

# DEVELOPING COUNTRIES AND THE WTO NEGOTIATIONS

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A DYNAMIC AGRICULTURAL SECTOR IS CRUCIAL FOR ECONOMIC GROWTH, POVERTY ALLEVIATION, AND FOOD SECURITY IN DEVELOPING COUNTRIES. ALTHOUGH PRIMARY AGRICULTURAL ACTIVITIES ARE DECLINING OVER TIME AS A SHARE OF THE ECONOMY, THEY STILL REPRESENT ABOUT ONE-FOURTH OF TOTAL ECONOMIC ACTIVITY AND 60 PERCENT OF TOTAL EMPLOYMENT IN LOW-INCOME DEVELOPING COUNTRIES. PRIMARY AND PROCESSED FOOD PRODUCTS ACCOUNT FOR ABOUT 20 PERCENT OF THESE COUNTRIES' MERCHANDISE TRADE. MOREOVER, OF THE 1.2 BILLION PEOPLE LIVING ON LESS THAN US\$1 A DAY, ABOUT 75 PERCENT LIVE AND WORK IN RURAL AREAS IN DEVELOPING COUNTRIES.

In spite of its importance, agricultural growth in developing countries has been hampered over the years by a series of factors. First, as developing countries sought to industrialize their economies, they usually taxed agriculture. The bias against agriculture in developing countries also hurt the poor, who often depended heavily on that sector for income and employment. Although several developing countries have reduced or even eliminated that policy bias since the early 1990s, another negative factor has become increasingly apparent: the subsidization of agriculture in rich countries. During the 1980s these subsidies led to surpluses that rich countries disposed of on world markets with the heavy use of export subsidies. The combination of agricultural protectionism

and subsidies in industrialized countries has limited agricultural growth in the developing world, increasing poverty and weakening food security in vulnerable countries. Those policies have also hurt the rich countries themselves through higher food costs and a larger tax burden on citizens. And rich countries' claim that the expected benefits of their agricultural policies, in terms of safer food, a cleaner environment, and better income distribution, are larger than the costs rings false, given recent food scares like "mad cow disease" in Europe, the environmental pollution linked to agriculture in industrialized countries, and the fact that most transfers go to large farmers.

## **AN OPPORTUNITY TO LEVEL THE PLAYING FIELD**

The Uruguay Round of trade negotiations initiated the process of bringing agricultural policies under a common set of rules, in an attempt to reduce the negative impact of prevailing practices on world welfare. But the reform process is far from complete. Like the textile industry (another sector in which developing countries have a comparative advantage), agriculture continues to receive separate treatment under the new World Trade Organization (WTO) framework. This framework allows the artificial expansion of agricultural production in industrialized countries, while limiting the potential expansion of agriculture in developing countries. Some have sarcastically called this separate treatment of agriculture and textiles "special and differential treatment" for the rich countries. The Doha Round offers the opportunity to level a tilted playing field. To do that, the negotiations will have to complete the unfinished business of the Uruguay Round in reducing protectionism and subsidies, particularly in rich countries, while at the same time considering the needs of vulnerable countries and groups.

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In the Doha Round negotiations, developing countries have been following two basic approaches to varying degrees. One is to "play offense" by trying to limit the ample legal room industrialized countries have under current WTO rules to subsi-



dize and protect their own agriculture (for which they also have large financial resources). The other is to “play defense” by asking for additional exemptions (that is, “special and differential treatment”) to be able to subsidize and protect agriculture in developing countries. The combination of offensive and defensive tactics varies by country and partly reflects the heterogeneity of developing countries in general and of their agriculture sectors in particular.

## **THE VARIED INTERESTS OF DEVELOPING COUNTRIES**

The differences among developing countries and their agriculture sectors manifest themselves at several levels. Africa and Latin America and the Caribbean, for instance, have more available arable land per capita than Asian developing countries, but land appears to be distributed more unequally in Latin America and the Caribbean. Asia and Latin America and the Caribbean, however, have better infrastructure than Africa. Although all developing regions have experienced increases in



trade of fruits and vegetables, Asia and Latin America and the Caribbean have been more dynamic oilseed exporters. Africa has been losing export market share in world agricultural markets. Latin America and the Caribbean is a net agricultural exporter, Asia became a net importer in the early 1970s, and Africa, which had a strong positive agricultural balance in the 1960s and 1970s, has experienced deficits since the early 1980s. The direction of trade also varies. Asian countries trade mainly within the region; Latin American and Caribbean countries trade with Europe, the United States, and other countries within the region; and Africa trades mostly with Europe.

An IFPRI study using cluster analysis also showed the large differences in food security status among developing countries. Those countries appear scattered across nearly all levels of food security and insecurity, although none appear in the very high food-secure group. Among food-insecure countries, the profiles also differ: some are predominantly rural (mostly in Africa and South Asia) whereas for others the urban population is more important (like many countries in Latin America and the Caribbean and in transition economies). Obviously the same policy (such as maintaining high prices for producers) will have different impacts in these two types of countries.

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

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**THE DIFFERENT  
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DOHA ROUND  
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AND FOOD  
SECURITY  
CONDITIONS**

The different positions taken by developing countries in the Doha Round negotiations reflect this heterogeneity. The Cairns Group (an alliance of agricultural exporting countries that includes 3 developed-country and 14 developing-country members) has mainly emphasized playing offense. It is interesting to note that, although the Cairns Group is usually perceived as encompassing countries that are large commercial exporters, in fact 3 countries in this group are in food-insecure clusters. Other developing countries have emphasized a defensive approach advocating additional levels of support and protection for developing countries (such as the 11 WTO members, including Cuba, the Dominican Republic, Pakistan, Sri Lanka, and others, that presented those proposals under the general name of a “Development Box”) while also asking for a reduction in subsidies and protection in industrialized countries. Still other countries are trying to coordinate both approaches. India is an interesting case. On the one hand, playing offense seems reasonable for a country that in the past few years has emerged as one of the world’s top net exporters of agricultural products. On the other hand, a large percentage of India’s poor population lives in rural areas. Concerns about possible negative impacts on the rural poor have therefore underpinned the defensive components in India’s WTO proposal, embedded in the notion of a Food Security Box (with proposals for additional levels of support and protection comparable to the Development Box).

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

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**INTERNATIONAL  
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To the extent that poverty is the main cause of food insecurity, international trade opportunities should also help improve food security. The expansion of trade in goods and services over the past decades, along with the decline in food prices resulting from technological advances, has led to sharp reductions in the size of the total food bill of developing countries as a share of total export earnings.

Of course, differences in agrifood production and export performance by developing countries depend on several factors, such as income and population growth, natural resource base and climate, and technological progress. But economic policies, in both industrialized and developing countries, also have a major impact. The WTO legal framework and the current negotiations are crucial precisely because of their likely effects on trade and agricultural policies worldwide. When considering negotiating positions from the point of view of the developing countries, it is important to analyze their policies separately from those of the industrialized countries.



## THE PRICE OF AGRICULTURAL PROTECTIONISM

Since the 1970s various studies have tried to quantify the impact that agricultural protectionism in industrialized countries has had on the world. Those studies have consistently reported that agricultural surpluses in rich countries, generated through protection and subsidies and then dumped onto world markets, have hurt agricultural development in developing countries. Recent simulations by IFPRI show that those policies by industrialized countries have displaced about US\$40 billion in net agricultural exports per year from developing countries and reduced agricultural incomes in those countries by nearly US\$30 billion (counting both primary and manufactured agricultural products but not related activities such as trade, commerce, and other services). Moreover, these estimates may be low because they do not include dynamic effects from additional investments that better market opportunities may elicit or second-round multiplier effects from those agricultural incomes that never materialized. More than half of these displacement effects have resulted from the policies of the European Union (and other European countries such as Norway and Switzerland), somewhat less than a third from U.S. policies, and about 10 percent mainly from Japanese policies, with the balance resulting from the policies of other industrialized countries.

These results should give some pause to the proponents of “multifunctionality” in rich countries who argue that agriculture has additional benefits for their societies, and that, therefore, it must be protected and subsidized. But an important effect of those policies is that agriculture in many poor countries is forced to contract. So whose multifunctionality is being advanced, and whose is being trampled upon? The losses resulting from the displaced production are particularly damaging in the many low-income countries whose economies depend heavily on agriculture and agroindustrial production and where most poverty occurs in rural areas.



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

## THREE CHALLENGES TO LIBERALIZATION

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STANDARD  
ARGUMENTS  
AGAINST TRADE  
LIBERALIZATION  
DO NOT HOLD

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

The first argument, however, omits the differences in distributional impact within developing countries between consumers and producers and across various types of households. Moreover, agricultural trade policies in industrialized countries



may have had a stifling effect on agricultural and agroindustrial production in all developing countries, regardless of their net trade position. Given that these sectors are the main economic activities in many developing countries, particularly poor ones, and that growth in these sectors is usually multiplied throughout the whole economy, poor developing countries, even net importers, may have lost a substantial source of dynamic benefits. In fact depressed world prices of many food products caused by agricultural protectionism and subsidies in industrialized countries may have contributed to some developing countries' becoming net food importers, pushing them into a more extreme specialization in tropical products.

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

may have other price and volume effects on exports and imports that compensate for agricultural price effects.

The second point focuses on the possible erosion of preferences for a number of developing countries that have special market access arrangements with industrialized countries. For low-income developing countries, such preferential access usually represents a large percentage of agricultural exports and sectoral value-added and has important implications for rural employment and the balance of payments. Yet, it is not clear how much countries with access to rich countries' markets benefit from the current arrangements, considering that the specific mechanisms for operating those preferences may have high administrative costs, may be uncertain over time, and may tilt the distribution of benefits toward domestic importers and away from the exporting developing countries. Several options offer greater benefits in national welfare terms than maintaining current levels of protection in rich countries. In some cases, changing the way tariff rate quotas operate could compensate for the erosion of preferences in the short run. One possibility would be to grant import licenses to the



exporting countries instead of giving them to domestic importing companies and to reduce to zero the “in quota” tariff for those exporting countries. This approach would transfer the complete quota rent (that is, the difference between the higher domestic price and the lower world price) to the exporting developing countries.

Another possibility is to transform the equivalent value of the trade preferences lost into foreign aid. This approach would mean extending to the affected poor developing countries the same logic applied when industrialized countries compensate domestic producers for the reduction in direct support. These lost preferences should also be calculated considering the economy-wide impact as a whole.

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

Yet several studies have shown that the Green Revolution—and domestic and international commercialization—can and did yield benefits for the poor because of its effect on production, employment, and food prices, although any uniform attainment of benefits is by no means guaranteed. Trade expansion that creates income opportunities for women may also give them greater control over expenditures, with positive effects on child nutrition and development, as well as greater



incentives to invest in girls. But there may be a trade-off between income-generating activities and the time allocated for childcare—an issue currently being analyzed at IFPRI. Generally, developing countries need to pursue complementary policies that will increase the physical and human capital owned by the poor and by women, build general infrastructure and services, ensure that markets operate competitively, build effective safety nets, and eliminate institutional, political, and social biases that discriminate against vulnerable groups.

## **POLICY OPTIONS FOR DEVELOPING COUNTRIES**

Although eliminating welfare-reducing policies in rich countries should be paramount in these negotiations, at the same time developing countries need to carefully consider their own agricultural policies. For years many of them have discriminated against agriculture, and although the most obvious macroeconomic biases may be gone, many countries still do not invest enough in agriculture and rural development.

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**DEVELOPING  
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POLICIES**

Several developing countries have expressed concern that further trade liberalization could create problems for their large and predominantly poor agricultural populations. Poor countries have argued for a slower pace in reducing their own tariffs on the premise that industrialized countries should first eliminate their higher levels of protection and subsidization. A related concern has been how to protect the livelihoods of poor producers from sudden negative impacts resulting from unfair trade practices such as subsidized exports and from import surges.

While insisting on a rigid sequence in which developed countries first eliminate all their own distortions seems a sure recipe for stalemate, developing countries seem justified in asking for significant down payments in the reduction of protection and subsidies in industrialized countries. Also, food-insecure and vulnerable countries need (1) longer transition times that must be used to implement adequate rural development and poverty

alleviation strategies, and (2) simplified and streamlined instruments to confront unfair trade practices and import surges that may irreparably damage the livelihoods of small farmers. In particular, in the context of the negotiations it is important to clarify the possible use by developing countries of other trade remedies against domestic and, especially, export subsidies of industrialized countries.

Some observers, however, have argued for maintaining high levels of agricultural protection in developing countries, or even increasing it further, as a way of reducing poverty and promoting food security. Sometimes this suggestion is accompanied by the argument that protection “does not cost money” and is easier to implement than subsidies in poor countries. Yet contrary to the common perception that protection is a tax paid by foreigners and collected by governments, much of the implicit tax is paid by domestic consumers and collected privately by producers in the form of higher prices. This tax on food has an obvious negative impact on poor households, which in many developing countries spend more than half of their income on food, and is mainly received by bigger agricultural producers with larger quantities of products to sell. Landless rural work-



ers, poor urban households, and many poor small farmers tend to be net buyers of food. The problems faced by poor farmers and poor consumers are better addressed through policies and investments targeted to them directly. The focus should therefore be on vulnerable groups rather than on crops.

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

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

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