Part 3

Regional experience and outstanding issues

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Emerging issues and concerns of African countries in the WTO negotiations on agriculture and the Doha Round[1]

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1. Introduction

Up until the Seattle Ministerial Conference of the World Trade Organization (WTO) in 1999, African countries were relatively passive participants in the trade negotiation process. Since the Seattle Meeting, countries in the region have been showing more interest in international trade negotiations. This new interest stems largely from two sources. The first is the growing realization that trade has a vital role to play in the economic development of the region. There is also the understanding that the extremely inward-looking development strategy adopted by several countries in the 1970s and 1980s discouraged trade and foreign direct investment and had deleterious effects on growth and living conditions in the region (Rodrik, 1998; Dupasquier and Osakwe, 2006a). The second reason for the new interest in trade negotiations is the recognition that globalization is now an inevitable feature of the world economy and that countries have to participate in the process if they are to protect their interests, minimize any potential risks, and maximize gains. Consequently, unlike in the 1970s and 1980s, the key trade policy question or controversy in the region is no longer whether or not countries should participate in multilateral trade reforms. Rather it is how to participate as well as mechanisms or complementary policies that are needed to ensure that participation does not jeopardize important development goals in the region.

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As a result of Africa's enhanced interest in trade negotiations and the human and financial resources countries are devoting to them, the region is relatively more organized in the negotiations now compared to the situation during the Uruguay Round and has also made progress in arriving at common African positions on some of the key issues under the Doha Development Agenda. The Africa Group (AG) in Geneva has played a key role in this area. The AG is an informal group of Geneva-based African trade negotiators established at the end of the Uruguay Round to enable African countries to pool their limited human resources and protect their common interests in multilateral trade negotiations. The formation of the AG has increased the bargaining power of African countries in the negotiations and made it possible for countries in the region to discuss and speak with one voice on issues of importance to them. The group under the leadership of the African Union has also been quite effective in forming alliances to protect Africa's interests in specific aspects of the negotiations. For example, during the Fifth and Sixth WTO Ministerial Conferences in Cancun and Hong Kong respectively, the AG formed an alliance with the Least Developed Countries (LDCs) group and the African, Caribbean and Pacific (ACP) countries in what is now popularly known as the G-90. As a result of this new alliance, developing countries successfully opposed the launching of negotiations on the Singapore Issues during the Cancun Ministerial Conference.

This paper takes a critical look at Africa's concerns in the WTO negotiations on agriculture and the Doha round. It also examines the extent to which the region's demands were met by the commitments made in the draft declaration issued at the end of the Sixth WTO Ministerial Conference in Hong Kong. Finally, it outlines essential elements of any new trade agreements that would ensure a fair outcome for Africa in the agriculture negotiations.

The rest of the paper is organized as follows. Section 2 provides a critical evaluation of reasons for Africa's reservations about trade reforms. Section 3 explains why the agriculture negotiations are important for Africa. Section 4 outlines Africa's concerns in the Doha Round and the multilateral trading system. Section 5 focuses on what Africa wants from the agriculture negotiations. Section 6 outlines how to ensure a fair outcome for Africa in the agriculture negotiations. The last section contains concluding remarks.

2. Understanding Africa's reservations about trade reforms

Several African countries rely on trade taxes for government revenue and are concerned that trade liberalization would erode the fiscal base with potential negative consequences for the provision of infrastructure and social programmes. Table 1 presents information on the number of countries in the region for which trade taxes represent a given percentage of total revenue.

TABLE 1
Dependence on trade taxes in Sub-Saharan Africa

Trade tax revenue (as percentage of total revenue)	Number of Countries	
	1985-1994	2000-2003
0-10.9	5	7
11-20.9	11	8
21-30.9	5	10
31-40.9	11	10
41-50.9	7	7
51-100	3	2
Total	42	44

Source: Computed using data from African Development Indicators 2005.

As is obvious from the table, over the period 1985-1994, taxes on international trade and transactions represented more than 20 percent of total revenue in twenty-six of the forty-two countries in Sub-Saharan Africa for which there is data. Although more recently there has been a decrease in dependence on trade taxes in some countries there has also been an increase in others. Consequently trade taxes still account for a significant percentage of total revenue in several countries. For example, over the period 2000-2003, trade taxes represented more than fifty percent of total revenue in Comoros, Gambia, and Niger. In countries such as Benin, Lesotho, Madagascar, Mali, Sierra Leone, Togo, and Uganda the figure was more than 40 percent over the same period.

In the public finance literature it is typically argued that the revenue consequences of trade reform are likely to be small in the early stages of liberalization. The idea is that the early stage of trade reform involves tariffication of quotas and reduction of prohibitively high tariffs which are likely to raise imports and hence revenue. While it is generally acknowledged that the second stage of reform might lead to a reduction in trade tax revenue, the general argument is that developing countries should not worry about this as they can recover the lost revenue by switching from trade to domestic taxes (Ebrill, Stotsky and Gropp, 1999). This assumes that institutions are efficient and that governments can administer the tax system effectively thereby mobilizing substantial amounts of revenue to compensate for the revenue loss due to liberalization. Emran and Stiglitz (2005) present a theoretical model showing that liberalization may lead to a reduction in government revenue. The idea is that in developing economies with large informal sectors, tax evasion and avoidance are pervasive and these have implications for the ability of governments to derive significant revenue from domestic taxes. Furthermore, Khattry and Rao (2002) provide econometric evidence indicating that trade liberalization had substantial fiscal costs in low and upper middle-income countries. New empirical evidence also suggests that poor countries that switched from trade to domestic taxes did not recover the lost revenue from liberalization (Baunsgaard and Keen, 2005). While these findings do not imply that countries dependent on trade taxes should not embark on trade reforms, they do suggest that the fiscal implications of trade liberalization should be taken into account in multilateral trade negotiations.

African countries are also concerned that liberalization may increase macroeconomic volatility with potential consequences for output and poverty reduction efforts. The idea being that liberalization may increase terms of trade volatility and hence output volatility. This is particularly an issue for African countries because they export a relatively small number of products and so are more vulnerable to terms of trade shocks. Although this view is widespread, it is very difficult to find strong empirical evidence that supports it. If one looks at output volatility in the region during the period 1986-90 compared to volatility in the period 1996-2000 when the region had relatively more open economies, it is very difficult to find any clear relationship between trade liberalization and output volatility. Table 2 presents data on output volatility and average unweighted tariffs in African countries for the periods 1986-90 and 1996-2000.

TABLE 2
Output volatility and average tariffs in Africa (1986-2000)

Country	1986-1990 Volatility	Tariff	Country	1996-2000 Volatility	Tariff
Swaziland	13.7	-	Guinea-Bissau	18.4	24.4
Gabon	12.1	-	Sierra Leone	10.3	18.3
Mozambique	6.3	15.6**	Rwanda	7.6	21.4
Ethiopia	6.1	29.6 ***	Lesotho	5.8	13.6
Cameroon	5.7	32.0**	Morocco	5.7	33.1
Mali	5.7	-	Zimbabwe	5.5	22.3
Sierra Leone	5.3	30.9	Togo	4.9	15.0
Morocco	4.9	23.4	Gabon	4.7	20.1
Burkina Faso	4.5	60.8**	Congo, Rep.	4.3	16.2
Botswana	4.4	-	Ethiopia	4.3	25.5
Nigeria	4.2	29.7	Mozambique	4.1	15.5
Côte d'Ivoire	4.2	26.1	Côte d'Ivoire	3.7	18.5
Tunisia	4.1	26.0	Zambia	3.1	14.0
Lesotho	3.9	-	Burkina Faso	2.8	25.4
Congo, Rep.	3.9	32.0*	Comoros	2.3	33.4
Guinea-Bissau	3.7	-	Malawi	2.0	18.9
Comoros	3.0	-	Uganda	1.8	10.9
Rwanda	3.0	33.0**	Algeria	1.5	24.9
Zimbabwe	3.0	9.2	Mali	1.5	15.2
Zambia	2.9	29.9**	Kenya	1.4	17.1
Mauritania	2.9	22.3	Gambia	1.4	13.2
Togo	2.7	-	South Africa	1.4	7.9
Uganda	2.6	25.0	Nigeria	1.3	24.1
Senegal	2.6	13.5	Botswana	1.1	-
Malawi	2.2	18.0	Madagascar	1.0	6.6
Algeria	2.2	24.6	Mauritania	0.9	15.9
South Africa	1.7	15.2	Tunisia	0.8	30.9
Egypt	1.5	39.7	Mauritius	0.7	25.6
Mauritius	1.5	36.3	Swaziland	0.4	14.0
Gambia	1.1	-	Egypt	0.4	26.2
Madagascar	1.1	6.0	Ghana	0.3	14.6
Kenya	1.0	40.3	Senegal	0.3	19.3
Ghana	0.7	18.8	Cameroon	0.3	18.5

Notes: * refers to data for 1986; ** refers to 1987 and; *** refers to 1988.

Two points can be made from this table:

- Relative to the 1986-90 period, a number of countries had a reduction of trade barriers in 1996-2000 but also experienced an increase in volatility. Sierra Leone, Kenya, Rwanda and the Republic of Congo are in this category.
- There are also several countries that had a reduction in trade barriers as well as a decrease in output volatility. See for example, Mauritius, Nigeria, Côte d'Ivoire, Mauritania, Uganda, South Africa, and Egypt.

Clearly, the data suggests that the impact of liberalization on output volatility differs across countries. This is consistent with recent econometric evidence on the issue. For example, Dupasquier and Osakwe (2006b) examined the relationship between trade regimes and macroeconomic volatility using econometric techniques and found no evidence of any systematic relationship between the two variables. The study found that factors such as the volatility of inflation, climatic disasters, terms-of-trade volatility, the nature of fiscal policy, and the severity of debt are more robust determinants of macroeconomic volatility in the region.

Another major issue of concern to African countries is how to deal with the costs of adjustment to trade reforms. There is some understanding amongst economists that reforms may have long-term benefits (McCalla 2001). However, it is also generally acknowledged that they have short-term costs. These costs arise from the fact that reforms require reallocation of factors of production from protected sectors to areas where a country is more competitive in production. This reallocation of factors may lead to the displacement of workers as well as output losses in the short run. Given the fact that this issue is of concern to several countries in the current round of multilateral trade negotiations, it is surprising that not much research has been done on estimating the costs of adjusting to trade reforms in developing countries. Most existing studies focus on reform in advanced countries and the general conclusion is that the costs are small in relation to the benefits of reform (Anderson, 2004; McCulloch, Winters and Cirera, 2001; Matusz and Tarr, 1999). Of the few studies that have been conducted for developing countries the evidence is mixed, although several studies conclude that in the presence of rigid labour markets the gains from trade liberalization are often less than the adjustment costs (Laird and Fernandez de Cordoba, 2005). For African countries, the existence of adjustment costs is of concern because they often have relatively rigid labour markets and no social safety nets. Davidson and Matusz (2000) have shown that in economies with rigid labour markets, the costs of adjustment to trade reforms might offset the benefits.

3. Why the agriculture negotiations are important for Africa

African countries have a predominantly large rural population with agriculture accounting for a high proportion of employment. Therefore the agricultural sector plays a critical role in the development of African economies. In this regard, improved market access for Africa's agricultural exports through multilateral trade liberalization would have important consequences for economies in the region. In contrast, in developed countries as well as Latin American and Caribbean very few people make their living through agriculture. In the United States and Canada, for example, in 2000 the share of agriculture in total employment was roughly 2 percent. In the European Union it was about 4 percent and in Latin America and the Caribbean it was 20 percent. This contrasts with 66 percent for Sub-Saharan Africa and 56 percent for Asia (Table 3).

TABLE 3
Share of agriculture in employment (%)

Region/Group	1970	2000
Africa	76	58
Sub-Saharan Africa	82	66
Asia	71	56
Latin America and Caribbean	42	20
European Union (15)	13	4
Canada	8	2
United States	4	2
Japan	20	4
Developed Countries	18	7

Source: Computed using data from FAO database

Another reason the agricultural negotiations are important for Africa is that in the early stages of development the rural and agricultural sectors play a key role in economic development (Nurkse 1953; Rostow, 1960). This role is particularly important in African economies characterized by low growth and a high incidence of poverty. Africa's growth rate has been consistently low relative to the world as well as developing countries average. For example, over the period 1990-2001 the average annual growth rate of per capita GDP in Africa was 0.2 percent compared to 1.5 percent for the world, 1.3 percent for Latin America, and 3.1 percent for Asia (Cooper, 2005). Poverty statistics also show that Africa's performance is not as good as those of other developing countries (Table 4). Clearly, raising agricultural productivity and diversification into dynamic agricultural and manufactured exports are critical to the achievement of sustained growth and poverty reduction on the continent. Given the current factor endowments of the continent it is highly unlikely that the region would be able to diversify its economy into manufactured goods in the short run. Successful diversification of African economies requires upgrading of the skills base through education and training and this takes time.

Therefore, in the short run, increasing agricultural productivity seems to be the most viable and promising approach to reducing poverty in the region. However, whether or not the continent can boost agricultural productivity in the future depends in part on the agricultural policy choices of African governments and the outcomes of the agriculture negotiations are likely to influence these policy choices and decisions.

TABLE 4
Poverty in the world, 1950-2000*

Region and Measure	1950	1960	1970	1980	1990	2000
Head count ratio (percent)						
East Asia	86.6	77.5	71.1	67.2	31.3	6.0
South Asia	44.3	37.2	32.1	34.4	18.5	7.8
Sub-Saharan Africa	59.3	53.2	52.2	49.9	55.3	54.8
Middle East and North Africa	26.3	24.3	13.4	4.3	5.2	7.8
Latin America	22.0	16.0	9.4	3.6	5.3	5.2
Eastern Europe	17.8	9.2	3.3	1.7	0.	0
Developing world	63.2	52.5	46.4	43.5	25.4	13.1
Number of poor people (millions)						
East Asia	830	729	833	955	521	114
South Asia	208	209	229	310	207	105
Sub-Saharan Africa	104	118	150	188	278	362
Middle East and North Africa	27	32	23	10	16	29
Latin America	36	35	27	13	23	27
Eastern Europe	49	29	12	7	0	0
Developing world	1223	1131	1262	1479	1056	647

* Based on Poverty line (PPP, $1.50 a day).

Source: Cooper (2005).

The agriculture negotiations are also important for African countries because they tend to export primary commodities and current levels of protection in agriculture in the Organization for Economic Cooperation and Development (OECD) countries are quite high. Therefore, there are potential gains from agricultural liberalization (Aksoy and Beghin, 2005; Anderson *et al*, 2005; Anderson and Martin, 2006). Clearly not all African countries are likely to gain from agricultural liberalization in OECD countries. In general, in the short run, countries that are exporters of protected products are likely to gain and those that are importers are

likely to lose from the potential increase in prices resulting from liberalization. Table 5 presents the 2000-2004 average net trade positions of African countries in food and agricultural products. Given the region's factor endowments and comparative advantages, it is striking to note that only 9 of the 53 countries in the region were net food exporters over the period 2000-2004. In addition, 18 of the 53 countries were net exporters of agricultural products. This stylized fact explains why some analysts and policymakers are worried that the withdrawal of OECD subsidies may lead to an increase in food prices and therefore undermine the food security of several countries in Africa. This is however not a good reason for not eliminating OECD subsidies. A country that is currently a net importer of food may become a net exporter after the elimination of subsidies if the removal of such barriers makes food production more attractive and hence boosts domestic production. In other words, production and export patterns depend on the current and future global trade policy environment and are likely to change as the environment changes. Consequently, although the withdrawal of subsidies arising from multilateral trade reforms may increase food prices and have negative short-term effects on food importing countries, in the long run there is likely to be an adjustment that would reduce the vulnerability of some of these countries to such shocks.

TABLE 5
Average net trade position of Africa for 2000-2004

COUNTRY	Value of Net Exports (in thousand dollars)	
	Food (excluding fish)	Agricultural Products
Algeria	-2687520	-3027900
Angola	-479741	-669448
Benin	-138064	-21410
Botswana	-171683	-228212
Burkina Faso	-60416	63879
Burundi	-24018	848
Cameroon	26580	219451
Cape Verde	-69222	-88706
Central African Republic	-7543	-5324
Chad	7487	57739
Comoros	-6323	-9300
Congo, Democratic Republic	-235656	-235757
Congo, Republic	-143520	-166249
Côte d'Ivoire	1709005	2118996
Djibouti	-93199	-137405
Egypt	-2014638	-2380043
Equatorial Guinea	-10276	-25998
Eritrea	-86192	-87409
Ethiopia	-244596	-24659
Gabon	-135034	-158300
Gambia	-56265	-70989
Ghana	268019	170296
Guinea	-117495	-139984

Guinea-Bissau	15869	10153
Kenya	-108691	571859
Lesotho	-81957	-97558
Liberia	-74968	-10202
Libya	-926698	-1127155
Madagascar	53348	55934
Malawi	-3412	304460
Mali	-6878	147428
Mauritania	-173291	-238629
Mauritius	53312	11803
Morocco	-653455	-930946
Mozambique	-203259	-204842
Namibia	-50587	-20914
Niger	-52960	-74705
Nigeria	-1276223	-1385695
Rwanda	-53107	-25948
Sao Tome and Principe	-5791	-10453
Senegal	-440057	-450124
Seychelles	-43994	-53872
Sierra Leone	-112474	-133199
South Africa	695706	888718
Sudan	-129645	-107864
Swaziland	112014	86704
Tanzania	-114999	83111
Togo	-25524	27731
Tunisia	-242991	-412503
Uganda	-115503	54097
Zambia	-41699	7638
Zimbabwe	-40341	599881

Source: Computed using data from FAO database

4. Key concerns of African countries in the Doha round

African countries are concerned that they are yet to realize the gains promised in the Uruguay Round. In the early 1990s there were several studies indicating that the potential gains from the Uruguay Round reforms are high. In particular, it was stressed that a large share of the global gains would accrue to developing countries. Safadi and Laird (1996) present and discuss some of the results of these studies. Several studies estimated that Africa would incur losses as a result of the implementation of the Uruguay Round reforms (see Table 6). For example, Harrison, Rutherford and Tarr (1996) show that Sub-Saharan Africa would lose US$418 million from Uruguay Round reforms. Hertel, Masters and Elbehri (1998) also show that Africa is the only region of the world that was likely to lose from the implementation of Uruguay Round reforms.

TABLE 6
Gains and losses from Uruguay round reforms (1992 US$ billion)

Region	Base-model impacts on welfare gains and losses annually		Static IRTS model impacts on welfare gains and losses	
	Complete reform package	As % of GDP	Complete reform package	As % of GDP
Sub-Saharan Africa	-0.418	-0.2	-0.3	-0.2
South Asia	3.286	1.0	3.7	1.1
Argentina	0.645	0.3	0.7	1.3
Brazil	1.310	0.3	1.4	0.4
Mexico	0.145	0	0.2	0
Rest of Latin America	1.198	0.4	1.3	0.5
Developing countries	17.651	0.4	19.4	0.4
Industrialized countries	75.208	0.4	76.6	0.4
World	92.859	0.4	96.0	0.4

Source: Harrison, Rutherford and Tarr (1996).

Added to the unfair outcome of the Uruguay Round (UR) reforms is the growing realization that Africa may be vulnerable to the partial reforms under the Doha round (see for example, Lippoldt and Kowalski, 2005; OECD, 2005). Using a CGE model that incorporates preference erosion, variable employment and binding overhang, Achterbosch *et al* (2004) find that under full liberalization of global trade global gains are about 0.3 percent of GDP. For Sub-Saharan Africa the gains are also about 0.3 percent of GDP. However under modest reforms, as is likely under the Doha round, sub-Saharan Africa incurs losses of about 2 percent of GDP while the global gains are 0.1 percent of GDP. Apart from terms of trade effects, the losses incurred by sub-Saharan Africa under partial liberalization are due to the combined effects of preference erosion and binding overhang. Several countries in the sub-region have preferential market access to key OECD markets and partial reforms increase the degree of competition they face from other developing countries in these export markets without offsetting improvements in market access for African products in developing countries due to binding overhang. Bouet *et al* (2004) have also shown that recent results of applied general equilibrium model simulations are excessively optimistic in terms of projected welfare gains for developing countries. In particular, their results show that sub-Saharan Africa would lose from the types of partial agricultural trade liberalization likely to take place in the Doha round. They attribute this to preference erosion. Given these vulnerabilities and the unrealized expectations from the UR, it is not surprising that African countries are wary about making further commitments in the Doha Round.

As in most developing countries, the rules and procedures of the multilateral trading system are regarded as unfair by African countries. They view the rules and procedures as favouring the developed countries. For example, although the WTO is supposed to be a member-driven organization, important issues and decisions are taken in "Green Room" meetings and African countries do not have

proportionate and adequate representation at these meetings. In addition, because of their relatively low bargaining power, countries in the region have difficulties setting and influencing the agenda and pace of negotiations. The lop-sided power structure of the multilateral trading system is evident in the fact that developed countries managed to get the Singapore Issues on the agenda of the Doha Work Programme at the WTO Ministerial Conference in Doha despite mounting opposition from developing countries, who comprise more than two-thirds of the membership of the WTO. The Singapore Issues contributed to the failure of the 2003 WTO Ministerial Conference in Cancun and three of the four issues were eventually taken out of the Doha Agenda.

Africa is also concerned about the incoherence between the trade and aid policies of OECD countries. On the one hand, they offer aid to African countries to help fight poverty. On the other hand they adopt unfair agricultural support and trade policies that make it difficult for the region to reap and maximize the benefits of trade. United States support to cotton and the devastating effect it has on African cotton producers, through depressed world prices, is a classic example of the harm done to African countries by unfair agricultural policies of OECD countries. Available empirical evidence suggests that the elimination of trade barriers facing Africa's exports in the QUAD countries, the United States, the European Union, Japan and Canada, would result in a 14 percent increase in non-oil exports and a 1 percent increase in real income in Sub-Saharan Africa (Ianchovichina *et al*, 2001). More importantly, the evidence suggests that the costs of the removal of these barriers to the QUAD countries would be insignificant given Africa's low share of international trade.

The lack of commitments and concrete mechanisms for finding effective solutions to the problem of preference erosion is also another major concern that African countries have in the Doha round negotiations. Several countries in the region participate in preferential trading schemes and are worried that the Doha reforms may erode these preferences. It is often argued that trade preferences should not be encouraged because in several recipient countries the value is small. In addition, some analysts argue that they are inconsistent with the long-term interests of developing countries (Topp, 2003). It is indeed true that the value of preferences is small for several countries in the region. However this is not a good reason for not taking the issue seriously in the negotiations because an effective solution needs to be found for the limited number of countries in which the value of preferences is high if they are to support the reform effort.

TABLE 7
Value of preferences under EU schemes (as % of exports to the EU)

Range	Country
0 to 10 percent	Sudan, Mali, Niger, Chad, Gambia, Guinea-Bissau, Guinea, Sierra Leone, Liberia, Côte d'Ivoire, Ghana, Togo, Benin, Nigeria, Central African Republic, Equatorial Guinea, Sao Tome and Principe, Democratic Republic of Congo, Rwanda, Burundi, Ethiopia, Eritrea, Djibouti, Somalia, Kenya, Uganda, Tanzania, Madagascar, Comoros, Zambia, and Zimbabwe
Greater than 10 but less than 30 percent	Lesotho, Botswana, Namibia, Malawi, Mozambique, Seychelles, Angola, Gabon, Cameroon, Senegal, Cape Verde, Burkina Faso, and Mauritania
Greater than 30 percent	Swaziland, Mauritius and Republic of Congo

Source: Compiled using data from Brenton and Ikezuki (2005)

Table 7 classifies African countries in terms of the value of preferences received in 2002 under the Cotonou and GSP schemes of the EU as a share of agricultural exports to the EU. It shows that there are at least 16 countries in the sub-region for which the value of preferences received under EU schemes is more than 10 percent of agricultural exports to the EU. For these countries preference erosion has real consequences (see for example, Lippoldt and Kowalski, 2005).

Another concern of African countries is the lack of capacity to analyse the implications of the various proposals made in the negotiations for their economies. The international community has recognized this problem by setting up trade capacity building programmes for developing countries. However, it is becoming clear that these programmes suffer from serious shortcomings that undermine their effectiveness (Dupasquier and Osakwe, 2006c). One of the problems with existing programs is that they tend to be biased towards donor-driven priorities and economic interests. This is reflected in the fact that resources tend to be channelled to activities that further donor interests (UNDP, 2005). For example, although developing countries were against launching negotiations on the Singapore Issues, 36 percent of the annual average spending on trade policy and regulation over the period 2001-2004 went to these issues (see Table 8).

TABLE 8
Assistance to trade policy and regulation (US$ million)

Area	Total for 2001-2004	Annual average	% of total
Singapore Issues			
Trade facilitation	911	228	29.9
Trade and competition	137	34	4.5
Trade and investment	31	8.0	1.0
Transparency and govt. procurement	18	5.0	0.7
Agriculture	37	9.0	1.2
Trade mainstreaming	463	116	15.2
Technical Barriers to trade and SPS	376	94	12.3
Regional trade agreements	480	120	15.7
Accession	73	18	2.4
Dispute settlement	11	3.0	0.4
Trade-related intellectual property rights	48	12	1.6
Services	32	8.0	1.0
Non-agricultural market access	15	4.0	0.5
Rules	13	3.0	0.4
Training in trade negotiation techniques	31	8.0	1.0
Trade and environment	172	43	5.6
Trade education/training	203	51	6.7
Total	3052	763	100

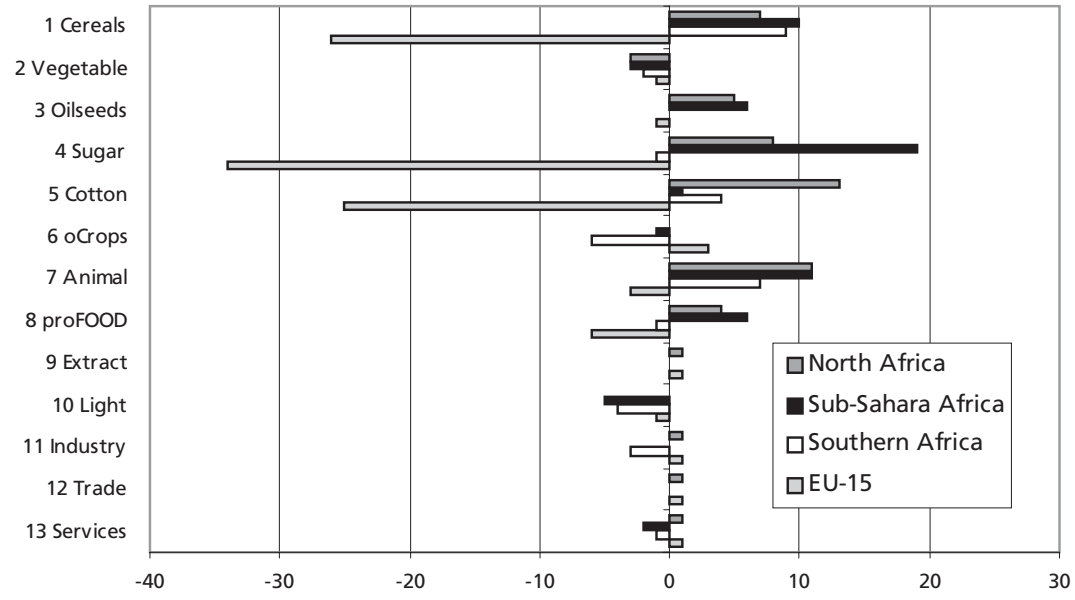
Source: Computed using data from WTO-OECD (2005).

In contrast, training in trade negotiation techniques, which is necessary to increase the ability of developing countries to defend their interests in multilateral negotiations, accounted for about 1 percent. Furthermore, agriculture received only 1 percent even though it is deemed as the most important issue for developing countries in the Doha round. Added to this is the fact that the key capacity building programs, the Joint Integrated Technical Assistance Programme and the Integrated Framework, are generally under funded. There is also weak support for local capacity building as donors frequently favour their consultants over professionals in recipient countries (Deere, 2005; Aryeetey *et al*, 2003).

There is also the concern that the Doha round reforms will lead to de-industrialization in the region and force African countries to specialize more in commodities. Is this fear justified? Achterbosch *et al* (2004) examined this issue using a computable general equilibrium model that takes account of trade preferences received by several African countries. They found that as a result of potential Doha trade reforms Africa would specialize more in cereals, sugar, and cotton and this is driven mostly by policy changes towards these programme commodities in OECD countries. In addition there would be less specialization in commodities such as vegetables, fruits and flowers, and a contraction of activities in light and heavy industries.

Figure 1 shows the changes in specialization patterns in the model for Africa and the EU-15 (initial members of the European Union before accession of countries in Eastern Europe) when moving from modest to full reform. Although these changes in specialization patterns are dictated by current comparative advantage they are worrisome because commodity prices are highly volatile and volatility has consequences for macroeconomic performance (Bleaney and Greenaway, 2001).

FIGURE 1
Changes in specialization for Africa and EU-15 after reforms*



** The figure shows the changes to the specialization index in percentage points.*

5. What Africa wants from the agriculture negotiations

In multilateral trade negotiations, it is often difficult to articulate Africa's demands or positions on the key issues because the continent is made up of heterogeneous groups of countries. This heterogeneity arises from different sources. The first is that several countries in the region are least developed countries (LDCs) and so are not required to make the type of commitments that are required of other WTO members. The second is that some are net food exporters while others are net food importers. To the extent that this characteristic has implications for the potential impact of multilateral trade reforms on participating countries, it affects and determines the positions they adopt in the negotiations. The third source of heterogeneity in the region is that some countries (for example, Mauritius) rely heavily on trade preferences and are concerned about the possible loss of export markets that may result from trade reforms. Consequently, they have a more

cautious approach to multilateral trade reforms than those that are not major beneficiaries of nonreciprocal trade preference (such as South Africa).

Despite these differences, African countries have in recent years been able to adopt common positions on trade issues in an attempt to increase their bargaining power. This is reflected in the series of declarations made by African leaders at the WTO meetings in Seattle, Doha, Cancun and Hong Kong. The official positions and demands of African countries on various issues under the Doha Development Agenda are contained in a series of declarations made by African countries after the launch of the Doha Round in November 2001. These include:

- The Grand Baie Declaration issued at the conference of the African Union's Ministers of Trade held in Grand Baie, Mauritius, from 19-20 June 2003;
- The Kigali Consensus issued at the conference of the African Union's Ministers of Trade held in Kigali, Rwanda, from 27-28 May 2004;
- The Cairo Declaration issued at the conference of the African Union's Ministers of Trade held in Cairo, Egypt, from 5-9 June 2005; and
- The Arusha Development Benchmarks issued at the conference of the African Union's Ministers of Trade held in Arusha, Tanzania, from 22-24 November 2005.

In this section the extent to which the outcome of the agricultural negotiations, as reflected in the draft declaration issued at the end of the Sixth WTO Ministerial Conference, meets the demands and requests of African countries is assessed. Since the Arusha Benchmarks contain the main positions of African countries in the run-up to the Sixth Ministerial Conference in Hong Kong the assessment will focus on this document. At a recent meeting of African Ministers of Trade held in Nairobi from 12-14 April, 2006, African governments re-affirmed their commitment to the common African positions contained in the Arusha Benchmarks. Annex 1 presents Africa's demands on agriculture relative to the agreement in the Hong Kong draft ministerial declaration.

One of the important decisions made at the Hong Kong meeting was to set an end date for the elimination of export subsidies. Trade Ministers agreed that all forms of export subsidies will be eliminated by the end of 2013. African countries as well as most WTO Members wanted these subsidies eliminated by 2010. However, the EU was unwilling to commit to this deadline and in an attempt to avoid a repeat of the experience in Cancun, Members agreed to the date preferred by the EU. The EU has a preference for the 2013 deadline because under the 2003 reform of its Common Agricultural Policy (CAP) it is expected to eliminate most export subsidies by 2013. Concerns were expressed by several developing countries that the new deadline would allow the EU to delay cuts in subsidies until the last moment. To address this concern the draft declaration includes language that the elimination of subsidies "will be achieved in a progressive and parallel manner so that a substantial part is realized by the end of the first half of the implementation period." Although African countries were not happy with the new deadline they welcomed the fact that an end date has been set.

Food aid is another aspect of export competition where Africa's demands were addressed. In prescribing disciplines on food aid the draft declaration makes

provision for the establishment of a Safe Box to ensure that there is no disruption of emergency food aid. The other demands made by African countries were not really addressed in the declaration. For example, they called for State Trading Enterprises in Africa to be exempted from disciplines on export competition but there was no commitment on this in the declaration.

On the domestic support pillar of the agriculture negotiations, there are two commitments in favour of African countries. The first is the idea that the criteria for the Green Box will be reviewed to ensure that developing country Members that cause not more than minimal trade-distortion are effectively covered. The second is the provision that developing country Members with no Aggregate Measurement of Support (AMS) commitments will be exempt from reductions in *de minimis* and the overall cut in trade-distorting domestic support. The other demands of African countries under this pillar were not really addressed in the declaration.

With regard to the market access pillar, it was agreed that there will be four bands but it is not yet clear what the relevant thresholds will be for developed and developing countries. The draft declaration addressed two key demands of African countries in this pillar. The first is that it gives flexibility to developing countries to self-designate an appropriate number of tariff lines as Special Products that are exempt from reduction commitments. These are to be guided by indicators based on the criteria of food security, livelihood security, and rural development. The second is that the declaration gives developing countries the right to have recourse to a Special Safeguard Mechanism (SSM) based on import and price triggers to protect farmers from import surges. On the other demands of African countries under this pillar, there was no significant progress.

African countries were really disappointed and frustrated with the outcome of the negotiations on cotton as reflected in the draft declaration. Given the political significance of this issue and the role it played in the collapse of the Fifth WTO Ministerial Conference in Cancun, African countries expected the United States to make serious efforts to address the concerns of the cotton producing and exporting countries in the region. African countries called for the elimination of all forms of export subsidies on cotton by the end of December 2005. This request was not honoured in the draft declaration although there was an agreement that the subsidies will be eliminated in 2006. On market access, the declaration also responded to the request by African countries. There was the commitment that developed countries will give duty and quota free access for cotton exports from LDCs from the commencement of the implementation period. On domestic support, which is the most important pillar of the cotton issue, there was no specific or real commitment in the declaration except the understanding by Members that reduction of barriers in this area will be more ambitious and the implementation period shorter than for agriculture. African countries were disappointed with this aspect of the declaration because domestic subsidies on cotton make up more than two-thirds of the US support on cotton and the draft declaration did not impose any serious discipline in this area. In the run-up to the Hong Kong Ministerial Conference, African countries made a proposal with specific time-frame on reduction of domestic support on cotton. They asked for support to be reduced

by 80 percent by 31 December 2006; 10 percent by 1 January 2008; and 10 percent by 1 January 2009. In Hong Kong African countries made changes to the proposal to increase the likelihood of an agreement in this area. Under the revised proposal, 60 percent of the trade-distorting domestic support on cotton will be eliminated by 2008; 20 percent by 2009; and 20 percent by 2010. However, this compromise on the part of African countries did not change the position of the United States on the issue.

Another aspect of the cotton negotiation where there was not much progress is the issue of compensation. African countries had asked for the setting up of an Emergency Fund to help cotton exporters deal with the declines in revenue resulting from depressed cotton prices. The draft declaration contains no new commitment in this area but urges the Director General of the WTO to explore the possibility of establishing a mechanism to deal with income declines in the cotton sector.

6. Ensuring a fair outcome for Africa in the agriculture negotiations

Given the crises that have marked WTO Ministerial conferences since Seattle, it is clear that a successful completion of the agriculture negotiations and the Doha Round will depend largely on the extent to which there are tangible benefits for developing countries in any proposed deals. It is therefore important that the key players in the negotiation process, the EU and the US, bear this in mind and also take bold steps to ensure that this is indeed the case. Failure to ensure that there are tangible benefits for developing countries in the negotiations will confirm the widely held view that developed countries preach free trade only when it suits their interests. It will also weaken the intellectual arguments or case for free trade and increase the alienation of developing countries from the global trading system with grave consequences for poverty and world security. Therefore, there is the urgent need to address the concerns of developing countries in the negotiations. In this regard, the following elements are necessary in any agreement to ensure a fair outcome for Africa in the agriculture negotiations.

- Quick resolution of the cotton issue;
- Granting duty and quota free access to OECD countries for all products emanating from the LDCs;
- Elimination of tariff peaks, tariff escalation and non-tariff barriers limiting Africa's incentives and ability to export processed agricultural products;
- Granting flexibility or policy space to African countries to deal effectively with poverty reduction, food security, and rural development needs;
- Finding concrete mechanisms and solutions to the problem of preference erosion;
- More meaningful and effective trade capacity building programmes; and
- Binding commitments on provision of financial assistance to help developing countries cushion the burden and short-term costs of adjustment to trade reforms.

These elements, whilst modest, would address some of the concerns of African countries in the negotiations, increase their confidence in the multilateral trading system and ensure that the continent is not left out in the globalization process. In this

regard, it is important that in the modalities phase of the Doha negotiations developed countries show leadership and make more meaningful commitments that would create an opportunity for African countries to derive more gains from the multilateral trading system. That said, the responsibility to make trade work for Africa does not rest only with developed countries. African countries also have a vital role to play because the benefits of trade are not automatic. They accrue to countries that have taken steps to exploit them. Therefore, African countries should adopt complementary domestic policies that would enable them to take advantage of the potential trading opportunities that could arise from the Doha round reforms. This requires lifting supply-side constraints, reducing transactions costs, putting in place domestic policies that would create an incentive for production of dynamic export products, and intensifying regional integration efforts in areas such as infrastructure, education, governance and conflict prevention and resolution.

7. Concluding remarks

Several promises were made to developing countries at the launch of the Fourth WTO Ministerial Conference in 2001. These include: improving market access for agricultural goods of developing countries as well as the reduction of export subsidies and other domestic support measures used by developed countries; dealing with tariff peaks, tariff escalation, and non-tariff barriers to products of export interest to developing countries; reviewing all Special and Differential Treatment (S&D) provisions to make them more effective and allow developing countries to take care of food security and rural development needs; putting in place better and balanced rules to protect developing countries' rights and interests in the trading system; providing more technical assistance and capacity building programmes to developing countries; and finding appropriate solutions to implementation concerns as well as addressing outstanding issues as a matter of priority.

Translating these promises into binding commitments continues to pose serious challenges for both developed and developing countries. For the developed countries the challenge is how to fulfill these Doha promises without undermining the trade liberalization objectives of the WTO. For developing countries, however, the key challenge is how to participate in the Doha reforms without jeopardizing important national development goals.

Responding to this challenge would require vigilance on the part of African countries. It would also require a strategic approach to trade and a clear assessment of the benefits and costs of multilateral trade negotiations to the region. This is particularly important given the enormous human and financial resources currently expended on trade negotiations by several countries in the region. It is also important because recent studies suggest that under the most optimistic scenario the gains to Africa from multilateral trade reforms are likely to be about 1-2 percent of GDP and this is far below what is need to enable the region to meet the Millennium Development Goals (MDGs). For example, Sachs *et al* (2004) show that African countries would require aid flows equivalent to 20-30 percent of their

GDP over the course of a decade in order to finance the public investments needed to meet the MDGs. In addition, the report of the Millennium Project suggests that a typical low income country with an average per capita income of $300 in 2005 would require external financing of about 10-20 percent of GNP to meet the MDGs (United Nations 2005). Consequently, it is very important that efforts at liberalization by countries in the region do not put poverty reduction and other national development goals at risk.

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ANNEX 1

Africa's demands and the outcomes of the Hong Kong meeting

Issue	Africa's Positions and Demands in Agriculture	Hong Kong Ministerial Declaration
Export Competition	Elimination of all forms of export subsidies on agricultural products by 2010	Parallel elimination of all forms of export subsidies by the end of 2013
	Disciplines on food aid must take into account the interests of food aid recipients	Interests of food aid recipients to be taken into account. A Safe Box for bona fide food aid will be provided.
	Immediate implementation of the Marrakech decision on Net Food Importing Developing Countries (NFIDCs) and LDCs, in accordance with paragraph 4 of the decision.	Disciplines on export measures will incorporate appropriate provision in favor of LDCs and NFIDCs as provided for in paragraph 4 of the Marrakesh decision.
	State Trading Enterprises (STEs) in Africa should be exempted from disciplines on export competition.	Disciplines on exporting STEs will extend to the future use of monopoly powers. However, there will be provision in favor of LDCs and NFIDCs as provided for in paragraph 4 of the Marrakesh decision.
Domestic Support	Review of the Green Box criteria to provide policy space for developing countries	The Green Box criteria will be reviewed in line with paragraph 16 of the July Framework to ensure that developing country Members that cause not more than minimal trade-distortion are effectively covered.
	Review and tighten the Green Box criteria for developed countries to ensure that it is non or minimally trade distorting.	No specific statement on this in the declaration
	Tightening of the criteria for the Blue Box and the inclusion of disciplines to prevent box shifting	No specific statement on these in the declaration. However, it is stated that cuts to overall trade-distorting support must be at least equal to the sum of reductions in Amber Box, Blue Box, and *de minimis* support.
	Exemption of African countries from *de minimis* and AMS reduction commitments	Developing country Members with no AMS commitments will be exempt from reductions in *de minimis* and the overall cut in trade-distorting domestic support.
	Allowing African countries policy space for the development of farming communities	No specific statement on this in the declaration
	Need for real reductions in trade distorting domestic support	Disciplines will be developed to achieve effective cuts in trade-distorting domestic support consistent with the July Framework

Issue	Africa's Positions and Demands in Agriculture	Hong Kong Ministerial Declaration
Market Access	Application of the principle of proportionality in the reduction of tariffs and the need to take into account the differences in tariff structures across Members	No specific statement on this in the declaration.
	Provision of policy space to allow African countries pursue agricultural policies that are supportive of their development goals.	No specific statement on this in the declaration
	An improvement in market access for products of export interest to African countries with special attention given to tariff escalation, tariff peaks and non-tariff barriers.	No specific statement on this in the declaration
	Treatment of Special Products must provide flexibility for African countries and reflect domestic circumstances and development needs.	Developing country Members will have flexibility to self-designate an appropriate number of tariff lines as Special Products guided by indicators based on the criteria of food security, livelihood security and rural development.
	Special Safeguard Mechanisms (SSM) must be operationally effective to address the specific circumstances of African countries	Developing country Members will have right to have recourse to a Special Safeguard Mechanism based on import quantity and price triggers
	Concrete mechanisms and solutions to the problems of preference erosion.	No new provisions were made on this issue in the declaration.
Cotton	Total elimination of export subsidies on cotton by 31 December 2005.	All forms of export subsidies for cotton will be eliminated by developed countries in 2006
	Reduction of domestic support on Cotton under the following time frame: 80% by 31 December 2006 10% by 1 January 2008 10% by 1 January 2009	Trade distorting domestic subsidies for cotton production should be reduced more ambitiously than under whatever general formula is agreed and should be implemented over a shorter period of time than generally applicable to agriculture
	Setting up of an Emergency Fund to address cotton revenue deficits resulting from depression of world cotton prices.	Director General of the WTO urged to intensify his consultative efforts with bilateral donors as well as multilateral and regional institutions on the development assistance aspects of cotton. He is also to explore the possibility of establishing a mechanism to deal with income declines in the cotton sector.
	Mobilization of technical and financial assistance to aid cotton exporters to add value to their products.	Urged the development community to further scale up its cotton-specific assistance and to support the efforts of the WTO Director General in this area.
	Provision of duty and quota free access for cotton and its by-products for the LDC cotton producers and net exporters.	Developed countries will give duty and quota free access for cotton exports from LDCs from the commencement of the implementation period

ANNEX 2

Taxes on international trade and transactions (% of revenue)

Country	Period	
	1985-1994	2000-2003
Angola	4.2	4.8
Benin	59.2	47.5
Botswana	13.3	--
Burkina Faso	42.7	16.4
Burundi	25.6	21.3
Cameroon	17.0	12.9
Cape Verde	43.5	39.8
Central African Republic	35.5	36.8
Chad	20.8	23.6
Comoros	38.9	56.6
Congo, Dem Republic of	--	36
Congo, Republic of	11.0	7
Côte d'Ivoire	31.9	35.7
Djibouti	22.1	38.1
Equatorial Guinea	26.9	3.1
Eritrea	45.6	39.7
Ethiopia	19.6	30.1
Gabon	19.4	21.4
Gambia, The	50.1	51.9
Ghana	29.7	21.9
Guinea	9.9	18.8
Guinea-Bissau	9.1	36.2
Kenya	8.8	28
Lesotho	51.5	46.6
Liberia	--	--
Madagascar	39.2	48.1
Malawi	19.4	11.2
Mali	33.7	44.6
Mauritania	34.3	9.2
Mauritius	49.8	25.8
Mozambique	18.2	15.8
Namibia	32.0	30.1
Niger	37.0	50.2

Country	Period	
	1985-1994	2000-2003
Nigeria	--	8.2
Rwanda	37.8	17
Sao Tomé and Principe	15.8	36.7
Senegal	27.0	16.5
Seychelles	44.9	23.6
Sierra Leone	42.7	42.6
Somalia	--	--
South Africa	4.1	3.4
Sudan	14.6	19.6
Swaziland	--	--
Tanzania	18.7	36
Togo	36.2	41.9
Uganda	54.4	40.2
Zambia	31.5	30.2
Zimbabwe	--	9.6

Source: Computed using data from African Development Indicators 2005.

15

Major issues and concerns of the Near East countries in the context of the WTO negotiations on agriculture

Nasredin Elamin

1. Introduction

The Near East (NE) countries are highly diverse in terms of their economic and geographical size, natural resource endowments and standards of living.[1] Although all countries in the region are classified as developing, some fundamental differences exist among them in terms of level of development, resource base and other basic indicators (Annex Table 1). The region includes countries which are mainly dependent on oil resources as well as countries entirely dependent on agriculture. Some countries have per capita income as high US$20 000, while other have per caput income lower than US$350. Some are exporters of temperate products, some export tropical products, while others have virtually no agricultural exports. There is also considerable diversity in the way these countries manage their economies. Nonetheless, these countries share several common characteristics that necessitate their joint action to establish common positions in WTO negotiations on agriculture.

At present only 16 of the NE countries are members of the WTO. Eight more countries are in the process of accession to the WTO. Four of these (Algeria, Lebanon, Sudan, Yemen) have their working parties established and negotiations are currently underway, while the other four (Afghanistan, Libya, Iran and Iraq) have their working parties established but negotiations have not started as yet. The two other countries (Somalia and Syria) have not yet joined the WTO.

[1] The Near East, as defined in this paper, is the FAO Near East region excluding countries from Central Asia. Thus it includes Afghanistan, Algeria, Bahrain, Cyprus, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Malta, Mauritania, Morocco, Oman, Pakistan, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, Turkey, United Arab Emirates (UAE) and Yemen.

This paper examines the major issues and concerns of the NE countries relating to the WTO negotiations on agriculture. Section 2 examines the salient features of food and agriculture in the NE region that mean that countries share similar concerns about the multilateral negotiations on agriculture. Section 3 briefly describes the major commitments made by the NE countries in the context of the WTO Agreement on Agriculture (AoA), while section 4 addresses some of the issues at stake relating to the AoA and the multilateral negotiations on agriculture.

2. Major food and agriculture trade-related issues in the Near East

On the basis of agricultural trade structure, the NE countries can broadly be categorized into three groups: oil exporters (OEs); diversified exporters (DEs) and non-oil commodity exporters (CEs).[2]

Despite the wide diversity in the structure of agriculture production and trade among countries in the region, they share several common characteristics. The following are common issues faced by countries in the region, though there are some differences in significance for each of them.

2.1 High dependence on food imports

Almost all of the Near East countries are net food importers with high dependence on food imports. For example, the ratio of cereal imports to total food supply for the region as a whole has increased from 29 percent in 1980-83 to 39 percent in 1990-93 and reached 44 percent 1999-2002.[3] For 14 out of the 20 countries for which comparable data are available for 1999-2002 the ratio exceeded 55 percent, with eight of them having a ratio of more than 90 percent. Such dependence was disquieting to policy makers, who feared that reliance on foreign supplies is "too risky" whether economically or politically. Thus, the multilateral trade reforms on agriculture and the consequent possible increases in world food prices have prompted widespread concern in the region.

In economic terms, a high dependence on food imports should not be a problem if a country does not have the comparative advantage to produce food and/or when there is sufficient foreign exchange to finance food import requirements. However, many countries in the region are concerned not only with high dependence on food imports, but mainly with its progressively rising trend, high short-term fluctuations and the increasingly reduced capacity to pay for the required food imports.

[2] The oil exporters are countries that drive 70 percent or more of their export earnings from exports of hydrocarbons; commodity exporters are those countries that drive two thirds or more of their export earnings from the export of 1-3 non-fuel primary commodities; while diversified exporters are those in between the two.

[3] No data on total food supplies is currently available for these countries beyond 2002.

- *Rising trend of food import dependence.* Trends in production, consumption and trade amply demonstrate the increasing dependence of the region on external sources for food supply. Over the last three decades, food imports of the Near East region as a whole grew at an average annual rate of 11 percent, while per capita food imports grew at 7 percent per annum for the same period (Figure 1). The per capita food imports increased in 19 of the 26 NE countries. FAO projections for 2015 suggest that ever-widening food gap in these countries will have to be filled by commercial imports.

FIGURE 1A
Food imports in the Near East, 1970-2004

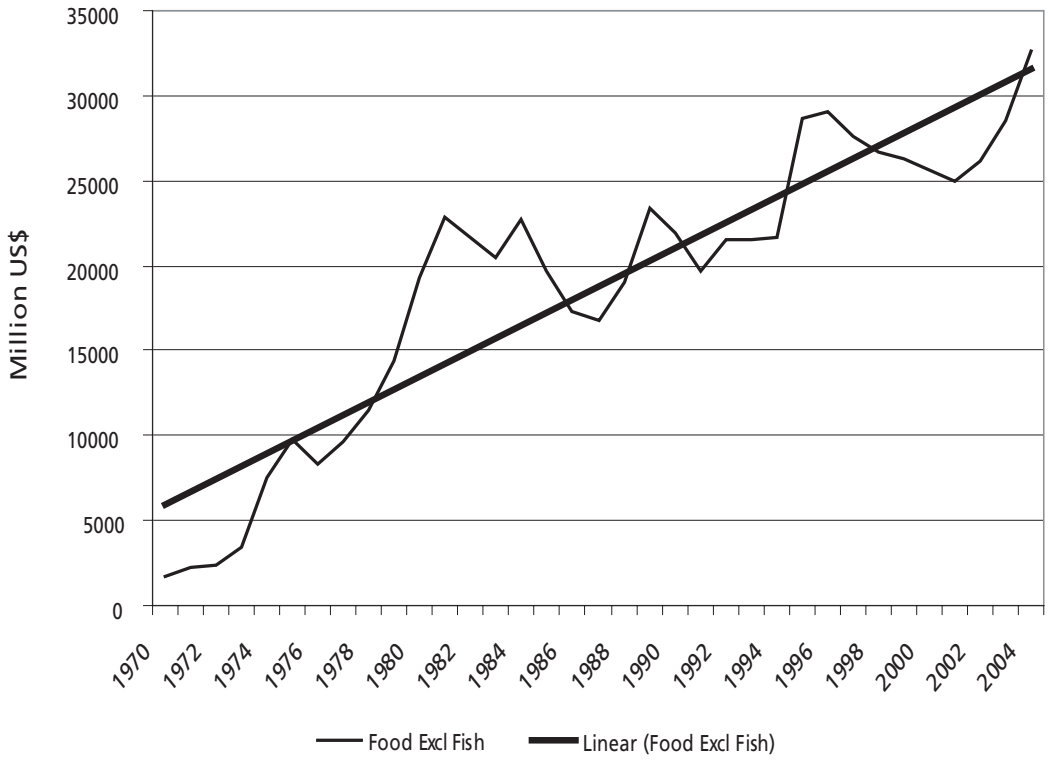
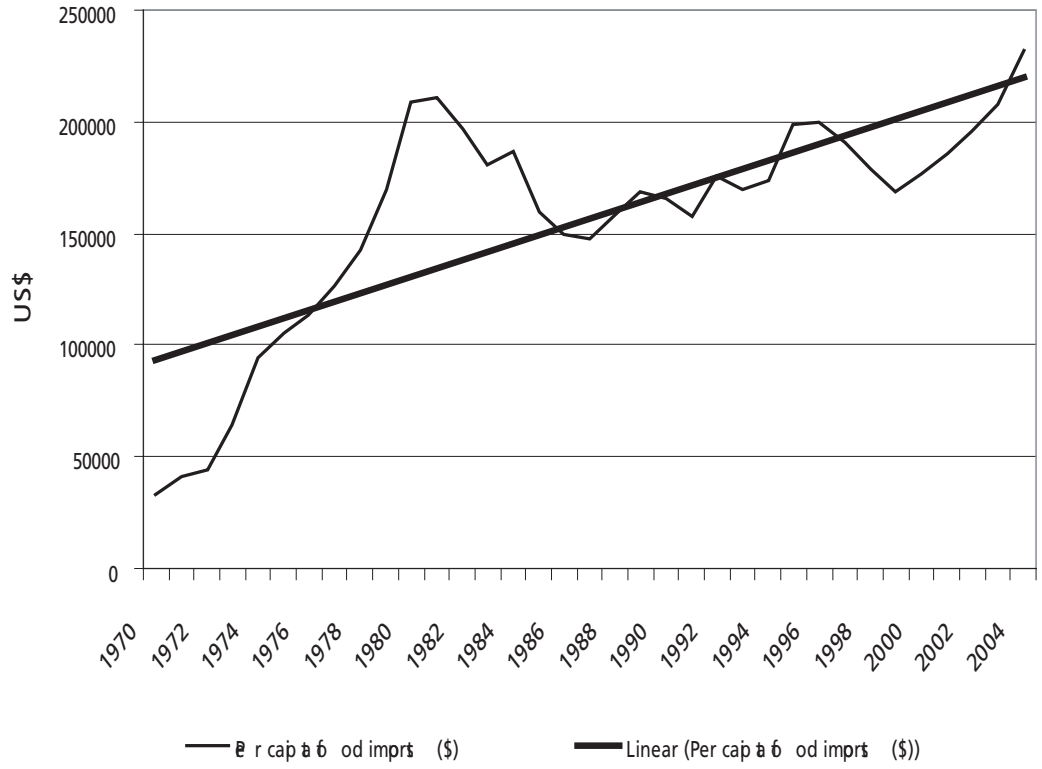


FIGURE 1B
Average per capita food imports in the Near East, 1970-2004



Source: calculations based on FAOSTAT data (2006).

- *Rising ratio of food import bill to total merchandise export earnings.* Ability to import is an essential component of sustainable food security at the national level. For the NE as a whole food imports accounted for a high and growing share in total merchandise exports (Table 1). Although oil exporters do not seem to be faced with significant challenges to their ability to import food, the diversified exporters and commodity exporters are facing greater challenges. In 2000-04, for instance, the ratio of food imports to total merchandise exports averaged 6 percent for OEs, 24 percent for DEs and above 100 percent for CEs. For several countries in the last two groups (e.g. Djibouti, Lebanon and Mauritania) this ratio exceeded 50 percent.
- *Fluctuating food imports.* Fluctuations in food import volumes and values are caused by both internal and external factors. Given the high dependency on rainfed agriculture in the region (70 percent) and the high variability in rainfall, many countries in the NE experience heavy fluctuations in food production. The coefficient of variation of total cereal production in 18 out of 22 countries in NE for which data is available was higher than 25 percent during the period 1990-2004. In certain countries the fluctuations exceeded 50 percent. Such magnitude of fluctuations is too high for countries that rely heavily on food production.

Dealing with food imports therefore requires a wider policy space in order to cope with the long-term increasing trends and the heavy short-term fluctuations. For many countries, the multilateral liberalization of agriculture carries the risk of both increasing food import bills and reducing the policy space for these countries in dealing with short-terms fluctuations.

TABLE 1
Ratio of food imports to total merchandise export earnings and total merchandise imports

	Ratio (%) of food imports to merchandise export earnings				Share of food imports in total merchandise imports, 2000-04
	1970-79	1980-89	1990-99	2000-04	
Oil Exporters	7	11	19	6	16
Iraq	8	18	106		55
Algeria	17	19	21	12	22
Iran	5	14	11	6	8
Libya	6	9	11	10	21
Oman	6	8	9	6	11
Kuwait	4	9	11	5	10
Bahrain	7	7	6	6	8
Saudi Arabia	4	9	7	6	14
Qatar	5	6	7	3	10
United Arab Emirates	4	7	6	3	5
Yemen	82	86	74	21	26
Diversified Exporters	44	38	33	24	11
Lebanon	52	69	116	87	13
Jordan	142	67	46	29	14
Egypt	44	92	61	34	16
Cyprus	36	25	23	37	8
Malta	60	23	13	11	8
Syria	41	31	19	12	15
Morocco	29	23	19	16	10
Tunisia	25	19	11	9	2
Pakistan	24	15	12	6	5
Turkey	9	3	5	3	2
Commodity Exporters	47	97	114	136	38
Djibouti	67	300	385	454	44
Somalia	54	85	68		37
Afghanistan	29	25	80		27
Mauritania	25	34	33	49	43
Sudan	24	49	42	21	21

Source: Calculations based on data from FAOSTAT (2006).

2.2 Scarcity of water supplies

Scarcity of water constitutes the most formidable challenge to agriculture in the NE region as the region is the most water-scarce in the world. The World Bank reported that, by 2025 renewable water supplies in almost all the countries in the Middle East and North Africa will fall below 700 m^3 per capita, compared with a world-wide per caput of more than 5 000 m^3. Scarcity of water means limited scope for expansion in food production, particularly cereals, a shift in the cropping mix in favour of high value products such as horticultural crops, and as a result increasing dependence on the international market for supply of basic food commodities. Therefore, increases in world market prices for agriculture and food products, as a result of multilateral trade liberalization or otherwise, may imply an increased drain on water resources.

In addition, commitments in the context of the WTO imply a reduction in subsidies for irrigation water. Reducing the water subsidy is, however, extremely sensitive because of the complicated political, religious and social constraints surrounding the issue of water pricing in the region. Trade liberalization in the context of the WTO, therefore, needs to be taken in tandem with a reform of water and other environmental resource prices. What is required is a judicious mix of reforms to prices of agricultural commodities, water and land.

Thus, with the severe scarcity of water the only options available to increase agricultural production in many of the NE countries are through i) changing the cropping pattern in favour of high value crops such as horticultural products; and ii) increasing productivity per unit of water use. The experience in the region suggests that diversifying production into high value crops and raising productivity through water saving technology are not easily achievable without government support and intervention, at least in the initial stages of these processes.

2.3 Trade preferences

Many of the NE countries receive preferential treatment from the developed countries (primarily from European Union (EU), the United States (US) and Japan) under the Generalised System of Preferences (GSP) and other preferential trade agreements. The most important of these are preferences in the context of the Euro-Mediterranean Agreements (EMAs). EMAs are currently in force with Tunisia (1998), Morocco (2000), Jordan (2002), Lebanon (2002) and Egypt (2004). An Association Agreement was signed with Algeria in 2001, but has not yet entered into force. Negotiations with Syria were concluded in October 2004.

Other countries such as Egypt, Mauritania and Tunisia receive GSP from the US. In addition, Djibouti, Mauritania, Somalia and Sudan receive special treatment from the EU because of their status as ACP countries in the context of the Cotonou Agreement and as LDCs in the context of the "Everything but Arms (EBA)". One of the major consequences of the WTO reforms in agriculture is the erosion of the value of these preferences.

In general, EMAs' agricultural preferences receive greater attention in the region compared with other preferential trade agreements in the region. EMAs' product coverage (PC) of agricultural products, i.e. the share of products covered by

preferences in total agricultural exports from the respective countries to the EU, averaged more than 67 percent for the Mediterranean countries in the region in 2001-03. The PC varies from about 17 percent for Syria to more than 80 percent for Morocco. In addition, the value of preference margin (VPM), which measures the value of trade resulting from preferences, totals about €225 million for the Mediterranean countries of the region, varying between €0.3 million for Syria and €120 million for Morocco. In relation to the total value of agricultural exports to the EU, the VPM varies from 2.7 percent for Lebanon to almost 16 percent for Tunisia. For the Mediterranean countries in the region as a whole this share is 7.4 percent. These preferences are bound to diminish in the context of the ongoing tariff cuts in the context of the WTO negotiations on agriculture.

TABLE 2
Product coverage and the value of preference margin under the EMA, 2001-2003

	Algeria	Egypt	Jordan	Lebanon	Morocco	Palestine	Syria	Tunisia	Total
Agric export value (mil €)	40.4	781.1	392.9	196.6	1 125.9	62.1	794.4	445.3	4 940.5
Agric exports to the EU (mil €)	39.9	306.7	7.2	32.8	1 384.3	5.1	137.3	293.8	3 068.0
Product coverage (%)	52.7	44.1	52.0	22.0	84.2	79.9	17.4	76.0	67.2
VPM (mil €)	1.8	11	0.3	0.9	122.3	0.4	5.7	46.6	225.5
As % of agric export value	4.5	1.4	0.1	0.5	10.9	0.6	0.7	10.5	4.6
As % of agric exports to the EU	4.5	3.6	4.2	2.7	8.8	7.8	4.2	15.9	7.4

Sources: Grethe, Nolte & Tangermann (2005); Grethe (2005).

2.4 Regional integration

Regional integration in agriculture continues to be an issue of great concern to many of the NE countries. The present interest in regional agreements has its origin in the belief that close regional cooperation will provide an economic defence against shifting patterns of trade and investment, particularly after the conclusion of the Uruguay Round and the establishment of huge regional economic blocks such as the North America Free Trade Agreement (NAFTA) and the European Union (EU).

The Near East countries have been parties to a large number of regional trade agreements (RTAs), the majority of which are between Arab countries. Most important of these RTAs are the Pan-Arab Free Trade Area (PAFTA), the Economic Co-operation Organisation (ECO), the Gulf Cooperation Council (GCC) and the Arab Maghreb Union (AMU). All these RTAs have in common the objective of promoting intra-regional agricultural trade and cooperation within member countries.

Most of the RTAs in the Near East have recently witnessed increased efforts to deepen their integration schemes. In PAFTA, 17 member countries have agreed to liberalize trade fully in all products between them (including agricultural products)

between 1998 and 2007. They committed themselves to reduce all customs duties gradually between them on annual basis, so that by 2005 duties would be eradicated. By the end of 2003, tariffs on trade between participating countries were reduced, on average, by 80 percent compared with those of 1997 (Arab Monetary Fund, 2004). The Economic Cooperation Organization (ECO) has also undertaken significant steps in deepening economic integration among its members. The ECO member states have agreed to establish a Free Trade Agreement (FTA) between them in 2006. The GCC has also recently established a custom union and is planning to establish a common market. The EMAs are gradually moving into fully reciprocal trade agreements. They are now entering into a new phase of focus on trade liberalization in the context of the recently launched European Neighbourhood Policy (ENP). Despite all these regional and sub-regional integration agreements, the performance of intra-regional trade in food and agriculture remained low.

Most of these RTAs have not been notified to the WTO as yet. It also seems that most of these RTAs are undergoing some changes in an attempt to comply with Article XXIV of GATT 1947 and the Uruguay Round Understanding on the interpretation of the same Article, which only permit customs unions and free trade areas satisfying strict criteria.

3. Main features of commitments made by the NE countries in the context of the AoA: magnitude and flexibility

This section examines actual commitments made by the NE countries in the context of the AoA in the areas of market access, domestic support and export subsidies and provides some initial assessment of the possible implications of the further multilateral reforms.

3.1 Market access

The market access provisions of the Uruguay Round Agreement on Agriculture (UR AoA) include i) tariffication; ii) binding and reduction of tariffs; iii) the special agricultural safeguard (SSG) provisions, where tariffication has been carried out; and iv) the introduction of tariff quotas to protect current access arrangements and to open up new import possibilities under the minimum access arrangements.

- *Bound tariffs.* As several of the WTO Members of the region had already removed many of the non-tariff barriers (NTBs) to trade as part of their domestic policy reforms, these countries did not face much difficulty in complying with the requirement of converting NTBs into tariffs. During the UR negotiations developing countries had a choice to bind tariffs at their tariff equivalents or to offer "ceiling" tariffs without regard to tariff equivalents. All the NE countries, apart from Morocco and Tunisia, have chosen the second option, setting their tariffs at relatively high ceiling bindings.

  As can be seen from Tables 4 and 5, three features on tariffs commitments (bound tariffs) made by the NE members of the WTO are worth noting:

  For the NE countries as a group, average bound tariffs are generally high, though they are low compared with tariffs for several other developing countries.

Bound tariffs for individual products vary considerably across the region (see Annex Table 4). Tariffs for wheat, for instance, range from as low as 5 percent in Egypt to as high as 170 percent in Morocco. Generally, bound tariffs are relatively low for Jordan, Oman and Egypt. For Jordan and Oman, which are among the newly-acceded countries in the region, this was basically because of the hard negotiations they faced on their tariff offers.

With the exception of Jordan, bound tariffs are generally high compared with applied tariffs. In most of the countries and for most of the commodities bound tariffs are more than double the applied tariffs.

TABLE 3

Near East WTO Members - average bound and applied tariffs

	Final Bound Tariffs (simple average)	Applied Tariffs (simple average)
Oil Exporters		
Bahrain	39	12
Kuwait	100	4
Qatar	31	7
Oman	32	15
Saudi Arabia	12	10
Diversified Exporters		
Egypt	30	24
Cyprus	64	20
Jordan	29	22
Morocco	53	45
Malta	23	5
Pakistan	101	21
Tunisia	115	62
Turkey	64	36
Commodity Exporters		
Djibouti	49	21
Mauritania	40	12

Source: Calculations based on data from FAOSTAT (2006).

- *Special safeguards (SSGs).* Only two of the NE countries have access to the SSGs. By virtue of their tariffication, Morocco and Tunisia, and in accordance with Article 5 of the WTO Agreement on Agriculture, have reserved the right to invoke the Special Safeguard clause for selected agricultural products. None of these countries have invoked SSG provisions since 1995.

Many countries have now realized the great importance of access to SSGs, given their relevance and ease of use. The use of other trade remedy measures (anti-dumping, emergency safeguards, countervailing measures, etc.) in the region has been fairly limited (Table 4). For the period 1995-2005, general safeguards in agriculture have been used by only three countries in the region (Egypt, Jordan and Morocco). Because of their low bound tariffs, countries such as Egypt and Jordan are increasing resorting to the use of general safeguards in dealing with surges in their agricultural imports. Jordan in particular, being a small and highly open economy, has suffered numerous and increasing occurrences of import surges in such sectors as olive oil, eggs and tomatoes during 2002-05. Out of the 16 initiations of safeguards in agriculture by all WTO members during 2002-05, three were raised by Jordan alone. The use of emergency safeguards by Jordan in agricultural products is one of the rare cases of using general safeguards in agriculture in the Near East. Egypt has also initiated four cases of countervailing duties relating to agricultural products.

TABLE 4
Use of trade remedy measures in agricultural products by Near East countries, 1995 - 2005

	Initiations of measure by reporting country			
	All WTO Members		WTO members from Near East	
	All products	Agricultural products	All products	Agricultural products
Anti-dumping measures	2840	140	163 (used by only 3 countries)	0
Countervailing duties	182	48	4 (1 country)	4 (1 country)
Safeguards	148	45	26 (5 countries)	5 (3 countries)
Price-based SSGs [/a]		946		0
Volume-based SSGs [/a]		516		0

Source: 1) WTO. 2006b. Documents on anti-dumping, safeguards and countervailing duties available at www.wto.org; and 2) WTO. 2004. Special Agricultural Safeguards (TN/AG/S/12).
Note: [/a] Data available up to 2004.

- *Tariff rate quotas*. Morocco and Tunisia undertook to introduce tariff quotas on certain agricultural products. Tariff quotas in Morocco (16 tariff quotas) are planned mainly for meat, milk, cereals, oil seeds, sugar and oil cake, while in Tunisia (13 tariff quotas) they cover meat, milk powder, cereals, sugar and tomato concentrate.
  The NE countries faced considerable questioning at the WTO Committee on Agriculture (CoA) on their market access commitment under its respective tariff and other commitments. Almost all questions on market access were directed to countries that have a bigger weight in world trade of the specific product(s). The bulk of the questions on tariffs were related to what can be considered sensitive food products in the region which are also of interest to the exporting countries (mainly US, EU and Cairns States). For instance, Egypt was frequently questioned on its restrictions on beef and poultry meat and Morocco on its tariff rate quota (TRQ) on wheat and oilseeds.

3.2 Domestic support

Countries of the NE region differ widely in their submissions to the WTO on domestic support. Most of the countries did not provide detailed information on domestic policy measures in their accession Schedules. Annex Table 3 shows that only eight countries from the region have notified outlays on one or more support measures. Of the 16 WTO members from the region 11 reported zero or less than *de minimis* total base AMS levels. Thus, these countries have no rights to use Amber Box support in excess of the *de minimis* level in the future.

The countries with Total AMS reduction commitments include Cyprus, Jordan, Morocco, Tunisia and Saudi Arabia. The experience over the period 1995-2003, suggests that these countries are not significantly constrained by their AMS commitments. As indicated in Table 5, the use of the NE countries of their allowed AMS support varies significantly over the years but remained overall moderate. Jordan used little AMS in 2000 and 2001, but the ratio shot up to 51 percent in 2002. With only $2 million as the limit, this shows that even a small increase in the AMS could take Jordan to the limit. Thus, the risk of AMS limiting support programmes seems real. For Morocco, the AMS utilization ratio was in the 10-30 percent range until 2001 before it rose to 402 percent in 2003 and 2003. By contrast, Tunisia's case is somewhat different. While AMS utilization rates were high (in the 50-90 percent range) in the first five years, actual AMS levels were zero (i.e. within *de minimis* levels) for the last two years. It is not obvious if this signals a marked departure in some policies from the past. If that is not the case, Tunisia is likely to face constraints on the AMS side in the future when Total AMS limit is further reduced.

Although many of the NE countries are not currently constrained by the domestic support provisions of the Agreement, they may find their policy options in domestic support limited in the future.

TABLE 5

Use of Bound Total AMS commitment by Near East countries, 1995 - 2003

Country	Final Bound AMS Million US$	Current Total AMS as a Percentage of Bound Total AMS					
		1995	1997	1999	2000	2001	2002
Cyprus	107.4	63	45	53	43	54	63
Jordan	1.9	-	-	-	2	0	51
Morocco	76.8	12	12	24	21	42	39
Tunisia	47.5	87	81	46	0		
Saudi Arabia	858.0	-	-	-	-	-	-

Source: WTO (2002); WTO (2005a) and WTO (2005b).

Two observations on the experience of the region with the use of domestic support measures are worth noting:

Sector-wide support in areas such as agricultural credit, transport, irrigation and fuel are important aspects of the agricultural development strategies of many of the NE countries. The support provided to agriculture through these forms is quite significant in many of these countries, and has been instrumental in promoting productivity. It is surprising that most of the NE countries did not report positive support in these areas in their base year schedules. An FAO assessment of support in some non-WTO members during 1999-2005 have indicated that support to diesel, which is heavily used in agriculture, exceeded 30 percent in countries such as Sudan, Syria and Yemen. This support amounted to more than 10 percent of the total value of agricultural products in these countries.

The bulk of the product-specific support is devoted to the production of basic foodstuffs. On average, more than 70 percent of the Current Total AMS notified by the WTO members from the region was allocated to the production of cereals (Elamin, 1999). In some cases, such support is near the allowed product-specific *de minimis* level. This suggests that some of these countries may face some difficulties if product-specific support is capped.

3.3 Export subsidies

While export subsidies are used by a number of the developing regions, it does not seem to be a significant one in the NE Region. Only Tunisia of the NE WTO members had made commitments on the reduction of export subsidies. The rest of the countries in the region declared that they had no export subsidy in their base year. These countries are, therefore, restricted in what they can do in this area in the future. They can only provide support to reduce costs of marketing and internal transport of agricultural exports under the general exemption for developing countries on this issue. It is of note that one of the newly-acceded countries from the region (Oman) did not obtain this exemption of export support to marketing and transport.

4. Key concerns of the Near East countries in the context of the WTO negotiations on agriculture

The major challenge facing the NE countries in the multilateral reforms on agriculture is their ability to exercise their rights and meet their obligations in the context of the AoA. Given the importance of agriculture for many of them for food supplies, jobs (particularly in rural areas), national income and export earnings, they have a large stake in the current and future trade negotiations on agriculture. Multilateral agricultural reforms undertaken in the context of the WTO both expand their opportunities and amplify the costs of their inherent structural weaknesses and policy failures.

Despite their diversity, the Near East countries share several common concerns about the WTO negotiations on agriculture, though they do not have major groups representing a common position for them in WTO. Concerns raised by these countries can generally be grouped into five main areas: managing food imports;

access to developed country markets (particularly the EU); agricultural terms of accession to the WTO; developing domestic capacities in agriculture; and stability in domestic markets.

4.1 Managing food imports

Financing the increasing food imports and dealing with the short-term surges in food imports are major concerns for the NE countries. Assessing these concerns in the context of the AoA requires a careful analysis of the nature of the food import problem, and the extent to which this problem has been addressed by the AoA.

Nature of the problem

The challenges facing the NE countries in the area of food imports are of two types: the significant long-term increases in import bills and the short-term fluctuations in food import volumes and values.

The long-term dependence on food imports reflects the inherent structural constraints facing the majority of the countries in the region, including the physical constraints to production and the changing consumption patterns. The ability of many countries in the NE region to increase food production is constrained by scarcity of arable land and water. As discussed in Section I, scarcity of water supplies is severe in the majority of the NE countries. Arable and permanent cropland in the region is also limited constituting less than 7 percent of the total area. Excessive economic demands and mismanagement of natural resources are destroying cropland through desertification, erosion, water logging and salinization of irrigated land. Desertification is affecting to some degree 40 percent of the irrigated land, 70-85 percent of rainfed cropland and 85 percent of rangeland. The area of irrigated land in the region witnessed only modest expansion during the last two decades. FAO projections indicate that water shortage will remain a major constraint for the expansion of irrigated land in the next decade.

The rising food imports are also driven by the changing consumption pattern in the region as many countries in the region are consuming more and more of what they do not produce sufficiently and consuming less of what they have good potential to produce. Wheat and rice are increasingly replacing coarse grains in domestic human consumption. The share of rice and wheat in domestic food consumption increased from less than 70 percent in the 1960s to about 80 percent in the 1980s and over 85 percent in the 1990s.

The changes in border and domestic support measures in these countries since the early 1980s, as a result of economic reforms at the national level, have also played a role in reducing domestic production and increasing reliance on external food supplies.

Relevance of the AoA to the food import problem of the region

The AoA recognises the food import problem facing many of the developing countries in the context of the multilateral reforms of agriculture and addresses it mainly through the Marrakesh Decision (*Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on*

LDCs and NFIDCs). Other major instruments in the AoA that may, directly or indirectly, affect the management of food imports are the binding and reduction of tariffs and agricultural safeguards.

The Marrakesh Decision

Of the current WTO Members from the region, two (Djibouti and Mauritania) are among the least developed countries (LDCs) while four others (Egypt, Morocco, Pakistan and Tunisia) are net food-importing developing countries (NFIDCs), and thus, they are eligible to receive such financial, technical and food assistance as envisaged in the Marrakesh Ministerial Decision on LDCs and NFIDCs. These countries have not been able to make use of this Decision so far.

While the Marrakesh Decision could, in principle, be useful to the NE countries in dealing with increased food import bills as a result of multilateral reforms of agriculture, it actually does not address the main problem these countries are facing. The basic consideration is that the Decision addresses a short-term transitional problem relating to increases in world food prices as a result of the multilateral trade reforms, whereas the problem facing these countries is more of a long-term nature encompassing broader development issues that go beyond trade. The structural constraints facing these countries, including the severe scarcity of water resources in the majority of them, limit the opportunities for expanding production of basic food commodities.

Thus, addressing the food import concerns of these countries seem to lie beyond what the Marrakesh Decision can do in its present form.

Border tariffs

Border tariffs help countries to protect domestic production and regulate imports. As shown in section 3, bound tariffs on food products in the majority of the countries in the region are relatively high. But, how useful are these high bound tariffs as tools for achieving the countries' objectives in protecting their domestic production and dealing with import surges? Three interrelated issues are important to consider in this respect. First, high tariffs, it is argued, would allow these countries to have something to bargain with in future negotiations, which can be used to obtain improved access to other WTO members' markets and thus enhancing opportunities to secure the necessary foreign exchange earnings to import their food needs. Individually, however, countries of the region have little leverage in market access negotiations and the benefit of using such high tariffs, as a negotiating chip, may be quite small, if any. Second, high tariffs can provide protection to the production of sensitive food products. While high tariffs could be used to support domestic food production in the NE countries, their overall impact may not be significant in view of the structural impediments constraining domestic food production in these countries. To be effective, tariffs need to be part of a package that emphasizes enhancing productivity through technological advancement. Third, high tariffs, if applied, imply higher domestic prices not only for producers but for consumers as well. Given the large number of poor households in several

of the NE countries, higher applied tariffs may not be a sensible option in most of the cases. It may be argued that customs revenues generated from higher tariffs could be used to target food insecure households, but targeting the food insecure is a rather difficult and costly strategy to adopt.

In the Near East context, flexibility to apply high bound tariffs seems more useful to countries in insulating their domestic markets from world price instability than in effectively promoting domestic food production. Several countries in the region have adjusted their applied tariffs in response to movements in agricultural imports over the last ten years. Morocco has a system of variable levies on imports of foodstuffs such as cereals, oilseeds, sugar beet and cane and their derivatives.[4]

Table 6 summarizes the results of the possible impact on bound tariffs in a sample of 6 NE countries of two of the tariff cutting proposals in the context of the ongoing WTO negotiations on agriculture. The selected proposals are those of the G-20 and the US. The G-20 proposal gives tariff cuts in the range of 27-36 percent for the selected countries, while the corresponding range for the US proposal is 46-58 percent.

The results suggest that the selected countries, apart from Pakistan, will have a large number of their agricultural tariff lines affected by these cuts, where the new bound tariffs will be below the currently applied rates. In case of the G-20, the affected tariff lines represent about 77 percent of the all agricultural tariffs in Morocco, 60 percent in Turkey and around 40-45 percent in Egypt and Tunisia. The US proposal, on the other hand, results in deeper cuts and affects more than two thirds of the tariff lines in the four countries selected save Pakistan.

Thus, many of the NE countries are expected to gradually lose the flexibility they are currently enjoying in adjusting tariffs for food products in response to movements in food imports. Thus, the issues of securing special treatments for sensitive and special products, in the context of the ongoing WTO negotiations, are of particular interest to them.

TABLE 6

Implications of Doha Round proposals of tariff cutting formulae on tariff structure of selected NE countries

	End UR bound rates	Applied rates	New bound rates		Affected lines	
			G20 prop	US prop	G-20	US
Egypt	30	24	23	16	41	76
Morocco	53	45	36	26	77	82
Pakistan	101	21	65	42	1	1
Tunisia	115	62	75	49	45	66
Turkey	64	36	41	28	60	68

Source: Sharma, 2005.

[4] WTO. 1996.

4.2 Access to the agricultural markets of the developed countries

Challenges facing the WTO Members in the region originate not only from meeting their own commitments but mainly from the way developed countries implement their commitments. The general expectation has been that implementation of the UR AoA in the developed countries will improve market access for agricultural products from the region. However, for several reasons, the implementation of the AoA so far has not created tangible and visible improvement in access opportunities for agricultural exports originating from the Near East. This is partly because of the nature of these export products, being predominantly temperate zone products such fruit and vegetables.

Tariff peaks and tariff escalation

The phenomenon of tariff peaks in agricultural markets in the post-Uruguay Round period is well documented (see for example, UNCTAD, 2000; FAO, 2001). Choice of the base year 1986-88, a period of particularly low world price levels, in addition to the simple average formula adopted in the Uruguay Round allowed countries to make smaller effective tariff cuts on commodities that were most directly in competition with their own domestic production. Among these commodities are fruit and vegetables, olive oil and pulses, which are among the major exports of the Near East region. In addition, the Special Safeguards (SSGs) for products of fruit and vegetables, both price-triggered and quantity-triggered versions, have been used.[5]

Tariff escalation also remained a barrier to many of the processed food exports of developing countries (Elamin and Khaira, 2004). Many countries such as Cyprus, Turkey, Lebanon, Egypt and the Maghreb countries (Algeria, Libya, Morocco and Tunisia) have good export potential for processed food products, but they are still constrained by high trade barriers in many OECD countries. Although tariff escalation in the fruit and vegetables sector is reduced in the EU post-Uruguay Round, it still remains considerable.[6] In addition, difficulties and high costs in complying with SPS standards in the EU markets remain a barrier to exports from the Near East.

The EU entry price system for fruit and vegetables

Fruit and vegetables are the major export items of the NE and they are destined primarily to the EU market. In 17 out of the 26 NE countries, exports of fruit and vegetables account for over 20 percent of the total agricultural exports, and in six countries they reach above 50 percent (Annex Table 2). Fruit and vegetables in the EU are typically protected by ad valorem tariffs of up to 20 percent. Beside these tariffs, a system of entry price system is applied to a subset of fruit and vegetables considered particularly "sensitive" in the EU. The entry price system effectively establishes a minimum import prices for these products. If the c.i.f. import price of a shipment is below the entry price, the entry price system provides the opportunity

[5] The EC has declared price based Special Safeguards for fresh fruit and vegetables, but the EC indicated that these SSG shall not apply when entry prices are respected. Therefore, in most cases entry prices were also the actual trigger prices. Some WTO members questioned the necessity of the SSG for fresh fruit and vegetables in the EC given that the EC entry price system itself operated as a special safeguard measure.

[6] See for example: i) OECD. 1997, page 35; and Elamin and Khaira 2004.

to invoke specific tariffs gradually, in addition to ad valorem tariffs. The entry price additional specific duties charged range from 14.7 to 78.6 percent.

Table 7 shows the fruit and vegetables concerned as well as MFN import policies applying to them. All these are of particular export interest to the majority of the NE countries.

Would the entry price system be affected by the outcome of the Doha negotiations on agriculture? This depends on three aspects. First, given the Hong Kong agreement on establishing tariff bands for agricultural products, the question is in which tariff band would fruit and vegetables fall? Taking the EU proposal as a reference, fruit and vegetables not covered by the entry price system would generally fall in the lowest tariff band (up to 30 percent) and tariffs would thus be reduced at the lowest rates to be proposed. For those products to which the entry price system is applied, the tariff equivalents of the special tariffs would have to be added to the ad valorem tariffs and as such they may fall at a higher tariff bands, hence be subjected to relative higher cuts. Second, to what extent would the EU be able and willing to declare tariff lines for fresh fruit and vegetables receiving entry price treatment as "sensitive". In case these products are treated as sensitive, then the chances of a significant reduction in their bound tariffs would be fairly limited. Third, would the existing SSG for fruit and vegetables be continued?

TABLE 7
Fruit and vegetables covered by the EU entry price system

	MFN ad valorem tariff (%)	MFN entry price		Specific tariff of the entry price system	
		Level	Period of application	(€/tonne)	In % of MFN entry price
Tomatoes	8.8 - 14.4	526 - 1 126	01.01. - 31.12.	298	26.5 - 56.7
Cucumbers	12.8 - 16.0	481 - 1 105	01.01. - 31.12.	378	34.2 - 78.6
Artichokes	10.4	654 - 826	01.11. - 30.06.	229	27.7 - 35.0
Courgettes	12.8	413 - 692	01.01. - 31.12.	152	22.0 - 36.8
Oranges	3.2 - 16.0	354	01.12. - 31.05.	71	20.1
Clementines/mandarins	16.0	286 - 649	01.11. - 28.02.	106	16.3 - 37.1
Lemons	6.4	462 - 558	01.01. - 31.12.	256	45.9 - 55.4
Table grapes	8.0 - 17.6	476 - 546	21.07. - 20.11.	96	17.6 - 20.2
Apples	4.8 - 11.2	457 - 568	01.01.- 31.12.	238	41.9 - 52.1
Pears	4.0 - 10.4	388 - 510	01.07.- 30.04.	238	46.7 - 61.3
Apricots	20.0	771 - 1 071	01.06.- 31.07.	227	21.2 - 29.4
Cherries	12.0	916 - 1 494	21.05.- 10.08.	274	18.3 - 29.9
Peaches	17.6	600 - 883	11.06. - 30.09.	130	14.7 - 21.7
Plums	6.4 - 12.0	696	11.06. - 30.09.	103	14.8

Source: Grethe. 2005.

Tariff rate quotas and quota administration

The minimum and current access commitments made by the developed countries also do not benefit the major agricultural exports of the region. In the EU, the biggest market for the Near East, minimum and current access commitments were set for cuts of "high quality" beef, pig meat, poultry meat, eggs, butter, specified cheeses and "quality" wheat, products which are generally not exported by countries of the region. In its minimum access commitments, the EU has aggregated all vegetables into one category and all fruit into another. As a result of this aggregation, the quantities of imports of the EU from each of the two categories during 1986-88 were more than 5 percent of its base year internal consumption and as such the minimum access commitment was not applicable to these categories. The situation could have been different if a product by product approach had been followed. The EU market for fruit and vegetables has been complicated further by the EC's import licensing scheme for fruit and vegetables introduced to administer the Special Safeguard clause, which was seen by some WTO members[7] as constituting a discouragement to trade because of the increased administrative burden and costs involved.[8]

In the United States, on the other hand, minimum access commitments were set for dairy products, sugar, beef and peanuts. None of these products are of interest to the Near East as exports. The significant minimum access commitment made by Japan and the Republic of Korea to allow imports of rice is of relevance to only two countries in the region (Pakistan and Egypt).

Trade preferences

Erosion of the value of trade preferences constitutes another problem for the region. To the extent that tariff reductions in the developed countries are effective they will erode the countries' margins of preference and cause their competitive position to deteriorate *vis-à-vis* other suppliers. Most of the countries of the region have bilateral trade agreements with the EU, in the context of the Euro-Mediterranean Agreements (EMA), which give their products duty free access up to certain quantity limits. An example of the preference erosion is the case of asparagus where Morocco can export duty free to the EU, while exports of the same product from the US and Chile must pay 16 percent tariff. With a reduction in MFN tariff of this product from 16 percent to 10 percent, as a result of the UR AoA, the advantage that Morocco enjoys is cut by 6 percent.

Trade preferences, from a WTO point of view, are a deviation from the most favoured nation (MFN) principle. Some of these preferences, which are granted to developing countries in a non-discriminatory and non-reciprocal manner, are covered by the Enabling Clause. But preferences that the EU grants to the Mediterranean countries from the NE are clearly not covered by this provision because they are

[7] These include the United States, Australia, Israel, Canada, Chile, Mexico, New Zealand and South Africa.

[8] It was reported that in some cases traders were asked to provide automatic licences in one day. Egypt has also been complaining about the lengthy inspection procedures of potatoes in the EU where a sample of 200 specimens is needed from each 25-tonne lot.

discriminatory in nature as they only apply to a subset of developing countries which is solely defined by its historical ties to the EU.

Therefore, the preferences granted under the EMA are subject to the conditions defined in GATT Article XXIV on the formation of customs unions and free trade areas. But the legal WTO status of the EMA is unclear, mainly because of the lack of clarification of the requirement of the same Article that free trade areas or customs unions should include "substantially all the trade" between the members, which raises the question of whether the exclusion of large parts of agricultural sectors is in conformance.[9] This is perhaps one of the reasons that the EU is starting to include agriculture, in a broader spectrum, in its Free Trade Agreements with Mediterranean countries under the new European Neighbourhood Policy (ENP).

The above mentioned problem areas of tariff peaks, tariff escalation, entry price system, TRQs and trade preferences are of particular concern to the Near East countries, for they directly affect the translation of the AoA commitments into real trading opportunities, and they are likely to constitute issues of interest for these countries in future negotiations.

4.3 The terms of accession to the WTO and treatment of the newly-acceded countries

The overwhelming concern for the non-WTO members has been the terms of accession to the WTO. Three countries (Jordan, Oman and Saudi Arabia) have recently joined the WTO, while eight others are at various stages of the process of accession. These countries are facing some considerable institutional challenges in their accession process. Governments from the region, at the various WTO Ministerial Conferences, recommended that the accession process for applicants to the WTO be simplified, expedited and made fairer.

Countries in the process of accession are concerned about the setting of the terms of accession post-Uruguay Round. Treating countries on the basis of the most recent three years for which data were available, hard negotiations on tariff bindings and difficulties in obtaining S&D treatments in several areas were seen as being tighter conditions than previous negotiations. Saudi Arabia, at some stages of its negotiations of accession, also faced the possibility of not being treated as a developing country, which if applied would deprive Saudi Arabia of all the flexibilities offered to developing countries in the context of the special and differential treatment.

The newly-acceded countries are concerned that the concessions they made in the context of the AoA put them at a disadvantage *vis-à-vis* other WTO members. Table 8 summarizes major commitments made by the newly-acceded countries from the Near East compared with other newly-acceded countries. Like most other newly-acceded countries, newly-acceded countries from the Near East bound their tariffs at relatively low levels. The average bound tariffs for agricultural products range from 31 percent

[9] For a detailed discussion of the WTO-conformance of EU free trade agreements with Article XXIV see Grethe and Tangermann. 1999.

(Oman) to 15 percent for Jordan. This is rather modest compared with the average agricultural tariff of 62 percent for Members who joined before 1995.

Unlike many of the newly-acceded countries, particularly the economies in transition, Oman, Jordan and Saudi Arabia have scheduled non-ad valorem tariffs nor have they established commitment on TRQs. In addition, no new Member has made any commitment to "other duties and charges" (ODCs). Unlike bound tariffs, ODCs do not have to be reduced. In many cases ODCs for original Members are set very high, even exceeding bound tariffs. The absence of ODCs in newly-acceded country schedules may reflect the negotiated desire of original Members ensuring that this experience is not repeated. These countries also bound their export subsidies at zero. In addition, Oman committed itself not to provide any form of export subsidies upon accession.

On domestic support, newly-acceded NE countries used base periods from fairly recent years such as the three-year period ending two to three years before the year of accession and they have carried out reductions of Total AMS over shorter periods than in the UR. The longest implementation period is six years, for Jordan.

TABLE 8

Commitments made by the recently-acceded countries in market access, domestic support and export subsidies

Member	Year of accession	Average tariff %	Final Total AMS (million US$)	*de minimis* (in %)	Access to Art. 6.2	Bound export commitment
Countries from the NE						
Oman	2000	31	0	10	yes	0
Jordan	2000	25	1.9	10	yes	0
Saudi Arabia	2005	12.2	858	na	na	na
Other developing countries:						
Nepal	2003	42	0	10	yes	0
Cambodia	2003	n.a.	0	10	yes	0
Taiwan	2002	18	14,165	5		0
China	2001	15	0	8.5	yes, but included as *de minimis*	0
Panama	1997	26-30	0	10	yes	0 from 2003
Mongolia	1997	18-20	0	10	yes	0
Ecuador	1996	26	0	10	yes	0
Economies in transition:						
Macedonia	2003	15	16	5		0
Armenia	2003	15	0	10 to 5		0
Moldova	2001	12	13	5		0
Lithuania	2001	16	95	5 included in Base Total AMS		0

Member	Year of accession	Average tariff %	Final Total AMS (million US$)	*de minimis* (in %)	Access to Art. 6.2	Bound export commitment
Croatia	2000	10	134	5		0
Albania	2000	11	0	5		0
Georgia	2000	12	0	5		0
Estonia	1999	18	0	5		0
Latvia	1999	34	0	8 reduced to 5 in 2002		0
Kyrgyz Rep.	1998	12	0	5		0
Bulgaria	1996	35	520	5		on 43 products

Source: WTO. 2006a.

4.4 Developing domestic capacities in agriculture

In most of the NE countries, developing agricultural production is vital for rural development and food security. Thus, enhancing the domestic capacities of the sector is crucial for the socio-economic development in these countries. Diversifying production and export into high value crops and raising productivity are the key elements of agricultural development strategies of almost all the NE countries given the severe scarcity of water resources in these countries. Thus, a degree of support and protection is considered necessary.

In general, two forms of domestic support measures are critical for agricultural development in the Near East:

- *Support under Article 6.2 and the de minimis exemption* - While many of the NE countries have at present some flexibility in policy areas such as support through the various forms of exempt support, they still face great limitation, particularly in the long run, for providing direct support to diversification in production and exports. The policy space these countries are currently enjoying could be significantly eroded with further reduction as proposed in the context of the Doha Round. The *de minimis* exemption and the exemptions under Article 6.2, in particular, are important for the NE countries as the majority of these countries do not have sufficient resources for supporting agriculture beyond these exemptions.
- *Non-product specific support* - Non-product specific support is the predominant form of support to agriculture in the region, with subsidies (direct and indirect) focused on agricultural credit, irrigation, fuel and transport. Among these, support to irrigation is very important given the scarcity of water, erratic rainfall and the frequent incidence of droughts. Aside from capital investment in irrigation, the issue of the full recovery of the O&M costs of irrigation services has attracted some attention at the WTO CoA. The current rule is that the gap between O&M costs and recovery from users is defined as subsidy (and included in the AMS). Although this is the standard approach to measure irrigation subsidies, many NE countries run large deficits on this. Given the overriding importance of irrigation

for agricultural development, it would be desirable that irrigation subsidies are exempted for these countries. That would be a worthwhile SDT for them, and a concrete measure for food security and rural development.

4.5 Trade-related institutional and human capacities

There is a high demand for trade-related technical assistance in almost all the NE countries. Little effort has been exerted to take advantage of the existing technical assistance opportunities in the context of the WTO Agreements. As in many other developing countries, agricultural institutions in the Near East are not accustomed to working on trade issues. At present, the ministries of agriculture in the majority of these countries are facing a number of difficulties in their efforts to cope with the AoA: 1) lack of a permanent institutional arrangement to deal with the requirements of the agriculture-related WTO Agreements; 2) shortage of qualified professional expertise and analytical capacities to deal with issues relating to the preparation for negotiations, assessing impact of various agreements on agriculture, trade and food security and the economy as a whole; and 3) lack of action plans to implement and follow-up the WTO Agreements and multilateral trade negotiations.

Technical assistance is desperately needed in two key areas.

1. *Strengthening the analytical capacities of the agriculture-related institutions.* Necessary capacities need to be established and maintained in the agriculture-related institutions in a number of inter-related areas: developing a statistical/reporting system for meeting WTO notification obligations on a periodic basis; monitoring policy changes and other measures of trading partners and defending own policies; and undertaking analytical studies on agricultural and trade policy issues.
2. *Strengthening capacities in formulating and implementing the appropriate actions and strategies to take advantage of current and potential trading opportunities.* Taking advantage of existing and potential trade opportunities to produce competitively and to export the resulting goods and services requires strengthening supply-side capacities including promoting knowledge, skills and access to finance. It is generally acknowledged that supply-side problems have historically played a dominant role in limiting export diversification into non-traditional commodities and processed products. The increasing importance of trade requirements such as sanitary and phytosanitary standards and other technical requirements represent a major challenge for these countries.

A wide range of cross-cutting actions are needed to strengthen trade-related supply-side capacities, including improvement in infrastructure, strengthening institutional capabilities, improving technology, land reform and promoting effective participation of the private sector in production, marketing and trade activities.

5. Concluding remarks

The multilateral trade liberalization in agriculture is crucial for the NE countries, as a whole, in view of their high dependence on food imports, the increasing scarcity in water supplies they are facing, the high importance of the EU trade preferences for their exports and the vital importance they attach to agriculture in their regional trade agreements (RTAs). Only 16 out of the 26 NE countries are currently members of the WTO. The commitments made by these countries in the context of the AoA seem to provide sufficient flexibility at present, but are likely to constitute some limitation in designing agricultural policies in the future, particularly in the areas of border tariffs and domestic support.

Among the major concerns of the NE countries in the ongoing and future multilateral negotiations on agriculture are i) dealing with the increasing trend in food imports; ii) improving access to developed country markets, particularly the EU market; iii) ensuring fair terms of accession to the WTO; iv) securing enough policy space to develop their domestic capacities in agriculture; and v) stabilising domestic agriculture and food markets.

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Annexes

ANNEX TABLE 1

Near East countries: some basic indicators

Country	Per capita GDP (constant 2000 US$)	Population (million)	Population growth rate	Share (%) of agriculture in GDP	Trade as percentage of GDP
	2000-03			2000-03	2000-03
Algeria	1 819	32.4	1.5	9.9	61.6
Bahrain	12 457	0.7	1.7		145.9
Iraq	-	-	-	-	-
Iran	1 600	67.0	1.3	12.5	45.8
Kuwait	16 345	2.5	2.5		88.2
Libya	6 870	5.7	2.0		62.4
Oman	8 533	2.5	1.1		91.2
Qatar		0.8	5.9		
Saudi Arabia	8 932	24.0	2.7	4.9	67.1
United Arab Emirates	20 733	4.3	7.1		
Yemen	547	20.3	3.1	14.9	73.6
Cyprus	12 545	0.8	1.3		
Egypt	1 589	72.6	1.9	16.6	40.7
Jordan	1 776	5.4	2.8	2.2	111.9
Lebanon	3 984	3.5	1.0	12.0	52.5
Morocco	1 222	29.8	1.6	15.6	69.4
Pakistan	534	152.1	2.4	24.6	37.5
Syria	1 127	18.6	2.5	23.2	72.0
Tunisia	2 121	9.9	1.0	11.6	93.7
Turkey	2 870	71.7	1.6	13.6	59.8
Afghanistan		0.8	2.3	54.1	145.6
Djibouti	835	0.4	0.7	3.7	107.4
Mauritania	362	3.0	3.0	20.7	102.6
Somalia	1 127	8.0	3.1		
Sudan	411	35.5	2.0	39.7	28.1

Source: i) World Bank. 2006. World Development Indicators; and ii) FAO. 2006. FAOSTAT.

ANNEX TABLE 2

Share of fruit and vegetables in total agricultural exports

	1991-2000	20001-04		1991-2000	20001-04
Morocco	78	72	Bahrain	20	24
Iran	71		Syria	19	28
Algeria	69	43	UAE	19	23
Turkey	63	65	Qatar	11	4
Jordan	55		Oman	8	12
Lebanon	48	54	Malta	8	5
Cyprus	42	39	Libya	7	
Egypt	41	22	Mauritania	6	4
Pakistan	36	4	Djibouti	4	19
Kuwait	35	36	Iraq	3	7
Saudi Arabia	33	25	Afghanistan	1	7
Tunisia	23	32	Somalia	0	1
Sudan	22	16			

Source: FAOSTAT, 2006

ANNEX TABLE 3

Domestic support information available in WTO notifications

Country	Green Box	------ AMS ------ PS-AMS	NPS-AMS	Article 6.2 measures	Latest notification for
Bahrain	√	-	-	√	1997
Djibouti	-	-	-	-	n.n.
Egypt	√	-	-	√	1998
Jordan	√	√	√	√	2002
Kuwait	-	-	-	-	n.n.
Mauritania	-	-	-	-	n.n.
Morocco	√	√	-	√	2001
Oman	√	-	-	-	2002
Pakistan	√	√	√	√	1999
Qatar	-	-	-	-	n.n.
Tunisia	√	√	√	√	2001
U.A. Emirates	√	-	-	√	2001

Source: Sharma (2004)

ANNEX TABLE 4

Near East WTO Members: bound and applied tariffs for selected agricultural commodities[1]

	Bahrain		Djibouti		Egypt		Kuwait		Jordan		Mauritania		Morocco		Oman		Tunisia	
	bound	applied	bound	applied	bound	applied	bound	applied	bound	applied	bound	applied	bound	applied	bound	applied	bound	applied
Wheat	35	5	40	5	5	1	100	0	0	0	75	0	170	56	5	0	98	66
Rice	35	5	40	30	30	20	100	0	5	5	75	20	155	91	5		60	35
Barley	35	5	40	10	10	5	100	0	9	0	75	0	50	27	5		75	73
Beef	35	5	40	10	10	5	100	0	5	17.4	50	20	239	189	5	0	75	73
Live sheep	35	5	40	10	10	5	100	0	5.1	5	25	na	62	329	5	na	180	
Sheep & goat meat	35	5	40	5	5	5	100	0	5.5	5.1			289		7	0	100	115
Poultry meat	35	5	40	60	60		100	0					101				75	
Tomatoes	35	5	40	20	20	0	100	0	30		50	13	34	40	64	5	150	
Potatoes	35	3.8	40	10	10	5.3	100	0	30.8	17.9	50	5	34	50	54	5	150	69
Citrus fruit	35	5	40	60	60	40	100	0	32.4	32.1	30	20	34		15	5	200	200
Olive oil	35	5	40	20	20	12.5	100	0	30	na	30	5	34		14	8	120	115
Milk	35	5	45	60.3	60.3	25	100	0	20	30	7	5	87	109	75	0	180	180
Sugar	35	5	40	21.3	21.3	8.5	100	0	13.6	19	50	5.2	164	36	7	2	100	18.2

Notes:

[1] Applied tariffs are for the year 2004 for Tunisia, 2003 for Jordan and Morocco, 2002 for Djibouti, Egypt, Kuwait, Oman and Qatar, and 2001 for Bahrain and Mauritania; na = not available

Source: World Bank. 2005. World Integrated Trade Solution, 2005.

16

China's agricultural trade and policy under WTO Rules[1]

Bingsheng Ke

1. Introduction

With the largest total population and the largest agricultural population in the world, China is one of the top producers, consumers and importers of many major agricultural commodities. In terms of production, China is ranked by far the first for rice, wheat, meat and cotton and is also the fifth largest agricultural exporter after the US, EU, Canada and Brazil and the fourth largest importer following EU, US and Japan (WTO, 2005). Its agricultural trade represents 3-4 percent of the world total.

China's agricultural trade has soared since its entry into the WTO in 2001, with a 22 percent growth in exports (46 percent if fishery is included) and 136 percent in imports (137 percent if fishery is included) over the three-year period of 2001-2004 (MOA, 2005). For some commodities, such as soybean and cotton, China's imports account for one third of the world's total export.

China is in many ways highly representative of developing countries in Asia with characteristics such as small farm size, limited arable land, intensive farming, high share of agricultural employment, and weak agricultural and rural infrastructure. As a result, China shares many concerns with other Asian developing countries in the Doha Round.

China has also been actively participating in the regional and bilateral trade talks. For example, the "10 plus 3" initiative (China, Japan and the Republic of Korea with 10 ASEAN members), the "1 plus 10" (China and ASEAN), and the China-Australia FTA talks. The precise implications of those regional and bilateral negotiations for the Doha round of WTO still remain to be seen, but their impacts on the agricultural sector are beyond any doubt.

[1] Views and opinions in this paper are of the author's own responsibility and do not necessarily represent those of the Ministry of Agriculture of China.

This paper presents an updated analysis of China's agricultural trade and policy development under WTO rules, and a discussion of the factors affecting China's future policy orientation and its position in the remaining process of the Doha Round. An overview is provided first to discuss the policy adjustment and agricultural trade developments since China's WTO entry in 2001. More thorough analyses on China's agricultural trade issues follow, with the analyses focused on the agricultural trade structure of the country in terms of regional structure, commodity perspective and domestic impacts. The next section is devoted to the main agricultural policy goals and major concerns for the new round of WTO agricultural talks. Concluding remarks follow.

2. Agricultural trade and policy developments under current WTO rules

China finally acceded to the WTO in November 2001 after 14 years of hard negotiations, with commitments being effective from 2002. While there is a three-year transition period for most commitments on market access, there is no such grace period for all commitments on export subsidy and domestic support. Both agricultural trade and domestic policy have been adjusted to be in line with those commitments. China's WTO entry has had significant impacts on agricultural trade of the country. Both exports and imports have risen dramatically over the past three years. As the growth pace of imports has been greater than that of exports, China has changed from a net agricultural exporter to a net importer.

2.1 Accession commitments and their implementation

The commitments on market access consist of tariff reduction for all commodities and TRQ regimes for some special commodities. The tariff rate quota (TRQ) system applies to wheat, rice, corn, cotton, sugar, wool, soybean oil, rapeseed oil and palm oil.

China has fully implemented those commitments in the past four years. By 2004, the average tariff for all agricultural commodities, a total of 977 tariff lines in the reduction schedule, was reduced to 15 percent. The reductions for major commodities are illustrated in Table 1.

TABLE 1
Tariff rates for major commodities in China (percent)

	2001	2002	2004
Chicken and offal	20	16	10
Beef	39	31.8	12
Pork	20	16.8	12
Sausage	23	21	15
Yogurt	42	34	10
Butter	44	36.7	10
Cheese	43	34.8	12
Ice cream	40	34.6	19
Apple	30	22	10
Banana	25	19	10
Orange	35	28.8	12
Fresh grapes	40	29.2	13
Dried grapes	35	28	10
Shelled cashew	27	23.3	10
Shelled hazelnut	25	22	10
Pistachios	30	25	10
Beer	47	42	0
Liquor*	56	46.7	19.2
Wine	65	44.6	14
Roasted coffee	31	27	15
Tea	27	24	15
Orange juice	35	7.5	7.5
Tobacco	34	28	10
Cigarettes	57	49	25

* Further reduced to 10% in 2005.
Source: Legal text for China's accession to the WTO, Press for Law, 2001; China's Custom Information Service website: www.china-customs.com

Due to the fact that China's actual imports were mainly those with lower tariff rates, including those under TRQ with very low in-quota tariff rates, the weighted average tariff rate is much lower than the 15 percent simple average. For example, the imports of cereals, cotton and wool under TRQ regime accounted for about 25 percent of the total import value, but were only subject to a tariff of 1 percent. For soybean imports, which accounted for another 25 percent of the total import value, the tariff was only 3 percent. Calculated with the actual import volume and values, the actual (weighted) tariff of China's agricultural import in 2004 was under 8 percent, as indicated in Table 2.

TABLE 2
Calculation of weighted average tariff for agricultural commodities in China, 2004

	Import, Billion US$	Share in total, %	Tariff rate (%)	Tariff value Million US$
Cereals	2.21	7.9	1	22.1
Edible oils	3.89	13.9	9	350.1
Cotton	3.20	11.4	1	32.0
Sugar	0.28	1.0	15	42.0
Soybean	6.98	24.9	3	209.4
Vegetables	0.09	0.3	13	11.7
Fruits	0.59	2.1	12	70.8
Livestock	4.04	14.4	12	48.48
Others	6.75	24.1	14	945.0
Total/Average	28.03	100.0	7.7	2167.9

Sources: Import value is provided by the Information Center of the Ministry of Agriculture of China; Tariff rates for "other livestock" and "others" are estimated averages based on the tariff schedule.

The TRQ regime applies to wheat, corn, rice, cotton, rapeseed oil, soybean oil, palm oil, sugar and wool. Several points should be noted about China's TRQs for agricultural production. First, the TRQ amounts are very large by any measure (Table 3). When measured by trade volume, China's TRQ accounts for about 10 percent of world total for wheat and corn, nearly 20 percent for rice and cotton, and about 25 percent for rice and wool. Compared to past imports, TRQs for all products are several times larger than the actual import amount in the base year period (1996-1998). For example, the TRQ for corn is larger than the total imported amount in the 1980s or 1990s, and TRQ for cotton exceeds the highest level in the past. For sugar, it is twice as much as the historical import record. The TRQ for rice is over 5 million tonnes, or more than the total rice production in the Republic of Korea. When measured by domestic commercial consumption, the TRQs also represent a large proportion, ranging from 8 percent to 50 percent. Those numbers far exceeded the minimum market access level of 5 percent of domestic consumption required by WTO rules. Thus it has had a significant impact on market prices and farmers' incomes. Secondly, China's agricultural TRQs have very low in-quota tariff rates, only 1 percent for wheat, corn, rice and cotton. This means that in-quota import is almost free of tariff. The huge TRQ amount combined with the nearly nil tariff protection has integrated the Chinese domestic market with the world market very closely for those products. This implies that China's domestic market and the world market for those commodities are highly correlated. Before China officially became a WTO member, the world market prices for many of the TRQ products were lower than China's domestic market prices. Pressures from the world market after China's WTO entry had triggered, or more precisely, accelerated the pace of domestic marketing reform for grain and cotton.

TABLE 3
China's TRQ for agriculture products

	China TRQ 2004 (million tonnes)	World Trade (million tonnes)	China Imports 1996-1998 (million tonnes)	China TRQ in % of			
				Word trade	China import 1996-1998	Domestic Total Consumption	Domestic Commercial Consumption
Wheat	9.64	101.25	3.89	10	248	8	20
Corn	7.20	75.88	0.23	9	3130	5	8
Rice	5.32	23.04	0.44	23	1201	3	15
Cotton	0.89	4.99	0.35	18	254	19	19
Sugar	1.95	47.07	0.85	4	230	22	22
Oil	8.00	42.30	2.52	19	318	50	50
Wool	0.29	1.06	0.20	27	144	40	40

Source: Same as Table 2.

With respect to export competition, China has made the commitment of not providing export subsidies once in the WTO. China announced the abolition of export subsidies as early as 1994, when the two-tier exchange rate system was reformed into a single one. Only in the few years prior to China's WTO entry did China subsidize corn and cotton exports in order to reduce the huge surplus. The abolition of export subsidy is also in the interests of Chinese farmers. They will benefit from the abolition if the valuable subsidy money is used for other agricultural support purposes.

Domestic support has been one of the most contentious issues in the negotiations. China insisted that it should enjoy the same treatment as other developing countries and asked for a *de minimis* of 10 percent for Amber Box measures, while the US and other parties were reluctant to accept this. They demanded China follow the standard for developed countries, i.e, a *de minimis* of 5 percent. The parties finally agreed on an 8.5 percent *de minimis* for China. China has also forfeited the right to exempt the domestic support reduction commitments indicated in Article 6.2 of the Agreement of Agriculture. That article stipulates that domestic supports for three special purposes are exempted from reduction commitments. Those supports include investment subsidy, input subsidy, and support for production replacing illicit narcotic crops in developing countries.

The disputes over setting the *de minimis* level for China during the entry negotiation were more symbolic than real. According to the AoA rules and calculation method, the real domestic support level for China's agricultural sector was in fact far below the zero value since an 8.4 percent special agricultural tax was applied until 2003. Only in 2004 did China begin to reduce and abolish this special agricultural tax nationwide.

The Chinese government has adopted a policy placing agricultural and rural development on the top priority in its national development agenda in the past

two years. The intention is to address the ever-widening gap between rural and urban sectors. The gap has become especially clear in the process of rapid national economic growth and increasing living standards for urban residents. With the greater awareness of the significance of the rural sector and the fast expanding state budget income (at a growth of over 20 percent for both the central government and local governments), financial support for agricultural and rural sectors have expanded. However, the support applied is much smaller than believed by many, or suggested by reports in the media.

Three subsidies have been introduced recently: a subsidy to grain growers, a seed subsidy for good grain varieties, and a subsidy for farm machinery purchase. The total values in 2005 were only RMB 13.5 billion (US$ 1.67 billion), RMB 3.7 billion (US$ 0.46 billion) and RMB 0.3 billion (US$ 0.04 billion) respectively (State Council, 2006a), which represented only about 0.6 percent of the agricultural production value and was far below the 8.5 percent line.

2.2 Agricultural trade development under WTO rules

The overall development of China's agricultural trade since its WTO entry has been largely along the path that many had projected earlier. Both exports and imports have been on the rise. But import growth is faster than that of export growth. This has resulted in the agricultural trade position changing in the world market from a net exporter to a net importer.

Traditionally, fishery products are also included in China's agricultural trade statistics. China's total agricultural trade data under both WTO definition (fishery excluded) and the Chinese definition (fishery included) are displayed in Table 4.

TABLE 4
Agricultural trade in China since its WTO entry, billion US$

	Including fishery			Excluding fishery		
	Export	Import	Balance	Export	Import	Balance
2001	16.07	11.84	4.23	13.42	10.50	2.93
2002	18.15	12.45	5.70	15.21	10.87	4.33
2003	21.43	18.93	2.50	18.00	17.05	0.94
2004	23.39	28.03	-4.64	16.42	24.79	-8.37

Source: The Information Center of the Ministry of Agriculture of China, based on China Custom Statistics.

China has become a net importer for almost all land-intensive products, including cereals, soybean, cotton, edible oils and sugar. China is now a net exporter for labour-intensive products, mainly vegetables and livestock products (Table 5). For livestock products, China is both a large importer and a large exporter. The major livestock products exported are poultry and pork, while the largest shares of import are industrial materials such as wool, animal skin and hides.

TABLE 5
Major commodity trade in China, billion US $

	Cereals	Soybean	Cotton	Edible oils	Sugar	Vegetables	Fruits	Livestock	Fishery
Import									
2001	0.64	2.81	0.07	0.49	0.31	0.08	0.34	2.02	1.88
2002	0.50	2.48	0.18	1.32	0.24	0.07	0.38	2.18	2.27
2003	0.46	5.42	1.19	2.74	0.17	0.07	0.50	3.36	2.48
2004	2.21	6.98	3.20	3.89	0.27	0.09	0.59	4.04	3.24
Export									
2001	1.10	0.08	0.08	0.07	0.06	2.34	0.79	2.64	4.19
2002	1.72	0.09	0.17	0.06	0.08	2.63	0.98	2.57	4.69
2003	2.67	0.10	0.14	0.09	0.03	3.07	1.37	2.72	5.49
2004	0.66	0.15	0.02	0.10	0.03	3.80	1.65	3.19	6.97
2004 Balance	-1.55	-6.83	-3.18	-3.79	-0.24	3.71	1.06	-0.85	3.73

Source: Same as Table 4.

The surge of agricultural imports in recent years could be attributed to a number of reasons. The most important one is that with China's WTO commitments as discussed above, the Chinese domestic agricultural market has become highly open to the world market. The import barriers have been significantly lowered due to the low tariff rates and large volume of TRQs. The second major reason is the high subsidies in exporting countries. Those subsidies substantially lowered the world market prices. This is especially the case for soybean and cotton exports from the US. The third major reason is on the domestic market demand side. Though domestic production has been improving, it still cannot meet the fast growth in demand. Again the cases of soybean and cotton are the most striking ones. For cotton, China issued a large amount of additional import quota to the TRQ in 2004, resulting in an actual import amount more than twice that of the TRQ, all at in-quota tariff rate. This was mainly caused by the rapidly growing demand for cotton in the textile industry, which in turn is a result of the rapid expansion of textile exports largely arising from China's WTO membership. Another example is edible oils. The soaring imports of soybean are a combined result of all three reasons mentioned above.

As a result of this development, China's filling rates of TRQ are rather high, as indicated in Table 6. In practice, the TRQ seems not to be a real restriction to import. This is best illustrated in the case of cotton. China's cotton imports in the last two years were more than double the amount of the TRQ. This will probably happen also with wheat and wool in the near future.

TABLE 6
Imports of TRQ commodities and their fill rates in China (million tonnes)

	Wheat	Corn	Rice	Sugar	Cotton	Soy oil	Palm oil	Canola oil
2001	0.74	0.04	0.29	1.20	0.11	0.07	1.52	0.05
2002	0.63	0.01	0.24	1.18	0.21	0.87	2.22	0.08
2003	0/42	0	0.26	0.78	0.95	1.88	2.33	0.15
2004	7.23	0	0.76	1.21	1.98	2.52	2.39	0.35
TRQ 2004	9.636	7.20	532	1.945	0.894	3.118	2.70	1.127
Filing rate 2004	75	0	14	62	221	81	89	31

Source: Compilations of legal instruments on China's Accession to the World Trade Organization; China's Custom Statistics.

3. Agricultural trade: destinations and origins (regional perspective)

China's agricultural trade is characterized by distinct regional patterns. While most of the export goes to neighbouring countries, major imported commodities are from distant regions such as North America, South America and Oceania. The most important reason for this regional trade pattern is that China predominantly imports bulk products such as cotton, wheat and soybean from land-rich countries, and exports labour-intensive products such as vegetables and fruits to East and Southeast Asian markets.

3.1 Export destinations

Asian countries are the dominant destinations of China's agricultural exports, accounting for two thirds of the total. One third of China's agricultural export goes to Japan, making Japan by far the largest overseas agricultural market for China. The next three important destinations are Hong Kong, the United States and the Republic of Korea, each with a share of about 10 percent.

TABLE 7
Major destinations of China's agricultural exports, % of the total

	1999	2000	2001	2002	2003	2004
Japan	34.9	34.6	35.7	31.5	28.2	31.6
Hong Kong	13.9	12.3	11.8	11.5	10.6	11.6
US	6.9	7.6	7.8	9.3	9.8	10.2
Korea, Republic	7.8	10.7	10.2	11.3	12.0	9.1
Germany	3.1	2.8	3.1	2.7	2.9	2.9
Malaysia	2.6	2.9	2.3	3.1	3.1	2.3
Indonesia	3.0	2.6	1.8	2.9	2.5	1.9
Others	27.8	26.6	27.3	27.7	30.9	30.3

Source: Same as Table 4.

3.2 Import origins: current situation and future trend

TABLE 8
Major suppliers of China's agricultural import, in % of the total

	1999	2000	2001	2002	2003	2004
US	21.2	23.0	23.6	23.6	26.5	27.4
Brazil	4.0	5.2	5.2	9.2	11.2	10.1
Argentina	5.7	6.9	8.9	7.2	11.9	9.6
Australia	10.6	12.2	11.5	11.6	6.5	8.7
Canada	6.2	6.8	6.3	3.9	2.8	5.1
Malaysia	5.8	3.8	3.4	5.8	6.1	5.1
Russia	4.1	3.9	4.7	4.7	3.8	3.0
Others	42.4	38.2	36.5	34.0	31.4	30.8

Source: Same as Table 4.

3.3 FTAs: "Early harvest", negotiations and implications

In November 2002, China and ASEAN countries signed an agreement on economic cooperation and the establishment of a free trade aggrement (FTA). According to the agreement, China will establish an FTA with ASEAN(6) (six old ASEAN members: Brunei, Indonesia, Malaysia, Philippines, Singapore and Thailand) by 2010, and with ASEAN(4) (the four new ASEAN members: Vietnam, the Lao People's Democratic Republic, Myanmar, Cambodia) by 2015.

An "early harvest" arrangement was agreed for some 500 tariff lines of agricultural products (HS Chapters 1-8, namely live animals, meat and edible offal, fish, dairy, other animal products, live trees, vegetables, fruits and nuts). Free trading of those "early harvest" products will be achieved by 2006 between China and ASEAN(6), and by 2010 between China and the other four ASEAN members. Thailand and China had led the process as they initiated a zero-tariff rate trade for vegetables, fruits and nuts as early as October 2003 (CAFTE, 2003).

Another "early harvest" effort toward FTA was the one between China and Pakistan. In April 2005, China and Pakistan signed an agreement to eliminate tariffs for 53 lines of fruits and vegetables, including garlic, lettuce, beans, mushrooms, mongo, orange, pineapple, figs, avocado and guava. China will unilaterally provide market access for import of lac, gum and ethanol from Pakistan, while Pakistan will apply zero-tariff to imports of organic chemicals and machinery products from China. Reduction/elimination of tariffs for products covered in the agreements will start from 2006 and be complete by 2008 (CAFTE, 2005).

China concluded negotiations on FTA with Chile in November 2005, with the agreement effective from July 2006. Within one year, import tariffs for 63 percent of Chinese tariff lines and 75 percent of Chilean tariff lines for trade between the two countries will be reduced to zero. Within ten years, apart from a small number

of tariff lines which were agreed as exceptions, all commodities traded between the two countries will be subject to zero tariff. The exceptions on the Chinese side include 214 lines, accounting for 2.8 percent of the total tariff lines, while on the Chilean side, 152 lines or 1.9 percent of the total lines are made as exceptions. Some agricultural commodities fall into the exception category. This includes 25 lines such as wheat, wheat flour and sugar on the Chilean side. On the Chinese side, the exception category includes 58 tariff lines of agricultural commodities, such as rice, wheat, corn, cotton, oilseeds and sugar (MOFCOM, 2005).

China has also started FTA negotiations with Australia, New Zealand, and South African Customs Union countries. Agricultural trade is one of the most important issues in all those negotiations. There are both opportunities and challenges for the Chinese agricultural sector from those existing and potential FTAs. There is no doubt that the establishment of FTAs will promote and enlarge the agricultural trade between China and FTA partners. However, it seems that the Chinese agricultural sector is often perceived as a net loser in the regional trade liberalization process because most of those trading partners have comparative advantages in agricultural products, such as Thailand in rice and tropical fruits, Australia in wool, wheat and sugar, and New Zeaand in dairy products. On the other hand, the establishment of FTAs will also have direct impacts on China's regional structure of agricultural trade, i.e., a higher share from the FTA members and a lower share from other countries.

3.4 Conflicts and complementarities between China and other Asian countries in agricultural trade

Asian countries are characterized by high population density, low farmland/population ratio and large numbers of very small-scale farms. On the import side, many countries are net importers of land-intensive commodities such as wheat, soybeans, corn and cotton. On the export side, labour-intensive and high-valued products such as horticultural products, pork and poultry have been and will be the dominant components. China has performed relatively well in increasing export of vegetables and fruits over the past few years since its accession to the WTO. However, because of the improvements in infrastructure and processing technology in other developing countries and increasing labour costs in China (especially in coastal areas), the competition from other Asian developing countries will become stronger.

On the other hand, there are also some complementarities in agricultural trade between China and other Asian developing countries. For example, China has been importing jasmine rice from Thailand and other ASEAN countries. Rice imports in China will continue to increase in the future as China's rice fields shrink due to rapid urbanization in major rice producing areas, namely the southern and eastern provinces of the country (Ke, 2006).

4. Agricultural trade: commodity perspective

The trade liberalization process affects agricultural and rural development in two ways: directly and indirectly. Indirect impacts could be caused by changes in macro-economy and policy, which in turn create more employment opportunities for the rural labour force and stronger raw material demand for products of farm origin. Direct impacts are changes in the trade of each individual commodity. This section reviews the trade in major products in the past few years and analyses the trend in the future in order to shed some light on the relevance of WTO rules in each of the agricultural sub-sectors.

4.1 Soybeans

China is the fourth largest soybean grower in the world after the US, Brazil and Argentina, and is by far the largest soybean importer (Table 9). Soybean accounts for one quarter of the total agricultural import value of China. Soybean imported to China has increased rapidly since China's WTO entry. Soybean imports exceeded domestic production in 2003 and continued to rise thereafter. China's imports account for nearly 40 percent of the world total, more than the sum of that for the next 10 largest importers together. The US is the largest supplier of China's soybean imports with a 40 percent share at present (down from 80 percent in the 1990s), followed by Brazil with 35 percent and Argentina with 25 percent.

The increase in imports is mainly caused by the rapid growth in demand for edible oil and livestock feed. The demand for protein feed is so strong that soybean cake price is as high as that for soybean (Zhang, 2005). According to China's WTO commitment, soybean imports are subjected to only a 3 percent tariff. On the other hand, though there are still areas in the country where natural conditions are favourable for soybean production expansion, the yield and price relationship favours corn production. For example, corn yields in Jilin Province, a major potential region for expanding soybean production, are more than three times that of soybean, while the soybean price is only twice that of corn. It is therefore more beneficial for local farmers to grow corn than soybeans. Due to the constraint of land resources and the growth in demand, China's soybean imports will be maintained at the currently high level, with the possibility of rising further in the coming years.

TABLE 9
China's soybean production and import

	Production		Imports	
	million tonnes	World share, %	million tonnes	World share, %
2001	15.4	8.7	13.9	24.5
2002	16.5	9.1	11.3	20.7
2003	15.4	8.1	20.7	31.9
2004	*17.9*	*8.8*	*20.2*	*35.1*

Source: Statistical Yearbook of China, China Custom Statistics, FAOSTAT.

4.2 Edible oils

Edible oils rank second in China's agricultural imports and have shown a dramatic increase since China's WTO entry, as indicated in Table 10. China's palm oil imports are dominantly from Malaysia, soybean oil from Brazil and Argentina, and rapeseed oil from Canada.

The TRQ regime was applied for the first four years of China's WTO entry. The in-quota tariff is 9 percent. Starting from 2006, the quantity restriction on import was removed as the TRQ system terminated, and a single tariff of 9 percent is used on all import of edible oils.

TABLE 10
China's edible oils imports, million tonnes

	Soybean oil	Palm oil	Rapeseed oil	Total
2001	0.07	1.52	0.05	1.64
2002	0.87	2.22	0.08	3.17
2003	1.88	2.33	0.15	4.36
2004	2.52	2.39	0.35	5.26
TRQ 2005	3.118	2.7	1.127	6.945

Source: Same as Table 9.

4.3 Cotton

With a share of over 10 percent of the total agricultural import, cotton is the third most important commodity in China's agricultural imports. China is the world's largest cotton producer, importer and consumer (Table 11). After four years of rapid increase, China's cotton imports reached 2.2 million tonnes in 2005, or over 30 percent of the world total. China's cotton imports were larger than the total imports of the next five largest importing countries. The US is the predominant supplier of China's cotton imports, accounting for 55 percent, followed by Western African countries with 15 percent, Uzbekistan with 10 percent and Australia with 5 percent.

The cotton market was strictly controlled by the government in the form of market monopoly until 1999. A private cotton market has been developing quickly since then. Cotton Futures trading was even introduced in the Zhengzhou Commodity Exchange in 2004.

The author pointed out as early as at the beginning of 2002 that cotton would be the most adversely affected sub-sector of agriculture in China (Ke, 2002). This seems to be proven by the actual development in the past four years since China's accession to the WTO. Strong fluctuations of cotton production have been observed in China, partially due to weather changes, partially due to volatile price changes caused by a number of factors, including weather, cotton import, price of chemical fibres and export demand for textiles. China's textile export has been expanding at two digit rates for the past years, resulting a rising demand for cotton. However, cotton growers in China have not harvested much from this market growth as cotton imports soared.

The TRQ regime applies to cotton imports according to China's WTO commitments. The TRQ amount is set at 0.894 million tonnes and the in-quota tariff is only 1 percent. The bound tariff outside the TRQ is 40 percent. In reality, China applied the same 1 percent tariff for all cotton imports including amounts exceeding the TRQ in 2004. The actual tariff for over-quota cotton import was adjusted to 5 percent. If this low tariff rate continues to be used and the US cotton subsidy regime continues to exist, China's cotton imports will rise further to new high levels in the coming years.

China has to balance different interests within the country and this can be best illustrated with the case of cotton. The textile sector is very important not just for foreign trade but also for farmers. It supplies about 19 million jobs, most of them are farmers or children of farmers. It has already become clear that the domestic cotton production in China cannot meet the need of textile industry, and imports are not avoidable. The question, for the Chinese policy makers, is how to better balance the domestic production and the import. The cotton prices have shown volatile fluctuations in the past years in the range of 30-50 percent, and have caused all participants difficulty in their decision making.

TABLE 11
China's cotton production and import

	Production		Imports	
	Million tonnes	World share, %	Million tonnes	World share, %
2001	5.32	24.9	0.11	1.9
2002	4.92	25.7	0.21	3.4
2003	4.87	23.8	0.95	13.8
2004	6.32	24.7	1.98	29.1

Source: Same as Table 9.

4.4 Sugar

China is ranked as the fourth largest sugar producer in the world after Brazil, India and the EU. The composition of sugar production in China has shown the same trend as the rest of the world. The share of sugar produced from sugarcane has been rising while that from beet has been declining. Now nearly 95 percent of China's sugar is extracted from sugarcane. Guangxi Province alone provides about 60 percent of sugarcane and sugar in the country.

Sugar imports in China have been more or less stable at about 1.2 million tonnes in recent years (Table 12). Major suppliers of China's sugar imports are Cuba, Thailand, Guatemala and Australia. China's sugar imports have not increased nearly as much as most other field crops. The most important reason is the rapid improvement in domestic production. The remarkable growth of production is to be attributed to the introduction of new sugarcane varieties, which have much higher yields and sugar extraction rates. A number of those new varieties were introduced from Taiwan (Ke & Zhao, 2003).

Another reason is that China has relatively high tariff rates for sugar imports. Sugar is also subjected to the TRQ, which is now 1.945 million tonnes. The in-quota tariff has been reduced from 20 percent in the first three years of WTO accession to 15 percent since 2005, and the bound tariff for over-quota import is 50 percent. Looking to the future, the sugar sector, including sugarcane growers and processors, will face increasing pressure from the world market, not only in the context of the new round of WTO agricultural talks, but also from the possible FTA agreements with Australia, Thailand and other major sugar producing countries. Similar to cotton, sugarcane production is highly concentrated geographically in regions where farmers' income level is among the lowest in the country. The income and poverty reduction implications of sugar sector reform in China is very important.

TABLE 12
China's sugar production and import

	Production		Imports	
	Million tonnes	World share, %	Million tonnes	World share, %
2001	6.53	4.8	1.20	2.8
2002	9.26	6.3	1.18	2.6
2003	10.84	7.5	0.78	1.8
2004	10.17	7.0	1.21	2.7

Source: Same as Table 9.

4.5 Wheat

China is the largest wheat producer in the world. It used to be a large wheat importer in the 1980s with a record of 15 million tonnes in late 1980s. The import amount has since declined, to half a million tonnes in 2003 (Table 13). However, as domestic production had fallen continuously since 1997 and demand had risen, the governmental reserve of wheat reached a record low level in 2003. This led to the wheat price hike in late 2003 and early 2004, and a sharp rise of wheat imports to 7.3 million tonnes in 2004, making China the top wheat importing country in that year. In 2005, China's imports were down to about 4 million tonnes, which was still among the leading importers. The US, Canada and Australia are the main suppliers of wheat to China.

Wheat imports are subjected to the TRQ regime in China's WTO accession commitments. The TRQ amount is 9.636 million tonnes and an in-quota tariff of 1 percent is applied. The tariff for imports outside the TRQ is 65 percent. China's wheat imports in the coming years are expected to increase further due to limited possibility of an expansion in production and a slow increase in yield. It is most likely that China will become the world's top importer of wheat again before long.

TABLE 13
China's wheat production and import

	Production		Imports	
	Million tonnes	World share, %	Million tonnes	World share, %
2001	93.9	15.9	0.74	0.6
2002	90.3	15.7	0.63	0.5
2003	86.5	15.4	0.45	0.4
2004	92.0	14.7	7.32	5.7

Source: Same as Table 9.

4.6 Rice

As the world's largest producer, China has been a net rice exporter in the past few decades. Rice exports reached a peak in 1998 of nearly 4 million tonnes. China's rice export is mainly japonica rice that goes to eastern Asian countries including Indonesia, Japan, the Republic of Korea and Philippines. Exports to Asian countries account for about 60 percent of the total. The second main destination of China's rice exports is Africa, accounting for 30 percent. Russia is another major buyer of Chinese rice (Wu, 2005).

At the same time, China also imported about a quarter of a million tonnes of rice in most years of the past decade, mainly jasmine rice from Thailand. There are signs that China is coming close to a turning point with rice trade, from a net exporter to a net importer. In 2004, the import amount was very close to that of exports (Table 14). The same relationship was maintained in 2005. Many believe that demand for rice, especially the high quality japonica rice, is on the rise in China and that its domestic production cannot keep up with the pace. China will import more rice than it exports in the near future. China's rice land has been declining during the last two decades due to the urbanization effect. More and more rice fields have been taken away for non-agricultural purposes. This is particularly the case in the most developed southeastern coastal provinces such as Guangzhou, Zhejiang and Jiangsu. Rice areas have shrunk by more than 35 percent since 1990 for all three provinces. There is no hope for China to explore new rice land due to constraints in soil quality and irrigation availability.

The author shares the view that China will become a net rice importer in the near future. This is opposite to projections or assumptions in model based analyses by many international research institutions such as IFPRI and by some Chinese modelers.

According to the existing WTO commitments of China, a TRQ regime applies to rice imports. The TRQ amount is 5.32 million tonnes. The in-quota and out-quota tariffs are the same as that for wheat.

TABLE 14
China's rice production and trade

	Paddy Production		Rice Imports	Rice Exports
	Million tonnes	World share, %	Million tonnes	Million tonnes
2001	177.58	29.7	0.29	1.87
2002	174.54	30.2	0.24	1.99
2003	160.66	27.6	0.26	2.62
2004	179.09	29.6	0.76	0.88

Source: Same as Table 9.

4.7 Corn

China is world's second largest corn producer next to the US, and has been a net exporter for almost all years in the past two decades except 1995. The export amount is usually in the range of 5-10 million tonnes, with the peak of 16 million tonnes registered in 2003 (Table 15).

This actual development of corn trade in China is opposite to projections made by many overseas and domestic scholars in the early 1990s. Those scholars projected that China would import corn in an amount as large as 50 to 90 million tonnes by the beginning of this century. One of the main reasons that those projections did not come true is that China's domestic corn production has increased substantially and nearly doubled over the past two decades. On the other hand, livestock production has gained substantially from technical progress as feed-product conversion ratios have risen significantly.

The same TRQ regime applies to corn imported to China. The TRQ amount is 7.2 million tonnes. However, as domestic supply will continue to be sufficient to meet the demand in the foreseeable future, it is unlikely that the TRQ import will take place in the coming years, though the in-quota tariff is only 1 percent.

TABLE 15
China's corn production and export

	Production		Export	
	Million tonnes	World share, %	Million tonnes	World share, %
2001	114.1	18.6	6.00	7.2
2002	121.3	20.1	11.68	13.3
2003	115.8	18.1	16.39	18.0
2004	130.3	18.1	2.32	2.8

Source: Same as Table 9.

4.8 Livestock

As indicated in Table 5, China has been a net importer of livestock products. However, a more detailed analysis reveals that most of the imported products are raw industrial materials. The import and export structure of China's livestock trade is presented in Table 16.

China is a net exporter of live swine, poultry and their products, mostly to Hong Kong, Japan and other eastern Asian countries. Hides and skin are the most important livestock products imported to China. There are no other import restrictions on livestock products other than tariffs, which range from 5 percent to 9 percent.

China has large potential to increase meat exports, as the production cost is low compared with most developed countries both in and outside Asia. However, the SPS issues create a major barrier. There is no sign that the SPS barrier can be removed in the near future.

TABLE 16
Composition of China's livestock trade, 2003, million US$

	Exports	Imports	Balance
Swine and products	655	197	458
Poultry and products	852	478	373
Cattle and products	87	136	-49
Sheep and products	21	51	-30
Animal hair	102	778	-676
Wool	28	755	-727
Hides and skins	5	903	-898
Total	2716	3356	-640

Source: Custom Statistics of China.

Wool is another very important livestock product imported to China. China is the world's second largest wool producer next to Australia and is the top importer. Nearly 40 percent of the world's wool exports go to China (Table 17). World wool production has been declining continuously over the past ten years while China's imports have shown a rising trend. Australia provides over two thirds of China's wool imports. Other suppliers include New Zealand, Uruguay and Argentina.

TABLE 17
China's wool production and import

	Production		Imports	
	Million tonnes	World share, %	Million tonnes	World share, %
2001	0.343	15.1	0.317	26.0
2002	0.355	16.0	0.262	23.5
2003	0.388	17.7	0.224	22.3
2004	0.426	19.7	0.426	37.5

Source: Same as Table 9.

4.9 Vegetables and fruits

Vegetables and fruits of various processing forms are the main earners in China's agricultural trade. Production of both groups needs a large input of labour. Farm labour supply is abundant and very inexpensive. Most of the exports of those two categories go to Japan, the Republic of Korea and other Asian countries. An increasing share of the exports is conducted by joint ventures or companies with foreign capital. A highly integrated marketing chain has been formed, which consists of the supply of farm inputs including selection of farmland and seeds, production technology and quality control including usage of chemicals, and processing and exportation.

The most important barriers for China to increase its exports in vegetables and fruits are the ones arising from the SPS issues. In recent years, major destination countries for China's vegetable exports such as Japan and the Republic of Korea have not only substantially raised the standard of chemical residues, but also greatly increased the number of items or varieties of factors to be inspected.

Apart from the SPS barriers, anti-dumping is also a frequent threat to China's exports of those two product categories. An example would be the case of garlic and apple juice with the US in the past few years. The key factor is that most developed countries do not recognize China as a market economy, resulting in unfair production cost calculations. It is expected that some improvements in this regard will be achieved, but the problem will most likely remain as a key factor for many years to come.

5. Agricultural trade: domestic implications

Issues associated with agriculture, rural areas and farmers have gained unprecedented attention from Chinese policy makers in recent years. They are frequently referred to as Three Nong issues in Chinese (Nong Ye for agriculture, Nong Chun for rural areas and Nong Min for farmers). The Three Nong issues are listed on the top of the national economic development plan and the government's work in recent years (State Council, 2006b).

There are two major concerns associated with issues of agricultural and rural development in China: food security and farmers' income. Food security is usually translated into a grain production issue in China. Grain production (including

soybeans according to Chinese definition) had fallen from 512 million tonnes to 431 million tonnes during the period 1998-2003, a sharp reduction of 81 million tonnes. This led to price hikes for all grain commodities in late 2003 and early 2004, setting off a nationwide alarm on food security. With all policy efforts including the introduction of a subsidy to grain growers and the reduction of agricultural tax, and with the help of very favourable weather conditions, grain production has recovered to 484 million tonnes in 2005. However, the 2005 grain production level is not only still lower than that in 1998, but also at least 10 million tonnes short of current demand. The deficit is bridged by imports, including soybean, wheat and barley. What worries Chinese policy makers more is the future trend, as the arable land resource has been declining and will continue to decline due to urbanization. Grain production growth in the future is largely uncertain, while the demand will beyond any doubt increase further.

The other key concern is farmers' income, or in a broader sense, the living standards and welfare of rural population. After almost three decades of reform and development, the share of agriculture in GDP has declined to only 13 percent. However, there is still a very large proportion of the population depending on the agricultural sector for a living (Table 18). According to China's registration system, the rural population still accounts for 72 percent of the total. If the rural migrants are excluded, the share is still 58 percent. China is striving to achieve a comparatively well-off society. This goal cannot be materialized without the huge agricultural and rural section of the people. The most daunting challenge is that the rural-urban gap is huge and still widening. The comparable rural-urban income per capita is 1: 3.2, i.e., the per capita income of agricultural and rural population is less than one third of that of the urban residents. The trend is an ever-widening income disparity between the urban and rural populations.

Agricultural trade is no longer as significant as it used to be in the early 1980s, with its share falling from 20 percent to 3 percent (4 percent if fishery included) for exports, and from 15 percent to 4 percent (5 percent if fishery included) for imports in the last 25 years. The traditional role of agricultural trade in earning foreign exchange to buy industrial goods has long abated.

TABLE 18
Agricultural share in the national economy in China, %

	1980	2004*
GDP	30	13
Population	81	58/72
Employment	69	47
Export	20	2.8 (3.9)
Import	15	4.4 (5.0)
Food expenditure, urban	57	38
Food expenditure, rural	62	47

* Figures in brackets represent agricultural trade including fishery.

As indicated in Table 4, the value of agricultural exports in 2004 was US$ 16.42 billion (RMB 135.5 billion), while the import value was US $24.79 billion (RMB 204.5 billion). The added value generated from agriculture was RMB 2 077 billion, and the total production value of agriculture was RMB 3 030 billion. When measured on domestic production value, both agricultural exports and imports represent only small percentages, seemingly having no significant impacts on domestic production. However, there are several points behind those overall figures that should be noted.

First, the impacts of imports on the domestic market and production are much more significant than suggested by the numbers in Table 19. On the import side, the dominant part is primary products such as soybean, wheat, cotton, wool and hides. These products compete directly with the products that farmers sell in the domestic market. As a rule of thumb, for the total imported products with a value equivalent to 6.7 percent of domestic production, the farm gate value should be an equivalent of around 5 percent of farmers' production value. In other words, at farm gate level, the imported goods have a market share of about 5 percent. On the export side, since most of the exported products are processed goods, the export value contained a large share of added value in the marketing and processing phases. Only a fraction of the total export value was received by farmers as raw material providers. The farmers' share cannot be more than half of the export value. This means that only about 2 percent of Chinese farm products have been produced for export. Exports do not contribute much to farmers' income.

TABLE 19
Agricultural trade and its relationship to domestic production

	Imports		Exports	
Production value(PV)RMB billion	**RMB billion**	**% as PV**	**RMB billion**	**% as PV**
3 030	204.5	6.7	135.5	4.5

Source: Statistical Yearbook of China; Custom Statistics of China.

Secondly, the impacts of trade on the domestic market vary significantly across different product groups. This can be easily drawn from the description and analysis in the previous section. For products such as soybean, edible oils, cotton and wool, the imported amount is as large as or more than that of the total domestic production. Therefore the impacts of imports are very significant. For other commodities, such as rice, the imports account for only a small fraction of domestic consumption, and do not have much direct impact.

Thirdly, the impacts of trade on the domestic market and income of farmers vary significantly among different regions in the country. The eight coastal provinces account for two-thirds of China's total agricultural exports. Shandong province, the lead agricultural exporter in the eastern region, alone accounted for 23 percent of China's total agricultural exports in 2004. Most of the growth in agricultural exports was achieved in those coastal regions since China's WTO accession. In the three year period of 2001-2004, China's agricultural exports increased by US$ 4.5 billion,

of which US$3.3 billion or three quarters were generated in those coastal provinces. Shandong Province contributed 30 percent of the total growth in this time period. In contrast to this, the vast low-income inland provinces have not gained much from the enlarged market opportunities with China's WTO membership. The total agricultural exports of ten western provinces together was US$ 0.97 billion in 2004, or just 26 percent of that in Shandong province. The agricultural export gains during 2001-2004 was only US$ 0.34 billion, or just 25 percent of that in Shandong province alone.

The combined effects of more challenges and less gains in the western regions brought about by China's WTO membership reinforced the regional disparity, which is already large, between the eastern and western regions in China. Due to constraints set by long transportation distances, unfavourable natural conditions and the generally low economic and social development level, it is unrealistic for the western regions to increase agricultural exports by large amounts. Most of the gains from a freer trade will remain in the eastern part of the country. For farmers in the western regions, the more important issue is how to protect them from the unfair competition from the distorted world market, and to mitigate the damages of soaring imports.

On the other hand, however, the increase of agricultural imports will be necessary and unavoidable considering the needs for industrial development, the protection of natural environment and the short-run food deficits. For example, China will continue to import soybean in large quantity due to weak domestic production capacity and strong feed demand from the rapid industrialization of the livestock sector and the rising demand for edible oil of household consumption and food processing industry. It is similar for cotton. The textile industry plays a crucial role in China's export growth and trade balance. In addition, the industry also provides employment to 19 million people. It is natural that securing cotton supply to the sector has a high priority in trade policy-making. A third example is the import of wool. Apart from the important role in supporting the rapid growth of the wool manufacturing industry, import of wool has also merit for environmental protection. China has long been facing overgrazing problems in wool production. The imported wool has greatly lessened the pressure in the vast grassland in the arid and semi-arid zones of western China.

The trade figures in 2004 can be used as an overall indication of the importance of imports to China: for the imported soybeans, cereals and cotton in that year to be produced domestically, additional farmland of 13 million ha would have been needed. That is 10 percent of the total existing arable land in China.

6. Major concerns on the existing and future WTO rules

All in all, as the largest agricultural producer, importer and exporter among developing countries, China often faces a dilemma in its agricultural trade policy making. It has to balance various interests of different sectors within the country. China is both a large importer and exporter, and has both a large traditional rural sector and a fast developing modern sector. This largely explains why China does not have a clear-cut position, as many other developing countries do.

In China's entry negotiations to the WTO, agriculture was generally seen as the biggest loser among all sectors of the country. In the ongoing Doha round, China's agriculture would be the biggest loser among all countries, developing and developed, according to a study released by the World Bank in October 2005 (Aksoy and Beghin, 2005). Though there might be disputes on the exact figures about gains and losses, the general trend is clear: China's agricultural sectors and farmers will feel increasing pressures from a more open market.

If spite of this, China has adopted a positive attitude towards the WTO process. On one hand, China hopes to expand its world market share for manufactured products. On the other hand, China wants a fairer trade regime, especially for agricultural commodities. The current world markets for most agricultural products are immensely distorted by subsidies, tariff and non-tariff barriers in the OECD countries. For example, the huge farm subsidy in various forms in the US explains to a large degree the large amount of soybean and cotton exports to China from that country. This has caused huge damage to Chinese soybean and cotton farmers.

In the following sections, the author provides some personal observations on China's concerns on each of the major issues in the ongoing WTO agricultural negotiations.

6.1 Market access

Market access is the key area of concern for Chinese policy makers in the Doha round of agricultural negotiations. As for most developing countries, the tariff is almost the only available means for China to protect its domestic farm sector from unfair world competition. Compared with the other two areas, i.e., domestic support and export competition, China will face more tariff reduction pressures in gaining market access. There are several factors causing this.

First, as discussed in the first section, the tariff level for China's agricultural and food import is already very low due to its entry commitments. The simple average tariff for the 977 lines covered in China's schedule in 2005 is only 15 percent. Secondly, the actual rate, i.e., the weighted average, was lower than 8 percent in 2004. Thirdly, China's applied tariff rates are the same as its bound tariff. Any new commitments will mean real cuts for China. Lastly, the appreciation of the Chinese currency RMB against major foreign currencies will also have adverse impacts on agriculture. The RMB has already appreciated by about 2.5 percent in the second half of 2005, and the trend seems to be continuing. This makes it even harder for Chinese farmers to absorb the effects of any further cut in tariffs.

As clearly shown in Table 20, China's tariff level is much lower than India and Mexico, the next two largest developing countries. Most of China's 977 tariff lines for agricultural products are in the lowest band of tariffs proposed by the US for example, while Mexico's majority is in the second and third band and that of India in the highest band.

TABLE 20
China's agricultural tariff lines in comparison with India and Mexico

Tariff Bands	China	India	Mexico
0-20%	823	23	94
20-40%	129	41	579
40-60%	6	33	222
60%-	19	574	7

*Assuming cut rates for developing countries at 2/3 of the average in Developed countries
Source: The author's calculation based on data from existing reduction schedule.

Results show that no matter which proposal is used, that of the G-20 and EU or the US one, China's agricultural tariff level is always only a fraction of that for the other two countries. In other words, even if China will be exempt from making any further reduction in this ongoing round, its agricultural tariff level will still be much lower than Mexico and India (Table 21).

TABLE 21
China's agricultural tariff cut under new proposals, in comparison with India and Mexico

	Current		After cut	
	Tariff lines	Average rate	G-20 and EU proposal	US proposal*
China	977	15.0%	11.1%	8.5%
India	671	114.4%	71.6%	46.3%
Mexico	902	34.3%	24.3%	17.6%

*Assuming at 2/3 reduction rate of the developed countries.
Source: The author's calculation based on data from existing reduction schedule.

The Ministerial Declaration in Hong Kong indicates that the special situation of recently-acceded Members who have undertaken extensive market access commitments at the time of accession will be taken into account in the negotiations. The case of China is the best example for the need to provide new members with special considerations to have a fairer trade system. This is why China has consistently insisted on this point.

Furthermore, China's market is even more open than the low tariff level suggests. The TRQ arrangements also offer "generous" market opportunities, due the huge TRQ amount and very low in-quota tariffs. China's TRQ amounts for all TRQ commodities, including wheat, rice, corn, cotton, sugar and wool are far above the 5 percent minimum market access opportunity. As indicated in Table 3, for all cash commodities, the TRQ amounts account for 20-50 percent of the domestic consumption. For wheat, rice and corn, the TRQ amounts also account for 8-20 percent of commercial consumption. In-quota tariff for wheat, corn, rice, cotton and wool is only 1 percent. The only relatively high tariff is for sugar, which is 15 percent. Taking this situation into account, it is not difficult to understand why China wishes to be granted the special consideration as a new member.

6.2 Domestic support

According to the results of China's entry negotiations, there are no AMS commitments for China. The *de minimis* was set at 8.5 percent, a level between that for developed countries and developing ones. When China joined the WTO in 2002, there was a special agricultural tax levy regime in China. The special tax and levy was set at 8.4 percent of crop production value. As a result, China's net subsidy to agriculture was a huge negative value. A move has been taken to gradually reduce the level and coverage of this agricultural tax over the past three years. Chinese legislators have just passed a resolution to abolish this tax completely starting from 2006. As indicated in the first section of this paper, the distorting subsidy is currently only about 0.6 percent, far below the allowed *de minimis* level of 8.5 percent. This 8.5 percent *de minimis* can be translated into RBM 255 billion (US$ 32 billion), which can never be reached given China's budget capacity. Furthermore, the subsidies are commodity-specific, and should be linked to grain production. In practice, it is impossible to calculate or check grain production amounts for 250 million small farmers, each with only a half ha farmland on average. Local officials usually use the farmland area as the basis for subsidy calculation. Therefore the subsidy is of a "de-coupled" nature practically.

According to the Hong Kong ministerial declaration, "Developing country Members with no AMS commitments will be exempt from reductions in *de minimis* and the overall cut in trade-distorting domestic support". With this arrangement, China will not have any pressure in terms of domestic support reduction, like most other developing countries. Also from the perspective of domestic financial capability, it is unlikely that China and other developing countries will substantially increase trade-distorting domestic subsidies. Much of the existing subsidy is more of a political and symbolic nature.

On the other hand, heavy domestic subsidies are one major source of distortion and unfair agricultural trade systems. Chinese farmers suffered most of the damage caused by the subsidies and distortions, as suggested by the analysis in previous sections. That is why China has allied with other developing countries to strongly demand developed countries to substantially reduce their subsidies, particularly trade-distorting subsidies.

6.3 Export competition

According to China's WTO entry commitments, China should not provide direct export subsidy. There are also no other forms of exporting subsidy practiced in China, such as export credit systems. Therefore, any new agreement in this area will not pose any additional pressure on China.

Export subsidies by the EU and other developed countries are the most explicit trade-distorting measures. An early and complete elimination of all forms of export subsidies is in the interest of all developing countries including China. China welcomes the decision in the Hong Kong Ministerial Declaration that "the parallel elimination of all forms of export subsidies and disciplines on all export measures with equivalent effect to be completed by the end of 2013", although the timetable is not as aggressive as China and other developing countries hoped.

6.4 The cotton issue

China has no export subsidies on cotton. The domestic subsidy is minimal, mostly in the form of preferential loans to the state-owned cotton mills which have an ever declining market share (under 25 percent in 2003). The preferential interest was 1.45 percent lower than commercial loans. With a total preferential loan for purchasing 1.18 million tonnes of cotton, the subsidy is equivalent to RMB 170 million (US$ 20 million). There is also a subsidy of RMB 20 million (US$ 2.5 million). Adding those together, cotton subsidy was less than 0.4 percent of the total cotton production value in 2003 in China.

In terms of market access, China's actual cotton imports were more than twice those of the TRQ amount in 2004. China's cotton imports from African countries have risen dramatically from 3.8 thousand tonnes before China's WTO entry in 2001 to 38.0 thousand tonnes after China's WTO entry in 2002. It went up to 388.7 thousand tonnes in 2004 (Table 22). Cotton imports from African countries account for about 20 percent of China's total cotton imports. On the other hand, exports to China account for about 30 percent of Africa's total cotton exports. The four Western African Countries (Benin, Burkina Faso, Chad and Mali) exported 218.1 thousand tonnes of cotton to China in 2004, accounting for 40.4 percent of their total cotton exports, and 11.5 percent of China's total cotton imports.

As mentioned in the previous section, China's cotton farmers are also the victims of the trade-distorting subsidy policy in developed countries. Therefore, China welcomes the Hong Kong ministerial declaration to eliminate all forms of export subsidies for cottons in 2006. The declaration also gives duty and quota free access for cotton exports from least-developed countries (LDCs) starting from the commencement of the implementation period by developed countries. The declaration states that trade distorting domestic subsidies for cotton production should be reduced more aggressively.

TABLE 22

China's cotton imports before and after WTO entry by country, 1 000 tonnes

	2001	2002	2003	2004
Total	56.0	171.4	870.1	1901.1
US	33.8	90.5	510.9	1055.3
Uzbekistan	0.0	22.0	113.5	196.8
Australia	17.5	18.5	23.0	101.3
Africa	3.8	38.0	166.6	388.7
Others	0.9	2.4	56.1	159.0
Africa in %	6.8	22.2	19.1	20.4

Source: www.cottonchina.org. Total import figures are slightly different from those contained in Table 11, which may be due to the time difference between purchase and delivery.

6.5 Development policy to improve agricultural performance and rural livelihood

Though China pays much attention to the ongoing WTO agricultural talks, it has been well recognized that the trade policy reform is not all that matters. In other words, trade is important for agricultural and rural development but not the most important factor, in particular for a large country like China. Compared to the situation four years ago before China's accession, China's agricultural economic researchers, policy makers and the general public now have a more rational attitude towards the WTO negotiations and the possible impacts. The Chinese government has redoubled its efforts in recent years in reforming institutional and development policies to enhance agricultural productivity, to promote structural changes, to improve farmers' income and livelihood, and to advance overall rural development. However, detailed analyses of those issues are beyond the scope of this paper.

7. Concluding remarks

China is the largest agricultural trader among all developing countries in terms of both exports and imports. China's agricultural trade has nearly doubled since its entry into the WTO, with import growth exceeding that of exports. China has become a net agricultural importer since 2003. This is largely due to the fact that China has very low trade barriers and subsidies in the agriculture sector but many other exporting countries have very high domestic and export subsidies. Chinese farmers are among the greatest victims from the existing unfair world agricultural trade regime.

As both a large exporter and importer, China often faces a dilemma in its agricultural trade policy making. It has to balance the various interests of different sectors within the country. In spite of recognizing the losses in agriculture from the WTO entry and results of the ongoing round, China has adopted a positive attitude towards the Doha round agricultural negotiations, hoping to correct the heavy distortions of the existing regime and have a fairer world agricultural trade system.

In terms of the agricultural talks of the Doha round, China's major concerns are similar to those of most developing countries. In the area of market access, China is now in a very disadvantaged situation as its tariffs are amongst the lowest in developing countries with a 15 percent simple average and 8 percent if weighted. The unavoidable appreciation of RMB will make it even harder for Chinese farmers to absorb the effects of any further cut in tariffs. It is in this area that China most needs the special considerations to be given to recently acceded members.

In the fields of domestic support and export subsidy, no further pressure will be exerted on China as it does not have any forms of export subsidy and AMS. China will never be financially able to use up the current *de minimis* of 8.5 percent, which will be exempt from further reduction in the ongoing round. On the other hand, China is strongly allied with other developing countries to demand OECD countries to cut trade-distorting domestic support and export subsidies more aggressively.

On the cotton issue, as the largest importer in the world market and the most important buyer from African countries, China will continue to make significant contributions to the special goals concerning cotton, probably more than what the WTO rules require.

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Regional trade concerns in Latin America and the Caribbean and implications for WTO rules on agriculture

William Foster and Alberto Valdés

1. Introduction

Why might trade expansion, spurred by a successful Doha Round, be of importance for Latin American and Caribbean (LAC) agriculture? One reason is that trade can stimulate economic growth and create employment opportunities, with a resulting increase in incomes of workers and the poor. This, after all, is the theme of the Doha Round. And indeed, LAC has been a leader in trade liberalization in comparison to other regions, beginning with reforms and liberalization during the 1980s and 1990s. Much of this trade liberalization was a consequence of unilateral reforms, in several countries predating the Uruguay Round Agreement. Moreover LAC countries have also been active in trade negotiations under the current WTO negotiations. For example, there is the G20 led by Brazil, and the participation of Brazil, Chile and Argentina in other groups, such as the Cairns group.

The region has also seen advances in bilateral free trade agreements and the rise of a "new regionalism." This new regionalism of like-minded countries has often gone beyond liberalization within the multilateral system, and appears to be at least in part an endogenous and complementary response to the integration with the world trading system more generally (IADB, 2002). But LAC regionalism, although complementary and serving as a laboratory for advances in multilateral negotiations, is not considered a substitute for improvements in the multilateral system. In fact, successful WTO negotiations should be an important stimulus for individual countries to continue reforms in domestic agricultural policy that have proven resistant to negotiation at the bilateral and regional level.

This paper will address three general issues with respect to agricultural trade concerns in the Latin American and Caribbean region in the context of on-going

WTO negotiations. First, what are the general trade policy questions currently under debate in LAC region? Second, what are some conflicts of interest with respect to trade between countries and within countries, and how have these conflicts been impacted by national policy reforms, intra-regional agreements, and agreements with countries outside the region? Finally, what can be said about the LAC's positions with respect to the formulation of rules within on-going WTO negotiations in light of current outstanding trade policy questions and conflicts of interest?

With respect to the trade policy questions and conflicts of interest, the next section reviews the importance and structure of agricultural trade to the economies in the region. The wide diversity of trading patterns across countries in the region has implications with regard to negotiating positions. The third section turns to how recent developments in LAC countries' domestic and trade policies have responded to these questions and conflicts. The fourth section also discusses an especially important issue for the future: the potential impacts of policy changes beyond the region. Unlike the impression one gets from the popular press and the discussions about the region in aggregate based on global modeling (where Brazil receives a great deal of weight), there is in fact wide diversity with regard to the impacts of the potential changes to OECD tariff and subsidy policy. This diversity would lead to a range of distinct negotiating positions across the many countries in the region. It is therefore more difficult to make broad characterizations both of the "interests" of Latin America and the Caribbean, and of the negotiating positions that individual countries would take. The fifth section addresses likely trends in (a) negotiating positions, (b) the emphasis on agro-food standards in developing country markets, and (c) in the development of domestic compensation and safety net schemes. The sixth section goes into more detail with regard to what is almost certainly the main point of conflict of interest in LAC: the significance of the diversity of agricultural production and exports in setting priorities for trade negotiations. Finally, drawing on lessons from past trade reforms and current trends relevant to LAC agricultural sector and trade, the paper concludes with some reflections on what might be priorities for domestic policies and WTO trade negotiations that could aid in the transition to freer trade.

2. The importance of agricultural trade in the LAC region

One question to address is the contribution to total national exports and imports of crop, livestock, and forestry products. Another issue is the distinction between the net overall agricultural trade position and the net food trade position, the latter being important for understanding domestic agricultural policy debates, especially with regard to the question of national food security and food import dependence. Agricultural trade should be examined not only with respect to primary agriculture - the size of which is reflected in sectoral GDPs - but also with respect to the agro-processing sector (not included in agricultural GDP). The agro-processing industry has grown significantly in terms of exports from the LAC region and largely depends on the performance of primary agriculture. A focus on processed agricultural

exports is motivated by the growing importance of non-farm employment and income in rural areas. And because much of agro-processing is not accounted for in agricultural GDP, the downstream links of the primary agricultural sector to the national economy should not be overlooked. This is especially important in a region that is relatively land abundant and where the growth of agriculture is constrained by domestic demand, leaving export markets as an avenue both for sectoral growth and, more generally, for growth in the rural economy.

2.1 Agro-forestry exports and imports

Table 1 reports the shares in total exports and imports of agricultural goods for 22 countries in the region. Agricultural exports represent more than 25 percent of total export revenue for nine countries, reaching as high as 40 percent for Argentina, Cuba, Guatemala, Honduras, Paraguay and Uruguay. Countries for which the share is relatively small are the oil-exporting countries of Mexico, Trinidad and Tobago, and Venezuela, and the Caribbean. On the import side, the shares of agricultural and forestry products are generally smaller, ranging between 8 and 20 percent. The only country with a share greater than 20 percent is Haiti (34 percent). Twelve of the twenty-two countries are net exporters of agro-forestry products, the net importers being the oil exporters, Mexico, Trinidad and Tobago, and Venezuela; the Caribbean countries; and El Salvador, Peru, Panama. In volume and total value, the region as a whole is clearly a net exporter of agricultural and forestry products, but in terms of number of countries, the region is almost evenly divided between net exporters and importers.

Crop and livestock products clearly predominate (see Appendix Table A, which also includes fisheries, important in some countries and included in agriculture GDP statistics). In terms of totals for crop, livestock and forestry, export products deriving from crops and livestock average more than 75 percent of total agro-forestry exports. Chile is notable for the size of share of exports due to forestry products (35 percent). The share of crop and livestock products averages around 80 percent for agro-forestry imports for the three sub regions. Unlike exports, forestry's share of imports is high for many countries. The highest shares for forestry imports are found in Argentina (40 percent), Costa Rica (33 percent), Ecuador (20 percent), the Dominican Republic (23 percent), and Trinidad and Tobago (22 percent).

TABLE 1

Export and import shares and trade balance for agriculture and forestry in LAC, 1999-2001 averages.

	Exports	Imports	Balance	
	Ag/ TOT (%)	Ag / TOT (%)	EXAg/ IMAg	
South America				
Argentina	40.4	7.8	7.73	NEX
Bolivia	31.9	14.7	1.57	NEX
Brazil	31.0	7.9	4.08	NEX
Chile	26.1	7.8	3.51	NEX
Colombia	23.1	14.9	1.56	NEX
Ecuador	32.2	10.8	2.79	NEX
Paraguay	45.2	12.5	1.59	NEX
Peru	10.9	16.2	0.66	NIM
Uruguay	50.2	16.0	2.31	NEX
Venezuela	1.3	14.2	0.18	NIM
Central America and Mexico				
Costa Rica	30.6	11.4	2.21	NEX
Guatemala	56.2	16.8	1.50	NEX
Honduras	47.9	18.2	1.21	NEX
Mexico	9.4	11.7	0.62	NIM
Nicaragua	45.7	15.4	1.34	NEX
Panama	35.1	14.9	0.66	NIM
El Salvador	17.9	18.5	0.56	NIM
Caribbean				
Cuba	47.9	17.9	0.90	NIM
Dominican Republic	10.1	13.7	0.66	NIM
Haiti	7.6	33.7	0.06	NIM
Jamaica	17.1	13.3	0.52	NIM
Trinidad & Tobago	5.8	12.0	0.57	NIM

Source: Authors' calculations from FAOSTAT.
Note: NEX represents a net exporting country, NIM a net importing country.

2.2 Net trade positions in food and agricultural products

Table 2 presents trade in agricultural products, distinguishing between the net overall agricultural trade position and the net food trade position. The broad agricultural group covers the products discussed above in reference to Table 1. The food group includes cereals, dairy products, eggs, vegetable oils, meats and sugar. The concept of food here is broader than that used by some international agencies, such as FAO, which often excludes sugar and vegetable oils, based on a definition of "essential foods." One notable result of Table 2 is that only five of the 22 countries considered are net exporters of food, and all are in MERCOSUR or are associated members.[1]

At odds with the common perception of Latin America as an agricultural continent, 16 of the 22 countries are net food importers, nine of which are also net importers of all agricultural products. But in contrast to food products only, for all agricultural products there are ten net importers and twelve net agricultural exporters compared to five net food exporters. Notably, there are seven countries that are both net agricultural exporters and net food importers: Chile, Colombia, Ecuador, Costa Rica, Guatemala, Honduras and Nicaragua.

These results are relevant for agricultural trade negotiations. The common perception is that there exists a high cost of agricultural protection in OECD countries for Latin America, based on the presumption that most countries in the region are net exporters. Only five countries are net food exporters, and they are losers with current OECD protectionism - and subsidy-induced lower world prices. The increase in world prices due to a reduction in the protection and subsidies in the OECD would be beneficial for nonfood agricultural exports, affecting many more countries (12). While it is clear why most LAC countries - seeking to expand their exports - would be enthusiastic for trade liberalization and subsidy reduction in the OECD, the case of net-food and net-agriculture importers is ambiguous. It is, however, important to note that there is hypothetical possibility that today's net food import position in some products could decline due to trade reversals arising from higher world prices that would result from trade liberalization in the OECD.

Industrial country trade liberalization would increase world prices, and thus would increase the food import bill and have a negative effect on terms of trade. It is also often claimed that multilateral liberalization would raise the domestic prices of food. But considering that OECD trade liberalization would require at least some degree of reciprocal liberalization in developing countries, reduced tariffs and greater market access in LAC countries would have a mitigating effect on domestic prices. The final result on domestic prices would be uncertain, and depend on the magnitude of world price changes relative to the degree of reduced border protection in LAC countries. This helps to anticipate where OECD reforms would have significant impacts, and where they would not. It is difficult to discuss price effects in the aggregate, but for a particular country and a particular product, one could estimate the potential price and find to what degree a country might have flexibility to mitigate price increases on sensitive products.

[1] Two countries, Bolivia and Guatemala are borderline cases of net food importation. Bolivia, particularly in the Santa Cruz area, produces soybeans, rice and other grains.

TABLE 2

Net trade position in food and agricultural products (excluding forestry and fisheries), averages 2000-2002 (million US$)

	Food exports and imports				All agricultural exports and imports			
			Net Balance				Net Balance	
	Exports	Imports	EX-IM	EX/IM	Exports	Imports	EX-IM	EX/IM
South America								
Argentina	5 437.4	224.7	5 212.7	24.2	10 900.0	872.9	10 027.1	12.5
Bolivia	124.8	113.4	11.3	1.1	403.3	232.0	171.3	1.7
Brazil	5 769.0	2 076.9	3 692.1	2.8	16 000.0	3 768.2	12 231.8	4.2
Chile	359.0	577.3	-218.3	0.6	3 351.4	1 228.4	2 123.0	2.7
Colombia	388.8	724.8	-336.0	0.5	2 925.6	1 577.5	1 348.1	1.9
Ecuador	71.9	189.8	-117.9	0.4	1 592.1	475.2	1 116.9	3.4
Paraguay	131.5	58.7	72.9	2.2	519.3	310.1	209.3	1.7
Peru	54.5	616.1	-561.5	0.1	739.4	1 052.8	-313.3	0.7
Uruguay	733.5	112.2	621.2	6.5	998.0	387.3	610.6	2.6
Venezuela	64.1	858.0	-793.9	0.1	329.6	1 813.5	-1 483.9	0.2
Total South America	13 300.0	5 643.2	7 656.8	2.4	38 000.0	11 900.0	26 100.0	3.2
Central America and Mexico								
Costa Rica	178.8	205.4	-26.6	0.9	1 698.2	518.5	1 179.6	3.3
El Salvador	136.9	374.2	-237.3	0.4	539.3	822.0	-282.7	0.7
Guatemala	346.2	384.5	-38.3	0.9	1 434.7	793.0	641.7	1.8
Honduras	51.4	216.6	-165.3	0.2	630.8	491.1	139.7	1.3
Mexico	811.0	5 385.2	-4 574.2	0.2	8 191.1	11 200.0	-3 008.9	0.7
Nicaragua	152.0	146.9	5.1	1.0	404.4	294.2	110.2	1.4
Panama	51.5	180.8	-129.4	0.3	313.0	417.3	-104.3	0.8
Total Central America and Mexico	1 763.1	6 922.8	-5 159.6	0.3	13 300.0	14 700.0	-1 400.0	0.9
Caribbean								
Cuba	504.1	598.7	-94.5	0.8	812.8	848.2	-35.3	1.0
Dominican Republic	97.3	325.0	-227.7	0.3	595.0	691.9	-96.9	0.9
Haiti	0.0	259.3	-259.3	0.0	23.2	362.0	-338.8	0.1
Jamaica	96.1	283.3	-187.1	0.3	260.2	404.8	-144.6	0.6
Trinidad and Tobago	82.6	163.5	-80.9	0.5	248.8	344.5	-95.7	0.7
Total Caribbean	847.0	2 125.6	-1 278.6	0.4	2 310.2	3 746.4	-1 436.2	0.6
Latin America and Caribbean	15 900.0	14 700.0	1 200.0	1.1	53 600.0	30 300.0	23 300.0	1.8

+ Data for exports and imports are in millions of US dollars deflated by the World Bank's manufactures index (1990=100).
++ Fisheries are for 2000-2001. Agricultural exports (crops and animals) here comprise all primary and processed products.
Source: authors' calculations from FAOSTAT.

What are the lessons from the importance of agricultural trade in the region? First, the primary sector contributes significantly to overall national trade: more than a third of export revenues in recent years are in agro-forestry exports, although this share has been declining. There is considerable interest in obtaining marketing access in world markets to expand these agro-forestry exports. But the share of agro-forestry export trade to total trade is quite heterogeneous across LAC countries. Second, this high degree of heterogeneity carries over to countries' net trade positions in both food and all agro-forestry products. In terms of the number of countries, there is a high degree of food import dependence, relevant for future WTO negotiations.

3. Trade policy developments in the LAC region

3.1 Past unilateral domestic and trade policy reforms

Predating the Uruguay Round, most countries implemented economy-wide policy reforms in the context of an ambitious programme of structural reforms, which included trade liberalization, deregulation, privatization and a redefinition of the role of the state. Reforms were introduced in conjunction with macroeconomic stabilization. Trade reforms were initially unilateral, and subsequently incorporated into bilateral and sub-regional agreements (MERCOSUR, NAFTA, the Andean Group, and CAFTA). These reforms were also entirely consistent with the later adoption of the results of the Uruguay Round, leaving LAC with few mandated policy changes. The unilateral approach was also consistent with what we know today from global simulation modelling about the expected gains of agricultural trade liberalization: the principal beneficiaries of trade reforms are the trade liberalizers themselves.

One of the primary goals of trade reforms during the 1980s and 1990s was to reverse the strong bias that had existed previously in favour of manufacturing and urban sectors and against export agriculture. With reforms, domestic terms of trade between agriculture and the rest of the economy were expected to change to the benefit of the farm sector, especially in the case of exportable goods. But in several cases, prior expectations with regard to relative prices at the farm level were not realized, due most notably to currency appreciations and to a fall in border prices. By focusing only on sectoral trade policy reforms, it was natural to conclude that agricultural producers should have experienced a significant increase in relative prices. But, the data show that real domestic prices of farm tradables fell after the initiation of reforms in several countries, primarily as result of a currency appreciation (reinforced by occasional declines in world prices). In terms of prices, the main forces behind the changes in agricultural incentives were beyond the control of sectoral policies: exchange rates, border prices and real interest rates (Valdés, 1996). Although the real price of tradables in several cases had episodes of decline, the relative price of exportables to importables and home goods increased. Real export prices fell relative to general costs of living (using the CPI as the numeraire).[2]

[2] That is, agricultural export prices can fall relative to the prices of home goods, Pxa/Ph. But this does not exclude the possibility that agricultural export prices increased relative to the price of agricultural imports, Pxa/Pma, and in many cases in LAC this indeed happened. Moreover, in many cases agricultural export prices increased relative to non-agricultural tradables (primarily importables). That is, relative prices of exportables increased in many cases although the real prices (relative to the CPI) of tradables fell.

Given the above, there was a notably rapid overall expansion in agriculture-related exports in the 1990s, during the time of unilateral economic reforms, as shown in Table 3. The expansion of exports of primary agricultural products averaged around 5 percent per annum, but with a wide range from a high positive growth (Peru 10 percent, Brazil 9 percent, Mexico and Chile 7.5 percent) to a high negative growth (Bolivia, Colombia, the Caribbean in general, and Venezuela). Notable also are the growth rates in the exports of processed products, which are higher in most countries than the growth rates for primary products. This is especially true for Central America, Bolivia, Chile, and Mexico. The growth in forestry products is high in some countries, although one should remember that, beyond a few countries, the reference base is small. As an overall conclusion, in the LAC region generally the export agro-forestry sector has been dynamic over the past decade.

The growth in agro-processed products points to the importance of confronting the tariff escalation issue, both in FTAs with the US and in WTO negotiations. At least in terms of bilateralism with the US, reductions in tariffs on processed and storageable commodities were left behind, with an eight to twelve year period before tariff reductions. Moreover, such products remain vulnerable to the application by the US of special safeguards. This was clearly the case of the US-Chile agreement, used as a template for CAFTA. What is remarkable from looking at Tables 3 and 4, is that there has been a fast growth in processed products despite high tariff escalation on the part of developed countries. This suggests that exports of this sector could expand even faster.

As a general rule for the LAC region, export agriculture did expand in spite of the unexpected and unfavourable changes in domestic terms of trade. Moreover, exports expanded faster for countries that had early and sustained reforms. The bias against export agriculture did indeed decline: not only were export taxes eliminated and protection to importables reduced, but also trade reforms were accompanied by other policy changes, such as deregulation and privatization, which reduced significantly the transactions costs of agricultural and agro-processing activities. That is, the opening of trade was a leading element of economic policy reorientation, but it was only part of the story. Trade reforms were made in the context of economy-wide structural reforms, macroeconomic adjustments, deregulation and privatization. Modernization of ports, the privatization of telecommunications, airline and shipping deregulation, cheaper equipment, machinery, and raw materials due to tariff reductions, greater flexibility in the foreign exchange regime and financial sector, and other changes, were influential in determining the response of agriculture.

One should recognize the difficulty of isolating the partial effects of trade liberalization from the myriad impacts that resulted from general economic reforms. Nevertheless, it is possible to discern a pattern from recent analyses. First, in most cases trade reforms did have a positive impact on agriculture, particularly exportables. Without trade reforms, other reforms probably would have had a limited impact on the sector. That is, the sequencing of reforms, and especially trade liberalization early on and the removal of distorted domestic prices, was very

important, although many tend to ignore the importance of initial and credible changes in incentives. Second, the breadth of the reform programme matters: there are complementarities between trade reforms and other economic policy changes. The positive impacts of trade liberalization on the performance of the agricultural sector - in terms of changes in product mix, investments, resource mobility and greater flexibility to adjust to changing conditions - were enhanced by improving infrastructure, deregulation and privatization, and more generally reorienting the economy toward markets.

TABLE 3

Annual (compounded) rate of change in exports 1990/1992 to 2000/2002, primary and processed agricultural products, forestry and fisheries

Country	Primary agriculture	Processed agricultural products	Forestry products	Fisheries	Agriculture, forestry and fisheries
Argentina	4.10	6.58	7.12	8.49	5.59
Brazil	8.92	4.72	6.06	6.80	6.59
Bolivia	-6.14	17.05	-5.16	-21.62	8.21
Chile	7.45	12.05	7.36	7.32	8.07
Colombia	-1.98	9.52	15.03	3.86	2.25
Costa Rica	4.40	13.09	6.65	10.30	6.77
Cuba	-11.41	-12.07	-18.55	-2.62	-11.46
Dominican Republic	1.50	7.60	4.72	9.98	5.49
Ecuador	3.92	13.97	9.03	2.16	4.75
Guatemala	5.47	7.66	3.69	3.83	6.13
Haiti	-1.37	-1.08	22.66	8.97	-0.37
Honduras	-0.01	13.21	8.35	5.98	1.86
Jamaica	0.65	1.45	-39.12	4.15	1.20
Mexico	7.39	16.25	3.02	8.30	10.17
Nicaragua	5.25	12.19	22.03	20.17	8.65
Panama	-0.09	3.64	9.27	13.74	4.20
Paraguay	-2.96	3.97	1.85	5.42	-1.66
Peru	10.27	9.26	33.38	11.05	10.30
El Salvador	0.39	15.97	11.73	6.66	6.12
Trinidad and Tabago	5.47	8.67	5.59	15.86	8.64
Uruguay	2.59	5.04	16.42	1.95	4.20
Venezuela	-6.33	5.33	9.25	6.76	3.43
South America	5.09	6.47	6.90	7.05	5.95
Central America	5.31	13.94	4.65	9.65	8.12
Caribbean	-5.29	-5.93	3.45	1.11	-5.37
LAC Region	4.88	5.80	6.73	7.25	5.56

Source: Authors' estimates based on FAOSTAT. Annual rates of change based on averages for the years from 1990 to 1992 and from 2000 to 2002. Fisheries based on 2000 to 2001. Nominal values in dollars deflated by the Manufacturers Unit Value index of the World Bank. Primary and processed agricultural products based on FAO definitions.

There has been over the last several years little consensus across the region with respect to the social impact of the reforms. This is in part due to the difficulty in isolating the effects of reforms from mismanagement and exogenous shocks. In any event, the emphasis of the policy debate over structural and sectoral reforms has shifted: from the productive and export potential of agriculture, to the difficulties posed by a liberalized economy for import-competing farmers; and from the impact on farmers and urban consumers (who are now nearly forgotten), to the rural poor and the small farm sector presumed excluded from the benefits of more open trade.

Did the benefits of reform not reach some sectors? Yes, part of the small farm sector was excluded. This subset includes those who farm in relatively low-productivity areas, but also, more generally, part of the small farm sector faces difficulties in adjusting to several changes in the economic environment: an open trade regime (higher price risk), the increasing demands of buyers for higher volumes and standards (associated with the increasing concentration of agribusiness and the development of supermarkets), the general trend toward greater capital intensity, and the overall reduction in subsidies to agriculture. But with respect to rural poverty, we conclude that, overall, reforms did not contribute to poverty, and in some cases contributed to the reduction of poverty.

Economic reforms toward open trade do not guarantee benefits for all agricultural sub sectors. The objective of such reforms should be to improve the use of resources generally, to permit all economic agents - and the agriculture sector specifically - to discover their comparative advantages. With the experience of the LAC region, one can draw a few lessons. First, that no country's farm sector as a whole was worse off as a result of the reforms. Second, for the countries that stayed on course with a coherent policy strategy, agriculture showed significant positive outcomes, primarily in the export-oriented sector. Third, a subset of farmers suffered as producers in import-competing activities, although not as consumers. Fourth, if there is fiscal flexibility, a government might well look both at targeted compensation schemes, and at exit strategies for uncompetitive sectors.

TABLE 4
Tariff escalation: average MFN applied out-of-quota duties (percent)

Product		EU	US	Japan
Tropical	**Coffee**			
	Raw	7.3	0.1	6.0
	Final	12.1	10.1	18.8
	Cocoa			
	Raw	0.5	0.0	0.0
	Intermediate	9.7	0.2	7.0
	Final	30.6	15.3	21.7
Fast growing products	**Fruits**			
	Raw	9.2	4.6	8.7
	Intermediate	13.3	5.5	13.2
	Final	22.5	10.2	16.7
	Vegetables			
	Raw	9.9	4.6	8.7
	Intermediate	13.3	5.5	13.2
	Final	22.5	10.2	16.7
	Seafood			
	Raw	11.5	0.6	4.9
	Intermediate	5.1	3.2	4.3
	Final	16.2	3.5	9.1

Source: Aksoy and Beghin (2004) based on WTO IDB data.

Beyond world commodity market trends, there have been recent policy developments that present special opportunities and challenges to the region's agricultural sector. The most directly important (although perhaps not the most long-term significant) development has been the several bilateral and sub regional trade agreements. Following the earlier NAFTA, MERCOSUR, the Andean Group, and the Central American and Caribbean agreements, the most notable new initiatives have been with US participation: agreements with Chile, CAFTA (including the Dominican Republic), and negotiations with the Andean Group. Mexico and Chile already have agreements signed with the EU. There have also been agreements signed between Chile and both Canada and the Republic of Korea; and some countries are negotiating with China and India, Mexico with Japan; and MERCOSUR is negotiating with the EU. These concluded and future agreements will increase pressures on the competitiveness of national agricultural sectors and induce adjustments.

This trend toward regional integration has been an ongoing interest of the United States particularly. For example, the Caribbean Basin Initiative was configured to facilitate trade between the US and 24 countries in the Caribbean and Central America. It started in 1983 as the Caribbean Basin Economic Recovery Act (CBERA) and it was renewed in 2000 under the denomination of Caribbean Basin Trade Partnership Act (CBTPA), which will expire in September 2008. The agreement provides free duty treatment for member countries and quota free benefits in some cases. The beneficiaries are Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago.

In 1991, the US Andean Trade Preference Act (ATPA) was enacted to promote the eradication of drug production and trafficking in Colombia, Ecuador, Peru and Bolivia. It expired on December 2001 but ATPA was renewed in 2002 under the name of Andean Trade Promotion and Drug Eradication Act (ATPDEA) which, will expire on December 31, 2006. The preference benefits around 5 600 products to enter the American market with duty free access.

In addition to CAFTA (which eliminates 80 percent of tariffs immediately and the remainder over the next 10 years) and the US-Chile bilateral agreement (in which, 90 to 95 percent of tariffs were eliminated), the United States also signed in December 2005 an agreement with Peru, to promote a comprehensive opening. The Bush Administration strategy is to advance with a Andean regional agreement which includes also Ecuador and Colombia. Negotiations with the latter countries have not been resolved on topics related to agricultural subsidies, protection of biodiversity and rules of origin. Most controversial issues for agriculture typically will be domestic protection. For example, Peru has recently been more open with respect to market access for US goods, but this has caused heartburn in Colombia where farm lobbies and existing protection (including a wide use of quotas) are more extensive, such as for maize, rice, chicken parts and other potential imports from the United States.

It should be stressed that today, unlike the situation a decade ago, most countries in the LAC region appear to be putting more emphasis on trade agreements with the North and with large economies in Asia. This is due in part to the expected gains from access to large and more stable economies in the developed world and Asia, the low expectations about major reductions in agricultural support in the OECD under the Doha Round, and also to the perceived poor performance of sub-regional agreements.[3]

MERCOSUR is a notable example of an imperfect customs union,[4] with its

[3] Of course, Venezuela is currently in a distinct position, incorporating itself into MERCOSUR and searching for alliances in South America in opposition to the FTAA led by the United Status. There is here perhaps less than meets the eye, in any event likely will not much influence agricultural trade. But it may have some impact on the supply of gas and oil. The present opposition to the FTAA by Argentina and Brazil does have some relation to the reluctance of the United States to discuss agricultural subsidies outside of the WTO.

[4] There are four core members and six associates, the latter group is not subject to the common external tariff and not limited to trade negotiations within MERCOSUR as a unit. They also do not participate in the highest decision making bodies of the customs union.

members prone to economic crises in the recent past and large fluctuations in their currencies' exchange rates. MERCOSUR has a "common" external tariff with 800 exceptions, domestic policies are misaligned with members' stated common trade objectives, and countries maintain their individual systems of trade and investment incentives. Although MERCOSUR's objectives go beyond trade in goods (e.g. one aim is infrastructure integration), after ten years the four core members of the block have reduced their participation in world trade by a third. In this light of what can reasonably be expected from a sub-regional agreement, it is worth noting that Central America has already signed CAFTA and the Andean Group is in negotiations with the United States.

What can one say about this regional emphasis in trade agreements in regard to its compatibility with the multilateral framework of the WTO? Recently the Inter-American Development Bank (IADB, 2002) surveyed the New Regionalism in Latin America and concluded five points with respect to regionalism and the multilateral system:

1) Although there might be a conflict between preferential trade agreements and the multilateral system under some circumstances, in the case of LAC the two approaches appear complementary. The multilateral system treats a "hypermarket," establishing orderly world trade rules by consensus. Regionalism treats a neighbourhood where possible trade liberalizations beyond those feasible at the world level can be negotiated, and where extra-commercial policy considerations can be incorporated.
2) Regional integration is sometimes a worthy second best option, especially given the speed of the multilateral system's ability to advance and to respond to the asymmetries in countries' capacity to participate, negotiate and implement new rules.
3) LAC countries apparently do not view regionalism as a substitute for multilateral negotiations, and many LAC countries have been very active in the Doha Round and past multilateral negotiating rounds.
4) The negotiations that have led to the present new regionalism have served as a testing and training ground for introducing new rules into the multilateral system. NAFTA served as such a laboratory for the Uruguay Round. And, perhaps ironically, the very preferences that might arise from bilateral or regionalist agreements can serve as incentives from third parties to push multilateral negotiations in order to erode these preferences.
5) Finally, while bilateral and regional agreements tend to treat non-systemic trade issues alone (where direct effects on third parties are not an issue), the WTO is considered the necessary vehicle for reducing domestic supports and systemic questions related to third parties that cannot be dealt with at the bilateral level. As Jank and Jales (2004) point out, "Subsidies are best addressed through multilateral negotiations, such as the WTO negotiations, and by contrast market access is best addressed in a bilateral or regional framework" (p. 13).

3.2 What is the state of agricultural protection levels in Latin America and Caribbean today? Is there a trade policy bias for or against agricultural activities?

In the past, the policies of many developing countries, including a number in the LAC region, discriminated against their own agriculture. This was typically done by taxing agriculture directly (for example, controlled food prices and export taxes), but also and more importantly indirectly through industrial protection and macroeconomic policies. These implicit taxes (or indirect effects) on agriculture derived from overvalued exchange rates and policies protecting industrial sectors, which turned domestic terms of trade against the farm sector and raised input prices.[5] In 2004, almost certainly the bias is considerably below what it was when measured for the 1970s and 1980s, although, unfortunately, a serious comparative analysis for the last decade and covering a number of countries has yet to be done to update the estimates of direct effects (since 1995) and of indirect effects (since 1985).[6] During the 1990s, many of these interventions were indeed eliminated or reduced in scope. According to a study by the World Bank,[7] tariffs on industrial products have been lowered more than those on agricultural products, and exchange rate overvaluation is less prevalent. Nevertheless, the broad perception remains that many developing countries still retain a policy bias against agriculture.

One measure of protection is found in the tariff schedules that countries report to the WTO. Tables 5 and 6 present a summary of regional MFN tariffs corresponding to the year 2000, and their tariff peaks (tariffs greater than 15 percent).[8] Table 7 shows the FAO's estimates of regional agricultural tariffs between 2000 and 2002. Contrary to the widespread image of an unprotected, competitive, export-oriented agriculture in Latin America, one notes from the tariff schedules that MFN tariffs on the imports of agricultural and food products are relatively high for many countries. Across the countries presented, the average level of tariffs for livestock is 17 percent, for crops 12 percent, and for textiles 18 percent. Mexico has the highest MFN tariffs for agriculture and food products (categories I, II, and IV), followed by Peru. Chile has the lowest tariffs, and in 2004 the uniform MFN is even lower at 6 percent.

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[5] See for example the study by Krueger, Schiff and Valdés (1988).

[6] The last major comparative study on the direct effects of agricultural was published by the World Bank for 1985-1995 covering eight countries (see Valdés, 1996). Ideally it is the relative effective rate of protection between tradable in RNR and tradables in non-RNR activities that would measure policy induced effects. These are rarely available. See Schiff and Valdés (2002) for a discussion of the various trade and exchange rate policy-induce effects on RNR incentive.

[7] World Bank (2002). *Reaching the Rural Poor: Strategy and Business Plan*. Chapter 4.

[8] Tariff schedule would only represent a part of total protection. Three additional adjustments would have to be included for a complete picture: tariff preferences, the effects of nontariff barriers (particularly important in the case of sanitary and phytosanitary regulations), and special surcharges (such as price bands in Colombia, Venezuela, Ecuador, Peru and Chile). MFN rates would understate the true levels of protection, due both to surcharges and to quantitative restrictions. Estimates of tariff equivalents in the past for Latin America have shown that MFN rates were considerably below true price wedge between border and domestic prices (Valdés, 1996). A tariff equivalent is the ad valorem equivalent of tariff and nontariff barriers as measured by direct price comparisons between border and domestic farm prices adjusted for quality differences, transport costs and other costs of marketing. Unfortunately, there is no up-to-date estimate of tariff equivalents that includes many countries and large proportion of the agricultural and forestry sector following a common methodology.

Overall, crops and the wood products sectors are protected comparably less than livestock. Processed food products also receive higher protection, demonstrating the widespread phenomenon in industrial and developing countries of tariff escalation. Of the various sectors, textiles are generally most protected, and industrial protection is similar to livestock and processed foods, but higher than crops.

TABLE 5
Average MFN tariff rates by product category, 2000

Categories	I	II	IV	X	XI	XXI.I	XXV	
Countries	Animals	Crops	Foodstuffs, Beverages and Tobacco	Wood Pulp, Paper	Textile	Machinery, Electrical Equipment	Miscellaneous Manufactured Articles	Total lines across categories
Argentina	17.0	10.2	18.5	15.8	21.0	17.2	21.8	1,449
Bolivia	9.4	10.0	10.0	10.0	10.0	8.7	9.9	1,554
Brazil	16.7	10.6	18.5	15.1	20.6	18.6	21.6	1,417
Chile	9.0	9.0	9.0	9.0	9.0	9.0	9.0	1,658
Colombia	19.5	12.7	19.0	14.0	18.6	11.0	17.8	1,586
Guatemala	15.5	10.6	12.9	4.8	18.8	4.0	11.4	1,628
Honduras	15.5	11.4	15.4	5.6	17.1	4.9	12.8	1,574
Mexico	27.1	19.7	23.1	13.2	24.8	16.7	24.1	1,750
Peru	24.5	17.2	21.7	12.0	18.0	12.0	12.0	1,462
Paraguay	15.8	10.4	17.8	15.2	20.9	13.1	19.0	1,536
Uruguay	14.7	9.8	17.8	14.1	20.1	15.3	19.9	1,494
Venezuela	19.5	12.8	19.1	13.9	18.8	11.8	18.3	1,586
Average tariff	17.0	12.0	16.9	11.9	18.1	11.9	16.5	
Average number of tariff lines	34	66	64	100	519	658	117	658

Source: Authors' calculations based on WTO.

Tariff averages by broad categories of products reflect the situation of many activities, some very small, and hide the protection to a few sensitive and generally larger subsectors. More relevant for understanding protection profiles is to examine tariff peaks. A tariff peak is defined as a high tariff value exceeding some threshold. In the context of industrial countries' tariff profiles, the commodities on which most tariff peaks apply are generally those of relatively greater importance for developing countries as exporters,[9] accounting for large share of total developing country exports. From a political economy point of view this is where the "action" is, and in post-Cancun WTO discussions the question of tariff peaks is being explicitly addressed. Table 6 presents the proportions of tariff lines in LAC countries, by product category, that have tariff values exceeding 15 percent.

[9] See Hoekman, Ng, and Olarreaga (2001)

TABLE 6
Proportion of tariff line by product category that have tariff values exceeding 15 percent

Categories	I	II	IV	X	XI	XXI.I	XXV	XXI.II
Countries	Livestock	Crops	Foodstuffs, Beverages and Tobacco	Wood Pulp, Paper	Textile	Machinery, Electrical Equipment	Miscellaneous Manufactured Articles	Machinery and mechanical appliances
Argentina	0.53	0.00	1.00	0.85	0.97	0.69	1.00	0.16
Bolivia	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Brazil	0.55	0.00	1.00	0.80	0.94	0.86	1.00	0.81
Chile	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Colombia	1.00	0.61	0.95	0.74	0.95	0.37	0.92	0.03
Guatemala	0.71	0.47	0.72	0.15	0.77	0.14	0.54	0.00
Honduras	0.75	0.46	0.74	0.15	0.78	0.15	0.55	0.04
Mexico	0.66	0.65	0.75	0.16	0.94	0.69	0.97	0.34
Peru	0.85	0.44	0.78	0.00	0.76	0.00	0.00	0.07
Paraguay	0.61	0.01	0.91	0.81	0.93	0.46	0.85	0.07
Uruguay	0.43	0.00	0.97	0.72	0.91	0.65	0.92	0.14
Venezuela	1.00	0.64	0.94	0.71	0.97	0.45	0.94	0.04

Source: Authors' calculations based on WTO.

Except for Bolivia and Chile, where uniform (and low) tariffs are the rule, one notes that there are surprisingly high proportions of tariff peaks in all product categories, in many cases, more than 70 percent of all category lines. The highest proportion of tariff peaks is found in Brazil, Argentina, Venezuela, and Colombia. As in the case of average tariffs by product category, livestock and food products generally have a greater number of peaks as a proportion of tariff lines than do crops. Nevertheless, the proportion of tariff peaks for crops is noticeably high for Colombia, Guatemala, Honduras, Mexico, Peru, and Venezuela. Conspicuously, the six MERCOSUR countries (including associated members) have no tariff peaks for crops, although for forestry, livestock and processed food the incidence of tariff peaks is very high for this group of countries (excepting Bolivia and Chile). Although MERCOSUR has uniformly low protection for crops, in the other half of the countries, crops are protected by tariffs that exceed 15 percent in 45 percent or more of tariff lines in that category.

TABLE 7
Average Agricultural Tariffs in LAC: 2000-2002

	Simple average	Coefficient of variation	Weighted average
South America			
Argentina	12.1	41.3	13.7
Bolivia	10.0	8.0	9.9
Brazil	12.2	42.6	11.5
Chile	7.9	3.8	8.0
Colombia	14.8	35.1	14.6
Ecuador	14.6	36.3	14.3
Paraguay	11.6	39.7	16.2
Peru	17.2	38.4	16.5
Uruguay	12.3	39.8	13.9
Venezuela	14.8	35.1	16.2
Central America and Mexico			
Costa Rica	11.8	120.3	10.8
Guatemala	9.9	74.7	10.9
Honduras	10.2	72.5	10.6
Mexico	20.9	123.4	28.2
Nicaragua	8.1	87.7	11.1
Panama	12.8	103.1	11.7
El Salvador	10.8	83.3	12.5
Caribbean			
Cuba	9.8	77.6	10
Dominican Republic	15.7	61.1	12.5
Jamaica	15.5	109.0	16.4
Trinidad & Tobago	14.5	109.7	13.9

Source: FAO, 2005

What emerges from these tariff data is that, contrary to a general bias in trade policies against agriculture, there appears to be a bias in favour of at least livestock and processed foods across most countries. And in the case of crops, the evidence is heterogeneous, depending on the particular country. What is clear is that there is scope for tariff reductions that might counteract the negative effects on consumers of world price increases due to global trade liberalization. Given that there is room for tariff reductions on importables - and in the context of ongoing negotiations that will put further pressure on lower trade barriers - one can anticipate a strong political interest in possible compensation programmes to cushion the transition of those producers and consumers who are adversely affected by a freer trade regime.

4. Assessing the potential impacts of multilateral trade agreements

4.1 What might be in store from agricultural trade policy developments in the Doha Round?

Beyond the region, the most important trade policy development is connected to possible farm policy changes in the EU and the US, and the related current WTO negotiations under the Doha Round. Although the progress in agricultural policy reforms in OECD countries has been modest, as is made evident by continued high levels of support, there has been some movement toward greater market orientation. There has been a shift away from income supports based on maintaining artificially high farmer prices and output payments towards programmes relatively more "decoupled" from production decisions.[10] The overall level of OECD farmer support has not significantly decreased following the Uruguay Round, but there has been a change in the mix of the types of policies used. As assessed by Tangermann (2003), the distortions between domestic producer prices and international market prices have lessened, as market price supports and output payments have decreased notably as a share of total support.

Importantly, the EU, the US and other major world market players have recently stated their willingness to discuss an eventual removal of export subsidies and a reduction in domestic subsidies. Although the policy debate is still fluid and yet to yield final results, one can anticipate a modest reduction in protection of agriculture in OECD countries, which will have consequences for increasing international prices to some degree. How important are the ongoing negotiations? What are the likely impacts on Latin America of these future international trade policy developments?

As summarized in Table 8, a number of recent studies have analysed the impact of full multilateral trade liberalization on global and regional welfare.[11] Global, multiregional, and multisector CGE studies apply a variety of models (GTAP, the World Bank's LINKAGE, and MIRAGE), and apply differing specifications and policy simulations. There are also studies that use partial equilibrium frameworks, such as those by Hoekman and others (2002), Rosegrant and Meijer (2002), and Vanzetti and Sharma (2002). The FAO has applied its ATPSM model, and OECD (2002a) has used AGLINK. There also have been recent studies by Anderson, Martin and van der Mensbrugghe (2006), Hertel and Winters (2006), and, focusing on poverty, Cline (2004). What can one conclude from these modelling efforts? In particular, what are the sources of welfare gains of trade policy changes and who are the main beneficiaries?

[10] To be "decoupled" or delinked from production decisions, direct payments shall meet the following criteria: (1) Eligibility for such payments shall be determined by clearly-defined criteria such as income, status as a producer or landowner, factor use, or production level in a defined and fixed base period. (2) The amount of such payments in any given year shall not be related to, or based on, the type or volume of production (including livestock units) undertaken in any year after the base period. (3) The amount of such payment in any given year shall not be related to, or based on, the prices, domestic or international, applying to any production undertaken in any year after the base period. (4) The amount of such payment in any given year shall not be related to, or based on, the factors of production employed in any year after the base period. (5) No production shall be required in order to receive such payments. See WTO (1994) Green Box of direct payments for compensation.

[11] For a review of 15 recent modelling efforts, see Krivonos (2003).

The first observation that can be made regarding these studies is that all models predict that full trade liberalization leads to an expansion of trade flows, higher commodity prices, and welfare gains for the liberalizers. The models with varying degrees of success attempt to incorporate both the reduction in tariffs and the removal or expansion of import quotas in OECD countries. With respect to welfare gains to individual developing countries, most can be attributed to their own trade reforms. For example, the World Bank reports[12] that for developing countries, 83 percent of total welfare gains from global agricultural trade reform derive from their own trade liberalizations. There are, of course, differences in the details. The general equilibrium models, where economic sectors are interlinked, produce larger global welfare gains than those implying a partial equilibrium approach. Although one should not place too much confidence in dynamic, general equilibrium simulations of long-run outcomes, dynamic CGE models predict even greater welfare gains by incorporating endogenous productivity growth and capital accumulation related to trade openness.

The results regarding the distribution of gains among industrial and developing countries vary greatly. The static version of the World Bank's Linkage model predicts that low- and middle-income countries would capture half of the total gains from full liberalization. Other studies (Cline, 2004; Dimaranan, Hertel, and Keeney, 2002) estimate that these shares are closer to one third. The partial equilibrium models also differ: Rosegrant and Meijer estimate that over one half of total welfare gains are absorbed by developing countries, while Vanzetti and Sharma calculate that only one quarter go to developing countries. Moreover, the studies disagree as to the principal sources of welfare gains due to trade liberalization. The World Bank's LINKAGE simulations suggest that most of the welfare gains in developing countries stem from their own liberalization. This is reinforced by Vanzetti and Sharma's results showing that developing countries gain only from unilateral trade liberalization, but lose from liberalization in industrial countries. In Dimaranan *et al.*, considering all economic sectors, only one quarter of the welfare increase in low-middle income countries is due to their own liberalization.

One source of welfare losses for developing countries is that, especially for chronic net food importers, consumers suffer higher food costs with global agricultural policy reform, because many of the subsidies in richer countries are presently stimulating the production of food staples, such as wheat, and thus reducing world prices of these products. (For example, Tokarick (2003) notes that, if the OECD were to remove their subsidies but keep tariffs, Brazil and Argentina, both strong agricultural exporters, would gain substantially. But the rest of Latin America would lose 559 million a year in 1997 dollars.) Moreover, the wide differences in estimates for the gains to developing countries as a whole are due in part to how individual developing countries are treated in the models. In particular, there are some developing countries that now enjoy trade preferences that allow them to sell at the EU and US internal prices, which would fall from tariff reduction.

[12] World Bank (2002). *Reaching the rural poor: strategy and business plan*. Chapter 4.

The European Union began a system of preferences for former European colonies in the 1950s. In 1975, The Lome Convention was signed with 46 countries and included 73 by 2000, the year of its expiration. It basically benefited imports from low income countries, most of them African, Caribbean and Pacific (ACP) states. The European Union decided to establish a new arrangement to renew the previous preferences and the Cotonou Agreement was signed in 1998. The new agreement intended the creation of mutual trade liberalization, instead of the non-reciprocal preferential tariff schedules. The majority of former colonial territories in the Caribbean benefited from duty and quota free access, for bananas and sugar predominantly. The production of bananas alone accounts for almost 50 percent of the export earnings for some islands (St. Lucia, Dominica, St. Vincent) and also nearly 35 percent of its total employment.[13] For many countries with trade preference, there would be a gain from world price increases, but losses from falling domestic prices in their preferred trading partners.

The large differences between the studies' results, with respect to who are winners and losers, also emphasizes that the simulations are sensitive to model specification and the choice of parameters. Differences in baseline scenarios and the year of the baseline, sectoral coverage, and regional decomposition are crucial, as are trade elasticities, which determine the substitution between domestic and the foreign goods. Nevertheless, there are certain general results in common in the case of LAC. The large agricultural producers, Argentina and Brazil, especially appear to be winners due to OECD liberalization. Some models show that the rest of LAC, treated as an aggregate (which is not very useful), does not fare so well. The dynamic models, as more recently confirmed by Anderson, Martin and van der Mensbrugghe, do however tend to show large gains for the rest of LAC, beyond Argentina, Brazil and Mexico, in fact comparable to those gains for Brazil in value terms, and for Argentina in percentage terms This study shows that the percentage gains for real income from full liberalization are 1.2 percent for Argentina, 1.5 percent for Brazil, 0.4 percent for Mexico, and 1.2 percent for the rest of LAC. There are, however, other studies, such as that of Tokarick, that find losses for several Latin American countries.

With reference to poverty, Cline finds that the greatest positive impacts on real income of the poor are in Central America and the Caribbean, due to the relative higher poverty elasticity with respect to national economic growth in comparison with other LAC subregions. (This elasticity is even higher in Asia, but lower in Africa.)

Finally, with respect to poverty reduction generally, the most recent studies of the World Bank, in contrast to previous results by the same institution, show that poverty reduction due to trade liberalization may be less than originally thought. The benefits in terms of poverty reduction were likely overstated in the past. Bhagwati (2005) warned some time ago against raising too high expectations for removing trade barriers: "But the claim that removing them will help the poorest countries is "dangerous nonsense" and a "pernicious fallacy" (The Economist, 23 May 2005).

[13] For a quick discussion of trade preferences, see Wainio, *et al.* (2004)

TABLE 8

Summary of world price results for simulations of multilateral trade policy liberalization (percent)

Simulation	Model	Sector	Wheat	Rice/ Paddy rice	Sugar/ refined	Bovine meat/Beef	Processed dairy/Milk	Maize	Poultry
Full global liberalization									
Dimaranan and others (2002)	Static, GE	All merchandise	25.2	5.5	5.9	6.7	13.1		
Rosegrant and Meijer (2002)	Static, PE	Agriculture	8.1	13.1		18.0		9.6	11.9
Vanzetti (2002)	Static, PE	Agriculture	15.9	4.5		11.6		7.8	11.0
van der Mensbrugghe and Beghin (2004)	Dynamic, GE	All merchandise	5-15		20-40		20-40		
Industrial country liberalization									
Dimaranan and others (2002)	Static, GE	All merchandise	23.0	5.0	6.7	6.5	11.9		
Rosegrant and Meijer (2002)	Static, PE	Agriculture	0.8	1.6		5.2		2.9	3.8
Vanzetti (2002)	Static, PE	Agriculture	11.5	1.9		7.2		3.1	2.6
Beghin and others (2002)	Static, GE	Agriculture	12.0	5.5	9.0	10.4	8.3		
Developing country liberalization									
Dimaranan and others (2002)	Static, GE	All merchandise	1.6	0.5	-0.6	0.2	0.7		
Rosegrant and Meijer (2002)	Static, PE	Agriculture	8.1	11.5		12.4	11.6	6.7	8.1
Vanzetti (2002)	Static, PE	Agriculture	4.1	2.1		4.1	4.2	4.7	7.9
Partial liberalization									
Dimaranan and others (2002)	Static, GE	All merchandise	12.6	2.3	2.8	2.8	5.8		
Bouet and others (2003)	Static, GE	All merchandise	10.1	14.5	10.0	6.0	31.3		
Fontagné and others (2003)	Dynamic GE	All merchandise	14.0	11.0	71.0	15.0	85.0		
Rosegrant and Meijer (2002)	Static, PE	Agriculture	4.1	6.0		8.1	14.0	4.8	5.6
Vanzetti (2002)	Static, PE	Agriculture	7.1	1.7		4.5	6.6	2.8	4.1
Thompson (2002)	Static, PE	Agriculture	-0.2	0.5		3.6	9.5	0.2	
Thompson (2002)	Static, PE	Agriculture	1.4	0.2		5.5	6.8	1.3	
Thompson (2002)	Static, GE	Agriculture	4.6			1.3	1.3		

Source: Krivonos (2004), prepared for the World Bank.

4.2 World price distortions: How much? The implications for domestic price determination

An argument is commonly made in political debates in Latin America that world prices are false guides for determining domestic prices of importables, because they are so distorted by high OECD subsidies on agriculture. This is less an argument about efficiency (and certainly not about consumer welfare) than it is about "fair trade" and treatment for domestic producers. Is this contention of highly distorted world commodity prices supported by research on the effects of trade liberalization? The predicted directions of effects on world prices are fairly uniform across studies, with most price increases occurring for commodities that are heavily protected in the baseline periods. Such commodities include wheat, sugar, rice, processed meat, and dairy products (Table 8), of which sugar and dairy product markets are the most distorted. In addition, several studies find that markets for processed foods are subject to significant tariff escalation, implying that reforms in the processed foods sectors could yield significant gains to developing countries beyond the benefits that might arise from reform in primary agriculture alone.

The magnitude of the price increases differ across products and across studies, but are in the order of 10 to 15 percent, although in some particular cases higher. For example, with the exception of the dynamic general equilibrium simulation of Fontagne, and van der Mensbrugghe and Beghin, the modelling efforts predict that prices for sugar (one of the most protected commodities) would increase between 0 and 10 percent. The dynamic GE models predict 20 to 40 percent increases, and as high as 71 percent. For wheat, again with the exception of one of the models, price increases run 12 percent or less. In general, global liberalization gives higher world price increases than partial liberalization. But the overall conclusion from these simulation studies is that trade liberalization in both industrial and developing countries would produce commodity price increases that would be small relative to what is generally perceived in the debate in Latin America over price supports to import competing producers as compensation for world price distortions. This misperception of what ought to be the world price effects of global liberalization is likely due to the confusion between PSEs (the total level of OECD agricultural support) and what is the final impact on world prices. What matters for LAC countries are world price effects, and not the levels of total support to farmers, no matter how high. In a more economically efficient world, effective decoupled payments would result in large PSEs but with very small world price distortions.

The political debates typically centre on the possibility of highly distorted levels of world prices rather than the price transmission of volatile world prices.[14]

[14] Relevant to the question of how much lower are world prices relative to what they would otherwise be with trade liberalization is the unarguable observation that simulated world price changes are small relative to the standard deviation of year-to-year price volatility in primary commodity markets. Rodrik (2003) argues that the effects of trade liberalization are likely to be dwarfed by other sources of price variability, and is supported by Gilbert's (2003) estimates of the yearly standard deviation of price changes for maize (15 percent), rice (23 percent), soybeans (16 percent), sugar (43 percent), and wheat (16 percent). This does not minimize the importance of a permanent increase in 10 to 15 percent in world prices.

There are instruments to deal with volatility without introducing higher levels of protection, but this is a subject beyond this paper. Nevertheless, it is interesting that, in the context of the WTO, there is much interest in creating new special safeguards for agriculture for developing countries that would deal with the concerns about price transmission and volatility. This is relevant for the LAC region because several countries have in place price bands, and variations on the price band theme, which are in effect safeguard mechanisms in terms of protecting a floor price, despite their stated objective of stabillization.

The large-scale modelling efforts do not effectively incorporate the political aspects of the impacts of price transmission: they are primarily aimed at price levels. The Uruguay Round was to enhance transmission (by removing QRs and variable levies), so one would expect that price transmission would have increased post-Uruguay-Round. But the domestic political concerns about the effects of low world prices on producers remain, and generate many internal political debates. Interestingly, the transmission question has recently re-attracted the interest of economists (Baffes and Gardner, and Conforti). Certainly several countries take negotiating positions implicitly based on the assumption that greater price transmission is better; but other countries propose instruments (e.g, special products) that would reduce price transmission. We raise the question to leave it open: To what extent does the price transmission issue underlie current negotiating proposals?

5. Trends in LAC agricultural and trade policy

5.1 Negotiating positions: Geneva, before and after Cancun, Mar del Plata and Hong Kong

The trend toward bilateral agreements, especially with the US, EU and large Asian economies has been discussed above. Latin American countries have mainly followed the guidelines established by the WTO. Five years ago, Valdés (2000) noted that one could distinguish between three negotiating sub-groups in the LAC region. The South America block was represented in the Cairns Group. Caribbean countries held an opposing position favouring a slower pace of trade liberalization. Central America and Mexico held an intermediate position, although closer to the Cairns Group. These three positions reflected to some extent the net trade situation of individual countries, which has been discussed above. The net-importers tended to favour the slower approach, the major exporters in the southern cone of South American tended to adopt the fast-track approach. The most sensitive political issue surrounding trade policy was, and continues to be, the question of import-competing agricultural sub sectors. And the concern over import-competing sub sectors is still reflected in the tariff structure in LAC, which was seen previously.

Today, the negotiating coalitions are more numerous. There does not exist a simple set of negotiating positions by which one can characterize LAC countries. Across the world there are now several coalitions, referred to as G-10 (net food importers), G-20 (seeking improved developed country market access), G-33 (another group of developing countries concerned about special concessions), and

the FIP (five interested parties - Australia, Brazil, the EU, India and the US). We are not in a position to assess whether or not these present coalitions would increase the probability of the completion of a successful Doha Round, especially with respect to individual LAC country interests.

Cancun 2003 was the fifth summit meeting supported by the World Trade Organization, which offered an opportunity to renew the initial proposals established within the Doha Round. The proposed agenda emphasized non-agricultural market access and, more significantly, the liberalization of agriculture. With regard to the latter, discussions - which did not reach an a consensus - centred on market access, primarily the elimination or reduction of tariffs, but also the reduction of domestic supports and subsidies of various kinds, and the reduction of export enhancements, including subsidies and credits for exports. Issues regarding special and differential treatments and also special safeguard mechanisms were part of the items to be discussed. Developing countries strengthened their demands by creating blocks, such as the G20 and G33 on agriculture and also the G90, representing the developing world.[15] The Cancun Ministerial conference ended in disappointment and agriculture remained as one of the unsettled issues.

In August 2004, WTO members renewed negotiations in Geneva in order to address appropriate formulas to reduce import barriers and export subsidies. Discussions centred on state trading, special agricultural safeguards and, subsidies. Nevertheless, an official schedule for abolition of all forms of agricultural subsidies still was not established.

Within the last years, several attempts have been made to promote the agenda on trade liberalization in the Americas. In early November 2005 the summit of the Americas took place in Mar del Plata, Argentina, with the general theme of "creating jobs to fight poverty and strengthen democratic governance". The participating countries, however, made explicit the relevance of trade negotiations, and stressed their concerns regarding market access, agricultural subsidies and trade-distorting domestic practices of their trading partners (which in this context means essentially the United States). Although the summit did not represent an official attempt at a trade agreement, it revealed a strong polarization and the discontent of the largest nations in South America: Argentina and Brazil.[16] The position of Argentina, Brazil, Uruguay (and their new ally, Venezuela) was to decline negotiations on FTAA with the United States without including discussions on US agricultural subsidy reductions. On the other side were Mexico, the CAFTA countries, Chile, and other countries in negotiations with the US (Peru, Colombia and Ecuador), all of which pursue deepening their commercial relations with the US through bilateral FTAs

Negotiations took place in the Sixth Ministerial Conference in Hong Kong, to continue with the Doha Development Agenda, which deadlines at the end of 2006. Once again, the most critical issue is the definition of a scale of reductions in industrial tariffs and farm subsidies. The final Hong Kong draft promised the reduction of export subsidies by the year 2013 from countries in the European Union, as well

[15] For further information, see Oxfam International (2005).

[16] See Fourth Summit of the Americas, 2005.

as reductions in the levels of direct subsidies in OECD, although this latter is still to be determined in a last set of negotiations in 2006. This most recent Ministerial Conference was not an obvious success, but at least some form of consensus is taking shape, and it did not end in failure as some previous Doha round meetings.

Turning from the external environment to internal politics, recently, some countries in LAC have taken what might be termed an anti-globalization turn. Venezuela has left the Andean Group, accepting to join Mercosur, the government saying in part because Andean group countries were negotiating FTAs with the United States. (Venezuela, Cuba and Bolivia are at least gesturing toward a Bolivarian association of LAC states.) Internal politics has also complicated trade negotiations for Ecuador. Despite Peru's previous apparent willingness to come to an agreement with the United States, the recent presidential election raised doubts. One of the final candidates was strongly opposed to the FTA, and the winning candidate was in favour of the agreement but has indicated a desire to reexamine the terms. In broad terms, the current situation in the region is one of much bilateral FTA activity and ongoing negotiations, Mercosur despite its shortcomings continues (with a strong political impulse), and the larger scheme of a hemispheric agreement lies dormant.

5.2 The trend toward the emphasis on agro-food standards

Once trade agreements, such as with the US, are signed (and with the EU), the scope for direct trade interventions is far more limited, which emphasizes trade aspects beyond border measures. There is less flexibility - perhaps none - for quantitative restrictions, and there are bilateral commitments for tariff reductions. The new agenda that appears to be emerging for agricultural trade includes (a) the management of preferential quotas for exports (very important for Central America today in CAFTA), (b) the situation of agro-process products in terms of tariff escalation, and (c) the proliferation and tightening of agro-food standards

With respect to the latter item on the new agenda, the increase in perishable exports - fresh fruits, vegetables and meats - and processed foods has increased the importance of compliance with both the developed country sanitary and phyto-sanitary (SPS) rules and with the demands of private sector importers and retailers in OECD countries (which are often more stringent than official standards). This move toward new and processed products is generally overlooked in modelling efforts and further highlights the heterogeneity of LAC countries' agricultural sectors. In this context, there is little hope that health agencies and private sector actors will grant developing countries "special and differential treatment" or that there will be a slowing of the trend toward higher standards. The strengths and the weaknesses of the links in the agro-food supply chains in LAC become more prominent as countries become more export oriented in non-commodity products. There are high costs of compliance with tighter standards, which will burden poorer countries and those with weaker institutional capability for SPS and other agro-food standards. Signaling credibility to importers is now more a question of international and third-party accreditation, which adds significant fixed costs to doing business. One bad apple can ruin millions of dollars worth of lost export opportunities.

Developed world standards regarding good agricultural practices - hygiene, waste management, safe water, records and traceability - are becoming part of the trade agenda for many LAC products. Of course, this is less the case of commodities such as wheat, soybeans and corn. But in the products for which the trend toward stronger standard compliance is relevant, the requirements are influenced to a large extent by buyer demands in OECD countries, and compliance is relatively easier for commercial farmers and less so for smaller producers.

Turning to the issue of genetically modified crops (GMOs), in addition to financial and legal issues (such as intellectual property right enforcement), the international debate regarding potential health hazards of GM is also relevant when considering market access and biotechnology policies for some LAC exporters. This has been prominent in the case of soybeans. According to a recent assessment by FAO, there is a consensus among scientists that biotech products currently on the market are safe to consume, although new and complex products may require additional safety procedures. But an extensive global survey by Environics International found that nearly 50 percent of respondents in some European countries felt that the potential benefits of GM crops do not outweigh the risks of the technology.[17] Furthermore, there is no consensus regarding the environmental dangers posed by GM crops (FAO 2004). The outcomes of the current debates regarding GM crop safety among scientists and policymakers will have a large impact on the future policy priorities and export potential. These issues go well beyond agricultural trade negotiations, and are the subject of a range of negotiating areas, although they will be highly important for LAC exports of primary and processed agricultural products.

5.3 The trend toward compensation and social safety nets[18]

Both direct income supports and conditional cash transfers are recognized as forms of compensation to farmers and other groups for their losses due to ending or reducing border protection and production subsidies associated with trade agreements and other reforms. Replacing dubious rural poverty alleviation schemes focused on agricultural protection, direct payments can be targeted to the poor as well as to the farmer of whatever income level. For farmers specifically, such income supports can ease the transition to a more efficient agricultural sector. Decoupled income support programmes (DIS programmes) and Conditional Cash Transfer (CCT) programmes have already been used successfully in OECD and LAC countries to compensate farmers for the reduction in protection, to smooth consumption during economic downturns, and to alleviate poverty directly in rural areas.[19]

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[17] *The State of Food and Agriculture 2003-2004*: Agricultural Biotechnology: Meeting the needs of the poor? Rome: Food and Agriculture Organization of the United Nations. Chapter 6.

[18] Much of this section has been drawn from T. Castañeda (2004).

[19] Of course, the adoption of income supports as compensation for once-protected farmers might even be unnecessary, if the reduction in protection is gradual, taking place over a large number of years (say, 10 to 20 years, as has been in the case of some products under bilateral and regional agreements in LAC). And it is possible that the introduction of these support programmes might be unwise in any case, if the institutional capacity of a

Decoupled payments: direct income supports for farmers

Permissible supports should be funded directly by the taxpayers (not indirectly by consumers), and they should leave producer prices unsupported.[20] In principle, such direct income supports could serve as compensation to ease the political resistance to reducing trade distortions. In the 1990s, OECD countries, particularly the EU and the US introduced decoupled payments explicitly to protect producers from the reduction of tariffs and other protections. The 1993 CAP and the US 1996 FAIR Act introduced direct income supports, although decoupled payments still are less than half of total support (30 to 40 percent). DIS programmes have been used in Mexico (when joining NAFTA in 1994), and in Turkey in 2001 as compensation for price support and input subsidy elimination, and tariff reductions.

OECD and developing countries' programmes have similar broad designs and implementation, but significant differences in payment basis, record keeping, and monitoring.[21] Furthermore, OECD countries have had a long history of domestic support programmes, in addition to tariff and nontariff protection.[22]

Poverty-focused payments: conditional cash transfers

Conditional cash transfers (CCT) in LAC have shown success as rural poverty safety-net programmes, sometimes offering significant cash support to poor families. As a condition for payments, families send their children to school and for regular health check-ups and vaccinations (for children under five years of age).[23] Apparently a key to the success of these programmes is a simultaneous investment in social infrastructure (better schools and health services).

CCT programmes provide income-based rather than farm-related support for rural families, but they may be also programmes for compensating rural farmers and landless workers for loss of employment or income due to lower sectoral protection. CCT programmes can be properly targeted to areas either producing certain import-competing crops that are more affected by tariff reductions, or where landless workers are more prevalent and there are few alternatives to

government is too weak and open to corruption to implement such programmes. Prior to adopting any income support programme, considerable attention ought to be paid to identifying the circumstances where those policies would in fact act to alleviate the poverty of rural household or to compensate farmers for real harm due to the reduction in price protection, and where successful implementation would be in fact possible. Moreover, although compensation should be temporary, experience has shown that transfer policies are usually difficult to terminate.

[20] For example, by the use of fixed yields and land area as basis of payment.

[21] Information availability and payment details vary widely across countries. For a discussion of the criteria for payments under decoupled schemes, see Baffes and de Gorter (2003).

[22] Decoupled programmes that provide transfers to farmers do not have as a primary objective the alleviation of poverty in rural areas. In OECD countries farmers are not the poor and are often better off than urban residents. Although in developing countries, many of the poor have benefited from decoupled payment programmes, the lion's share of programme expenditures has gone to large farmers. Payments are based on past production levels and areas planted, favouring large commercial farmers producing for the market. Most decoupled programmes have ignored landless workers who may also suffer from the reductions in agricultural production and in employment opportunity that result from the elimination of domestic price supports.

[23] The rationale is that poor rural families often do not have the resources to pay for the direct costs of school or going to health centres, and have high opportunity costs of sending children to school.

work outside farming.[24] By 2002 CCT programmes in Mexico, Brazil, Colombia, Nicaragua, and Honduras aided more than 10.5 million poor families, mostly rural. Fiscal costs totalled US$3.2 billion (about 0.2 percent of the countries' combined GDPs). Most programmes were introduced in 2000-2001 (PROGRESA in 1997) after a major, region-wide crisis.

6. More on trade questions and conflicts of interest: the diversity across LAC in trade composition implies diverse negotiation priorities.

6.1 The heterogeneity of the effects of trade agreements on welfare in Latin America

Beyond the effect on world prices, much of the discussion of the potential benefits of trade reform centres on the impact of liberalization on increases in the value of exports. Most simulations of global trade liberalization project large increases in exports from Latin America. Similarly, the elimination of all tariffs (including tariff equivalents) in the Western Hemisphere due to the FTAA is estimated to lead to an increase in the exports of Latin American agricultural products by 14 percent.[25] The outcomes of such tariff reductions would differ of course, by product and country. The IDB estimates that exports would rise by over 10 percent for all subgroups of countries in the hemisphere, except Mexico and Canada. Exports from the Andean group rise about 12 percent, exports from Argentina and the Central American and Caribbean group rise by 15 percent, and from Brazil and Chile about 27 percent.

From a body of studies on global liberalization one can make three broad generalizations pertinent to the LAC region: (1) that agricultural prices will increase due to multilateral trade agreements by 10 percent or less, which is relatively small compared to the inherent volatility of world prices; (2) that exports will increase significantly; and (3) in absolute dollar terms the global welfare gains are large and captured primary by trade liberalizing countries. But the results for welfare gains, while positive in the aggregate, are typically small for individual countries relative to national GDP, especially for large economies. For example, welfare gains are estimated to be between zero and 1.2 percent of GDP for countries like Argentina and Brazil, which are examples of countries that would be expected to benefit the most from global trade liberalization (Bianchi, Rozada and Sanguinetti, 2004).

[24] CCT programmes have been recently introduced in a number of LAC countries including Brazil, Colombia, Honduras, Nicaragua, Jamaica, and in other countries such as Turkey. Most programmes share a similar design, drawing on cross-country experiences and evaluations. They have three common features: (1) Implementation is focused on poor rural areas, producing basic foods for consumption or for the market in small plots. (2) Payments are based on the number of children in a household, which provides larger subsidies to poorer, typically larger families and establishes a basis of exit from the programme as children grow older and lose eligibility; and (3) they have the goal that any continuation of the programme should be contingent on its impact on the economic and human capital development of the poor.

[25] See IDB *Beyond Borders: The New Regionalism in Latin America* (2002), Appendix 3.2.

In addition, within each country, it is more difficult to say what would be the direction of the impact of more open agricultural trade for low-income, net-food-buying consumers in the region, living in both urban and rural areas. In terms of low-income households, the presumption is, as for example tentatively concluded by Anderson (2004), that a more liberal world trade regime would have the effects in developing countries of directly alleviating poverty by boosting the demand for unskilled labour and the exports of poor countries. Nevertheless, there is a concern that the recent trend toward trade liberalization in Latin America might have negative effects on the demand for unskilled labour, which would be translated into lower wages, unemployment, and poverty.

A recent study (Gasparini, Gutierrez, and Porto, 2005) investigated the potential links between trade and labour outcomes in LAC rural areas by estimating cross household regression models with micro-data from 60 LAC household surveys and country aggregate data.[26] The study finds a significant association between individual labour outcomes and some measures of trade, in particular exports, trade as a share of GDP, and the price of exports. The main result is that international trade has been associated with higher wages and labour income in rural areas. The benefits of trade in terms of labour income do not differ by groups of formal education. Instead, those workers located in the bottom quantiles of the conditional wage distribution appear to benefit more from increased trade openness. Higher export prices are also associated with higher wages, employment, and labour income; all individuals in rural areas benefit about the same due to higher export prices.[27] This study supports the view that a higher exposure to trade may bring about an expansion of the agricultural sector and benefits to those factors intensively utilized in rural areas, including labour, consistent with comparative advantages.[28] Under this interpretation, the results are consistent with models of trade and convergence, whereby economic activity relocates from large urban centres to smaller cities.

6.2 The heterogeneity of the effects of future reforms

Given their differing trade structure, one expects a variation across LAC countries of the impacts of global agricultural trade reform. Multilateral liberalization will most likely harm - in the short-term - large groups of people in the 17 net food importing countries. This is not to deny that from a longer-term perspective trade liberalization across all economic sectors would expand growth, and ultimately serve

[26] The study merges data for more than 4 million individuals surveyed in 17 Latin American and Caribbean (LAC) countries between 1989 and 2002 with measures and indicators of international trade, mostly drawn from the SIMA database at the World Bank.

[27] Interestingly, the results for urban areas are rarely statistically significant: total labour income in urban areas is not affected by trade as measured either by volumes or prices. Urban hourly wages do not seem to be affected by measures of trade, and employment appears to increase with trade (although this effect is sometimes only marginally significant).

[28] It should be noted that the LAC household surveys are not designed to capture the agricultural sector specifically, and that areas identified as rural may be small semi-urban centres connected to the rural economy, including agriculture.

to raise incomes and reduce poverty. Several studies have shown that more openness to all trade is correlated with faster national growth, but in the short and medium term there will be some losers. One way of anticipating the possible net effect of agricultural trade liberalization is to assess the net trade positions of LAC countries in relation to the various degrees of protection of farm products in the OECD. Tables 9 and 10 present net trade balances (in US$ and percentages of exports and imports) by individual countries according to subsets of products receiving three distinct levels of protection and support (available data 1999-2001[29]) in the OECD using average exports and imports during the period from 2000 to 2002. Protection is typically concentrated in a subset of products (for example, the coverage of the CAP in the EU), and so the higher the level of protection and support (defined by the nominal protection coefficient, NPC, and the Producer Subsidy Equivalent, PSE), the lower the number of products covered (and included in calculating the net trade balances in Table 2).

For example, in the case of Argentina from Table 9, only US$125.5 million of its average annual agricultural exports for 2000-2002 are in the subset of agricultural goods that are very highly protected in the OECD (NPCs > 1.85 and PSEs > 50 percent), namely, sugar and rice. These exports represent only slightly more than 1 percent of its total agricultural exports. Argentina imports annually on average US$3.6 million of those very highly protected products, giving a net trade balance ratio of exports to imports for this subset of agricultural goods of 34.5. Expanding the subset to include dairy and other products at the second level of support (NPCs > 1.20, PSEs > 40 percent), Argentina's exports increase to US$429 million, but proportionally less than the increase in imports to US$27.3 million (X/M = 15.7). By expanding the subset of products still further to include those that are at least moderately protected by the OECD (NPC > 1.15, PSEs > 28 percent), Argentina's exports rise dramatically to US$ 4 337.3 million. Its imports increase to US$112.1 million, giving it a net export trade balance of 38.7 for products that are at least moderately protected. It is worth noting that Argentina's total agricultural exports averaged US$10.9 billion during 2000-2002, which implies that the country's exports are heavily oriented toward products with relatively lower levels of protection in the OECD.

What emerges as one of the striking results of Tables 9 and 10 is that by far most countries (15 of 22) are net importers (that is, X/M < 1) of products that are "at least moderately protected". Moreover, these moderate-to-highly protected products represent a significant share of total imports of agricultural goods, averaging 36 percent for the region. The notable net-exporters of these products are Argentina, Paraguay, and Uruguay and to a lesser extent Brazil, Nicaragua, Guatemala and Cuba. Due to the importance of sugar for several Central American and Caribbean countries, it is in the category of products with the highest levels of protection that one finds that most countries are net exporters: 16 of the 22 countries in Table 9. Considering both the level and composition of exports, some countries could potentially capture relatively

[29] OECD (2002b). *Agricultural policies in OECD countries: Monitoring and evaluation 2002, Highlights.*

greater returns to the reduction of the highest levels of OECD protection (sugar and rice), especially in the Caribbean and in Guatemala.

Looking at the absolute levels and their share in total exports, Argentina, Brazil, Paraguay and Nicaragua are clear cases where the largest gains would arise in reduction of protection for products that are moderately protected in the OECD. Nevertheless, approximately 60 percent of their agricultural exports face even lower levels of protection by OECD countries (that is, either NPC < 1.15 or PSEs < 28 percent). By contrast, for Cuba the bulk of benefits would come from the most highly protected group of products (namely, sugar), which accounts for nearly 60 percent of its exports of agricultural products.

TABLE 9

Trade balance of agricultural products for different levels of OECD protection (in millions of current dollars), average 2000-2002

	Group 1			Groups 1 & 2			Groups 1, 2, & 3		
Product subset	Very highly protected NPC ≥ 1.85 PSE ≥ 50%			At least highly protected NPC ≥ 1.20 PSE ≥ 40%			At least moderately protected NPC ≥ 1.15 PSE ≥ 28%		
Country	Exports	Imports	Balance X/M	Exports	Imports	Balance X/M	Exports	Imports	Balance X/M
Argentina	125.2	3.6	34.5	429.0	27.3	15.7	4 337.3	112.1	38.7
Bolivia	11.5	3.7	3.2	18.4	17.5	1.1	64.8	131.8	0.5
Brazil	1 863.4	130.3	14.3	1 889.7	409.7	4.6	5 769.5	1 738.5	3.3
Chile	0.3	63.9	0.0	48.2	99.8	0.5	125.0	493.7	0.3
Colombia	207.4	39.2	5.3	256.4	74.2	3.5	269.0	605.6	0.4
Ecuador	24.6	7.2	3.4	25.7	11.6	2.2	49.0	117.9	0.4
Paraguay	7.6	2.2	3.5	7.8	12.4	0.6	329.2	34.6	9.5
Peru	16.5	64.1	0.3	23.0	128.3	0.2	30.3	468.2	0.1
Uruguay	160.9	17.7	9.1	313.1	20.1	15.6	626.6	65.7	9.5
Venezuela	13.8	67.7	0.2	15.4	235.1	0.1	59.9	600.2	0.1
Total South America	2 431.2	399.4	6.1	3 026.7	1,036.0	2.9	11 660.4	4 368.2	2.7
Costa Rica	31.6	12.8	2.5	52.4	28.3	1.8	92.9	188.7	0.5
El Salvador	59.3	13.7	4.3	61.5	93.7	0.7	80.7	241.5	0.3
Guatemala	210.9	11.6	18.2	211.6	79.0	2.7	251.3	227.2	1.1
Honduras	15.5	18.7	0.8	19.7	54.4	0.4	22.6	121.9	0.2
Mexico	70.5	114.4	0.6	116.6	843.9	0.1	270.8	4 569.1	0.1
Nicaragua	37.8	14.8	2.6	59.1	30.9	1.9	134.3	65.0	2.1
Panama	16.5	2.8	5.9	27.5	27.4	1.0	39.8	80.7	0.5
Total Central America and Mexico	442.0	188.9	2.3	548.4	1 157.5	0.5	892.4	5 494.0	0.2
Cuba	477.6	121.1	3.9	477.7	219.4	2.2	477.8	432.4	1.1
Dominican Rep	84.0	20.1	4.2	84.0	51.4	1.6	84.1	186.2	0.5
Haiti	—	106.3	—	0.0	135.1	0.0	0.0	175.2	0.0
Jamaica	69.5	42.6	1.6	78.5	83.6	0.9	79.1	159.8	0.5
Trinidad & Tobago	30.2	23.5	1.3	33.8	69.4	0.5	39.0	131.3	0.3
Total Caribbean	661.3	313.5	2.1	674.1	558.9	1.2	680.0	1 084.9	0.6
Total LAC	3 534.5	901.8	3.9	4 249.2	2 752.4	1.5	13 232.8	10 947.1	1.2

Note: Group 1, very highly protected: products with a Producer Nominal Protection Coefficient (NPC) ≥ 1.85 and Producer Subsidy Equivalent (PSE) ≥ 50 percent: rice, sugar. Group 2, highly protected: products with 1.20 ≤ NPC < 1.85 and 40 percent ≤ PSE < 50 percent; dairy, sheep and goat meat. Group 3, moderately protect: products with 1.15 ≤ NPC < 1.2 and 28 percent ≤ PSE < 40 percent; beef, wheat and nonmaize grains, maize and oilseeds.
Source: Authors' calculations based on FAOSTAT and OECD data, presented in World Bank. *Beyond the City: The Rural Contribution to Development*.

TABLE 10

Percent of trade in all agricultural products for different levels of OECD protection, average 2000–2002

	Total value		Group 1 Very highly protected NPC ≥ 1.85 PSE ≥ 50%		Groups 1 & 2 At least highly protected NPC ≥ 1.20 PSE ≥ 40%		Groups 1, 2 & 3 At least moderately protected NPC ≥ 1.15 PSE ≥ 28%	
Country	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
Argentina	10 900.0	872.9	0.01	0.00	0.04	0.03	0.40	0.13
Bolivia	403.3	232.0	0.03	0.02	0.05	0.08	0.16	0.57
Brazil	16 000.0	3 768.2	0.12	0.03	0.12	0.11	0.36	0.46
Chile	3 351.4	1 228.4	0.00	0.05	0.01	0.08	0.04	0.40
Colombia	2 925.6	1 577.5	0.07	0.02	0.09	0.05	0.09	0.38
Ecuador	1 592.1	475.2	0.02	0.02	0.02	0.02	0.03	0.25
Paraguay	519.3	310.1	0.01	0.01	0.02	0.04	0.63	0.11
Peru	739.4	1 052.8	0.02	0.06	0.03	0.12	0.04	0.44
Uruguay	998.0	387.3	0.16	0.05	0.31	0.05	0.63	0.17
Venezuela	329.6	1 813.5	0.04	0.04	0.05	-0.13	0.18	0.33
Total South America	38 000.0	11 900.0	0.06	0.03	0.08	0.09	0.31	0.37
Costa Rica	1 698.2	518.5	0.02	0.02	0.03	0.05	0.05	0.36
El Salvador	539.3	822.0	0.11	0.02	0.11	0.11	0.15	0.29
Guatemala	1 434.7	793.0	0.15	0.01	0.15	0.10	0.18	0.29
Honduras	630.8	491.1	0.02	0.04	0.03	0.11	0.04	0.25
Mexico	8 191.1	11 200.0	0.01	0.01	0.01	0.08	0.03	0.41
Nicaragua	404.4	294.2	0.09	0.05	0.15	0.11	0.33	0.22
Panama	313.0	417.3	0.05	0.01	0.09	0.07	0.13	0.19
Total Central America and Mexico	13 300.0	14 700.0	0.03	0.01	0.04	0.08	0.07	0.37
Cuba	812.8	848.2	0.59	0.14	0.59	0.26	0.59	0.51
Dominican Rep	595.0	691.9	0.14	0.03	0.14	0.07	0.14	0.27
Haiti	23.2	362.0	—	0.29	0.00	0.37	0.00	0.48
Jamaica	260.2	404.8	0.27	0.11	0.30	0.21	0.30	0.39
Trinidad & Tobago	248.8	344.5	0.12	0.07	0.14	0.20	0.16	0.38
Total Caribbean	2 310.2	3 746.4	0.29	0.08	0.29	0.15	0.29	0.29
Total LAC	53 600.0	30 300.0	0.07	0.03	0.08	0.09	0.25	0.36

Note: Group 1, very highly protected: products with a Producer Nominal Protection Coefficient (NPC) ≥ 1.85 and Producer Subsidy Equivalent (PSE) ≥ 50 percent: rice, sugar. Group 2, highly protected: products with 1.20 ≤ NPC < 1.85 and 40 percent ≤ PSE < 50 percent; dairy, sheep and goat meat. Group 3, moderately protect: products with 1.15 ≤ NPC < 1.2 and 28 percent ≤ PSE < 40 percent; beef, wheat and nonmaize grains, maize and oilseeds.

Source: Authors' calculations based on FAOSTAT and OECD data, presented in World Bank. *Beyond the City: The Rural Contribution to Development.*

Some countries that are notable net exporters of agricultural products are also net importers of products that receive moderate to very high protection in the OECD. For example, Colombia and Chile exported on average US$2.9 and US$3.3 billion annually in all agricultural products for the period 2000-2002 (Table 10). For the subset of products "at least moderately protected" in the OECD, Colombia and Chile were net importers, only exporting US$269 and US$125 million annually, representing 9 percent and 4 percent of their total agriculture-related exports. By contrast, these moderate-to-highly protected products represent approximately 40 percent of both countries' total agriculture-related imports. For these two countries, a reduction in protection (and an increase in world price) of products with lower levels of OECD support would have greater impact in expanding exports than the reduction in supports for moderate to high protection.

One implication of the percentages of trade by protection category in Table 10 is that reducing the highest protection levels would be perceived to be of obvious benefit to a number of countries in the region from the point of view of their current agricultural trade patterns: Brazil (12 percent), Uruguay (16 percent), Guatemala (15 percent), and Cuba (59 percent). Considering a wider group of protected products (Groups 1 to 3), the majority of LAC countries are net food importers, whose exports are oriented to products with relatively lower protection rates. In the long run, without such protection in the OECD, LAC countries would increase their exports in some of these moderate-to-highly protected products, and perhaps some countries which are now net importers would become net exporters. But in the near term, tariff and subsidy reductions for products with moderate levels of protection (which would lead to higher world prices of those products) would be felt negatively by most (15 of 22) LAC countries, which are net importers of those goods. A strategic question for a country's trade negotiation position is how to assess the possibilities for trade reversals, which is a task primarily for the private sector.

From the perspective of present trade balance patterns, most of LAC countries would recognize greater export-related benefits from a broad reduction in OECD protection on products with relatively low OECD support that affect the bulk of their agricultural exports. But one should keep in mind that protection as defined here considers both tariffs and subsidies in terms of NPRs and PSEs. There are, however, likely to be some products for which tariffs are relatively high but other government support is low or zero, such as in the case of tariff escalation for semi-processed and processed agricultural goods. These products are typically dealt with by governments beyond the scope of agricultural policy, and are perhaps outside of the focus of trade negotiations on "agriculture." For this reason, simply because a country's exports are oriented to products with relatively low OECD "protection" does not mean that it would not benefit from a reduction in high tariffs, although negotiations over such a reduction would be done in a non-agriculture forum.

6.3 What is more important for agricultural trade, tariffs or subsidies in rich countries?

A recent study using a gravity model of bilateral trade in agricultural products between the United States and LAC countries (Bianchi, Rozada, and Sanguinetti, 2004) found that the point estimate of the elasticity of US imports with respect to a tariff reduction is six times that of the elasticity with respect to the tariff-equivalent of "subsidies." In the study, "subsidies" represent the wedge between domestic and world price attributable to non-tariff border measures and subsidies. This is consistent with other studies (e.g, Hoekman, Ng, and Olarreaga, 2002, and Tokarick, 2003, using a global modelling approach) that emphasize the importance of tariffs versus subsidies in determining import demand of agricultural goods. A decline in subsidies would reduce the incentives for US production (the reduction depending on the degree of decoupling of subsidies), but without a change in tariffs consumers would face the same price. Imports perhaps would increase as domestic production fell, but the total quantity bought by consumers would remain constant. A decline in tariffs, however, would increase the total quantity demanded. The empirical evidence shows the significance of the displacement effect on agricultural imports from non-tariff supports maintaining domestic producer prices above world prices, but the negative effect of higher tariffs on import demand is much greater.[30]

This has implications for countries in the LAC region for both WTO and FTAs with the United States and Europe. In terms of market access, LAC countries would have greater returns to negotiating the reduction of tariffs and the expansion of import quotas relative to what certainly would be difficult and lengthy negotiations over total subsidy reduction. The current attention of LAC countries might be misdirected toward the appalling level of total expenditures of rich countries on their agricultural sectors. The evidence shows that focusing on the reduction of border protections (tariffs and quotas) in rich countries would yield significant gains in trade volume. Of course, for many countries, rich and not-so-rich, a tariff is a means of maintaining producer income that does not require government payments, yields revenues, and passes the costs of protection to consumers. Reducing tariffs may be all the more difficult if, in political terms, it would require an increase in government's outlays aimed at farmers in the context of a cap on fiscal expenditures.

7. Conclusions: some reflections on future negotiations toward freer trade in LAC.

In the LAC region, the share of agriculture in total national exports is high, especially when considering the sector's low participation in national GDP. And when analyzing agricultural trade, one should include not only primary agriculture but also agro-processed products, which have grown in significance and contribute

[30] The analysis for "bilateral" trade between the EU as a single entity and other countries is much less clear as to the relative effects on import demand of tariffs versus subsidies. The weaker results might be explained by the treatment of Europe as an aggregate and by the transient trade through Europe of agricultural goods to non-EU countries.

to non-farm rural income. Evidence from several countries in the region shows that the share in total rural household income of non-farm employment is large and growing. Being a land abundant region, with relatively low population densities, and where the growth of agriculture is constrained by domestic demand, the growth of the agro-food sector in LAC is highly dependent on exports.

Growth in primary agriculture and growth in the agro-industrial sector (dependent on the health of the primary sector) have been and will continue to be for most countries in the region engines to national and rural economic development. Evidence also suggests that the agro-food sector's growth contributes to the alleviation of poverty, certainly rural poverty and even national poverty in some countries.

Although it is difficult to make broad characterizations about the region, given both the diversity of trade patterns and the diversity of the impacts of future WTO results on individual countries, it is worth highlighting three findings directly relevant for the WTO negotiating positions. First, border protection versus domestic subsidies: LAC countries would have greater returns to negotiating the reduction of tariffs and the expansion of import quotas compared to the reduction in total OECD domestic subsidies. Second, most LAC countries would recognize greater export-related benefits from a broad reduction in OECD protection on products with relatively low OECD support compared to focusing on higher protected products. Third, although the region is, taken as one unit, very agro-export oriented, there are 16 (of 22) countries that are net-food importers and 10 (of 22) are net agro-forestry product importers.

This third finding complicates the question of trade negotiations by introducing the issue of the distribution of the benefits of freer trade. It would affect coalition formation. Net food importers benefit from the lower world prices induced by protectionism and subsidies on agriculture in OECD countries. Moreover, for many LAC countries the domestic policy debate is centred on the concerns of the import-competing sub-sectors. And in fact, contrary to the image of unprotected, competitive, export-oriented agricultural policies in LAC, the observed MFN tariff profiles on imports of agricultural and food products are relatively high.

Countries in the region implemented economy-wide and trade reforms before the Uruguay Round. Such reforms, entirely consistent with later WTO agreements, were initially unilateral and later incorporated into bilateral and sub-regional trade agreements. Without a base of unilateral reforms, particularly on trade, it is unlikely that bilateral and sub-regional agreements would have been effective in terms of trade integration. With early reforms, agro-food exports and imports expanded significantly, although exports of all agricultural products grew faster.

Recently there has been a trend toward bilateral agreements, with several bilaterals and sub-regionals having been signed by LAC countries during the last few years. Today, unlike the situation a decade ago, most LAC countries emphasize agreements with the North and with large economies in Asia, due in part to the expected gains from access to these countries, the low expectations about major reductions in OECD support under the Doha Round, and to the perceived poor performance of sub-regional agreements, such as MERCOSUR. Brazil and Argentina, however,

given their resistance to the FTAA and the difficulties with negotiations with the EU, still have much to gain from strong participation in the current WTO round. While negotiations are still being held within the WTO framework, the subsidies from OECD countries continue. At least, the Hong Kong summit confirmed the year 2013 as a deadline for the European Union to decrease its export subsidies.

With respect to the proliferation and tightening of agro-food standards, the increase in perishable exports and processed foods has increased the importance of compliance with the both developed country sanitary and phyto-sanitary (SPS) rules and with the demands of private sector importers and retailers in OECD countries. Health agencies and private sector actors in the developed world will grant no "special and differential treatment," the trend toward higher standards will continue. The strengths and the weaknesses of the links in the agro-food supply chains in LAC become more prominent as countries become more export oriented in non-commodity products. There are high costs of compliance with tighter standards, and these will burden poorer countries, and those with weaker institutional capability for implementation of standards. Standards in the developed world regarding good agricultural practices are becoming part of the trade agenda for many LAC products.

This has been less the case for commodities, where the GMO issue has been the main non-trade-policy concern. With respect to GMOs, the dilemma for LAC comes from the tension between the productivity enhancement potential and the demand for GMO-free products in some countries. The largest producer of non-GMO soybeans, Brazil, for example, had wished to restrict GMOs due to its ability to export to GM-sensitive Europe. On the other hand, intra-western-hemispheric trade, including with the US and Canada, may generate welfare gain due to the ability to exchange biotechnological advances and the products that result (Jank, 2004). Brazil has recently adopted new biosafety legislation (March 2005) that has legalized the production and marketing of transgenic glyphosate-resistant soybeans, but the question of other crops remains sensitive. In November of 2005, the Brazilian President set in motion the bureaucratic mechanisms for the country's National Biosafety Committee of experts, which will decide on the experimental and commercial release of GM products; but government agencies can appeal the committee's decision to a Biosafety Council of government ministers for political resolution of disagreements. The Cartagena Protocol meetings have not clarified matters, and the question of GMO labelling goes unresolved. It is interesting to note that Brazil is a member of the protocol group, but Chile, Uruguay and Argentina are not (neither is the United States). With respect to future WTO negotiations, LAC is caught in a bind and must be very careful. Future WTO negotiations cannot deal with consumer perceptions.

The increasing importance of the agro-processing industry in expanding exports also highlights the need to confront the tariff escalation issue, both in the general context of the WTO, and in FTAs with the US and other developed countries. It should be emphasized that there is a move toward new and processed products. This trend is generally overlooked in modelling efforts and one would hope that the FAO

and other organizations would expand their attention to the diversity of agricultural sectors in the LAC. For example, in the Chile-US agreement reductions in tariffs on processed and storageable commodities were left behind, with an 8 to 12 year period before tariff reductions, and these products remain vulnerable to the application by the US of special safeguards. The fast growth in processed product exports from the LAC, despite high tariff escalation on the part of developed importers suggests that exports of this sector could expand even faster with further WTO reforms.

This is more of a WTO legal question, but one more thing that could be of special importance to LAC, and that might influence the impacts of the Doha Round, is the issue of WTO challenges to the price depressing effects of subsidies. Following the WTO ruling against US cotton subsidies (that exceeded the committed cap on Amber Box distorting measures), the door is open for legal action against other commodity subsidies. As a recent Financial Times article notes, "the same rules apply to all agricultural products" (Beattie, November 30, 2005). Potential cases against the United States could involve maize, rice, sorghum, and potatoes. (Even now, Uruguay is contemplating action on rice.) And the EU might not be immune in the cases of tomatoes, canned vegetables (tomatoes and peas), citrus fruit juices, tobacco, butter, skimmed milk, and wine and spirits. Further, some LAC exports such as wine, fruit and vegetables (the faster growing subsector in agricultural trade) are "leftovers" for reform, and some subsidies (such as those attached to the requirement that processors use European-grown farm produce) may be targets for WTO legal actions. The ramifications of the cotton case could be, even under existing rules, significant for a wide variety of LAC countries, not simply the large commodity producers usually considered the big winners of OECD trade and subsidy reforms.

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APPENDIX TABLE A

Shares RNR exports and imports by subsectors, 2000-2002

	Exports+ (million US$)	Crops and animals (%)	Fisheries++ (%)	Forestry (%)	Imports+ (million US$)	Crops and animals (%)	Fisheries++ (%)	Forestry (%)
South America								
Argentina	12 073	90.3	7.4	2.3	1 532	57.0	5.5	37.5
Bolivia	429	94.0	0.0	6.0	281	82.5	2.7	14.8
Brazil	19 188	83.4	1.4	15.2	4 950	76.1	6.3	17.6
Chile	7 091	47.3	27.5	25.3	1 524	80.6	4.0	15.5
Colombia	3 222	90.8	5.9	3.3	2 019	78.1	3.9	18.0
Ecuador	2 306	69.0	28.4	2.5	601	79.1	1.4	19.5
Paraguay	561	92.6	0.0	7.4	353	87.8	0.5	11.8
Peru	2 011	36.8	58.6	4.6	1 282	82.1	1.6	16.3
Uruguay	1 206	82.8	9.1	8.1	490	79.0	3.1	17.8
Venezuela	536	61.5	28.3	10.1	2 192	82.7	2.9	14.4
Total South America	49 026	77.5	11.3	11.2	15 421	77.2	4.2	18.6
Central America and Mexico								
Costa Rica	1 876	90.5	8.3	1.2	804	64.5	3.3	32.2
El Salvador	578	93.2	4.9	1.9	991	83.0	1.0	16.1
Guatemala	1 484	96.7	1.7	1.7	985	80.5	1.0	18.4
Honduras	751	84.1	9.7	6.2	577	85.1	2.7	12.2
Mexico	9 140	89.6	7.9	2.5	13 826	81.0	1.2	17.8
Nicaragua	511	79.1	17.3	3.6	323	91.2	2.2	6.6
Panama	554	56.5	41.8	1.7	499	83.6	2.4	14.0
Total Central America and Mexico	15 019	88.6	9.0	2.4	18 179	80.9	1.4	17.8
Caribbean								
Cuba	900	90.3	9.7	0.0	949	89.4	4.5	6.1
Dominican Republic	597	99.7	0.2	0.1	954	72.6	6.0	21.4
Haiti	27	84.9	15.0	0.1	382	94.7	1.8	3.5
Jamaica	269	96.6	3.4	0.0	546	74.2	7.6	18.3
Trinidad and Tobago	262	94.9	4.2	0.9	451	76.4	1.8	21.7
Total Caribbean	2 540	91.0	8.7	0.3	4 636	80.8	4.8	14.4
Latin American and Caribbean	66 575	80.5	10.7	8.8	38 190	79.3	3.0	17.7

+ Data for exports and imports are in millions of US dollars deflated by the World Bank's manufactures index (1990=100).
++ Fisheries are for 2000-2001. Crops and animals, and fisheries sectors here comprise all primary and processed products.
Source: authors' calculations from FAOSTAT, presented in World Banks. *Beyond the City: The Rural Contribution to Development*.