The long road to free trade for agriculture

Nilson M. de Paula[*]

1- Introduction

The difficulties for the conclusion of another round of trade negotiations under the supervision of WTO can be interpreted as inherent ingredients of the multilateral trade system, particularly after agriculture became the main issue during the Uruguay Round talks. As a result, agriculture is once again in the core of negotiations, given the reluctance of developed nations to implement reforms in their policies according to what had been previously agreed upon. The cross roads at which the negotiations have been reveal not only different options for organising trade itself, but also a conflict between the principles of free trade, embodied in most of technical assessments, and the actual political decisions taken by national governments affecting international economic relations.

This paper aims to discuss the evolution of international trade for agricultural products in the light of multilateral negotiations during the Doha round. Two main arguments are presented in this paper. Firstly, there is a persistent clash between free trade and protectionism, mainly due to a widespread strategy aiming to reduce the impact of competition on local business. Secondly, countries have increasingly engaged in bilateral agreements, leading trade to become deeply fragmented in a context where agriculture has been intensely protected in developed countries, whereas industrial activities have been the target of protection in developing nations.

2- The limits of free trade as a framework for institutional change

The world economy has been evolving towards widespread liberalisation and deeper integration through a growing global flow of goods and investments. Simultaneously, institutions at both domestic and international levels have changed as to promote new rules for competition by means of policies in line with market forces. This obviously differs broadly among countries according to a variety of factors related to

* Lecturer at the Department of Economics of Universidade Federal do Paraná.

competitiveness, degree of openness, exchange rate mechanism, implementation of market oriented policies, participation in regional trade areas, and so on. Despite their differences, however, national governments have moved towards the common ground of greater exposure to foreign competition, rigorous fiscal and monetary policy and market oriented regulations. This has been the core of recommendations by academics affiliated to mainstream economics, serving as a basis for the worldwide introduction of a new set of economic policies.

As a consequence, harmonisation has begun to attract more attention from analysts of international economic relations, given the assumption that diversity of domestic economic and social policies would prevent countries from reaping gains from free trade and a globally integrated economy. In other words, the more diverse domestic policies and their corresponding institutional framework are among countries, the higher the obstacles for trade and foreign direct investment to expand. (BHAGWATI, J., 1997).

Following this line of argument, the only way to bring all partners to a level playing field is allegedly through the rules of free trade, in which policies aiming at protection of domestic sectors or higher level of competitiveness are regarded as institutional diversity and thus as obstacles to institutional harmonisation. Consequently, implementation of policies focused on economic development and growth in Less Developed Countries (LDCs) might be seen as a source of trade distortion that hinders their integration to the world markets. That is to say, from the perspective of international relations, countries are expected to open their economies and to adopt the principle of fairness in trade strategy. Suggestions are thus made that opening up and deregulating national markets should be regarded as welcoming strategies, based on the assumption that institutional harmonisation will increase access to foreign markets in a free trade environment.

This argument of fairness in international trade, however, ignores the differences between countries regarding their levels of development. This explains why Less Developed Countries (LDCs) are generally criticised when pursuing strategies that strengthen the State and protect their infant industry.

In reality, as argued below, opening markets has not been a widespread phenomenon, for the adjustment of economic activities through capital and labour mobility can be a costly and painful process. Based on this argument, it can be sustained that alleged obstacles to free trade, are in fact structural ingredients of policies aiming at building up a solid infrastructure and a competitive industry, for which a strong state is crucial. This obviously opposes the world institutional arrangements inspired by the principles of free enterprise and competition, whereby the economic role of the state is expected to shrink. Indeed, the power of the state has dwindled in the last decades, particularly after the recipe emerging from the Washington Consensus started being implemented internationally. As Strange (1996:4) puts it, “Where states were once the masters of markets, now it is the markets which, on many crucial issues, are the masters over the governments of states”.

The underlying orientation is that by exposing their economies to foreign competition and by adopting an open trade policy countries will be able to profit on the process of globalisation and increase economic welfare. Therefore, national governments have been recommended to enhance the role of market forces and restrict economic policies conceived to protect selected sectors or the economy as a whole. Following this trend, international institutions have become the agents of a new set of world regulations based on free markets, affecting domestic policies and undercutting the actions of domestic groups pursuing some form of protection against the odds of competition, particularly from abroad. Generally speaking, the more embracing this change is, the more intensively national economies tend to converge into one single economic and political pattern, consequently narrowing the span of diversity. These are the principles by which world institutions convey free markets onto national economies, irrespective of their structural differences, as a guideline to development strategies under a single orientation.

The deregulation of national economies according to the policy package recommended by the IMF and the World Bank has promoted one single institutional framework across countries, in a world marked by an overwhelming uneven balance of economic power. Hence, the LDCs’ strategy of promoting economic development will certainly stumble on the guidance of the world financial institutions given that free market rules end up working as obstacles to industrialisation. As for the developed nations a clear contradiction in their external policies is worth mentioning. On the one hand, these nations have backed multilateral institutions such as the IMF and the World Bank in their mission to implement an international agenda shaped by fiscal control and free market orientation to be taken in by national governments. On the other hand, they have been involved in dramatic trade conflicts over market access abroad and protection of local business from foreign competition at home. Therefore, being efficient is not enough to guarantee a larger share of world market.

As it has been discussed, efficiency should be addressed from the development point of view. Thus, WTO talks should also give priority to the structural discrepancies between nations, through a round on development whereby the inequities of previous meetings could be corrected and real benefits to poorer countries delivered. By doing so, negotiations should move further than just providing market access to developed nations and attend to the interests of large trading and financial corporations. Besides, a great deal of uncertainty still remains as to whether free trade can provide higher levels of growth, particularly in developing nations.

Within the framework of free trade, trade policies that hold on to constraints such as tariffs, quotas, and export subsidies enforce distortions into economic relations, thus pushing the economic system away from the ideal world of free market. Consequently, the so called distortions are bound to become part of trade relations, as such determining the way by which countries integrate to the world market. Despite the prevailing conviction that market forces drive sectors and entire economies to higher levels of competitiveness, in reality economic relations have been forged by imperfection and renewing regulations distinct from those of free markets. Furthermore, one should take into account that the speed by which countries implement free-market oriented policies on international relations depends on their macroeconomic stability (in terms of inflation and exchange rates, trade balance, fiscal deficits, and so on). The worse the macroeconomic conditions become, the more quickly governments are driven back to protectionist strategies. For example, there might be set backs in free trade strategies if exchange rates begin to damage trade balance and if economic activity is jeopardised by foreign competition. This can be even more stressful should competing economies implement protectionist measures through import tariffs and/or export subsidies (BERGSTEN, C.F). Additionally, pressures emerging from local interests facing certain economic fragilities, as it is common in agricultural activities, can drive governments to a protectionist attitude. On that account, lack of competitiveness due to structural economic circumstances is usually considered when local businesses, affected by imports, call for help.

The needs of domestic economies and the foreign strategies adopted by national governments are strongly connected, as argued by KATZENSTEIN (1978): "*The rationale of all strategies is to establish a basic compatibility between domestic and international policy objectives.*" (pg. 3-4). In other words, trade relations should not be addressed by simply opposing free market to protectionist strategies. The move to and fro of developed countries between these two extreme positions might well reflect strategic decisions involving local demands according to the prevailing circumstances abroad. Whichever the strategy adopted, international trade relations will be shaped accordingly by either forcing other countries to drop trade barriers or pre-empting their access to domestic market. That is why, after building their industrial competence by employing protectionist measures, advanced nations have put pressure on developing countries to adopt a free trade approach and to open their markets (CHANG, H. 2002).

Finally, the difficulties faced by multilateral strategies have been somehow followed by emerging regional trade agreements, within which free trade might prosper in a limited dimension. In fact, free trade areas have become an essential feature of international trade relations and of the external policies implemented by governments all world over. Additionally, regional agreements have brought together countries on the ground that they could spur economic activity to higher levels, despite their structural differences, although this can be interpreted as a mechanism undermining international trade based on multilateral relations.

> "Thanks to the myopic and self-serving policies of the world's only superpower, bilateral free trade agreements are damaging the global trading system. They are undermining the most favored nation rule ensuring equal treatment in the WTO. Bilateral deals have become a vehicle for introducing extraneous issues into the WTO for the benefit of narrow US domestic interests. They are thereby distorting the role of the WTO." **(Bilateral trade treaties are a sham,** Jagdish Bhagwati and Arvind Panagariya Published: July 13 2003)

Since the mid 1980s, when the Washington Consensus and a sweeping liberal wave started impregnating economic policies throughout the world, belief in free markets as a framework for trade relations gathered strength among scholars, policy makers and international institutions. Coincidently, this new orientation provided a significant momentum for the multilateral trade system during the Uruguay Round of negotiations and the newly created trade institution, the WTO. However, when reforms of policies aiming trade relations and economic activities started being implemented according to those rules, mainly after 1994, great difficulties emerged on two fronts: powerful domestic lobbies brought up protectionist demands within the economies, and bilateral trade strategies became increasingly pervasive in international trade relations.

In this context, developed countries have adopted two contradictory positions, namely protecting their domestic interests and forcing trade partners to open up their markets. Although this has been a common feature across economic activities, it is in the less competitive ones, mainly agricultural, that protectionism has prevailed. This conflict has come to light more clearly in the last twenty years of trade negotiations when agricultural exporters, particularly LDCs, had already staked their claim in the world markets, and farming sectors of developed nations became more clearly exposed to the world competition. As argued later, protectionism became then more visible and easier to target as agricultural and trade policies were put into the categorisation established under the Uruguay Round Agreement on Agriculture (URAA).

To some extent, the protectionist behaviour adopted by those nations mirrors the incapacity of some sectors to adapt to a free market environment, triggering off intense lobby actions. Protection by means of subsidies, import quotas, tariff and non-tariff barriers has resulted in artificial conditions that allow many firms to survive without facing foreign competition and its inevitable destructive consequences. This slow and complex change has varied among countries and economic activities despite a far more aggressive position of developed nations in both putting pressure abroad for market access and protecting non-competitive activities at home.

The arguments stressed above, highlighting the flaws of strategies implemented according to free trade principles, do not invalidate initiatives taken by governments in different circumstances towards reducing trade barriers. On this ground, the following analysis will focus on the extent to which reforms in trade policies for agriculture have led this activity closer to the multilateral framework embodied in the WTO recommendations.

3- Reforms of Agricultural policy: where to go after the Uruguay round

Great expectations of expanding free trade relations in the international market have been raised especially after the conclusion of the Uruguay Round and more intensively during the present Doha Round. Despite the strengthening of the WTO as a world trade regulator, the instabilities in the US/EU trade relations and the uncertainties surrounding the outcome of negotiations started in the year 2000 are still haunting the multilateral trade agenda regardless of what may be reached in the final agreement. During the URAA, European and American agricultural policies emerged as the main stumbling block for the conclusion of the Multilateral Trade Negotiations (MTN) in 1994. Furthermore, agriculture still remains a major issue on the current round, given the high levels of protection prevailing mainly in the US, EU and Japan. Despite the greater integration of the world economy and the progress achieved in the multilateral talks, agriculture can still be considered a “special case” as the reforms implemented by those nations may be regarded as insufficient.

It is particularly relevant at this point to highlight the changes occurred in the American trade policy concerning agriculture since the mid 1970s. As mentioned above, the hitherto low profile of US policies towards agricultural trade gave way to a strong concern over the increasing pressure on fiscal budget and trade balance for which a more restricted external market played an important role. Besides, a major factor behind this state of affairs was the emergence of a new food regime, after the system prevailing in the US started being questioned.[1] Additionally, new competitors, in particular LDCs, increased their share in the world food supply to a large extent a result of the adoption of high-yield crops and related advanced technology conceived in the context of the green revolution after the mid sixties.

[1] The combination of domestic policies aiming at protecting farmers from a more limited demand and sluggish prices in the international markets and the adoption of a more complex technological package provided by upstream industrial corporations, resulted in increasing surpluses. The American government was then forced to provide an outlet for the increasing agricultural output by means of larger stockpiling, food aid to poor countries or export subsidies. “Government purchases to support prices encouraged farmers to produce as much as possible. Legislation to limit production by restricting acreage was never effective. In fact, insofar as they encouraged farmers to remove their worst land from production, acreage controls tended to increase productivity” (FRIEDMANN, H. 1993, pg 31).

The revival of old protective measures and the creation of new ones in the last decade mirror the difficulties dwelling in the transition towards a free-trade oriented agricultural policy. If leading US and European agriculture into the world competition means condemning segments of the farming business to a tragic deadlock, maintaining protection will otherwise imply in confronting multilateral agreements and in worsening domestic macroeconomic difficulties. Furthermore, should developed nations keep their protectionist apparatus, LDCs will certainly bear the brunt of a more depressed market due to the crucial role agro-industrial products have in many of their economies. This situation can become more dramatic in the light of an international division of labour in which many Latin-American, Asian and African economies not only depend significantly on farming activities but are also highly competitive. Overall, agriculture accounted for 25% of GDP and 50% of employment in developing countries in 2001, whereas in OECD economies it accounted for 2 and 7,3% respectively (ACHARYA, R. and DALY M., 2004).

Most of US as well as European policies towards agriculture can be interpreted as a reaction to the growing presence of those LDC countries in the world trade. Jean Michel Lemetayer, vice-president of the European Farming Confederation, stated during WTO negotiations that Brazilian agriculture posed a threat to European agriculture given the impact of the former's exports on price and on the level of the latter's income in such products as beef, chicken and pork. The same is true for the US agriculture, whose farmers have expressed a deep concern about the competitiveness of Brazilian and Argentinean exports of soybean, cotton, orange juice, and other agricultural products. The world trade then becomes more unstable, given that US and European farmers are enticed to increase production eliminating foreign suppliers by means of world price reduction.

There is thus a conflict within the realm of comparative advantages between these two groups of nations which revolves around different perspectives on free trade and multilateral relations. Although developed nations, especially the US, have insisted on liberalisation of world trade for the sake of those activities in which they have a higher level of efficiency, a protectionist strategy aiming at non competitive activities, in particular agriculture, has been adopted.

The agreement on agriculture between GATT negotiators, based on which foreign policies of many countries have been driven in the last 10 years, consisted of issues related to market access, domestic support and export subsidies covering the main sticking points for a prospective trade liberalisation. If a more efficient agriculture counts on foreign market as an important outlet for increasing production, price support, income transfer and subsidies have protected less efficient farming sectors from world competition. Not surprisingly, as argued below, these two opposite situations challenge the attempts to regulate trade by means of free market rules. As it is well known, most of the pre-UR policies still remain in practice in the developed world and therefore do not comply fully with the provisions of the WTO, so far undermining the prospects of a free world trade system for agriculture. Given that the main progress towards trade liberalisation after the UR has materialised simply in a framework for further negotiations, much is still to change both in terms of agricultural and trade policies.

Initiatives taken by some countries to narrow protectionist strategies have not been able to persuade other nations that institutional arrangements based on free trade will deliver increased welfare. In fact, frustrations have become a common sight, mainly because no satisfactory results have been collected in face of the difficulties in changing pervasive protective practices. A relevant aspect underlining this process is the trade-off within national economies between a sometimes painful adaptation of the entire productive structure to new trade conditions, should a country assume a free trade attitude and a deeper integration in the world market. Therefore, a transition to open competition might require producers to change activities and governments to support them.

> "Further progress within the WTO is likely to be slow since existing institutions reflect differing circumstances and preferences across countries, and these institutions respond slowly to changes in the external environment. Existing institutions also reflect trade-offs in achieving domestic policy objectives, and as limitations are imposed, policymakers will innovate to continue to achieve those objectives in the face of WTO limitations." (CRANFIELD, J. A. L. et all, 1998, pg.iii)

Most of the literature discussing the evolution of trade and the changes in agricultural policy in the last decade has put significant emphasis on the degree by which trade liberalisation and free competition have advanced. The achievements of the UR, mainly in terms of 'tariffication' of non-tariff barriers and the introduction of the AMS

(Aggregate Measure of Support) to monitor the expenses on agriculture, have been viewed as an important step "*towards order, fair competition and a less distorted sector*" by the WTO. However logic, as mentioned above, this assessment falls short of dealing with the new conflicts emerging inside the regulatory system as well as the trade relations. Setbacks in agricultural policies by means of unduly high levels of subsidies or trade conflicts among nations have been again on the spotlight in recent years, somehow indicating that distortions remain in fact as the rule of the game.

The Agricultural Agreement of UR set out the terms to discipline the ways of supporting farming activity, according to which support to farming activities was classified into three categories. On the one hand, policies believed to cause little or no distortion on trade were put in a green box, including various measures such as disease and pest control, training, extension and advisory services, marketing and promotion services, infrastructural services, food security programmes and domestic food aid. The "Green Box" also included programmes aiming at income support, income insurance, natural disaster relief, structural adjustment assistance involving retirement schemes, assistance for investment and environmental protection, and others. On the other hand, those prohibited policy instruments like quantitative restrictions or import levies, damaging to trade and production, were put in a Red Box. However, taking into account that there was no agreement as to which domestic policies should be condemned, the Red Box has been empty. Policies such as market price support, direct payments and input subsidies, causing distortion to trade, but subject to some discipline and revision over time, were put in the "Amber Box". Those measures included in the *de minimis* exemption cannot exceed 5 percent of the product's value in the developed countries and 10% in the LDCs. (WTO, 2005 – Annual Report 2005). However, not all policies have been dealt with according to this traffic light discipline, after the Blue Box as an alternative to classify support policies, was introduced in the final agriculture agreement of the UR. This was a way by which developed countries, mainly US and EU, managed to keep some of their policies untouched, thereby removing programmes of direct payments connected with production control, from the amber box category[2]. In fact, the blue box programs became the water

[2] "Blue Box policies were seen as acceptable, but temporary, or transition policies that would help pave the way for further reforms over time. Blue Box policies represent the set of provisions in the Agreement on Agriculture that exempts from reduction commitments, those program payments received under production

shed of negotiations, taking into account the interests of both US and EU to counter-cyclical payments, as shown by the cotton case, from the Amber box, thus as part of the Aggregate Measure of Support. “If the US had notified countercyclical payments to the WTO as price related aggregate measures of support (AMS), the US would have exceeded its US$ 19.1 billion Uruguay Round AMS ceiling” (MURPHY,S. and SUPPAN, S.,2005). Needless to say that any resistance by the US to cap Blue Box policies, will be backed by the EU, Japan and other highly protectionist countries, like Norway and South Korea. On the opposite side, however,

> “the expansion of the Blue Box confronts developing countries directly with the question of what they should do when developed countries continue to preach the virtues of increased trade liberalization while negotiating to protect the vice they claim to abhor. The G-20 has suggested further disciplines on the expanded Blue Box payments to include an exclusion of commodities that receive other forms of trade-distorting support and to cap the non-production linked Blue Box payments by product, not just with an overall ceiling”(MURPHY,S. and SUPPAN, S.,2005).

Based on this categorisation, some developed countries have managed to fit their policies into the new rules, but in such a way as to keep the existing system almost unchanged. Although some policies of support to agriculture, such as those included in the green box, are programmes designed to stimulate production and rural development, they somehow indicate that governments have preserved the basic political strategy of supporting agriculture. Although those measures regarded as harmful to trade were clearly identified and despite being subject to UR provisions, there has been a compromise to accommodate some countries’ interests in using them to boost their agricultural exports.

Most importantly, despite the expectations that the UR final agreement would pave the way for further reforms, there is no sufficient ground to believe in a full removal of the existing system of protection and incentives. Moreover, recent trade developments have been deeply shaped by a proliferation of protection measures and a revival of instruments such as subsidies to stimulate or sustain production, especially in the US and EU. In fact,

---

limiting programs – if they are based on fixed area and yields, a fixed number of head livestock, or if they are made on 85 percent or less of base level of production.” (USDA, Economic Research Service, Briefing Rooms: WTO Glossaries, www.ers.usda.gov/briefing/WTO/Glossaries.htm, accessed on the April 7th 2006.

that has been the main issue of WTO meetings, after the Cancun talks. The situation drawing most attention for decades is that of CAP (Common Agricultural Policy), which, since its first conception has caused some downward impact on world prices as a result of artificial increases in domestic European production and its supply in the foreign markets. Similar effects can be attributed to agricultural policies in the US and Japan, where the level of protection has been extremely high.

The main damaging effect of protectionist policies in developed countries has been undergone by foreign producers, more particularly from developing and poor countries. Agricultural policies of incentive and protection in the group of developed countries has conveyed to farming activities an estimated value of $300 billion, one third of which in the EU alone, through direct production subsidies. Similar policies have cost the US budget around $50 billion. American farmers have become a large exporter of cotton despite their high costs of production, causing its world price to reduce by half between 1997 and 2002. Similar situation was detected in Japan, where tariffs on imported rice have reached the level of 700%, thereby reducing market access by other Asian producers. (PALLEY, T. 2003)

The reform of the EU Common Agricultural Policy had its first most significant step given by the MacSharry proposal as a result of the agreement reached in the Uruguay Round, followed by the Agenda 2000, aiming at the Millennium Round of the WTO. However, this did not lead CAP to any substantial change from a free market point of view. In 2003 another move was made to resume the process started in 2000, when price support and export subsidies were replaced by income transfer to farmers, regardless of production volume. In reality, European policy-makers for agriculture are still at a crossroad regarding the demands of farmers on the one hand and the requirements of the WTO on the other. The extreme social and economic diversity within European agriculture will definitely bring large obstacles to reforms pursuing a more widely open market and a more competitive farming sector. The majority of small and non competitive farms in some countries, like France, can lead governments within the EU to be more resistant to implement reforms. This scenario thus corroborates the argument according to which trade barriers and support policies might bring an uncertain prospect for international negotiations regarding agricultural activities.

4- The prospects for agricultural trade

The recent evolution of agricultural trade has been mainly affected by three main events, which in different ways can jeopardise future developments in multilateral talks taking place during the Doha Round. Firstly, as highlighted above, the slowly implemented reforms in agricultural policies and in the protectionist apparatus of developed nations have not yet produced meaningful results. Secondly, although the current round of trade negotiations has so far failed to achieve a breakthrough in the first agreement reached by the end of July 2004, actions have been taken by developing countries against support measures implemented by EU and US. Pressure of exporting countries, like those gathered in the G20 during the talks taking place in Geneva, and the instabilities in the world market have added more difficulties to negotiations. Thirdly, most of international trade has taken place within bilateral transactions due to both the emerging free trade areas and, to certain extent, the obstacles to the progress of multilateral negotiations.

The struggle of developing nations to increase their market share as a result of multilateral arrangements is still far from achieving a satisfactory balance among trading nations. This can be more challenging given that most of global distortions resulting from domestic support has taken place in EU and US. Moreover, nearly 80 percent of market distortions have been caused by a small group of developed nations (USDA, Economic Research Service, Summary Report; AER-797, pg 5).

As already pointed out, despite many authors trumpeting the progress of the UR final agreement, its outcome has been restricted to a simple framework for negotiations on trade liberalisation still to happen. Meanwhile, policies implemented in agricultural activities have not yet indicated a major change in the *status quo* of farming support and protectionism. In short, it seems that not only are all governments not fully prepared to play by the rules of free trade, but also that these rules will hardly work as guidance for national governments to tackle all the problems facing the farming sector throughout the world. Given that pursuing free trade has been coupled with institutional deregulation on the domestic front that eliminates policy mechanisms of support, the subsequent adjustment may become uncoordinated and chaotic in certain circumstances. This means that producers, particularly in LDCs, might be deprived of any kind of compensation should market forces create a disadvantageous environment. Moreover, the adoption of a market oriented position is bound to demand a strong and more decisive action by the state aiming at leading producers to a reasonably safe and competitive condition. In other words, the idea of free trade should not necessarily insinuate enfeebling institutions and total lack of policies that promote competitiveness or a safe deployment of farmers to alternative businesses.

Nevertheless, policies carried out by most developed countries have pursued protection as a response to political pressure, leaving aside a framework based on stimulating competition. In other words, they have pursued defensive policies with the purpose of avoiding competition, which are regarded as causes of distortions in the international price system. Differently, those policies whose objectives are to enable farmers to compete and to promote the necessary adjustments in the productive basis contain a positive or constructive profile, for which a strong state and sound institutions are essential.

Recent developments in Europe have shown that the way-out for farmers seems to have been through economies of scale, which means smaller farmers being expelled from business. Therefore, firms are becoming bigger and more efficient, in a combination that may persistently reduce the number of units in some countries in the years to come. This outcome is predictable in the light of liberal policies, according to which governments should provide support that can make farms bigger and thus more competitive. In the EU as a whole, those farmers remaining in activity have already introduced changes in terms of both larger size and use of more intensive technology. Between 1989 and 1993 the number of farmers in the UK decreased by about 9% (The Economist, 1996). Interestingly, as noticed above, increasing size not necessarily has meant that government support has become unnecessary, especially when world markets become unstable. A major problem arising from this context is that, because farm income might become increasingly dependent on market access and less on government support, a conflict between liberalisation as the sole guideline for agricultural and trade policies and the social and economic requirements for farmers to survive is inevitable.

The difficulty in dealing with this conflict can be detected in two different ways. Firstly, as the main concern emerging in the UR relates to market access, governments, particularly from developed countries, have reintroduced policies to boost exports thereby sustaining farm production. Therefore, market forces are contained within the limits at which farmers are only partially exposed to competition. The outcome of negotiations between European Agricultural ministers in the year 2000 somehow exemplifies the actual pace by which the CAP has been reformed in recent years, reducing the amount of subsidy and compensating for it by direct payments at a higher level. In general, subsidy almost doubled in the period from 1986-88 to 1995 in the EU (measured by producer-subsidy equivalent per farmer - The Economist, 1996). This situation has persisted as farmers have been unable to avoid the consequences of market instabilities without relying on government support. High levels of protection in the developed countries have moreover ensured that there has been little or no adjustment of production to price reduction. By the same token, by providing farmers with export subsidies or direct payment, governments of the richer countries have introduced a protecting cushion against market instabilities.

The increased level of PSE (Producer Support Estimate) in 1998 reflected the measure by which developed countries within the OECD reacted to the slump in commodity prices, following the crisis affecting Asia and Russia. There is thus a clear reversal in the previous trend, particularly in Europe and United States. For the OECD as a whole, there was an increase of 11% in the PSE from 1997 to 1998. As for the European Union the increase was 18%, revealing thus that farm reform is still dependent on certain market conditions. More recent evidences have shown that support to farming activity related to farm income, though decreasing after the conclusion of the UR, still remain high. Still according to OECD data, the average percentage of PSE to gross farm income for the 2000-2003 period, was 20% in US, 34% in the EU, 58% in Japan and 31% for the whole of OECD countries. On the other hand, among the developing countries, very competitive in agricultural production, the percentage was 4% in Brazil and Australia, 1% in New Zealand and 6% in China and Russia.

Secondly, EU governments have not only kept a significant level of subsidies, but a large share of them has been under what is defined in the GATT agreement for agriculture as "blue box". As already pointed out, this is a category of subsidy regarded as non market distorting, despite indications that a large proportion of it has been accrued to increase output. This type of subsidy has been introduced in the CAP as a mechanism to support farm production that can avoid the “amber box” category, considering that much of the blue box supports are still blurred as to whether being market distorting or not. According to WTO the fact that blue support is 45% of the total amount of support given to agriculture could be regarded beyond acceptable limits. Moreover, if the blue support were to be included in one single measure, the EU would exceed the AMS commitment by 11%.

The issue behind these figures, however is that most subsidies are still not well defined as to what extent they distort market conditions. Sorting out this problem will require great effort as the multilateral negotiations continue. The challenge posed to most countries, particularly the developed ones, lies between the requirements of multilateral negotiations within the UR framework and the pressures coming from the strong lobby inside their agricultural systems. This can be illustrated by the fact that organised agricultural groups, lobbying in the legislative chambers, have expressed opinion on the long-term strategies of preventing farmers from being affected by low prices. US farming groups have persistently recommended through their congressmen that US trade policies should take measures in order to widen their access to foreign market, such as exempting agriculture from US unilateral economic sanctions, using export and food aid programs extensively, and fighting against obstacles abroad to the imports of US farm products. These defensive measures go very much in line with a reduction of the American share of world agricultural markets, a matter for concern given that exports account for 25% of farm income. (GEOFFREY S. BECKER, et all 2000)

On the other hand, besides adopting an approach to agricultural trade policy in compliance with the recommendations of the WTO, most LDCs have strongly fought for a wider access to international markets, especially in the EU and US. The recent victory of Brazil over the US on cotton and the EU on sugar might trigger off an increasing access to these markets by Brazilian producers as a result of a more aggressive position of its diplomacy on international disputes. This can be followed by another contention to be raised by rice producers against Thailand and the US, due to subsidies applied by these countries on their exports, with depressing impact on world prices.

On the multilateral front, negotiations within the Doha round of the WTO have only produced a new framework for future reforms in agricultural and trade policies. Although the commitments to reducing subsidies by 20% may result in a larger share of market for agricultural competitive exporters, there is still some uncertainty whether developing countries will increase their access to the world market. Predictions that world trade liberalisation will bring benefits to all countries might well be frustrated if protectionism is not fully eliminated from international trade relations as the current round nears the end.[3]

Despite growing hopes for further liberalisation after WTO negotiations, both developed and developing countries have embarked in trade relations strongly characterised by bilateral agreements and contentions around protectionist policies. As Mr Lamy, Director General of the WTO has declared, although multilateral trade is regarded as the best way to disseminate the benefits of the international division of labour, bilateral relations have grown systematically in recent years while the WTO has been unable to produce, quickly enough, results in terms of free trade. However, none of them seems to have been a fertile ground for those countries awaiting for free markets to prevail. The attempts to set up a bilateral agreement between EU and MERCOSUR have been entangled in difficulties that will either delay any progress in trade relations between the two blocs or bring it to a complete halt. This outcome can be explained by the obstacles to eliminate protection on both sides.

On the other hand, the expectations surrounding multilateral relations are not clear cut. The conclusion of the Doha Round will be crucial to induce countries to implement reforms in their domestic policies. As negotiations unfold, it has become more difficult to establish an optimistic prospect. Despite a strong and widespread belief that trade liberalisation will bring increases in income and larger access to markets some economies, such as ex-colonies, might well endure losses after protectionist conditions are eliminated in developed countries.[4] Therefore, if more favourable conditions disappear, those countries are bound to hold-up the overall movement towards free-

[3] After the conclusion of UR, there were expectations that the gains to the world economy as a whole would amount to around US$ 200 billion.(USDA,1998).

[4] Anderson, K. et all (2005) simulated the effects of agricultural trade liberalization among countries for the year 2015, according to which the biggest beneficiaries will be the developing countries more competitive in agricultural market, such as Brazil, Australia, New Zealand and Argentina whose exports would increase more than imports, whereas the opposite would happen to high income countries like, Europe, US and Japan. On the other hand, increase of imports by low income countries would be nearly as double as their exports.

trade. Similarly, developed countries with difficulties in eliminating protectionist measures, as illustrated by Japan and Norway, can back the EU in its strategies to restrict market access (The Economist, 2005). Also, internal differences within the EU related to the competitiveness of agricultural sectors have strongly influenced the proposals put forward by its trade commissioner in the ministerial gatherings. On an opposite perspective, the G20 countries, similarly to what happened in the UR, have aligned themselves with the US in the strategy of putting pressure on the EU for changes in the CAP and for a wider access to the European market.

As the difficulties of the previous conferences of Seattle in 1999 and Cancun in 2003 remain, there is a large risk surrounding not only the Doha Round as a whole but also the WTO in its incapacity of ruling over bilateral negotiations and the resulting fragmentation of world trade relations. In the end, the resulting agreement will not certainly guide world trade to a prevailing widespread liberalisation but very likely to a slow process in which trade barriers will be only superficially reduced and very limited concessions made. Therefore, there is little hope that the removal of protectionism will be implemented by countries as a solid strategy towards foreign trade. The achievements of trade negotiations in the present WTO meetings so far fall short of what is necessary to propel trade into an environment able to provide grains to all countries, particularly the developing and poor ones. The deadline for totally phasing out export subsidies in 2013 clearly reflects how difficult it will be to trim down the divergences between the negotiating parties.

The statement by Mr Lamy, that “the road ahead is still full of potholes” mirrors the striking divergences between countries. The offer by the EU on tariff reduction by between 35 and 60 per cent and on a limit of 8 per cent of tariff lines for sensitive products is far from pleasing the US and the G-20, the main campaigners for a more rapid liberalisation in the negotiation process. On the other hand the reluctance by the US to reduce subsidies regarded as damaging to trade, as illustrated by the cotton case, became a stumbling stone for the EU to make a converging move. Moreover, an important ingredient of this picture is the pressure exerted by domestic lobbies in many countries participating in the multilateral decisions, aiming at holding back the negotiation process in order to preserve the *status quo* of protection in their activities. Two actions can illustrate the political environment affecting direct or indirectly the Doha Round. On the one hand, Asian small farmers' parades demonstrated their animosity to the proposed elimination of protection, given their lack of competitiveness with imports from developed countries. On the other hand, American farmers, particularly those producing sugar, cotton and maize, lobbied for a withdrawal of the proposal to reduce subsidies in case the Europeans did not make a satisfactory move towards smaller tariffs. To make things worse, the alliance of EU and the G-10 reinforced protectionist positions and stirred up a pervasive reaction by many countries to the policies embodied in the blue box and *de minimis* strategies. Therefore, it seems that optimism is hinged only on the prospects for changes in the future, whereas very little can be expected in practical terms until the present round is finished.

5- **Concluding remarks**

As negotiations go on in the Doha Round, conflicts within trade relations seem to haunt the successive meetings aiming at a deal that could at least keep the frame of mind for further step towards a prevailing free trade environment. As shown in this paper the road to free trade is definitely fraught with traps and crossroads, given the difficulties to bring opposing interests to a converging point and the strategies embodied in trade policies more responsive to national interests than to multilateral requirements. Therefore, many evidences have suggested that liberalization of agricultural trade might be a very slowing process, and as such depending on two basic sets of event. On the one hand, multilateral negotiations could be held up as bilateral deals are carried out, specially those involving developed nations like the US and EU. On the other hand, pressures exerted by farming interests within nations may drive negotiators to different directions, as the cotton case in the US illustrates. Another example can be observed in the emerging political difficulties in the American congress related to the end of the TPA mandate.

A central argument put forward in this paper is that attention should be given to the obstacles to free trade rather than to its likelihood in the future. The technical rationale underlining simulations and possible scenarios are useful in the analysis of gains and losses of free trade. Hence, present comparative advantages of countries like Brazil, Argentina and Australia, alongside with the US in certain farming activities, have been negatively affected. However, a disturbing aspect of international relations has been a constant challenge for researchers, which is the persistent incapacity of farming activities to follow market conditions without calling for support or protection from State. Although a widespread wish that market structure be ruled by free trade, there are fears vindicating what Galbraith said in 1987: “the reality is that no industrial country - not the United Sates, not Canada, not the countries of the EEC, not the other European states, not, we all know, Japan - leaves its farmers to the free market. None.” (MURPHY, S. and SUPPAN, S., 2005)

References

ACHARYA, R. and DALY M. 2004, *Selected Issues Concerning the multilateral trading system*, Discussion paper No. 7, WTO, 37 p.

ANDERSON, K. et all (2005) *Distortions to world trade: impacts on agricultural markets and farm incomes,* World Bank paper, 30 p.

BERGSTEN, C.F. Fifty Years of the GATT/WTO: lessons from the past for strategies for the future; Institute for International Economics, Working Paper 98-3

BHAGWATI, J., 1997 *The demands to reduce domestic diversity among trading nations*, in BHAGWATI, J. R. E. HUDEC, (eds) *Fair Trade and harmonization: prerequisites for free trade?*, The MIT Press, Cambridge, Massachusetts, pp 9-41, 382 pgs.

BHAGWATI, J and A. PANAGARIYA, (2003) *Bilateral trade treaties are a sham,* Financial Times, July 13th.

CHANG, H-J. 2002, *Kicking away the ladder: development strategy in historical perspective*, Anthem Press, London, 187 p.

CRANFIELD, J. A. L. et all (1998) *Changes in the structure of global food demand*, Staff paper, 98-5, Department of Agricultural Economics, Purdue University, 24 p.

ECONOMIC RESEARCH SERVICE/USDA, Agriculture in the WTO/WRS–98-4/December 1998).

FRIEDMANN, H. 1993, *The political economy of food: a global crisis*, in New Left Review, 197, pgs 29 – 57, pg 31

GEOFFREY S. BECKER, CHARLES E. HANRAHAN, AND REMY JURENAS, IB10040: *Agricultural Trade Issues* In the 106th Congress, November 27, 2000

KATZENSTEIN, P. J., (1978) *Introduction: domestic and international forces and strategies of foreign economic policy*, in KATZENSTEIN P. J. (ed) *Between power and plenty*, pg 3 – 23, 344 p., The University of Wisconsin Press, London, UK.

MURPHY, S. and SUPPAN, S., 2005 *The New Blue Box: a step back for fair trade, excerpted from Sailing Close to the Wind: Navigating the Hong Kong WTO Ministerial*

PALLEY, T. (2003), *After Cancun: possibilities for a New North – South grand bargain on trade*, executive summary, Open Society Institute, Washington, DC 20036, November.

STRANGE (1996) *The retreat of the State: power diffused in the world economy*, Cambridge: Cambridge University Press.

USDA, Economic Research Service, *The costs of agricultural policy distortions*, in *The road ahead*, Summary Report; AER-797, 23 p.

USDA (1998) *Developing Countries´ Issues in the WTO related to agriculture,* in Agriculture in the WTO/WRS-98-4/ December, 52 p.

USDA, Economic Research Service, Briefing Rooms: WTO Glossaries, www.ers.usda.gov/briefing/WTO/Glossaries.htm, accessed on the April 7th 2006.

The Economist, 1996

The Economist, 5/11/2005

WTO, 2005 – Annual Report 2005