

**Globalisation, Liberalisation,  
and Protectionism: The Global  
Framework Affecting Rural Producers  
in Developing Countries**

MARTIN KHOR

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**TWN**  
Third World Network

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# **1** Introduction

THIS paper provides an overview of the phenomenon of globalisation and its effects on the conditions of rural producers in developing countries.

It begins by outlining the features of globalisation. It argues that globalisation's most important aspect is the 'globalisation of policy-making', and that global rules are a strange combination of liberalisation and protectionism.

The paper then outlines the institutional basis of global policy-making, looking at the international financial institutions (IFIs) and their structural adjustment programmes, as well as the World Trade Organisation (WTO) and some of its rules and the implications for developing countries.

The resulting imbalances in the global agriculture trade and production framework are then examined, with focus on subsidies and protection in the North, and the effects of this, especially the incidence of import surges in developing countries and their effects on Third World farmers. The case of cotton subsidies is highlighted as an example of losses incurred in the developing world.

The paper then discusses recent developments in the WTO, including the proposals in the negotiations on agriculture that have been put forward by leading developed and developing countries.



It examines the issue of low and declining commodity prices and their effects on developing countries, using coffee as an example.

Finally, some recommendations are outlined on what can be done to improve the situation.

## **2** Globalisation, Liberalisation and Protectionism

GLOBALISATION is often taken to mean a process that is synonymous with liberalisation, or the opening up of the local and national markets to the global market. However, the economic globalisation process is much more nuanced than this simple or automatic linkage between globalisation and liberalisation. Whilst there has been very significant liberalisation in recent years, this has been accompanied by the continuation or even the accentuation of protectionism in some areas and in some countries, including some major developed countries. For example, the internationalisation of intellectual property rights (IPR) systems through the WTO has led to increased monopolisation, especially by transnational corporations, that are better able to charge higher prices for their products than if there were greater competition. Also, the high subsidisation of and high tariffs on agricultural products constitutes the continuation of high protection of the agriculture sector in the rich countries.

In many developing countries, the process of liberalisation in trade, investment and finance has been taking place at significant rate and scope. This process has been promoted by the loan conditionalities of the international financial institutions, the rules of the WTO, and unilateral policy measures.

Thus the policies associated with the globalisation process are a strange combination of liberalisation and protectionism. The strangeness is perhaps accentuated by the fact that in some important instances developing countries are asked to undertake more intensive liberalisation, whilst the developed countries are proposing to retain or even increase protectionist policies. It is strange because normally it is accepted that the poorer and weaker countries should be given more time and flexibility to

liberalise as they have to prepare and be ready to face competition from the bigger and stronger enterprises of the developed world; and that the already developed countries should liberalise more and faster as they have already reached a high level of development and can compete.

Perhaps the most important aspect of globalisation is the 'globalisation of policy-making'. Policies and decisions on a range of issues that were once under the sole or main purview of national governments are now made through international agencies or under their influence. Many developing countries are 'policy takers' in the sense that they have had little say in the making of the rules or policies of some of the powerful international agencies, particularly the International Monetary Fund (IMF), the World Bank and the WTO, and they have to implement the policies at national level which have been laid out through these agencies. The developed countries are able to be 'policy makers' as they have overwhelming influence at the World Bank and IMF (by virtue of the voting system which is weighted by equity shares) as well as at the WTO. The United Nations is generally regarded as a more democratic institution, as its decisions are made on a one-country-one-vote system and as the developing countries are better organised to represent their interests there. However, in recent years the influence of the UN over economic and social matters has declined significantly and the mandate and influence of the IFIs and the WTO has expanded. This shift of power to institutions that are dominated by the developed countries has meant the reduction of the influence of the developing countries in decision-making over economic and social issues at the international level.

There have been increasing concerns that the policies adopted at or by some of the major international agencies (IFIs and the WTO) have not been appropriate or effective in meeting the development needs of developing countries. In the area of trade and trade-related rules, the concerns have particularly centred on the disappointment of developing countries that they have not benefited much in terms of trade or income from the implementation of WTO rules and some of them have suffered cost and losses. They are also concerned that the implementation of the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement in the WTO may erode the rights of farmers and holders of traditional knowledge. There

are also concerns that the loan conditionalities of the IFIs have caused many developing countries to liberalise their imports excessively and too rapidly, especially as the high subsidies and tariff protection continue to be maintained in the developed countries. For many developing countries, the potential benefits of meeting export opportunities have not been realised, whilst the risks of import liberalisation have become very real and have already adversely affected rural livelihoods and national incomes.

Those who are concerned about alleviating poverty and providing increased income opportunities for the rural population in developing countries are therefore interested in the following issues:

- The ‘supply side’ problems faced by rural communities, including access to land, credit, infrastructure, production, storage, transport and marketing.
- The barriers preventing access to national and global markets.
- The conditions in the market for primary commodities, including supply and prices, especially in view of the significant decline over time of commodity prices and the adverse effects on export revenues and household incomes.
- The inappropriate rates and scope of import liberalisation, with adverse effects on the economic viability of the produce of the rural communities, and resulting loss of income and livelihoods.
- The external factors, including policies of the IFIs and the WTO, that contribute to the unfavourable conditions of the rural producers of developing countries.

## **3** The Global Agriculture Policy Framework

SOME developing countries have been able to formulate and implement their own development strategies and policies, and some of these have had a strategy of selective liberalisation in which they have chosen the sectors and rates of liberalisation according to a systematic and sequenced programme. They are also able to choose a combination of production for export and for the domestic market, and to vary the combination according to circumstances and policy inclination.

However, many other developing countries that at one stage or another suffered a debt default situation came under the purview of the World Bank and IMF, which were agreeable to arranging debt rescheduling and new credit on condition the countries agree to implement conditions, now commonly known as 'structural adjustment policies'.

The policies normally include the following approaches and measures as they pertain to the rural sectors: the withdrawal of the state from economic activities, the closure or downgrading of state marketing boards, privatisation, reduction or removal of subsidies, elimination of import controls such as quantitative restrictions, reduction of import tariffs, re-orientation towards exports, and investment liberalisation and deregulation, or the opening up of assets to foreign ownership.

The structural adjustment policies have had a major impact on agricultural policies in developing countries. In particular, the removal of subsidies and protection from imports has made the rural producers more vulnerable to the direct effects and vagaries of the global markets, as the interventionist measures and capacity of the state were withdrawn or withheld. In many countries, rural producers are facing intense competition from imports that are cheaper than their own produce.

The effects of loan conditionalities began to be felt in the 1980s and 1990s for most of the affected countries. The WTO made a later entry, as it was established in 1995. At first, the developing country governments were hopeful that they would benefit from the new rules in agriculture, as the incorporation of agriculture into the system of the WTO would presumably lead to the dismantling of protection in the developed countries. Agriculture is one area where the developing countries are widely believed to have a comparative advantage, and thus they expected to benefit from expanded exports to the rich markets.

However, they were sorely disappointed, as the expected benefits have not accrued, due to continued protectionism in the North. This maintenance of protectionist measures was moreover allowed within the framework of the Agreement on Agriculture (AoA). On the other hand, the developing countries had, under the AoA, also committed to place strict limits on their domestic subsidies, to give up quantitative restrictions placed on imports, and to reduce their bound tariffs. These commitments made it even more difficult for them to promote and protect the interests of their rural producers.

The global economic framework on agriculture, shaped to a large extent by the loan conditionalities of the IFIs and the rules of the WTO, has resulted in a situation where the developed countries are able to continue with and even expand their domestic subsidies, and to continue with significant levels of export subsidies, as well as high tariffs on their sensitive agriculture products, whilst the developing countries are constrained (by the WTO rules, by loan conditionalities and by budget constraints) from increasing their farm subsidies, and have strong pressures (through loan conditionalities) to maintain low applied tariff rates and even reduce these, as well as to significantly reduce their bound tariffs (through existing WTO rules and new proposed rules).

The imbalances in the global framework have handicapped the developing countries, which already have weak starting points due to their lack of financial and technical resources and their low level of development.

The unilateral policies taken under structural adjustment have then been reinforced or complemented by multilateral commitments that the countries are obliged to implement under the WTO rules. This combination of policies initiated under loan conditionality and then reinforced under multilateral rules has bound the developing countries in a web of commitments and policy constraints and measures and they find it difficult within this context to manoeuvre or to be able to choose between policy options those that are suitable for their agriculture development.

The following two sections look in greater detail on loan conditionalities and the WTO agriculture rules.

## **4** Loan Conditionality and Structural Adjustment Policies

MANY developing countries that had faced a debt default situation have come under the influence of loan conditionalities of the IFIs (IMF and World Bank). The ‘structural adjustment’ programmes and policies include measures that affect rural producers directly. These include the liberalisation of imports, the dismantling of state marketing boards and state procurement systems, and the reduction or elimination of subsidies. These policies resulted in the rural communities of many of these countries facing greater vulnerability.

Recent studies conducted by the Food and Agricultural Organisation (FAO) have revealed that many developing countries significantly liberalised their agricultural imports as a result of IFI loan conditionality, rather than WTO rules. The FAO book, *Trade Reforms and Food Security* (2003b: p75) states:

‘Structural adjustment programmes implemented over the past few decades have resulted in radical reform of the agricultural sectors of many developing countries, a period during which the majority of OECD agricultural sectors have continued to be heavily protected. Whilst it is generally acknowledged that unilateral reforms were often required, it has also been concluded that the process adopted has, in many cases, severely damaged the capacity of developing countries to increase levels of agricultural production and/or productivity. These unilateral reforms tend to have been reinforced by multilateral agreements.

‘Unilateral trade liberalisation has been undertaken in developing countries under pressure from international financial institutions as part of structural adjustment programmes. By contrast, agricultural trade has only recently been impacted by



multilateral agreements (for example the AoA). WTO rules constrain the extent to which countries can protect themselves from increased competition. This has resulted in a number of NGOs suggesting that the more negative aspects of unilateral liberalisation in developing countries have been compounded by double standards in commitments to multilateral agreements, and maintaining the “you liberalise, we subsidise” attitude is extremely damaging.’

The FAO report adds:

‘The opening of markets in developing countries, in the context of a global agriculture still characterised by high levels of protection in developed countries, left the reforming developing countries less able to prevent (a) the flooding of their domestic market (import surges) with products sold on the world market at less than their cost of production; and (b) the displacement of local trading capacity which was intended to, and in some circumstances initially did, fill the void left following the deregulation of local markets and associated dismantling or parastatals.

‘On point (a), the Washington institutions promoting structural adjustment did not take into account the existing imbalance in designing and proposing the reforms and therefore did not predict the resulting disincentive effects on local production in some regions. On point (b), rather than the emergence of sustained local private sector involvement, internal markets have often been overwhelmed by larger companies dominant in global value chains. The impact of the unilateral reforms preceding the first multilateral negotiations on agricultural trade (negotiations that essentially excluded developing countries) was to leave developing countries potentially more vulnerable to greater openness, and to impose further constraints on policy intervention aimed at promoting agricultural growth.’ (FAO 2003b: pp72-73).

An earlier study by the FAO on the effects of the WTO Agriculture Agreement surveyed the experience of 14 developing countries in implementing the agreement. The two-volume study (FAO 2000, 2001) made several interesting findings. One of the major conclusions was that import liberalisation had a significant adverse effect on small farmers and food security in many of the countries, and that the

liberalisation had been the result of loan conditionality of the IFIs, rather than the WTO rules. In fact the agricultural tariffs that were bound under the WTO were relatively high, but the applied rates were much lower, as a result of the structural adjustment policies that formed the loan conditionality. The effects of import liberalisation of the countries surveyed were thus mainly the result of World Bank-IMF policies.

Among the major findings were the following (FAO 2001: pp3-26):

- Although bound tariffs were generally high, the applied tariffs were on average much lower for the countries surveyed. Most countries had already reformulated their domestic policies under structural adjustment programmes. The simple average of the applied rates for 12 of the 14 countries was 22% whereas the bound rate was 90%. Some countries were obliged to set applied rates well below their WTO bound rates due to loan conditionality. While bound tariffs were high on average, there were several exceptions: Egypt's rates (28% average) were low; India's tariff binding was zero for 11 commodities (including sensitive items like rice and some coarse grains), and all of Sri Lanka's agricultural tariffs were bound at 50% with applied rates capped at 35% for 1999.
- Import liberalisation had a significant effect. The average annual value of food imports in 1995-98 exceeded the 1990-94 level in all 14 countries, ranging from 30% in Senegal to 168% in India. The food import bill more than doubled for two countries (India and Brazil) and increased by 50-100% for five others (Bangladesh, Morocco, Pakistan, Peru and Thailand).
- Increases in food imports were generally significantly greater than increases in agricultural exports. In only two countries was export growth higher while in most other countries import growth far outstripped export growth. The study also measured the ratio of food imports to agricultural exports and found the ratio was higher in 1995-98 than in 1990-94 for 11 of the 14 countries. An increase in the ratio indicates a negative experience, as it shows food import bills growing faster than agricultural export earnings. The

worst experiences were those of Senegal (86% rise in the ratio), Bangladesh (80%) and India (49%) (ibid.: pp22-24).

As the FAO's Senior Economist concluded: 'A majority of the studies showed that no improvement in agricultural exports had taken place during the reform period. . . . Food imports were reported to be rising rapidly in most of the countries, and import surges, particularly of skim milk powder and poultry, were common. While trade liberalisation led to an almost immediate surge in food imports, these countries were not able to raise agricultural exports due to weak supply response, market barriers and competition from subsidised exports.' (FAO 2000: p30)

- Several case studies reported import surges in particular products, notably dairy products (mainly milk powder) and meat. In some regions, especially the Caribbean, import-competing industries faced considerable difficulties. In Guyana, there were import surges for many main foodstuffs that had been produced domestically in the 1980s under a protective regime (FAO 2001).

In Sri Lanka, policy reforms and associated increases in food imports have put pressure on some domestic sectors, affecting rural employment. There is clear evidence of an unfavourable impact of imports on domestic output of vegetables, notably onions and potatoes. The resulting decline in the cultivated area of these crops has affected approximately 300,000 persons involved in their production and marketing. The immediate possibilities for affected farmers to turn to other crops are limited. Consequently, the economic effects of import liberalisation in this sector have been significant (ibid.: pp325-26).

- There was 'a general trend towards the consolidation of farms as competitive pressures began to build up following trade liberalisation' and this has led to 'the displacement and marginalisation of farm labourers, creating hardship that involved typically small farmers and food-insecure population groups, and this in a situation where there are few safety nets' (ibid.). The study noted especially the case of Brazil, where consolidation taking place in the dairy, maize and soybean sectors has affected traditional cooperatives and marginalised small farmers.

In 1996, as a result of dialogue between the World Bank President James Wolfensohn and several civil society organisations, a joint participatory investigation by civil society and the World Bank was carried out on the impact of structural adjustment policies. Called the Structural Adjustment Participatory Review Initiative (SAPRI), it was a joint five-year, multi-country investigation. The Initiative was a tripartite arrangement involving national governments, World Bank teams and national networks of civil society organisations that mobilised around the opportunity to influence the economic course of their respective countries.

The recently published SAPRI Report on Structural Adjustment (SAPRI 2004) has a chapter on the agricultural sector, which is based on case studies on Zimbabwe, Uganda, the Philippines, Mexico and Bangladesh. Common to these countries are the following structural adjustment policies aimed at reforming the agricultural sector: reduction of direct state involvement in producing, distributing and marketing of agricultural inputs and commodities; removal or reduction of subsidies on agricultural inputs and credits; liberalisation of trade in agricultural commodities; export promotion; promotion of privatisation and private sector involvement; parastatal reform and privatisation. The study found a lack of participation in designing these policies by the people most affected by them.

Among the main findings:

- Export promotion was meant to lead stimulate agriculture-led growth. Yet in several cases this emphasis led to heightened inequalities, as many farmers lacked an equal opportunity to enter and benefit within a liberalised market. Constraints such as lack of rural infrastructure were inadequately addressed, and export earnings were subject to world price fluctuations. In some countries such as Zimbabwe, the expected market diversification did not occur; in others, like the Philippines, an increase in agricultural export earnings in one sub-sector was at the expense of other sub-sectors. Also, production for export often occurred at the expense of production for the local market, as in Mexico.

- In Zimbabwe maize production in 1997-99 was far below the level needed for human consumption and livestock feed, contrasting with the persistent surplus years earlier. This shortfall is attributed to liberalisation, which resulted in a shift to tradables such as horticultural products. Also, the costs of inputs such as seeds and fertiliser rose so high that communities had to drastically reduce acreage under cultivation; fertiliser prices shot up over 300% in five years after removal of subsidies. Small farmers' traditional source of credit became inaccessible when the repayment procedures of the Agricultural Finance Corporation became more stringent as a result of structural adjustment. Farmers' competitiveness was hurt by cuts in government spending on roads and transport systems, as well as processing, storage and distribution systems. Farmers were also negatively affected by the loss of information once provided by state marketing boards, by insufficiency of technical services and by high interest rates, as well as by a lack of access to land (SAPRIN 2004: p136). As a result of liberalisation, private middlemen replaced the state in marketing farm inputs and produce for the smallholder sector; this placed these farmers at a disadvantage as far as determining the price of their produce was concerned and they were forced to sell at low prices, sometimes even below market prices. Farmers complained that before reforms they bought inputs (seeds, fertiliser, farm equipment) at low prices, but liberalisation of trade and removal of subsidies on inputs allowed traders to charge exorbitant prices and this led to reduced use of inputs and poorer yields (ibid.: pp138-9).
- In Uganda, the area under cultivation of coffee rose from 250,000 hectares in 1992/3 to 300,000 hectares in 1999/2000 and output rose from 2.8 million bags to 3.2 million (60-kilogram) bags, due to a government programme to expand coffee plantations. But as world coffee prices plummeted during the second half of the 1990s, the value of coffee exports fell from a peak of US\$432 million in 1994 to US\$165 million at the end of the decade (ibid.: p137).
- In Bangladesh, crop sector profitability declined in the 1990s. Prices of inputs (fertiliser, seeds, irrigation equipment) increased significantly. Small

farmers were hurt in particular by: withdrawal of subsidies for the poor, privatisation of agricultural input distribution system, the oligopolistic behaviour of private input traders, inadequate provision of food-purchase and storage facilities by the government and decline in regulation of fertiliser, seed and pesticide standards, and reduced access to formal credit institutions (ibid.: pp139-40).

- In Mexico, workshops in four regions revealed significant deterioration in conditions of small producers and rural peasants. They indicated that the dismantling of state services and withdrawal of subsidies for rural production created an unequal playing field in which large producers and foreign companies gained at the expense of small farmers, who suffered increasing production costs and lack of access to affordable credit (ibid.: p140).
- All the country studies, except for Bangladesh, concluded there had been a worsening food security situation as a result of the agricultural reforms.
- Adjustment policies have not taken account of existing socio-economic differentiation in each nation, and little or no consideration was given to how policy impacts might reinforce differentiated access to economic opportunities and exacerbate inequalities. The studies indicate that the reforms generated differentiated impacts on a range of socio-economic groupings; the effects of adjustment policies often differed for large as opposed to small farmers, rich and poor farmers, export crop producers versus those producing primarily for the domestic market (ibid.: p143). As a result, agricultural reforms have exacerbated inequalities. Export promotion, import liberalisation and the withdrawal of government support in agriculture reinforced differentiated access to resources for production. Where exports expanded, much of the benefit accrued to large producers as small producers lacked equal opportunity to gain within a liberalised market. Constraints such as lack of rural infrastructure were inadequately addressed, and the concentration of land use for large-scale export crop production has replaced cultivation of food crops for local use and tended to push small farmers to overexploit marginal-quality land (ibid.: pp149-150).

- The study concluded that ‘the agricultural sector reforms have not, on the whole, improved the well-being of those living in the rural sector’ in the countries surveyed. The real incomes of farmers, particularly small farmers, have not improved as a result of reforms, principally as prices of agricultural inputs rose everywhere. Even where produce prices rose, the cost of production rose higher (ibid.: p149). Small farmers were particularly affected, because as a result of the reforms, production subsidies were removed, public expenditure on extension services declined, and obtaining credit became more costly. This increased costs and lowered incomes of these farmers, whose marketing options have become more limited as a result of the withdrawal of the state from this function (ibid.: p150).
- With reduced or inadequate cultivation of food crops for the local market, lack of improvement in earnings by low-income sectors and a rise in the cost of living, there has been a general deterioration in food security nearly everywhere. In several cases, the new patterns of agricultural production resulting from the reforms led to negative environmental impacts, and women tended to bear a greater burden under the reform process (ibid.: p149).

The study (ibid.: p151) recommends that:

- (a) Policy should be re-oriented to give priority to production for the domestic market and ensuring food security.
- (b) While agricultural exports are important, policy choices and investment decisions must take into account the differentiated ability of certain groups (especially women and smallholders) to access new market opportunities and improve their access to land and other resources.
- (c) Trade policy in the sector should be nuanced, allowing countries to pursue some degree of self-reliance while stimulating production by marginalised farmers in order to support the rural poor in accessing affordable food.

- (d) The implementation of effective steps to support small producers and achieve food security should precede, and then be integrated with, the opening of the sector and promotion of exports.
- (e) The state should provide the support needed to ensure these farmers' access to affordable agricultural supplies and extension services, improvements in rural roads and transportation, further development and regulation of irrigation systems, and promotion of land tenure reforms.
- (f) Formal institutions should be in place, with state support, to provide equal access for all producers to information and markets, as well as to ensure environmental oversight and address negative impacts.
- (g) In general terms, agricultural policies should be designed to reduce existing inequalities by boosting the capacity of small and medium producers and helping subsistence farmers to build sustainable livelihoods in the rural sector. To this end, policies should emerge from a participatory process involving all stakeholders, and environmental and socio-economic factors, including gender considerations, should be integrated into policy design.

There should also be an independent on-going review of the trade aspects of the present and proposed conditionalities for current and future loans. Developing countries presently have flexibilities within the WTO rules to adjust their applied tariffs up to their bound rates, and even beyond the bound rates in certain circumstances. Loan conditionality should not prevent or constrain the developing countries from making use of these flexibilities. Moreover, these conditionalities should not oblige developing countries to undertake a rate and scope of liberalisation that is beyond their capacity to cope, or which will be damaging to the livelihoods and incomes of rural producers. The approach to liberalisation in developing countries should be re-oriented to be more realistic, especially since the developed countries are still maintaining high subsidies.



## **5** World Trade Organisation Rules and Their Implications

WHEN the WTO's Agreement on Agriculture (AoA) was established in 1995 together with the WTO itself, it had been expected to reduce Northern subsidies and protection and benefit developing countries that were supposed to expand their exports significantly. However this expectation has not been fulfilled and instead there has been growing awareness of the imbalances and unfairness of the AoA itself.

The flaws in the AoA enable developed countries to continue high levels of protection, whilst many developing countries have liberalised and their farmers are facing severe and often damaging competition, often from imports artificially cheapened through subsidies.

In the AoA, under the market access rules, all members had to abolish quantitative restrictions and non-tariff barriers and replace these with tariffs, and members have to reduce their tariff levels by 36% over six years for developed countries, and by 24% over 10 years for developing countries. Least developed countries (LDCs) do not have to reduce their tariffs, but cannot raise their bound rates.

Under domestic support rules, the AoA has three categories of domestic support measures: (a) the Amber Box, or measures that have effect on production and are taken to be trade-distorting; (b) the Green Box, or measures that are assumed not to have effects on production; and (c) the Blue Box, or measures such as direct payments to farmers aimed at limiting their production. Amber Box subsidies have to be reduced (by 20% for developing countries and 13% for developed countries) but there are no disciplines on the two other boxes.

Under export competition rules, direct export subsidies have to be reduced by 36% in value and 21% in volume over six years for developed countries and by 24% in value and 14% in volume over 10 years for developing countries.

Under the AoA, developing countries have committed to a programme and schedule of liberalising their agriculture sector, similar to developed countries, the only concession being slightly lower reduction rates and slightly longer time schedules. The LDCs do not have to reduce their tariffs or subsidies, but cannot raise them, either.

### **Flaws in the AoA**

The AoA contains several types of imbalances that are favourable to developed countries and unfavourable to developing countries. These imbalances have been analysed by Das (1998) and the Third World Network (TWN 2001).

The essence of the imbalances is the following: 'The WTO Agreement on Agriculture has permitted the developed countries to increase their domestic subsidies (instead of reducing them), substantially continue with their export subsidies and provide special protection to their farmers in times of increased imports and diminished domestic prices. The developing countries, on the other hand, cannot use domestic subsidies beyond a *de minimis* level (except for very limited purposes), export subsidies and the special protection measures for their farmers. In essence, developed countries are allowed to continue with the distortion of agriculture trade to a substantial extent and even to enhance the distortion; whereas developing countries that had not been engaging in such distortion are not allowed the use of subsidies (except in a limited way) and special protection.' (TWN 2001)

The main form of unfairness is in the area of domestic support. Developed countries with high levels of domestic subsidies are allowed to continue these up to 80% after the six-year period. In contrast, most developing countries (with a very few exceptions) have had little or no subsidies due to their lack of resources. They are now prohibited from having subsidies beyond the *de minimis* level (10% of total agriculture value), except in a limited way. In addition, many types of domestic

subsidy have been exempted from reduction, most of which are used by the developed countries. While these countries reduced their reducible subsidies to 80%, they at the same time raised the exempted subsidies substantially. The result is that total domestic subsidies in developed countries became even higher compared to the base level in 1986-88. Thus, in the European Economic Community (EEC), the subsidy in the base period 1986-88 was US\$83 billion, and it was increased to US\$95 billion in 1996. In the United States, the corresponding levels are US\$50 billion and US\$58 billion. The professed reason for exempting these subsidies in the developed countries from reduction is that they do not distort trade. However, such subsidies clearly enable the farmers to sell their products at lower prices than would have been possible without the subsidies. They are therefore trade-distorting in effect.

The exemption from reduction applicable to developing countries is limited to four items: input subsidy given to poor farmers; land improvement subsidy; diversion of land from production of illicit narcotic crops; and provision of food subsidy to the poor. The scope is very limited and hardly half a dozen of the developing countries use these subsidies (Das 1998, 2000). Furthermore, subsidies exempted from reduction and used mostly by developed countries (Annex 2 subsidies) are immune from counteraction in the WTO; they cannot be subjected to the countervailing-duty process or the normal dispute settlement process. But those exempted from reduction and used by developing countries do not have such immunity.

With regard to export subsidies, the developed countries get to retain 64% of their budget allocations and 79% of their subsidy coverage after six years. The developing countries, on the other hand, had generally not been using export subsidies, except in a very few cases. Those that have not used them are now prohibited from using them, whilst those that have subsidies of little value have also to reduce the level.

Another inequity is in the operation of the 'special safeguard' provision. Countries that had been using non-tariff measures or quantitative limits on imports were obliged to remove them and convert them into equivalent tariffs. Countries that undertook such 'tariffication' for a product have been given the benefit of the

‘special safeguard’ provision, which enables them to protect their farmers when imports rise above some specified limits or prices fall below some specified levels. Countries that did not undertake tariffication did not get this special facility. This has been clearly unfair to developing countries, which, with few exceptions, did not have any non-tariff measures and thus did not have to ‘tariffy’ them. The result is that developed countries, which were engaging in trade-distorting methods, have been allowed to protect their farmers, whereas developing countries, which were not engaging in such practices, cannot provide special protection to their farmers (Das 1998, 2000).

This inequity and imbalance appears aggravated when one considers the limitation to the use of the general safeguard provision (in the General Agreement on Tariffs and Trade, or GATT) in the agriculture sector. One necessary requirement for taking a general safeguard measure is that there be injury (or threat thereof) to domestic production, which will be extremely difficult to demonstrate in this sector because of the large dispersal of farmers across the country.

Apart from these specific problems in the areas of subsidy and protection, there is a basic problem with the agreement. The AoA is based on the assumption that production and trade in this sector should be conducted on a commercial basis. But agriculture in most of the developing countries is not a commercial operation, but instead is carried out largely on small farms and household farms. Most farmers take to agriculture not because it is commercially viable, but because the land has been in possession of the family for generations and there is no other source of livelihood. If such farmers are asked to face international competition, they will almost certainly lose out. This will result in large-scale unemployment and collapse of the rural economy, which is almost entirely based on agriculture in a large number of developing countries (TWN 2001).

### **Continuation of protection in developed countries**

It has now become clear that even after many years of the implementation of the AoA, the developed countries have continued high protection of their agriculture.

Firstly, the high tariffs on selected items of potential interest to the South have had to be reduced only slightly. In the first year of the agreement, there were tariff peaks at very high rates in the United States (e.g., sugar 244%, peanuts 174%); the EEC (beef 213%, wheat 168%); Japan (wheat 353%) and Canada (butter 360%, eggs 236%) (Das 1998: p59). According to the agreement, developed countries needed to reduce their tariffs by only 36% on average to the end of 2000, and thus the rates for some products remain prohibitively high (Das 1998).

Secondly, domestic support has increased rather than decreased. The reason is that although developed countries reduced their Amber Box subsidies (as the AoA has obliged them to), they also increased the exempted subsidies (under the Blue and Green boxes), resulting in an increase in total domestic support. The Organisation for Economic Cooperation and Development (OECD) data show that the Total Support Estimate (TSE), a measure of domestic support, of the 24 OECD countries rose from US\$275.6 billion (annual average for base period 1986-88) to US\$326 billion in 1999 (OECD 2000).

Thirdly, export subsidies are still high as the AoA only obliges the developed countries to reduce the budget outlay by 36% and the total quantity of exports covered by the subsidies by 21%. Thus, even in 2000 export subsidies are allowed to be as high as 64% of the base level in 1986-90.

Of the three aspects above, worldwide public criticism has focused most on the expansion of Northern domestic subsidies. Awareness is growing that the AoA has a loophole allowing developed countries to increase their total domestic support by shifting from one type of subsidy (price-based, which is directly trade-distorting) to two other types (direct payments to farmers, and other 'indirect' subsidies) that are exempted from reduction discipline. The US has already shifted most of its subsidy from the Amber to the Blue and Green Box subsidies. The European Union (EU) had more of its domestic support in Amber Box subsidies but is also in the process of shifting and within a few years is expected to have much of its subsidies in the Blue and Green Boxes.

Subsidy payments in the EU favour the largest producers. Data from 1996 show that 17% of farms that are large or extra-large received 50% of agricultural support under the Common Agricultural Policy (CAP) (ActionAid 2002: p8). Another study shows that in 1997-98, direct payments in the UK's arable, sheep and beef sectors totalled about £2,730 million, and 16% of the largest holdings received 69% of the subsidies (ActionAid 2002: p9).

The shifting of subsidies from one category to another is supposed to phase out 'trade-distorting' support. In reality, the Blue and Green Box subsidies also have significant effects on the market and trade. For the farmer, what is important is whether he can obtain sufficient revenue and make a profit (i.e. the revenue is more than the production cost). It is not so important whether he obtains this sufficient revenue from a higher price (through price-support measures) or from direct payments and various forms of grants from the government. If a subsidy, in whatever form, is assisting the farmer to obtain revenue and to be economically viable, then that subsidy is having a significant effect on production and on the market.

An example of this is given in Table 1. Under the Amber Box, the farmer gets his subsidy through being paid a domestic price far higher than the world price, thus covering his high production cost and obtaining a profit. In one type of subsidy system under the Blue Box, the same farmer with the same production cost is no longer paid a high price, but a domestic price that is brought down to the world market price (or even below that), and this local price is below his production cost. However the farmer is given a grant or various types of grants and payments that together are large enough to enable him to get a revenue higher than his production cost.

The nature of the subsidy has changed from price support to grant support, but the end result is that the farmer makes enough to remain viable. Further, since the price has been brought down to the world price or even lower, the farm output can now be sold competitively on the world market, even without an export subsidy being given. Thus, shifting from a price-based to a grant-based subsidy system can be just as trade-distorting, or even more so.

**Table 1**

**EXAMPLE: Comparison of method of farm remaining economically viable through Amber Box and Blue/Green Box subsidies**

ITEM	Model A	Model B
	AMBER SUBSIDY	BLUE/GREEN SUBSIDY
A. World price per ton	73	73
B. Domestic price per ton	130	70
C. Cost of production per ton	113	113
D. Direct payments (grant) per ton	0	60
E. Farm revenue (B plus D)	130	130
F. Farm profit (E minus C)	17	17
<b>Type of subsidy</b>		
1. Export subsidy (B minus A) per ton for the part of the output that is exported	57	no need
2. Price-support subsidy or consumer subsidy (with tariff protection) for the part of output that is locally consumed (B minus A)	57	no need
3. Direct payment (grant) subsidy	—	60

The conclusion is that the AoA has erroneously categorised several types of subsidies under the so-called Blue Box and Green Box and made them respectable and not subject to discipline, even though they give an unfair advantage to the farms receiving the subsidies. This has allowed the developed countries to maintain or even increase the level of their total domestic support, with damaging effects on the developing countries, whilst they can claim to be meeting their legal obligation of reducing the Amber Box subsidies under the Aggregate Measurement of Support (AMS).

## **6 Northern Subsidies and Protection and Their Link to Import Surges and Lost Opportunities in Developing Countries**

### **Subsidies, dumping of agricultural products and effects**

The combination of continued high protection (especially export and domestic subsidies) in developed countries and further liberalisation in developing countries (under AoA and structural adjustment loan conditionalities) has resulted in surges of imports to many developing countries across the world. In many cases these imports were artificially cheapened by domestic or/and export subsidies. There are many cases of ‘dumping’ in which the developed-country products’ export price is below the cost of production, and where the farms or companies in developed countries are still able to make a profit because their revenues are pumped up by subsidies.

As long as the subsidies continue, the ‘dumping’ of artificially cheapened agricultural products on developing countries will continue. This is obviously so in the case of export subsidies and Amber Box subsidies. However, as pointed out earlier, it is also the case in relation to other subsidies, i.e. in the Blue and Green Boxes. These subsidies can be trade-distorting as well, and in some cases even more, as the distorting nature is more disguised and less detectable.

Thus the mere shifting of subsidy boxes will not end protection but may even facilitate its increase. This has serious effects on rural livelihoods and food security in developing countries. The route of the effects is that artificially cheapened products are being imported into developing countries. Often, the poorer countries may have more efficient farmers, but their livelihoods are threatened by inefficient farmers in rich countries because of subsidies.



The effect of agriculture subsidies in developed countries is that their farm production levels are kept artificially high and their producers dispose of their surplus in other countries, by often dumping on world markets at less than the production cost. Farmers in developing countries incur losses in three ways:

- (a) They lose export opportunities and revenues from having their market access blocked in the developed countries using the subsidies;
- (b) They lose export opportunities in third countries, because the subsidising country is exporting to these countries at artificially low prices;
- (c) They lose their market share in their own domestic market, or even lose their livelihoods, due to the inflow of artificially cheap subsidised imports.

### **Import surges in developing countries**

The serious and sometimes devastating impact of cheap imports is now well documented in many studies by researchers, NGOs, the media, and by international agencies. A recent FAO paper, 'Some trade policy issues relating to trends in agricultural imports in the context of food security' (March 2003), shows very high incidences of import surges in 1984-2000 for eight key products in 28 developing countries, with the incidence rising after 1994. (See Table 2.)

For example, Kenya experienced 45 cases of import surges, in wheat (11 cases), rice (3), maize (5), vegetable oils (7), bovine meat (4), pigmeat (6), poultry meat (5), milk (4). The Philippines had 72 cases of import surges, Bangladesh 43, Benin 43, Botswana 43, Burkina Faso 50, Cote d'Ivoire 41, Dominican Republic 28, Haiti 40, Honduras 49, Jamaica 32, Malawi 50, Mauritius 27, Morocco 38, Peru 43, Uganda 41, Tanzania 50, and Zambia 41. Many other countries which are not in the study have also been affected. For example, Indonesia also experienced many import surges.

The import surges documented by the FAO were also accompanied in some cases with production shortfalls in some of the same products where there were import surges. For example, in Kenya, in wheat there were 11 cases of import surges and seven cases of production shortfall; in maize there were five cases of import surge and four cases of production shortfall. This indicates that the import surges were sometimes linked to declines in output by the farmers in the importing countries. The rise in imports led to decline in output and incomes of the farmers, affecting their livelihoods. As the FAO report concluded, 'Given the large number of cases of import surges and increasing reports of the phenomenon from around the world, this could be potentially a serious problem.'

A major imbalance of the AoA is that the special safeguard (SSG) mechanism is not allowed for use except in cases where a country has tariffed a product in the Uruguay Round. Only 20 developing countries are eligible. Thus most developing countries have no proper instrument to counter import surges. The FAO study also found that during the period 1995-2001, only two developing countries made use of the SSG.

The FAO study also cites that several recent studies on import surges trace the problem to unfair trade practices (e.g. dumping), export subsidies, and domestic production subsidies. It says: 'Indeed, import surges seem to be more common in product groups that are subject to high levels of subsidies in exporting countries, notably dairy/livestock products (milk powder, poultry parts), certain fruit and vegetable preparations and sugar.'

There are now many case studies of the incidence and damaging effects of import liberalisation on local communities and rural producers in developing countries. These studies show how farmers in many sectors (staple crops like rice and wheat; milk and other dairy products; vegetables and fruits; poultry; sugar; and wheat) have had their incomes reduced and their livelihoods threatened by the influx of imports. The problems caused to small rural producers in developing countries are now very widespread.

**Table 2**

Number of cases of import surges (selected countries and foods, 1984-2000).  
The number of production shortfalls in the same period is also given in brackets.  
Import surges have occurred more frequently in the post-1994 period.

	Wheat	Rice	Maize	Vegetable oils
<b>Bangladesh</b>	5 (2)	6 (0)	9 (4)	7 (0)
<b>Benin</b>	6 (-)	4 (0)	3 (1)	3 (7)
<b>Botswana</b>	6 (5)	4 (-)	0 (0)	6 (5)
<b>Burkina Faso</b>	6 (-)	9 (2)	4 (2)	3 (2)
<b>Cape Verde</b>	3 (-)	6 (-)	3 (9)	5 (-)
<b>Comoros</b>	4 (-)	5 (0)	4 (3)	6 (0)
<b>Côte d'Ivoire</b>	1 (-)	4 (2)	0 (0)	9 (0)
<b>Dominican Republic</b>	2 (-)	- (-)	0 (4)	3 (0)
<b>Guinea</b>	6 (-)	5 (5)	8 (3)	9 (1)
<b>Guinea-Bissau</b>	6 (-)	10 (3)	2 (3)	6 (1)
<b>Haiti</b>	1 (-)	2 (4)	4 (1)	7 (5)
<b>Honduras</b>	8 (0)	5 (-)	0 (0)	8 (0)
<b>Jamaica</b>	3 (-)	4 (8)	3 (4)	9 (7)
<b>Kenya</b>	11 (7)	3 (0)	5 (4)	7 (1)
<b>Madagascar</b>	8 (3)	5 (0)	7 (2)	5 (1)
<b>Malawi</b>	7 (4)	3 (3)	9 (3)	7 (5)
<b>Mali</b>	4 (5)	5 (1)	5 (2)	8 (1)
<b>Mauritania</b>	5 (3)	2 (3)	4 (10)	5 (4)
<b>Mauritius</b>	2 (-)	0 (-)	2 (-)	1 (7)
<b>Morocco</b>	6 (15)	4 (11)	10 (10)	0 (1)
<b>Niger</b>	8 (5)	7 (4)	9 (3)	8 (7)
<b>Peru</b>	3 (1)	4 (-)	4 (3)	4 (3)
<b>Philippines</b>	7 (0)	9 (1)	7 (1)	9 (5)
<b>Togo</b>	6 (1)	8 (1)	7 (1)	7 (0)
<b>Uganda</b>	10 (3)	4 (0)	8 (1)	11 (0)
<b>Tanzania</b>	8 (3)	5 (4)	6 (2)	10 (0)
<b>Zambia</b>	4 (2)	2 (5)	4 (6)	4 (3)

**Note:** A dash indicates that either the country is not a producer or data was not available.

**Source:** FAO, 2003. *Some Trade Policy Issues Relating to Trends in Agricultural Imports in the Context of Food Security*, FAO Committee on Commodity Problems CCP 03/10, Rome 18-21 March 2003. <ftp://ftp.fao.org/unfao/bodies/ccp/ccp64/Y8319e.doc>

	Vegetable oils	Bovine meat	Pigmeat	Poultry meat	Milk
)	7 (0)	5 (0)	6 (-)	2 (0)	3 (0)
)	3 (7)	6 (0)	7 (3)	8 (1)	7 (0)
)	6 (5)	4 (4)	9 (4)	7 (0)	7 (2)
)	3 (2)	8 (0)	8 (0)	6 (1)	4 (0)
)	5 (-)	7 (3)	11 (3)	10 (1)	3 (1)
)	6 (0)	5 (0)	3 (-)	11 (0)	4 (1)
)	9 (0)	7 (3)	7 (3)	10 (0)	3 (0)
)	3 (0)	8 (1)	6 (0)	6 (0)	3 (4)
)	9 (1)	7 (2)	5 (4)	9 (0)	6 (0)
)	6 (1)	6 (0)	5 (0)	9 (0)	4 (0)
)	7 (5)	4 (1)	9 (2)	8 (2)	5 (0)
)	8 (0)	6 (5)	8 (3)	11 (0)	3 (0)
)	9 (7)	3 (0)	6 (2)	3 (1)	1 (4)
)	7 (1)	4 (0)	6 (0)	5 (1)	4 (0)
)	5 (1)	3 (0)	8 (0)	5 (0)	5 (0)
)	7 (5)	5 (3)	7 (0)	10 (0)	2 (4)
)	8 (1)	8 (0)	8 (0)	5 (0)	7 (2)
0)	5 (4)	4 (4)	5 (4)	9 (0)	2 (0)
)	1 (7)	7 (2)	9 (4)	6 (0)	0 (-)
10)	0 (1)	5 (5)	- (-)	13 (0)	0 (0)
)	8 (7)	5 (5)	6 (0)	5 (0)	6 (3)
)	4 (3)	4 (0)	9 (0)	9 (1)	6 (0)
)	9 (5)	12 (1)	9 (1)	14 (3)	5 (11)
)	7 (0)	3 (1)	3 (2)	8 (0)	5 (0)
)	11 (0)	4 (3)	3 (0)	2 (0)	1 (0)
)	10 (0)	6 (0)	7 (0)	4 (0)	5 (0)
)	4 (3)	8 (2)	8 (2)	5 (1)	6 (2)

**Acknowledgement:** This table is reproduced from ActionAid, CAFOD and Canadian Food Grains Bank, *Agriculture Negotiations in the WTO: Six Ways to Make a new Agreement on Agriculture Work for Development* (2003).

### **The case of cotton subsidies and the Cotton Initiative in the WTO**

A good example of the effects of Northern agricultural subsidies on developing countries is provided by the case of cotton, which has now received special treatment as a topic of negotiations in the WTO. However, there has not been a resolution of this case yet.

The cotton case first came under the spotlight in the WTO when the President of Burkina Faso, Mr Blaise Comptore, made a special visit to Geneva and addressed the WTO's Trade Negotiations Committee (TNC), on 11 June 2003. He called for a decision at the WTO's Cancun Ministerial Conference later in the year to adopt measures to eliminate cotton subsidies, and until then, to pay financial compensation to the least developed countries that suffered losses due to the subsidies (Khor 2003).

President Comptore highlighted the plight of West and Central African cotton-exporting countries resulting from the developed countries' agricultural subsidies and the urgent need for action to prevent further loss of income and livelihoods. He pointed to the hypocrisy and double standards in the global economic system. The multilateral trade rules, reinforced by the Washington Consensus, led developing countries to undertake structural adjustment reforms.

In line with these, West and Central African states eliminated their agricultural subsidies but these reforms were nullified by 'multiform subsidies' by some WTO members 'in total contradiction with WTO basic principles', according to President Comptore. In 2001, the rich countries' \$311 billion farm subsidies were six times the \$55 billion dispensed as aid. Mali received \$37 million in aid but lost \$43 million from lower export revenues caused by other producer countries' cotton subsidies.

'Such practices provide rich-country agriculture with an unfair competitive edge that works against developing countries,' President Comptore said. African farmers produce cotton 50% cheaper than their competitors from developed countries, ranking them among the most competitive in the world. But cotton subsidies have

caused a crisis, with Burkina Faso losing 1% of its gross domestic product (GDP) and 12% of its export income, Mali 1.7% and 8%, and Benin 1.4% and 9%, respectively.

In 2001, cotton production in Benin, Burkina Faso, Mali and Chad accounted for 5% to 10% of GDP and 30-40% of export revenues, and over 10 million people in West and Central Africa depended on cotton production and several other millions were indirectly affected by the distortion of world prices due to subsidies. And while cotton accounted for a small part of the rich world's economy, in Africa it represented a determining factor for poverty reduction policies and political stability.

'From this platform I am launching an appeal in the name of several millions of people for whom cotton is the main means of subsistence, I ask the WTO and its member states to prevent these populations who are victims of the negative impact of subsidies, from being excluded from world trade,' said President Comptore.

Referring to the proposal by Benin, Burkina Faso, Chad and Mali (issued on 16 May 2003), he suggested that the Cancun Ministerial 'set up a mechanism to progressively reduce support to cotton production and export, with a view to fully suppressing all cotton subsidies at a defined deadline'. Also, as an immediate and transitory measure in favour of least developed countries, he suggested that a mechanism be adopted to compensate their farmers for revenue losses incurred because of cotton subsidies.

'African countries share the opinion that a satisfactory settlement for the cotton subsidy issue is both a must for the current negotiation round and a test that will allow member States to prove their sincerity behind the commitments taken at Doha.'

The 16 May 2003 paper by the African countries pointed out that in July 2002 the International Cotton Advisory Committee (ICAC) estimated that 73% of global cotton production required direct financial support from governments, compared to only 50% five years previously. Cotton support by the US, the EU and China

was \$6 billion in 2001/02, which corresponds in value terms to all global exports that year. These figures show that the WTO's aim of phasing out production and export subsidies have not been achieved in cotton, and the classification of subsidies in the various WTO boxes is a major problem as the description of each box is often a matter of interpretation.

Almost half the direct domestic support received by cotton producers is given by the US (\$2.3 billion in 2001/2), and the ICAC estimated that American cotton producers would receive \$3.7 billion in 2003. Moreover, the US gives direct aid for cotton exports. The EU gives cotton producers in Spain and Greece around \$700 million through a ceiling price support mechanism. In 2001/2, Spanish producers received support corresponding to 180% of global prices and Greek producers 160%, compared with 60% for American farmers.

The subsidies to US cotton producers are 60% more than Burkina Faso's GDP where over two million depend on cotton production. Half the cotton subsidies to American producers (around \$1 billion) go to a few thousand farmers who cultivate around 1,000 acres. In contrast, in West and Central African countries, these subsidies penalise one million farmers who have only 5 acres of cotton land each and live on less than \$1 per person per day.

The paper said that the US, China and EU subsidies cost West and Central African countries \$250 million in direct loss in export earnings in 2001/2. Including indirect effects, the loss would be about \$1 billion a year to these countries.

The countries therefore call for recognition of the strategic nature of cotton for development and poverty reduction in many LDCs, and a complete phase-out of support measures for the production and export of cotton. At Cancun, there should be the establishment of:

- A mechanism for phasing out support for cotton production with a view to its total elimination (early harvest). There should be a decision on immediate implementation, providing for substantial and accelerated reductions in each

of the boxes of support for cotton production, with a specific date for complete phase-out of cotton production support measures.

- Transitional measures for LDCs. Until cotton production support measures have been completely eliminated, cotton producers in LDCs should be offered financial compensation to offset the income they are losing.

Because of the high profile appeal by the African leaders, the cotton issue received a priority status in the WTO's Cancun Ministerial in September 2003, where it was known as the African Cotton Initiative. However, support for their case was not forthcoming, especially by the United States. The US attempted to deflect from the African demand that cotton subsidies be eliminated on a fast-track basis, by raising the issue that 'problems affecting cotton extend far beyond the issue of subsidies', as stated by the US Ambassador Josette Shiner (2003). Shiner added that cotton is a key input in a manufacturing chain from fibre to textiles to clothing, and demand should be boosted not only for cotton but also cotton-related products. Besides cotton subsidies, she raised the issues of cotton tariffs, non-tariff barriers in textiles and clothing and industrial policies relating to man-made fibres which displace cotton sales. The US proposed another initiative to target distortions in the entire value chain, including raw cotton, man-made fibre, textiles and the clothing trade. The initiative would address subsidies for cotton and man-made fibre; tariffs in fibre, textiles and clothing; non-tariff barriers; and other barriers (state monopolies, special tax advantages, etc).

The US response was unacceptable to the African countries, which saw it as a means of turning away their proposal and of clouding the specific subsidies issue by tying it to a whole range of other issues to be tackled simultaneously. Since this range of issues is so complex with no chance of quick resolution, the cotton subsidy issue would be submerged and also remain unresolved.

The Cancun draft Ministerial text of 13 September 2003 had a paragraph 27 on the cotton initiative. It was however widely seen by developing countries as very unsatisfactory. It ignored the two demands of the West African countries for



developed countries to eliminate subsidies, and for financial compensation for losses due to the subsidies. Instead, in line with the attitude adopted by the US, the paragraph disperses the issue of cotton to be addressed by various negotiating bodies – Agriculture, Non-Agriculture Market Access, and Rules (Third World Network 2003). Even here, the Chairman is instructed simply to consult with the Chairs of these bodies to address the **impact** of distortions in the cotton sector – including textiles, fibres, clothing etc. The paragraph also instructs the WTO Director General to consult with bodies like the World Bank and the FAO to direct existing programmes and resources toward diversification of the economies from cotton dependency. This side-steps the issue of financial compensation as no new funds or resources are to be made available, but existing resources are to be diverted. Worse, the existing resources are to be diverted not into addressing the financial and other losses arising from cotton subsidies, but towards moving the countries out of cotton production. This was seen as an advice to the more efficient African producers to shift out of cotton production, whilst the less efficient developed-country producers could continue to remain in production, with the subsidies intact. This text on cotton was widely criticised at Cancun by developing-country delegations as well as NGOs.

Following Cancun, a framework on the agriculture negotiations was established in August 2004. In this framework, a sub-committee on cotton was established within the WTO's Committee on Agriculture, with the aim of discussing both the trade and the 'development' aspects (by which is primarily meant the provision of financial resources) of the cotton issue. It was decided that the cotton issue would be negotiated within the context of the overall agriculture negotiations. However, the African countries continue to insist that an early decision be taken to eliminate export subsidies and domestic support within a few years, and in any case, there should be special treatment for such an early elimination, irrespective of the time-table for elimination or reduction for agriculture generally.

At the Hong Kong Ministerial Conference of the WTO in December 2005, the cotton-producing developing countries, especially the African countries, were deeply disappointed with the outcome on cotton. Representatives of the cotton producers of Africa criticised the decision as having achieved nothing. The

Ministerial Declaration offered the elimination of export subsidies in 2006. This constitutes only a small portion of the nearly \$4 billion subsidies the US gives to cotton producers every year. There is no action agreed for trade-distorting domestic subsidies which amount to about US\$3.8 billion or 80-90% of total US support for cotton. Domestic subsidies also make up almost all of the European cotton subsidies.

The African Ministers, at their conference earlier in 2005, had demanded that 80% of domestic subsidies for cotton be eliminated by the end of 2006, and the rest within a few years. The Hong Kong decision is miserly; it only endorsed the objective that, 'as an outcome of negotiations, trade-distorting domestic subsidies for cotton production should be reduced'. The African Cotton Producers Association's response is that 'there has not been any concrete proposal on the most essential request'.

### **Wheat as another example of the effects of subsidies**

A report by ActionAid (2002) has revealed the system of subsidy for UK wheat and its effects. In 2000, the world price of wheat was £73 a tonne, the production cost of UK wheat was £113 a tonne, and the UK wheat price was £70 a tonne. Thus the selling price in the UK was £43 below the production cost. How could the UK farmer sell below the production cost? Because of a massive subsidy paid by the government in the form of direct payments, e.g. subsidy on each acre of wheat to compensate for reducing the previous system of price support (£226 per hectare in 2001) and subsidy for 'set-aside' (another £226 per hectare). In 2000, £458 million was paid for 2 million hectares of wheat and another £127 million for set-aside for 550,000 hectares.

Previously the system of support was for the government to subsidise through price intervention, i.e. to buy from the farmers at a price higher than the world market price, and this contributed to the farmers being able to stay in business. In the period 1992 to 1999, the intervention price fell, and thus the EU wheat price has fallen in 10 years, to a point now where there is little price support and the EU wheat price is similar to the world price. But there has instead been an increase in

direct payments. Farmers get their extra revenue not in the form of being paid an artificially high price, but by being given direct payments (or grants). The effect is the same, i.e. the farmers get a revenue higher than if there were no subsidy, and they remain economically viable, even though the price they are paid is far below the cost of production.

Moreover this shift from price-support subsidy to grant (or direct payment) subsidy enables the UK or European farms to have a price similar to (or even below) the world price, and thus they are able to sell in the world market at an artificially low price, and without needing an export subsidy.

The ActionAid study also found that the UK subsidy for wheat had an effect on developing countries. In one case, cheap wheat exported from the UK/Europe was imported by a developing country. The wheat was processed and the country could export cheap wheat flour to other countries. One country (Kenya) found that low-priced wheat flour imports undermined the local flour industry. It also affected the market and livelihood of wheat farmers that supplied to the local flour industry.

In another case, Indonesia has found that EU and other exporters dumped wheat flour on its market.

## **7** Recent Developments on Agriculture in the WTO

AS mandated by the Uruguay Round agreements, fresh negotiations on agriculture began in 2000 at the WTO. The negotiations provide the opportunity to re-visit the Agreement on Agriculture and for members to propose amendments.

Several developing countries that had realised the problems faced by their farmers resulting from their liberalisation obligations promoted the concepts of non-trade concerns, food security and the need to ensure that the needs of small farmers to their livelihood are met. Many developing countries also advocated that the developed countries make significant reductions to their protectionist measures, including eliminating export subsidies, further reducing domestic support (including subjecting the Blue Box and the Green Box subsidies to reduction commitments), and addressing tariff peaks on agricultural products of interest to developing countries.

At the Doha Ministerial Conference of 2001, the Declaration that was adopted was a carefully drafted compromise stating that the negotiations will aim at reduction of export subsidies 'with a view to phasing (them) out' and 'substantial reductions' in trade-distorting domestic support. It also states an intention to 'enable developing countries to effectively take account of their development needs, including food security and rural development'. It specifies that special and differential (S and D) treatment for developing countries 'shall be an integral part of all elements of the negotiations' by embodying it both in the rules and in the schedules of members' commitments.

The developing countries generally believed that the Doha Declaration enabled them to demand that the developed countries adhere to a schedule to eliminate their export subsidies, and to substantially reduce their domestic support, whilst there would be protection from import competition for their own small farmers through the principle of S and D treatment.

Attempts during the subsequent negotiations to agree to 'modalities' of the negotiations by the deadline of early 2003 were not successful. The drafts of the Chairman of the agriculture negotiations could not be accepted by consensus of the members.

On 13 August 2003, the US and the EU produced a joint proposal on a 'framework' for modalities. Many developing countries criticised the draft, which they claimed would allow the US and the EU to escape from their expected commitment to eliminate export subsidies, and to continue to maintain or even expand their overall levels of domestic support. The US-EU proposal also involved a 'blended approach' to tariff reductions for all members, involving a combination of average tariff cuts for some tariff lines, a 'Swiss formula' (involving steeper and steeper cuts for higher and higher levels of tariffs) for some other tariff lines, and zero tariff for other tariff lines. Some developing countries pointed out that this approach favoured the developed countries and saw this as aimed at maintaining high protection in the developed countries whilst putting pressure on developing countries to open up their agriculture markets further.

On 20 August, a group of 17 developing countries (led by Brazil, India, South Africa and China) presented their own proposal at a WTO meeting, which was seen as a counter-proposal to the US-EU draft. This 'alternative framework proposal' aimed to be in line with Doha's ambition level and incorporate the concerns of as many players as possible, thus mainstreaming S and D provisions in all pillars. According to Brazil, coordinator of the group, on domestic support, the proposal aimed at faster reduction of support in developed countries for those items that most benefit from it, and those that find their way to third markets. It proposed reduction for Amber Box subsidies, elimination of the Blue Box category, and strengthening the criteria for Green Box payments which should be capped

and/or reduced. 'For us it is absolutely essential that the reform of domestic support will not degenerate into an exercise of futile box shifting. The re-labelling of policies is not an appropriate way of solving concrete problems.'

On market access, the paper proposed that developed countries adhere to the basic structure of the blended formula but that developing countries adhere to the Uruguay Round tariff-cut formula of achieving a simple average tariff cut. It also proposed the creation of a Special Products category (under conditions to be negotiated) and a special safeguard mechanism (contingent on the level of liberalisation) for developing countries. On export competition, the countries proposed elimination of developed countries' export subsidies and effective disciplines on their export credits and food aid.

This grouping eventually became the Group of 20, which now plays a major role in the WTO's agriculture negotiations. Another group of developing countries, the Group of 33, focuses on fighting for special treatment for 'special products' (defined as products related to food security, rural development and rural livelihood concerns) and for a special safeguard mechanism (to be used when there is an import surge) for developing countries.

At the WTO's Cancun Ministerial Conference in September 2003, there could be no agreement on the modalities of the agriculture negotiations. In fact the conference ended without any substantive decisions on any issue. In August 2004, a framework for agriculture negotiations was adopted by the WTO General Council as part of the general 'August 2004 Package'. The framework provides decisions and guidelines on elimination of export subsidies, reduction of domestic support, and market access. It also recognises the concepts of special products and special safeguard mechanism, but the details remain to be worked out. While the framework has been set up, the 'modalities' of how much reduction is to be made by developed and developing countries are still the subject of intense negotiations as of March 2006. Only one concrete decision was made at the WTO's Hong Kong Ministerial Conference in December 2005: that agricultural export subsidies would be eliminated by 2013. However, the negotiations on domestic support (which is much larger than export subsidies) and on market access still continue.

### **Suggestions for WTO negotiations**

There should be regular monitoring and analysis of the on-going negotiations on agriculture in the WTO, as well as on other areas that may have an effect on rural producers, such as the TRIPS Agreement and the WTO Agreement on the Application of Sanitary and Phytosanitary Measures (SPS Agreement), and the dispute settlement understanding. This can be done by or arranged by international agencies with an interest in the conditions of rural producers, and by independent organisations as well as by the producers' organisations themselves. Information should be provided to the farmers' organisations and ways found to enable them to participate, at least in having their voices heard and their inputs considered. Information should also be provided to policy makers in developing countries, especially in the Agriculture Ministries and agencies dealing with agriculture and farmers.

In the negotiations on agriculture in the WTO, modalities should be developed which give the utmost priority to the interests of the small farmers in developing countries. The main principles for the modalities should be the reduction and removal of protection in the developed countries as soon as possible, and special and differential treatment for developing countries, especially for ensuring the maintenance or revival of conditions enabling the viability of small farmers' livelihoods. A more detailed proposal would be that:

- (a) The export subsidies (and concessional export credits) of the developed countries should be eliminated within a specific time frame. (The WTO's Hong Kong Ministerial has now set a deadline of 2013 for the elimination.)
- (b) On domestic support, for the developed countries, the Amber Box subsidies should be reduced substantially; the Blue Box subsidies should be re-categorised as Amber Box subsidies and subjected to reduction disciplines; whilst a re-examination of the Green Box subsidies can be made to tighten the criteria, cap the relevant subsidies and reduce them.

- (c) Developed countries should significantly reduce their high agricultural tariffs and tariff peaks, and an approach on market access be adopted to ensure this.
- (d) The imbalances that presently curb or limit the ability of developing countries to provide subsidies to their farmers should be corrected. For food products and the products of small farmers, domestic subsidies should not be limited, to take into account the food security and rural development needs of developing countries.
- (e) Developing countries should not be subjected to further tariff reductions, at least for food products and products of small farmers, as long as the high subsidies in developed countries continue. For other products, an average tariff cut (on the lines of the Uruguay Round) may be considered.
- (f) A special safeguard mechanism (SSM) and the designation of special products (SPs) should be established for developing countries, to enable them to deal effectively with the incidence and problems of import surges.

More detailed proposals and their rationale can be found in Das (2003). Although some of these proposals seem to have been 'overtaken' by the WTO's August 2004 framework on agriculture and the WTO's Hong Kong Ministerial Declaration (December 2005), the principles and proposals remain relevant, at least as reference points.



## **8** The Commodities Problem

### **Decline in terms of trade**

One of the most serious problems facing rural producers in developing countries is the significant trend decline in the prices of their agricultural export commodities and instability in demand. The fall in prices has worsened for some key commodities in recent years. Most of the lower-income developing countries are still dependent on a few commodities for their export earnings, and for a sizable part of the GDP. For them, the problems relating to commodity prices and export earnings constitute their most important trade concern.

The effects of falling commodity prices have been devastating for many countries. According to UN data, the terms of trade of non-fuel commodities *vis-à-vis* manufactures fell by 52%, from 147 in 1980 to 71 in 1992, with catastrophic effects. For sub-Saharan Africa, a 28% fall in the terms of trade between 1980 and 1989 led to an income loss of \$16 billion in 1989 alone. In the four years 1986-89, sub-Saharan Africa suffered a \$56 billion income loss, or 15-16% of GDP in 1987-89. For 15 middle-income highly indebted countries, there was a combined terms-of-trade decline of 28% between 1980 and 1989, causing an average of \$45 billion loss per year in the 1986-89 period, or 5-6% of GDP (Khor 1993).

In the 1990s, the general level of commodity prices fell even more in relation to manufactures, and many commodity-dependent developing countries have continued to suffer deteriorating terms of trade. According to the United Nations Conference on Trade and Development (UNCTAD)'s *Trade and Development*

*Report, 1999*, oil and non-oil primary commodity prices fell by 16.4 and 33.8% respectively from the end of 1996 to February 1999, resulting in a cumulative terms-of-trade loss of more than 4.5% of income during 1997-98 for developing countries. 'Income losses were greater in the 1990s than in the 1980s not only because of larger terms-of-trade losses, but also because of the increased share of trade in GDP.' (UNCTAD 1999: p85)

It has been a mistake to claim that one reason for the poverty of poor countries is that they are not integrated enough or do not participate enough in the world trading system. In reality, trade constitutes an important share of the economy of many of the poorer countries. However, they have not benefited from the trading system because their main way of participating in the system has been to export commodities, whose prices have been declining, and thus their terms of trade have been deteriorating. Thus the problem for these countries is that they have had adverse and unequal terms in their participation in world trade (i.e. exporting commodities).

There are agricultural commodities which developing countries produce that compete with the products of developed countries. In such cases, such as cotton and sugar, the world prices are lower largely because of the high subsidies attached to the developed countries' commodity exports. A large part of the problem facing developing countries is related to the subsidies of the rich countries.

There are also agricultural commodities of developing countries which do not compete with the developed countries. Developing countries face a range of problems, including their products being at the lower end of the value chain with the lack of capacity (or the lack of market access) to climb the value chain through processing and manufacturing. Another problem is a situation of global over-supply in the case of some commodities, which exerts a downward pressure on prices. This is partly the result of too many countries being advised by international agencies to expand the export of the same commodities. Yet another problem is that the developing countries have little bargaining power when selling their products to monopsonist buyers, which are usually transnational companies, and thus they get lower prices.

### **The case of coffee**

Coffee provides an important example of a commodity in crisis. The price of coffee beans has dropped sharply, and the share of the coffee market revenue accruing to producer countries has also declined sharply. The price of coffee in December of the year fell from US\$1.27 per lb in 1980 to 89 cents in 1990, 66 cents in 2000 and 46 cents in 2001. In June 2002, the real price of coffee (taking into account inflation) was only 25% of its 1960 level. In 1992, producer countries earned US\$10 billion from a global coffee market worth around \$30 billion; in 2002 they received less than \$6 billion export earnings from a market that had doubled in size. Their share of revenue fell from 33% to less than 10%. According to Oxfam data, the retail price of one kilo of soluble coffee in a UK supermarket is US\$26.40, whilst the coffee farmer sells the equivalent of one kilo of green coffee beans to the middleman at \$0.14 (Oxfam 2002).

There are many countries dependent on coffee for exports and for livelihoods. The effect of the fall in coffee price has been very serious for them and for the 25 million coffee growers around the world. Coffee accounts for over 50% of Ethiopia's export revenue and 80% of Burundi's. Coffee is linked to the livelihoods of a quarter of the population in Uganda, 10% in Honduras and 8% in Guatemala as well as 7% of the national income of Nicaragua. In Brazil there are 230,000 to 300,000 coffee farmers and another three million are employed in the coffee industry, and in India three million are also employed in the coffee industry (Oxfam 2002: p8). The price fall has had a devastating effect on national export revenues and on communities alike. For example, coffee revenue fell in Central American countries from \$1.7 billion in 1999/2000 to \$938 million in 2000/01. Ethiopia's coffee exports fell in one year from \$257 million to \$149 million. There has been much increased unemployment, reduced income and hunger among the coffee-growing communities in the developing countries (Oxfam 2002: pp9-12).

The main reason for the fall in price is the increasing over-supply situation. Supply has grown by over 2% per year whilst demand growth has been lower at 1-1.5% per year, leading to stocks being built up to 40 million bags. Up to 1989, the coffee market was regulated by the International Coffee Agreement (ICA) made

up of producer and consumer countries and managed by the International Coffee Organisation (ICO). Export quotas were set for producing countries to determine the supply level and the price was targeted at a high and stable level in a band of \$1.20 to \$1.40 per lb. The ICA broke down in 1989, with opposition from the US (which left as a member) being a major factor. The Agreement remains but no longer has the power to regulate supply through quotas and the price band. Coffee prices are now determined by futures markets in London and New York. During the ICA years, coffee prices had remained relatively high, rarely falling below the price floor of \$1.20/lb. After the ICA broke down, prices have fallen very low. Proposals to revive the Agreement have been impeded by lack of political will, with consumer countries not willing to re-start their participation. In the absence of consumer country interest, some producer countries attempted to limit their own exports, but the initiative collapsed in 2001. The ICO has developed a scheme to reduce the amount of coffee traded by removing some coffee of low quality. The implementation remains to be worked out (Oxfam 2002: pp17-18).

Another reason for the low prices is the expansion of production by some countries, including Vietnam (which is a relatively new major coffee producer, having expanded output from 1.5 million bags in 1992 to 15 million bags in 2000 to become the second largest exporter) and Brazil, the largest producer. The increased overall supply has not been matched by a similar rate of increase in demand, resulting in an imbalance in demand and supply that is depressing price levels (Oxfam 2002: pp18-19). Moreover, there is a great imbalance in the global coffee supply chain, with small farmers at the lowest end being paid very low prices by their traders, the exporting traders in developing countries being paid little by the large roaster companies in the US and Europe that buy the coffee beans, and these companies reaping much of the benefits from their retail coffee business. In a study of the stages and prices on the value chain, Oxfam found that the coffee farmer in Uganda received 14 US cents per kilo for his green beans, which pass through various traders to the roaster factory at a price of \$1.64 per kilo. It ends up on a UK supermarket shelf as soluble coffee at \$26.40 a kilo, which is 7000% higher than the price paid to the farmer. A similar journey into a pack of roast and ground coffee sold in the US involves a price rise of nearly 4000% (Oxfam 2002: p22).

## **Suggestions**

International institutions such as the UN General Assembly and UNCTAD should give priority to seeking solutions to the crisis of commodities. The high global priority once given to attaining reasonable and stable prices should be restored. A good start was made by the establishment in 2003 of an eminent persons' group on commodities by the UN General Assembly. Its report, which has been submitted to the UN, should be followed up.

The problem can be addressed through an international conference or convention, and other institutional mechanisms.

UNCTAD and the Common Fund for Commodities should review the experience of commodity agreements and look into the possibility or desirability of reviving such agreements. One possibility is to initiate a new round of commodity agreements aimed at rationalising the supply of raw materials (to take into account the need to reduce depletion of non-renewable natural resources) while ensuring fair and sufficiently high prices (to improve the incomes and livelihoods of the rural poor, and to reflect ecological and social values of the resources).

Although international cooperation is the preferred method of improving the commodity situation, and attempts should be made to revive it, this may not be feasible at present. In the absence of joint producer-consumer cooperation, producers of export commodities could take their own initiative to rationalise their global supply so as to better match global demand. Such initiatives by developing-country supplier countries should be encouraged, rather than frowned upon.

UNCTAD, the United Nations Industrial Development Organisation (UNIDO) and other agencies can assist commodity-producing developing countries to improve their capacity for increasing the value of their commodities by going up the value chain through processing and manufacturing as well as marketing. At the same time, developing countries should press developed countries to reduce

tariff escalation and allow better market access for processed and commodity-based manufactured products, and thus help commodity producers reap better benefits from the trading system.

In the case of developing-country commodities that developed countries are also producing and exporting, unfair competition from the latter in the form of export and domestic subsidies should be phased out as soon as possible.

## **9** Continued Lack of Supply Capacity in Most Developing Countries

A major reason why developing countries are unable to benefit from trade is their lack of capacity to produce and market. Thus, even if there is market access for these countries, especially the LDCs, this 'supply constraint' prevents them from being able to take advantage of the access. The supply and marketing constraints to trade span the range of stages, including formulating appropriate export strategies (including choice of products and markets), providing incentives, training, credit and technology assistance to enterprises, product design and production techniques, and marketing, as well as the government's role in providing general health, housing and education facilities to citizens so that there would be skilled labour. The supply capacity problem has not been a significant area of concern in the WTO, and it may be more appropriate for other international institutions to deal with it. It must however be recognised that dealing with this basic issue is a vital task of the global trading system.

Several international and regional agencies already have programmes to assist developing countries to improve their productive and trade capacity, including the International Trade Centre (ITC), UNCTAD, UNIDO and the multilateral and regional development banks. However, given the continuing weaknesses and deficiencies of many developing countries, these efforts are insufficient. It would be useful for developing countries to identify and assess the impact of programmes being conducted by the various agencies. A study can also be done on the elements for a successful export strategy and export-supply capacity-building programme for developing countries, taking into account the recent experiences of developing countries; on the present weaknesses; and on how to overcome the obstacles.

# 10

## Summary of Suggestions for Follow-up

This section provides a summary of the suggestions that are contained in the previous sections on various issues.

### **Review of global framework**

1. The global framework within which agricultural trade is conducted should be reviewed in a comprehensive manner. The review should incorporate the loan conditionalities of the IFIs, as they relate to and have an effect on trade, the rules of the WTO and the new proposals, and the workings of commodity markets. A system of monitoring trends and developments in these areas could be set up.

### **Review of loan conditionality**

2. An on-going review can be made of the appropriateness of the policies attached to loans of the IFIs, in the structural adjustment programmes and other recent forms such as the Poverty Reduction Strategy Papers (PRSPs). The recommendations of the SAPRI report as it pertains to the agriculture sector (SAPRI 2004: p151) can be considered:

- (a) Policy should be reoriented to give priority to production for the domestic market and ensuring food security.



- (b) While agricultural exports are important, policy choices and investment decisions must take into account the differentiated ability of certain groups (especially women and smallholders) to access new market opportunities and improve their access to land and other resources.
- (c) Trade policy in the sector should be nuanced, allowing countries to pursue some degree of self-reliance while stimulating production by marginalised farmers in order to support the rural poor in accessing affordable food.
- (d) The implementation of effective steps to support small producers and achieve food security should precede, and then be integrated with, the opening of the sector and promotion of exports.
- (e) The state should provide the support needed to ensure these farmers' access to affordable agricultural supplies and extension services, improvements in rural roads and transportation, further development and regulation of irrigation systems, and promotion of land tenure reforms.
- (f) Formal institutions should be in place, with state support, to provide equal access for all producers to information and markets, as well as to ensure environmental oversight and address negative impacts.
- (g) In general terms, agricultural policies should be designed to reduce existing inequalities by boosting the capacity of small and medium producers and helping subsistence farmers to build sustainable livelihoods in the rural sector. To this end, policies should emerge from a participatory process involving all stakeholders, and environmental and socio-economic factors, including gender considerations, should be integrated into policy design.

3. In addition, there should also be an independent on-going review of the trade aspects of the present and proposed conditionalities of current and future loans. Developing countries presently have flexibilities within the WTO rules to adjust their applied tariffs up to their bound rates, and even beyond the bound rates in certain circumstances. Loan conditionality should not prevent or constrain

the developing countries from making use of these flexibilities. Moreover, these conditionalities should not oblige developing countries to undertake a rate and scope of liberalisation that is beyond their capacity to cope, or which will be damaging to the livelihoods and incomes of rural producers. The approach to liberalisation in developing countries should be re-oriented to be more realistic, especially since the developed countries are still maintaining high subsidies.

### **WTO negotiations**

4. There should be regular monitoring and analysis of the on-going negotiations on agriculture in the WTO, as well as on other areas that may have an effect on rural producers, such as the TRIPS Agreement and the SPS Agreement, and the dispute settlement understanding. This can be done by or arranged by international agencies with an interest in the conditions of rural producers, and by independent organisations as well as by the producers' organisations themselves. Information should be provided to the farmers' organisations and ways found to enable them to participate, at least in having their voices heard and their inputs considered. Information should also be provided to policy makers in developing countries, especially in the Agriculture Ministries and agencies dealing with agriculture and farmers.

5. In the negotiations on agriculture in the WTO, modalities should be developed which give the utmost priority to the interests of the small farmers in developing countries. The main principles for the modalities should be the reduction and removal of protection in the developed countries as soon as possible, and special and differential treatment for developing countries, especially for ensuring the maintenance or revival of conditions enabling the viability of small farmers' livelihoods. A more detailed proposal would be that:

- (a) The export subsidies (and concessional export credits) of the developed countries should be eliminated within a specific time frame. (The WTO's Hong Kong Ministerial has now set a deadline of 2013 for the elimination.)

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- (d) The imbalances that presently curb or limit the ability of developing countries to provide subsidies to their farmers should be corrected. For food products and the products of small farmers, domestic subsidies should not be limited, to take into account the food security and rural development needs of developing countries.
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More detailed proposals and their rationale can be found in Das (2003). Although some of these proposals seem to have been 'overtaken' by the WTO's August 2004 framework on agriculture and the WTO's Hong Kong Ministerial Declaration (December 2005), the principles and proposals remain relevant, at least as reference points.

## **Commodities**

### 6. On the problem of commodities:

- (a) International institutions should focus on finding solutions to the commodities problem and restore the high global priority once given to the issue.
- (b) The report to the UN General Assembly by the eminent persons' group on commodities should be followed up on.
- (c) An international conference or convention, and other institutional mechanisms, should be organised.
- (d) UNCTAD and the Common Fund for Commodities should review the experience of commodity agreements and look into the possibility or desirability of reviving such agreements.
- (e) In the present absence of political will for joint producer-consumer cooperation, producers of export commodities could be encouraged to take their own initiative to rationalise their global supply so as to better match global demand.
- (f) International agencies can assist commodity-producing developing countries to improve their capacity for increasing the value of their commodities by going up the value chain through processing and manufacturing as well as marketing.
- (g) Developed countries should reduce tariff escalation and allow better market access for processed and commodity-based manufactured products, and thus help commodity producers reap better benefits from the trading system.

- (h) In the case of developing-country commodities where developed countries are also producing and exporting, unfair competition from the latter in the form of export and domestic subsidies should be phased out as soon as possible.

### **Improving supply capacity in developing countries**

7. Several international and regional agencies already have programmes to assist developing countries to improve their productive and trade capacity, including the International Trade Centre (ITC), UNCTAD, UNIDO and the multilateral and regional development banks. However, given the continuing weaknesses and deficiencies of many developing countries, these efforts are insufficient. It would be useful for developing countries to identify and assess the impact of programmes being conducted by the various agencies. A study can also be done on the elements for a successful export strategy and export-supply capacity-building programme for developing countries, taking into account the recent experiences of developing countries; on the present weaknesses; and on how to overcome the obstacles.

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It looks at the programmes and rules of international financial institutions and the World Trade Organisation, and their implications for developing countries.

It studies the imbalances in the global agriculture trade and production framework, and discusses recent developments in the WTO, including the proposals in the negotiations on agriculture that have been put forward by leading developed and developing countries.

The paper also examines the issue of low and declining commodity prices and their effects on developing countries. Finally, it also outlines some recommendations on how to improve the situation.

**MARTIN KHOR** is the Director of the Third World Network. An economist trained in Cambridge University, he is the author of several books and articles on trade, development and environment issues.

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