Agricultural Trade Liberalization: Time to Close Windows of Exception

*Mia Mikic**

ABSTRACT

Agriculture is the economic activity that still provides a livelihood for the majority of people, especially the poor. Every effort thus needs to be made towards making this sector more productive and able to sustain a better quality of life for those who remain dependent on agriculture as a livelihood while also indirectly contributing to improved welfare among the remainder of the population. This understanding has not always been the driving force behind policymaking. It took the Uruguay Round to start mainstreaming agricultural trade into the multilateral trading system under the World Trade Organization in 1995. Although a latecomer, agriculture is now at centre stage of the Doha Development Agenda negotiations and, in the view of many, is holding the Doha Round captive as it prevents agreements in other areas of negotiations until members concur on agricultural trade liberalization.

Meanwhile, despite Uruguay round liberalization, agriculture remains the most distorted sector due to the heavy use of trade barriers and support policies (for both domestic production and exports). Most nations still seek "windows of exception" for

(continued on page 72)

* Economic Affairs Officer, Trade Policy Section, Trade and Investment Division, ESCAP. The author would like to thank Prof. Biswajit Dhar, Yann Duval and members of the APO Study Meeting on World Trade Organization-Doha Development Agenda: Implications of the Emerging Agreements in the Negotiations on Agriculture (Seoul, 22-25 November 2005) for their insightful and helpful comments. Any errors and omissions are the author's responsibility; the views expressed are those of the author and do not necessarily reflect those of the United Nations.

(continued from page 71)

their agricultural sector, be it for the use of trade barriers or support policies. Since all such instruments distort the relative prices of agricultural products vis-à-vis other products, they affect every country's overall economy and its sectors differently, depending on production and consumption patterns. However, multilateral negotiations so far have focused considerably more on one distorting instrument, export subsidies, thus resulting in much less progress in freeing trade in agriculture and removing other support for domestic agricultural production. This paper argues that this focus might have been misdirected, given the available evidence of sources of welfare effects in agricultural trade liberalization efforts. It is time to start closing windows of exception for some and start opening windows of opportunity for all.

Irrespective of how (and when) the Doha Round will close, other important aspects of trade liberalization in agriculture are explored in this paper. One aspect is a process of increased reliance on less transparent instruments of protection. It appears that trade in agriculture follows the same trade path as that followed with industrial goods during the General Agreement on Tariffs and Trade (GATT) era; with a reduction in import tariffs and quotas, there was a clear increase in the use of non-tariff and non-border barriers (such as quality standards, safety standards and rules of origin). This paper comments on some instruments that have the potential to be used for non-tariff protection, i.e., geographical indications and food safety standards. While these have already been used extensively by some trading nations, many others (particularly developing countries) have failed to see how they could significantly contribute to development. This, however, does not in general apply to the use of food and agricultural product safety standards. It is true that these can be used as (effective) trade barriers. However, with some proactive strategic thinking, these standards could be transformed into incentives for economy-wide positive changes in the production of food. Coupled with the adaptation of modernized regulatory systems, this would become a driver of increase competitiveness in both domestic and export markets.

Another aspect of agricultural trade liberalization is preferential liberalization through bilateral or regional trade agreements. The Asian and Pacific region is a fertile breeding ground for new agreements of this type, with almost 100 of them now in force or being negotiated that include at least one member of ESCAP. ESCAP has developed a database for tracking and (ultimately) assessing the performance of these preferential trade agreements. It can be used in gaining a better understanding of the treatment of any particular sector, including agriculture, in the preferential agreements as well as the contribution of the design of such agreements to their performance. The database is also considered helpful to policymakers in their management of multilateral, preferential and autonomous liberalization.

1. INTRODUCTION[1]

Agriculture is the economic activity that still provides a livelihood for the majority of people, especially the poor. Every effort thus needs to be made towards making this sector more productive and able to sustain a better quality of life for the people working in it as well as indirectly contributing to improved welfare among the remainder of the population. This understanding has not always been accepted. During a major part of the twentieth century, in many developing countries, it was strongly held that agriculture and modern development were mutually exclusive and policy attention was given to industrialization. This extended to a diminishing contribution of trade in agricultural products to development; therefore, developing countries did not demand that agricultural products be included in the multilateral trading system during the General Agreement on Tariffs and Trade (GATT) era.

At the same time, in many developed countries, the agricultural sector was already the smallest in terms of GDP and employment generation. In most European countries, what was left of the agricultural sector was in need of special attention by protectionist trade policies and domestic support. Starting with the political reasons for reconstructing long-term peace in Europe after the Second World War, "meddling" in agricultural production and trade continued for such reasons, as providing food security, protecting the farming community from natural and man-made shocks, preserving "rural life", protecting the environment, or simply owing to the pressure of strong farmers' lobbies. Ultimately, agriculture became the most distorted sector, hurting the poor who depend on agricultural production, mostly in developing countries.

After the Uruguay Round, agriculture made a comeback in development strategies. It was "mainstreamed" into the multilateral trading system under the World Trade Organization (WTO) through implementation of the Agreement on Agriculture (AoA) of the Uruguay Round for developed country members by the year 2000, and for developing members by 2005. AoA required members to translate all existing border measures other than customary customs duties (annex 5, paragraph 6) on agricultural products into so-called equivalent tariffs (a process known as "tariffication"). The idea behind this was to introduce the same measurement standard for the level of protection that prevailed in agricultural trade, this standard being an equivalent tariff. By binding the equivalent tariffs, benchmarks were introduced against which all members would have been assessed and, in relation to which, further liberalization following a predetermined timetable would have been undertaken.

---

1 "Issues of Interest in WTO for Countries with Economies in Transition: Doha Development Agenda" was recently published in this *Review* (vol. 1, No. 2, November 2005). It covers extensively issues of agricultural trade negotiations under the Doha Development Agenda, particularly those relevant to ESCAP members and associate members. The present paper makes use of that text but does not repeat its content unless doing so cannot be avoided.

In the implementation of this agreement, members managed to bind their tariffs at very high levels, known as "dirty tariffication", making further liberalization efforts more difficult, as seen so far during the current round of negotiations (see table 1). To achieve any actual liberalization, cuts in bound rates must be deep; in fact, they must be much deeper than most members are ready to accept.

Table 1. Comparison of bound and applied tariffs: import-weighted average agricultural tariff, by region, 2001 – ad valorem equivalent in per cent

Economies	*Bound tariff*	*Most-favoured-nation applied tariff*	*Actual applied tariff*
Developed	27	22	14
Developing	48	27	21
Least developed	78	14	13
World	37	24	17

Source: Jean, S., D. Laborde and W. Martin, 2006. "Consequences of alternative formulas for agricultural tariff cuts", in K. Anderson and W. Martin, eds., *Agricultural Trade Reform and the Doha Development Round* (Hampshire, United Kingdom, Palgrave Macmillan).

Note: Figures for regions are computed as import-weighted averages across countries.

Despite the obvious distortions caused by interventionist policies in the agricultural sector, Governments still maintain that the agricultural sector requires and deserves "windows of exception" when it comes to streamlining measures that distort agricultural trade.[2] In many instances, Governments have not been willing to separate objectives that belong to domestic policies[3] from those that are under the auspices of trade policy. Corden (1974) showed a long time ago that using trade policy for non-trade objectives is far more costly and less effective than using policies which can target chosen objectives directly (the so-called "specificity rule"). The Governments of both developing and developed countries appear to have no problems with the obvious inefficiency in using social resources when attempting to solve environmental, employment or other non-trade problems by relying only or mostly on trade policies.

Among the instruments of trade policies, Governments use mostly tariffs (in particular, per unit or specific tariffs), quantitative border barriers and export subsidies.

[2] The phrase is taken from a statement of the former Commerce Minister of the Government of India, Mr. Arun Jaitley, quoted in Deardorff and Stern (2004), p. 11, "We do not wish to stall the negotiations on agriculture, but we hope adequate windows of exception for economies like India that are highly dependent on agriculture, are created".

[3] For example, food security, a safety net for the poor, addressing the risks and returns in farming faced by small and marginal farmers, or rural development. See also Srinivasan (2003).

Additionally there are measures of domestic support (linked to production) that can be used in combination with other non-trade policies in creating shelter for the domestic economy or more often only selected parts of it. Most recent quantitative analyses show that, out of the measures that Governments have been using to intervene in agricultural sectors, market access measures (i.e., tariffs) have had the strongest impact, while domestic support and export subsidies were associated with less distortion (Hertel and Keeney, 2006).

The effects of protection are well known from theory as well as the experience of the many countries practising it: raised domestic prices of agricultural products, particularly food; depressed world prices of agricultural products; distorted signals for resource allocation and entrenchments of resources in inefficient uses, making it difficult for Governments to eliminate protection. Without the removal or significant weakening of this protection, trade cannot make production more efficient and competitive nor can it attract trade-creating and welfare-increasing investment. Without these actions, it is close to impossible to increase prosperity over the long term.

This paper looks at several selected issues related to agricultural trade liberalization. At the outset, the achievements resulting from the Sixth Ministerial Conference of WTO, held in Hong Kong, China, from 13 to 18 December 2005, in relation to the agricultural negotiations, are highlighted. This section then discusses the fallacies and misdirected priorities of the Doha Development Agenda, which arguably have focused only on some of the (needed) disciplines in agricultural trade. It also looks at the role of building coalitions in bringing the negotiations to a successful closure. Section 3 leaves the area of negotiations to explore how traditional "hard" protectionist measures in agricultural trade (e.g., quotas, tariffs, explicit subsidies) are being replaced by "soft" measures that, nevertheless, contain very sharp teeth for occasions when tougher action is desired. In the fourth section, the preferential trade liberalization in agriculture from the perspective of the Asian and Pacific region is reviewed and the work of ESCAP on the database for preferential trade agreements is described. The final section of the paper offers some concluding thoughts.

2. CURRENT STATE OF PLAY

Long before the unplanned loud and colourful start to the previously mentioned Sixth WTO Ministerial Conference, it was clear that yet again agricultural trade negotiations were proving very unpalatable to the taste of many stakeholders. Agriculture indeed turned into such a tension-generating agenda item that some senior trade negotiators were heard saying that agriculture should have never have been placed under the GATT/WTO "coverage". In their view, not only has agriculture itself proven difficult to liberalize in trade and to liberate from non-economic objectives, it has paved the way for other negotiating areas to enter into the multilateral system that are similarly hard to mold into the consensus-based decision-making of that system. Nonetheless, agriculture was given the central role in the Sixth Ministerial Conference when many members confirmed that they would consider it a "make-or-break" issue. In the end, as discussed in ESCAP (2006), it was not agriculture that kept the agenda of the Ministerial Conference and the Doha Development Agenda on the rails; it was, in fact, the collective understanding that derailing the round would probably be too costly for any country individually and for the global economy as a whole.

(a) The Ministerial Conference in Hong Kong, China – "Kicking the can down the road"[4]

As expected, the Sixth Ministerial Conference did not result in any surprises. With respect to agriculture, progress was made in all three pillars: market access, domestic support and export competition. New elements in the Declaration of that Conference included the following:

- Market access – the formalization of a "working hypothesis" on structuring tariffs for reductions within four tiers, with steeper cuts on higher tariffs but no further details on the formula. The key principles for constructing the formula should be: (i) a single approach (excluding only least-developed countries); (ii) reductions in bound rates; (iii) "operationally effective" special treatment for developing countries; and (iv) allowing all countries flexibility in protecting "sensitive products";
- Domestic support – confirmation of the "working hypothesis" that the aggregate measure of support would be classified into three bands. The European Union will occupy the top band facing the highest linear tariff cuts, the United States of America and Japan will be placed in the middle band and the remaining members listed in the bottom band. The text also specifies that overall cuts in trade-distorting domestic support must be at least equal to or greater than the sum of the reductions in the amber box, blue box and *de minimis* (exempted) support;[5]
- Export competition – the Ministerial Declaration, adopted on 18 December 2005, announced parallel elimination of all forms of export subsidies and disciplines for all export measures with equivalent effect by the end of 2013 together with progressive phasing-out such that a substantial part would be realized by the end of the first half of the implementation period. This means that 2013 will mark the end of agricultural export subsidies, export credits,

---

4 The phrase "kicking the can down the road" is borrowed from Heydon (2006, p. 5), who attributes it to a United States senator. Emphasis has been added by the author.

5 This should act as a deterrent to simple reclassification of subsidies from one box to another in order to escape meeting commitments.

export credit guarantees or insurance programmes, activities of State-trading enterprises that are deemed subsidized and food aid that does not conform to various disciplines. It also refers to an end to all export subsidies for cotton by developed countries in 2006.[6]

It is also important to note that paragraph 24 of the Ministerial Declaration links market access ambitions in agricultural and non-agricultural market access.

(b) Coalitions – who is kicking harder and in which direction?

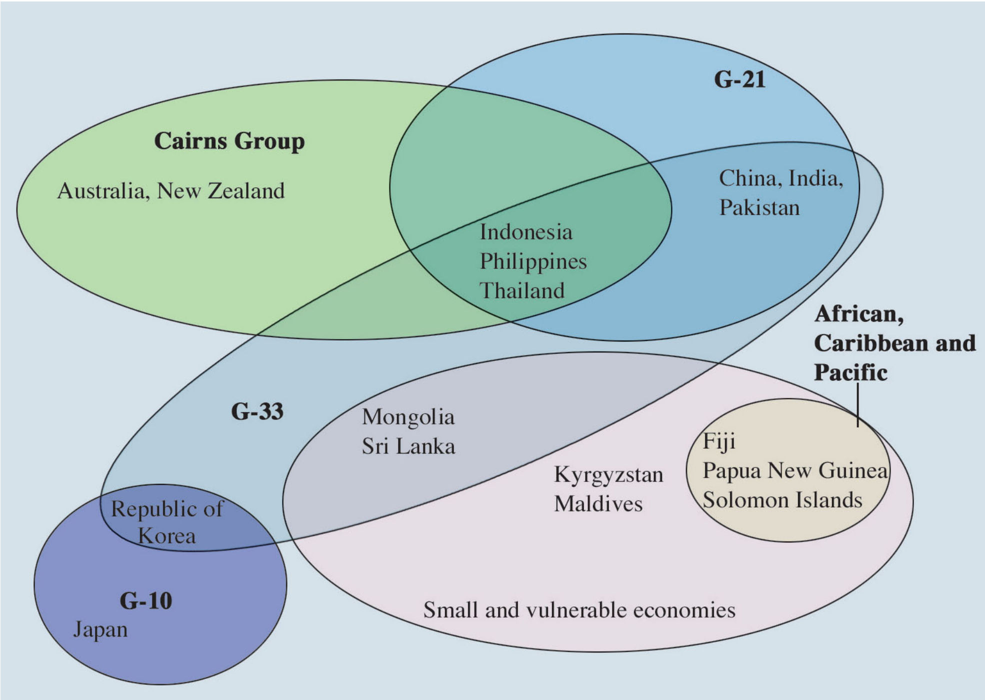
To decipher what is going on in or with agricultural negotiations, it is highly relevant to be aware of the major players and groupings actively cooperating in the negotiations. The Asian and Pacific region is not represented by a single group or coalition speaking with one voice in WTO on agricultural trade issues. The region includes least developed countries (LDCs), small and vulnerable economies, developing countries that are net food importers and net food exporters, and developed economies. These countries opted to form alliances in the Cairns Group, Group of Twenty, Group of Ten, Group of Thirty-three, Group of One Hundred and Ten,[7] and African, Caribbean and Pacific (ACP) countries, and small and vulnerable economies (SVEs). The only group that has not recruited any members from the ESCAP region is the Tropical Product Group (figure 1). Several countries (Australia, Japan, Kyrgyzstan, Maldives and New Zealand) belong only to one group (Cairns, G-10, and SVEs). Indonesia, the Philippines and Thailand are the most active, with alliances in three groups: Cairns, G-33 and G-20. The global South-South divide is quite noticeable, with the Cairns Group, representing the interests of net food exporters (including Indonesia, Malaysia, the Philippines and Thailand from developing countries, and Australia and New Zealand from the developed countries) being at one end of the spectrum in terms of negotiating positions and the net food-importing countries, which seem not to be formally linked to any groupings, at the other end.

To compensate for these wedge-inserting groups, there are ad hoc alliances called consensus builders. In agricultural negotiations in this trade round, these alliances were noticeable when the European Union and the United States first came up with a joint proposal in 2003, and again when the Five Interested Parties, that is, the United States, the European Union, India, Brazil and Australia, formulated the 2004 July Framework. The so-called New Quad that emerged at the Ministerial Conference, comprising the European

[6] The Declaration also calls for faster and deeper reductions in trade-distorting domestic subsidies for cotton than those that will be achieved through general schedules for domestic support to farming.

[7] The G 110 is associated with a meeting of G 20, G 33 and G 90 (64 of which are WTO members) at the Sixth Ministerial Conference. There is another group indirectly linked to agricultural liberalization, even though not involved in the AoA negotiations. It is related to negotiations on geographical indications (GIs) within the Agreement on Trade-Related Intellectual Property Rights and they are known as “Friends of GIs”. Members from the ESCAP region are India, Thailand and Turkey.

Figure 1. Coalitions on agricultural trade negotiations



Union, the United States, India and Brazil, is still the strongest force keeping this part of the negotiations rolling.

The question is whether developing countries of the Asian and Pacific region, including India and China, could or should make more of an impact by trying to form a regional alliance. With the region being so diverse, it is difficult to see what would be the unifying common interest for such a coalition. Net exporters (Cairns Group) stand to benefit from liberalization. Their interests cannot be supported by net food importers and other countries with problems related to accessing world markets, at least as long as there is no instrument of redistribution of gains from trade. The need to introduce a comprehensive and operational compensation package for trade reform (or trade adjustment package) may be one area of possible common interest. While the Uruguay round included a decision to provide financial and other assistance to LDCs and net food-importing (developing) countries, the decision was never implemented. With some countries already having some experience in designing a compensatory package for trade adjustment, notably for loss of tariff revenue at the preferential trade liberalization level within the South Asian Association for Regional Cooperation, it is plausible for this initiative to be taken up by other developing countries in Asia and the Pacific. It could provide a unifying force for furthering regional cooperation/integration and could perhaps be extended to multilateral negotiations (see Dhar, 2005). It does not have to be limited to agricultural trade, but can be cross-cutting through the Doha Development Agenda.[8]

(c) Is the can being kicked off the road?

The most noticeable development in the area of agricultural negotiations in the aftermath of the Ministerial Conference was the issuance of a "list of questions" by Mr. Crawford Falconer, Chairman of the WTO Committee on Agriculture. In sending the list to the members' delegations, he wanted to "underline …that we have a huge amount of work to do" (WTO, 2006). This could not be closer to the truth.

Delegations are faced with the extremely difficult task of agreeing on, for example, relevant liberalization thresholds for developed and developing members, the treatment of sensitive products, special products for developing countries, the special safeguard mechanism, disciplines for "food for aid" as well as export subsidies, export credit, State trading enterprises and some additional details on cotton. For some of these there is no precedent or experience based on previous WTO-enforced disciplines (e.g., subsidy elements of export credits and guarantees or financing for food aid). Without a doubt, it will be close to a miracle if results can be delivered on agriculture and, in turn, almost certainly on other items of the Doha Development Agenda, with non-agricultural market access, services, trade facilitation and development aspects of all of these areas being the most important. What would facilitate this outcome? As decision-making in WTO is based on consensus, it is of the utmost importance that all involved understand all the concerns. It is also essential that free riding is either eliminated or minimized so that all members take an active role in closing the deal. After all, everyone will be involved in sharing the costs and benefits of the agreed liberalization, even if some will gain a bigger share than others.

[8] Although not from the Asian and Pacific region, another good example of possible coalition-building is the "Uruguay round ceiling tariff issue" request by a small group of developing countries led by Kenya. On the other hand, there are also strong separatist forces most strongly linked to a debate on the erosion of preferences. However, erosion is not stopable if there is trust in the multilateral trading system, as any progress on the most-favoured-nation front will automatically have implications for other preferences. In the long term, developing countries are better off with a free(er) multilateral regime than with maintaining high non-reciprocal preferences, as the usefulness of the latter for development could be questioned.

3. FALLACIES AND PRIORITIES[9]

Unfortunately, a clear understanding of all the concerns cannot always be achieved. An increasing number of stakeholders involved in the preparation of negotiations and the process of negotiations is adhering to the principles of inclusiveness and transparency. However, this does not necessarily or automatically produce the same understanding of the problems among all the interested parties. In what follows, we briefly discuss how the lack or misinterpretation of information could lead to the negotiations becoming stalled.

Preparations for the Ministerial Conference were accompanied by a stream of academic and other publications containing, inter alia, quantitative estimations of the impacts that various Doha Development Agenda scenarios would have had in terms of welfare in individual countries or groups of countries. While this was well intended, it could backfire as it did just at the time of Sixth Ministerial Conference, with the estimates of the overall monetary gains from the Doha Development Agenda. This paper provides a brief *tour d'horizon* of the issues associated with the quantitative studies currently available.[10] Basically, there are two problems with quantitative analysis of (multilateral) trade liberalization. The first is related to models that most empiricists use and the fact that numerical findings obtained by these models are often knowingly or unintentionally misinterpreted and misused. The second problem occurs due to less-than-acceptable data quality and reliability as well as from data and other quantitative information (including results of quantitative analyses) being wrongly interpreted and used. Let us discuss, albeit in simplistic terms, each of these in turn.

(a) Models for quantitative analysis – making a choice

As discussed in Piermartini and Teh (2005), while quantification of the effects of economic policies has become an ordinary approach in economic analysis due to advances in theory and computational and data-processing capacities, the variability of models used to capture the impacts of policies has remained somewhat narrow. Most commonly used quantitative analytical techniques in the area of trade are computable general equilibrium (CGE) and gravity models. CGE models are economists' laboratories in which they can run computer-based simulations of "real economy" replicas. In the area of trade, these models are used mostly to estimate the effects of changes in different policies (such as trade liberalization) throughout an economy. This "general equilibrium" nature of CGE models is most valuable because it reflects the interdependency of economic variables. Policymakers can verify from the model of what they know by intuition or from experience,

---

9 Inspiration for this subsection title comes from Rae and Shakur (2005).

10 Readers who prefer a more technical approach to this problem are referred to Hertel and Keeney (2006) or Keeney and Hertel (2005).

that is, they cannot give more to one group if they do not take away from another group, *ceteris paribus*. It is this feature of the model that makes it instructional and helpful when choosing from different policy options.

However, as is the case with all economic models, CGE models are based on sets of restrictive assumptions that make them "easy to use" but also less like the "real thing", i.e., a living complex economy. Because of high degrees of aggregation in most of these models, it is quite possible that many important underlying links remain hidden. The other complexities related to the specifications of models, data availability and reliability, lack of attention given to alternative assumptions as well as a host of other issues is such that these models should be labelled "use with utmost care". Anything less would be irresponsible. At best, the numerical results obtained when using CGE models can be used as reference points for the order of magnitude of potential effects if the world does not change significantly in the period of analysis. Most modellers and economic analysts are well aware of these caveats and use them with care and responsibility. On the other hand, others (e.g., policymakers, civil society, bureaucrats and parliamentarians) who obtain these results may not be aware of the "use with utmost care" label. Too often, the results of CGE analysis are misinterpreted and they could be intentionally used to misrepresent the outcome of a policy change that is analysed.

The gravity model has become a very fashionable tool for quantitative analysis in the field of trade. While the model has been around for several decades, it is the surge in preferential trade agreements that has really boosted its use. The model is used to measure and explain the effects on trade flows of a policy that has already taken effect, and not for questions related to the implementation of new policies (such as changes in tariff structure). However, the results can still be used as inputs in future policymaking as "past policy impacts may serve to understand the implications of a change in future policy" (Piermartini and Teh, 2005). In other words, as laymen would say, one should learn from somebody else's mistakes. A particular problem with such models is that so far in explaining trade between two countries (even WTO members) there is no variable to reflect their commitments in multilateral liberalization. A more basic problem comes from using unweighted distance as a proxy for trade costs (and/or transport costs). However, it should be obvious that the cost of cargo being transported a certain distance across the European continent between, for example, Zagreb in Croatia and Luxemburg will be very different from that for the same type of cargo being transported the same distance across the African continent between, for example, Yaoundé in Cameroon and Bangui in Central African Republic.

This and other more specific problems aside, it is still unlikely that numbers obtained by either type of models will be replicated in the real world. According to DeRosa and Gilbert (2005), the CGE models used to predict Uruguay round gains proved to have underpredicted gains. In contrast, gravity models tend to overestimate gains, particularly those of some preferential trade agreements. The bottom line is that better models and better data are needed. In the meantime, as is often the case in economic policy, a rule of thumb should be applied. When it comes to trade liberalization, there is no doubt that the thumb (even if the hand is invisible!) points towards more liberal trade for all.

(b) Data

Another problem with using quantitative analysis is the availability of data in a multilateral context. Many countries do not have complete or reliable data series. In addition, in some cases, data are misinterpreted and misused even if they are not used as inputs in further quantitative analysis. For example, Panagariya (2005) and Anderson and others (2005) commented on misinterpreting Organisation for Economic Co-operation and Development (OECD) measures of producer-support estimates as "export subsidies". Such misrepresentation of results leads to the creation of fallacies and, from there, to the choice of the wrong priorities for negotiating agenda. An example is that the focus given by using wrong estimates for subsidies drove many WTO members into prioritizing negotiations in the area of agricultural export subsidies. However, empirical findings on the contribution to economic welfare of agricultural trade liberalization are converging towards a conclusion that, at the global level, the removal of export subsidies gives the smallest share of increases in welfare (around 2 per cent). Furthermore, removal of export subsidies has a negative impact on non-OECD countries that is compensated for by the positive impact of improving import access. The removal of domestic support measures, according to these findings, is more than twice as good as the elimination of export subsidies (5 per cent of the total increase in welfare). The removal of barriers to market access is what drives the increase in welfare, with the contribution being 93 per cent.[11]

Given the fragility of quantitative assessments in the field of trade, it is extremely important that findings are interpreted correctly and used in the proper context. If this is not practised by all, it is easy to hijack some of the results for the interest of specific groups. Identification of the right source of positive change in welfare is crucial to the identification of viable negotiating positions for particular groups.[12]

---

[11] According to Will Martin, market access barriers are the key in agricultural trade liberalization as "deep reductions in agricultural tariffs would deliver twelve times the gains that would be achieved by abolishing export subsidies and trade-distorting domestic support to agriculture." See <http://web.worldbank.org/WBSITE/EXTERNAL/NEWS/0,,contentMDK:20716308~menuPK:51062077~pagePK:34370~piPK:34424~theSitePK:4607,00.html>.

[12] The largest culprit in the area of using agricultural export subsidies has been the European Union. In the Doha Development Agenda, the European Union agreed to eliminate the use of this instrument and even accepted the date (2013) by which to do so. It appears that the European Union had been reducing these subsidies since 2000 and that it would have continued doing so unilaterally. As Hoekman and Messerlin (2006, p. 197) state: "…the European Union may be selling rapidly depreciating 'assets'."

4. SIDE EFFECTS OF THE WTO NEGOTIATIONS: FUZZIER PROTECTION

Sequential rounds of multilateral trade liberalization have been followed by the emergence of new border and non-border barriers in an effort by Governments to replace lost protection due to the reduction and elimination of tariffs and quotas. These new barriers appear to be less transparent[13] than traditional hard border barriers, i.e., tariffs and quantitative restrictions. Most such barriers are hidden as customs procedures and administrative practices, special charges and taxes, restrictive practices and technical barriers to trade. In agricultural trade, technical barriers to trade are becoming increasingly prevalent. Stringent policy measures through sanitary regulations and quality standards, safety and industrial standards have become the norm rather than the exception. In the context of non-reciprocal or reciprocal preferential trade, rules of origin can also easily be used to obscure protectionist practices by the importing country.

In view of the evident ease with which "bird flu" as well as similar potentially very serious human illnesses can spread, no one would argue in favour of a total ban on sanitary and other related measures, which are meant to protect public health. What is arguable, however, is the stringency of the measures. If the social marginal benefit to public health from an additional measure (or the toughening of an existing one) is not greater than the social marginal cost resulting from such a measure through the reduction of competition and efficiency, then the change is not justified. It does not mean that it will not be adopted, but at least the public deserves to know the cost of such a change.

This paper, being a brief overview of several issues, cannot go into a comprehensive analysis of the various soft barriers. However, two areas are worth further comment. One is related to geographical indications, and the other to food safety requirements.

(a) Geographical indications

Geographical indications, or "GIs" as they are often referred to, "identify a good as originating in the territory of a Member, or a region or locality in that territory, where a given quality, reputation or other characteristic of the good is essentially attributable to its geographical origin" (Agreement on Trade-Related Intellectual Property Rights (TRIPs), article 22.1). These mainly comprise place names used to identify products that originate from those places and which have these characteristics (e.g., "Champagne", "Madeira" and "Basmati"). Two articles in the TRIPs Agreement define protection in relation to geographical indications. Article 22 covers all products by defining a standard level of protection. This standard requires that geographical indications must be protected for the

[13] They also appear harder to manage in the multilateral negotiating forum as many instruments tend to be labelled as "domestic regulation".

benefit of the public, as well as to ensure fair competition. Article 23 provides a higher or enhanced level of protection for geographical indications for wines and spirits. Exceptions contained in article 24 allow for no or limited protection in cases where a name has become the common ("generic") term (e.g., "cheddar") and when a term has already been registered as a trademark. The Doha Development Agenda focused on two additional issues of a higher level of protection: the creation of a multilateral register for wines and spirits and the extension of the higher level of protection beyond wines and spirits.

WTO members differ with respect to the ways that they implement and monitor the geographical indications. The European Union has the "Register of protected designations of origin and protected geographical indications". In November 2005, the European Commission added the names of six agricultural products and foodstuffs to the Register. These included French, Italian and Spanish products (such as "pâtes d'Alsace" or "jamón de Trevélez"). The list contains about 720 product names already protected under the legislation on the protection of geographical indications and designations of origin and traditional speciality, which is the third category of rules on agricultural quality products under name "traditional speciality guaranteed". The United States has a less stringent system known as "certification marks".

While every country should have an opportunity to secure the best quality of food and other agricultural items for its society, this should not be done at the expense of other societies. Geographical indications have the same effect as escalating tariffs because they tend to lock in the producers outside the "protected" territory into the lower stages of production and effectively ban entrance into the processing stage. In some cases, this could be justified by the resource endowments and technological capacity of a country; however, in many cases, this is just another barrier to prevent a lower cost producer from entering the market with a similar product.[14] New proposals to extend geographical indications are still being debated, with both pro- and anti-camps strongly pushing their points of view.

(b) Food safety standards

There is much evidence that food safety and agricultural health standards are becoming increasingly challenging for developing country exporters when trying to access international markets for high-value food products (fruit, vegetables, fish, meat, nuts and spices). This is best evidenced through dispute settlement cases in WTO. Much of the related literature also confirms that sanitary and phytosanitary standards could be used as a barrier to trade because of their disguised discriminatory effect and because of the high

[14] Perhaps the case of "feta" cheese could be used as an example. There is also a claim that geographical indications drive up product (export) values, benefiting producers from price premiums because of the growing demand for "genuine" products. However, this increased profit argument does not sit well with the original argument for introducing geographical indications.

cost of compliance. However, there is also a "silver lining", as the many developing countries imposing sanitary and phytosanitary standards on producers and exporters provide an incentive for economy- and system-wide changes. These changes include modernization of production and regulation as well as the adoption of safer and more sustainable production practices (Jaffe, 2005).

The World Bank (2005) found that the adoption of a strategic approach to food safety, agricultural health and trade was the best long-term option for developing countries in meeting the challenges of standards of all types. It is argued that for countries and suppliers that are ready to follow this approach, more stringent standards of food safety and health would represent new opportunities rather than obstacles. However, producers and exporters in many developing countries and LDCs find that compliance with these standards makes it impossible for them to compete in the market they want to access. Rather than adopting different standards for them, it would be more in line with a development-oriented round to increase development flows ("aid for trade" included) to such countries in order to build up their capacities to cope with increasing levels of food safety standards.

In the above connection, work also needs to be done in the area of standard setting. So far, developing countries have not contributed substantially to international standard-setting bodies or other agencies that influence the level and character of standards in terms of participation or direction. Here, the focus should not be on readjustment of standards to a lower or the lowest common denominator. Rather, it should be on facilitating the use of practices and procedures that support the adoption of high(er) standards everywhere as long as an increase in standard level is socially justified. A related phenomenon emerging in this area is the increasing role of private standards that are beyond public control yet seem to be governing international and national trade in food items. It has been reported that standards are imposed on producers from developing countries with requirements exceeding public regulations, especially regarding production processes, certification and traceability (see, for example, Bureau and others, 2005). This practice makes the demands of distributors in developed countries excessively stringent and reduces the cost-effectiveness of the developing country producers.

5. AGRICULTURE IN REGIONAL PREFERENTIAL TRADE AGREEMENTS

At a recent World Bank conference, it was claimed that "WTO, particularly for agricultural liberalization, is more or less the only game in town". It has also been claimed that "very few so-called free trade agreements are really about freeing trade or creating new trading opportunities" and that they are also very weak in introducing and enforcing discipline that is the trademark of multilateral liberalization (Lamy, 2006).

A cursory glimpse at the map of preferential trade agreements (PTAs) (see figure 2) shows that this lack of liberalization and discipline dimensions has not prevented Governments in the region from promoting entry into various types of preferential trade agreements. At last count, there were close to 100 preferential trade agreements with at least one member coming from the membership of ESCAP. Most of them are shallow free-trade-area type arrangements, but which venture into non-trade areas of cooperation and integration. Many are also still on their way to satisfying WTO compliance requirements. While the academic literature has formed views on various important issues with respect to preferential liberalization, not much progress has been achieved in empirical testing of PTAs in Asia and the Pacific with regard to these issues.

For example, while the academic literature has a great deal to say on the advantages of deeper versus shallow integration, too little is understood about this area in the context of Asian and Pacific PTAs. There is also insufficient understanding of the treatment of particular sectors, including agriculture, in these PTAs. Even less can be said about the possible long-term contribution of PTA-driven liberalization to freer trade globally.

To improve understanding of the above issues, the Asia-Pacific Research and Training Network on Trade (ARTNeT) included a study on regional agricultural trade liberalization in its 2005 research programme.[15] The findings of this project will be available later in 2006. However, preliminary results show that, in contrast to WTO disciplines that embrace these pillars, PTAs as a rule focus on liberalizing only one of them, i.e., market access. This is indeed movement in the right direction if we are to rely on quantitative estimates; it is market access that provides the greatest contribution to increases in welfare following multilateral liberalization. Thus far, we have yet to discover PTAs in the region that deal with the export subsidies and domestic support disciplines in agriculture as effectively as in multilateral agreements. Because a large proportion of these agreements belong to the South-South type, most of them also include significant exclusions in the form of sensitive products and positive lists. However, in contrast to proposals for tariff cuts in the Doha Development Agenda, with preferential trade, market access is freed through cuts in applied tariff rates, which is also the only sensible direction to take. As expected, the agreements do contain safeguards and sanitary and phytosanitary standards, but not beyond the level of that found in WTO provisions. Similar to multilateral agreements, PTAs at this shallow level also do not negotiate on non-tariff measures.

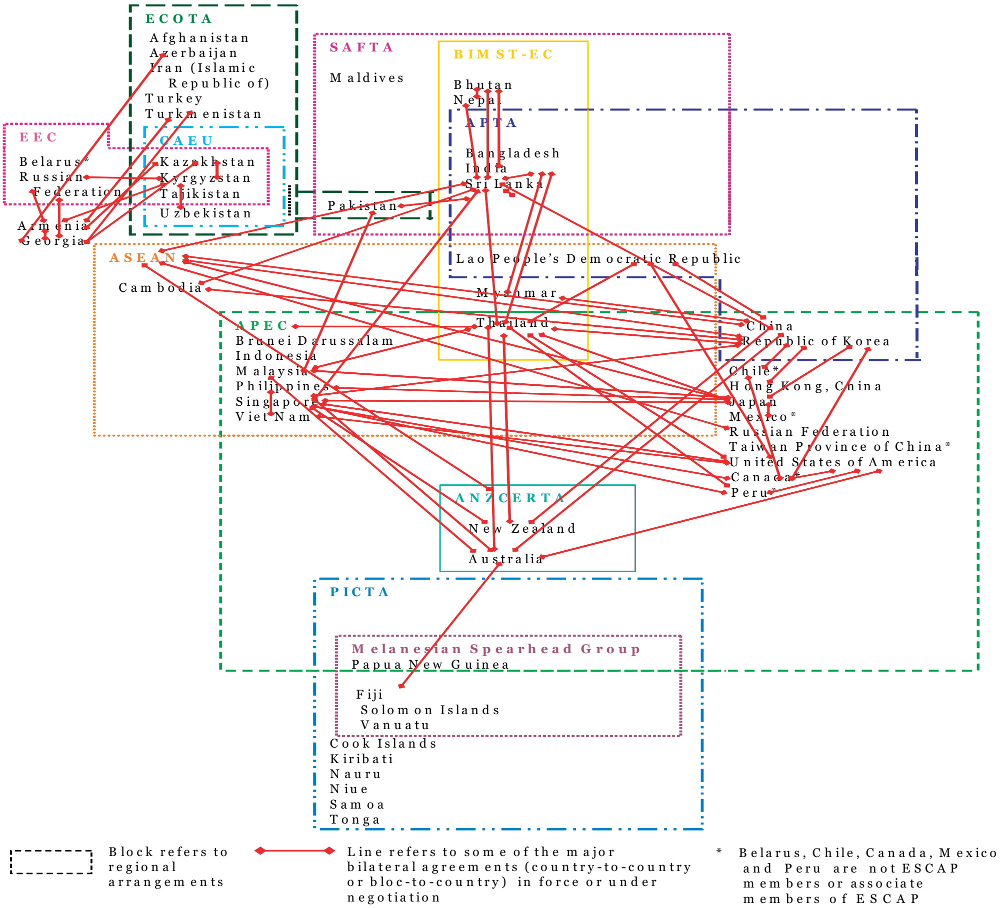
(a) Asia-Pacific preferential trade and investment agreements database[16]

In addition to being actively engaged in research on trade liberalization, both multilateral and preferential, of and within national economies, the ESCAP secretariat is

15 More details can be found at <www.artnetontrade.org>.

16 This section is based on Bonapace and Mikic, 2006.

Figure 2. From spaghetti bowl to noodles: main regional integration arrangements of ESCAP members and associate members



Source: ESCAP secretariat.

Notes: ANZCERTA – Australia-New Zealand Closer Economic Relations Trade Agreement; APEC – Asia-Pacific Economic Cooperation; APTA – Asia-Pacific Trade Agreement; ASEAN – Association of South-East Asian Nations; BIMST-EC – Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation; CAEU – Central Asian Economic Union; ECOTA – Economic Cooperation Organization Trade Agreement; EEC – European Economic Community; PICTA – Pacific Island Countries Free Trade Agreement; SAFTA – South Asian Free Trade Area.

developing a "one-stop" database that collates descriptive and quantitative information on more than 80 RTAs/bilateral trade agreements (BTAs) applicable to the region. The objective is to provide stakeholders (Governments, researchers, policy analysts and civil society) with a tool to monitor and analyse developments in preferential trade areas. The database is called the Asia-Pacific Preferential Trade and Investment Agreements Database (APTIAD) and is available at <www.unescap.org/tid/pta%5Fapp/>. Its current coverage will be expanded to include trade flows and the development of indicators to assess the implications of RTAs/BTAs on such flows.

APTIAD has a searchable function that, when fully developed, will contain:

(a) Detailed descriptive and up-to-date information on the provisions of bilateral and regional agreements;

(b) Statistical data on trade flows, commodity composition and services trade (where available) by individual agreements;

(c) Selected indicators of performance of individual agreements for pre-defined periods.

The first phase in developing this database has been completed.[17] The current phase is focusing on the following:

(a) Adding information related to the coverage of each agreement (contingent protection, standards, services and other areas) by each agreement;

(b) Testing online use of the database;

(c) Developing statistical data sets related to each agreement;

(d) Developing analytical measures and indicators for tracking and assessing PTA performance in various dimensions, and preparing the results for online presentation.

Indicators of PTA performance will be useful not only for assessing PTAs already in force, but also in providing insights into the potential outcomes of proposed agreements. This information will be used to set out best practices that could be consulted by ESCAP members when considering the negotiation of a PTA. Ultimately, the database will provide the information and analytical basis for work on designing a modal trade agreement for developing countries, using existing agreements and their performance. The principles to be included in such a "blueprint" are:

[17] The current version (available on CD and online) encompasses close to 100 agreements. It covers all the agreements reported to WTO to date, in which at least one party is in the ESCAP region. It also includes other agreements that have not been notified but for which there is official information readily available as well as those agreements under negotiation for which there has been at least a first formal negotiation round.

(a) Compliance with article XXIV of GATT and article C of the General Agreement on Trade in Services;

(b) Coverage of the so-called WTO+ areas (competition, government procurement and investment);

(c) The choice of partners with the aim of maximizing own trade creation and minimizing the trade diversion of others, reluctance to act upon special interest group pressures and reliance on research and evidence-based policymaking.

6. CONCLUSIONS

This paper is a *tour d'horizon* of some of the remaining and emerging issues in agricultural trade liberalization at all levels and is not intended to be an ambitious effort to cover any of the mentioned issues in a conclusive and comprehensive way. For that reason, any recommendations that could be derived from this paper would lack the unambiguous support of theory and evidence. However, it can be said that it is high time for all countries to move from trade-distorting policies to those that do less harm to the trading system while more effectively meeting domestic farm policy objectives that include the provision of security and predictability for farming sectors.

In order to achieve such a policy shift, the creation of less diverse positions in negotiations from the Asian and Pacific region would be helpful. Instead of thinking in terms of “friends of fish”, “friends of GIs” or “very close friends of services”, perhaps a coalition of “friends of people” should be formed with the interests of the majority being put first, ahead of those of special interest groups.

REFERENCES

Anderson, K., W. Martin and E. Valenzuela (2005). "Why market access is the most important of agriculture's 'three pillars' in the Doha negotiations" *Trade Note 26,* 9 December 2005 (Washington, D.C., World Bank).

Bonapace, T. and M. Mikic (2006). "Regionalism *quo vadis?* Charting the territory for new integration routes", paper presented at the Asian Development Bank Meeting on Brainstorming on Free Trade Agreements: Issues and Challenges in Designing Free Trade Agreements in Asia, Manila, 20 March 2006, mimeograph.

Bureau, J-C., S. Jean and A. Matthews (2005). *The Consequences of Agricultural Trade Liberalization for Developing Countries: Distinguishing Between Genuine Benefits and False Hopes,* CEPII, Working Paper No. 2005-13.

Corden, M. (1974). *Trade Policy and Economic Welfare* (Oxford, Clarendon Press).

Deardorff, A. and R. Stern (2004). *Designing a Pro-Active Stance for India in the Doha Development Agenda Negotiations,* Discussion Paper No. 521 (Ann Arbour, School of Public Policy, University of Michigan).

DeRosa, D. and J. Gilbert (2005). *Predicting Trade Expansion under FTAs and Multilateral Agreements,* Working Paper Series No. 05-13, October 2005 (Washington, D.C., Institute for International Economics).

Dhar, B. (2005). "Liberalization in agricultural trade: issues and concerns in delivering on the WTO round: a high-level government-business dialogue", *Studies in Trade and Development 56* (New York, United Nations), pp. 111-141.

Economic and Social Commission for Asia and the Pacific (ESCAP) (2006). "Outcome of the Sixth WTO Ministerial Conference: no surprises", *Socio-Economic Policy Brief,* Issue No. 4 (Bangkok), January.

Hertel, T.W. and R. Keeney (2006). "What's at stake: the relative importance of import barriers, export subsidies and domestic support", in K. Anderson and W. Martin, eds., *Agricultural Trade Reform and the Doha Development Agenda* (Hampshire, United Kingdom, Palgrave Macmillan).

Heydon, K. (2006). *After the WTO Hong Kong Ministerial Meeting: What is at Stake?,* Organisation for Economic Co-operation and Development Trade Policy Working Paper No. 27 (Paris).

Hoekman, B. and P. Messerlin (2006). "Removing the exception of agricultural export subsidies" in K. Anderson and W. Martin, eds., *Agricultural Trade Reform and the Doha Development Agenda* (Hampshire, United Kingdom, Palgrave Macmillan).

Jaffe, S.M. (2005). "Food safety and agricultural health standards and developing country exports: rethinking the impacts and the policy agenda", *Trade Note 25,* 14 September (Washington, D.C., World Bank).

Keeney, R. and T.W. Hertel (2005). *GTAP-AGR: A Framework for Assessing the Implications of Multilateral Changes in Agricultural Policies,* GTAP Technical Paper No. 24 (West Lafayette, Indiana, Centre for Global Trade Analysis, Purdue University).

Lamy, P. (2006). "The Doha Development Agenda: sweet dreams or slip slidin' away?" speech at the International Institute of Economics, Washington, D.C., 17 February, available at <www.wto.org/english/news_e/sppl_e/sppl19_e.htm>.

Panagariya, A. (2005). "Liberalizing agriculture", *Foreign Affairs,* WTO Special Edition, vol. 84, No. 7, December, pp. 56-67.

Piermartini, R. and R. The (2005). *Demystifying Modelling Methods for Trade Policy,* Discussion Paper No. 10 (Geneva, World Trade Organization).

Rae, A. and S. Shakur (2005). "The WTO Doha negotiations: fallacies and priorities", mimeograph, <http://econ.massey.ac.nz/caps/NZARES_05.pdf>.

Srinivasan, T.N. (2003). "India in the Doha round", *Financial Express,* 4 September.

World Bank (2005). *Food Safety and Agricultural Health Standards: Challenges and Opportunities for Developing Country Exports* (Washington, D.C., World Bank).

World Trade Organization (WTO) (2006). *Agriculture Negotiations Non Exhaustive List of Questions,* JOB(06)/26, Committee on Agriculture Special Session, <www.wto.org/english/tratop_e/agric_e/ag_questions_e.htm#questions>.