3 shows, Africa suffered dramatic market share losses in its key agricultural export commodities between the early 1960s and the mid-1990s. Thus, the region's market share for cocoa declined from 80 to 41 percent or about half of its original share of the world market. Similarly, Africa's world coffee market share tumbled from 26 to 15 percent; while that of cotton declined from 20 to 13 percent over the same period. But, of course, the most dramatic market share loss was experienced by groundnuts, from 70 percent during 1961–63 to a mere 2 percent in 1995. Of the nine commodities, tea showed the most gain in world market share, from 9 to 21 percent; while sugar achieved a marginal increase from 5 to 7 percent over this period.

On the import side, food products, particularly cereals, have dominated Africa's agricultural imports. Africa's cereal imports increased at an average annual growth rate of almost 18 percent

Table 2.3. Africa's Share of World Trade (Percent)

<i>Agricultural exports</i>	<i>1961–63</i>	<i>1995</i>
Banana	11	4
Cocoa	80	41
Coffee	26	15
Cotton	20	13
Groundnut	70	2
Rubber	7	5
Sugar	5	7
Tea	9	21
Tobacco	12	12

Source: World Bank, 1997. African Development Bank, 1998.

during 1975–80. This growth rate decelerated to 3.7 percent during the next five years, but rose again to almost 5 percent in 1985–90 and to more than double this rate over the next five years. In addition, food aid receipts by African countries grew at an annual average rate of about 14 percent during 1975–80, rising to almost 20 percent in the next five years before falling back to around 15 percent up to the mid-1990s. UNCTAD (1998) shows that Africa’s ratio of trade balance to total trade in agricultural products fell systematically from 51 percent in 1993–95 to only about 10 percent in 1996–98, and concludes that “this worsening of the net agricultural export position of Africa was due to a rapid increase in food imports exceeding the growth in earnings from export crops.” But the real driving forces behind this phenomenon are probably Africa’s rapid population growth in the face of sluggish food production growth. Table 2.4 shows that, compared to other developing-country regions, Africa lags behind in food production. From a base of 100 in 1979–81, Africa’s food production index rose to 143 in 1994–96, a figure that is well below the index of 169 achieved by all developing countries and only two-thirds of the East Asia and Pacific region’s achievement. There is some evidence that, in addition to rapid population growth and urbanization that are fueling increased demand for food generally, a shift is also occurring away from domestically produced foods to im-

ported food varieties, particularly wheat and rice (Teklu 1996). This suggests that the region may experience even more rapid growth of food imports as incomes recover, given the typically high proportion of income spent on food consumption at Africa’s low income level.

The tentative recovery noted above with respect to Africa’s agricultural production and exports in the late 1990s should be placed in perspective, particularly in relation to the underlying productivity of the region’s agricultural sector. While it may be tempting to conclude, as Ingco and Townsend (1998: p 16) do, that “the reversal of the downward trend for many crops is the result of world market conditions, improved macroeconomic policies and deregulation of many controlled domestic markets, all resulting in an improved competitiveness for particular countries and crops in world trade,” the importance of non-price factors for the sustainability of this reversal must be recognized. To the extent that low productivity remains the soft underbelly of African agriculture appropriate supportive policy measures will be necessary. Tables 2.5 and 2.6 provide data to illustrate the relative productivity of African agriculture. First, as table 2.5 shows, this region’s average agricultural value-added per agricultural worker during 1994–96 was 85 percent of the average for the developing countries as a group and only 17 percent of that of East Asia and the Pacific region. Similarly, Africa’s

Table 2.4. Food Production Index (1979–81 = 100) by Region: 1994–96

<i>Country</i>	<i>1979–81</i>	<i>1994–96</i>
Developing countries	100	169
East Asia & Pacific	100	214
Latin America & Caribbean	100	144
South Asia	100	164
Sub-Saharan Africa	100	143

Source: World Bank, 1998 - 1999, *World Development Report*.

Table 2.5. Agricultural Productivity by Region: 1994–96

<i>Country</i>	<i>Average value-added per</i>	
Developing countries	459	206
East Asia & Pacific	2292	116
Latin America & Caribbean	383	519
South Asia	392	68
Sub-Saharan Africa	390	67

Source: World Bank, 1998 - 1999, *World Development Report*.

average agricultural value-added per hectare of cropland was about a third of the average for all developing countries and only 13 percent of that of the Latin America and Caribbean region. Along the same lines, table 2.6 shows that in 1995, Africa utilized only 7 percent of land areas for cropping, compared to 11 percent for all developing countries and as high as 45 percent for South Asia. In addition, Africa's cropland is the least irrigated among all developing-country regions. The extent of Africa's dependence on rainfed agriculture is demonstrated by the fact that only 4 percent of this region's cropland was irrigated in 1994–96, compared to an average of 20 percent for all developing countries and as high as 35 percent for South Asia. The increasingly erratic nature (in terms of quantity, timeliness, and frequency) of rainfall in many parts of Africa and the increasing incidence of droughts suggest that Africa's near total reliance on rainfed agriculture cannot be part of a long-term agricultural development strategy. As Larson and Frisvold (1996) suggest, a substantial growth in the use of organic fertilizer could be a crucial part of that strategy. In addition, there will be need for

increased public and private investment on crop yield-enhancing measures such as agricultural research and development, reinvigorated agricultural extension services, and substantially improved rural infrastructure. An important part of the concerns of African countries in negotiating new rules on agriculture in the context of the Millennium round should be the extent to which these rules permit them to use appropriate non-price support measures to facilitate the development of their agricultural sector.

Liberalization of African Agricultural Production and Trade Regimes

The weak performance of African agriculture noted in the section above has attracted analytical studies and policy attention. Although the contributory factors identified and held responsible for African agriculture's unsatisfactory performance covers a wide spectrum, including such "usual suspects" as the risky natural environment, political and security problems, and land tenure system, the primary focus of policy attention has been the incentive structure generated by macroeconomic and sectoral policies. As World Bank (1994: p 76) summarizes it:

African farmers have faced the world's heaviest rates of agricultural taxation... African farmers were taxed explicitly through producer-price fixing, export taxes, and taxes on agricultural inputs. They were also taxed implicitly through overvalued exchange rates which reduced the prices they obtained for their exports, and through high levels of industrial protection, which raised consumer prices.

The idea that much of the poor performance of African agriculture was due to excessive direct and indirect taxation of farmers by African governments

Table 2.6. Agricultural Land Use by Region: 1994–96

<i>Country</i>	<i>Cropland as percent of land area 1995</i>	<i>Irrigated land as percent of cropland 1994–1996</i>
Developing countries	11	19.9
East Asia & Pacific	12	n.a
Latin America & Caribbean	8	11.1
South Asia	45	35.1
Sub-Saharan Africa	7	4.0

Source: World Bank, 1998 - 1999, *World Development Report*.

thus formed the basis of much of the policy measures designed to liberalize agricultural production and trade regimes in Africa and implemented, with varying degrees of intensity and success, from the early 1980s.

The goal of these policy reform attempts was to establish an agricultural production and pricing regime which would have at least three key elements: unsubsidized and market-determined prices for all agricultural inputs and products; neutral taxation of agricultural and other sectors; and agricultural export crop prices set at border parity levels, where these are determined on the basis of market-clearing equilibrium exchange rates. While the movement toward this achievement has been uneven, both over time and across countries, it seems clear that considerable progress has been made, and as a result Africa's agricultural production and trading regimes were more liberalized in the 1990s than they were in the previous two to three decades.

These liberalization efforts have been carried out not in the context of a multilateral trade negotiation but through the mechanism of structural adjustment programmes (SAPs), a set of arrangements within which African countries undertook to carry out agreed policy reforms in respect of which the World Bank (plus, in some cases, other donors) provided analytical and financial support. Since SAPs typically cover macroeconomic and sectoral policy reforms, those implemented in many African countries have also included explicit trade policy components in the context of which a country's tariff structure (including both the agricultural and industrial components) was rationalized, compressed, and liberalized. Various assessments of these trade policy reforms have noted significant achievements. Nash (1993: p 38) shows that "protection of import substitutes by tariffs and non-tariff barriers in Sub-Saharan Africa as a whole has declined." In particular, the average level of protection fell by between 30 and 50 percent over the period from the mid-1980s to the early 1990s. Furthermore, according to World Bank (1994: p 24):

... since the mid-1980s, most African countries have moved from complete or nearly complete government control over imports to more open systems, and have substantially reduced the number of imports subject to quantitative barriers.

... the greatest progress has been achieved in replacing quantitative restrictions with lower and less dispersed tariff levels; more than half the countries now have average tariff rates of 15–20 per cent with the highest rates set at 35–40 percent and the number of tariff categories reduced to 4–5.

There is one major problem that this impressive record of African trade policy reform leaves unsolved. The tariff reductions that were achieved are not "WTO-bound" and can therefore be changed. In fact, accumulated evidence (for example, Oyejide, Ndulu, and Gunning, 1996) shows that African trade liberalization attempts were frequently reversed. A review of the commitment of African countries under URAA should therefore provide another perspective regarding the liberalization of the region's agricultural production and trade regimes. Table 2.7 shows ceiling binding tariffs, exceptions, and other duties and charges drawn from the schedules of SSA countries with respect to agricultural products. According to this table most SSA countries have selected ceiling binding tariff levels in the range of 100–600 percent. Only five countries have set ceiling binding tariffs in the range of 30–40 percent, while another set of 13 countries have opted for ceiling bound rates of 60–99 percent. In addition to these already high ceiling binding tariff levels, many African countries have chosen to impose "other duties and charges" that are as high as 100–250 percent. This table makes it clear that African ceiling binding tariff levels plus other charges are much higher than the tariffs that these countries actually apply to their import of agricultural products. In this sense, it is not unlike the situation in the

more developed economies where “dirty tariffication” has led to very high post-UR tariffs on certain agricultural products. There is an important difference, however. While the African practice has the

primary effect of damaging their own trade policy credibility, that of the OECD countries actually serves a protectionist purpose.

In the end, though, a more realistic comparative

Table 2.7. Schedule of Concessions on Agricultural Products of African Countries

Country	Agricultural Products		
	Ceiling binding (percent)	Exceptions	Other duties & charges
Angola	80		0.1% of declared value of imported goods
Benin	60	on 2 HS chapters bound at 100 %	19 percent
Botswana	0-597	on 4 HS chapter bound at 20 %	specific duties: RO.73/T - R142/T
Burkina Faso	100		50 percent
Burundi	100		30 percent
Cameroon	80		230 percent
Central African Rep.	30		16 percent
Chad	80		
Congo	30		
Cote d'Ivoire	15	on 9 HS chapter bound between 4 and 64 %	Other duties and charges varied from zero percent to 40 percent, with scattered specific duties up to 4750F/kg
Djibouti	40	on 5 HS chapters bound between 50 and 450 %	100 percent
Gabon	60		200 percent
Gambia	110	on 10 HS chapters bound between 20 and 85 %	10 percent
Ghana	99	on 5 HS chapters bound at 40%, 50%	15%
Guinea	40		2%-70%
Guinea Bissau	40		25%, 50%
Kenya	100		
Lesotho	200		
Madagascar	30		
Malawi	125	on 2 HS chapters bound at 50%, 55%, 65%	20 percent
Mali	60		50 percent
Mauritania	25	on 17 HS chapters bound at 30%, 50%, 75%	15 percent
Mauritius	122	on 8 HS chapters bound at 37%, 82%	17 percent
Morocco	8-289		7.5%, 15%
Mozambique	100		100 percent
Namibia	0-597		specific duties: RO.73/T - R142/T
Niger	50	on 8 HS chapters bound at 200%	50 percent
Nigeria	150		80 percent
Rwanda	80		
Senegal	30		150 percent
Sierra Leone	40	on 4 HS chapters bound at 30%, 40%, 80%	20% sales tax, 30% excise tax - rice exempted
South Africa	0-597		specific duties: RO.73/T - R142/T
Swaziland	0-597		specific duties: RO.73/T - R142/T
Tanzania	120		
Togo	80		3% statistical tax, 4% stamp tax; 200 CFA/tonne maritime freight charges
Uganda	80	on 16 HS chapter bound between 40% and 70%	10%, 12%, 30%
Zaire	100	on 3 HS chapters bound at 15%, 20%	
Zambia	125	on 2 HS chapters bound between 45% and 60%	
Zimbabwe	150	on 4 HS chapters bound at 25%	15 percent

Source: Compiled by Dickson Yeboah, April 1996, WTO Geneva.

picture of the relative protection and support of agricultural products across different regions of the world emerges quite clearly from table 2.8. This table shows that, after the implementation of the three key elements of URAA in 2005, the agricultural tariffs of SSA countries will average 13 percent, which is much lower than the average of 20 percent for all developing countries and only about a third of that of the OECD countries. Furthermore, the SSA countries will continue to tax both agricultural production and export, while the OECD countries will still provide positive and large support levels for both.

External Barriers against African Agricultural Exports

Viewed nominally and from the African perspective, a full implementation of the market access

Table 2.8. Post-Uruguay Round Tariffs, Production and Export Subsidies for Agriculture: 2005

<i>Region</i>	<i>Tariff (%)</i>	<i>Production subsidy (%)</i>	<i>Export subsidy (%)</i>
OECD	36	1	7
Developing Countries	20	-2	-2
Southeast Asia	19	-3	-3
South Asia	19	0	0
Latin America	12	-1	-1
Sub-Saharan Africa	13	-1	-9
North Africa/ Middle East	24	-4	0

element of URAA would appear to achieve significant results (Oyejide 1997). While the tariff reductions URAA generates on agricultural products average 37 percent, tariffs facing African agricultural exports in the markets of the industrialized countries would be down by 32–48 percent. In particular, average tariffs on tropical products would have been reduced by 43 percent (including 25 percent reduction for cereals; 35 percent for coffees, cocoa, and tea; 40 percent for oil seeds, fats, and oils; and 48 percent for cut flowers). But while these reductions are impressive, they apply to existing tariff rates that are already quite low and may not therefore be expected to have any significant positive impact on African export volumes.

The post-UR multilateral trade regime poses problems for many African countries in several other directions. One of these concerns is the impact of liberalization on food import prices. To the extent that agricultural export subsidies are effectively disciplined, food import prices could rise and, in turn, raise the food import bills of certain African countries. According to Harold (1995) the negative impact of this is likely to be minimal—a roughly 0.15 percent increase in the annual import bill of Africa’s net food-importing countries. It appears, however, that this may be a gross underestimate. Greenfield, Nigris, and Konandreas (1996) present an assessment by the Food and Agriculture Association (FAO), which projects a price increase in the range of 0–10 percent for most agricultural commodities as a result of the market effects of URAA, and suggest the food import bills of developing countries could rise by as much as 62 percent between 1988 and 2000. This assessment further claims that

Among the developing countries, the outlook for Africa raises some concern.... The region relies on exports of a small number of traditional crops, particularly coffee and cocoa, the markets for which are expected to grow at best steadily. At the same time, the region will continue to be a heavy net importer of basic food-stuffs, the prices of which would rise....

The net effect of these changes is an increase in the gross food import bill from US\$6 billion in 1998 to US\$10.5 billion in the year 2000, US\$500 million of which would be ascribable to the UR.... For the 43 low-income food-deficit (LIFD) countries of this region ... (the assessment projects) a rise in gross food import bills from US\$3.5 billion to US\$6.3 billion, with US\$0.2 billion of the increase due to the UR.

The URAA recognizes this problem and makes explicit provisions for assisting the LIFD countries to cope with the effects of implementing the agreement on international food prices and the effects of reduced subsidies on the export of food from the industrialized countries. This assistance was to take several forms, including increased food aid, financial assistance to import food, and technical assistance to improve agriculture productivity infrastructure. But this WTO decision, while containing the explicit offer of assistance, fails to indicate what operational mechanisms and modalities would be used to deliver its promise. Meanwhile, certain post-UR trends are now quite clear: food is steadily falling rather than increasing, the food import bills of LIFD countries in Africa are rising, and technical assistance to improve their agricultural productivity and infrastructure has declined.

The erosion of trade preferences previously enjoyed by many African countries will also impose a strong negative impact on Africa. The estimates of the losses associated with preference erosion vary. Yeats (1994) suggests non-fuel export losses of about US\$160 million, which was considered more than sufficient to leave Africa with net trade losses as a result of UR tariff cuts. Weston (1995) suggests that losses associated with reduced preference margins will be experienced by many African countries and that, in total, these losses could be as large as 1.5 percent of their total export earnings. Yamazaki (1996) computes and compares the values of African pre-UR preferential benefits with those derivable after the Round in three key mar-

kets of the EU, U.S., and Japan; this exercise shows that the value of African preferences in these markets will fall from US\$675 million to US\$509 million, representing a 25 percent loss. In concluding, Yamazaki (1996: p 417) notes that "Africa's losses measured against its pre-UR benefits could be relatively small (25 percent), but not necessarily so in absolute size, given the low income level of many of the recipients."

There is a second element of preference erosion that also affects several African countries. The possible negative in this area would be the likely displacement of African producers (who currently benefit from some commodity protocols in the EU market) by agricultural products from temperate-zone countries as a result of the URAA's prohibition of non-tariff barriers (NTBs) on agricultural products. Prime examples of these African countries are Mauritius and Swaziland (sugar), and Botswana and Namibia (meat). Exports of these African producers are likely to suffer price declines in the EU market as these protocols (associated with the Lome Convention) give way in the light of URAA provisions.

An analysis of post-UR tariffs on agricultural products in the OECD countries reveals two other areas in which African agricultural exports are likely to be constrained. First, tariff peaks (such as tariff rates above 12 percent) will remain high in these markets for many processed foods and food products (UNCTAD 1997). Tariffs are in the range of 12–30 percent for many of these products which are of particular export interest to African countries. Furthermore, above-quota imports of many of these products attract tariffs that may be several multiples of the peak tariffs. Second, a substantial degree of tariff escalation has survived the UR process. This may constitute a hindrance to those African countries planning to diversify their agricultural exports by branching into further processing of their agricultural commodities. In relation to the food industry, for instance, FAO (1997) finds that agricultural exports of developing countries are largely concentrated in the first stage of food processing, while the most advanced food industry products make up 32.5 percent of the food exports

of the industrialized countries. Tariff escalation in the industrialized-country markets appears to be one of the major constraints to the vertical diversification of the agricultural exports of many developing (including African) countries. The URAA and its implementation have not solved the two problems of tariff peaks and tariff escalation; they may in fact have worsened them.

African Negotiating Interests and Options

The URAA has imposed a limited set of obligations on most African countries. This result is due to at least two reasons. First, the major agricultural policy distortions on which key elements of URAA focused (such as high import barriers, domestic support, and export subsidies) are virtually absent in many African countries. Second, many of these countries are either “least-developed” or “developing;” these are country categories covered by certain provisions of “special and differential treatment” which in effect limit, in certain ways, the type and extent of commitments they are required to make as part of the negotiating process that produced URAA. In any case, part of the process of liberalization of production and trade regimes in Africa predated the UR, which therefore had no direct influence on African liberalization.

Part of Africa’s interests in the new multilateral negotiations on agriculture would obviously include attempts to remedy those elements of URAA which have had negative impacts on the agriculture and economies of many African countries. The consequence of the liberalization of world agriculture for international food prices and the food import bills of Africa’s many low-income and food-deficit countries is one of these areas. African negotiating interest in this context is clearly not to try to reverse the liberalization trend, which is generally desirable, but to hold the WTO to its promise in respect of assistance to the affected African coun-

tries to cope with the situation. Operationalizing that promise requires clear articulation regarding the magnitude and modalities of the assistance.

Preference erosion is another area of negative impact on the basis of which many African countries can stake a claim for some compensatory compensation without attempting to block further global liberalization. But a more positive reaction would probably be to push for the realization of the proposal that *all* export products of the least developed countries be allowed to enter the markets of industrialized countries free of duty and quota restrictions. This special market access should adequately compensate the affected African countries without constituting a significant “burden” for the industrialized countries.

Beyond the negotiating interests that are directly associated with the negative impact of URAA, African countries should be interested in further market access improvements that result in the reduction of tariff peaks and elimination of tariff escalation, especially as they relate to agricultural products. A more diversified agricultural sector in Africa that can generate exports of processed agricultural products would be substantially assisted by the reduction of tariff peaks and elimination of tariff escalation.

What could African countries offer in return? While African countries have bound all agricultural tariffs as mandated by URAA, they have done so at very high ceiling rates that are, in many cases, several multiples of the applied rates. In addition, African agriculture could benefit from further liberalization and rationalization of its domestic trade and pricing policies. Achieving this objective by bringing the ceiling binding levels closer to the applied rates in the context of multilateral negotiations could be associated with two kinds of benefits. First, an offer to lower the ceiling binding levels can be “exchanged” for some further concessions from the industrialized countries. Second, the adoption of a multilaterally negotiated and bound liberalization process should enhance the credibility of African trade policy and, hence, probably

elicit quicker and more robust output and export supply response.

The development of an internationally competitive African agriculture requires a liberalized domestic pricing and marketing regime as well as improved access to export markets. But it needs more than this; African agricultural production and exports are also constrained by various structural, institutional, and environmental factors. The capacity of African agricultural producers and traders to respond to favorable changes in the incentive structure is held down by poor infrastructure, low productivity, inadequate research and training, and poor dissemination of knowledge about new production technologies and crop varieties as well as pest and disease control systems. Policy initiatives to deal with these constraints should attempt to involve as much private investment as possible but will inevitably involve increased public resources, given that African agriculture is dominated by small farmers. Some of the necessary support will clearly be allowed under URAA, but some may also fall foul of the “law,” especially if African countries are held to the low levels of aggregate measures of support already reported. Given the importance of this issue, African countries may need to find refuge in a rethinking of SDT and its provisions in the context of renegotiating the URAA. This could have several elements. First is the need to classify countries into the “least-developed” and “developing” categories on the basis of more objective development and trade-related criteria. The Subsidies Agreement already recognizes the inadequacy of the United Nations’ definition of “least-developed” countries by adding the so-called Annex VII countries (with per capita income of US\$1,000 or less) to the list of least-developed countries exempted from certain elements of its obligations. A more objective set of criteria for identifying the least-developed countries, based on some income and trade competitiveness threshold, would undoubtedly include most African countries. Second is the need to move away from the use of “transitional periods” and towards the adoption of appropriate graduation

criteria that are also based on the same set of income and trade-competitiveness thresholds. As applied in the current UR agreement, transitional periods appear haphazard; the length of time specified in particular cases bears no clear relationship to either the adjustments required or the human and institutional capacity building required for achieving an appropriate level of readiness to carry out the corresponding WTO obligations. Thus, an important negotiating interest for African countries would be to redefine SDT and its provisions in the URAA so that they can permit the application of appropriate support systems to African agriculture, without which changes in the incentive structure would be largely ineffective.

Conclusion

Agriculture has a pivotal role to play in the overall development of many African economies. Part of the reform efforts aimed at reversing economic decline in Africa since the mid-1980s has been the unilateral liberalization of agricultural production and trade. The URAA may be seen, in certain respects, as a continuation of the ongoing agricultural liberalization process in many African countries.

But the URAA only partially addresses the problems of African agriculture. Furthermore, certain elements of the URAA may constitute constraints with respect to the choice of an appropriate long-term strategy for the development of the sector. There are therefore important interests at stake for African countries to protect in any future multilateral negotiation on agriculture. In a nutshell, these should cover at least two key areas. One is to secure enhanced market access for their agricultural and processed food exports in the industrialized-country markets through the elimination of tariff peaks and tariff escalation. The second is to ensure that the multilateral disciplines on agriculture enable African countries to provide the support necessary for the long-term development of their agricultural sector.

Notes

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3. Agriculture and the New Trade Agenda in the WTO 2000 Negotiations: Interests and Policy Options for South Asia

Prema-chandra Athukorala

This paper explores issues involved in the implementation of the Uruguay Round Agreement on Agriculture (URAA) and policy options for the next round of multilateral trade negotiations, from the perspective of the countries in South Asia. Given the nature of the political economy of agricultural trade policy, it is unrealistic to assume that reforms in import-trade regimes will automatically trigger reforms in other areas. Providing financial support for the implementation of required social safety-net measures could play an important role in making comprehensive reforms politically palatable and feasible. From the South Asian perspective, other policy options for the new round of multilateral trade negotiations include:

- Speedy reduction of bound tariffs to realistic levels, with a view toward providing an effective anchor for the ongoing liberalization process;
- Providing more institutional support to enable developing countries to make use of the WTO dispute-settlement mechanism; and
- Effective consultative efforts to improve the capacity of developing countries to meet international standards required under the Sanitary and Phytosanitary (SPS) Agreement.

Introduction

The Uruguay Round Agreement on Agriculture marks an important turning point in the history of international trade negotiations.¹ Although the outcome of eight years of negotiations fell far short of initial expectations, the agreement has succeeded in laying a firm foundation for strengthening multilateral discipline in agricultural trade. Completion of the unfinished agenda, with a view to ending the long-standing disarray in world agriculture, is a major challenge for the next round of multilateral trade negotiation. To prepare for this task it is important to broaden our understanding of how trade policy is made in developing countries, and the constraints they face in their attempts to comply with the commitments set out by the URAA. This paper seeks to contribute toward this end through a comparative case study of the four South Asian countries that have ratified the URAA: Bangladesh, India, Pakistan, and Sri Lanka.²

The paper begins with a stage-setting discussion on the role of agriculture in the national economy and agricultural trade patterns of the four countries. It also provides an overview of the history of trade policy since World War II, followed by an examination of the pre-Uruguay Round

structure of agricultural trade protection. It examines URAA commitments and compliance, focusing on issues that emerged during the implementation process, surveys recent assessments of the impact of the URAA liberalization process on South Asian economies, and focuses on the unfinished agenda—what remains to be done in the next Millennium Round of multilateral trade negotiations—in light of the South Asian experience. The paper concludes with remarks on South Asia's experience under URAA and direction for future policy initiatives.

South Asian Economics: The Role of Agriculture

The relative position of South Asia in the global economy declined dramatically during the post-war era. In the early 1960s the region accounted for over 3 percent of world gross domestic product (GDP) and 4.5 percent of world trade. By the mid-1990s these shares had declined to 1.6 and 1.0 percent, respectively. The region's share of world population, however, increased from 16 percent to 20 percent during this period.

India, with 75 percent of the region's population, 65 percent of total GDP, and 75 percent of agricultural GDP, is the dominant economic power in the region (Appendix table A.3.1). All South Asian countries belong to the low-income country category of the World Bank's country classification, and Bhutan, Maldives, and Nepal are categorized as least-developed countries.

Despite more than five decades of policy commitment to industrialization, agriculture still constitutes one-third of regional GDP. It provides employment for over 35 percent of the labor force in Sri Lanka and over 50 percent in the other countries, surpassing the contribution of all other sectors. More women than men work in agriculture in Bangladesh, India, and Pakistan. Agricultural labor is shared more or less equally in Sri Lanka, perhaps

reflecting the role of free, universal education in placing women on an equal footing with men in relation to employment choice.

The share of agricultural products in total exports has declined significantly over the past two decades in all countries (table A.3.2). By the mid-1990s agriculture accounted for 24 percent of total exports in Sri Lanka, 16 percent in India, and 12 percent in Bangladesh and Pakistan. The decline, measured in terms of gross export earnings, however, overstates the diminishing importance of agricultural imports in Sri Lanka and Bangladesh, as most manufacturing exports from these countries 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 it appears when looking only at gross export earnings. The data for Pakistan and Bangladesh seem to overstate the diminishing role of agricultural exports, because semi-processed jute exports are classified as manufactured goods.

The decline in agriculture's share in total exports in these countries cannot be explained solely in terms of the rapid growth of manufactured exports. There is considerable evidence that they have lost market shares in a number of agricultural product lines in which they have comparative advantage, owing to the significant anti-export bias embodied in the incentive structures of these countries (Wolf 1982; Bhagwati 1993; Guisinger and Scully 1991; Athukorala 1991). Estimates of revealed comparative advantage for major export commodities provided in table A.3.3 are consistent with this view. The index of revealed comparative advantage (IRCA) measures a country's export performance in a given commodity compared to all of that country's exports and world exports. A decline in the index points to deterioration in relative export performance in the global context. Except for a few products, there has been a general decline in the index across all South Asian countries.

Table A.3.4 shows that South Asian exports account for a significant share of world trade in only five products: spices (13 percent), rice (20 percent), tea (31 percent), oil seeds (46 percent), and jute (75

percent). In all other major internationally traded agricultural goods, South Asia is a small player, accounting for less than 4 percent of market share in all cases.

The decline in the share of manufactured goods is prominent on the import side as well. This decline has persisted for a long time, and reflects longstanding import-substitution policies in the four countries. This policy emphasis notwithstanding, food imports constitute the major component of total agricultural imports. The data in table A.3.4 demonstrate that all countries in the region are small players in import markets.

A noteworthy recent development in agricultural exports from the region is the rapid growth of processed-food exports, despite the observed general decline in agriculture's share of total exports (table A.3.6). Disaggregated data for this commodity category (not reported in the table) suggest that the rapid growth of this export category was accompanied by a remarkable shift in commodity composition. Export growth in recent years has been driven largely by commodities that were relatively unimportant in the 1970s. The most prominent of the new, dynamic items is processed fish, whose share in total processed-food exports from South Asia increased from 5.6 percent in 1970 to 38 percent in 1995. According to disaggregated data for individual countries, in 1995 processed fish alone accounted for 70 percent of processed-food exports in Bangladesh, 45 percent in India, 28 percent in Sri Lanka, and 25 percent in Pakistan, compared to an average share of 5 percent in the mid-1970s. The share of preserved fruit has also increased, although not as spectacularly as that of processed fish. But shares of "traditional" processed-food items, such as sugar and molasses, animal feeds, tobacco products, and vegetable oils have either fallen or fluctuated erratically over time.

The emergence of processed food as a dynamic export line is not exclusively a South Asian phenomenon. Rather, it is part of a trend toward the globalization of processed-foods markets (Athukorala and Sen 1998; Henderson, Handy, and Neff

1996; Henderson, Sheldon, and Pick 1996). The causes and determinants of this emerging trend in world trade, which is of immense significance for market-oriented reforms in agricultural resource-rich countries, are yet to be systematically studied. Some evidence suggests that it reflects the "internationalization of food habits"—the increased importance of imported, processed items (such as canned fruits and vegetables and breakfast cereal) in food-consumption patterns in industrialized countries, as well as among large sections of the populace in many developing countries. Factors such as international migration, the communications revolution, and international tourism have contributed to this phenomenon. This significant demand-side impetus to the growth of processed-food exports seems to have been supported by important supply-side developments, such as improvements in food technology, refrigeration facilities, and transportation, which have made processed-food items easily tradable across national boundaries. Whatever the underlying reason, this emerging export line deserves special attention in the international policy debate on the global integration of agricultural production in developing countries.

As can be seen in table A.3.6, Bangladesh, Pakistan, and Sri Lanka are net food exporters. The degree of net food-import dependence (measured by net food imports as a share of total imports), however, declined significantly in Bangladesh and Sri Lanka between the early 1980s and the mid-1990s. Pakistan, in contrast, recorded a significant increase in the ratio during the same period. This is considered to be a reflection of decline in agricultural productivity, which in turn is ascribed to defects in the country's highly interventionist agricultural policy (Khan 1997). India is a net food exporter; net food exports as a share of total imports in India increased from 4 percent to 13 percent between 1980–81 and 1995–96.

Bangladesh is the largest recipient of food aid among the four countries, obtaining 9 percent of total food imports from that source in the mid-1990s (table A.3.7). Food aid to Pakistan has never been

significant; India and Sri Lanka fall somewhere in between. The relative importance of food aid in food imports for all countries declined significantly from 1990 to 1996, from 8 percent of total food imports to less than 5 percent. Anderson's (1999) view that the decline in food aid is a post-Uruguay Round phenomenon (reflecting the subsidy-related food stocks held by industrialized countries) is not consistent with the South Asian experience. The decline was already well underway when the UR agreement was reached in 1994.

Tables A.3.8 through A.3.11 present indicators on intra-regional trade in South Asia. Among the world's regional blocs, South Asia has perhaps the lowest incidence of intra-regional trade. Only 3 to 5 percent of total regional exports were destined to the regional market between 1970 and 1995. A similar pattern can be observed on the import side. India's trade with other South Asian countries represents less than 2 percent of its total trade.³ India is the dominant export destination and import source for Bangladesh. Sri Lanka exports more to Pakistan than to India, but its imports are mostly from India.

The relative importance of regional markets for agricultural and other primary products has declined relative to manufactured goods (table A.3.10). However, intra-regional trade is of greater importance for food trade compared to total agricultural trade, both on import and export sides. Intra-regional trade in textile fiber has increased in recent years as a result of regional input procurement by rapidly expanding clothing industries in Sri Lanka and Bangladesh. However, clothing, the commodity with the highest degree of export specialization in all four countries, is generally not traded within the region (Samaratunga 1999, Chapter 5).

The observed pattern of low intra-industry trade is consistent with the trade-complementarity indices reported in table A.3.11. The index of trade complementarity (ITC) measures the extent to which a given country's export trade with a partner-country is relatively large or small, given the patterns of export specialization of the former and

import specialization of the latter. Generally the measured degree of complementarity is very low, except for Sri Lanka's export trade with Pakistan. Some improvement has taken place in trade-complementarity for Pakistan's trade with Bangladesh and Sri Lanka. In sum, the overall trade patterns of individual countries in the region are not conducive to rapid, intra-regional trade expansion. These trade patterns have been dictated by closed-economy, import-substitution policies pursued by these countries for many years. During the colonial era, however, when the four countries formed a unified trading area, domestic food and other consumer-good requirements were met through regional trade. Thus new trade complementarities could emerge as part of the ongoing process of unilateral trade liberalization.

Trade Policy Trends

During the first three decades of the post-war era, South Asia continued to remain the most inward-oriented group of countries in the world outside the communist bloc. Sri Lanka led the way in breaking away from the protectionist past by embarking on a decisive process of economic opening in 1977. Following hesitant and sporadic attempts to dismantle trade barriers in the 1970s, other countries embarked on significant liberalization reforms beginning in the late 1980s. While vast inter-country differences are evident in terms of the degree of liberalization achieved during the ensuing years, by the mid-1990s all four countries had entered into a seemingly irreversible process of economic liberalization. By the mid-1990s each country had achieved IMF "Article VIII status," allowing the full convertibility of national currencies on current-account transactions. Table A.3.12 provides a chronology of major shifts in South Asian trade-policy regimes.

Sri Lanka

As a reaction to the dismal economic outcome of its inward-looking policy, Sri Lanka embarked on an extensive economic liberalization process in 1977 (Cuthbertson and Athukorala 1991; Athukorala and Rajapatirana 1999). The first round of reforms carried out during 1977–79 included supplanting quantitative restrictions on imports with tariffs, revising the tariff structure to achieve greater uniformity, reducing restrictions on foreign investment and private sector participation in the economy, exchange rate realignment, and offering incentives for nontraditional exports. The reform process lost momentum in the early 1980s, first because of an unfortunate shift in policy priorities toward more politically appealing, glamorous investment projects, and later as a result of the onset of ethnic conflict. There was however no retreat to the old control regime.

In a decisive move to infuse momentum into the unfinished reform process, a significant “second wave” liberalization package was implemented in 1990. The package included an ambitious privatization program, further tariff cuts and simplification of the tariff structure, removal of exchange controls on current account transactions, and several important changes to the foreign investment policy framework in line with an increasingly outward-looking economic orientation. Following two decades of reforms, Sri Lanka today stands out as one of the most open economies in the developing world (Williamson 1998). The reform process over the past two decades has been successful in virtually eliminating quantitative restrictions and reinforcing the role of tariffs as the central instrument regulating Sri Lanka’s merchandise trade. The effective duty rate (total duty collection as share of total imports) declined continuously over the past ten years, reaching 8 percent in 1995. All three end-user categories (consumer, intermediate, and investment goods) have experienced a consistent decline in duty incidence over the past ten years; intermediate goods recorded the sharpest decline. The share of dutiable imports in total imports

ranged between 52 and 77 percent during 1978–84, and declined continuously during the ensuing years. Only 40 percent of imports (in value terms) were subject to duties by the mid-1990s. The coverage of quantitative restrictions (QRs) in total imports was a mere 3 percent, in value terms, and the items covered by QRs accounted for only 2 percent of domestic manufacturing value-added.⁴ Export taxes have been eliminated and state-trading monopolies were largely dismantled.

Bangladesh

Trade liberalization in Bangladesh began in the mid-1980s and gathered momentum during the early 1990s (Rahman 1997; World Bank 1995). Since then quantitative restrictions have been abolished and tariff rates reduced across the board, leading to a significant reduction in the dispersion of tariff rates. Reduction of QRs and simplification of tariffs have been undertaken in the form of moving items off the pre-announced Negative List and Restricted List. These two lists were combined in 1989 to form a general “Restricted” list. By the mid-1990s only 2 percent of imports (in value terms) were on the list. The number of Harmonized System Code (HSC) items under QRs had been reduced to 25 percent by 1994. In 1990 maximum tariffs declined to 60 percent, followed by an increase in the minimum from zero to 7.5 percent in 1992. The import-weighted import duty rate was 21 percent in 1995, down from 47 percent a decade ago. In Bangladesh, as in all other South Asian countries, liberalization of capital and intermediate goods moved faster than that of final goods. Nominal tariff rates do not differ substantially between agriculture and manufactured goods.

Pakistan

Pakistan has a checkered history of trade liberalization. As Guisinger and Scully (1991: p 205) put it: “Compared with most developing countries that have undergone trade liberalization, Pakistan is a tortoise rather than a hare.” Trade liberalization has

made slow but steady progress since 1960. In 1970 Pakistan qualified for Article VIII status at the IMF, but even in the mid-1980s the country had a long way to go in terms of lifting QRs and reducing tariffs. The current phase of trade liberalization reforms began in 1989. The number of tariff bands was reduced from 17 percent to 10 percent in 1995, and the tariff range was brought down to between 0 and 150 percent, although tariffs on exempted goods (mostly luxury goods) had higher rates of 225 percent and 450 percent. By 1995 the maximum tariff rate had been reduced to 70 percent (with a few exceptions). The average unweighted rate came down further, to 58.2 percent, by 1994. In 1995 only 70 out of 5,464 products at the HSC 8-digit level were on the restricted import list. Export duties had been eliminated by 1995, except for a minor development surcharge on some exports. However, 251 items, including some items in which Pakistan has comparative advantage in international trade, were on the list of prohibited exports. A few minimum-price requirements for approval of certain exports were in effect.

India

Despite liberalization attempts during the 1980s, by 1990 India was the most autarkic country in the world outside the communist bloc (Bhagwati 1993; Joshi and Little 1996). In 1991 India embarked on a major liberalization reform as part of a structural adjustment package designed to face a massive balance of payments crisis. QRs were lifted and tariffs gradually reduced on intermediate- and capital-goods imports. Most imports undertaken through state agencies were “decanalized,” bringing the private sector into those product sectors. But even by the mid-1990s most consumer-goods imports (including most agricultural products) were still subject to licensing or outright prohibition. Export controls were also gradually reduced; the number of export items under controls fell from a pre-reform level of 439 to 215 in 1993. The share of tradable GDP protected by QRs is thus still very high; between 1990–95 the share declined

from 93 percent to 66 percent. This share is probably less than 10 percent of that in other South Asian countries (Pursell 1999: p 30). Thus, despite substantial reforms beginning in 1991, the Indian economy still remains the most protected in South Asia.

The relative importance of initiatives in individual countries, versus the role of “outside influence,” in recent reforms in South Asia remains controversial. It is generally acknowledged that impetus for the reforms was rooted in growing recognition by national policymakers that their interventionist, import-substitution policies had largely misfired (Pursell 1999: p 30; Bhagwati 1993: pp 68–69). Commenting on the 1991 reforms in India, Bhagwati (199: p 69) notes that “those who denounced alien intrusion were in fact denying the credit to their own nationals.” Sri Lankan officials and others have observed that, given the dismal economic record of the closed-economy era, even a reelected, center-left government would probably have embarked on a similar reform process. Considerable discussion took place within government circles immediately prior to the election on the need for liberalizing trade and foreign investment (Cuthbertson and Athukorala 1991).

But the role played by the Bretton Woods institutions cannot be ignored. Most, if not all, liberalization packages formed a part of structural adjustment packages designed with World Bank and International Monetary Fund (IMF) involvement. The World Bank played a key role in designing, implementing, and monitoring the tariff-reform process in Sri Lanka, through the provision of institutional support and expertise under policy-related lending. When the momentum of reforms initiated in 1977 began to wane in the second half of the 1980s (owing to civil unrest and political turmoil), the IMF and the World Bank played a key role in resuscitating the reform process, as part of a major structural-adjustment package implemented in 1991 (Cuthbertson 1998; Athukorala and Rajapatirana 1999).

Pre-URAA Agricultural Trade Policy

Liberalization of agricultural trade in South Asian countries has been less far-reaching and intense than that of overall trade liberalization. This pattern can be seen more vividly by comparing South Asia's liberalization trends and patterns with those of Latin America. Latin American agricultural trade reforms have, by and large, received equal weight in the liberalization process (Valdés 1999; Edwards 1997).

Sri Lanka

When the URAA was signed in January 1995, high tariffs and quantitative restrictions still constituted important deterrents to import-trade in Sri Lanka for a number of key agricultural commodities (Athukorala and Kelegama 1998, table A.3.5). Import duties on eight-digit HSC items varied sharply—between 5 and 100 percent—and most essential food crops clustered at the upper end of the distribution. The importation of rice, the main staple and prime target of import-substitution attempts in agriculture, was subject to licensing and a tariff of 35 percent. Import quantities for chilies, onions, and potatoes were decided at a weekly “Food Security” meeting involving the Department of Census and Statistics, the Food Commissioner, Ministry of Agriculture, and Controller of Imports and Exports. While no licensing or other non-tariff restrictions were placed on sugar imports, the tariff on sugar was set by the government according to a special arrangement with the chief domestic sugar-producer (Pelwatta Sugar Company, a subsidiary company of the sugar giant, Booker International). The aim was to guarantee a certain rate of return to the company, as had been agreed in the original investment agreement. The government-owned Cooperative Wholesale Establishment held a monopoly over the importation of wheat and wheat flour, which together accounted for over 70 percent of total food imports.

The Sri Lankan reforms were much more far-reaching on the export side. Export duties on all plantation crops were abolished in 1992. After that year taxation of agricultural and other exports was limited to various surcharges and “cesses” (minor taxes levied to finance export-development projects), which were applied at rather moderate rates. The share of export taxes (duties + cesses + other surcharges), which reached 25 percent in the early 1980s, declined to 0.05 percent in 1993. No quantitative restrictions were applied to exports, apart from a licensing requirement on a limited number of minor items on grounds of cultural value and health implications. Subsidies for non-plantation exports amounted to less than 1 percent of export earnings from these products. Production subsidies on plantation crops as a percentage of total production amounted to 0.6 percent for rubber, 0.4 percent for coconut, and 0.5 percent for tea.

According to a number of recent studies, by international standards Sri Lanka is a high-cost producer of rice and subsidiary food crops. Thus both continuation and further increases in production—unless brought about by productivity improvements—would impose high costs on the economy. Moreover, the opportunity costs of investment in irrigation would increase over time, as all long-term rice projections suggest a decline in real international prices. At the same time the control regime does not seem to have achieved its declared objective of cushioning domestic consumers and producers from excessive fluctuations in world-market prices. On the contrary, convincing empirical evidence indicates that there were far fewer seasonal price fluctuations in international markets for these products than occurred in Sri Lanka's domestic market. Overall the economic arguments for removing non-tariff barriers with a view to diverting resources to alternative uses appears to be very strong (Bhalla 1991; World Bank 1995a).

India

The significant liberalization reforms initiated in India in 1991 were largely confined to the indus-

trial sector. All basic agricultural commodities and processed foods (in the latter case most HSC tariff lines covered by chapters 16 to 24 of the tariff code) fell under the general ban on consumer goods. In addition India continued to control agricultural imports and exports through government trade monopolies. Despite significant dismantling of government monopolies in import trade during 1991–95, all “bulk” imported food items (oil seeds, onions, most edible oils, and cereals) could be imported only by a government monopoly. Within agriculture the cereals group remained largely insulated from world markets. Tariff rates on a number of food items were zero, but they were only of symbolic value, as controls, not tariffs, limited imports. Despite the declared policy emphasis on export promotion, quantitative export restrictions on a number of products remained intact. The Indian government’s approach to agricultural trade was basically to “allow imports if there was a net deficit and allow exports if there was a comfortable surplus” (Gulati 1998).

In the cereals sector the crucial consideration governing continued protection has been food security and to prevent domestic food prices from rising with world prices. On these grounds the prices of cereals—rice, wheat, and coarse grains—were held below world prices in most years by controlling exports. Similar controls were maintained on agricultural raw material, to keep local raw-material prices low and thus protect domestic industry. Cotton, timber, hides, skins, and leather are the main products for which restrictions continue to be imposed for this reason. Some crops, notably sugar and edible oil, in which India does not have a comparative advantage in international production, were protected purely on grounds of “self-sufficiency” (Joshi and Little 1996, pp. 69, 249).

Massive agricultural subsidies have long been an essential part of India’s overall agricultural system. According to estimates by Pursell and Gulati (1995), during 1993–94 total subsidies for fertilizer, irrigation, electricity, and agricultural credit amounted to 2.7 percent of total GDP, or 11 percent of agricultural GDP.⁵ In a context in which prices

of all agricultural products are largely determined by trade controls—to the disadvantage of local producers—provision of subsidies to ensure the viability of domestic agriculture has become an important (and politically sensitive) function of the Indian government. As already noted, prices of rice, wheat, coarse grains, and cotton have been held below world-market prices in most years by controlling exports. At the same time high levels of industrial protection means that, except for fertilizer, farmers have had to pay more than world prices for inputs. In contrast some crops, particularly sugar and edible oils, are protected; but this is counterbalanced by lack of protection for cereals and cotton in determining the net incentive bias against agriculture. On balance agriculture is still relatively less protected, and this, in turn, has provided the setting for continued massive, economically inefficient domestic subsidies.⁶

Pakistan

Pakistan’s pre-URAA agricultural trade regime was a mirror image of India’s. Agricultural crops were severed from developments in global trade by a mixture of tariff and non-tariff barriers (Khan 1997, p. 450). Officially established minimum export prices were coupled with export duties and a quota system affecting the main export crop, cotton. These restrictions were aimed primarily at protecting the domestic textile industry.

On the domestic front, for many years a support-price program (SPP) had been in operation for all major crops, with the aim of providing stable prices to farmers. Under the program when market prices fell below the guaranteed minimum price (GMP), the government would absorb the excess supply at the GMP. A longstanding system of subsidies for farm inputs—fertilizer, seeds, tube-wells, canal water, electricity and fuel, pesticides, and farm credit—was also in place. These subsidies (first introduced in 1960) rose from less than 1 percent of the value of agricultural output in 1961 to about 3 percent by the mid-1990s (Khan 1997; Chaudhry and Sahinzada 1995).

Bangladesh

In Bangladesh import duties on key agricultural products have dropped significantly since the late 1980s. By the mid-1990s operative rates on major imports (rice, wheat, pulses, and oilseeds) were 15 percent, while the rates for other items (such as edible oil, dairy products, vegetables, and potatoes) varied between 30 and 70 percent. The percentage of imports under licensing had declined below 5 percent. The involvement of state-trading monopolies in import trade has been steadily rolled back over the years. The private-sector share in total imports increased from a mere 5 percent in 1978 to over 97 percent by 1992. As of July 1995 state trading was abolished for all agricultural commodities except rice, wheat, coarse grain, and oilseeds. Even for these items, no restrictions exist on imports by private traders (Chowdhury and others 1999, p. 162).

Commitment under the Uruguay Round

URAA trade-reform provisions fall under three main categories: market access, domestic support, and export subsidies; export-subsidy provisions are applicable only to industrialized countries. Existing production subsidies in South Asia are consistent with WTO domestic-support provisions, and thus do not require further policy adjustments. South Asia's commitments to the URAA, therefore, relate only to market-access provisions. The URAA requires that participant countries convert all non-tariff measures (NTMs) affecting agricultural imports into ad valorem, or specific, tariffs as soon as the agreement enters into force. In regard to NTMs, specific mention has been made of quantitative import restrictions, variable import levies, minimum import prices, distortionary import licensing, and non-tariff measures maintained through state trading enterprises and voluntary export restraints.

The resultant tariffs are to be "bound" and reduced over a period of six years (the timeframe is extended to 10 years for developing and "least-developed" countries).⁷ Industrial countries will reduce tariffs by 36 percent over six years, and developing countries will do so by 24 percent over 10 years. The conversion of NTMs into tariffs ("tariffication") is based on the actual difference between internal and external prices during the years 1986–88. For developing countries whose tariffs had not been previously bound under the GATT, there is no limit on the level of bindings and no obligation to reduce them during the ten-year phase-in period. In other words these countries are permitted to "tariffize" existing NTMs and set their own bound rates (regardless of the degree of protection embodied in the tariff regime during 1986–88).

Tariff Binding

Table A.3.13 provides a summary of URAA tariff binding by South Asian countries. Detailed data at the individual commodity level on bound rates, current effective tariff rates, and the nature of QRs (including state trading) are provided in table A.3.14. South Asian countries had not previously bound agricultural tariffs under the GATT, and are not obliged to reduce tariffs from the bound level (50 percent) during the 10-year phase-in period. The bound rate is therefore important only as an upper limit on possible future tariff adjustment.

A sharp contrast exists between Sri Lanka, which bound tariffs at relatively low levels, and the other three countries, which chose to bind tariff at exceedingly high levels. Sri Lanka's import-weighted average tariff (37 percent) was lower than the uniform bound rate (50 percent) which prevailed at the time of signing the URAA. Bangladesh announced a uniform bound rate of 200 percent, while Pakistan set bound rates in the range of 100 to 150 percent. India had submitted very high bindings of 100 percent, 150 percent, and 300 percent

for most products, coupled with zero or low (between 10 and 40 percent) rates for a few products imported solely by state trading enterprises. In all three countries bound rates are much higher than those that previously applied.

Bangladesh, India, and Pakistan are among the WTO members with the highest bound rates. In Latin America, Colombia announced the highest bound rates, but these rates are, on average, much lower than those announced by India, Bangladesh, and Pakistan. Only Chile and Uruguay have lower bound rates than Sri Lanka.

Tariff binding by Bangladesh, India, and Pakistan seems to embody a significant element of "dirty tariffication." The base-tariff equivalents observed for these countries are considerably higher than the actual tariff equivalent measure available for those years. Pursell (1999) provides a comparison of base-period reference prices reported in Indian supporting tables (AGST) against his own estimates for 10 key commodities. He concludes that official rates are marginally lower than the alternative estimates in two cases (soybeans and gram). For the other eight commodities, official rates were, on average, 70 percent higher than alternative (presumably more reliable) estimates.

Similar comparisons have not been made for Pakistan and Bangladesh. But the inference based on the Indian case appears to be equally valid, because there is no evidence to suggest that their pre-URAA trade regimes were significantly more restrictive than India's. The fixing of high bound rates by these countries appears to have been motivated by the desire to leave themselves plenty of space for future maneuvering and bargaining in the tariff negotiation process. In contrast, Sri Lankan policymakers seem to have made use of the window of opportunity provided by the URAA commitments to lock in the ongoing trade-reform process in the country at low duty levels.

Implementation

During WTO consultations on the URAA in November 1994, Sri Lanka requested temporary cover for NTM-restricted items under the Balance of

Payments Clause (Article XVIII (B)) of the GATT/WTO.⁸ Sri Lankan officials, however, made it clear that the motive behind the request was to provide protection to domestic farmers until they become sufficiently competitive, through the adoption of improved farming techniques and crop diversification. They further mentioned that taking appropriate steps toward this end had been hampered by the country's ongoing civil war. After considering this case, the WTO informed the Sri Lankan government in early 1996 that there was no basis for retaining import restrictions on a few selected products on balance of payments grounds. The WTO, however, pointed out that Sri Lanka would be able to obtain alternative temporary cover for these restrictions under GATT's Security Clause (Article XXI) (WTO 1996: p 10).

Following this WTO ruling, Sri Lankan authorities abolished import licensing on potatoes, chilies, onions, and rice in July 1996. This step was followed by a reduction of import duties on potatoes, chilies, and onions from 35 to 20 percent in November 1996. In introducing these tariff reductions Sri Lanka went beyond its Uruguay Round commitments. As mentioned earlier, once licensing is abolished developing-country members are required to reduce tariffs from the bound level (50 percent in the Sri Lankan case) by only 24 percent—and this reduction is to be achieved over 10 years. A plausible interpretation of this decision is that Sri Lankan authorities wanted to make use of the WTO ruling under the URAA to effectively counter the protectionist lobby, in order to achieve further tariff cuts in line with the country's commitment to unilateral trade liberalization. Recall that reducing and harmonizing tariffs toward a two-pronged tariff structure of 10 and 20 percent in the medium-term, and subsequently a single (uniform) rate of 15 percent, is the declared policy of the Sri Lankan government (Athukorala and Kelegama 1998).

In September 1999 licensing of wheat and wheat flour was the only stumbling block impeding Sri Lanka's full compliance with URAA provisions. Impediments to import-liberalization for

these two commodities are firmly rooted in the country's past foreign investment policy. In both cases trade-related conditionality was written into investment agreements signed with the company involved (Prima Ltd.), without giving due considerations to future developments in related commodity markets and the invariable implications for overall trade policy of a country rushing to entice foreign investment. The government has pledged to the WTO that it will abolish licensing when the investment agreement expires in 2004.

A 20-percent import duty on milk products and a specific tariff of 3.50 rupees per kilogram (ad valorem equivalent of about 30 percent at current market prices) represent two other anomalies of Sri Lanka's current import policy. Like the sugar monopoly, both duties are aimed at protecting import-substituting multinational subsidiaries encouraged to establish production facilities under the government's campaign to promote foreign direct investment (Athukorala and Kelegama 1998). These tariffs, however, are not inconsistent with WTO guidelines, because imports still account for the overwhelming share of domestic consumption of these products (60 percent for milk products, 80 percent for sugar).

India has not made firm commitments regarding market access or reduction of subsidies or tariffs. Quantitative restrictions on imports are currently maintained on balance of payments (BOP) grounds for around 2,300 tariff lines, including most agricultural commodities at the eight-digit level. In view of improvement in the balance of payments over the recent years, the WTO Committee on BOP Restrictions requested in late 1996 that the Indian government undertake gradual phasing-out of these QRs. A meeting on this topic between India, the WTO, and the IMF on January 8, 1997, ended without an agreement. Based on subsequent consultations, India has been attempting to address the issue through bilateral negotiation. In agreements signed with Australia and the European Union in November 1997, India agreed to phase out QRs on 2,700 products over a period of six years, beginning in April 1997

(Chishti 1997). The United States has filed a dispute, and the settlement process is currently underway in the WTO.

As a least-developed country, Bangladesh has no obligation to remove QRs or to reduce bound tariffs during the 10-year URAA phase-in period. However, as discussed, Bangladesh continued to move ahead with its unilateral trade liberalization process. At present there are no quantitative restrictions on agricultural imports. Following the signing of the URAA, state trading was removed from all agricultural products except rice, wheat, coarse grains, and oilseeds. In these product categories state trading is carried out in competition with the private sector.

Pakistan has not yet developed a plan for completing its market-access commitments. But, unlike India, Pakistan has only a small number of agricultural products (edible oil, coarse, meat) under quantitative restrictions and state trading.

The Impact of Global Trade Liberalization on South Asia

Results of some recent, model-based simulations of the long-term, economy-wide effects of agricultural trade liberalization under the Uruguay Round are summarized in table A.3.15. Although these estimates are not strictly comparable because of underlying methodological differences,⁹ they are unanimous in finding a relatively low impact on India and South Asia, compared to other industrialized countries. The estimates have been widely quoted by opponents of further liberalization in South Asia and other developing countries, without a clear understanding of (or, perhaps, ignoring) the benefits/costs they actually capture.

Estimates of a minimal real-income (welfare) effect are, however, not surprising given the partial nature of the reforms decided upon in the URAA. As far as developing countries are concerned, the

agreed liberalization initiatives cover only protection in the form of border measures. Thus the table A.3.16 estimates do not fully capture domestic distortions that impact on trade and export taxes or other restrictions that hinder performance in these countries. Moreover, given the remaining non-price distortion in import-trade regimes, even the potential effects of import tariff reductions may not be accurately reflected in these estimates.

There is systematic evidence that in India the lack of protection in the form of various domestic supports and export taxes and prohibitions is just as harmful as—and perhaps even more harmful than—border protection of import-competing production. Based on these estimates, Joshi and Little (1996: pp 89–90) vividly map out the likely outcome of a comprehensive, all encompassing, liberalization as follows:

Agricultural incentives (removal of export taxes and prohibition, irrigation charges, and other subsidies) would be changed in such a way as to greatly improve the efficiency of production and the value of output. Cereal and cotton production would rise, and their production and export would increase. Exports of many minor agricultural products would also rise. The major sufferers would be overprotected oilseeds and sugar where India has a comparative disadvantage. Resource shift away from sugar (a capital-intensive product) to cereal and cotton will increase labor intensity of agricultural production.

Another facet of import liberalization usually overlooked in the discussion of the results of the Uruguay Round (and perhaps not captured in the simulations reported in table A.3.16) is the straightforward reductions in tariffs on a number of tropical products. In this area governments of industrialized countries naturally do not have to contend with domestic farm lobbies. Almost all non-tariff barriers on tropical-product imports in industrialized countries were removed, and tariffs

were cut by an average of 43 percent. Tariffs on spices, flowers, and plants were reduced by 52 percent and those on tropical fruits and nuts by 37 percent (Anderson 1999; Siamwalla 1997).

These tariff cuts are likely to have another beneficial effect: considerable reduction in the degree of price escalation affecting individual products within product categories such as rubber, oilseeds, spices, tobacco, and wood. In these product categories tariffs on raw (primary) and semi-processed products have historically been lower than those on more highly processed products. According to the agreement, tariff cuts in the latter are to be reduced much more than the former (Siamwalla 1997, table 3.7). The resultant reduction in tariff escalation could have the beneficial effect of encouraging further processing of primary tropical products in developing countries. In sum, South Asian developing countries will benefit from tariff reductions on tropical products, both through direct export expansion and expanded processing activities in their own countries.

Policy Options

The URAA was concluded at a time when all South Asian countries had already embarked on a significant process of unilateral trade liberalization. The indications are that South Asian countries have not yet benefited directly from the URAA in the ongoing liberalization process, except for Sri Lanka, which had already reached an advanced stage of economic opening. How can a future round of multilateral trade negotiation better serve the liberalization processes in these countries? The South Asian experience suggests at least four areas where fruitful contributions can be made.

Perhaps the most important issue requiring immediate attention is a review of bound tariffs. The intended purpose of binding tariffs was to set a “benchmark against which future liberalization can be undertaken.” Nonetheless the bindings eventually agreed upon have turned out to be extremely

high—even higher than the levels of protection at the time the agreement was signed. Such high rates cannot serve as useful benchmarks for further tariff reduction. In addition high tariff bounds can be counterproductive for several reasons.

A major gain expected from a transition from QRs to tariffs is a reduction in the volatility of world market prices. However when tariffs are bound at very high levels, significant fluctuations below the bound level are possible.¹⁰ A country with very high bound tariffs can set the operative tariff below the upper bound and vary it to influence domestic market prices.

Prolonged retention of high bound tariffs can harm the ongoing process of unilateral liberalization by strengthening the protectionist lobby. High bound tariffs could become a potential target in the clamor for high protection. The Sri Lankan experience suggests that a formal international commitment in the form of relatively low bound tariffs could be helpful in taming the protectionist lobby.

Going Beyond Borders

In its effort to restore orderly conditions for world trade, the URAA goes beyond the border measures that have traditionally been the targets of GATT discipline, focusing instead on the distortionary effects of domestic supports and export subsidy measures. However developing countries are exempt from these commitments, or in some cases have been provided with ample loopholes for evading implementation of required reductions. Least-developed countries are not required to make any reductions. Moreover export taxation and other restrictive measures impinging on export markets are largely ignored for all countries. Export taxes and restrictions are virtually absent in industrialized countries, but are still important distortionary measures in many developing countries. In South Asia, India and Pakistan are prime examples.

To be effective, planning for liberalization reforms in countries like India should involve simul-

taneous reform of import and export trade regimes, and domestic subsidies.¹¹ These are intricately linked; restrictive trade regimes with an in-built bias against agriculture have provided the rationale (and lobby-group pressure) for domestic subsidies. Yet massive subsidy commitments dictate the continuation of trade controls, including extensive involvement of state enterprises in foreign trade. The removal of input-subsidies and freeing of international trade need to be combined.

Social Safety-Net Support

Whatever the long-run benefits of freeing agriculture, these changes are likely to cause considerable socioeconomic disturbance, and a good many people might suffer, or fear that they will suffer. It is important to deal with these transitional problems as part of a rapid, planned move toward redressing deep-rooted disarray in domestic agriculture. In particular, effective measures are needed to protect the poorest sectors of the population from intense, temporary rises in cereal prices. Put simply, it is not politically feasible to undertake comprehensive agricultural liberalization without considering the effect of consequent price rises on poor people.

The removal of current, high agricultural subsidies would free up resources for social safety-net activities needed to cushion the poor against the price-raising effects of market reforms. But this cannot happen quickly. Therefore providing financial support for implementing social safety-net measures can play an important role in making these reforms politically palatable and feasible.

Some initiatives have already been taken, as part of the completion of URAA, to provide food-security support for net food importers to cushion them against increases in world food prices resulting from the reduction of production support in industrialized countries. These supports are relevant for net-food-importing countries like Bangladesh, Pakistan, and Sri Lanka. However providing food-security support for food-deficient countries

is simply an attempt to deal with the symptom, not the cause, of the problem. Net food dependence and weak economic status (which make it difficult for these countries to withstand reform-induced price increases) are the result of the longstanding distorted agricultural trade policy regime. So safety-net support should be linked to systematic policy efforts to address the problem at the root, not simply to cope with current food-deficit situations.

Facilitating Developing-Country Participation in the Dispute Settlement Mechanism

A legitimate fear in policy circles is that the remarkable success of the Uruguay Round in outlawing non-tariff barriers may intensify the pressure on other routes to protection, such as increased recourse to the use of anti-dumping legislation and Sanitary and Phytosanitary safeguard mechanisms. WTO Agreements on safeguards, anti-dumping, subsidies and countervailing measures, and SPS were designed as a guard against this potential threat.

The SPS Agreement is of particular significance for South Asian countries, given the emergence of processed-food exports as a dynamic export line. Implementation of sanitary regulations is far more contentious in the case of processed food than in that of primary agricultural products. The new SPS Agreement is a considerable improvement over the GATT Article XX in terms of the requirement of transparency, the priority of international standards, the concept of equivalence, and the requirement to assess risk. The agreement subjects SPS measures to greater discipline and transparency. Its effectiveness in providing a just and transparent setting for the expansion of processed-food exports from developing countries will,

of course, depend heavily on the nature of related dispute-settlement procedures.

To facilitate implementation of these agreements and related legislation, the GATT's role in resolving trade disputes was strengthened under a newly established Dispute Settlement Board. The new procedures are faster and more automatic, and also more binding. New institutional arrangements, including stronger dispute-settlement procedures, will have an impact on developing country trade-policy choices (Anderson 1999). But practical obstacles prevent developing countries from making full use of these new institutional arrangements. Even with assistance from the WTO Secretariat, initiating the prosecution of a case is burdensome for many developing countries, both in terms of financial commitment and availability of required expertise (Michalopoulos 1998).

Quite apart from helping countries in case of a dispute, there seems to be a great need for international initiative to educate developing country exporters and policymakers about the new legislation and how to comply with internationally adopted food standards. Dawson (1999: p 105) sums up the policy challenges in this area as follows:

With the SPS becoming a reality there remains a lot of work that must still be done by many countries. Certainly strengthening export control systems for food must receive a very high priority. National systems of control also must be improved and transparency ensured. These are very legitimate concerns facing all countries. It is a fact that some countries of the South Asia region are indeed not yet capable of ensuring that food products produced within their borders meet the established Codex standards,¹² or are even produced according to the codes of practice or guidelines of Codex.

Conclusions

In terms of the reform measures undertaken to date under the URAA, Sri Lanka is unique among the four South Asian WTO member countries. Sri Lanka has bound all tariffs on agricultural goods at a uniform rate of 50 per cent, and subsequently removed quantitative restrictions on all agricultural products except wheat and wheat flour. In compliance with URAA commitments Sri Lanka has also taken the initiative of dismantling import licensing and reducing tariffs on agricultural imports. In contrast, the other South Asian countries (and most developing countries) have set very high (mostly at or above 100 per cent) tariff bindings, which also vary considerably across commodities. Moreover, India and Pakistan have not yet taken steps to abolish NTMs applicable to these commodities.

It appears that the establishment of high bound rates in Bangladesh, India, and Pakistan was motivated by the desire to leave adequate space for future maneuvering and bargaining in the tariff-negotiation process. In a significant departure from this general South Asian policy response, Sri Lankan policymakers have made use of the window of opportunity provided by the URAA to lock in the ongoing trade-reform process at low duty levels, and to remove NTMs and reduce tariffs on agricultural imports.

The explanation for Sri Lanka's unique policy response seems to lie in the country's recent trade-policy history. Economic gains from the dramatic, unilateral move to replace quantitative restrictions with tariffs as the prime tool of trade policy in 1977, and subsequent tariff reductions, have been substantial. There is thus an unprecedented consensus across mainstream political groups in the country over the desirability of further moves towards trade liberalization. The upshot is that significant initial liberalization facilitates further reform, making gains from liberalization clearly visible to the public in a short period and thus weakening the protectionist lobby.

In addition to stringent border controls, domestic support measures, export taxes, and quantitative

restrictions on exports are prominent elements of continuing disarray in agriculture in India and Pakistan. Despite significant import and export liberalization, various distortionary domestic-production supports are a continuing feature of the agricultural landscape in Bangladesh and Sri Lanka as well.

To be effective, planning for freeing up agriculture in India and Pakistan should involve simultaneous reforms of import and export regimes and domestic production support mechanisms. It is unrealistic to assume that reforms in the import-trade regime will automatically trigger reforms in other areas. Having evolved over a long period of time, mostly as a political response to various sociopolitical forces emerging in fragile democracies, these elements of the incentive structure are inextricably linked.

Providing 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 development finance institutions, including regional development banks, in this sphere. A unified approach that focuses simultaneously on all significant trade and production distortions is the only effective way to end disarray in domestic agriculture in South Asia (and perhaps in many other developing countries).

Based on the South Asian experience, the other policy options for the new round of multilateral trade negotiations include:

- Speedy reduction of bound tariffs to realistic levels, with a view to providing an effective anchor for the ongoing liberalization process;
- Providing developing countries with more institutional support for making use of the WTO dispute-settlement mechanisms; and
- Effective consultative efforts to improve the capacity of developing countries to meet international standards required under the Sanitary and Phytosanitary agreements.

Appendix

Tables

Table A.3.1. South Asia: Key Economic Indicators: 1997

	<i>Bangladesh</i>	<i>India</i>	<i>Nepal</i>	<i>Pakistan</i>	<i>Sri Lanka</i>	<i>South Asia</i>	<i>Low income</i>
Surface area ('000 sq. km.)	144	3288	147	796	66	4441 (3.3)	31244
Population (millions)	123.6	962.4	22.3	128.5	18.6	1255.4 (21.6)	2036
GNP (US\$ billion)	44.1	357.4	4.9	64.6	14.8	485.8 (1.6)	712
GNP per capita (US\$)	360	370	220	500	800	387 (7.5)	350
GNP per capita – PPP (US\$)	1090	1660	1090	1580	2460	1600 (4.4)	1400
<i>Structure of output</i>							
Agriculture	24	25	41	25	22	25	28
Industry	27	30	22	25	26	29	28
Manufacturing	17	19	9	17	17	18	17
Service	49	45	36	50	52	46	43
<i>Employment, by economic activity (1997*)</i>							
Agriculture: Male	53	59	91	44	36	57	61
Agriculture: Female	76	74	98	65	32	69	75
Industry: Male	35	17	0	18	18	18	15
Industry: Female	21	15	0	10	17	13	10
Services: Male	33	24	9	34	37	27	25
Services: Female	11	11	2	15	31	14	14

Percentages of total world figures in brackets.

* Distribution of male and female labor force by activity. Data are for 1997 or the most recent year available.

Source: World Bank, 1999, *World Development Indicators*.

Table A.3.2. South Asia: Commodity Composition of Foreign Trade: 1980–81 and 1995–96 (Percentage Shares)

<i>Country</i>	<i>Exports</i>		<i>Imports</i>	
	<i>1980–81</i>	<i>1995–96</i>	<i>1980–81</i>	<i>1995–96</i>
<i>Bangladesh</i>	100.0	100.0	100.0	100.0
Agriculture	31.2	13.5	29.6	18.0
Food	12.5	11.6	23.7	15.4
Cereal	0.0	0.0	11.8	5.8
Processed food	7.1	11.2	10.6	6.3
Agricultural raw materials	18.7	1.9	5.9	2.6
Other primary products	0.0	0.4	18.8	13.1
Manufactured products	67.7	86.2	51.6	68.8
Clothing	0.2	69.1	0.0	0.7
<i>India</i>	100.0	100.0	100.0	100.0
Agriculture	33.3	16.0	10.9	10.0
Food	28.2	14.8	9.1	5.8
Cereal	2.5	1.5	0.7	0.0
Processed food	11.1	7.1	7.0	3.1
Agricultural raw material	5.1	1.2	1.8	4.2
Other primary products	8.5	8.8	56.5	35.7
Manufactured products	57.8	74.3	32.5	48.7
Clothing	8.1	16.2	0.0	0.0
<i>Pakistan</i>	100.0	100.0	100.0	100.0
Agriculture	44.0	11.6	50.1	47.2
Food	23.5	9.5	13.2	15.8
Cereal	17.1	4.2	13.0	2.8
Processed food	4.4	5.1	8.3	11.1
Agricultural raw material	20.5	2.1	3.5	5.8
Other primary products	7.2	0.2	0.8	0.6
Manufactured products	48.7	87.2	25.5	28.7
Clothing	4.1	24.1	0.0	0.0
<i>Sri Lanka</i>	100.0	100.0	100.0	100.0
Agriculture	65.5	24.1	21.7	16.6
Food	47.1	20.8	20.6	14.8
Cereal	0.0	0.2	0.0	0.2

(Table continued on next page)

Table A.3.2 continued

<i>Country</i>	<i>Exports</i>		<i>Imports</i>	
	<i>1980-81</i>	<i>1995-96</i>	<i>1980-81</i>	<i>1995-96</i>
Processed food	3.0	5.2	12.7	9.3
Agricultural raw materials	18.4	3.3	1.1	1.8
Other primary products	15.8	0.7	29.1	10.6
Manufactured products	18.7	74.1	49.1	74.1
Clothing	10.5	45.6	0.0	0.8
<i>South Asia</i>	100.0	100.0	100.0	100.0
Agriculture	38.3	15.3	14.5	13.6
Food	27.8	13.8	12.2	9.5
Cereal	5.4	1.8	2.1	1.2
Processed food	8.8	6.7	8.0	5.2
Agricultural raw material	10.5	1.5	2.3	4.1
Other primary products	8.8	5.5	45.7	28.8
Manufactured products	52.8	77.7	39.8	53.7
Clothing	6.8	23.4	0.0	0.3

Source: World Bank, 1999, *World Development Indicators*.

Table A.3.3. South Asia: Revealed Comparative Advantage in Commodity Exports

	1970	1980	1990	1995
<i>Bangladesh</i>				
264 Jute	n.a.	1768.0	1470.0	1002.0
031 Fish, fresh and simply preserved	n.a.	9.9	13.0	11.6
074 Tea	n.a.	61.2	29.3	10.3
032 Fished canned	n.a.	0.01	0.73	0.93
<i>India</i>				
074 Tea	44.8	62.4	41.1	21.5
075 Spices	27.6	43.4	14.9	14.4
042 Rice	0.76	9.35	12.6	9.8
081 Animal feeding stuffs	5.2	4.1	4.1	4.8
031 Fish fresh and simply preserved	3.2	10.0	3.5	4.8
071 Coffee	1.4	5.4	3.2	3.9
051 Fruit, fresh	4.4	5.2	3.0	3.2
422 Fixed vegetable oil	1.9	1.7	2.1	3.1
292 Crude vegetable material	6.1	7.2	2.8	2.2
551 Essential oil	2.0	1.5	2.1	1.5
221 Oil seeds	0.5	0.8	1.5	1.1
264 Jute	5.9	2.6	8.4	1.0
263 Cotton	1.54	6.2	10.2	0.9
061 Sugar	1.4	0.6	0.4	0.3
<i>Pakistan</i>				
042 Rice	10.5	73.4	38.9	29.0
052 Dried fruit	0.7	2.2	11.3	10.1
061 Sugar	1.3	0.9	2.7	6.8
263 Cotton	10.1	47.2	34.1	5.8
075 Spices	3.6	10.2	5.7	4.2
031 Fish, fresh, simply preserves	4.8	3.2	2.2	2.2
292 Crude vegetable material	3.5	5.0	2.3	1.8
062 Sugar	0.3	0.5	0.5	1.3
<i>Sri Lanka</i>				
074 Tea	260.3	370.1	327.5	240.0

(Table continued on next page)

Table A.3.3 continued

	1970	1980	1990	1995
265 Vegetable fibre	33.9	98.1	81.5	37.7
075 Spices	27.5	61.3	50.9	33.6
231 Rubber	30.5	32.1	15.2	9.1
121 Tobacco, unmanufactured	0.3	0.2	1.4	8.2
051 Fruit, fresh	5.9	9.2	4.8	2.9
031 Fish fresh, simply preserved	0.5	2.7	1.4	2.2
<i>South Asia</i> ¹				
264 Jute	72.8	122.5	94.2	77.6
074 Tea	57.6	75.2	51.8	34.3
075 Spices	22.1	35.3	14.9	13.1
042 Rice	3.5	21.9	16.3	11.8
652 Fish fresh, simply preserved	3.2	5.3	3.6	4.6
081 Animal feeding stuffs	3.63	2.8	2.8	3.2
265 Vegetable fibre	4.2	8.7	5.7	3.1
071 Coffee	0.9	3.4	2.1	2.6
422 Fixed vegetable oil	4.4	1.2	1.6	2.1
052 Dried fruit	0.3	0.5	2.4	2.1
292 Crude vegetable material	4.9	5.7	2.5	1.9
121 Tobacco, unmanufactured	3.8	7.3	2.9	1.9
263 Cotton	3.3	14.1	13.7	1.6
061 Sugar	1.2	0.7	0.8	1.5
551 Essential oil	1.6	1.1	1.5	1.0
231 Rubber	3.3	2.8	1.1	0.8
054 Vegetables, fresh	1.0	1.5	0.8	0.7

Notes:

1. All commodities with an IRCA of greater than one for at least one of the reporting year are included in the listing

$$IRCA_{ij} = \frac{X_{ij} X_{wj}}{\sum X_{ij} \sum X_{wj}}$$

where $IRCA_{ij}$ = index of revealed comparative advantage of country I in commodity j ; X_{ij} = country I 's export of commodity j ; X_{wj} = world exports of commodity j ; $\sum X_i$ = total exports of country i ; $\sum X_w$ = total world exports. Includes Nepal, in addition to the above four countries.

Source: Samaratinga 1999.

Table A.3.4. South Asia's World Trade in Selected Commodities: Share in World Exports/Imports and Own Exports/Imports: 1995-96 (Per-cent)

	<i>Bangladesh</i>	<i>India</i>	<i>Pakistan</i>	<i>Sri Lanka</i>	<i>South Asia</i>	<i>Bangladesh</i>	<i>India</i>	<i>Pakistan</i>	<i>Sri Lanka</i>	<i>South Asia</i>
<i>Exports</i>	<i>Share in world exports</i>					<i>Share in own total merchandise exports</i>				
041 Wheat	—	0.7	—	—	0.7	—	0.4	—	—	0.3
042 Rice	0.9	17.3	2.7	0.1	20.1	0.1	3.6	2.4	0.3	2.7
043-45 Coarse grain	—	0.1	—	—	0.1	—	0.0	0.0	—	—
061 Sugar	—	1.4	1.0	—	2.4	—	0.6	2.0	—	0.7
071 Coffee	—	2.6	—	—	2.6	—	2.5	—	0.1	1.6
074 Tea	0.7	16.3	—	14.0	31.1	0.4	1.0	—	9.3	1.3
075 Spices	—	10.2	0.6	1.9	12.7	—	0.6	0.1	1.2	0.5
221 Oil seeds	2.7	23.6	0.3	19.0	45.6	1.2	1.3	0.1	10.7	1.6
231 Rubber	—	0.1	—	0.6	0.6	—	0.0	—	3.9	0.3
263 Cotton	—	1.5	2.8	—	4.3	—	0.5	3.7	—	0.8
264 Jute	72.0	3.0	0.1	0.2	75.3	1.2	0.0	—	—	0.1
421 Fixed vegetable oil	—	1.1	—	—	1.1	—	0.6	—	0.2	0.4
<i>Imports</i>	<i>Share in world imports</i>					<i>Share in own total merchandise import</i>				
041 Wheat	0.9	—	1.7	0.3	2.9	3.1	—	3.9	1.5	1.1
042 Rice	2.4	—	—	—	2.4	3.0	—	—	—	0.3
043-45 Coarse	—	—	—	0.1	0.1	—	—	—	0.4	—
061 Sugar	0.1	0.3	0.2	0.5	1.1	0.3	0.1	0.4	2.2	0.3
071 Coffee	—	—	—	—	0.0	—	—	—	0.1	—
074 Tea	—	—	1.5	0.1	1.6	—	—	0.4	—	0.1

(Table continued on next page)

Table A.3.4 continued

<i>Exports</i>	<i>Share in world exports</i>					<i>Share in own total merchandise exports</i>				
	<i>Bangladesh</i>	<i>India</i>	<i>Pakistan</i>	<i>Sri Lanka</i>	<i>South Asia</i>	<i>Bangladesh</i>	<i>India</i>	<i>Pakistan</i>	<i>Sri Lanka</i>	<i>South Asia</i>
075 Spices	0.8	0.9	0.7	0.3	2.7	0.3	0.1	0.2	0.2	0.1
221 Oil seeds	—	0.1	6.4	—	6.5	—	0.0	1.4	—	0.2
231 Rubber	—	1.0	0.4	—	1.4	0.1	0.7	1.1	0.2	0.6
263 Cotton	0.6	0.8	0.7	0.1	2.2	1.3	0.2	0.9	0.4	0.5
264 Jute	—	0.1	—	0.1	0.2	—	—	—	—	—
421 Fixed vegetable oil	1.0	4.0	3.8	0.1	8.9	3.6	2.3	8.9	0.7	3.4

Note: — means zero or less than 0.005 percent.
Source: Compiled from U.N. *Comtrade* database.

Table A.3.5. Exports of Processed Food as a Share of Total Agricultural Exports

	<i>Bangladesh</i>	<i>India</i>	<i>Pakistan</i>	<i>Sri Lanka</i>	<i>South Asia</i>
1980	19.7	31.5	8.6	3.4	21.0
1981	25.7	35.1	12.5	5.8	25.2
1982	33.7	42.0	17.1	8.2	32.0
1983	32.3	41.9	12.4	6.9	29.6
1984	31.8	33.3	18.7	4.5	24.9
1985	38.6	31.9	13.9	8.9	24.9
1986	50.3	33.3	14.5	10.1	27.3
1987	51.6	31.5	16.7	6.4	26.1
1988	44.0	37.5	14.6	6.7	27.3
1989	59.9	36.6	12.0	9.9	28.8
1990	54.5	35.7	16.5	7.0	29.3
1991	54.3	42.8	14.3	7.7	32.8
1992	56.7	51.4	17.3	14.7	39.7
1993	63.3	51.0	32.0	16.3	44.7
1994	79.1	51.9	35.8	18.0	47.3
1995	80.7	44.3	42.8	17.7	44.2
1996	84.5	45.3	43.2	25.2	42.9

Note: Commodities belonging to ISIC 3. See Athukorala and Sen (1998) for details on the procedure used to match ISIC and SITC classifications.

Source: Compiled from U.N. *Comtrade* Database.

Table A.3.6. South Asia: Food Trade Specialization and Food Aid

	<i>Gross food imports as percent of total merchandise imports</i>		<i>Net food imports as percent of total merchandise imports</i>	
	<i>1980-81</i>	<i>1995-96</i>	<i>1980-81</i>	<i>1995-96</i>
Bangladesh	21.8	24.1	11.7	6.7
India	8.7	4.5	-4.0	-13.1
Pakistan	13.5	16.9	1.8	10.2
Sri Lanka	20.0	13.0	17.8	8.8
South Asia	11.8	8.2	-1.1	-6.3

Source: Compiled from U.N. *Comtrade* Database.

Table A.3.7. Food Aid to South Asia, 1992–96

	1991	1992	1993	1994	1995	1996
<i>Bangladesh</i>						
Food aid, US\$ million	165.2	132.9	53.3	45.1	49.6	43.6
Percent of total net ODA	7.2	6.8	3.6	2.8	5.8	3.6
Percent of food imports	23.1	21.0	9.5	7.2	5.0	9.1
<i>India</i>						
Food aid, US\$ million	84.3	80.3	125.7	6.9	104.5	120.8
Percent of total net ODA	3.1	2.4	14.3	0.4	4.4	4.5
Percent of food imports	9.2	8.7	17.4	0.4	6.7	9.8
<i>Pakistan</i>						
Food aid, US\$ million	18.1	17.4	41.7	3.4	2.0	2.7
Percent of total net ODA	1.8	1.7	3.8	0.4	0.5	0.3
Percent of Food imports	1.3	1.2	3.0	0.2	0.1	0.2
<i>Sri Lanka</i>						
Food aid, US\$ million	33.2	34.2	54.4	2.5	5.4	0.2
Percent of total net ODA	6.1	6.3	9.9	0.5	1.3	0.0
Percent of Food imports	5.9	6.2	10.5	0.4	1.5	0.0
<i>South Asia</i>						
Food aid, \$ million	363.2	264.8	275.1	57.9	161.5	167.3
Percent of total net ODA	4.1	3.9	6.8	1.1	4.0	3.2
Percent of food import	7.7	7.5	8.6	1.3	3.7	4.9

Source: OECD, "Geographical Distribution of Financial Flows to Aid Recipients," Paris.

Table A.3.8. Matrix of Bilateral Trade Shares, 1995–97

Country	Bangladesh	India	Nepal	Pakistan	Sri Lanka
<i>Exports</i>					
Bangladesh	—	43.6	13.0	31.1	32.2
India	64.1	—	7.0	4.7	24.2
Nepal	13.4	86.6	—	—	—
Pakistan	60.1	15.5	1.1	—	22.1
Sri Lanka	11.2	37.8	—	51.0	—
<i>Imports</i>					
Bangladesh	—	87.0	0.6	11.5	1.5
India	43.6	—	14.6	20.8	21.0
Nepal	8.1	88.6	—	3.3	—
Pakistan	21.1	48.6	2.9	—	28.4
Sri Lanka	3.3	84.2	—	12.5	—

Note: — means negligible (less than 0.05 percent).

Source: Compiled from IMF, *Direction of Trade* (various issues).

Table A.3.9. Intra-Regional Trade: South Asian Countries (Percent of Intra-Regional Trade in Total Trade)

	1970	1980	1990	1995
Exports	3.7	4.8	3.1	3.9
Bangladesh	n.a	9.1	3.6	2.7
India	3.9	3.5	2.7	5.0
Nepal	61.9	38.1	6.9	7.6
Pakistan	1.5	6.3	4.0	3.1
Sri Lanka	3.2	6.8	3.1	2.4
Imports	3.3	2.3	1.8	3.6
Bangladesh	n.a	3.7	7.0	17.7
India	1.4	1.0	0.4	0.5
Nepal	73.6	48.0	11.5	17.5
Pakistan	0.5	2.1	1.6	1.5
Sri Lanka	12.4	6.3	6.6	8.4
Trade	3.5	3.2	2.4	3.7
Bangladesh	n.a	4.9	5.9	12.8
India	2.7	1.9	1.4	2.6
Nepal	70.3	45.7	10.0	14.9
Pakistan	0.9	3.5	2.6	2.2
Sri Lanka	8.1	6.5	5.1	6.1

Note: n.a. means not applicable.

Source: Samarungta 1999, based on IMF, *Direction of Trade*.

Table A.3.10. Intra-Regional Trade by Commodity Categories

	1970	1980	1990	1995
Exports	3.7	4.8	3.1	3.9
Primary products	4.0	6.0	4.5	5.9
Agricultural product				
Food	5.5	4.0	4.1	5.9
Cereals	20.0	4.7	2.7	8.5
Agricultural raw material	1.2	5.6	7.5	12.3
Other primary products	36.9	32.0	4.6	12.8
Manufactured goods	3.4	3.7	2.7	3.5
Chemicals	7.8	7.3	3.4	6.9
Basic manufactures	2.7	3.1	3.2	4.4
Textiles	2.8	3.0	4.7	5.9
Machinery and equipment	10.6	14.1	10.2	14.0
Other manufactures	1.7	0.6	0.3	0.3
Clothing	0.8	0.1	0.1	0.1
Unclassified	7.5	4.4	1.5	1.9
Imports	3.3	2.3	1.8	3.6
Primary products	3.3	1.8	2.43	2.8
Agricultural product				
Food	5.0	5.6	6.9	6.9
Cereals	1.7	7.4	2.9	10.3
Agricultural raw material	2.1	14.5	9.4	4.1
Other primary products	4.6	0.6	1.4	3.1
Manufactured goods	2.5	2.1	2.6	4.6
Chemicals	0.9	0.8	1.8	2.5
Basic manufactures	4.1	2.3	3.4	8.1
Textiles	31.7	10.8	10.5	18.7
Machinery and equipment	1.1	2.1	1.9	2.7
Other manufactures	2.8	1.0	1.5	1.8
Clothing	34.5	4.7	4.5	3.8

Source: Samaratunga 1999, tables 5.6 and 5.7 (compiled from U.N. trade data tapes).

Table A.3.11. South Asia: Trade Complementarity Index

<i>Partner country</i>	<i>Year</i>	<i>Bangladesh</i>	<i>India</i>	<i>Pakistan</i>	<i>Sri Lanka</i>
Bangladesh	1975		0.43	4.48	0.10
	1980		1.13	3.68	0.24
	1990		1.20	3.23	0.36
	1995				
India	1975	0.04		0.16	0.10
	1980	0.04		0.23	0.70
	1990	0.19		0.34	1.04
	1995	0.18		0.50	0.17
Pakistan	1975	0.12	0.07		1.07
	1980	0.98	0.07		6.89
	1990	0.16	0.39		8.11
	1995	0.23	0.83		4.91
Sri Lanka	1975	0.33	0.64	12.02	
	1980	0.12	1.24	2.63	
	1990	1.18	1.64	2.81	
	1995	0.39	1.98	4.12	

Note: Data are presented by column; figures show trade complementarity of country listed in row 1 with each country listed in column 1:

$$ITC_{ij} = \sum_k \frac{X_{iw}^k * M_{ww}^k - M_{iw}^k * M_{jw}^k}{X_{iw}^k * M_{ww}^k - M_{iw}^k * M_{jw}^k}$$

where X = Exports; M = Imports; i = Given (importing/exporting) country; j = Trading partner country; w = World; k = Commodity.

Source: Compiled from U.N. *Comtrade* Database

Table A.3.12. Trade Policy Shifts in South Asia: A Chronology

<i>Bangladesh</i>	
1971–79	Trade restrictions tightened
1980	Import duty reduction begins
1985	Reduction in QRs begins
1986	Tariff simplification begins
1991	Movement toward uniform tariff structure with low tariff rate begins
1994	Achieved IMF Article VIII status
<i>India</i>	
1947–52	Liberal trade regime
1942–65	Consolidation of control regime
1966–71	Currency devaluation and reduction of some tariffs and subsidies
1972–74	Import controls tightened in response to first oil shock
1975–79	Selective liberalization of investment good imports
1980–82	Import controls tightened in response to second oil shock
1983–85	Liberalization of some investment and intermediate imports; tariff increases
1986–90	Tightening of import controls and introduction of new export incentives in response to worsening balance of payments
1991	Beginning of major trade liberalization with simplification and unification of tariffs, while retaining most consumer-good imports under strict control
1994	Achieved IMF Article VIII status
<i>Pakistan</i>	
1947–52	Liberal trade regime
1952–59	Import controls tightened in response to balance of payments crisis
1959–65	Partial import liberalization and selective export incentives
1966–71	Import controls tightened
1972–75	Partial import liberalization
1974	Achieved IMF Article VIII status
1977–88	Import controls tightened and new export incentives introduced
1988	Gradual move toward liberal trade regime
<i>Sri Lanka</i>	
1948–55	Liberal trade regime
1956–67	Consolidation of trade controls
1968–69	Partial import liberalization with export incentives
1970–77	Reverting liberalization and tightening controls
1977–89	First phase of trade liberalization; elimination of QRs and gradual reduction of tariff, with new export incentive
1989 onward	Second phase of liberalization; further tariff cuts, elimination of export duties, combined with other market oriented reforms
1994	Achieved IMF Article VIII status

Sources: Athukorala and Rajapatirana (1999); Cuthbertson and Athukorala (1991); Bhagwati (1993); Dean, Desai, and Riedel (1994); Joshi and Little (1996a); Guisinger and Scully (1991); Bandara and McGillivray (1998); Yilmaz and Varma (1994); and IMF (1998), "Exchange Arrangements and Exchange Restriction." Annual Report 1997 IMF Washington, D.C.

Table A.3.13. Uruguay Round Tariff Bindings in South Asia (Agricultural Schedule Tariff Lines)

<i>Distribution of 673 HSC Lines</i>	<i>Bangladesh</i>	<i>India</i>	<i>Pakistan</i>	<i>Sri Lanka</i>
Specific tariffs	0.3	0.0	0.0	0.0
300%	3.9	0.0	0.0	0.0
200%	0.0	0.1	0.0	0.0
150%	33.1	1.2	98.1	0.0
100%	46.5	98.0	0.0	0.0
< 100%	16.2	0.7	1.9	100
Total	100	100	100	100
Simple average bound rate	114.8	199.5	197.1	50.0
Average of rates < 100%	39.3	30.0	50.0	50.0

Note: In calculating the percentage of bound lines in Pakistan, Bangladesh, and Sri Lanka, it is assumed that the total number of lines (both bound and non-bound) is the same as the total number in India.

Source: Pursell (1999) (based on WTO, *The Uruguay Round Country Schedule Part 1: Agricultural Products*).

Table A.3.14. Import Trade Policy in South Asia: Qrs, Tariffs and Tariff Bindings under Uruguay Round Agreement on Major Import Commodities¹

	India, April 1997			Pakistan, April 1997			Bangladesh, June 1999			Sri Lanka ³ - June 1999		
	QR status	Operative tariff	Bound tariff	QR status	Operative tariff	Bound tariff	QR status	Operative tariff	Bound tariff	QR status	Operative tariff	Bound tariff
Paddy	QR-ST	0	0	F	25	100	F	0	50	F	35	50
Common rice	QR-ST	0	0	F	25	100	F	0	200	F	35	50
Basmati rice	QR-ST	0	0	F	25	100	F	0	200	F	35	50
Soft wheat	QR-ST	0	100	F	0	150	F	7.5	200	QR-ST	0,20	50
Hard wheat	QR-ST	0	100	F	0	150	F	7.5	200	QR-ST	0,20	50
Wheat flour	QR	32	150	F	10	100	F	15	200	QR-ST	0,35	50
Oilseeds	QR-ST	42	100	F	10,25,40	100	F	7.5,22.5	200,50	F	35	50
Edible oils	F, QR-ST	22,32	45,300	QR-ST, F	45,5,25	100	QR,F,	30,35	200	F	10,20	50
Oil cakes/meals	QR-ST	42	150	F	25	100	F	15	200	F	10	50
Non-edible oils from seeds	QR-ST	32	300,100	F	0	100	F	45	200	F	35	50
Coarse grains	QR-ST	0	0,100	F,QR	25	100	F	0	200	F	35	50
Coarse grain flour	QR	42	150	F	10	100	F	15	200	F	35	50
Pulses	F	7	100	F	0	100	F	45	200	F	35	50
Live animals	QR,F	0,22,42	100	QR	25,10,15,45	100	QR,F	7.5,30	200,50	F	10,0,35	50
Meat	QR	12	55,150	QR	15,45	100	QR,F	30	200	F	30	50
Hides and skins	F	0	25	F	0,10	100	F	7.5	200	F	10	50
Leather	F	0	25	F	15,10	100	F	7.5	200	F	10,20	50

(Table continued on next page)

Table A.3.14. continued

	India, April 1997			Pakistan, April 1997			Bangladesh, June 1999			Sri Lanka ³ - June 199		
	QR status	Operative tariff	Bound tariff	QR status	Operative tariff	Bound tariff	QR status	Operative tariff	Bound tariff	QR status	Operative tariff	Bound tariff
Milk and cream	QR	0,32	100	F	0-45	100	QR,F	45	200	F	30,20,5	50
Other dairy products	F,QR	32	0,40,100,150	F	35,0	100	F	45	200	F	30	50
Vegetables	QR	12	100,35	F	35,0	100	F	0,15,30,45	200	F	35	50
Fruits	QR	42,32	100,30,55	F	45,0	100	F	30,45	200	F	35,5	50
Sugar	F	0	150	F	10	150	F,QR	30	200	F	Rs3.50kg	50
Cotton	F	0	150	F	10	100	F	0	200	F	10	50
Wood and wood products ²	F	0-32	25,40	F	10	100	F	0	200	F	10	50
Fish and marine products ²	QR	12	NB	F	35,45	NB	F	0,30	NB, 50	F	0,10	50
Spices: cassia, cinnamon, cloves	QR-ST	32	100,150	F	35	100	F	30,45	200	F	35	50
Spices: all other	QR	32	150,100,35	F	0-45	100	F	45	200	F	35	50
Tea	QR	12	150	F	45	150	F	45	50,200	F	35	50
Raw tobacco	QR	42	100	F	45	100	F	15	200	F	75	50
Natural rubber ²	QR	22	25	F	10	NB	F	22.5	NB	F	10	NB
Coffee beans, processed coffee	QR	12	100,150	F	45	100	F	45	200	F	35	50,NB
Cocoa beans, processed cocoa	QR-ST, F	42,32	100,150	F	25,35,45	100	F	22.5,45	200	F	30	50,NB

(Table continued on next page)

Table A.3.14. continued

	India, April 1997			Pakistan, April 1997			Bangladesh, June 1999			Sri Lanka ³ - June 199		
	QR status	Operative tariff	Bound tariff	QR status	Operative tariff	Bound tariff	QR status	Operative tariff	Bound tariff	QR status	Operative tariff	Bound tariff
Jute	F	0	40	F	25	NB	F	30	50	F	10	NB
Sisal, coir	F,QR	32	40	F	25	NB	F	30	200	F	10	50
Flax, hemp	F	22,32	100	F	25	100,N B	F	30	200	F	10	50
Greasy wool	F	12	25	F	10	30	F	0	200	F	10	50
Raw silk	QR	32	100	F	25	100	F	0	200	F	20	50

QR = There is some form of quantitative restriction.

QR-ST = The restriction has been judged to fall under the UR definition of state trading usually in the form of a parastatal import monopoly or in a few cases a private import monopoly enforced by the government.

F = Trade is free of QR

NB = Not bound.

R = Tariff binding is being negotiated.

Notes:

The products in this table account for more than 90 percent of rural GDP in each of the five countries. They are listed in approximate order of the values of their products in India. When some products under a general heading are subject to QRs and some are free, the status of the most important is indicated first. Tariffs are indicated following the same principle. Tariffs separated by commas indicate the rates for different tariff lines under a general heading. Tariffs separated by hyphen indicate a number of tariff rates between the indicated minimum and maximum. Tariffs shown are for imports intended for consumption, not for imports of seeds or cuttings (which are normally duty free).

Products not covered by UR Agricultural Agreement:

In Sri Lanka rice imports are subject to a tariff-quota scheme under which licenses are allocated to traders allowing them to import at tariffs below the reported level. The zero rates for wheat and wheat flour are those applied to imports under *a de facto* state trading arrangements for these products. Sugar and milk imports are subject to a variable tariff aimed at maintaining "remunerative" domestic prices (Athukorala and Kelegama 1998). Apart from this arrangement none of the four countries has listed tariff quotas in their UR schedules.

Source: Pursell 1999, updated using Dowlah 1999 and IPS 1999.

Table A.3.15. Differing Estimates of Annual Welfare (Real Income) Gains from Agricultural Trade Liberalization

<i>Author(s)</i>	<i>India (US\$ billions)</i>	<i>South Asia</i>	<i>World</i>	<i>South Asia as % of world</i>
Francois, McDonald, and Nordstrom (1996)				
(Gains from UR agricultural reforms)				
<i>Market structure</i>				
Constant returns to scale (CRTS)	—	-0.22	4.65	-4.73%
Increasing returns to scale (IRTS)	—	-0.06	0.02	-300%
Harrison, Rutherford, and Tarr (1995)				
(Gains from UR agricultural reforms)				
<i>Market structure</i>				
Constant returns to scale (CRTS) – static	—	0.1	58.3	0.17%
Increasing returns to scale (IRTS) – static	—	0.3	48.7	0.62%
Increasing returns to scale (IRTS) – steady state	—	0.2	49.8	0.40%
Yang (1997)				
(Gains from UR agricultural reforms)	—	0.05	31.8	0.16%
Government of Australia, Department of Foreign Affaires and Trade (1999)	1.1	—	90.0	1.2%
(Gains from a 50 percent cut in agricultural protection)				

Source: Pursell 1999, updated using Dowlah 1999 and IPS 1999.

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Notes

- ¹ Srinivasan (1998) provides a comprehensive discussion of the Uruguay Round trade negotiations from a historical perspective, with emphasis on their implications for developing countries.
- ² The other three countries in the region (Bhutan, Maldives, and Nepal) were not required to sign the agreement given their “least-developed country” status. Bangladesh also falls into this country grouping, but it opted to become a signatory.
- ³ Trade links between Pakistan and India are understated in published trade data because of illegal cross-border trade and trade through third countries, particularly Bangladesh and Sri Lanka.
- ⁴ In this paper, the two terms, QRs and NTM, have been used interchangeably to imply all non-tariff restrictions.
- ⁵ The percentage distribution of the total subsidy (2.2 billion rupees) was as follows: fertilizer 23 percent, irrigation 45 percent, electricity 18 percent, and credit 14 percent. Fertilizer subsidies were the responsibility of the central government, while the other subsidies were provided by state governments.
- ⁶ The ratio of nominal protection in agriculture to that of manufacture was 0.6 in the 1970s, and declined to 0.4 in the early 1990s (Pursell and Gulati 1995).
- ⁷ According to estimates by Pursell and Gulati (1993), under a coordinated liberalization of this nature, agricultural output prices in India might rise by 15 to 20 percent, which would be more than enough to compensate for the loss of subsidies to farmers.
- ⁸ Article XVIII (B) of the GATT permitted the use of quantitative restrictions on imports by developing countries whenever a threat of balance of payment difficulties was perceived. By resorting to this article developing countries could simultaneously be members of GATT and employ restrictive trade practices. Under the WTO, there is still a balance of payments exception to the requirement that quantitative restrictions be eliminated, but the conditions under which it may be invoked are far more stringent, and countries using it will be subject to more frequent and critical surveillance. (See Krueger 1995, chapter 2 for details.)
- ⁹ For a succinct discussion of the rationale behind the use of economy-wide and global modeling for measuring welfare gains from trade, and the methodological differences across various studies that impinge on the comparability of results, see Srinivasan 1998, pp. 41–44.
- ¹⁰ An interesting parallel is domestic price manipulations carried out by the EU in the past, under its system of variable import levies and subsidies levies (Anderson 1999).
- ¹¹ This and the next paragraphs draw heavily on Joshi and Little (1999), section 3.10.
- ¹² The Codex Alimentarius, simply known as ‘CODEX’ in common usage, is a collection of internationally adopted food standards presented in a uniform manner prepared by the WHO/Codex Alimentarius Commission.

4. East Asia: Economic Recovery and Agricultural Trade Reform

Malcolm Bale

International trade and open world markets are vital for long-term growth in East Asian economies. Although regional commitment to open-trade policy remains strong, the recent financial crisis in East Asia has raised serious questions about the role of open markets in promoting sustainable economic growth. While the case for trade liberalization continues to be made by international institutions, East Asian countries are more equivocal on free trade than they were prior to the crisis. An inclusive and successful round is needed to restore their confidence in the efficacy of open markets.

This paper covers six topics regarding the recent East Asian experience and their likely interest and role in the upcoming trade round. First, to provide some perspective, we review the importance of East Asia in the global trading complex. Second, we examine the East Asian crisis, recovery from the crisis, and what the crisis has meant for agriculture. In the third section we look at those aspects of trade negotiation that are likely to be of particular interest and concern to East Asian countries—the aspects most likely to keep them fully engaged as equal participants in the negotiations. Sections four and five examine the supporting role and contributions of the World Bank and the Asia-Pacific Economic Cooperation (APEC) group, respectively, in advancing the trade interests of East Asian coun-

tries. Finally, we offer some conclusions and suggest ideas for future policy.

The Importance of East Asia

Financial markets have recently given the world, and East Asia in particular, a lesson in the consequences of globalization. The blinding speed at which financial markets lost confidence and punished many countries of the region, coupled with subsequent capital flight from East Asian countries, surprised most economists. Within a few months, East Asia went from a high-growth region to recession, to financial crisis, and then, in some cases, to political crisis. The effects are only now being fully played out. While East Asia is clearly on the mend, as balance of payment pressures have eased and all macroeconomic indicators have shown signs of recovery, there is still a long way to go.

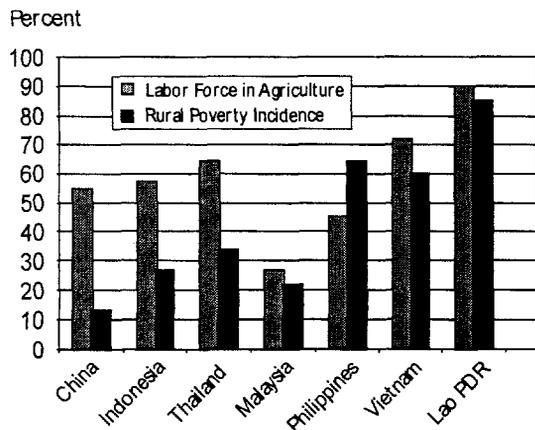
In this section we provide details on the structure and size of the countries of East Asia, particularly with respect to agriculture, and argue that the region is key in a trade round in which development and agriculture may play a major role.

Agriculture is Declining but Important

The importance of agriculture has been declining over the last two decades in many countries in the region, in terms of both its share of output and trade.¹ But the sector remains a significant source of employment, income, and economic activity. In most low- and middle-income countries in the region, about 64 to 70 percent of the labor force is dependent on agriculture (figure 4.1). The share of agricultural gross domestic product (GDP) to total GDP ranges from 10 to 55 percent (figure 4.2). For many countries—Thailand, Malaysia, and the Republic of Korea—this represents a decline of about one-half from agriculture’s share 20 years ago. But these numbers understate the importance of the sector; agriculture represents only part of the rural economy. Rural GDP is about double that of agricultural GDP in most countries of the region due to agroprocessing, agricultural input services, and other value-added activities such as rice milling, product storage, and sawmilling.

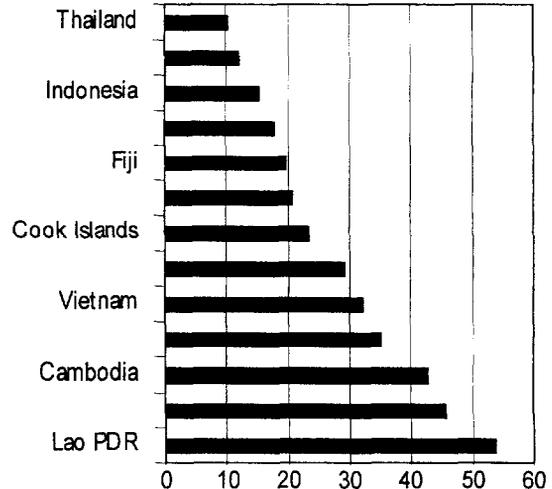
Rapid economic growth has led to a marked decline in poverty in a number of East Asian coun-

Figure 4.1. Labor Force in Agriculture and Rural Poverty Incidence



Source: East Asia and Pacific Region, Rural Development Unit, World Bank.

Figure 4.2. Share of Agriculture to GDP, Percent



Source: World Bank data.

tries. Yet poverty remains widespread, and most of the poor live in rural areas. The incidence of poverty in rural areas (that is, the percentage of people below the poverty line) is estimated to range from about 14 percent in China to over 80 percent in Lao PDR.² Thus the irony of the rural sector in this region is that it provides a dominant share of employment and income, yet at the same time is the largest source of unemployment, underemployment, and poverty.

Diverse Trade Patterns

About 26 percent of the region’s agricultural output is exported; Thailand and Malaysia account for 65 percent of exports, and Indonesia comes in third. Agricultural exports were almost matched by agricultural imports. Korea and Malaysia are the biggest importers. Products exported include natural rubber, palm oil, rice, and fruits and vegetables (mainly to the United States, Europe, and Japan); imports are chiefly cereals, dairy products, and fibers (mainly from the United States and Europe).

Given the importance of agricultural trade to the economies of these countries (figure 4.2), and the key role of the rural sector as a source of employment, East Asia has a significant stake in participating in a round of negotiations that would open trade.

Recovering from the Asian Crisis

The financial crisis that began in Thailand in July 1997 plunged East Asian countries into a deep recession. After achieving 4 percent growth in 1997, the region's GDP contracted by about 7 percent in 1998. More than US\$30 billion fled Indonesia, Malaysia, the Philippines, and Thailand during 1997 and 1998. Indonesia bore the brunt of the crisis, as exports and investment collapsed, reducing output by 13 percent in 1998. Thailand implemented a series of financial reforms, but still suffered a 9 percent contraction. Capital outflows in Malaysia in 1997 brought GDP growth down from 7.7 in 1997 to negative 7.5 percent in 1998 (table 4.1). In the Philippines tight monetary policy constrained investment demand, while poor agricultural performance (caused by bad weather) limited growth from the supply side.

In terms of trade, the Asian crisis was equally catastrophic. Export growth rates went from high positive to high negative numbers, while merchandise imports fell even further, as buying power was reduced by adverse exchange-rate movements (tables 4.2 and 4.3).

Recovery in Sight?

As we enter the third year since the start of the East Asian economic collapse, the region's economies are rebounding and showing strong, steady signs of

growth—although more slowly than hoped in some cases. Since the first quarter of 1999 East Asia has experienced some recovery in economic activity. During the first quarter of 1999 East Asia grew at 4.8 percent, compared to 1 percent growth during the fourth quarter of 1998. Korea, with a 1999 first-quarter GDP growth rate of 4.6 percent, and 9.8 percent for the second quarter, leads the recovery (table 4.1). Singapore, Malaysia, the Philippines, and Thailand follow Korea, in that order. During the first quarter, Hong Kong and China continued to contract by 3.4 percent, while Malaysia's economic growth shrank by 1.3 percent. Growth in China is still high, although it slowed from a first-quarter growth rate of 8.3 percent to 7.1 percent in the second quarter of 1999.

East Asian economies are clearly on the mend, but difficult work remains to be done. While strong growth is taking place in several countries, and stabilization has occurred in all, it is too early to say that the crisis is over. Many of the needed reforms revealed by the crisis are still being addressed and implemented, and there is now the added need to ensure that the momentum of reform continues as the worst pain of the crisis recedes.

The hardest hit countries, the so-called "East Asia Five" (Indonesia, Korea, Malaysia, the Philippines, and Thailand) have rushed to recover from the economic downslide that spread through the region, leaving local currencies at a fraction of their former value and plunging millions of people back into poverty. Unemployment, a major problem in Korea, is down to 6.5 percent from a peak of 8.7 percent in February 1999. In Indonesia, the Philippines, and Korea, government spending on education has either increased or remained at pre-crisis levels. The World Bank has played an important role in the positive developments of the past two years, and will continue to work to assist these countries to build a stronger East Asia. Lending rose from \$4.9 billion in fiscal 1997 to nearly US\$10 billion in fiscal 1999.

Table 4.1. GDP Growth Rate (Annual Percent)

	1996	1997	1998
Newly industrialized economies	6.3	6.0	-1.6
Hong Kong, China	4.5	5.3	-5.1
Korea, Republic of	7.1	5.5	-5.8
Singapore	6.9	7.8	1.5
Taiwan, China	5.7	6.8	4.8
China	9.6	8.8	7.8
Southeast Asia	7.0	3.7	-7.4
Indonesia	7.8	4.9	-13.2
Malaysia	8.6	7.7	-7.5
Philippines	5.8	5.2	-0.5
Thailand	5.5	-1.3	-9.4
Vietnam	9.3	8.2	4.4

Source: World Bank; *World Development Indicators*, 1999.

But the economic recovery is fragile. New investment is low, and most sectors are faced with structural gluts (when production capacity exceeds demand), especially in real estate, cement, steel, automobiles, and textiles. This excess capacity means that new jobs are not created, private consumption is slow to revive, and sustainable recovery remains elusive. The reform agenda is at the beginning of a long and difficult process. It is possible that the imperatives of domestic reform and recovery will crowd out attention to multilateral trade reform.

The Social Dimension

The social crisis emerged as an urgent issue for countries that saw families strapped by currencies suddenly worth only one-fifth, in the case of Indonesia, of their former value. Food, schooling for children, and other basic necessities were suddenly out of reach. Interventions included short-term measures to address school dropouts, malnutrition, and disease. Long-term actions have included upgrading health care systems

and financial assistance programs for health care. The Bank has also funded public works programs, social investment funds with substantial work components, and targeted subsidies to help those who lost their jobs as a result of the economic crisis.

Countries in the region also focused on structural and institutional reforms to strengthen their economies and guard against future shocks that may emerge as the global market widens. Korea has led the way in market recovery, followed by Thailand, the Philippines, Malaysia, and Indonesia. The balance of payments position for the East Asia Five has strengthened.

Finally, the Asian crisis exposed the fragility of natural-resource management systems. The forest fires that plagued East Asia during the crisis and the floods in China showed that environmental and financial problems have common roots: growth without proper safeguards, unsustainable management practices, institutional failures, and lack of transparency. East Asia's impressive economic performance prior to the crisis has had its environmental costs, and the region has faced some of the most severe environmental problems in the developing world.

Table 4.2. Growth Rate of Merchandise Imports (Annual Percent)

<i>Economy</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>
Newly industrialized economies			
Hong Kong, China	3.0	5.1	-11.6
Republic of Korea	12.3	-2.2	-36.1
Singapore	5.4	0.1	-9.0
Taiwan, China	-0.1	9.7	-5.6
China	19.5	3.8	-1.5
Southeast Asia			
Indonesia	10.4	-6.8	-28.2
Malaysia	1.7	7.0	-26.8
Philippines	20.8	14.0	-18.8
Thailand	0.6	-13.4	-33.8
Vietnam	38.9	0.8	-2.1

Source: World Bank, 1999, *World Development Indicators*.

Table 4.3. Growth Rate of Merchandise Exports (Annual Percent)

	<i>1996</i>	<i>1997</i>	<i>1998</i>
Newly industrialized economies			
Hong Kong, China	4.0	4.0	-7.5
Republic of Korea	4.3	6.7	-4.9
Singapore	6.4	-3.1	-5.6
Taiwan, China	3.8	5.4	-9.4
China	17.9	20.9	0.5
Southeast Asia			
Indonesia	9.0	7.9	-14.0
Malaysia	7.3	6.0	-7.8
Philippines	17.7	22.8	16.9
Thailand	-1.9	3.8	-6.8
Vietnam	41.0	26.5	1.0

Source: World Bank, 1999, *World Development Indicators*.

Despite signs of early recovery, the process has only really just begun. Countries in the region still face structural problems. Broad-based policy reform, both domestic and international, has not taken place in most East Asia countries. Instead, reforms have been partial and selective. While recognizing the significant progress made in financial-sector restructuring, resolving the bad assets of weak financial institutions, and tightening banking regulations, corporate restructuring has moved more slowly than is desirable. Governance of financial institutions remains weak throughout the region, and the cost of financial-sector restructuring is not entirely known. In general, the judicial systems in most countries have been slow to respond to the needs of corporate restructuring. Reform of these sectors will determine whether the region grows out of the crisis on a sustained, high-growth path, or whether it remains vulnerable to future, sudden shifts in market conditions. Thus the Asian crisis may not be a one-time event, but rather a glimpse of the future.

Lessons from the Crisis

Many lessons can be learned from the Asian Crisis. From the perspective of trade, the most obvious lesson is that in boosting returns to the tradables sector, devaluation cushioned the impact of the crisis on the rural poor. Valued in domestic currency, export prices of tree-crop products—rubber, vegetable oils, and even tea and coffee—rose by several orders of magnitude. And the increase in price of imported agricultural products, such as wheat and flour, or rice in Indonesia, made domestic production of those products and their substitutes more profitable for small farmers.

Initially the urban poor did not fare so well; we have seen that urban unemployment increased dramatically. But an important lesson can be learned from the role played by the rural sector in cushioning urban unemployment. Considerable evidence points to the fact that the rural sector

acted as a safety net for millions of recent peri-urban migrants, who returned to their rural communities in search of food and employment. Anecdotal evidence indicates that as many as 700,000 workers in both Bangkok and Jakarta may have returned to their rural homes. These workers provided cheap family labor at a time when returns for farm products were increasing. Overall, it appears that labor markets of many different kinds functioned with enough flexibility to cushion the worst long-term effects of the sharp drop in demand for labor. Unemployment levels were relatively low, and the harmful effects of extended periods of joblessness on employability appear to have been minimal.

A second lesson is that the focus on investing in human capital and putting in place social safety nets was effective, and will serve to underpin the ability of the poor to benefit from future growth. The emphasis on keeping children in school, maintaining health expenditures, and developing feeding programs was wise and well executed, given a context of fragmented authority, weak institutions, and a dearth of effective government programs capable of rapid expansion.

Finally, we learned that the speed of recovery of East Asia has, in large part, been a result of the openness and incredible absorptive capacity of the U.S. economy, which played a pivotal role as a destination for East Asian exports. Japan, to a lesser extent, played a similar role.

Securing the Interest of East Asian Countries

The United Kingdom's Secretary of State, Clare Short, and the Director General of the World Trade Organization, Mike Moore, have both expressed the view that the next round of trade negotiations should be a "development round." Meaning that the new round of multilateral negotiations must put developing-country issues at center stage: the agenda and process must fully reflect their con-

cerns, capacities, and interests. It must also focus on the sectors in which developing countries are competitive, and agriculture clearly falls within this category—especially in East Asia, where agriculture and agriculture-based products represent a large share of exports.

Developing countries comprise more than two-thirds of the WTO membership; East Asian members represent a disproportionate share of developing-country trade. Many are having trouble fulfilling their Uruguay Round commitments, and are cautious about being drawn into further negotiations. Others are preoccupied with domestic policy and restructuring following the Asian crisis. Thus those designing the process leading to the new round must proceed with caution and sensitivity if they wish to achieve full and equal participation from East Asia. What issues are attractive and interesting to East Asian countries?

With the possible exception of Indonesia, the economies of East Asia are small when compared to the United States and the EU.³ They trade a larger share of their GDP, mostly in primary products (or products processed from primary products), and therefore have an interest in a rules-based system of international trade and in a round that includes agriculture. If the U.S. and the EU have a trade dispute, they can exercise mutual influence to achieve resolution. But if Thailand has a dispute with the U.S., for example, the outcome is much different. Thus a rules-based system becomes more important, and is of strong interest to East Asia in the outcome of the next round. Furthermore East Asian countries have an interest in ensuring that the commitments undertaken in the Uruguay Round with respect to agriculture are implemented. It is not only developing countries that are behind on implementation, but some industrialized countries as well.

Unilateral Liberalization

East Asian countries also want credit for the unilateral liberalization they have undertaken. World Bank staff participating in policy dialogue with trade counterparts in East Asian countries often run into resistance to trade reforms: the argument is that if a country liberalizes unilaterally now, it will be asked to do even more at the multilateral trade round. Advising them that unilateral liberalization is in their own interest, regardless of what others do, is not always persuasive. A means to provide credit for liberal policy changes needs to be found. A protection balance sheet has been proposed, and would be helpful. East Asian countries need to receive credit for the tough commitments and actions on trade reform that they have undertaken unilaterally.

Restricted Agricultural Markets

Agricultural protection remains considerably higher than industrial protection in the region. Tariffs and market access are important issues to East Asian exporters. With respect to agriculture, East Asian countries are interested in continuing and strengthening the approach taken in the Uruguay Round—further cuts in bound tariffs, tighter controls on export subsidies, stronger commitments on domestic policies, and deepening the protocols on sanitary and phytosanitary arrangements, with rules designed in collaboration with East Asia, not imposed by Western countries.

Many East Asian countries see the OECD countries as duplicitous. They interpret the attitude of some OECD countries as being “play by our rules.” Then, while allowing developing countries certain “special and differential treatment” in the application of the rules, industrial countries bend the intent of the rules to get around changes. It is not lost on East Asian countries that subsidies paid to agricul-

ture in OECD countries are currently higher than they were at end of Uruguay Round (see table 4.4), and with falling commodity prices in 1999 it is reasonable to expect that 1999 expenditures will be substantially higher. How such an outcome can emerge from a round of liberalization severely tests faith in the system.

This outcome was, of course, brought about by the “dirty tariffication” of the Uruguay Round, identified by Ingco (1996). Both the EU and the U.S. bound their tariffs well above the tariff equivalents for 1989–93. For the EU the final bindings for 2000 are two-thirds higher than the actual tariff equivalent for 1989–93, and for the United States they are three-fourths higher. This behavior has been interpreted by some East Asian members as representative of industrial countries using their superior knowledge and power to bend the system in their favor. To rub salt into the wound, binding tariffs at such a high rate has allowed these countries to set actual tariffs below the ceiling, but to vary them to stabilize domestic markets—in a way very similar to the variable tariffs that the Uruguay Round sought to replace (Hoekman and Anderson 1999).

If OECD countries seriously want to bring developing countries in as full partners, they will need to forgo this type of behavior. The benefits that East Asian traders were to receive in agriculture from industrial countries, in return for their commitment to trade rules, is still more a promise than a reality. So we should not expect the credibil-

ity of many OECD countries to be high in the eyes of East Asian countries.

Implementation Issues

Implementation of the agreements made under the Uruguay Round, and implementation capacity for future commitments, are important issues for East Asian countries. Policymakers in many East Asian countries have little knowledge of commitments made under the Uruguay Round and no appreciation of the 2000 deadline. And where there is knowledge, there is frequently a lack of governance capacity to implement. Several related aspects must be explored.

First, East Asia has an enormous domestic reform agenda. Given the limited capacity to design and implement reforms, pressing domestic reforms essentially crowd out trade reforms, other than those undertaken unilaterally as part of macroeconomic or sectoral reforms.

Second, time and political will are required to implement governance measures to minimize corruption. Corruption remains endemic in the region, and the most corrupt agency, according to survey after survey, is Customs. Awareness of this issue has been heightened in the region, and many countries are putting in place anti-corruption strategies supported by World Bank. If a tariff schedule is not published, if there is no codified valuation system, and if customs posts lack telephones, then official tariffs—even new commitments negotiated in a trade round—have no meaning. Corrupt customs officers can impose any “tariff” they wish, with little fear of sanctions. So strengthening governance and ethics in the civil service, by diagnosing the causes of corruption, is an important and necessary source of assistance that can be provided by industrial countries. Even more helpful would be to alter the aiding and abetting behavior of some industrial-country firms that are only too happy to fall in line with local customs of demanding “facilitation payments.”

Third, even when countries are willing, it is very costly to install the needed infrastructure. East

Table 4.4. OECD Total Transfers/Support Provided to Agriculture

<i>Year</i>	<i>US\$ (billions)</i>
1986–88	279
1990–92	327
1994	328
1996	297
1998	335

Source: OECD 1999.

Asian countries are very interested in being able to meet sanitary and phytosanitary (SPS) standards so they can secure increased access for their high-value rural products, but they do not always have the development budget to finance needed improvements. To gain acceptance for its meat, vegetable, and fruit exports in industrial country markets, Argentina spent more than US\$80 million for higher sanitation standards; Hungary spent US\$40 million to upgrade its slaughterhouses. China invested US\$10 million in animal and plant quarantine upgrading (Finger and Schuler 1999). Finger has estimated that the total cost to developing countries of implementing Sanitary and Phytosanitary (SPS) and Intellectual Property Rights (IPR) obligations of the WTO is equivalent to more than half of their total, annual development budget. So implementation is expensive and represents a long-term investment decision.

Toward the close of the negotiations, industrial countries recognized the high cost to developing countries of implementing the Uruguay Round agreements, and that implementation of commitments under the UR would be limited by their governance capacity. To rectify this there was some discussion of technical and financial assistance from OECD countries. But, with few exceptions, bilateral assistance has been limited. In essence, developing countries gave bound commitments for tariff reductions in return for unbound promises for assistance from industrial countries.

Commodity Price Stabilization

Another concern of East Asian countries relates to the greater commodity price instability that many of the region's countries face as a result of undertaking unilateral domestic policy reforms. The opening of domestic markets—by removing state buying, guaranteed prices, import monopolies, and export taxes—eliminates the commodity safety-

nets that once served to stabilize prices for domestic consumers and farmers. Thus the latter are faced with greater price swings and food insecurity than before. New instruments are needed, and East Asian countries are asking what market instruments are available as a substitute for past interventions. They are looking for advice and assistance in establishing futures markets, warehouse receipts systems, and other market mechanisms to stabilize prices. The World Bank and some bilaterals are assisting in this area, but official recognition of the issue during the WTO negotiations would provide considerable comfort to countries struggling with commodity price swings.

Role of the World Bank and the WTO

The Ministerial meeting in Marrakech, approving the Uruguay Round of talks, discussed the role of multilateral institutions and requested “greater coherence” between the WTO, the International Monetary Fund, and the World Bank.⁴ While there are clear linkages between global trade and the ability of developing countries to “grow out” of poverty, the role and approach of the three institutions are fundamentally different and not immediately conducive to a one-to-one coherence. Even the World Bank and IMF—relatively similar and located in close proximity to one another—sometimes have difficulty agreeing on issues, as shown by recent experience during the East Asian crisis—although they usually agree on trade issues. Let us look at how these entities operate, and compare behaviors and outcomes.

Both the World Bank and the WTO have made significant contributions to integrating developing countries into the global trading system. But they are fundamentally different institutions with different mandates, different modes of operation, and different perspectives. Table 4.5 compares the characteristics of the two organizations. The major

Table 4.5. Comparison of the World Bank and the WTO

<i>Dimension</i>	<i>World Bank</i>	<i>WTO</i>
Goal/mission	Reduce poverty	Reduce trade barriers
Main instrument	Lending/country assistance strategy	International trade policy
Workspace	Individual countries	Trading system
Key relationship	The Bank with each country	One member with another member, and in multilateral negotiations
Mode	Supporting and influencing country decisions	Determining collectively what all members will do
Country attitude encouraged by the institution	Take charge of your own development responsibilities	Follow the rules; use them to advance your own interests

Source: World Bank, 1999, *World Development Indicators*.

difference between the Bank and the WTO is that the relationship of the latter to its members is determined multilaterally, while the relationship between the World Bank and its client countries is determined bilaterally and often within the country, rather than from headquarters in Washington, D.C.

The WTO's policy position with regard to a given country is expressed through a WTO agreement. The World Bank has no similar statement of standards. Rather each Bank loan contains performance conditions specific to that project. The Bank's Country Assistance Strategy (CAS) for each country expresses the joint understanding of the Bank and the country on the country's development priorities and the role the World Bank will play to support them. CASs are produced and discussed every two or three years, and emphasize, directly and indirectly, poverty reduction—the Bank's central goal.

One of the indirect poverty-reduction strategies recommended universally by the World Bank in its discussions with individual countries is the adoption of an enabling environment for international trade. This recommendation is embodied in structural and sectoral adjustment lending, as well as in lending for institutional strengthening of customs services, export development loans, and financing of infrastructure to facilitate international trade.

Since 1995 some 54 World Bank adjustment loans (65 percent of all adjustment operations) have supported exchange-rate and trade-policy reform. World Bank investment lending for trade-related activities accounted for 26 percent of the Bank's lending between 1994 and 1999, and involved some US\$26 billion of disbursements.

From the beginning of World Bank policy-based lending (1981) until the end of the Uruguay Round (1994), the Bank made 238 loans, totaling over US\$35 billion, that included trade- or exchange-rate policy. These reforms affected imports of over US\$500 billion in 1993 dollars. At the Uruguay Round developing countries agreed to tariff reductions that affected US\$393 billion of their merchandise exports (1993 values). Thus it can be argued that working unilaterally, with World Bank support, developing countries made greater trade changes than they did under the WTO multilateral negotiation framework.

The Role of APEC

The Asia Pacific Economic Cooperation (APEC) group is also playing a role in establishing an environment for freer trade in the region, especially for

agricultural trade. APEC is a loose association of 21 Pacific Rim countries, established in 1989 in response to the growing interdependence of the Asia-Pacific economies. Its goals are to strengthen the capacity of regional economies and firms to manage the challenges of globalization in a way advantageous to consumers, businesses, and employers. After an initial meeting in 1993, APEC members agreed in their 1994 Bogor Declaration to the goal of free trade and investment in the Asia-Pacific region by 2010 for industrialized members and by 2020 for developing members. Between them, the countries involved represent one-half of the world's population, output, and trade. Thus decisions reached and actions implemented by this forum make a difference globally. It is therefore instructive to examine the modality and experience of this forum with respect to trade issues.

Different Modalities

Three features stand out in regard to modalities. First, heads of state play an important role in the organization and attend annual APEC Leaders Meetings, lending prestige and authority to agreements made.

Second, APEC is different from the WTO in that members commit themselves to broad liberalization and reform goals, and then work out the best means to achieve these goals for each member. Those agreeing to voluntary unilateral liberalization submit annual "Individual Action Plans" (IAPs) detailing measures they intend to undertake to meet their Bogor commitments. The IAPs are subject to review, discussion, and peer pressure from other members.⁵ Thus it appears that APEC is built on the realization that market opening and reform principally benefit those carrying out reform.⁶ Contrast this to the principle of reciprocity that guides the WTO. Furthermore APEC operates through the domestic policy actions of members, not through binding rules like the WTO. While this may be seen as a sign of weaker discipline than

exists within the WTO, it means that countries can be included that are not part of the WTO (such as China and Vietnam), and discussions can occur and agreements can be made that are not possible under the WTO framework. For example, China and the United States agree on APEC's trade-policy principles, but cannot agree on conditions for WTO accession.

Third, businesses are formal partners in the process through regionwide private-sector networks and the APEC Business Advisory Council (ABAC). Politicians no longer must return to their capitals to "sell" reforms to the business community. Rather, businesses advise politicians and embolden them to take decisive action. Viewed in light of these modalities, it is easier to understand both the success of APEC and the questionable (or equivocal) sense of ownership of East Asian countries to commitments made during the last WTO round.

Different Outcomes

APEC's experience in moving toward globalization, especially liberalization in agriculture and foods, is notable. From the outset there have been disagreements with respect to agriculture and natural-resource-based industries. Japan and the Korea wanted agriculture to be excluded from the liberalization program, but eventually agreed to "comprehensiveness" as a principle of APEC liberalization, in return for the principle of "flexibility." The latter allows countries to delay agricultural reform beyond that of other sectors (but within agreed overall timeframes).

ABAC recently proposed the establishment of an "APEC Food System" (AFS). The proposal calls for a comprehensive approach to food and agriculture policy, including facilitation measures, such as harmonization of standards and improving rural infrastructure. Using a Comparative and General Equilibrium (CGE) model and the Global Trade Analysis Project-4 (GTAP-4) data, Scollay and Gilbert (1999) show that most APEC countries would achieve substantially higher welfare by

implementing the proposal, and that the results are invariant to the effects of the Asian crisis.

APEC represents far more than a process to reduce tariffs. It deals with a wide range of barriers to trade. For example, APEC plans to institute paperless trading throughout the region by 2005 for industrialized countries and 2010 for developing countries. Standardized accounting, auditing, and legal frameworks are under discussion. APEC also spawns other interesting ideas, such as the proposal of a "Pacific 5," a free trade area composed of Australia, Chile, New Zealand, Singapore, and the United States.

Conclusion

East Asian countries are no longer simply observers or free riders in the trade negotiations, but they do not feel that they are full and equal partners. They still get differential treatment and are given take-it-or-leave-it offers from industrialized countries, which also usually drive the agenda. The membership of several East Asian countries in the Cairns Group (another trade grouping) has helped them, as has APEC. These forums have given many East Asian countries the confidence to act together as they enter into WTO negotiations. But more importantly, these forums have given East Asian countries a viable alternative to the WTO, in which to seek trade reform on their terms.

Like most developing countries, those of East Asia are at a disadvantage in the WTO negotia-

tions. First, they frequently do not have the technical expertise to analyze proposals and suggest alternatives. Second, they are absorbed with domestic reforms in the wake of the Asian crisis. And third, they cannot afford the high cost of participating in a trade round spread out over many years. Maintaining an eight-to-ten person trade mission in Geneva is a fixed cost, but represents a much larger proportional burden for small, developing countries than for most OECD countries. The inability to bear this cost, or to get good technical assistance to underpin policy positions, has often limited the effectiveness of East Asian participants.

So what is the bottom line for East Asian countries as they enter this round on agriculture? East Asian countries are emerging from a period when their economies were rocked by financial crisis. The crisis spilled over onto the agricultural sector; some countries faced the issue of food insecurity for the first time in many years. Moreover many of the countries feel that the benefits to agriculture of the last round are more illusory than real and that, with the maturing of APEC, they now have a viable alternative. As a result, East Asian countries are likely to approach the upcoming negotiations with a great deal of caution—if not skepticism. If industrial countries are to overcome this and draw East Asian countries fully into the process of liberalization, they must be prepared to take the time to understand the legitimate concerns of these countries and respond to them in a genuine and sympathetic manner.

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Notes

¹ The share of agriculture and agricultural trade has actually increased during the last two years, as a result of contraction of the industrial sector following the Asian financial crisis. We regard this as a variation from the trend.

² Poverty is defined as income of less than one U.S. dollar (in purchasing-power equivalent terms) per person per day.

³ China is another exception, but is not yet a member of the WTO.

⁴ This section draws heavily on the work of World Bank economist Michael Finger, presented at a seminar at the Cordell Hull Institute, Washington, D.C., September 16, 1999.

⁵ A more recent approach is fast-tracking liberalization in certain sectors through an Early Voluntary Sector Liberalization scheme.

⁶ Thus Japan, for example, can (and did) slow its efforts to liberalize a number of major sectors without retaliation from other members. In the APEC context this is viewed as having a greater cost to Japan than to the rest of APEC.

5. Interests and Options in the WTO 2000 Negotiations: Latin America and the Caribbean

Julio Paz Cafferata and Alberto Valdés

While the authors envision that the forthcoming round of negotiations will be of great importance to Latin America and the Caribbean (LAC), they also anticipate considerable diversity among countries in terms of both priorities and positions. Five key factors determining this cross-country heterogeneity characterize the differences among LAC countries: (1) net trade position, (2) participation in regional trade groups, (3) composition of agricultural exports, (4) level of economic development, and (5) agricultural export potential.

Introduction

For the Latin American and Caribbean region, the forthcoming round of trade negotiations will be much more politically complex than the Uruguay Round (UR) Agreement negotiations. This is so principally because domestic policymakers and lobbying groups will vigorously scrutinize the negotiating agenda. Far less domestic pressure was exerted during the UR negotiations than can be anticipated during the forthcoming sessions.

A bold program of agricultural trade liberalization had already occurred in LAC countries at the

time of inception of the UR, so the region came out of the negotiations with relatively few mandated policy changes. Unilateral reforms have proceeded further than required by the UR; in many instances reforms had been initiated prior to the agreement.

As is the case for any trade reform, winners and losers emerged within the domestic agricultural sector. Several LAC countries have experienced a rapid growth of agricultural exports; especially noteworthy is the growth in nontraditional exports such as horticultural products. Today, in more than half of LAC countries horticultural exports represent more than 20 percent of all agricultural export revenues; the percentage is much higher for Chile, Costa Rica, Peru, and others. In contrast, sectors producing traditional importables (such as cereals and dairy products) now face lower levels of protection, and lower border prices have further eroded their margins. Finally, almost immediately following trade reforms, several countries experienced significant appreciation of their currency, which reinforced domestic farm-lobby criticism of “*apertura*” (“opening,” or reduced trade barriers) for farm-product imports. Thus the problems and tensions that occurred during the process of adjusting to trade liberalization were associated more with unilateral and structural adjustment reforms

than with the General Agreement on Tariffs and Trade (GATT) negotiations.

Adding to this political complexity is the highly heterogeneous nature of interests—and thus negotiating positions—within domestic agricultural communities, among individual countries, and between trade groups with LAC country-membership.

Furthermore, LAC countries will arrive in Seattle with several years of ongoing intra-regional trade negotiations (MERCOSUR, the Andean Group, the Central American Common Market, or CACM) under their belt, and almost immediately following the submission of negotiating proposals under the auspices of the Free Trade Area of the Americas (FTAA).

Patterns of Agricultural Trade in the LAC Region

Appendix table A.5.1 characterizes LAC countries according to: (a) the ratio of agricultural imports to agricultural exports (a proxy for import-versus-export orientation); (b) identification of the principal agricultural exportables; and (c) the initial dates of unilateral trade reforms and the current intensity of this process. The export to import ratios permit us to highlight a few salient features:

- The dominant net export position of MERCOSUR and CACM (1996–97) member-countries contrasts sharply with the high import-dependence of all (but one) Caribbean countries;
- The Andean region is characterized by three strong, export-oriented countries; however, two (Peru and Venezuela) are net agricultural importers; and
- Of 28 countries in the region, 13 are net importers (10 of which are Caribbean countries), and comparing 1992–93 and 1996–97 ratios, we observe that 11 countries are characterized by increased export/import ratios.

On the export product-mix side we see that:

- The exporters of tropical products are concentrated in Central America and the Caribbean, whereas temperate-zone export products are dominated by MERCOSUR members. The case of sugar, which is exported primarily by tropical regions but faces intense competition from subsidized producers in Europe and North America, is unique; and
- The importance that fruit and vegetable exports are acquiring within the product-export composition of several otherwise heterogeneous countries across the region is striking—from Chile in the south, to Costa Rica and Panama in the center, to St. Lucia and Dominica in the Caribbean, and Mexico in the north.

Despite the fact that traditional fruit and vegetable exports continue to be important (bananas for Ecuador, Costa Rica, and Panama), non-traditional sector exports have grown substantially (for example, asparagus in Peru and tomatoes in Mexico).

To summarize, on the net-exporters side, a subset of countries exporting temperate-zone products is associated with the position of the Cairns Group, including MERCOSUR. Two other subsets of countries typically export tropical products, either with (such as the Caribbean), or without, preferential arrangements.

Other key issues in which we anticipate strong interest on the part of LAC countries—due to the increasing importance of fruit and vegetable exports in several countries—are the Sanitary and Phytosanitary (SPS) agreement and the Technical Barriers to Trade (TBT) arrangements. In addition, Caribbean countries face a potentially difficult situation because, under trade liberalization, they would be squeezed between potentially higher import prices on the one hand, and lower prices on their trading partners' domestic markets for their exports on the other. Finally, the Caribbean region has undergone very little, if any, domestic reform. The rest of Latin America has been through a sustained and comparatively intensive process of trade

liberalization in the overall economy, including agriculture.

Table A.5.2 presents patterns of agricultural and nonagricultural trade between the principal trade groups in the LAC region. The table indicates that, in absolute terms, the share of *extra-regional* exports dominates in LAC as a whole and in each of the regions. Thus gains in extra-regional market access remain a critical objective for all LAC trading groups. However we can also see that, except for the CACM, the rate of growth in the share of *intra-regional* trade has been accelerating even more rapidly (albeit from a lower base) than that of extra-regional trade.

Status of Agricultural Reforms in the LAC Region

To provide a complete overview of agricultural trade reforms in the LAC region would be a formidable task, and is beyond the scope of this paper. Other studies have already presented thorough reviews of the reform process in LAC, detailing the substantial reforms in the removal of non-tariff barriers (NTBs), and describing the significant reduction in the importance of state-trading in agriculture (for example, Valdés 1998). However, by focusing on a few distinct indicators we hope to convey at least a rough outline of the current state of affairs. First we address the current status of tariffs, followed by a brief overview of NTBs in the LAC region.

Table A.5.3 presents the average applied and bound tariff rates for total and agricultural imports. We observe that:

- In each case the applied average tariff is set below the average bound;
 - In the case of agricultural importables, the bound tariff rate is, on average, three times larger than the applied tariff rate; and
- When comparing average overall tariff rates to the rates applied to agricultural products, we observe that agricultural tariffs are higher. Note that the overall average includes agricultural products, implying that, in relation to agriculture, tariffs on industrial goods have fallen substantially.

The gap between applied and bound tariffs does not necessarily reflect the “water” in the bound tariff (that is, the average tariff reductions that could be made without affecting “real” protection), because the applied tariffs listed omit surcharges associated with price-band schemes in place for some products in several LAC countries. Thus the average “equivalent” tariff on agricultural products is higher than the applied tariff listed.

Table A.5.4 presents applied MFN tariffs by countries across four product categories. Some important deductions from the table include the following. The large gaps between the minimum and maximum applied tariff in each agricultural subsector hint at the existence of substantial variation around average tariffs. For example, the tariffs Ecuador applies on livestock products range from 0.5 to 50.5 percent, and in Mexico the variation is between 0 and 198 percent on crops.

However, at this level of aggregation we were unable to detect significant patterns within the subsectors or across countries. Nonetheless, because of the widespread use of these tariff peaks on several agricultural products, reducing the variation would represent a substantial step toward furthering the trade-liberalization process.

Table A.5.5 provides an overview of MFN tariffs (applied and bound) for 10 sensitive agricultural products in six Central American countries. It reveals that:

- Within each country, even ignoring poultry (which represents a special case) we can observe an ample dispersion among different agricultural products;

- Except to some extent in Nicaragua and Honduras, the common external tariff is not being effectively implemented; and
- When comparing actual with bound tariffs we can observe that for a few products the actual rates are greater than the bound tariff in a number of countries, but overall the reverse is true.

Table A.5.6 summarizes the status of non-tariff measures affecting agricultural and non-agricultural products in 13 LAC countries. The table indicates that:

- The incidence of import bans, quotas, and import licenses was quite low from 1995–98;
- Four countries (Bolivia, Chile, Paraguay, and Uruguay) have virtually eliminated NTBs;
- What remains in terms of NTBs (other than SPS-related measures) are tariff quotas, variable levies (surcharges), and non-automatic licenses; and
- Remaining NTBs are applied predominately in Brazil, Colombia, Mexico, and Venezuela.

Table A.5.7 presents the number of anti-dumping cases initiated and adopted by LAC countries during 1987–97. It can be observed that:

- Of 469 investigations initiated, 60 were in agriculture; of the total number of investigations initiated only 199 were adopted, of which a mere 3 were in agriculture;
- Three countries (Argentina, Brazil, and Mexico) initiated 87 percent (408 of 469) of all anti-dumping investigations; in agriculture these three countries initiated 88 percent (176 of 199) of all cases; and
- However, while overall 42 percent of the investigations led to the adoption of anti-dumping measures, only 5 percent of the requests in agriculture were adopted at the country level.

In light of the extremely low proportion of requests adopted, we are hard pressed not to conclude that national commissions may have been applying too little scrutiny when agreeing to initi-

ate anti-dumping investigations. On the positive side, the evaluation process was conducted in a remarkably rigorous and disciplined fashion—resulting in a 58 percent rejection rate.

Appendix table B.5.1 further disaggregates the number of adopted anti-dumping measures across major countries. We see that 22 percent (44 of 199) of the anti-dumping measures adopted by LAC countries during 1987–97 were against other LAC countries. Also striking is the fact that relatively few measures were adopted by LAC countries against the EU, the United States, and Japan; Mexico was the brave and notable exception.

Market Access for Agricultural Exports from the Region

LAC exporters to industrial countries face three major problems. These are: (1) tariff peaks, the result of tariffication in highly protected products, exacerbated by so-called “dirty tariffication;” (2) contingency measures (such as anti-dumping, safeguards, and countervailing duties), which are sometimes applied in a way that results in a de facto additional trade barrier (to tariffs); and (3) SPS regulations, quality norms, and standards.

Table A.5.8 presents a profile of bound tariffs in the United States, the EU, and Japan for major agricultural exports from Latin America and the Caribbean. Tariff levels for cereals, sugar, and dairy and meat products continue at high levels. This is particularly harmful for countries such as Uruguay and Argentina (for which cereals and meat represent 75 percent and 35 percent of agricultural exports, respectively). The impact is broader for sugar: for nine of the 28 LAC countries considered in the table, sugar represents more than 10 percent of agricultural exports; the figure is higher than 35 percent in four Caribbean countries. Fruits and vegetables also represent a relevant case of tariff escalation (higher tariffs on processed and semi-

processed products), one of growing importance to LAC exporters.

The situation for LAC countries that currently receive preferential market access is, of course, different. MFN tariff cuts by the industrial countries, including a reduction of tariff peaks, will reduce the value of preferential market access; for example, for Caribbean bananas exported to the EU and Mexican sugar exported to the United States.

As a proxy for the intensity of contingency measures implemented against LAC-region exports, we focus here only on anti-dumping initiatives. As summarized in appendix table A.5.1, during 1987–97 a total of 121 anti-dumping measures were adopted against LAC countries in both agricultural and non-agricultural products. Of these, 36 percent were implemented by other LAC countries, 32 percent by the United States, 11 percent by the EU, none by Japan, and 21 percent by the rest of the world. Table A.5.9 shows that of 191 investigations initiated, 121 were in agriculture; of the total investigations initiated only 13 were adopted, but 11 (85 percent) of these were in agriculture (in sharp contrast to the 60 adopted by LAC countries, of which only three were in agriculture).

Interestingly, the same three LAC countries—Argentina, Brazil, and Mexico—that initiated most investigations against exporters were the main LAC countries affected by investigations initiated against their exports. Specifically, the three countries were subjected to the exact same 87 percent (408 of 469) of all anti-dumping investigations. This suggests a tit-for-tat situation: if you investigate me, I’ll investigate you.

The bottom line for agriculture appears to be lower than is commonly assumed, since only 9 percent of the total number of measures taken were in agriculture.

Conclusion

We anticipate a highly diverse set of priorities among the various LAC countries in the forthcoming

negotiations, given the considerable diversity in the composition of agricultural exports, net trade position (net importers versus net exporters), level of development, and agricultural export potential within the LAC region.

From *net agricultural exporters*, we can expect a strong push for further liberalization of border measures, reduction of domestic supports, and reduction of export subsidies in industrial countries. They are likely to insist on:

- Substantial reduction of tariff peaks, through tariff-cut formulas that imply a larger reduction on high-tariff items;
- Continuation of tariff reductions during the negotiations period (beyond 2000) at a pace similar to that agreed on for the period 1995–2000;
- Significant reductions of export subsidies, elimination of the possibility of utilizing unused export limits from year-to-year (Article 9.2b of the URAA), and restrictions on the use of subsidized export credit;
- Continuing expansion of tariff quotas, perhaps at 10 to 15 percent annually;
- Elimination of the Special Safeguard (article 5 of the URAA) at the end of the transition period;
- Further reduction of domestic-support measures in the amber box, elimination of the blue box, revision of the green box, and a reduction of “de minimis” levels; and
- Specification of tariff and support-reduction commitments at a six-digit level of the tariff nomenclature (Harmonized System), to reduce undue concentration of protection on sensitive products.

From net agricultural-importing countries we anticipate emphasis on:

- Maintaining the Special Safeguard, and pressing for its extension to LAC countries that had unilaterally applied tariffication prior to the UR Agreement; and

- Allowances for continuing use of the “price-band” scheme that applies on some importables in all Andean countries, Chile, and some others countries. This is essentially a variable levy system based on a moving average of border prices, and is not linked to a domestic target price. If applied in a nondiscriminatory fashion and unlinked from “minimum import prices,” and if basic tariffs plus the surcharge do not exceed the bound tariff, these countries are liable to argue that such an instrument could remain WTO-legal.

Exporting countries under special and preferential treatment for selected agricultural products include relatively small island economies and the only “least-developed country” in the region, Haiti. Considering the potential erosion of these preferences, these nations could press for compensation in the form of temporary, duty-free access for their exports starting immediately after the completion

of the negotiations. They might also call for technical and financial assistance both to implement SPS and for an adjustment program to promote economic diversification of their economies.

In summary, the following factors should be underlined:

- The great importance of this forthcoming round of negotiations for the LAC region;
- The higher political visibility of these negotiations within LAC countries’ domestic scene, particularly on policies that affect import-competitive activities;
- The considerable differences of priority among net exporters and net importers in the LAC region; and
- The special situation of the poorest countries in the region, particularly regarding market access (those receiving preferential market access) and technical and financial assistance to implement the URAA.

Appendix A

Table A.5.1. Agricultural Trade in Selected Latin American Countries

<i>Country</i>	<i>Export/import ratio</i>		<i>Principal exports (of total agricultural exports)</i>	<i>Agricultural trade reform</i>	
	<i>1992-93</i>	<i>1996-97</i>		<i>Start date</i>	<i>Intensity</i>
Mexico	0.55	0.78	Fruits and vegetables (46), coffee (13), sugar (8)	1992	Substantial
Chile	2.32	2.01	Fruits and vegetables (60), grains (5)	1984	Substantial
Panama	1.47	1.03	Fruits and vegetables (70), sugar (8), coffee (6)	1992	Low
MERCOSUR					
Brazil	3.28	2.39	Fruits and vegetables (13), sugar (12), coffee (12), meat (11)	1989	Moderate
Argentina	7.11	7.27	Grains (23), fruits and vegetables (11), meat (9), oilseeds (9)	1989	Substantial
Uruguay	3.14	2.86	Grains (32), meat (32), milk products (13)	1990	Moderate
Paraguay	2.83	1.15	Oilseeds (41), textile fibers (24), meat (6)	1989	Substantial
ANDEAN					
Bolivia	0.97	2.31	Oilseeds (24), fruits and vegetables (12), textile fibers (9), sugar (8)	1987	Substantial
Colombia	2.68	2.06	Coffee (50), fruits and vegetables (16), sugar (8)	1990	Moderate
Ecuador	4.65	3.94	Fruits and vegetables (64), coffee (8), Cocoa (6)	1998	Moderate
Peru	0.37	0.52	Coffee (35), fruits and vegetables (33), textile fibers (7), sugar (6)	1990	Substantial
Venezuela	0.24	0.33	Tobacco (19), grains (14), fruits and vegetables (11), coffee (9)	1989	Moderate
CENTRAL AMERICA					
Guatemala	2.78	2.76	Coffee (37), fruits and vegetables (20), sugar (18)	1993	Moderate
Honduras	3.64	1.46	Coffee (49), fruits and vegetables (40)	1990	Substantial
Nicaragua	0.90	1.67	Coffee (39), meat (13), sugar (11), fruits and vegetables (10)	1990	Substantial
El Salvador	1.15	1.16	Coffee (67), sugar (11)	1989	Substantial

(Table continued on next page)

Table A.5.1 continued

<i>Country</i>	<i>Export/import ratio</i>		<i>Principal exports (of total agricultural exports)</i>	<i>Agricultural trade reform</i>	
	<i>1992-93</i>	<i>1996-97</i>		<i>Start date</i>	<i>Intensity</i>
Costa Rica	5.30	4.81	Fruits and vegetables (53), coffee (22)	1986	Moderate
CARIBBEAN					
Bahamas	0.16	0.26	Fruits and vegetables (22)		Low
Barbados	0.53	0.64	Sugar (35), grains (6)	1992	Moderate
Cuba	1.74	1.43	Sugar (86), tobacco (7), fruits and vegetables (5)		Low
Dominica	1.36	0.63	Fruits and vegetables (92)		Low
Grenada	0.40	0.32	Fruits and vegetables (33)		Low
Haiti	0.08	0.09	Coffee (63), fruits and vegetables (22)		Low
Jamaica	0.92	0.82	Sugar (35), fruits and vegetables (27), coffee (1%)	1987	Substantial
St. Lucia	1.07	0.66	Fruits and vegetables (90)		Low
Dominican Republic	0.81	0.72	Sugar (39), coffee (15), fruits and vegetables (12), tobacco (11)	1990	Moderate
Suriname	0.70	0.69	Fruits and vegetables (22)	1994	Moderate
Trinidad & Tobago	0.52	0.70	Sugar (18), grains (16), fruits and vegetables (6)	1989	Substantial

Sources: FAO statistics and authors.

Table A.5.2. Exports of Agricultural and Non-Agricultural Products: Total LAC and Intra-Regional (Billions of US\$)

<i>Trade group</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997^a</i>	<i>Annual growth rate %^d</i>
MERCOSUR							
Intra-subregional	7.2	10.0	12.0	14.4	17.0	20.0	22.7
World	50.5	54.2	62.1	70.3	75.0	82.3	10.3
Mercosur/world (%)	14.3	18.5	19.3	20.5	22.7	24.3	
Andean Community							
Intra-subregional	2.2	2.9	3.5	4.8	4.7	5.4	19.7
World	28.3	29.8	34.8	40.2	44.7	48.2	11.2
Andean Group/world (%)	7.8	9.7	10.1	11.9	10.5	11.2	
Central American Common Market *							
Intra-zonal	1.0	1.1	1.2	1.5	1.6	1.6	-2.4
World	4.6	5.1	5.5	6.9	7.3	8.2	13.8
CACM/world (%)	21.7	21.6	21.8	21.1	21.2	19.6	
CARICOM^b							
Intra-zonal	0.2	0.3	0.5	0.7	0.8	n.a	9.9
World	3.7	3.7	3.7	4.5	4.6	n.a	12.3
CARICOM/world (%)	6.1	7.9	14.0	15.4	16.7	n.a	
LAC^c							
Intra-regional	24.5	29.3	35.2	42.8	46.5	n.a	41.4
World	146.1	156.4	177.3	216.1	242.0	n.a	5.6
LAC/world (%)	16.8	18.7	19.8	19.8	19.2	n.a.	

(a) Preliminary data.

(b) Includes Barbados, Guyana, Jamaica, and Trinidad & Tobago.

(c) Includes the Central American Common Market (CACM), Barbados, Guyana, Jamaica, Trinidad & Tobago, Bahamas, Belize, Haiti, Panama, Dominican Republic, and Surinam.

(d) Mercosur, Andean Group, LAIA and CACM (Average annual rate 1992–97).

CARICOM—Latin America and the Caribbean (*Average annual rate 1992–96) *Refers to Central American Common Market.

Source: Economic Commission for Latin America, based on official data.

Table A.5.3. Applied and Bound Tariffs in Latin American Countries (Percent Ad Valorem CIF)

<i>Country</i>	<i>Total products</i>		<i>Agricultural products</i>		<i>Index (2)</i>
	<i>Applied</i>	<i>Bound</i>	<i>Applied</i>	<i>Bound</i>	<i>B/A</i>
Argentina	14.0	35.0	4.5	30.4	6.8
Bolivia	10.0	40.0	10.0	40.0	4.0
Brazil	12.0	32.0	11.0	36.0	3.3
Chile	11.0	25.0	11.0	32.0	2.9
Colombia	13.0	52.0	14.0	85.0	6.1
Costa Rica	12.0	44.0	17.0	44.0	2.6
Dominican Republic	20.0	40.0	21.0	40.0	1.9
El Salvador	10.0	37.8	14.0	47.0	3.4
Jamaica	19.6	38.0	29.7	95.6	3.2
Mexico	14.0	49.0	22.0	47.0	2.1
Paraguay	11.0	35.0	10.0	35.0	3.5
Peru	19.0	32.0	18.0	38.0	2.1
Uruguay	12.0	31.0	13.0	35.0	2.7
Venezuela RB	14.0	39.0	15.0	50.0	3.3
<i>Average</i>	<i>13.7</i>	<i>37.8</i>	<i>15.0</i>	<i>46.8</i>	<i>3.1</i>

(1) Corresponds to simple averages of applied and bound tariffs for total and agricultural products (applied in both cases).

(2) Ratio of bound-to-applied agricultural tariffs.

Sources: C. Michalopoulos "Trade Policy and Market Access Issues for Developing Countries, Working Paper 1999;" for Jamaica, M. Finger and others, 1996 *The Uruguay Round: Statistics on Tariff Concessions Given and Received*, Washington, D.C.: World Bank.

Table A.5.4. Tariffs in LAC Countries in 1998, by Section of the 1996 Harmonized System* (Percent Ad Valorem CIF)

<i>Countries</i>	<i>Livestock products</i>			<i>Crops</i>			<i>Oilseeds</i>			<i>Processed foods/tobacco</i>		
	<i>Min.</i>	<i>Max.</i>	<i>Average</i>	<i>Min.</i>	<i>Max.</i>	<i>Average</i>	<i>Min.</i>	<i>Max.</i>	<i>Average</i>	<i>Min.</i>	<i>Max.</i>	<i>Average</i>
Mexico	0.0	260.0	32.7	0.0	198.0	14.5	0.0	260.0	21.1	0.0	141.0	19.3
Chile	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0	11.0
MERCOSUR												
Brazil	0.0	27.0	11.9	0.0	21.0	10.2	7.0	15.0	12.2	5.0	36.0	18.1
Argentina	0.0	19.5	12.3	0.0	17.5	10.6	7.5	15.5	12.9	5.5	23.5	18.3
Uruguay	0.0	24.0	11.8	0.0	17.0	10.4	6.0	16.0	12.1	3.0	23.0	17.9
Paraguay	0.0	22.0	9.9	0.0	20.0	8.1	4.0	20.0	10.4	2.0	30.0	14.6
ANDEAN												
Bolivia	5.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0	10.0
Colombia	5.0	20.0	16.9	5.0	20.0	12.8	5.0	20.0	17.0	5.0	20.0	18.2
Ecuador	0.5	50.5	17.2	0.5	20.5	12.8	5.5	20.5	17.2	5.5	20.5	18.6
Peru	12.0	25.0	16.0	12.0	25.0	17.2	12.0	12.0	12.0	12.0	25.0	17.3
Venezuela	5.0	20.0	16.7	5.0	20.0	12.9	5.0	20.0	16.9	5.0	20.0	18.1
CARIBBEAN												
Antigua and Barbuda	0.0	40.0	19.2	0.0	40.0	16.2	0.0	40.0	23.2	0.0	45.0	16.2
Barbados	0.0	45.0	21.1	0.0	40.0	18.9	0.0	40.0	24.7	0.0	40.0	15.2
Belize	0.0	45.0	27.4	0.0	45.0	18.8	0.0	40.0	22.5	0.0	45.0	19.5
Dominica	0.0	40.0	19.9	0.0	40.0	19.1	0.0	40.0	24.7	0.0	40.0	15.3
Grenada	0.0	40.0	23.7	0.0	40.0	19.4	0.0	40.0	24.7	0.0	40.0	19.4
Guyana	0.0	45.0	26.1	0.0	40.0	19.0	0.0	40.0	24.7	0.0	100.0	24.2
Jamaica	0.0	40.0	24.2	0.0	40.0	18.9	0.0	40.0	24.7	0.0	0.0	40.0
St. Lucia	0.0	40.0	19.9	0.0	40.0	19.6	0.0	40.0	24.7	0.0	45.0	19.6
Suriname	0.0	40.0	22.5	0.0	40.0	18.7	0.0	40.0	24.7	0.0	50.0	18.9
Trinidad and Tobago	0.0	40.0	23.7	0.0	40.0	18.6	0.0	40.0	24.7	0.0	40.0	15.7

*Corresponds to Sections I through IV of the 1996 Harmonized System.

Source: IDB IIDB 1999, with data from the Statistics and Quantitative Analysis Unit of the LAIA Secretariat and CARICOM.

Table A.5.5. Applied and Bound Tariffs of Central American Countries for Selected Agricultural Products (Percent Ad Valorem CIF)

Product	CET	Costa Rica		El Salvador		Guatemala		Honduras		Nicaragua		Panama	
		Applied	Bound	Applied	Bound	Applied	Bound	Applied	Bound	Applied	Bound	Applied	Bound
Crushed rice	20.0	35.0	35.0	35.0	40.0	55.0	90.0	21.5	45.0	20.0	60.0	90.0	90.0
Rice grains	20.0	20.0	35.0	20.0	40.0	55.0	90.0	21.5	45.0	20.0	60.0	90.0	90.0
Beans	20.0	1.0	45.0	20.0	30.0	20.0	110.0	21.5	35.0	20.0	60.0	80*	78*
White corn	20.0	5.0	35.0	1.0	40.0	20.0	75.0	21.5	50.0	20.0	60.0	70.0	40.0
Yellow corn	20.0	1.0	15.0	1.0	78.0	55.0	75.0	21.5	45.0	20.0	60.0	70.0	40.0
Sorghum	20.0	20.0	45.0	20.0	40.0	20.0	90.0	21.5	45.0	20.0	60.0	50.0	30.0
Beef	20.0	20.0	45.0	20.0	79.0	20.0	63.0	21.5	20.0	480.0	60.0	20.0	30.0
Liquid milk	15.0	109.0	94.0	15.0	45.0	15.0	103.0	15.0	35.0	15.0	75.0		
Whole poultry meat	20.0	54.0	45.0	20.0	164.0	45.0	257.0	35.0	35.0	250.0	40.0	50.0	30.0
Chicken parts	20.0	270.0	233.0	20.0	40.0	45.0	257.0	80.0	35.0	250.0	200.0	320.0	260.0

* For green and other beans it is 40 percent and 30 percent.

Note: The WTO bound tariffs are those agreed upon at the end of the reduction period.

Source: Arnaldo Chibarro, 1997 "Las políticas comerciales agroalimentarias y el cumplimiento de las disciplinas agrícolas de la WTO en Centroamérica," paper presented at a workshop on "Subsidio y Ayudas al sector Agroalimentarios en el Hemisferio Americano," IICA, San Jose, Costa Rica.

Table A.5.6. Non-Tariff Measures in Selected LAC Countries (Percent of Total Number of Tariff Categories in the Harmonized System Included in the Measure)

Country	Non-automatic licenses		Prohibitions		Quotas		Tariff quotas		Import registration		Variable tariffs and minimum prices	
	1989-94	1995-98	1989-94	1995-98	1989-94	1995-98	1989-94	1995-98	1989-94	1995-98	1989-94	1995-98
Argentina	3	1	0	0	2	1	0	0	0	0	0	1
Bolivia	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.
Brazil	10	11	7	11	0	1	0	0	100	0	0	1
Chile	0	0	1	1	0	0	0	0	0	0	5	4
Colombia	55	6	7	1	3	0	0	0	0	0	0	6
Costa Rica	n.a.	6	n.a.	0	n.a.	0	n.a.	6	n.a.	0	n.a.	0
Dominican Republic	n.a.	5	n.a.	1	n.a.	0	n.a.	0	n.a.	1	n.a.	0
El Salvador	n.a.	5	n.a.	1	n.a.	1	n.a.	0	n.a.	0	n.a.	0
Mexico	28	6	0	1	2	0	0	7	0	0	2	0
Paraguay	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0
Peru	0	n.a.	0	n.a.	0	n.a.	0	n.a.	0	n.a.	6	n.a.
Uruguay	0	0	0	0	1	0	1	0	0	4	31	0
Venezuela RB	n.a.	2	n.a.	3	n.a.	0	n.a.	0	n.a.	0	n.a.	13

n.a. = not available

Source: C. Michalopoulos, 1999 "Trade Policy and Market Access Issues for Developing Countries," Washington, D.C.: World Bank and WTO, June.

Table A.5.7. Antidumping Cases in LAC Countries 1987–97

<i>Countries</i>	<i>Investigations</i>		<i>Measures taken</i>	
	<i>Total</i>	<i>Agricultural</i>	<i>Total</i>	<i>Agricultural</i>
Argentina	123	2	48	0
Brazil	97	13	32	1
Chile	9	2	5	1
Colombia	20	2	8	0
Costa Rica	5	3	0	0
Guatemala	1	0	0	0
Mexico	188	35	96	0
Peru	14	3	6	1
Venezuela	12	0	4	0
TOTAL	469	60	199	3

Source: R. Miranda, R. Torres, and M. Ruiz, "The International Use of Antidumping: 1987–1997," *Journal of World Trade* 32(5).

Table A.5.8. Select Developed Countries: Tariffs for Main LAC Agricultural Exports (Percent Ad Valorem CIF)

<i>Export Item</i>	<i>European Union</i>		<i>United States</i>		<i>Japan</i>	
	<i>1995</i>	<i>2000</i>	<i>1995</i>	<i>2000</i>	<i>1995</i>	<i>2000</i>
Wheat	170	82	6	4	240	152
Sugar	297	152	197	91	126	58
Dairy products	289	178	144	93	489	326
Meat	96	76	31	26	93	50
Vegetables						
Fresh and frozen		15		6.9		3.4
Processed		15		5.5		18
Fruit						
Fresh and frozen		16.2		4.5		7.4
Fruit juices		42.7		11		21.9
Processed		17.9		9		15.3

Sources: OECD 1997; Hathaway and Ingco 1995; World Bank 1996.

Table A.5.9. Antidumping Cases against LAC Countries 1987–97

<i>Countries</i>	<i>Investigations</i>		<i>Measures taken</i>	
	<i>Total</i>	<i>Agricultural</i>	<i>Total</i>	<i>Agricultural</i>
Argentina	20	1	7	1
Bolivia	1	1	0	0
Brazil	105	1	65	2
Chile	8	3	3	1
Colombia	8	1	3	2
Cuba	2	0	0	0
Ecuador	1	1	2	2
Guatemala	1	1	0	0
Mexico	35	3	21	3
Nicaragua	1	1	0	0
Paraguay	2	0	1	0
Peru	1	0	0	0
Trinidad and Tobago	4	0	1	0
Uruguay	2	0	1	0
Venezuela RB	0	0	17	0
TOTAL	191	13	121	11

Source: R. Miranda, R. Torres, and M. Ruiz, “The International Use of Antidumping: 1987–1997,” *Journal of World Trade* 32(5).

Table B.5.1. Measures Taken: Implementing Country Versus Affected Country 1987–97

<i>Affected country</i>	<i>Implementing country</i>							<i>Industrial countries</i>				<i>Total</i>	
	<i>Argentina</i>	<i>Brazil</i>	<i>Chile</i>	<i>Colombia</i>	<i>Mexico</i>	<i>Peru</i>	<i>Venezuela</i>	<i>Subtotal</i>	<i>U.S.</i>	<i>EU</i>	<i>Japan</i>		<i>Other</i>
Argentina	0	1	1	0	0	0	0	2	4	0	0	1	7
Brazil	14	0	0	0	12	1	0	27	14	7	0	17	65
Chile	1	0	0	0	0	1	0	2	1	0	0	0	3
Colombia	1	0	0	0	0	0	0	1	2	0	0	0	3
Ecuador	0	0	0	0	0	0	0	0	2	0	0	0	2
Mexico	1	1	0	0	0	1	0	3	8	5	0	5	21
Paraguay	1	0	0	0	0	0	0	1	0	0	0	0	1
Trinidad & Tobago	0	0	0	1	0	0	0	1	0	0	0	0	1
Uruguay	0	1	0	0	0	0	0	1	0	0	0	0	1
Venezuela RB	1	0	1	0	4	0	0	6	8	1	0	2	17
Subtotal	19	3	2	1	16	3	0	44	39	13	0	25	121
United States	2	6	0	4	25	0	0	37	0	6	0	50	93
EU	0	0	0	0	0	0	0	0	0	0	0	1	1
Japan	2	0	0	0	2	0	0	4	39	21	0	19	83
Other	25	23	3	3	53	3	4	114	191	145	2	284	736
Total	48	32	5	8	96	6	4	199	269	185	2	379	1034

Source: R. Miranda, R. Torres, and M. Ruiz. 1998. "The International Use of Antidumping: 1987–1997," *Journal of World Trade* 32(5).

6. CEEC Interests and Options in the WTO 2000 Negotiations

Natalija Kazlauskienė and William H. Meyers

The Uruguay Round (UR) made a clear distinction between two groups of countries, centered around economic development levels, commitments to be undertaken, and ability to implement UR decisions and disciplines. Recognizing the specific conditions affecting developing countries, provisions were crafted to enable less developed countries to comply with the main commitments more gradually and on a slower timetable, but with the same discipline as industrialized countries. Thus countries that choose to be treated as “developing” operate under more lenient modalities when undertaking UR commitments. While the UR negotiations were underway, a new group of countries entered the international scene—a group that continues to grow both in numbers and in share of world trade. They are known as the “transition economies,” and have features in common with both industrialized and developing country groups, as defined by the UR.

However, this group of countries also has specific features and limitations with regard to implementing UR commitments. Their situation should be taken into account when designing the format of the upcoming negotiations and establishing the starting point for different groups of countries. Transition from a centrally controlled economy to a market-oriented economy is a lengthy process requiring, among other things, redefinition of the role

of the state, privatization and restructuring of the national economy, and the creation and nurturing of new institutions. It also requires building the human capital base needed in both the private and reoriented public sectors.

The upcoming “Millennium Round” of WTO multilateral trade negotiations will see a number of new WTO members as negotiating partners, and for the first time will involve a sizeable group of countries with “economies in transition” that will bring their own dynamic to the negotiating table. An important subgroup of these transition economies are the Central and East European Countries (CEECs). Often considered as a group with similar development levels and problems, CEECs at the same time differ in many respects, including their starting positions for the next WTO negotiations. These differences include the speed and degree of economic and policy reforms under implementation, existing national policies, the character of government economic and monetary management, and the place of agriculture in the national economy, as well as significant differences in the types and levels of current WTO commitments. Differing past and present experiences and decisions, as well as common goals and objectives, are likely to be reflected in national negotiating positions. To analyze the potential interests and positions of CEECs in the next round, we first look at the features of

possible informal country groupings within CEECs, and then evaluate how their similarities and differences may lead to differing interests and priorities during the negotiations.

Similarities and Differences among CEECs

A discussion on similarities among CEECs could go back to the prewar period and beyond, when these countries were part of mainstream Europe. However the more recent common experience is that of making up for 50 years of "lost time," by transforming state-owned and -controlled economies into market economies with sufficient private ownership, market infrastructure, and maturity to be competitive in broader European and global markets. Although the countries in the group have chosen different means and are at different stages of this process, all have clearly embarked on this path and even the most advanced have a long way to go. In regard to agricultural policy, countries are at various stages of developing and implementing national policies, but none has formulated a consistent, transparent, long-term policy on agriculture.

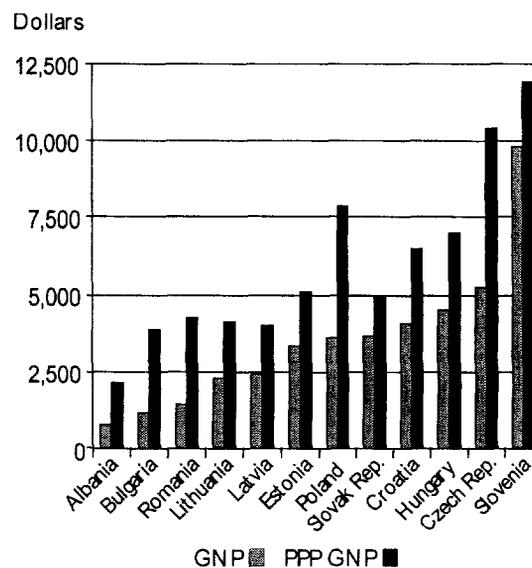
As a result of decades of institutional atrophy under central planning, all CEECs suffer from weak market and policy institutions; this would take time to remedy even under the most favorable conditions. Both the public and private sectors suffer from human- and physical-capital deficits. One feature common to most of these countries, which promises to speed up progress in these areas, is their path toward membership in the European Union (EU). This provides not only a common goal, but also a framework for legal and institutional development that can only hasten the transition to competitive market structures and competent regulatory frameworks. Among the 12 countries that are the focus of this paper, only Croatia and Albania do not yet have Association Agreements with the EU, although they would be obvious candidates in the

short run. Given that such a path is within view, they tend to share the common goal of the other 10 countries.

Differences among the countries are also important to any assessment of their interests in the next round of WTO negotiations. For example, there are differences in levels of development and a wide disparity in the degree of importance of agriculture and food to their economies and trade. Nominal per capita gross national product (GNP) in 1997 ranged from less than US\$800 in Albania to nearly US\$10,000 in Slovenia (figure 6.1). Using the purchasing-power-parity measure of income per capita narrows this gap somewhat, but does not alter the ranking by per capita income noticeably, except for Poland. The importance of trade to the economies also varies significantly; trade as a percent of gross domestic product (GDP) ranged from 50 percent in Albania to over 100 percent in more than half the countries (figure 6.2).

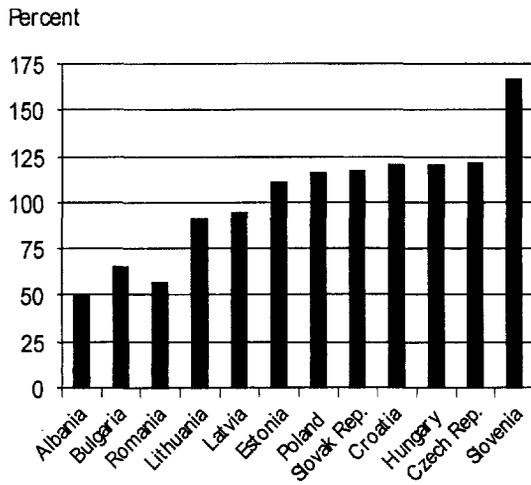
Although it has been changing over time in most countries, the 1997 share of employment in agriculture ranged from 4.2 percent in the Czech Republic to 64 percent in Albania (similar to many

Figure 6.1. 1997 GNP and PPP GNP Per Capita, \$US



Source: World Bank 1999.

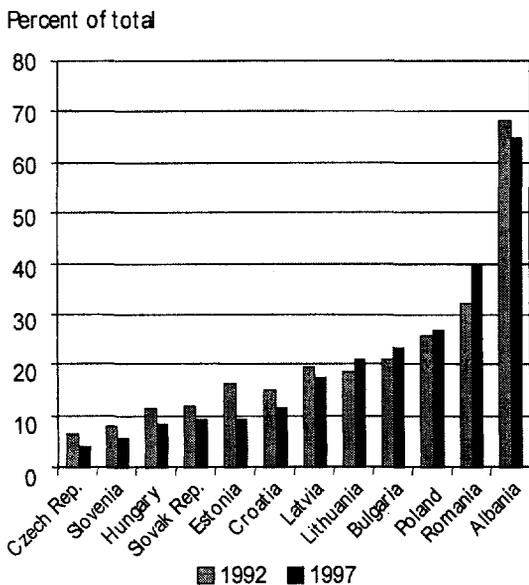
Figure 6.2. 1997 Trade as a Share of GDP



Source: World Bank 1999.

developing countries), as described in figure 6.3. In some countries agriculture has served as a buffer for underemployed workers during the restructuring, so the share of workers in agriculture has in-

Figure 6.3. Agricultural Employment

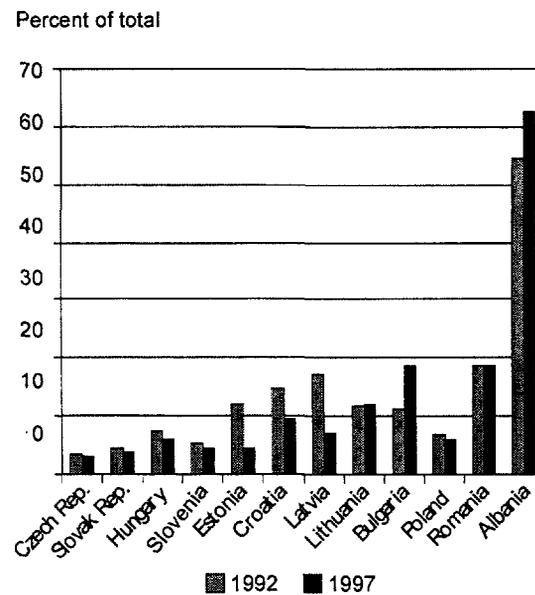


Source: OECD 1999.

creased during the transition, although in the long run it can be expected to decline. In other countries, especially those that had lower agricultural employment shares in 1992, significant numbers of workers have already shifted from agriculture to other sectors of the economy. The contribution of agriculture to GDP also varies greatly, although in all but Albania it was below 20 percent in 1997, and in most it was less than 10 percent (figure 6.4). Here too, significant change has occurred in many countries over the last several years, usually in the direction of a declining share of agriculture in GDP.

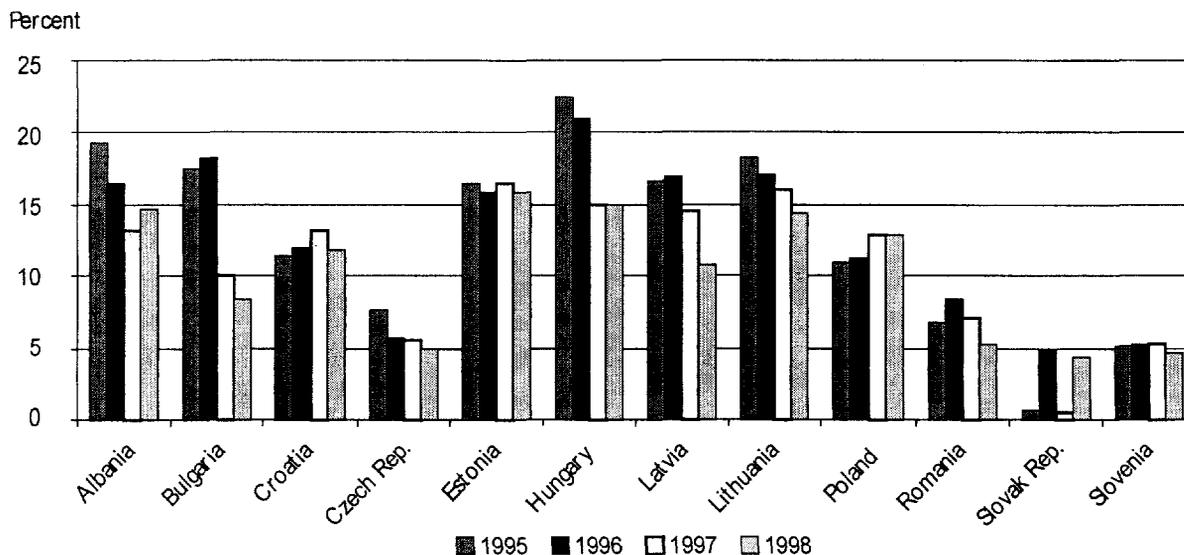
The share of agriculture and food products in total exports varies considerably across countries, although most trade patterns are still in transition. For the Czech Republic, Romania, the Slovak Republic, and Slovenia, export shares of agriculture and food products have been near or below 5 percent in most recent years, while in the remaining eight countries the share was in the 10 to 15 percent range, and occasionally was even higher (figure 6.5). In regard to imports, only Albania imports more than 20 percent of its food and agricultural products, while the Baltics and Croatia range from

Figure 6.4. Agricultural Share in GDP



Source: OECD 1999.

Figure 6.5. Share of Agriculture and Food in Total Exports

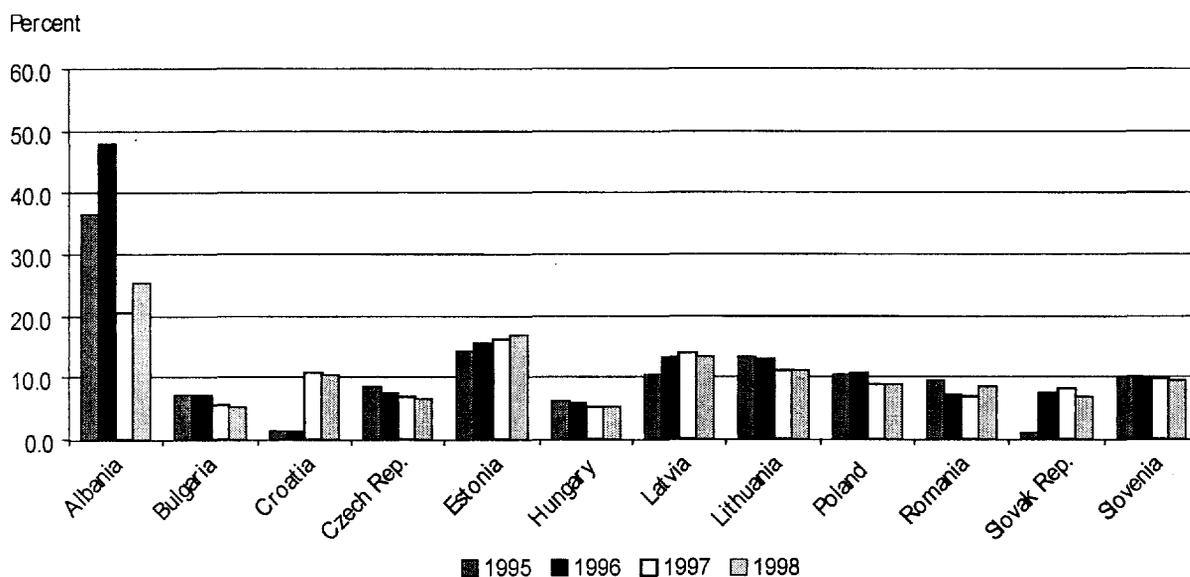


Source: OECD, 1999.

10 to 15 percent, and the rest import less than 10 percent (figure 6.6). While four of the eight countries analyzed were still net exporters of agriculture

and food products in 1995, by 1998 only Hungary and Bulgaria were net exporters, and Bulgaria's positive balance was declining rapidly (table 6.1).

Figure 6.6. Share of Agriculture and Food in Total Imports



Source: OECD, 1999.

The situation was exacerbated in 1998 by the exports from the Czech Republic, Hungary, Poland,

Table 6.1. Net Exports of Agricultural and Food Products, By Country and Region (\$US Million)

	1995	1996	1997	1998
Albania	-192	-292	-158	-194
Bulgaria	719	518	213	127
Croatia	-423	-399	-478	-328
Czech Republic	-471	-802	-645	-585
Estonia	-60	-173	-245	-293
Hungary	1923	1806	1769	1573
Latvia	27	-66	-135	-228
Lithuania	8	-24	-7	-129
Poland	-476	-1232	-470	-743
Romania	-364	-81	-99	-482
Slovak Republic	-208	-396	-393	-433
Slovenia	-523	-479	-452	-414
CEFTA total**	600	-666	-77	-957
BFTA total*	-25	-263	-387	-650
CEECs total	-40	-1620	-1100	-2129

* Includes all current members in all years (Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovak Republic, and Slovenia)

** Includes Estonia, Latvia, and Lithuania

Source: OECD, 1999.

global market glut and the Russian financial crisis, for which the CEECs were less equipped than more mature market economies to find alternative markets or compete with the subsidized exports of some OECD countries.

Although the Commonwealth of Independent States (CIS) countries are still a very important export market for the Baltics, Bulgaria, and Poland, their importance has been declining over time. Because of the Russian financial and economic crisis of 1998, the share of exports to the CIS declined significantly, especially for these five countries. In 1998 trade with the EU and other CEECs accounted for more than 80 percent of Albanian and Slovakian exports and more than 50 percent for

and Romania (table 6.2). Romania's unusual situation was a result of the loss of markets in the CIS and other markets.

CEEC countries are even more interdependent in trade with the EU and each other in regard to imports. In 1997 and 1998, one-half or more of imports came from either the EU or other CEECs; for most countries the share was two-thirds or more. These high interregional trade figures are related in part to proximity, but also to trade preferences between the EU and the Associated Countries, and within the regional trade areas, CEFTA (Central European Free Trade Agreement) and BFTA (Baltic Free Trade Agreement). Moreover, fledgling CEEC food and trade enterprises still

have limited international marketing expertise, and thus cannot yet fully exploit opportunities in other

tions, are differences in their current WTO commitments. The 12 countries fall into two main

Table 6.2. Agricultural and Food Exports (By Destination) and Imports (By Source), 1998 (Percent)

	<i>EU</i>	<i>Other OECD</i>	<i>CEECs</i>	<i>NIS</i>	<i>Other</i>	<i>EU, CEECs</i>
Exports						
Albania	86	4	2	0	8	88
Bulgaria	27	12	10	34	17	37
Croatia	14	5	22	2	57	36
Czech Republic	31	4	38	17	10	69
Estonia	16	4	19	61	0	35
Hungary	44	8	13	18	17	57
Latvia	20	1	22	47	10	42
Lithuania	23	11	17	47	2	40
Poland	43	6	14	32	5	57
Romania	61	14	7	5	13	68
Slovak Rep.	20	0	61	11	8	81
Slovenia	40	6	3	3	48	43
Imports						
Albania	75	5	11	4	5	86
Bulgaria	37	14	10	2	37	47
Croatia	43	6	22	0	29	65
Czech Republic	50	8	20	0	22	70
Estonia	49	23	10	5	13	59
Hungary	42	7	8	1	42	50
Latvia	51	8	29	4	8	80
Lithuania	53	12	25	8	3	78
Poland	48	11	9	3	29	57
Romania	41	16	23	4	16	64
Slovak Rep.	39	3	43	0	15	82
Slovenia	50	7	13	2	28	63

Source: OECD, 1999.

markets.

Possibly the most important differences among CEECs, in terms of impact on negotiating posi-

groups: those that belonged to the GATT during the UR negotiations (pre-UR members), and those that joined the WTO after the UR negotiations (post-

UR members). The first group includes the Czech Republic, Hungary, Poland, Romania, and the Slovak Republic, which made a commitment as part of the UR. The second group includes two countries that joined after the completion of the UR (Bulgaria and Slovenia), four that have already completed accession negotiations (Estonia, Latvia, Lithuania, and Croatia), and one that still hopes to complete negotiations in time to participate in the next negotiating round (Albania). The remaining Balkan countries are not included in our analysis, but would fall into a later accession group, along with most of the CIS region.

Pre-UR members of the GATT generally succeeded in binding their commitments on import tariffs, market access, and export subsidies at relatively high levels. Post-UR newcomers, however, faced protracted bilateral and multilateral negotiations to set these commitments according to a much tighter schedule, and generally had far less flexibility. As a result there tends to be considerably more “water” in the pre-UR member bindings, and thus more room for “painless” cuts. For example, the highest tariff bindings among two groups of CEECs are in Romania and Bulgaria (table 6.3). Romania chose “developing country” status and “tariffied” its import restrictions in a way that produced astounding tariff bindings. Bulgaria, though

generally having the highest bindings in the post-UR accession group, generally has lower bindings than in Romania and Poland and little if any difference between actually applied and bound rates. For many products, the high bound rates in Poland and Romania mean that they have large differences between bound and applied rates, while most of the other countries in the region have applied rates that are equal to and declining annually with the bound rates.

Given the differences between the two groups, and even within each group, the levels of bound tariffs for CEECs differ considerably for major, tradable, sensitive commodities. The range can be seen below; except for cheese, the lowest bindings are usually in post-UR member-countries:

- Wheat: 21 percent (Czech Republic and the Slovak Republic); 240 percent (Romania);
- Oilseeds: 0 percent (Estonia, Hungary, and Slovenia); 160 percent (Romania);
- Sugar: 40 percent (Estonia); 180 percent (Romania);
- Butter: 35 percent (Estonia); 200 percent (Romania);
- Skimmed milk powder: 30 percent (Estonia, Latvia, and Lithuania); 248 percent (Romania);
- Cheese: 9 percent (Czech Republic and the

Table 6.3. Applied and Bound Tariff Levels for Major Commodities in Bulgaria and Romania (Percent)

Product	Romania 1997		Bulgaria 1997	
	Applied rate	Bound rate*	Applied rate	Bound rate**
Wheat	25	240	50	50
Oilseeds	5	160	50	50
Sugar	50	180	128	100
Butter	60	200	120	60
Cheese	60	270	135	96
Beef	50	288	162	99
Pork	60	333	120	120
Poultry	60	96	96	96

* 2004, **2000

Source: European Commission, 1998.

- Slovak Republic); 270 percent (Romania);
- Beef: 33 percent (Estonia); 288 percent (Romania);
- Pork: 33 percent (Estonia); 333 percent (Romania); and
- Poultry: 21 percent (Slovenia); 99 percent (Poland).

To get a sense of the patterns of differences between bound and applied rates and how the bound rates compare to the bindings of the EU, we compare a group of the most sensitive commodities in the 12 countries. The bound rates for pre-UR countries are for the year 2000, except for Romania, which opted for developing country status and has till 2004 to implement commitments. Among the post-UR members, the final year for the implementation of commitments in Bulgaria and Slovenia are for the year 2000, while for Estonia, Latvia, and Lithuania the pattern of reductions and the final year (often later than 2000) vary depending on the product. Unlike for the pre-UR members, the amount and timing of tariff reductions were often negotiated product by product. Also, for the most recent accessions, the 2000 bound rates are the beginning rather than the end of tariff adjustments, so there is the peculiar situation that reduction commitments continue well into the period to be covered by the next round of negotiations.

Both applied and bound rates vary greatly across countries. However, the applied rates vary in a smaller range than do the bound rates, because the countries with the highest bound rates also tend to also have the largest difference between bound and applied rates. Only Poland and Romania have bound rates that are consistently as high or higher than those in the EU. For most of these sensitive products, the EU tends to have higher bound rates than most of these countries. Only for oilseeds, pigmeat, and poultry are EU bound rates as low or lower than those in CEECs.

Pre-UR WTO members were also able to negotiate non-zero commitments on export subsidies for major commodities. Among the post-UR group,

Bulgaria was the only country that, for political reasons (a United Nations embargo on trade with the former Yugoslavia), succeeded in joining the WTO with non-zero export-subsidy commitments for its main exports, including cereals, oilseeds, cheese, beef, pork, and poultry.

It is too early to draw conclusions regarding differences in WTO commitments of Albania and Croatia, since Albania is still negotiating, and the results for Croatia are not yet available. One fact is clear: except for Estonia, which had free-trade policies before accession, experience of other post-UR accessions shows that these countries are not likely to have WTO commitments that provide levels of support or protection significantly higher than those that currently exist.

Many of the differences in current commitments relate to differences between GATT- and WTO-accession negotiating positions. Countries that were members of the GATT prior to the Uruguay Round were, in many cases, conducting more distorting, more protectionist, less transparent policies and were able in the course of negotiations to replace them with more transparent, although still relatively high, market-protection measures. The base period for reduction commitments of this group was prior to 1990, when production was still high, support for agriculture was quite strong, and the use of non-tariff measures (NTMs) was extensive. Countries that joined the WTO after the Uruguay Round or are still negotiating their membership already had as a starting position more liberal, less distorting, and more transparent policies. These policies resulted from post-1990 policy reforms, as well as the conclusion and implementation of a number of multilateral and bilateral trade agreements and economic memoranda with international financial institutions (such as the International Monetary Fund and the World Bank). The base period for commitments of this group was the mid- to late-1990s, when production was already considerably lower than in the pre-1990 period, and structural, institutional, and policy reforms were already well underway. Since tariff bindings are generally lower for the post-UR accession group, there are

also relatively few products in these countries for which TRQs are included in the commitments.

A final indicator of differences among CEEC countries is the producer subsidy equivalent measure (PSE), as calculated by the Organization of Economic Cooperation and Development (OECD). Given the PSE methodology, these figures reflect not only intervention measures, but also the stage of market-price adjustments during transition. During the last four years, PSEs in all countries have fluctuated, but are uniformly rather low compared to EU and OECD averages. PSEs for the countries reported ranged from 13 to 26 percent in 1998 (from 15 to 25 percent in 1999), and policy studies in Albania and Bulgaria indicate that they are at or below the lower end of this range. Note also that over time, these differences in PSEs among the CEECs are diminishing.

Potential Agenda for Agriculture Negotiations: CEEC Perspectives

The common goal of a future within the EU has a significant bearing on CEEC perspectives on the upcoming WTO negotiations, although some of their differences (such as status and initial conditions) are also likely to influence their positions. Without knowing or trying to ascertain what positions or strategies are actually being developed by specific countries, we have tried to infer from the similarities and differences in starting points the issues likely to be most important to countries in this region. Though these inferred national interests may very well be overpowered by their common perspective as future members of an enlarged European Union, we try to set that consideration aside so that potential differences can be accentuated. In many ways the list of issues is similar to those of many other WTO members, including changes in modalities or disciplines on domestic support, market

access, non-tariff measures, export competition, safeguard provisions, and state trading.

Domestic Support

The main issues of concern relative to domestic support are likely to be the status of green box and blue box categories of support. As prospective members of the EU, Central and East European countries are trying to enhance support for rural development and environmental measures that often form part of restructuring efforts and the development of alternative employment for workers leaving agriculture. These measures are also considered to be forward-looking and more efficient from the perspective of better use of limited budget resources. The preservation of the blue box, or a somewhat redefined but similar category, for partially decoupled support is important as an incentive for governments to use less distorting support measures during a transition period when fully decoupled programs may not be possible to implement because of political and structural constraints. In many CEECs, output-based supports are being replaced by partially decoupled supports, such as headage and area payments. However, if the blue box were eliminated or highly restricted, countries lacking adequate human capacity and institutional infrastructure to implement fully decoupled programs would be at a disadvantage, relative to more developed economies, in meeting WTO requirements. Similarly, if agricultural marketing service (AMS) commitments were shifted from aggregate to product-specific commitments, it would require a more advanced level of institutional infrastructure than currently exists in many of the transition countries. This would also increase the sensitivity of the issue for the post-UR countries, which based their WTO commitments on a post-1990 base period.

A way to see the significance of these different base periods is to look at AMS commitments compared with actual AMS notifications. Though the data is incomplete, due to lack of notifications for some countries, the comparison in table 6.4 provides an example of this difference. The Czech

Republic and Poland still have a lot of “water” in their AMS commitments as of 1998. The Slovak Republic has used 60 to 70 percent of its limit, partly because it’s AMS commitment was in na-

products), market access for commodities produced in the region continues to be problematic. Even the preferential access provided for limited quantities of goods in the Europe (Association) Agreements with

Table 6.4. Total Aggregate Measures of Support (AMS) Commitments and Actual Notified AMS for Some CEECs in 1996 and 1998

	1996			1998		
	Total AMS ceiling	Actual AMS	% of ceiling used	Total AMS ceiling	Actual AMS	% of ceiling used
Czech Rep. (CKr millions)	15880	1689	10.6	14746	1013	6.9
Poland (\$US millions)	3883	226.5	5.8	3606	300.6	8.3
Slovak Rep. (SKr millions)	11830	6982	59.0	10985	7710	70.2
Slovenia (ECU millions)	72153	69239	96.0	66999	65991	98.5

Source: European Commission, 1998.

tional currency and that has depreciated over time. By contrast, Slovenia, an early post-UR accession country, has been nearly at the limit of its AMS commitment from the very beginning. For this reason, a commitment for further reductions in AMS during the next round of negotiations will be politically more difficult for Slovenia (and similarly for other post-UR members) than for the pre-UR members of WTO.

Market Access

Although bound tariff reduction under UR schedules was intended to improve market access, from the perspective of the CEECs the benefits of this improvement have been very limited. Because most agricultural and food products produced in CEECs are of the same type (but somewhat lower quality) as those produced in more advanced countries, and given the limited possibilities for newcomers to enter well-established and highly competitive markets (except for a few high value-added specialty

the EU is often not fully utilized, due to lack of sufficient quantities that meet quality standards and complicated producer certification procedures.

With privatization and restructuring of the food industry, development of marketing infrastructure, and efficiency improvements in the marketing chain, this situation could change. However, these changes will take time. Moreover, while going through the processes of restructuring, establishing new businesses, and recovering from the drop in agricultural and food industry output, CEECs are not in an advantageous position to compete with imported products. While import competition often serves as an added incentive for domestic industries to improve their competitiveness, many CEECs will experience less benefit in mutual, symmetric increases in market access than will more advanced economies.

Tariff Bindings and Non-Tariff Measures

The UR eliminated non-tariff measures in agriculture through “tariffication.” This led to increases in bound tariff rates, tariff rate quotas (TRQs) to provide minimum access, and often a wide gap between bound rates and applied MFN rates. Although some tariffs were reduced significantly as a result of the UR, others (especially out-of-quota tariffs in TRQ commitments) remain high and are likely to remain an important issue for the upcoming round of talks on market access in agriculture. One issue is the structure of tariffs; they should be limited primarily to ad valorem rates as the most transparent type, and strict notification procedures on the *ad valorem equivalents* of the remaining tariffs should be introduced. Another issue is related to further tariff reductions, the increase of quantities in the TRQ commitments, and further limiting NTMs to improve market access. These are areas where differences of interest may be evident between pre- and post-UR members among the CEEC group. There is very little “water” in the tariff bindings of the post-UR members and they have relatively few TRQs in their own schedules. So a reduction of tariff bindings might be more difficult to accept, but expansion of TRQs would be seen as a benefit, in that for the most part it would increase market access in other countries.

Export Competition

Further reduction, or elimination, of export subsidies is likely to be high on the agenda in the upcoming negotiations. CEECs will have different interests in regard to this issue, depending primarily on the timing of their accession. As mentioned, post-UR members (with the exception of Bulgaria) have not succeeded in joining the WTO with non-zero export subsidy commitments. It is in the interest of these members that export subsidies be

eliminated completely, since they have nothing to lose and everything to gain. Many CEECs experienced the negative impacts on their exports to Russia in 1998, when the United States and European Union responded to the world market glut and Russia’s financial crisis by dramatically increasing subsidies and preferential credit for their Russian exports. Further disciplines on preferential export credit sales may also be of benefit to these countries, which lack the financial resources to compete with such sale arrangements.

Special Safeguard Clause

In order to secure stability in domestic markets and protect them from extreme externalities, the URAA offers some flexibility in the application of border and domestic stabilization measures through various procedures, including a special safeguard (SSG) clause. SSG allows the application of additional tariffs in case of low, declared import prices or substantial inflows of products into a country. However the SSG mechanism does not apply automatically, since not all countries have access to it. Eligibility to use the SSG scheme depended on the tariffication process, so unlike pre-UR members, post-UR members cannot take advantage of this protection. This can be seen as a case of dual standards. If the SSG clause cannot be eliminated entirely, then equal access to the SSG clause should be considered during the next round, since general safeguard provisions are expensive and time-consuming to implement, require additional documentation, and are often not effective in the case of large import flows into small domestic markets.

This is another topic in which post-UR members in the CEEC group are likely to have a greater interest than pre-UR members. They can, of course, use provisions of the general agreement on safeguards; but application is complicated and costly. It could take so long for a small economy to use this procedure for something as volatile as a food or agricultural product that, in the meantime, irre-

versible developments may have destroyed, or had a severely negative impact on, domestic enterprises. Not having recourse to the SSG provisions represents a serious disadvantage, since they can be implemented more rapidly and could avoid such outcomes.

State Trading

As part of their transition CEECs have reoriented the role of the state, removing constraints on the emerging private sector. This is consistent with the general WTO approach of encouraging the establishment and strengthening of market-based development in transition economies. State monopolies have largely been privatized, and the role of governments limited mainly to the regulatory sphere. However, over the past couple of years almost all CEECs have established a market regulation or intervention agency to implement market-regulation policies. Despite differences in organization and operation, all such institutions are undertaking purchases within the framework of government regulation—with or without direct or indirect government financing. While these agency operations would not be classified as state trading under current WTO definitions, it is not clear how these agencies would be effected if tighter WTO rules on state market intervention are developed during the next round of negotiations. The weakness of the current situation with regard to many of these agencies is that government procurement rules are not well defined. At a minimum, transparency in procedures has to be ensured. However, as with some other issues, the CEECs will be concerned that overly complex rules or disciplines will be difficult to administer while institutional infrastructures are still relatively weak. Of course, as importers and exporters they have an interest in improving disciplines on state-trading organizations, to ensure that state trading is more transparent and does not violate WTO non-discriminatory principles.

The Future of the WTO Initiatives

In addition to the base GATT Multilateral Agreements on Trade in Goods, some countries have formulated or entered into a range of sectoral initiatives. One of them, the Zero-for-Zero Initiative, deals with some products covered by the provisions of the URAA (including beer and brown spirits). Until now, this and other similar initiatives have not been obligatory, although countries negotiating accession to WTO feel certain pressure to join them. The issues for the next negotiation round are whether the list of products will be expanded, and whether any of the current initiatives will be institutionalized (in one form or another) as obligatory commitments for all WTO member-states. For later accessions, there may also be a question as to the status of such initiatives in negotiations. For the CEECs, however, it is clear that as future EU members they will not be likely to join initiatives like zero-for-zero unless the EU has already joined or will join them as well.

Exchange Rate Regime and Market Protection

In the process of instituting policy reforms, CEECs undertook liberalization or partial deregulation of prices. As a result of subsidy elimination, domestic market prices rose in the direction of world market prices, sometimes even exceeding them, because of underdeveloped market infrastructure, inefficiencies in the marketing chain, and other, similar factors. Some of the countries have pursued currency board arrangements, pegging their currencies to the German Mark, ECU (now the Euro), the U.S. dollar, or a basket of such currencies. Strong, real appreciation of national currencies, price adjustments, and differences in domestic and foreign inflation rates reduced the real effective rate of protection,

given that no changes in ad valorem tariffs have occurred. But such policies made exports less competitive in external markets and favored imports in domestic markets, thus increasing the competitive pressure on industries undergoing privatization, restructuring, and modernization. The result has been an increase in imports, rapidly deteriorating trade and current account balances, pressures for strengthening domestic-market protection through higher import tariffs, and import restrictions (quotas, NTMs, and even temporary import bans).

A number of measures have been taken in response, including: increases in import duties; anti-dumping duties; import surcharges; import deposit requirements; import taxes, in addition to import duties; quantitative restrictions on imports; increased licensing, registration, and customs clearance fees; additional requirements (use of the national language for providing consumer information, special labeling, additional test certificates, registration requirements for importers and exporters); and the use of reference prices for customs valuation. Of course, WTO members have been restricted in which of these measures could be used, but those countries still involved in negotiations have sometimes adopted measures not in compliance with WTO rules, knowing full well that these measures would have to be abandoned upon accession.

Conclusions

The agenda items highlighted here certainly do not represent a complete list; this will only emerge as the negotiations proceed. Country positions on specific agenda items will depend on the current starting point of each country, initial or current WTO commitments, and the evolution of domestic support and foreign trade policies. Their ongoing preparations to join the EU will surely have a strong influence on their positions and could even mean strategic coordination during the course of negotiations. Domestic political constraints, includ-

ing farm- and food-industry group pressures, will also influence the position of individual countries. However no matter how different their positions may be, the two country groups in the region are likely to share some common features.

While we do not presume to know the actual positions or strategies of CEEC governments, we can infer from their starting points the most likely scenario. These self-interest-based inferences may be overpowered by the overriding goal of joining the EU, in which case countries may align totally with EU positions on both overall strategy and specific agenda items. With that important caveat, we believe that potential positions on the three main areas of agriculture negotiations can be differentiated among CEECs according largely to their status as pre- or post-UR members (table 6.5).

The main difference in anticipated positions on domestic support is related to the fact that pre-UR members had a much earlier base period, when both production and support levels were higher. New members have less room to make "painless" adjustments, and thus are likely to be more cautious. For the same reason, new members are more likely to be concerned about switching to a product-specific commitment. The situation is similar in regard to market access; new members have little if any "water" to squeeze out of bound tariffs, and are likely to be more affected by reductions in tariff bindings. However, they will probably be less concerned about efforts to expand TRQ quantities or otherwise reduce their role, since TRQs represent a less important part of new member commitments. Another important difference between old and new member commitments is that new members cannot take advantage of the SSG provisions that were part of the tariffication process. If this were eliminated or accepted as a right of all WTO members, it would give post-UR members equal rights with others. Finally, on export competition, the potential difference in positions between these two groups is that new members (except for Bulgaria) have zero bindings on export subsidies. Thus they would have nothing to lose if export subsidies were cut

Table 6.5. Summary of Potential CEEC Positions in the Next Round of Negotiations on Agriculture

<i>Issues</i>	<i>Pre-UR member countries (a)</i>	<i>Post-UR member and acceding countries</i>
Domestic support	<ul style="list-style-type: none"> • Expansion of green box, inclusion of environmental measures • Preservation of blue box • AMS commitments are not binding, because of the pre-90 base period (b) 	<ul style="list-style-type: none"> • Expansion of green box, inclusion of environmental measures • Preservation of blue box • Less flexibility in reduction of AMS, because of the post-90 base period • Preservation of aggregate commitment on AMS versus product-based
Market access	<ul style="list-style-type: none"> • Modest cut in import tariffs with possibility to squeeze "water" out of current bindings • Differentiated approach in tariff reductions to preserve higher levels for some sensitive products 	<ul style="list-style-type: none"> • Little or no flexibility in reduction of current bindings, since they were based on actually applied MFN rate or below it; preservation of higher tariffs for some sensitive and new products • Expansion of TRQs • Equal right to apply SSG provisions
Export competition	<ul style="list-style-type: none"> • Modest cut in export subsidies 	<ul style="list-style-type: none"> • National policy not affected, but countries without subsidies would benefit most from large reduction or elimination (c)

(a) Romania might have to address additional issues related to changing its unique developing-country status.
 (b) 1990 is considered to be the start of the policy and structural reforms accompanied by substantial decline in agricultural output.
 (c) Bulgaria might take a different position because of its non-zero export subsidy bindings

Source: Author's data.

further or even eliminated, while they would benefit from cuts in export subsidies by other countries.

Some or all CEECs may support a decision to extend a modified concept of "special and differential treatment" to transition economies, in recognition that their weak markets and policy institutions place them at a disadvantage in implementing some WTO disciplines. However taking advantage of special treatment may be counterproductive for countries working hard to show readiness to join the European Union. Thus if such a provision were adopted, it might be more likely to be used by subsequent accessions of transition countries from the CIS or elsewhere. An important general principle, stated in 1998 by the Secretary-General of the U.N. Conference on Trade and Development, is

that the accession of all countries to the WTO be conducted on fair and equitable terms.

Finally, the grouping of CEECs in this analysis is not intended to suggest that any type of policy coordination could or will emerge among these countries. Even though subgroups are members of two regional trade blocks (CEFTA and BFTA), no significant policy coordination among the countries in dealings with WTO or other external entities has taken place, even though such coordination might have strengthened their negotiating positions. It seems likely that the most important issue for most, if not all, CEECs will be the definition of, and eligibility for, green-box and blue-box measures. This is so not only because of the countries' anticipated future membership in the EU, but also because of

the increased use of such measures as transition tools toward more transparent, less distorting policies. While EU negotiating positions could dominate all or most issues of interest to the CEECs, it

would surely be more interesting if different positions and priorities emerged from this dynamic group of countries.

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7. Interests and Options in the WTO 2000 Negotiations on Agriculture: Industrialized Countries

Stefan Tangermann

The Uruguay Round Agreement on Agriculture (URAA) set new rules for world trade in agricultural goods and initiated a modest reduction in protection. Signatories to that agreement have now, in the main, implemented these rules and begun the slow process liberalization. But the agreement also mandated new talks to start before the end of 1999, to continue these reforms and liberalization. It is therefore an appropriate time to review the changes that the URAA has made to agricultural trade policy, and to see how the agenda for future negotiations might develop. Section two of this paper briefly discusses implementation of the URAA in major industrialized countries; section three reviews the positions on agriculture that these countries have adopted for the next round of WTO negotiations; and section four comments on a few new issues of interest to some industrialized countries that may play a role in the next round.¹ The paper does not outline the provisions of the URAA, nor does it provide detail on specific commitments accepted by the countries covered here. WTO disputes on agricultural matters are not covered, nor does the paper discuss provisions or implementation of the agreement on Sanitary and Phytosanitary (SPS) measures.

URAA Implementation and Domestic Policy Reforms in Major Industrialized Countries

The impact of the URAA on agricultural policies and world markets depends on implementation of its provisions in individual countries. The situation in major industrialized countries is described in table 7.1, which illustrates the range of impacts that the URAA has had on policies in selected countries. The remainder of this section describes some of these policy changes.²

Market Access

The push for “tariffication” was in no small part aimed at the market-access regulations used by the European Union (EU). The EU has therefore had to make significant changes to implement the terms of the URAA. Nevertheless policy changes were kept to a minimum by various devices that have preserved much of the functionality of the Common Agricultural Policy (CAP). The cereals market,

Table 7.1. Impact of Uruguay Round Agreement on Policies of Major Trading Partners

<i>Element</i>	<i>Market access</i>	<i>Export competition</i>	<i>Domestic support</i>
European Union	Conversion of variable levies to tariffs, but maximum duty-paid price for cereals, entry price for fruits and vegetables	Export subsidy constraints binding for several commodities	MacSharry payments sheltered from reduction by blue box AMS constraint not binding
United States	Elimination of Section 22, quantitative restrictions on imports	EEP program constrained by commitments	Deficiency payments sheltered in blue box; AMS constraint not binding; FAIR Act may remove need for blue box
Australia/New Zealand	Tariffication achieved with little difficulty	Few export subsidies Export boards not affected	Reforms removed most price policies
Canada	Conversion of import quotas on supply managed commodities to tariffs	Transport subsidy removed Export board (wheat) not affected	Most policies moved to green box
Japan	Tariffication delayed for rice Additional minimum access commitments agreed	No subsidies	No constraint from AMS

Source: Tangermann, 1999.

for example, is still protected by a variant of the variable levy, and the new import regime for fruits and vegetables acts much the same as the previous system of reference prices (Grethe and Tangermann 1999).

Not only have the mechanisms determining market access changed little, but ease of access has improved only marginally. Tariff-rate quotas (TRQs) exist for a number of products, but for the most part they reflect “current access” (that is, bilateral agreements that the EU has had with a number of overseas countries). New “minimum-access” quotas that have been opened have not always been filled. The above-quota tariffs are often prohibitive, as were the threshold prices that they replaced, and of non-tariff barriers to tariffs took place in several sectors, notably in beef—where “voluntary export

true market access awaits the next round of trade negotiations. In some cases market access actually declined as a result of tariffication. This was particularly true when levies were previously tied to domestic cereal prices, as occurred with pig meat. CAP reform had already reduced import levies on pig meat, but they rose again when based on the tariff equivalent in the WTO base-period.

Market-access provisions in the Uruguay Round did not lead to a dramatic opening up of the U.S. market for agricultural goods. For many products trade barriers were low before the UR, while for a few “sensitive” items, such as dairy products and sugar, liberalization was modest. Conversion restraints” had been used to bolster the domestic market over parts of the cattle cycle—and in

dairy, where non-tariff import barriers had been widely used to control markets for milk products. The respective TRQs appear not always to have been filled during the first three years of operation, although sugar imports have exceeded the quotas. Above-quota tariffs remain high for a number of sensitive goods, leaving action on these commodities a natural focus for the next round of negotiations.

Implementation of the agreement had one impact that was significant in terms of import access to the United States. The notorious Section 22 of the Agricultural Adjustment Act, which gave the U.S. president a mandate to use quantitative controls whenever imports threatened domestic support programs, was removed. This, in turn, eliminated the need for the waiver from General Agreement on Trade and Tariffs (GATT) rules that had been in effect since 1956. The importance is symbolic: it indicates that even the United States has agreed to allow the operation of international trade under agreed rules to impinge upon domestic programs.

Market access provisions have had a more marked impact in Canada. Non-tariff import barriers that bolstered the domestic market in supply-managed commodities (poultry, eggs, and milk) were converted into bound tariffs as a direct result of the Uruguay Round Agreement. This change would probably not have been possible without pressure from the UR. The new tariffs, however, are very high (in some cases over 300 percent), and access depends on TRQs, which carry a much lower rate of duty. Thus for Canada one key issue for the future is the extent to which TRQs will be expanded in further negotiations. Strong resistance can be expected from the provincial marketing boards that run Canada's supply management programs.

Japan has met its obligations with precision, if not enthusiasm. The improvement in market access has been modest, as is the case in most other countries. In part this reflects the nature of the domestic food-processing and -distribution system, which is still more tightly controlled than those in most other Organisation for Economic Co-operation and

Development (OECD) countries. The way in which the access agreements have been administered demonstrates this problem. Market access differs for commodities imported by the private sector and those for which state trading is still practiced. In the latter case high tariffs faced by private traders exist alongside lower mark-ups for state enterprises. An incentive for the private sector to purchase from the state importer thus remains, allowing the latter to maintain effective control over the market. Import arrangements for pork are complicated by a device designed to reproduce some of the stabilization of the previously used differential tariff, which operated like a variable levy.

Of all the agricultural policy changes resulting from the Round, none faced more domestic opposition than the opening up of Japan's domestic market to imported rice, through a minimum-import commitment rather than tariffication (one of the rare exceptions to universal tariffication). However, Japanese consumers did not benefit from the lower prices that could potentially have resulted from the minimum-access commitment. Little rice reached the domestic market, and some found its way into stockpiles or processing uses. Increased private involvement in the marketing of domestic rice under the new law of 1995 did not spread to the sale of imported rice. Interestingly, after the Uruguay Round a widespread belief gained ground in Japan that tariffication (at a high level of tariff, of course) would have served Japan's objectives even better, because it would have been more protective than the minimum-access commitment permitted. This was probably one of the reasons why the Japanese government finally notified the WTO that it intended to change to (rather high) tariffs on rice imports in April 1999. Some other WTO members questioned the tariffs set by Japan, but no formal dispute has been initiated. It appears that the new tariff regime has not fundamentally affected Japan's rice market.³

Among those countries most keen on including agriculture in the Uruguay Round were two exporters of temperate-zone commodities, Australia and New Zealand, who felt negatively impacted by EU

and U.S. subsidies. This concern translated into leadership of the Cairns Group, which includes a number of developing Asian and Latin American countries and Canada. Implementation of the Uruguay Round Agreement posed few difficulties for Australia and New Zealand. Domestic policy reforms in the mid-1980s had removed many trade-distorting domestic subsidies, in particular for the livestock sector. Import restrictions had been largely converted to tariffs, and the rates tended to be below those bound under the Agreement. Australia had to make a few more changes to implement the URAA. Non-tariff barriers on sugar imports were converted to tariffs, as were those for some dairy products.

Export Competition

With respect to the constraints on export subsidies, the picture has been quite different. It was always known that the constraints on export subsidies negotiated in the Round were likely to be the most binding: that is why the agreement on such constraints was so difficult to achieve. This has proved to be the case in particular for the EU. For a number of products, cheese being the main example, export subsidy constraints have already dictated domestic policy decisions, and will do so even more as time goes on (Tangermann 1999a). In the case of wheat, however, high world prices “rescued” the policy from the constraints of the WTO schedule, as the need for export subsidies temporarily waned in 1995 and 1996.

U.S. export-subsidy programs were also subject to the cuts agreed in the Round. But rising world prices since the base-period of the Agreement, and more particularly the high prices of 1995 and 1996, meant that export subsidies for cereals naturally declined. Congressional appropriations for subsidies actually decreased substantially in recent years, and the Export Enhancement Program (EEP) is unlikely to be used to its full, authorized level in the near future. This is despite the prevailing rheto-

ric, which still seems to regard export subsidies as necessary aspects of commercial policy to be used to maintain market shares and prevent the EU and other exporters from undercutting U.S. sales abroad. A 1998 dip in prices caused some rethinking of U.S. policy, but the “bail-out” package given to farmers that year was mostly in the form of additional direct payments.

Longstanding transportation subsidies that gave Canadian grain an advantage on world markets were finally terminated. This change has long been debated domestically, but the pressure from Uruguay Round limits on export subsidies was effective in forcing the issue. But meanwhile a new form of export assistance was industrialized for dairy products. Marketing authorities designated a lower-priced, “export” class of milk for use in products sold abroad.

Japan has not engaged significantly in export subsidies, and therefore is not faced with the problem of implementing these restraints. Export subsidies were rarely used in New Zealand. In Australia an export subsidy on dairy products was modified to be more consistent with WTO rules, although the new export rebate scheme may itself come under scrutiny at some stage. The operation of the Australian Wheat Board has also been modified to give private traders more scope in the internal market, although Australian grain exports are still handled through the Board.

Domestic Support

Domestic support commitments have not had a major impact on the policies of major trading countries. In the EU the impact has been almost imperceptible. The deal secured at Blair House, which places the MacSharry compensation payments in the “blue box,” implied that they did not count toward the level of support that needs to be reduced (and are sheltered from most WTO challenges unless support is increased). This move ensured that the EU stayed well within the AMS

constraint. One issue for the next round will be whether the EU can change its method of allocating compensation payments to avoid all need for the blue box.

As was expected, the Uruguay Round Agreement has had little direct impact on U.S. domestic support programs, such as the deficiency payments scheme for cereals. That was ensured by the Blair House deal, which allowed the U.S. to shelter direct payments in the “blue box” reserved for payments linked to supply-control programs. Even without this arrangement it is unlikely that the level of payments would have violated AMS limits, for which the base was a period of higher subsidies. However, even the very indirect restraints of the “blue box” are likely to have been made redundant for the U.S. by the substantial changes in domestic policy embodied in the Farm Bill of 1996. This bill, known as the FAIR Act, removed acreage set-aside conditions for receiving direct payments for cereals. Although some incentive for staying in agriculture remains, this change essentially “decoupled” payments from output levels. It therefore can be assumed to be a “green box” policy, which results in leaving the EU nearly alone in sheltering its direct payments from challenge under the GATT by means of the “blue box.”⁴

Canada has a long history of experimentation with decoupled payments for farmers, based on the stabilization of incomes from a range of crops or the net income from farming activities. As a result Canada has been able to adapt domestic policy to meet the requirements of the green box, and the AMS constraint has not been an issue. In contrast Japan had to comply with AMS constraints on domestic support through reduced spending on agricultural programs or lower administered prices. In Japan this has caused few problems, as administered prices were, in any case, lower than those of the base period. Japan has reoriented its spending toward enhancing productivity through land consolidation, market development, and research activities to reduce the need for price supports and border protection. Australia and New Zealand are in the interesting position of having little scope for

future use of price-related subsidies, since their base in these policies was small. However, if they wished to reverse their movement toward more liberal policies, they would find it difficult to implement such policies in the future.

Positions on the Next Round: Major Industrialized Countries

The closer we get to the start of the next round of WTO negotiations, the more urgent it becomes for countries to think about the positions they should adopt in the talks. Different countries have dealt in different ways with the process of preparing for the next round, and have gone public about their approaches in different ways and to differing extents. Some industrialized countries, in particular the United States and Cairns Group countries, have started early by making public statements and issuing publications. Others, including the European Union, have been more restrained, and have generated less publicity on their current thinking about the next round. Given the different approaches adopted toward making their views public and the different forums they have used for doing so—ranging from public speeches delivered by politicians to official documents submitted to the WTO—it is not easy to compile a balanced and “true” survey of where countries stand at this time. Moreover, the public statements issued are bound to contain a fair amount of window dressing and tactical positioning. Attempts to describe country positions, such as this analysis, therefore necessarily involve considerable speculation.

Apart from general knowledge of agricultural policy and trade attitudes in different countries, information sources include the statements countries have made in the AIE process (not publicly available) and a series of communications that countries have submitted to the WTO General Council in the context of preparations for the

1999 WTO Ministerial Conference. The latter are available on the WTO Web site, and will occasionally be cited in this review.⁵

European Union

The European Union approaches the new Round of agricultural trade negotiations in somewhat of a quandary. The lesson learned by many in Europe from the experience of the Uruguay Round was that Europe exhausted its energies defending the CAP from attack. This meant that it had no reserves to devote to developing a positive strategy to pursue changes that EU countries would like to have seen, either in trade rules or in the policies of others countries. The notion that it had already “reformed” the CAP (with dairy quotas in 1984 and a budget ceiling in 1988) was not convincing to its partners. Even after the introduction of the MacSharry reforms in 1992, it was clear that the EU still required high border-protection to preserve its domestic policy. But to enter the next Round in a position of strength would have required further reforms in advance of the talks.

The European Commission was well aware of this requirement, and used this argument as a reason for suggesting further significant reform to the CAP under the heading of Agenda 2000. For a long time, during the heated debate about the Commission proposals, it looked as if the Council—lacking a consistent alternative position—might finally adopt the Commission proposals. However, backed by strong opposition from farm groups against determined CAP reform, and employing clever negotiating tactics,⁶ the French government managed, at the Berlin Summit of March 1999, to convince leaders of EU governments to water the reform package down considerably. With the decision finally made, the EU will now have to enter the next round of WTO negotiations on agriculture much less well prepared than the original Commission proposals would have allowed (Tangermann 1999a). The smaller price cuts for cereals and beef now adopted are unlikely to eliminate the need for export subsidies in these sectors. Price reductions

for dairy products will not become effective before 2005; that is, after the new WTO round is likely to be concluded. This will make it more difficult for the EU to accept significant reductions of tariff peaks, which are prominent in the EU dairy sector. In the absence of reforms for sugar (which also were not included in the Commission proposals), reduction of the extremely high EU sugar tariff (plus a “generous” trigger price for the special safeguard in that sector) is an outcome that would be very difficult for the EU to swallow, as it would force reform of the EU sugar regime “under the dictate of the WTO.”

The EU had not, as of September 1999, decided on the details of its position for the next round. Different member states obviously have different views, ranging from the more liberal attitude prevalent in the United Kingdom to strong resistance against significant liberalization in agriculture from France. In September 1999 the European Commission was in the process of being newly appointed for the coming period of office under President Prodi, who appeared to have a two-pronged strategy. When addressing EU farm audiences, for example, he emphasized the need for further reform of the CAP, going beyond the Agenda 2000 decisions, while at the same time promising that the EU will defend the “European model of agriculture” in the WTO and will start negotiating from the base of Agenda 2000. In relation to the outside world he suggested a more conservative position for the next round of agricultural negotiations, but did not rule out progress toward further liberalization.

One example of the internal hints at the need for further CAP reform was the warning issued by Commissioner for Agriculture Fischler at a public conference in late June 1999. He stated that: “It is an open question whether the price reductions adopted in the final compromise at the Berlin Summit will be sufficient to achieve market balance envisaged in the original proposals.” Fischler added that the dilution imposed by the Summit had made the EU position in the next WTO round far less categorical than it might have been.⁷ At the

same time, in his August 1999 response to a question by the European Parliament about his priorities for the next five years, Fischler's statement under the heading "WTO negotiations and international trade relations, safeguarding of the European Model of agriculture" read as follows:

The fundamental issue of the European model of agriculture lies in the multifunctional nature of Europe's agriculture and the part it plays in the economy and the environment, in society and in preserving the landscape, hence the need to maintain farming throughout Europe and to safeguard farmers' income. The Commission has seized and should seize in the future all opportunities to defend the multifunctional character of EU agriculture and to advance its full recognition, especially in the context of the upcoming WTO Round...With the new round of multilateral trade negotiations to be launched in a few months, there might be increasing pressure to progress along the lines of the Marrakech Agreement; that is, to further liberalize agricultural trade. The Agenda 2000 agricultural reforms are considered to constitute essential elements in defining the Commission's negotiation mandate. The EU will soon have to further develop a clear vision of its objectives and strategies for these negotiations in order to both safeguard the European model and benefit from opportunities in international markets. Furthermore, agricultural trade is also very likely to be influenced by bilateral free trade agreements under negotiation" (Fischler 1999).

The EU position in regard to other countries was outlined in a communication to the WTO General Council submitted on July 27 1999. This communication, outlining the "EC Approach on Agriculture," is an interesting mix of protectionist

statements and comments that open the door for constructive negotiations.⁸

The EU communication stresses "the need for a rapid negotiation." The background to this (not explicitly explained in the communication) is that the EU would indeed like to conclude the negotiations in 2003, for two major reasons.⁹ First, the EU has a strong interest in extending the peace clause, and prefers that the next round of agricultural negotiations be over before the peace clause expires in 2003. Second, the EU would like to fold the GATT Article XXIV:6 negotiations on EU Eastern enlargement into the Millennium Round. As the first countries from Central Europe might join the EU soon after 2003, the EU has an interest in having these negotiations concluded by that time.

Regarding adaptation of the specific instruments provided in the URAA, the EU communication says that "the Community is not of the view that a major review of the specific instruments provided in the Agriculture Agreement is necessary or desirable." On more specific items in this category, the Communication makes the following comments.

While it does not rule out some updating of the blue and green boxes, it believes that they remain essential elements of the policy to reduce support and provide indispensable assistance to WTO members, to help them move away from price-supports toward more transparent and non-distorting policies.

The need, recognized by the peace clause, to provide legal security for the outcome of the negotiation will exist at the end of the forthcoming negotiation, just as it did in the Uruguay Round agricultural negotiation.

The Special Safeguard Clause represented a key element of agricultural liberalization agreed in the last Round. It has enabled abnormally low price offers or import surges to be dealt with without frequent recourse to more disruptive action under the General Safeguard Clause. A similar provision for

the future should therefore be in the general interest of all members.

Regarding progress on key trade issues, the EU communication notes that its “policy will be founded on the full Agenda 2000 package decided by Community Heads of State and Government.”

Some specific areas addressed in the communication are quoted below.

Improvement in access. The Community is a major food exporter and intends to share in the expansion of world trade in agricultural products. The Community will seek to obtain improvements in opportunities for its exporters, inter alia through greater clarity in the rules for the management of TRQs, including imports through single desk buyers, and the removal of other unjustified non-tariff barriers. At the same time, as Article 20 of the Agreement on Agriculture itself recognizes, the process of reducing trade barriers in agriculture, which is more advanced in some sectors than in others, is to be seen as an ongoing process resulting in fundamental reform, and not something which can be completed in the next round.

Reductions in support for exports. The Community is willing to continue to negotiate this process, provided that all such support is treated on a common footing. This means that the commitment to introduce disciplines on agricultural export credits which formed part of the Uruguay Round Agreement must be respected. Other less transparent forms of export support, notably through the operation of single desk exporters and the provision of food aid on concessional credit terms, will also need to be satisfactorily addressed.

Reductions in support. The Community will be prepared to negotiate this on the terms set out above, in particular the continuation, in an appropriate form, of the Blue and Green Boxes.

It is interesting to note that this part of the communication starts by emphasizing the EU’s position as a major exporter, and hence its interest in improving access to other countries’ markets. During past GATT negotiations on agriculture, the EU has tended to behave mainly like an importer, interested in defending protection. It may also be of interest that the EU does not deny the need for further reductions of trade barriers in agriculture. The nearly self-evident statement that this cannot be completed in the next round is an improvement over saying that nothing serious can be achieved. Export credits, which do not play much of a role in the EU, are a clear negotiating target, as are single-desk exporters and (excessive) food aid. Even on the blue box, which the EU would very much like to maintain, the reference to “an appropriate form,” although left unclarified, may open up a small window for negotiations. That the EU’s position will be “founded on the full Agenda 2000 package” is a statement that is less restrictive than saying that the EU cannot go beyond that package, as is often suggested by some EU farm ministers and agricultural representatives. Indeed, Fischler’s response to the questions asked by the European Parliament, sounds a little different in this regard:

It is ... absolutely legitimate that the Berlin European Council has adopted the declaration concerning the Union’s position for the next round of WTO negotiations. This declaration means that essentially the Commission should defend the reforms adopted within the framework of Agenda 2000 and have them internationally accepted (Fischler 1999).

It will be very interesting to see how the Commission will bridge the gap between the be-

lief—held by many in the EU—that the Union cannot go beyond Agenda 2000 in the next round, and the fact that Agenda 2000 will not even allow the EU to live comfortably with its existing URAA commitments, let alone further reductions that may be agreed to in the next round. Success of the next round in agriculture may depend strongly on whether the Commission can manage to enact another round of CAP reform while the WTO negotiations are underway, repeating Commissioner for Agriculture MacSharry's success in pushing through his 1992 CAP reform during the Uruguay Round. At the time, MacSharry managed to maintain the notion that his reform was needed for purely domestic reasons in the EU, avoiding the politically fatal impression that the CAP was reformed "under the dictate of the GATT." It will not be easy for Fischler to repeat this trick, given that part of the Agenda 2000 adjustments to the CAP will not have been implemented before the next round is well underway—if not concluded.

In regard to non-trade concerns, the EU communication to the WTO General Council has issued the following text.

"The multifunctional role of agriculture.

In the Union's view it is essential to ensure that progress on trade issues does not damage the ability of those employed in agriculture to supply public goods, in particular as regards the environment, (including combating desertification) and the sustained vitality of rural areas. Direct aid measures with no or minimal trade impact have an important role to play in this context.

Food safety and quality. The issues arising here link Agriculture to the discussion of SPS and TBT. Recent WTO case law has confirmed that non-discriminatory, science-based measures to achieve the level of safety determined by Members are in conformity with that agreement. It might be useful to confirm this in a more

general manner in order to assure consumers that the WTO will not be used to force onto the market products about whose safety there are legitimate concerns. As regards food quality, in any review of the TRIPS, the provision of improved protection for products whose reputation for quality is linked to their geographical origin will be a major concern.

Animal welfare. There is increasing public concern about the conditions in which animals are kept and reared which has led many WTO Members to adapt ever more detailed provisions to meet this legitimate moral requirement. It is, therefore, becoming increasingly important to address this issue on a multilateral basis. Consensus should be sought on the accommodation within WTO rules of any trade measures taken pursuant to any multilateral agreement which might be reached regarding welfare standards."

Given the emphasis placed on the "European Model of Agriculture" in the internal EU debate, it is not a surprise that multifunctionality should figure in the EU position on the next round. It is not clear to what extent the "European Model of Agriculture" is a slogan used mainly to calm fears among EU farmers, or whether the EU will really emphasize this aspect in the next round. However it is somewhat reassuring to note that the EU communication refers in this context not to trade policies, but to "direct aid measures with no or minimal trade impact." After all, the green box appears to be the most appropriate place for dealing with the multifunctionality of agriculture (see below, "non-trade concerns"). But the EU has serious concerns about qualitative aspects such as food safety and animal welfare, and will surely want the next round to look more closely into these matters (see below, "consumer concerns").

Irrespective of public statements made internally in the EU or at the international level, a num-

ber of issues will be important for the EU in the next round. Regarding market access, the EU is going to be cool toward sweeping cuts in tariffs. Though an exporter, the EU still feels under pressure from competing imports of temperate-zone goods. As a result it would like to see Asian markets expand, but cannot move too far from its traditional protection of domestic markets. A modest, across-the-board reduction in tariffs is likely to be the preferred outcome. But the EU will be vulnerable on such as issues as the widespread use of specific tariffs; the use of entry prices for fruits and vegetables; and the high degree of excess protection for cereals, as afforded by the bound tariff relative to the "maximum duty-paid import price" for cereals agreed in the Uruguay Round. The EU position on state trading is unclear, although as an exporter the EU has good reasons to side with other exporters to put additional disciplines on such agencies.

The EU position on export subsidies is likely to be that they are essential to the clearing of markets, at least for the next few years. It is unlikely that the EU could be persuaded to end them in principle. The Commission would rather not have to export subsidies as instruments of policy, but it would be unacceptable to lose market shares too rapidly in the cereals and dairy markets as a result of not being able to lower offer prices. Only if the EU should manage to reduce its support price for cereals beyond the Agenda 2000 target, and world market prices for cereals should rise again, could a sector-specific elimination of export subsidies for cereals become an option for the EU.

One of the most contentious issues is likely to be the "size" and "composition" of the green box. For the EU the green box represents a possible way out of a dilemma: how to satisfy political imperatives for the maintenance of farm incomes, and at the same time live within the WTO constraint. The EU may have a tendency to allow payments, perhaps from national sources of EU member states, aimed at recompensing farmers for the "multifunctionality" of European agriculture—even if these payments are not totally consistent with current

definitions of trade-neutral instruments. In regard to the blue box, the EU is likely to defend it in negotiations for a long time. However, if hard-pressed in the next round the EU could, in principle, change its own compensation policies without too much inconvenience (and to domestic advantage) and make them compatible with the green box, as did the United States through the FAIR Act. An alternative probably not considered very unfortunate by the Commission though met with strong resistance in some member states—would be a temporary extension of the blue box, with a reduction requirement for EU direct payments during the next implementation period. This option would rejuvenate the concept of degressivity (over time) of EU direct payments, which played a prominent role in the final stages of the Agenda 2000 negotiations, although it was finally dropped at the Berlin Summit on the insistence of the French government (with tacit support from Germany).

As is the case for other countries, the EU position on the next round will continue to evolve in coming months and during the negotiations. At some stage, probably in fall 1999, the European Commission will seek a formal negotiating mandate from the Council.¹⁰ For that purpose the new Commission, which in September 1999 was still in the process of being approved by the European Parliament, will first have to adopt its own position on the new round. In relation to agriculture that position will strongly reflect the known views of the current and (very likely) next Commissioner Fischler. During the overall negotiations in the Millennium Round, however, the chief EU representative will be the Trade Commissioner. The French politician Pascal Lamy, former head of cabinet of Commission President Delors, is a leading candidate for that position. Some observers believe that this could well mean that French views on agricultural issues will have a particularly strong influence on the EU attitude during the next round. If that were to be the case the EU would not be an easy negotiating partner in agriculture. In his responses to the questions of the European Parliament during

the approval process, Lamy has largely adopted the current Commission's positions on agriculture.

United States

Although each country will negotiate separately, the U.S. attitude will undoubtedly influence the position taken by other North American countries during the next round. But what will the role of the U.S. be regarding the next round of talks on agriculture? Will the U.S. be in a position to take the lead in suggesting the path toward reform? Clearly the outcome of the debate over fast-track negotiating authority will influence the answer to this question. Without fast-track negotiating authority, and with a Congress wary of further attempts to liberalize trade, it is not easy to foresee a U.S. leadership role in the next round. But even with fast track, certain hard decisions have to be made. The U.S. will need to offer to others some incentives to allow them to strike a deal on agriculture. In particular the U.S. will have to grant better access to its own markets for some commodities that have so far not been opened up to imports. These include sugar, dairy products, peanuts, and citrus fruit. Open markets also imply transparent health regulations, allowing such imports as poultry into the domestic market subject to meeting the same conditions imposed on domestic supplies. The process of opening up U.S. markets to North American Free-Trade Association (NAFTA) partners has only just begun. The putative date for an agreement on free trade in the Western Hemisphere is only seven years away. In addition the U.S. Administration has consistently supported the Asia-Pacific Cooperation (APEC) group objective of free trade and investment, and this objective is scheduled to be achieved within 12 years. But whether the political will is present to support a liberalization of U.S. markets is not certain.

In terms of specific items for the negotiating agenda the United States, like the EU, feels that the overall format of the URAA should be maintained. Its communication to the WTO General Council states that

The basic structure of the Uruguay Round disciplines on agriculture is a sound basis for conducting the negotiations on agriculture. Within the overall framework, additional modalities should be established in the three principal areas—export competition, market access, and domestic support.... Additional measures that unjustifiably distort international trade in agriculture also must be addressed and subjected to rules and disciplines, including possibly outside of the Agriculture Agreement (WT/GC/W/186, 20 May, 1999).

Regarding market access, it appears that the United States does not suggest large tariff reductions, probably due to its own domestic problems, with some highly protected products in mind. It speaks of the need to "lower tariff rates and bind them, including, but not limited to zero/zero initiatives for agriculture" and argues for "simplification of complex tariff regimes" and "greater certainty and transparency in the operation of tariff regimes" (WT/GC/W/287, 4 August 1999).¹¹ However, the communication also notes that "tariffs remain excessive on too many agricultural products in too many countries. This threatens to effectively exempt agriculture from WTO disciplines despite progress made in the Uruguay Round." Whether this statement is viewed as including high U.S. tariffs as well will be an interesting question in the next round. Additionally, whether or not U.S. interest in exploring zero-for-zero approaches means that the United States opposes the notion of reducing protection across the board remains to be seen.

Interestingly, the US favors elimination of the gaps between applied and bound tariff rates. While this may be targeted particularly at EU cereals tariffs (whose applied rates, due to the 155 percent clause, are below bindings), it could mean that in the future countries will be loath to charge anything less than their bound tariffs, fearing that they might otherwise get trapped at their lower applied rates in the subsequent WTO round. Statements on the agricultural safeguard provisions are notable for their

absence from the U.S. communication on market access.

Although less categorically than the Cairns Group (see below), the U.S. statement favors “expanded market access opportunities for products subject to tariff rate quotas,” but also argues for more transparent TRQ administration. The U.S. requests “disciplines governing ... transparency and competition for import STEs.”

The U.S. position on export subsidies is straightforward: it calls upon the WTO

...to completely eliminate, and prohibit in the future, all remaining export subsidies as defined in the Agreement on Agriculture; and to clarify rules on other measures that can act to circumvent export subsidy disciplines.

Given that since the Uruguay Round the United States has made only marginal use of export subsidies (although domestic legislation allowing export subsidies is still in place) this position is reasonably convincing. But the U.S. communication is silent on export credits, which form a part of foreign policy as well as a means to get rid of surpluses.

The United States, however, wants to see exporting state trading enterprises (STEs) disciplined and suggests working toward “improving transparency in the operations of exporting state trading enterprises and stronger disciplines on the monopoly activities of STEs, including pricing policies that support cross-subsidization and price undercutting in export markets.”

The U.S. also seeks to eliminate “the use of export taxes applied in a sporadic and distortive manner on specific agricultural products,” while appreciating the fact that “some countries may use export taxes legitimately to generate government revenue.” On the issue of domestic subsidies, the United States has tended to downplay the significance of AMS reductions, on the assumption that strict rules would be difficult to enforce. Recent events in the United States have exploited the ambiguities, or slack, in the AMS constraint; farmers

were given an additional US\$5.9 billion at a time of low prices in 1998, and another US\$7.4 billion of extra payments in 1999 as disaster relief.¹² During WTO discussions, however, the United States has defined its negotiating objective to be “that the agriculture negotiations result in substantial reductions in trade-distorting support and stronger rules that ensure all production-related support is subject to discipline” (WT/GC/W/290, 4 August 1999).

The latter part of this statement may be a cryptic reference to the blue box, which the U.S. has often said should be eliminated during the next round. It is curious that no explicit reference to the blue box was made in the U.S. communication on domestic support. A widely held assumption was that the United States would argue strongly in favor of eliminating the blue box, as it (arguably, and in its 1996 notification to the WTO) no longer has payments in that category. Is the United States not completely certain that its production-flexibility payments, introduced under the 1996 FAIR Act, really fall in the green box, as notified? Or are there fears that the extra payments made to U.S. farmers in 1998, to the extent that they were linked to these FAIR Act payments, could mean that this whole program of payments is no longer green?

Rather than requesting stricter rules on green domestic support, the U.S. communication argues for “preserving criteria-based ‘green box’ policies that can provide support to agriculture in a manner that minimizes distortions to trade” (WT/GC/W/290, 4 August 1999).

Australia and New Zealand

Australia and New Zealand played an important part in the Uruguay Round discussions on agriculture, in particular through their participation in the Cairns Group. The Cairns Group will probably play a key role in the next round as well, perhaps with expanded membership. One function of the Cairns Group in general, and Australia and New Zealand in particular, is to maintain pressure on the United States and the European Union to reach agreement. Protagonists are likely to try to post-

pone awkward decisions on agricultural liberalization until the last moment. The "last moment" in the case of the next round of agricultural talks may be the expiration of the peace clause in 2003. After that the special protection given to agricultural programs by that clause might give way to the full rigor of the subsidies code and anti-dumping regulations. This should concentrate the minds of the negotiators, in particular the EU (see above). The role of the Cairns Group in such a situation could presumably be to block such an extension of special protection until an agreement is reached on issues of market access and export subsidies.

Overall, Australia and New Zealand (and the Cairns Group in general) want to end the special treatment of agriculture in the WTO as soon as possible. An Australian communication to the WTO General Council maintains that: "the objective for the agriculture negotiations be, by a specified date, to put trade in agricultural goods on the same basis as trade in other goods and establish a fair and market-oriented agricultural trading system which corrects and prevents restrictions and distortions" (WT/GC/W/166, 9 April 1999).¹³

With respect to particular agenda items, Australia and New Zealand can be expected to be in the forefront of those arguing for improved market access. In a communication to the WTO, Australia has proposed that "members agree to a major expansion of market access opportunities for all basic and processed agricultural products, resulting in commercially viable access on the same conditions as those applying to other goods," and that "substantial cuts to protection levels for agricultural products at all levels of the processing chain must result from the next agricultural negotiations" (WT/GC/W/184, 20 May 1999).

Tariff peaks and tariff escalation are mentioned as important items on the agenda: "deep cuts to all tariffs, including curtailing tariff peaks and eliminating tariff escalation" are said to be necessary (WT/GC/W/199, 7 June 1999). The rather specific and highly protective tariff regimes that have been established in some cases are identified as an issue for the next round, based on the notion that "com-

pound and other complex tariffs further reduce the predictability of trade." Though not stated explicitly, the EU entry-price regime for fruit might be considered to fall in that category.

In regard to TRQs, Australia proposes that WTO "members agree to a major expansion of market access opportunities *inter alia* through substantial increases in trade volumes under tariff quotas." The communication also noted that "there are significant inequities in the size of market access opportunities provided through tariff quotas. Of the 1,370 tariff quotas in Members' Schedules, around two-thirds are in the Schedules of industrialized country Members" (WT/GC/W/198, 7 June 1999).

Australia and New Zealand favor improvements in the administration of TRQs. Australia has proposed that WTO "members ensure that the administration of tariff quotas does not diminish the size and value of market access opportunities." Australia also suggested that "it appears that the tariff quotas are being administered in such a way as to provide a level of protection greater than the impact of the tariff quota itself. Overall, tariff quota fill rates are less than two-thirds" (WT/GC/W/197, 7 June 1999). But no concrete approaches for implementing TRQs appear to have been suggested by Australia or New Zealand.¹⁴ Auctioning of licenses under TRQs seems not to be a preferred solution.

The position on export subsidies is clear: along with most members of the Cairns Group Australia and New Zealand would like to see such practices disappear. Australia has plainly proposed that WTO members "agree to the immediate elimination and prohibition of all forms of export subsidies" (WT/GC/W/168, 9 April 1999). Export credits are also blamed for distorting markets to the disadvantage of smaller exporters, who cannot afford such programs: "Agricultural export credits must be brought under effective international discipline with a view to ending government subsidization of such credits." Australia and New Zealand are likely to press for more effective disciplines on export restrictions and taxes. Australia has suggested that

...with a view to providing both greater access to world markets for food and agricultural products and increased certainty of supply for food importing countries, in particular least-developed and net food-importing developing-country Members, the agriculture negotiations develop disciplines on export restrictions and taxes. Such disciplines would be an integral part of delivering further substantial liberalization of trade in agriculture, including the elimination of tariff escalation (WT/GC/W/237, 6 June 1999).

However, some ambiguity can be discerned with respect to these countries' position on the issue of single-desk sellers. Export STEs have been a prominent feature of the agricultural policy of these countries for many years, and they have parried attacks in the GATT that accused them of export-subsidization through price discrimination. But the parastatals are losing their monopoly powers so rapidly that it is likely that Australia and New Zealand will be able to lead the charge against export monopolies in the next round with no domestic conflict to constrain their position.

On the issue of domestic subsidies, it is clear that Australia and New Zealand will push for significant reductions, and preferably elimination, of support in the amber box. An Australian communication proposes that WTO "members agree to major reductions in domestic support for all agricultural products, resulting in the elimination of all trade distorting domestic subsidies with only non-distorting forms of support permitted thereafter" (WT/GC/W/177, 4 May 1999).

In the view of Australia and New Zealand the blue box should be eliminated, and any loosening of green-box criteria will probably be resisted.

Canada

As was the case during the Uruguay Round, Canada's position on agriculture in the next round will probably be in line with that of the Cairns Group

overall, although some important modifications are likely to result from the specific nature of Canadian agricultural policies. In particular the Canadian view on market access has several faces, depending on the product- sector concerned. Canada is likely to resist a drastic reduction in tariff peaks, since these peaks are particularly high for Canada, mainly for products subject to supply management. Yet Canada favors the notion of "zero-for-zero" agreements that would accelerate trade liberalization for particular commodity groups, and would like to apply that approach to oilseeds, oilseed products, barley, and malt.¹⁵ Beyond zero-for-zero arrangements, Canada may exhibit a general tendency to negotiate each agricultural subsector independently. If effective, this strategy might help to avoid strong pressure on sectors, such as dairy products, that are sensitive in Canada (and elsewhere). However it would go against the notion of reducing protection across the board, as usefully employed in the Uruguay Round. Regarding tariff reductions, a carefully crafted statement says that Canada "will seek the maximum negotiable reduction in tariffs through approaches that substantially reduce both the disparity in final bound rates for similar competing products and tariff escalation between primary and processed forms of the same product."

Canada agrees with the Cairns Group about the need to improve the administration of TRQs, "including possible elimination of country-specific allocations." Its initial negotiating position, however, does not refer to an expansion of quota volumes. Canada wants TRQs to be on a product-by-product basis (that is, "pork, not meat; barley, not feed grains"). In this Canada is probably targeting the EU approach of aggregating minimum access quotas over larger product sectors.

Canada proposes two interesting variations on the theme of TRQs. It favors "binding rules to require that any tariff over a specified level be accompanied by a minimum access commitment equal to at least 5 percent of current consumption of the product concerned." If agreed to, this provision would go somewhat beyond the UR arrangement, described in the "Modalities" document, specifying

that minimum-access TRQs should be established “where there are no significant imports.” But the tariff levels for which Canada might want to request new minimum-access commitments may, in general, be those for which pre-UR imports were not significant. Through a second innovation Canada seeks “binding rules to require elimination of tariffs within TRQs where over quota tariffs are maintained at levels which limit access to the size of the within quota volume.” While this might help in cases where TRQs go unfilled because of high within-quota tariffs, it also implies a danger that quota rents (generally flowing to agents in the importing country) will be further enhanced. A more convincing variant might be to require reductions of within-quota tariffs until quotas are filled.

Like the U.S., Australia, and New Zealand, Canada wants export subsidies to be eliminated. It argues for disciplines on export credits, export promotion, food aid, and other forms of export assistance. Rather than arguing for a complete elimination of export taxes, Canada seeks “agreement on rules to effectively discipline export taxes and export restrictions.” In very specific terms, Canada proposes “a ban on export restrictions that would reduce the proportion of the total supply of an agricultural product permitted to be exported compared to the proportion prevailing in a previous representative period.” This wording is reminiscent of the infamous (and now fortunately obsolete) provisions for import restrictions on products under supply management established by the GATT under Art. XI: 2(c).

Somewhat less categorical than Australia’s plea for elimination of all trade-distorting domestic subsidies, Canada seeks “the maximum possible reduction or elimination of production and trade-distorting support, including support under so-called ‘production-limiting’ or ‘blue-box’ programs.” Instead, as a new approach Canada argues for “an overall limit on the amount of domestic support of all types (green, blue and amber).” If adopted, this would fundamentally change the nature of the blue and green boxes, essentially

making them very similar to the current amber box. According to Canada, however, the “overall limit” would not be subject to the same, if any, reduction-commitment as amber support. Over and above the implicit ceiling that such a provision would place on green policies, Canada favors “a review of the criteria of the green category to ensure that green support does not distort production and trade.”

Given its experiences with countervail cases, Canada seeks “permanent international recognition that green support should not be countervailable.” Canada also argues for “elimination of those elements of the ‘peace clause’ that restrict Canada’s rights to pursue dispute settlement in cases where trade-distorting domestic support and export subsidies cause nullification and impairment of access or disrupt sales in third country or import markets.”

Regarding STEs, it will not come as a surprise that Canada distinguishes carefully between importing and exporting agencies. It wants “to ensure that the existing disciplines on the activities of import monopolies for agricultural products are appropriately enforced to ensure that such entities do not nullify market access commitments.” At the same time, Canada is

...willing to discuss any practical trade concerns identified by our trading partners about the activities of single-desk exporters of agricultural products. Canada will seek to ensure that any new disciplines proposed to deal with the perceived market power of such enterprises apply equally to all entities, public or private, with similar market power.

Japan

Japan will be among those participants in the negotiations that adopt a conservative approach, resisting large reductions and more stringent disciplines. Japan feels that under the URAA the rights and obligations of importers and exporters are not yet balanced. Its communication to the WTO suggests that

The objectives for the next agricultural negotiations are to establish a set of rules and disciplines that are genuinely fair and equitable for both food importing and exporting countries, as well as for developed and developing countries, and which allow a coexistence of the various types of agriculture among Members (WT/GC/W/220, 28 June 1999).¹⁶

The position taken by Japan will tend to be dominated by concerns over the multifunctionality of agriculture, of which provision for food security is considered one important element. The definition of food security, however, remains contentious. In Japan there is a strong tendency to equate food security with a high degree of self-sufficiency: "It is ... indispensable to provide domestic agricultural production with the primary role of ensuring food supply by increasing such production." While at a psychological level this position might be understandable, it poses a significant challenge to a global trading system, raising the question of how to reward such an attribute without harming farmers in exporting countries. Whereas it could be argued that environmental contributions can be acknowledged without undue trade disruption, it is not easy to see how to simultaneously promote self-sufficiency and preserve an open food system. This is the dilemma that Japan will have to address in the next round, but how this is to be accomplished is not explained by statements such as: "It is...necessary to fully examine how policy intervention should be placed within the international framework and as to what extent it is allowed, based on the experiences of implementing the past agricultural agreements." There is no doubt that rice will remain at center stage for Japan, which is reflected in their statement that

An examination of policy intervention should not be made in a uniform manner for major products. Rather, the characteristics of production, trade, and consumption of individual products should be con-

sidered. Furthermore, not only quantity, but also the quality, including safety and stable prices of food supply, is important.

One way out of the dilemma, although certainly not sufficient from the Japanese point of view, is to emphasize the issue of export restraints and taxes. If a food-security package were to be put together that satisfied Japan that the trade system had an obligation to maintain exports, even at times of domestic shortage, then the concern with self-sufficiency might possibly be reduced. But this may require more obligations on access to supplies than exporters are willing to concede. This is one area where developing-country food importers could have an impact. A package combining greater import access with supply assurances could be influential in defusing current tensions between exporters and protected importers in international agricultural markets. In this context it will not come as a surprise that Japan maintains that it is important to

...strengthen the existing rules and disciplines on export prohibition/restriction measures, export tax, export subsidies and export state trading enterprises, with a view to redressing the imbalance of rights and obligations between exporting and importing countries.

Regarding market access, the Japanese feel vulnerable to suggestions of reducing tariff peaks or introducing maximum tariffs. They are more likely to favor modest tariff cuts. The useful approach of agreeing on universal rates of tariff reduction for all products is questioned by Japan, which argues that

Border measures for agricultural products and processed food should be examined in a detailed manner, as well as on a product-by-product basis taking into account the circumstances of each product. It is not appropriate to treat them uniformly, thereby ignoring the specific character of each product.

It is also somewhat worrying to note that Japan would like to establish a link between tariff levels and food security, arguing that for the purpose of food security

...appropriate border measures should be taken together with domestic support. Given the existing trade rules, which allow an exporting country to take export restrictions or prohibitions, importing countries have legitimate rights to take appropriate border measures for food security in their own country.... As for the border measures for processed food, careful attention should be paid to a sound development of the food industry, which plays a vital role in providing a stable supply of food of high quality.

Japan wants to maintain effective safeguards. It appears to have few objections to the present administration of TRQs, will probably be wary about expanding them too fast, and can be expected to oppose suggestions that TRQs be linked with imports by private firms. On the issue of further disciplines on state trading importers, Japan is unlikely to be forthcoming, at least until its own internal-distribution systems have been reformed.

The Japanese position on export subsidies has been that they are responsible for market disruption and should be discontinued. However, Japanese state-trading importers are known to favor dealing with sole sellers in export markets. Yet Japan has argued that "export state trading, on which more lenient rules are applied, may circumvent the reduction commitment of export subsidies by using a dual pricing system and differential pricing for each export destination."

In the area of domestic support, Japan tends to favor flexible (if not permissive) arrangements for both amber and green policies:

Classification of domestic support into the groups of 'Green,' 'Blue' and 'Amber' (the Amber group being subject to com-

mitments on the total AMS) in the present framework has some rationale. Since it is impossible to drastically review this classification and to fully eliminate the trade distortion effect of the 'Green Box,' it is appropriate to maintain the present framework and to review the requirements and scope for 'green' policies based on the experiences achieved in implementing the past agreements, with a view to facilitating a smooth conversion towards a market-oriented policy.... Furthermore, in dealing with the 'Amber' policy, it is necessary to assure flexibility in its implementation by each Member, taking into account the progress of conversion towards a market-oriented policy, based on the present framework, including that of the total AMS.

Somewhat surprisingly Japan, a country that has not thus far made use of the blue box, argues in favor of maintaining that provision:

In pursuing a market-oriented policy, the existence of the 'Blue' policy cannot be denied, as it is the midpoint for transforming an 'Amber' policy to a 'Green' policy. The effects of the 'Blue' policy are less distorting on trade and less stimulating of production than those of the 'Amber' policy. Thus the 'Blue' policy should be maintained and positively evaluated.

Japan emphasizes the need to address new issues in the next round, particularly the treatment of genetically modified organisms (GMOs).

A Look across Country Positions

Given the country positions outlined in the preceding section, there is no doubt that the major indus-

trialized countries approach the next round of agricultural negotiations from rather different angles. The various groups of developing countries will add still different perspectives to the agenda. The talks will therefore not be easy going.

Given this situation it is reassuring that none of the industrialized countries reviewed here fundamentally question the validity and integrity of the URAA and its basic structure. There is no call for returning to the non-tariff measures that were converted to tariffs in the Uruguay Round. No country has suggested that the strict quantitative constraints on export subsidies should be done away with. The need to maintain an overall limit on trade-distorting domestic support is not questioned anywhere. Viewed from the perspective of the situation in international agricultural trade as it existed until less than 10 years ago, this can only be viewed as a great success of the Uruguay Round. The next round can now start from where the URAA leaves matters in the year 2000. It can go beyond, and is unlikely to regress from, the provisions and commitments that exist now. The negotiations in the next round will, therefore, concentrate on the details of further reduction agreements and refinements of the existing rules.

Even though the negotiating task for the next round in agriculture is, from this perspective, much more limited than that of the Uruguay Round, it will not be easy to reach compromises among the major industrialized countries. A look at tables 7.2 to 7.4, summarizing country positions in the major areas up for negotiation, shows how far apart their positions are.

In the area of market access, none of the countries reviewed here has suggested that tariffs should not be further reduced. However the gap is large between the deep tariff cuts favored by countries such as Australia, and the modest reductions acceptable to the EU and Japan. An attack on tariff peaks will come mainly from Oceania, while there is somewhat broader sympathy for a reduction of tariff escalation. One unsettled issue is the product-specificity of tariff reductions. Japan prefers a product-by-product approach to tariff negotiations,

and Canada might agree to some extent. The other countries reviewed here would probably rather have all tariffs reduced under a universal-reduction approach. The zero-for-zero initiatives favored by the United States and Canada can, at best, probably be applied to a very limited subset of products. Regarding TRQ administration, agreement is nearly universal that greater transparency and a more disciplined approach are needed, although the issue may still become contentious when details are explored. Agreement that the volumes of TRQ should be expanded and tariffs within TRQs cut is far less universal. On the special safeguards for agriculture, the positions could not possibly diverge more widely between defending safeguards, as do EU and Japan, and seeking their elimination, which is Australia's position. Japan may be in an isolated position among the other major industrialized countries on the issue of importing STEs.

No country has explicitly opposed further reductions in export subsidies. However, whether anything close to the reductions agreed in the Uruguay Round will again be possible remains to be seen. Complete elimination, as requested by the United States and the Cairns Group, will be strongly resisted by the EU, possibly with some support from Japan. The United States will find it difficult to resist the nearly universal interest in effective disciplines on export credits. The EU, meanwhile, will probably have to give in on at least some disciplining of export taxes. The degree of Canada's willingness to discuss the "practical trade concerns" others may have vis-à-vis single-desk exporting agencies is uncertain, given that most countries favor explicit disciplines on exporting STEs.

The EU's willingness to negotiate further reductions of amber domestic support will not go far enough to accommodate the Cairns Group's interest in seeing significant reductions in trade-distorting

Table 7.2. Summary of Country Positions on Market Access in the Next Round of Agricultural Negotiations

	<i>European Union</i>	<i>United States</i>	<i>Australia / New Zealand</i>	<i>Canada</i>	<i>Japan</i>
Tariffs	Modest reductions	Lower tariffs and zero/zero initiatives Reduce gaps between applied and bound rates Simplify complex tariff regimes	Deep tariff cuts Curtail tariff peaks Eliminate tariff escalation Reduce tariffs within TRQs	Maximum negotiable reduction Zero/zero for specified products Reduce disparity in tariffs for similar products Reduce tariff escalation Eliminate tariffs within TRQs where above TRQ tariff prohibitive	Modest lowering of tariffs, on product-by-product basis Respect multifunctionality, in particular food security
TRQ volumes	Cautious, if any, expansion	Expand	Substantial increase Tariffs should be only form of protection	New TRQs where tariffs above specified level TRQs on product-by-product basis	No position announced, probably no expansion
TRQ administration	Greater clarity	Adequate disciplines	Should not diminish size and value of market access	Binding rules Eliminate country-specific allocation	No position announced
Safeguards	Key constituent of agricultural liberalization	Greater certainty and transparency of tariff regimes	Eliminate	No position announced	Maintain
Importing STEs	Improved disciplines	Transparency and competition	No position announced, but probably eliminate	Enforce existing disciplines	No explicit position announced, but probably maintain scope

Source: WTO.

Table 7.3. Summary of Country Positions on Export Competition in the Next Round of Agricultural Negotiations

	<i>European Union</i>	<i>United States</i>	<i>Australia / New Zealand</i>	<i>Canada</i>	<i>Japan</i>
Export subsidies	Willing to negotiate reductions	Completely eliminate and prohibit	Immediate elimination and prohibition	Eliminate as quickly as possible	Strengthen existing rules to redress imbalance of rights and obligations between exporters and importers
Export credits	Discipline	No position announced	Effective international discipline, with a view to ending subsidization	Discipline	No position announced
Other forms of export assistance	Address "other less transparent forms," including food aid on concessional credit terms	Prevent circumvention of commitments	Prevent circumvention	Discipline market promotion, food aid, and other forms of export assistance	Strengthen rules and disciplines
Export restrictions and taxes	No position announced	Terminate export taxes applied in sporadic and distortive manner	Develop disciplines	No restrictions that reduce exports relative to production in representative period	Strengthen rules and disciplines
Exporting STEs	Discipline	Improve transparency and stronger disciplines	No position announced	Willing to discuss practical trade concerns	Prevent circumvention of commitments

Source: WTO.

Table 7.4. Summary of Country Positions on Domestic Support and Other Issues in the Next Round of Agricultural Negotiations

	<i>European Union</i>	<i>United States</i>	<i>Australia/New Zealand</i>	<i>Canada</i>	<i>Japan</i>
Reductions	Prepared to negotiate	Substantial reduction	Major reductions, eliminating all trade distorting subsidies	Maximum possible reduction or elimination, including blue box support	Assure flexibility and allow for multifunctionality and food security
Blue box	Maintain Some updating not ruled out	No explicit position announced Stronger rules that ensure all production-related support is subject to discipline	Eliminate	Include in overall limit	Maintain as midpoint between amber and green
Green box	Consider multifunctionality	Preserve criteria-based green policies	Maintain	Include in overall limit Review criteria	Review criteria to facilitate smooth policy conversion
Peace clause	Maintain	No position announced	No position announced	Permanent recognition that green support is not counter-vailable Allow dispute settlement for nullification and impairment, and for disruption of sales	No position announced
Other issues mentioned in country position	Legitimate consumer concerns Animal welfare Geographical origin	All countries to table comprehensive offers Address biotechnology		Do not open SPS Agreement; Establish working party on biotechnology	Address consumer concerns Establish forum to discuss GMOs

Source: WTO.

support. Canada's position that an overall limit be imposed on the aggregate of all amber, blue, and green support is not shared by other countries. On the green box criteria, inconsistencies between various positions will probably become apparent only when the negotiations turn to detail. As to the blue box, the country positions explicitly presented so far appear less threatening to the sustainability of the current approach to direct payments in the EU than many observers (including the author) had anticipated. However this situation may change during the negotiations. Given the country positions reviewed here, the peace clause may well survive the next round, possibly with some modification.

Some industrialized countries have explicitly called for discussion of several issues that were not on the negotiating table—or were, in their view, not treated appropriately—during the Uruguay Round. Some of these issues will be discussed in the following section.

Beyond the Uruguay Round Agenda

When agreement was sought during the Uruguay Round on the need to continue the process of policy reform in agriculture after the URAA implementation period, a number of countries were concerned that another round of reductions in support and protection might conflict too sharply with their traditional agricultural policies. Although they did not see a way to block a new round of negotiations on agriculture completely, they tried to guard against pressure on their policies by inserting into the relevant provision of the URAA a phrase that appeared to offer some hope for fending off the heaviest attacks. Thus Article 20 of the URAA, which states the joint resolve to continue the reform process, requests that the next round of WTO negotiations on agriculture take into account “non-trade concerns ... and the other objectives and concerns mentioned in the preamble to this Agree-

ment.” In the relevant passage of the preamble WTO members note that “commitments under the reform program should be made in an equitable way among all Members, having regard to non-trade concerns, including food security and the need to protect the environment.”

Non-Trade Concerns

The term “non-trade concerns” (and closely related terminology on the “multifunctionality of agriculture”) has become fashionable in the current debate over the future of the international trading regime for agriculture. They have played an increasingly important role in the preparations for the next round of WTO negotiations on agriculture.¹⁷ Both industrialized and developing countries have made reference to these concepts. Here we will concentrate on industrialized country perspectives in this area.

At first glance it might appear paradoxical that talks in the World Trade Organization should deal with non-trade matters, and on those grounds we might tend to dismiss the relevance of such concerns for the upcoming round of negotiations. However, such a position would be neither practical nor logical. It is not practical because a number of countries put great stress on these concepts, and will not be prepared to negotiate seriously in the next round if they are prevented from making reference to their concerns. Moreover, the respective words in article 20 of the URAA cannot be ignored: they reflect the compromise that was reached during the Uruguay Round. It would also not be logical to exclude non-trade concerns from trade negotiations, because in most cases trade policies do not address trade issues per se, but rather their implications for the domestic economy and society. Changes in trade policies agreed in international negotiations, then, affect the attainment of domestic policy objectives. At the same time most economic policies, pursued for domestic reasons, have trade implications. This is why the

GATT goes beyond border measures and has rules for domestic subsidies as well. The URAA, in particular, contains very specific rules on domestic measures, in the context of the green box. Thus there is no good reason to negate the legitimacy of considering non-trade concerns during international trade negotiations.

The theory of economic policy in regard to the optimal instrumentation of measures targeted at domestic problems and objectives is reasonably clear and well documented in the literature. Based on this general literature, Anderson (1998) recently discussed and summarized specific conclusions for agricultural policies and the WTO negotiations.¹⁸ The general message is that border measures are economically inefficient means to cure domestic problems and attain domestic objectives. Among domestic policies, general support for agriculture—as provided, for example, through price supports or non-targeted direct payments—is less effective than well-crafted and highly targeted measures directly addressing the specific issues that arguably cause problems. In addition the most efficient domestic policy measures usually interfere less with international trade, and hence do not impose an undue burden on other countries. Moreover some of issues often mentioned under the headings of “non-trade concerns” or “multifunctionality” turn out to be non-issues, or issues best cured by a reduction of agricultural support and protection.

Such considerations (also advanced in the AIE process by governments that oppose a more prominent role for non-trade concerns in the WTO negotiations) appear not to have convinced agricultural policymakers in countries that emphasize the importance of non-trade concerns—and they may fail to do so in the coming negotiating round. Emphasis on non-trade concerns is probably not only a negotiating tactic, but also an approach aimed at calming domestic constituencies, allowing governments to be seen as fighting hard for their farmers’ interests in international negotiations. At a more pragmatic level the questions to be asked are: (a) What are governments that stress the importance of non-trade concerns seeking to achieve during the nego-

tiations in terms of concrete rules and commitments? and (b) What role might these issues play during the next round?

Based on statements by countries arguing for the importance of non-trade concerns, in particular in the AIE process, it is not easy to answer this question. Most such statements discuss non-trade concerns in fairly general terms, with some reference to country-specific conditions, and try to explain why it is important to leave sufficient scope for agricultural policies that pursue objectives related to such concerns. How that might translate into concrete WTO rules or specific modifications of commitments is never directly addressed. The statements tend to argue that taking non-trade concerns into account requires continued high levels of support and protection, which in concrete terms could mean that the countries concerned want to signal that they are not prepared to accept further significant reduction commitments. This is not altogether new information, and it might be asked why lengthy documents with detailed discussions about multifunctionality are viewed as the most appropriate way of getting that simple message across to other countries. It is certainly not a coincidence that the industrialized countries stressing non-trade concerns most strongly are those that still have particularly high levels of support and protection. That these countries are strongly opposed to further, significant reductions was likely to become obvious during the next round of negotiations.

Going beyond this general level to consider what the statements on non-trade concerns could possibly imply for concrete rules and commitments calls for considerable guesswork. Nobody appears to suggest that non-trade concerns should result in less demanding disciplines for export subsidies. In the area of market access, should non-trade concerns allow some countries to opt for a lower rate of tariff reductions, or for smaller volumes of minimum access than generally agreed? For example, it could conceivably be suggested that a link be established between the degree of food self-sufficiency in individual countries, on the one hand, and allowable tariff levels or required rates

of tariff reduction in those countries on the other. The emphasis often placed by some governments on food security—to be achieved through adequate domestic food production, and hence less dependence on the vagaries of world markets—could be interpreted as pointing in that direction. One suggestion might be, for example, that a rule be agreed upon in the negotiations according to which the target tariffs on basic foodstuffs, below which further reductions would not have to be made, are an inverse function of the level of self-sufficiency in food. Alternatively, the rate of tariff reduction to be achieved in the next implementation period could be determined as a direct function of the degree of self-sufficiency.

Such an approach would appear to be so distant from economic rationale that not even governments stressing the food-security aspects of non-trade concerns may have considered it.¹⁹ That would be fortunate for several reasons. As argued extensively by many commentators, self-sufficiency is by no means an effective—and certainly not an efficient—way of achieving food security. It would therefore be patently wrong to make self-sufficiency a criterion for policy commitments at the international level. If this step were taken in the area of agriculture, it would also set the wrong precedent for other sectors, where the “security of supplies” is arguably enhanced through higher self-sufficiency. At a more technical level of economics, when a country feels an overwhelming need to attain a certain level of domestic production for security reasons, a domestic-producer subsidy is a more efficient, and less trade-distorting, instrument than a border tariff.

Governments emphasizing the importance of food security may think more highly of domestic support than of tariffs. This is reflected in statements such as: “A substantial cut in agricultural support ... is likely to result in reduced production and impaired national food security” and “Policy measures aiming at food production to safeguard national food security should generally be allowed, if subject to certain mutually agreed principles.”²⁰

Domestic subsidies are the appropriate category of measures to deal with non-trade concerns. But even in that area, what concrete changes to URAA rules or commitments could be suggested in the next round, when the preparatory stage of philosophical discourse is over and practical negotiations begin? Country-specific discounts on the rate of required reduction of domestic support, when the country concerned can demonstrate that it has legitimate non-trade concerns? One of the successes of the URAA was that rather than relying on country-by-country requests, a number of general rules and universal reduction rates were agreed—with very few country-specific exceptions. It would be a big step backward in the next round if agreed rate reductions were not to apply indiscriminately to all countries. Even supporters of non-trade concerns might agree to that view. The same reasoning would apply at the level of individual products, should the next round agree on making the domestic-support commitments product-specific.

Taking a comprehensive view, it is difficult to imagine that the next round could establish links between non-trade concerns and quantitative parameters of reduction commitments or allowable policy levels, be it for export subsidies, tariffs, or domestic support. The only area remaining for potentially taking non-trade concerns into account in the next round is the qualitative definition of the green box of domestic-support measures, which could conceivably be widened to make it easier for governments to respond to non-trade concerns. Two types of changes to the green box could potentially be suggested by supporters of non-trade concerns.

First, more “green” policy measures could be added to those listed under paragraphs 2 to 13 of Annex 2 of the URAA, or the eligibility criteria of these measures could be relaxed to allow a wider range of measures to be sheltered by the green box.²¹ No concrete suggestions have been made to date as to which types of measures should be added to the current URAA list of green-box policies, or

which policy-specific criteria should be relaxed. However a look at the domestic-support notifications submitted under the URAA suggests (at least) two types of policies for which some countries may have an interest in amending the green-box definition. First, a number of measures were notified by some countries, without reference to any of the specific policies listed under paragraphs 2 to 13 of Annex 2 of the URAA. These “other” measures, including programs such as a scheme to refund farmers for replacement expenses during vacations and illness, could be suggested for inclusion among the green-box measures. However it is very difficult to find any policies listed under “other” measures that are related to the non-trade concerns often referred to. Second, some measures have been notified as green, although it is not really clear whether they meet the criteria for green policies. For example, a payment made to maintain the gap between administered and external reference prices for grains, combined with a payment to stockholding, was notified under the heading of “public stockholding for food security purposes.”

A second change that might be suggested is a relaxation of the requirement, contained in paragraph 1 of Annex 2, that green-box measures “have no, or at most minimal, trade distortion effects on production.” A suggestion to this effect may be inferred from statements, made in the AIE process, that “a substantial proportion of production-coupled support seems to be the most efficient way of ensuring the production of this public good” (referring to food security as a public good), or that “further decoupling may lead to suboptimal situations.” It is not clear whether doubts about the eligibility of a measure claimed to fall in the green box have already been raised in the Committee on Agriculture, on the grounds that the measure concerned had more than a minimal effect on production or trade. However, it is conceivable that a number of measures designed to meet certain environmental objectives or to result in certain types of land-use have significant effects on agricultural production and trade. It will be interesting to see whether some countries will want to use the next

round to relax the non-distortion criterion of the green box. If this were approached in a general way, eliminating decoupling as a fundamental requirement for inclusion in the green box, then the whole concept of the green box could lose its economic justification, and it would not be clear why measures falling into that category should be exempt from reduction requirements. However it would be extremely difficult to relax the non-distortion criterion only for measures meeting non-trade concerns by more than is already implicit in the definition of many of the policies listed in relevant paragraphs of Annex 2 of the URAA.

In summary, it is far from clear what concrete changes to the URAA or the commitments established under it could conceivably be demanded by countries stressing the importance of non-trade concerns. And it is even less clear whether such changes would leave the overall thrust of the URAA intact.

New Issues: Consumer Concerns and the Quality of Food

A number of new issues have recently been raised by some industrialized countries in their statements on matters to be addressed during the next round of agricultural negotiations. The statements express the view that neither current GATT provisions nor agreements reached during the Uruguay Round adequately address these issues. The issues raised include consumer concerns about food safety, treatment of genetically modified organisms (GMOs), and animal welfare.²²

Issues of this nature have to do with qualitative characteristics of agricultural products and production methods, as well as regulatory policies. Some of them have recently resulted, or could potentially result, in major trade conflicts. Indeed, it appears that conflicts in this area are now at least as important as—if not more important than—arguments

about subsidies, tariffs, and other economic policies on agriculture. The U.S.-EU disputes over beef hormones and difficulties over trade in genetically modified organisms are typical of these conflicts.²³ Although a solution to the beef-hormones dispute may be around the corner, the large set of issues related to GMOs is likely to remain a trade irritant for quite some time, affecting a large volume of actual and potential transatlantic trade in agricultural and food products. Other issues relating to technical standards in the agricultural and food sector will crop up from time to time, and this whole category of problems may well become a crucial battlefield for agricultural trade disputes. Hence efforts to improve trade relations in agriculture should definitely include, if not give special weight to, attempts to find solutions that reduce the probability and severity of conflicts in this area. This is more easily said than done, because views on how to approach these issues appear to diverge significantly between different industrialized countries. In particular, attitudes in Europe appear to be inconsistent with those in North America.

Some European consumer groups strongly oppose the use of hormones in food production, including GMOs in food products, food radiation, husbandry practices that might conflict with animal welfare, and so on. To some extent this opposition is independent of whether or not such technologies can be scientifically shown to result in threats to human or animal health. Trust in the ability of science to determine risk has faded significantly among parts of the general public. Moreover, for the consumer groups concerned avoiding such production practices sometimes constitutes a value in itself. The media are happy to report on such issues, leading consumers (at least in some European countries) to discuss these concerns and request political action. Such concerns were exacerbated by events such as the BSE (“mad cow”) crisis and the scientific, administrative, and political misjudgments committed in that context. Repeated reports about illegal use of antibiotics in animal feed; and the finding that in some cases even “guaranteed” hormone-free beef from the United

States contains hormone residues have had the same effect. Biotechnology is a particularly hot issue among European consumers, and from the perspective of the United States Trade Representative, it “continues to be a political issue in several member states...with scientific and objective attitudes pushed to the side by emotional and extremist positions. Prospects for improvement appear dim at this time” (USTR 1999: p. 111).

The fundamental issue, however, is not so much whether European consumers are more or less paranoid about “modern” food technologies than consumers in other parts of the world. For trade problems to arise out of such concerns, it is sufficient that consumer attitudes differ among countries, that governments respond to the specific perceptions of their domestic consumers, and that the resulting policy differences across countries make it difficult, or even impossible, for traders to ship products from one country to another. When policy differences among countries cannot easily be explained and justified on the basis of “objective” criteria that all countries can accept in the same way, the trading system is faced with particularly significant problems.

Such situations are part of the reality of day-to-day food policymaking. Faced with vigorously stated consumer concerns, politicians find it extremely difficult—and often inadvisable—to argue that “objective” criteria such as “pure” science should guide decisions on food and production standards. The general public perceives a problem, and politicians want to be seen as responding to such perceptions. It is not in the least surprising that politicians respond to consumer concerns, and in case of doubt, tend to block imports considered to be the source of the problem.

Moreover, when *domestic* production is required to meet certain standards in response to such consumer concerns, it would be unrealistic to expect that politicians will not impose the same standards on imports. Banning imports not meeting such standards is often also in the interest of domestic farmers, because it reduces potential supply and thereby avoids pressure on prices. Thus agri-

cultural policymakers often find it attractive to jump on the consumer bandwagon and argue for “legitimate consumer concerns” that must not be jeopardized by international trade rules. It is politically easy, and therefore tempting, for domestic-producer lobbies to argue against practices, such as the use of hormones in food production, and to stimulate public opposition against an international trade regime that might force the state to make room for such production activities—or at least to import such products. However there are many cases in which consumer concerns are the primary driving force behind the setting of standards, for both domestic output and imports. And it must also be recognized that consumers may be genuinely concerned—even when scientific evidence does not support their fears. The question, then, is what is the appropriate role of government in such cases, and how should the resulting problems be dealt with at the international level.

Regarding the role of government, public officials should, of course, ban food that poses an obvious threat to consumer health, a sustainable environment, or animal welfare.²⁴ However discussion is likely to center on whether there is any need for public action when an obvious risk is not involved. In such cases shouldn't individual consumers decide privately on what food they want to buy, while the market process ensures that different types of food, produced with both modern and traditional technologies, are supplied in sufficient quantities to meet demand, without government involvement? The problem is that information asymmetries (producers knowing far more about quality characteristics than consumers) would prevent the market from working efficiently, even in such cases. The appropriate role for governments in this context is to require labeling, to allow consumers to make decisions on the basis of information that is at least nearly as complete as that available to producers. Indeed, labeling requirements are a widely accepted instrument of food (and other) policies, although there is not universal agreement on the exact parameters on which labeling requirements should be based.

In the case of international trade, labeling is often seen as the appropriate alternative to technical standards, in particular when agreement cannot be reached on the “objective” need for standards. For example, in the beef-hormone dispute it has been suggested that Europe should require the labeling of beef produced with hormones, rather than banning such beef completely from European markets. The attractiveness of labeling requirements is that they appear to allow foreign producers access to the domestic market—even if they use production methods different from those commonly used in the importing country—rather than closing the domestic market completely to foreign competition. In many cases labeling may indeed be the answer, and it may also represent a solution to the dispute over beef hormones, as suggested by the WTO panel. However in at least two categories of cases labeling may not be able to solve the problem satisfactorily.

The first type of case is when labeling requirements might impose a heavy economic burden on foreign suppliers, possibly resulting in their effectively exclusion from the market of the importing country. The cost of labeling is not confined to that of placing a label on the product, but also involves the extra cost of separating production lines and logistics between the different product categories distinguished by different labels, often referred to as “identity preservation.” Such extra cost can be considerable, and potentially prohibitive. This is particularly so when most of the production in the exporting country would have to be labeled “red,” or potentially suspicious to consumers in the importing country. For example, estimates of the cost of identity preservation for various non-GMO crops, in cases where much of the respective output has been genetically modified, suggest a range of 5 to 15 percent of the farmgate price in most cases. An extra cost of 149 percent over conventional sourcing (for zero tolerance non-GMO soy meal protein) was reported in one case.²⁵ When the extra costs of labeling are high, or even prohibitive, exporting countries could, of course, forgo the option of shipping “green” products under a “green” label, and simply label all products “red.” However be-

cause of the economic loss involved they might instead question the labeling requirement, arguing that it amounts to unjustifiable discrimination against foreign suppliers. In such cases the conflict might turn, as in the case of product standards, into an argument about the “objective” or “scientific” justification of the labeling requirement. Arguments over labeling requirements might then become just as contentious as disputes over product standards and have to be settled in the WTO under similar rules.

The second case in which labeling may not be the appropriate solution is of a somewhat more theoretical nature, and appears not to have attracted much attention. It refers to situations in which a large majority of consumers in the importing country is convinced that a product labeled “red” should not come on the market at all, because they consider it unsafe, dangerous to the environment, immoral (against animal welfare), or for some other reason. In such a case the economic argument could be advanced that the domestic transaction costs of labeling requirements in the importing country are potentially higher than the benefit of product availability to the few consumers who want to buy the “red” product. These transaction costs come in various forms, including the cost for domestic producers (who, of course, have to label as well), administration of monitoring procedures, and the cost of collecting information on the product characteristics, which is borne by consumers. When such transaction costs are high, compared to the benefit of wider product choice, overall welfare in the importing country would be enhanced if the “red” product were banned from the market altogether. In such cases can the importing country be expected to abstain from a ban of the “red” product, just because it inhibits free trade?

In spite of these limitations of labeling as an approach to maintaining reasonably open access to markets in the face of international differences in consumer attitudes, labeling is rightly regarded as the most advisable approach by economists—preferable to product standards whenever feasible. To date conflicts over labeling requirements have not played a major role in agricultural and food

trade. However that could change in the future, especially in relation to GMO products. For example, the latest report of the United States Trade Representative on trade barriers in the EU states

In the United States, companies are not required to label products simply because they are produced through biotechnology. The United States believes that such labeling is unnecessary, in the absence of an identified and documented risk to safety or health. However, most European officials, including those that are pro-biotechnology, have come to believe that labeling of all GMOs, regardless of risk, is necessary to ensure consumer acceptance (USTR 1999, p. 112).

On the basis of such views it is easy to see how it might be argued; for example, in the context of a WTO dispute under the SPS Agreement, that there is no scientific reason for requiring labeling, because it is not necessary to protect health.

This takes us back to the situation in which governments believe that labeling is not sufficient, and that standards should also be established. While such standards have in the past mainly related to dangers for life and health, they also now increasingly relate to issues such as environmental impact and animal welfare. To avoid conflicts over standards, two rather different, but not mutually exclusive, approaches are being used: specific standards agreed bilaterally between exporters and importers, and multilaterally negotiated general frameworks for setting unilateral standards. Under the bilateral approach there are two options: harmonization and mutual recognition. Harmonization is an extremely difficult business; even the member states of the European Union have found this approach too cumbersome to be used to remove technical barriers to trade under the Single Market initiative. Mutual recognition (of national standards) was considered the more promising road forward, and indeed was used successfully to create the Single Market in the European Union. However,

true mutual recognition of standards—accepting into the domestic market without further constraints products that comply with standards in the exporting country—requires considerable trust in each others' fundamental values, and although administratively more convenient, may be even more demanding than harmonization.

As long as bilaterally agreed or accepted standards in agricultural and food trade remain the exception rather than the rule, avoiding conflicts will continue to depend on multilaterally established rules. This is the domain of the SPS Agreement, concluded in the Uruguay Round to guard against the misuse of technical standards in agricultural trade. The rules laid down in this agreement put as much weight as possible on objective criteria, above all on scientific justification of sanitary and phytosanitary measures. At first glance this appears to be exactly what was needed to establish a basis for determining whether governments have good reasons for establishing health-related standards, or whether, on the contrary, these standards are being used as disguised instruments for protecting domestic producers when the URAA has required reduction of more traditional economic measures. And it is certainly appropriate to require that classic SPS measures, clearly targeted at conventional risks to life and health, be based on appropriate scientific evidence and a clear and transparent risk assessment.

However, when technologies take large leaps into uncharted territory, scientific evidence may not yet be sufficient to assess the long-run risks involved in production methods and products based on these new technologies. This is the view of a significant number of people, and they can cite evidence of past scientific misjudgments to explain their residual mistrust of technologies that depart significantly from well-known practices. The breathtaking speed of progress in biotechnology clearly falls in this category. In this situation some people argue strongly for the principle of precaution, while others are prepared to accept the new technology if it is not clearly shown to involve definable risks. In such a case the requirement of basing standards on scientific evidence and nothing less is not equally con-

vincing to everybody. Thus perceptions may indeed differ between the “old” and the “new” world, and it would be wrong to assume that Europe's more cautious approach is necessarily and always targeted at producer protection, rather than truly perceived consumer concerns. Improving the trading atmosphere in the agricultural and food sector will require determined efforts to develop new approaches that go beyond the existing rules. Indeed, such efforts may be necessary to maintain confidence in, and support for, the WTO and the international trading regime among significant segments of the European general public. A regime that is seen as requiring consumers to be exposed to goods that they believe are potentially risky will not, in the long run, be politically viable.

Given this situation, one of the major objectives of many European agricultural policymakers for the next round of WTO negotiations is to reopen the SPS Agreement, to create room for trade restrictions that may not be based on scientific evidence, but which respond to “legitimate” consumer concerns. Other branches of governments in Europe generally support these tendencies. A major target for the next round may therefore be to develop approaches that take account of European perceptions, without threatening to result in unpredictable trade barriers and losses to exports from other parts of the world. A central element in such new approaches has to be a new basis for objectivity in assessing the justification of standards. Scientific evidence of definable risks to life and health, at least in the traditional interpretation, is unlikely to do the trick. But unconstrained government decisions run the risk of being captured by powerful domestic lobbies, particularly if vocal consumer initiatives and politically well-connected producer groups join forces against imported products.

If science cannot provide full answers and democracy does not truly represent the majority, what is the alternative? The answer may be some form of independent national institution charged with deciding on food-related health issues from a scientific and precautionary point of view. The U.S. Food and Drug Administration could serve as a

model. An important requirement would be that the institution be completely independent, in particular from producer interests, so that its decisions cannot be criticized as seeking to protect domestic producers from foreign competition. A revised SPS Agreement could potentially define the nature of such institutions and acknowledge the standards they set. This would be similar to a provision in the SPS Agreement according to which standards based on those agreed to by international institutions (such as the Codex Alimentarius) are considered to be in conformity with the requirements of the SPS Agreement. After all, the international institutions referred to are of a completely different nature than the WTO, and as such have no legal power. A major difference, of course, is that the independent domestic institutions to be created to decide on standards would be national rather than international bodies. It might make sense to include some international representation in these domestic agencies, to ensure that decisions are based on the broadest available evidence.

The issues discussed might transcend technical standards and SPS matters and enter into discussions of economic measures, such as tariffs and domestic support. Consider, as a concrete example of a standard relating to animal welfare, the new EU rules on minimum space per layer-hen in batteries. This regulation will mean that production costs for eggs in the EU are considerably higher than those in the U.S. and other countries, where hens can be held in a much smaller space. If EU tariffs on eggs and egg products were low (which is not yet the case) and if no compensation for their higher production costs were granted to EU egg producers (also not the case), then the EU market might be swamped by imports from countries with less demanding standards (assuming, unrealistically, low transportation costs for eggs). If this were to happen, the intended benefit of the EU regulation for animal welfare would not materialize, because production of eggs for the EU market would move to countries where hens are not held in accordance with the conditions the EU considers appropriate. Could the EU then use economic measures to ensure the continuation of egg produc-

tion in the EU and the intended benefit for animal welfare? For example, an extra tariff on egg imports from countries where standards are "below" those in the EU would allow EU egg producers to compete on a "level playing-field," while the costs of meeting the animal welfare standard are borne by EU egg consumers (who should bear those costs).

Under current GATT and URAA rules, the EU could not charge such an extra tariff. Could the EU then at least pay its egg producers compensation, outside the constraints on domestic support? The green box "payments under environmental programs" (paragraph 12 of Annex 2 of the URAA) might apply. But is a standard on animal welfare an environmental program? If participation in this "program" is not voluntary (because the standard is mandatory), how would the "extra costs or loss of income involved in complying with the government program" (to which payments must be limited) be determined? Discussion of these and similar issues will almost certainly take place during the next round.

Conclusion

Much of the outcome of the upcoming talks will depend on domestic political constraints and the extent to which domestic attitudes toward farm policy have evolved in the last few years. Implementation of the results of the Uruguay Round was made easier by the continuing process of domestic reform. Regional pressures have been working in the same direction, to allow more contestability in national agricultural food markets. Those with potentially competitive agricultural sectors are looking forward to a new era of openness. The pace of change, however, will always be restrained by countries whose agricultural sectors have been sheltered from competition and whose competitiveness remains to be tested. Countries do not have unlimited enthusiasm for further talks on agriculture at this time, but there is a feeling of resignation that further action is needed at the international level as a framework for the domestic and

regional policy changes that lie ahead. Policy changes continue to be made in many countries, partly in response to the URAA, but also in anticipation of the next round of WTO talks. This impact

on domestic policies of the new WTO rules for agriculture is probably the best indication of their success.

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Notes

This paper was prepared for the World Bank Conference on Agriculture and the New Trade Agenda in WTO 2000 negotiations held in Geneva, October 1–2, 1999

¹ Parts of this paper draw on Josling and Tangermann (1999).

² For more details on implementation of the Agreement by country, see IATRC (1997).

³ How minimal the effect of tariffication may be is reflected in a report in the July 1999 edition of the *Japan Agrinfo Newsletter* 16 (11): p. 3: "Japan's Food Agency announced in May that a Japanese trading firm was planning to import 61.1 tons of rice from Thailand under Japan's new rice import tariff system...In addition, a food importer based in Yokohama reported that it would import 850 kilograms of risotto."

⁴ For an opposing view of FAIR Act payments and the green box, see Harvey (1998). The issue has not yet been put to the test.

⁵ The WTO Secretariat is to be praised for making all unrestricted documents swiftly available at the WTO Web site, and providing efficient technology for retrieving them. The address of the WTO Document Dissemination Facility is www.wto.org/ddf/ep/public.html. The documents cited in the following will be referenced in the text by their WTO document number and date, and are not included in the list of references.

⁶ For a comment on the process of negotiating CAP reform under Agenda 2000, see Tangermann (1999b).

⁷ *Agra Europe* (Eng. ed.) 1856, July 2, 1999, p. EP/1.

⁸ WT/GC/W/273, 27 July 1999. The following citations are from this document.

⁹ For a more detailed statement on the EU's interest in concluding the negotiations by 2003, see (current) EU trade Commissioner Brittan (1999).

¹⁰ The EU Communication to the WTO, although discussed with member states in the so-called "113 Committee," is not yet based on a formal negotiating mandate.

¹¹ Subsequent quotations of the U.S. position are from the same communication.

¹² It should be pointed out that other countries are also in the process of compensating farmers for income losses. However so far this has not taken the form of higher prices, and thus could come under the heading of direct income payments. Such largesse may well, however, encourage farmers to stay in production.

¹³ In addition to a series of communications to the WTO General Council from Australia, and one general text submitted by New Zealand (WT/GC/W/112, 11 November 1998), one communication on behalf of the Cairns Group was submitted by Australia (WT/GC/W/156, Mar. 24, 1999). The communiqué and "vision statement" resulting from the Cairns Group 18th Ministerial

Meeting on Apr. 1-3, 1998, was also submitted to the WTO by Australia (WT/L/263, 21 April 1998). Australia's unilateral communications are largely consistent with the Cairns Group position, as outlined in these documents.

¹⁴ For an extensive discussion of the issues related to TRQs by Australian authors, see Podbury and Roberts (1999).

¹⁵ At the time of writing, the WTO Document Dissemination Facility did not yet have a Communication from Canada on agriculture in the next round. However, on Aug. 19, 1999, Canada's minister of agriculture issued a statement on "Canada's Initial Negotiating Position on Agriculture," available at www.agr.ca/cb/news/n90819be.html. Citations in this section are from that document.

¹⁶ Subsequent quotations of Japanese statements and positions are taken from this same document.

¹⁷ Of 64 informal documents presented by WTO Members in the AIE process by June 22, 1999, no fewer than 15 refer explicitly in their title to non-trade concerns, multifunctionality, environmental effects, food security, or side effects of agricultural policies and production.

¹⁸ For an earlier, extensive discussion of these issues, see Winters (1990). It is interesting to note that the Winters paper, in line with language used at the time, still refers to "non-economic" objectives. Does the current, more common usage of the term "non-trade" concerns indicate that governments emphasizing this concept seek to explicitly declare that they oppose further trade liberalization in agriculture?

¹⁹ It has, however, been argued by one country emphasizing non-trade concerns in the AIE process that "*trade policies conducive to food security must allow for room for maneuver to foster domestic production in net-food importing countries*" (emphasis added). As noted, Japan, in its communication to the WTO General Council, has maintained that to ensure food security "appropriate

border measures should be taken together with domestic support."

²⁰ The citation continues as follows: "Such a practical solution would seek to minimise trade distortions and tensions, while safeguarding an important NTC [non-trade concern]."

²¹ The suggestion to relax specific criteria could potentially result from the statement, made in the AIE process, that "the specificity of the requirements [of the green box] prevents many member countries from effectively addressing NTCs [non-trade concerns]."

²² For discussions of trade issues in relation to biotechnology and GMOs, see for example Grant (1999), Josling (1999), and Kerr (1999); for animal welfare issues see Blandford and Fulponi (1999).

²³ For an account of the dispute over beef hormones until late 1997 see Roberts (1998).

²⁴ This apparently straightforward statement, of course, does not address the difficulty of deciding on the appropriate quantitative criteria; for example, thresholds for toxic residues.

²⁵ See Buckwell, Brookes, and Bradley (1998).

8. The Dynamics of Multilateral Agricultural Policy Reform

*Ivan Roberts, Troy Podbury,
Neil Andrews, and Brian S. Fisher*

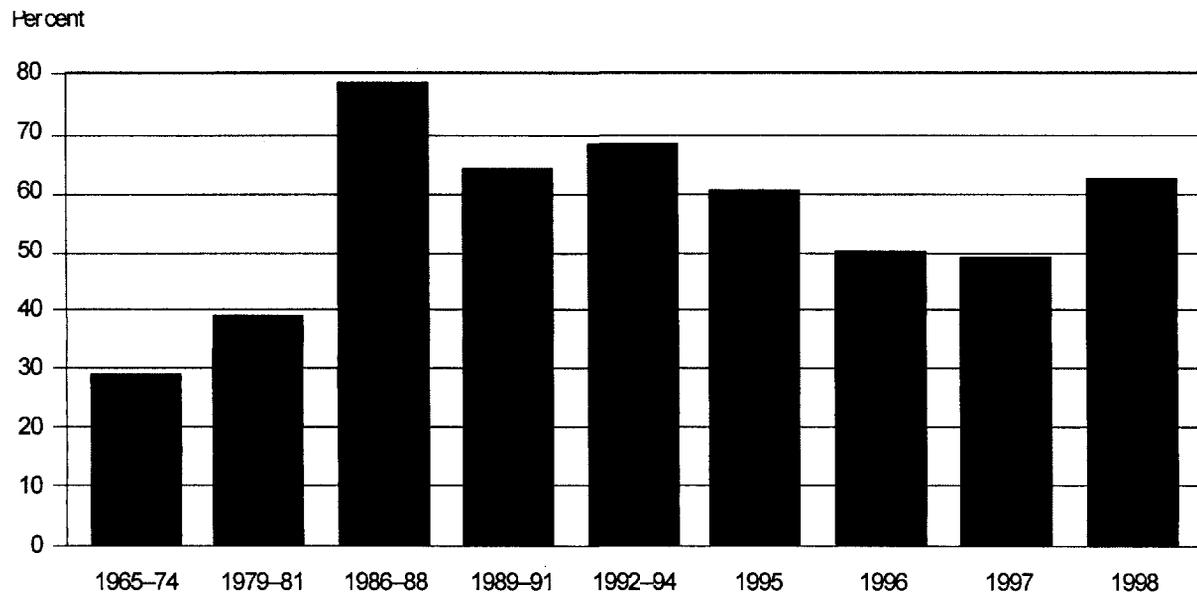
The Need for Multilateral Reforms for Agriculture

Agricultural assistance—as measured by the nominal rate of assistance (the ratio of the value of assistance to the unassisted value of production multiplied

by 100)—is currently around historically extreme levels.

Support in OECD countries is nearly as large as the almost unprecedented levels reached in the mid-to-late 1980s (figure 8.1; OECD 1999). In fact, agricultural protection in western Europe in that period was higher than at any time in living

Figure 8.1. Nominal Rates of Assistance for Agriculture in OECD Countries



Note: The nominal rate of assistance is the ratio of the value of assistance to the unassisted value of productivity multiplied by 100.

Source: Australian Bureau of Agriculture and Resource Economics (ABARE).

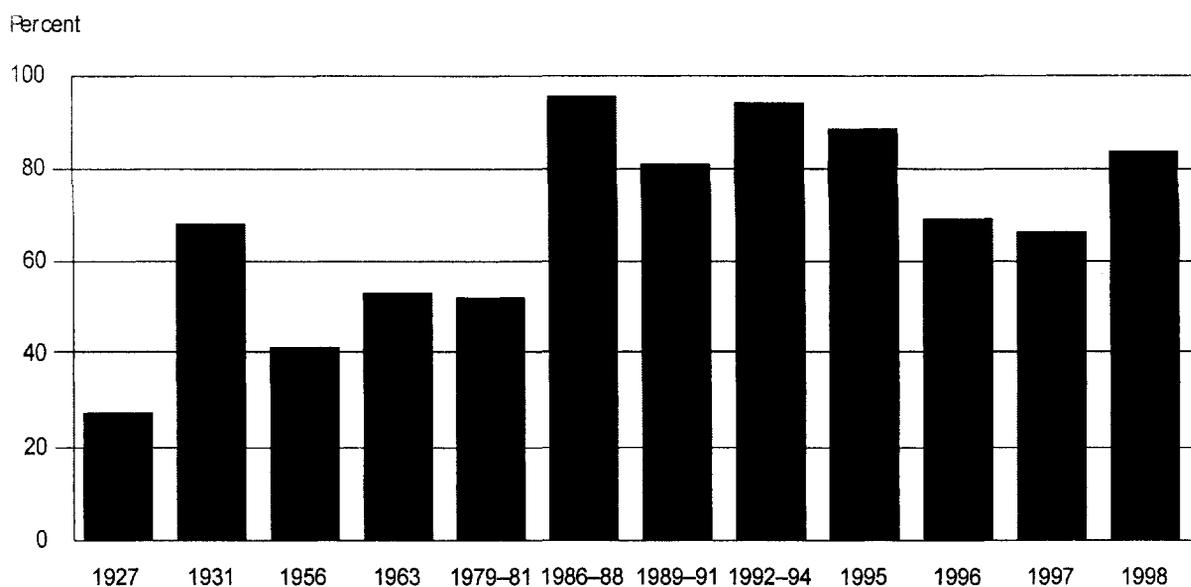
memory, with the possible exception of the late 1930s (figure 8.2; OECD 1999; Tyers and Anderson 1992). By 1998, total agricultural support in industrialized countries was still as high as levels in the early 1990s. For example, U.S. direct payment support is estimated to have increased by 80 per cent in the 1999 U.S. fiscal year (October 1998 to September 1999; U.S. Department of Agriculture 1999).

Agricultural support is concentrated in, but is by no means limited to, the industrialized countries of western Europe, Japan and, for some commodities, the United States. There are many factors that influence support levels for agricultural industries over time in various countries. These include, among others, changes in prices for outputs and inputs, levels of agricultural incomes, the size of agriculture in the economy, and political attitudes toward industry pro-

tection. It can be observed, however, that protection levels tend to fluctuate inversely with short-term movements in world market prices (figure 8.3).

Agriculture has lagged behind other major sectors in achieving economic gains from trade liberalization (figure 8.4). Those gains arise from the increased efficiency of resource use that stems from greater specialization, with potential benefits globally and in most economies. There are many gainers from trade liberalization, including taxpayers and consumers in countries with large distortions, and efficient producers globally, resulting in net economic gains for the world as a whole. Broad ranging multilateral negotiations, not only for agriculture but also for many other sectors, provide an opportunity for countries to achieve those gains.

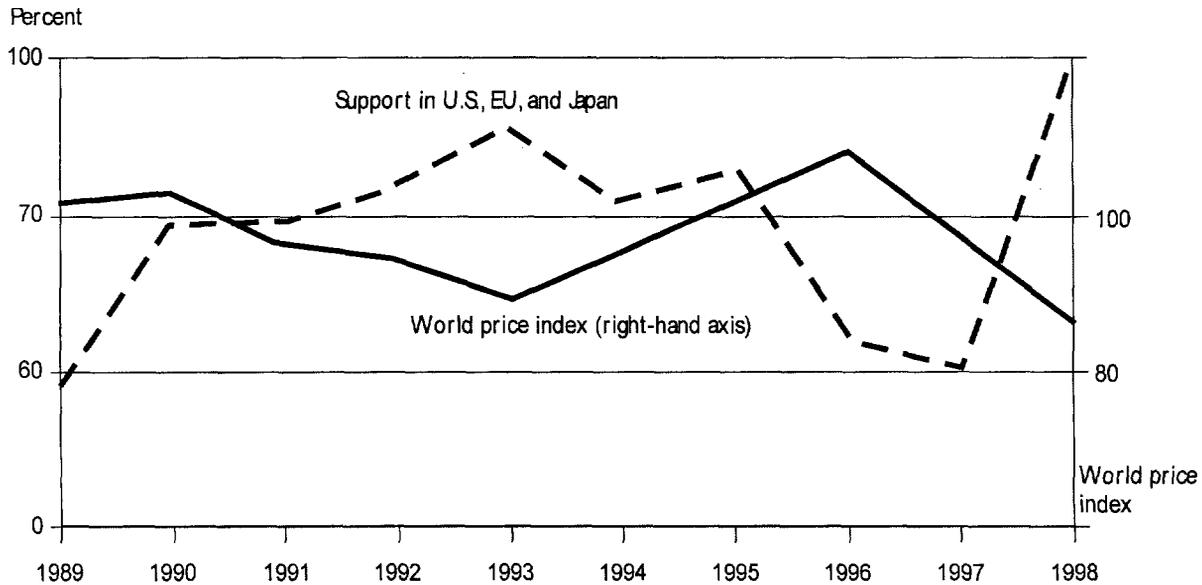
Figure 8.2. Nominal Rates of Assistance for Agriculture in Western Europe



Note: The nominal rate of assistance is the ratio of the value of assistance to the unassisted value of productivity multiplied by 100.

Source: Australian Bureau of Agriculture and Resource Economics (ABARE).

Figure 8.3. Nominal Rates of Assistance for Agriculture and Real World Prices



Note: The nominal rate of assistance is the ratio of the value of assistance to the unassisted value of productivity multiplied by 100.

Source: Australian Bureau of Agriculture and Resource Economics (ABARE).

Necessary Ingredients for Success

To achieve potential domestic and global economic benefits from agricultural policy reform, the balance of production must be reoriented from currently high support countries to low support countries. This would enable increased agricultural production in the most efficient producing countries. The key to this change is for producers and consumers in countries where prices are currently insulated from world markets to face lower market prices that both approach and change with world market prices. This does not prevent countries from supporting their agriculture. If countries do wish to continue to provide support then, to avoid most of

the costs, that support should be provided in ways that are in fact minimally market distorting, and not just “agreed” to be so.

Approaches to achieving reduced market distortions may vary. However, the greatest benefits would be achieved by imposing the largest support reductions on the most highly supported products. These include, among others, rice, wheat, feed grains, sugar and milk in Japan; wheat, feed grains, oilseeds, sugar, milk, beef and sheep meat in the European Union; and sugar and milk in the United States. In addition, many agricultural products in countries such as the Republic of Korea, Iceland, Norway, Switzerland, and Turkey receive high levels of support that must be reduced if they are to contribute to significant reductions in distortions to world markets and trade.

Market Access

Reducing barriers to trade is critical in exposing producers and consumers more to market prices and to assuring market access for competitive producers. Reduced barriers would enable consumers in countries that currently restrict imports to obtain benefits from lower prices and more diverse sources. By being able to draw supplies from a wider range of sources, consumers would benefit from greater food security.

Many bound (maximum) tariffs exceed actual tariffs. Reductions in tariff barriers will be illusory if cuts in bound tariffs—which are the basis for both negotiations and commitments—do not reduce actual tariffs.

Some benefit from greater market access can be achieved by expanding minimum access using tariff quotas. So far, however, tariff quotas are being used as much to lock in highly distorting price support as to expand market access. If the potential gains from expanding market access are to be achieved, the tariff-quota mechanism should be transitory, with trade eventually exceeding the tariff-quota quantity. Otherwise, tariff quotas will continue to be used in much the same way as the import quotas which tariffication was supposed to replace. In many instances, beyond-quota tariffs are currently prohibitive.

For tariff quotas to be used up to their potential to advance trade, administrative arrangements must not impede the realization of imports within the tariff-quota quantities.

Domestic Support

Greater exposure of producers and consumers to world prices does not mean that farm support must be eliminated. Indeed, a move toward genuinely decoupled domestic support could achieve many of the economic gains from liberalization while allowing some level of farm assistance.

If decoupled support is to be effective as a means of replacing market distorting forms of support it is critical that the conditions for decoupled support ensure that it is minimally distorting and

that those conditions are applied consistently. For support to be effectively decoupled, the price that farmers receive for their output must be the world market price and marginal costs should not be affected by support payments. If farmers believe that they can influence future support levels by current production decisions, support will not be minimally distorting.

Production-limiting arrangements, as currently applied, lock in production capacity and are not fully decoupled. Changes to these policies to ensure that they are fully decoupled would be an advance. If this does not occur, payments made under such schemes must be subject to negotiated reductions.

Export Subsidies

Export subsidies are among the most trade distorting of support arrangements. With the marked reductions that have occurred for some commodities, the potential for further substantial cuts or even elimination of export subsidies appears to be a reasonable objective. Such an outcome would be an essential part of a successful agreement.

However, it would be a hollow victory if the main effect of reduction or elimination of export subsidies was a reorientation toward domestic support that is still markedly distorting, as has happened with so-called 'production limiting' arrangements. This reinforces the need for ensuring that domestic support arrangements that are exempted from cuts are properly decoupled.

Benefits from Liberalization

There is an apparent paradox with agricultural protection. Most economies gain from liberalizing trade and reducing market distorting subsidies, and the ones with the most to gain are those with the highest protection and largest distortions. In the case of agriculture, the governments of these same countries tend to be the least willing to reform, for political reasons.

The benefits from liberalization are widespread, but adjustments are typically regionally concentrated.

With liberalization, the previous recipients of support face adjustment costs and may incur financial losses. The potential losers are visible and vocal while the more numerous gainers are widely dispersed, with individual gains often small. In addition, the links between liberalization and the subsequent gains are not usually evident to the gainers. So domestic consensus for agricultural reform can be difficult to achieve.

The path to reform can be eased through cooperative international approaches to mutually reduce agricultural support. If all countries reduce support, world prices would rise and become more stable while adjustment costs would decline. As others also reduce support, fears that domestic producers will be undercut by subsidized products from competitors will be reduced.

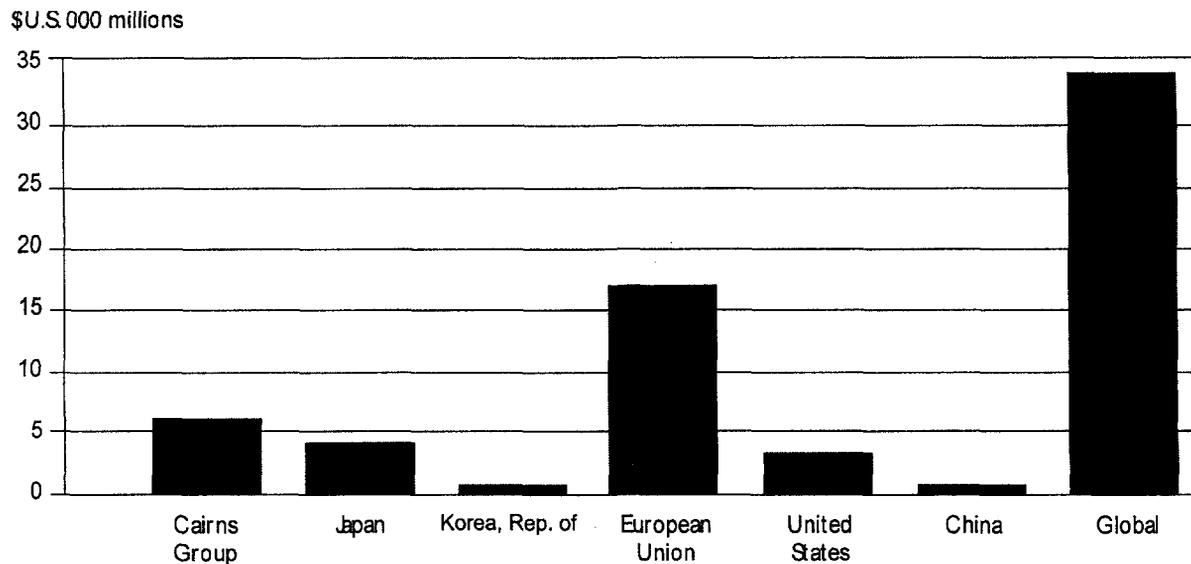
Potential economic gains from agricultural liberalization are illustrated by an analysis of the effects of a 36 per cent reduction in all forms of support in all countries, using the GTAP general equilibrium model, as developed by Hertel (1997). This

was the agreed tariff cut under the Uruguay Round and it is assumed that actual reductions in all forms of support would be at that level. These reductions in support lead to estimated global economic gains of US\$34 billion a year. The largest gainers would be the economies where agricultural support is currently the highest as those are the ones with the largest distortions. However, most countries, including those in the Cairns Group of low agricultural support countries, China and India also gain (figure 8.4).

Approaches to Reform

There were two main approaches to reducing agricultural market distortions under the WTO Agreement on Agriculture. One was to reduce barriers to trade and market distorting domestic and export subsidies. The other was to encourage countries to reorient support away from highly distorting price support to less distorting decoupled or production

Figure 8.4. Annual Economic Gains from Agricultural Liberalization



Note: The nominal rate of assistance is the ratio of the value of assistance to the unassisted value of productivity multiplied by 100.

Source: Australian Bureau of Agriculture and Resource Economics (ABARE).

limiting arrangements. Payments under these arrangements are exempted from agreed reductions in domestic support.

There has been a shift in policy balance since the early 1990s. Support through direct payments has increased and market price support, while still by far the major form of assistance, has declined.

The main direct gains in reducing barriers to trade and market distortions as a result of the Uruguay Round were through reductions in barriers to trade and in export subsidies.

Market Access

The reductions in actual tariff levels from tariffication, whereby tariff and nontariff barriers were converted to tariffs and negotiated down, were generally small. Reasons include a base period when protection levels were the highest for at least half a century and the degree of latitude that countries were given to determine base tariff levels (dirty tariffication).

Some gains were made in assuring current access and opening up markets through minimum access arrangements, using tariff quotas as the relevant mechanism. However, those gains were not large. The tariffs for beyond quota imports were generally prohibitive, enabling tariff quotas to be used largely as a tool for managing trade within highly distorting support systems rather than for prising or keeping markets open.

Special safeguards, which are supposed to provide a cushion for producers against surges in imports and precipitate reductions in world prices, are in some instances being used as an integral part of market management systems. With EU sugar, for example, they effectively render the negotiated reduction in the tariff level irrelevant.

Domestic Support

Domestic support disciplines agreed in the Uruguay Round were probably weaker than for market access and export subsidies. The "aggregate measure of support" for each country that was to be re-

duced was agriculture-wide, allowing considerable scope for reshuffling support between commodities as market conditions changed. Importantly also, the base period adopted, 1986–88, was one of high protection, so, with return to more normal market conditions, countries had to do little, if anything, to meet commitments.

Perhaps even more importantly, large areas of domestic support were excluded from cuts on the grounds of them being minimally distorting or production limiting. Some types of support that were included in these categories actually lock resources into the highly distorted uses that were established with previous policies. In addition, other forms of support considered to be minimally distorting, such as expenditure on research and development, infrastructure, extension and advisory services, marketing and promotion services, insurance subsidies, environmental programs, or regional assistance, would be significantly market distorting if not applied at optimal levels.

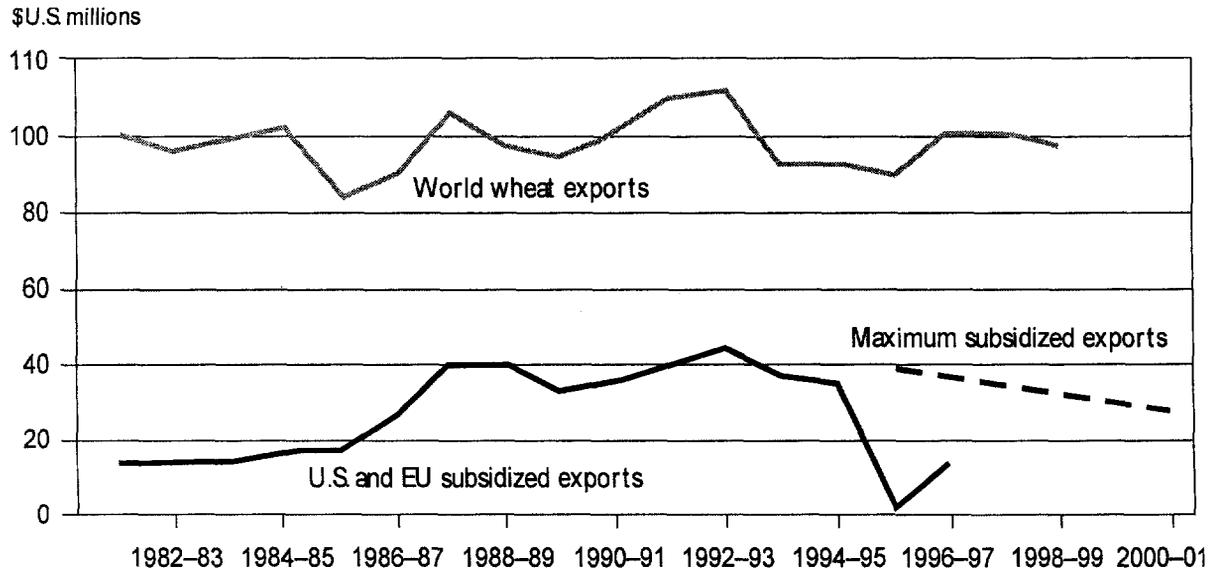
The present agreement encourages reorientation of support away from areas where there was some success in achieving reductions, such as export subsidies, toward domestic support, especially in categories that are exempted from agreed reductions in domestic support.

Export Subsidies

The reduction in subsidized exports is perhaps the main gain from the Uruguay Round. Competitive export subsidization plagued the wheat market from the mid-1980s to the mid-1990s. Since that time subsidized exports have declined greatly (figure 8.5). However, that advance is partly illusory, as the European Union has replaced much of its export subsidies for cereals with direct compensation payments that cover production, including the quantities exported. Those payments retain several production and trade distorting features but are excluded from reduction commitments.

For dairy products, negotiated limits on export subsidies are constraining subsidized exports only somewhat. The limits for butter far exceed any

Figure 8.5. Subsidized Wheat Exports and World Wheat Trade



Note: The nominal rate of assistance is the ratio of the value of assistance to the unassisted value of productivity multiplied by 100.

Source: Australian Bureau of Agriculture and Resource Economics (ABARE).

expectations of subsidized export volumes and are not a constraint. For skim milk powder, subsidizing countries are using unused export subsidy credits from early years in the implementation period to enable them to exceed the annual volume limits in subsequent years (figure 8.6).

Decoupling and Production-Limiting Arrangements

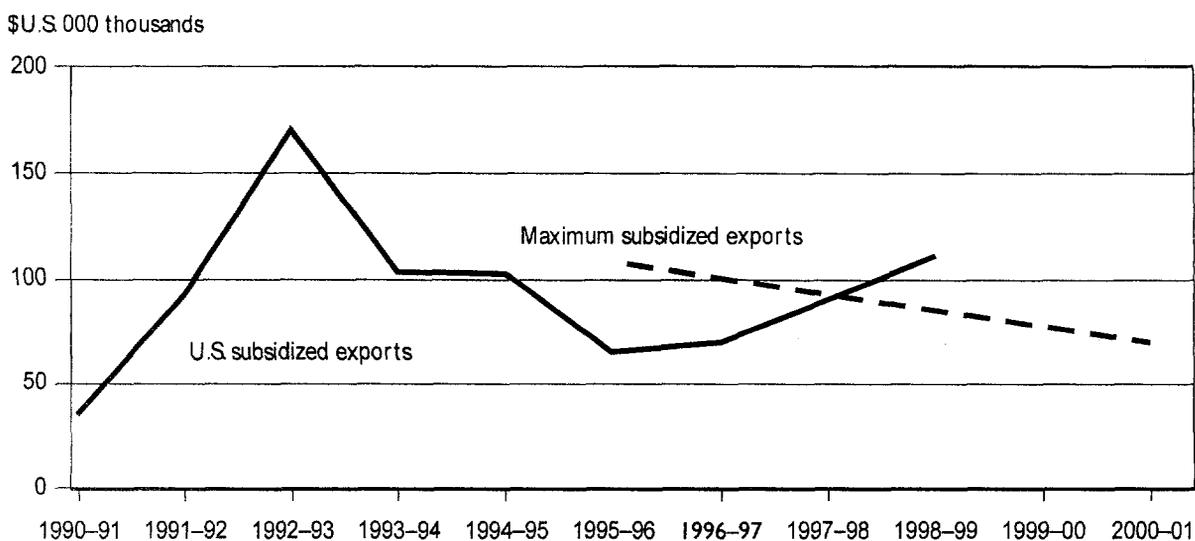
The switch toward direct payments has been mainly in the European Union for major crops and beef, with the payments being under production limiting or “blue box” arrangements as defined in the agreement. The United States has retained substantial direct support payments for major crops but has changed to more decoupled arrangements. Support under both decoupled and production-

limiting arrangements is exempted from domestic support limitations under the agreement.

Decoupling, or breaking the links between support and key market variables including production, prices, and input use, enables income support to be paid to farmers in a less market distorting manner than otherwise. Decoupling has the potential to subject both producers and consumers directly to world prices.

Decoupled support, if implemented correctly, can substantially lower market distortions. Consequently, reorientation of support toward decoupled payments is desirable if support is not totally eliminated. Nevertheless even the most stringently designed and implemented decoupled arrangements are likely to distort production somewhat through insurance and wealth effects. The benefits of changing to decoupled direct payments in terms of reducing market distortions take time to be realized. Most of the capital resources attracted into supported activities by years of price support will

Figure 8.6. U.S. Subsidized Exports of Skim Milk Powder



Note: The nominal rate of assistance is the ratio of the value of assistance to the unassisted value of productivity multiplied by 100.

Source: Australian Bureau of Agriculture and Resource Economics (ABARE).

continue to be used for agricultural activities, probably for several years after support payments are decoupled. These fixities maintain production above levels that would apply if support payments had never been made. However, in the long term, provided decoupling arrangements are rigorously applied, production would approach levels likely to be achieved with no support.

The effectiveness of decoupling in reducing distortions will be thwarted if farmers expect to be able to influence future payment benefits by current production choices. For example, they might increase yields by using more inputs if they believe that future benefits are likely to be linked to yields in years after the initial base period.

U.S. direct support payments for major crops since 1996 are relatively decoupled in a direct sense. However, U.S. producers are still not responding to world market prices because of other forms of support including loan rates, marketing loans and cotton competitiveness subsidies. So, the U.S. support system for wheat, feed grains and

cotton is not fully decoupled. These other forms of support are within the very liberal limits agreed under the Uruguay Round.

The U.S. government markedly increased direct support payment rates in 1998 when world prices fell. However, this was done in a way that meant that U.S. producers still respond at the margin to much the same prices as they would face without the additional support. So the additional payments may not have had a direct effect on producers' incentives. However, the higher payments when world prices are lower could provide a signal to producers that future price risks will be offset by increases in direct payments. This could, over time, reduce incentives for farmers as a group to diversify investments and could result in higher levels of farm production. Also, if the increase in support indicates to U.S. farmers that the mechanism for adjusting payments in future years may depend on their production decisions, then the degree of decoupling in the present arrangements could be eroded. Furthermore, the extra payments could

reduce growers' expectations of risk, reducing their responsiveness to market conditions.

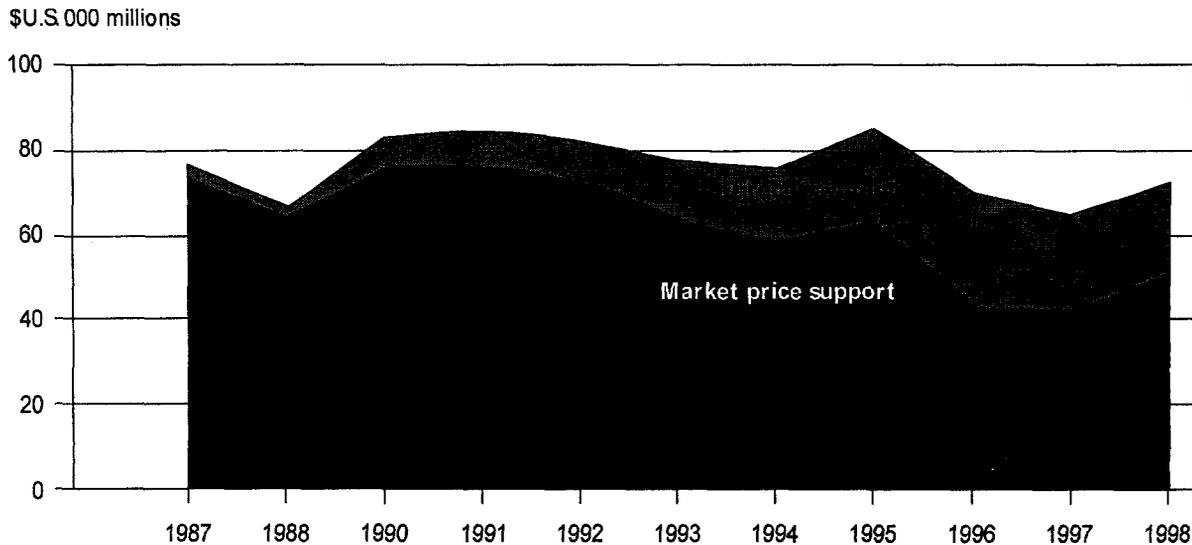
The switch away from market price support toward direct payments in the European Union is shown in figure 8.7. Support under the production limiting arrangements adopted by the European Union for arable crops (grains, oilseeds, and protein crops) and beef since 1992 is excluded from agreed cuts to domestic support. Such support, which includes compensation payments for crops and headage payments for cattle, retains definite production distorting elements. For crops, individual farmers receive payments on areas actually planted subject to commitments under area reduction programs, although there are supposed to be regional limits to payments. Such arrangements lock in production capacity at around base period levels while advances in productivity, in particular, the responsiveness of cereal production to fertilizers, are continuing to increase production. For beef, the extent to which the direct payments have re-

placed price support is less than for cereals. Headage payments are linked to animal numbers and provide incentives to sustain animal numbers and production at around the distorted base period levels.

The EU support systems for both arable crops and beef remain hybrids of price support backed up by border measures and export subsidies and direct payments. Price support levels are now much lower than before 1992, the reductions having been replaced by the compensation and headage payments. On that part of support represented by the difference between world prices and internal prices, the system remains as market distorting as ever. There are some decoupling elements for arable crops because payments are based on past, not current, yields. However, this does not appear to have been effective so far in reducing the intensity of production.

Overall the reforms in the European Union since 1992 have amounted to replacement of very market distorting arrangements by somewhat less but still markedly distorting arrangements that lock

Figure 8.7. EU Agricultural Support



Note: The nominal rate of assistance is the ratio of the value of assistance to the unassisted value of productivity multiplied by 100.

Source: Australian Bureau of Agriculture and Resource Economics (ABARE).

in most of the previous production distortions. However, these reforms have reduced the extent of consumption distortions arising from the high levels of market price support that previously applied.

Threats to the Success of the Negotiations

Several threats to the coming agriculture negotiations can be readily identified. In particular, some governments may be attracted to protectionist policies rather than outward looking trade oriented approaches.

The Asian Currency Upheavals

Following the Asian currency crisis there is a risk of some of the directly affected countries looking inward. There are also risks from the depressed world import demand situation and the currency appreciation that has occurred in industrialized countries. In the United States, for example, farmers' incomes have been affected by both lower export demand and an appreciated currency. A result has been a large upsurge in agricultural support. Generally the United States is an advocate of trade liberalization to attain the benefits of economic growth. Its advocacy, in practice, in that role will be important to the success of the negotiations.

The extent of the impact of the Asian upheavals on the agricultural negotiations will partly depend on the timing of recovery in the affected Asian countries. While some signs of economic recovery are emerging, full recovery will require significant structural reforms. These reforms will need to be successful if sustainable economic growth is to be achieved.

U.S. "Fast Track" Authority

U.S. support of more liberal trading arrangements and less distorted markets will be important for a successful outcome from the coming negotiations. As yet the U.S. Congress has not given "fast track" authority for the coming negotiations. Such authority would enable any agreement reached to be rapidly considered by the Congress and either accepted or rejected entirely. Absence of this authority would allow Congress to accept, reject, or modify individual components of the agreement. Such a situation could place limits on what the United States is prepared to accept in the negotiations. It could even prevent a final "agreement" being reached in the agricultural negotiations. While lack of fast track authority represents a major threat to reaching final agreement, it will not prevent the negotiations from commencing. However, granting fast track authority would provide an important signal that the United States is committed to achieving a successful outcome to the negotiations.

"Multifunctionality" of Agriculture

Another possible threat to negotiations could arise from the increasing emphasis that is being placed on the so-called "multifunctional" nature of agriculture, particularly in industrialized countries with high levels of agricultural protection.

Advocates of the concept of multifunctionality emphasize the unpriced spillover benefits of agriculture that are additional to the supply of food and fiber. The focus of this argument is on benefits ranging from environmental values, rural amenities, cultural values, rural development, and rural employment. In a policy context, the provision of agricultural support is seen in some countries as an appropriate mechanism to enhance these benefits.

However, in addition to the positive spillovers from agriculture there are negative spillovers. These include environmental damage, such as chemical and animal effluent leaching into water supplies, increased salinity, and loss of vegetation. Further, there is considerable evidence that protecting agriculture worsens the negative spillovers (U.S. Environment Protection Agency 1990; Mahé and Ortalo-Magné 1999).

It is important to recognize that using agricultural protection in one country to obtain multifunctional benefits lowers the benefits from agriculture, including multifunctional benefits, everywhere else. This includes developing countries.

A more efficient and potentially more effective approach to achieving multifunctional objectives is to use specific payments that are targeted at providing the multifunctional outcome. Indeed, there are already targeted policies explicitly aimed at achieving some of the multifunctional spillover benefits. Where this is the case, the spillovers are already being addressed. Consequently, there is no basis for pursuing those benefits through broad-based agricultural protection. As the protection is not being targeted at the specific objective, this approach is neither effective nor efficient. Therefore, there is no justification for supporting domestic prices above world prices or for general agricultural subsidies in order to achieve multifunctional objectives.

Regional Trading Blocs

Developments in regional trading blocs are another factor that could affect the effectiveness of the coming negotiations. In particular, the European Union is pursuing a process to expand membership to include several eastern European countries. Levels of agricultural support in these potential members are currently well below those in the European Union. In the next agricultural negotiations it will be important to ensure that commitments on agriculture that individual countries enter into cannot

be weakened or avoided through those countries joining a trading bloc in the future.

The Situation of Developing Countries

The implications of trade liberalization for developing countries are important both for the success of the next negotiations and for the advancement of these countries' economies.

In the Uruguay Round developing countries were accorded special and differential treatment allowing them lower cuts to tariffs, a longer implementation period, and wider exemptions from cuts to domestic support than industrialized countries.

There is a wide diversity among developing countries in their resource endowments, stage of development and economic and institutional structures. Most have much lower levels of agricultural protection and support than the large industrialized countries, but some have substantial protection.

In many developing countries, institutions that support efficiently functioning markets, such as secure and readily transferable property rights and legal and administrative systems that enable low cost transactions, are not as well established as in industrialized countries. Many also have inadequate infrastructure. Many have skewed income and property distributions and some groups in society may be largely excluded from benefits from trade reform. In such cases institutional reforms and infrastructure development together with trade and investment liberalization will be required to realize their economic growth potential and the welfare improvements that this can bring.

As already discussed, protection in industrialized countries can have serious negative economic impacts on developing countries. The imposition of such costs on developing countries is unjustified. In any case, with increasing globalization, the

costs and risks from not opening up economies are increasing.

In the coming negotiations, developing countries can choose approaches ranging from seeking liberalization for a wide range of sectors including agriculture in industrialized countries as well as for themselves, to defending their own support and not exerting pressure on industrialized countries to liberalize. The former has promise of economic gains to themselves as well as for industrialized countries. The latter has the likely outcome of reducing economic gains both domestically and globally.

As market distortions from agricultural protection are greatest in industrialized countries, liberalization for agriculture will result in a reorientation of agricultural production toward developing countries that have the comparative advantage to become larger exporters. Developing countries as a group would benefit from agricultural liberalization.

Agricultural exporting developing countries and those that emerge as exporters clearly benefit from agricultural liberalization. The situation is less clear for agricultural importers as world agricultural prices would be somewhat higher than without liberalization and, depending on the effect in stimulating domestic food production, food im-

port bills could rise. Because some will not have a comparative advantage in agriculture, multilateral liberalization is important for a wide range of activities, giving such countries opportunities to benefit overall from gains from trade in other sectors.

The main potential for market growth in food demand is in developing countries. However, that potential will only be realized with economic growth. Trade liberalization and, for many, other institutional reforms and infrastructure development, will be prerequisites for realizing their growth potential.

Concluding Comment

The next WTO negotiations represent a moment of truth for multilateral trade reform in agriculture. Much preparatory work has gone into bringing agriculture fully into the multilateral trading system. But, that work will be of limited value unless market distortions in agriculture can be reduced substantially toward levels for other major traded goods.

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