

REALITY-CHECK REVEALS DEEP DIVIDE ON DOHA

*The July-end deadline to take stock of preparations for the next WTO Ministerial Conference showed that the scars of Seattle have not healed. The much-needed medicine of confidence-building is apparently in short supply. Frustration was running high among many developing countries. In fact, a good part of the 'reality check' exercise actually became a discussion on the 'progress report' prepared jointly by the General Council Chairman and the WTO's DG. A number of developing countries complained that the 'assessment' did not truly reflect the reality! The principal line of discord between the major trading nations and a large number of developing countries, including the least developed countries, is over the need to expand the work programme of the WTO. Had the insistence on a 'comprehensive Round' been accompanied by a serious engagement by the major trading nations on 'implementation' issues, the WTO would have been less of a house divided. For now, the impasse continues with real determination on both sides. The following are the views of developing country **Ambassadors from the Like-Minded Group** on the current state of play, based on a press briefing given on 31st July at the end of the two - day meeting.*

Someshwar Singh

On balance, our delegations see that there is some convergence among those countries calling for a Round. Notwithstanding this, we see that a large number of delegations have yet to be convinced about the need to expand the work programme of the WTO. A central element for their scepticism is the lack of progress on the issue of implementation and the rigid positions on agriculture. Then, there are some delegations that strongly oppose the launching of a Round and the expansion of the agenda of the work programme of WTO.

WTO already has a heavy workload

The WTO has plenty of work to do. There is this idea that if another Round is not launched, the purpose of the WTO will be in question. The WTO has to govern all the agreements from the Uruguay Round. The WTO has a very ambitious built-in-agenda, covering agriculture, services, the review of the TRIPS Agreement, and negotiations of multilateral rules of origin, among others. So, whatever happens in Doha, these lines of work will continue. Then there is another set of issues being proposed by some countries - so-called Singapore issues - concerning investment, competition policy, transparency in government procure-

ment, trade facilitation and environment. The positions are very far apart on these issues. And it is unlikely, really, that in less than nine working weeks up to Doha, there will be any convergence at all on how to deal with these issues in the wider context of negotiations. These and other issues, of course, cover areas that are not trade-related and that are very well handled in other UN bodies. It is clear to most delegations that these issues should not be raised again if the failure of Seattle is to be avoided.

'Leap of Faith' demanded

That is why we have emphasised that confidence-building is so very critical in this exercise. Because really, for us to anticipate that a Round will solve the problems of the past, requires a certain level of confidence that some things have changed - some important things. That is where implementation becomes both in substantive and symbolic terms a very real issue. Because we can see from the reactions to the implementation proposals that really, many things have not, in fact, changed. For us to accept that a new Round will solve the problems of the

(continued on next page)

INSIDE PAGES

Confidence-Building and Consolidation More Important For Doha.....	4
Building a 'Development Box' in WTO Rules on Agriculture.....	8

past, is very much like saying that courtship was an awful experience but don't worry, the marriage will be fine! So go ahead, the new Round will solve the problems of the past. That is a leap of faith being required of developing countries and we should not be asked to make that leap of faith. It has to be underpinned by some concrete result that can lead us to believe that this is a rational expectation. That is where we are. Our position is that we are not convinced. We are willing to consider their arguments carefully. We are not unequivocally opposed and in that sense there is a measure of open-mindedness. But critical to all that, and critical to persuasion is building confidence. The process has faltered quite severely in that respect this time.

Implementation Concerns

Our approach is quite a logical and rational one in negotiating terms. What we are saying is before we get into new negotiations, whatever they are, we should address the problems that we are facing with regard to existing agreements, and mainly the agreements of interest to us - agriculture, textiles, anti-dumping - all of these where we had certain expectations and those expectations have not been fulfilled. So we have real problems and we want to address them. If our partners say we are not going to address them and we are only going to address them if you agree to something else, we think that it is going out of the bargain we had made under the Uruguay Round. There was a package for the Uruguay Round which was supposed to bring us benefits. It has not brought us the benefits. The mutuality of benefits which was promised in Marrakech has not happened. So we are asking for redress. And that is the implementation issue.

In general, we see that the problem of implementation is

advancing very slowly, if at all. Of the more than 100 issues raised before the Seattle Ministerial Conference, today four issues were sent to subsidiary bodies in addition to some five other issues that are already in the subsidiary bodies. And only three were presented for decisions. And later on in the afternoon, they will be presented formally for decisions as items for early action. In any case, although these issues address some of the fundamental problems in a temporary way, they do not resolve the problems.

They say there is movement. For us, there is little. Our evaluation is that clearly it is insufficient - if there is movement on five out of one hundred issues identified and there is no movement on areas of major interest to our countries. It is too optimistic to say there is 'movement' and that things are 'moving forward'. One can make-believe but there is a danger in doing that. We did it before Seattle. There were deep differences and we went to Seattle, pretending that somehow, we would put it all together with the magic of the moment. And there was a collapse.

Before there is any attempt at enlarging the agenda of the WTO, it is important to resolve the pending issues from the previous Rounds. These issues of implementation may appear to be very numerous but, unfortunately, that is the reality we got from the Uruguay Round and that has to be resolved. There are inequities in the agreements - that protect the interests of some countries in detriment to the interests of most of us here represented. There are problems of market access that was promised but not delivered. Then there are problems related to S&D, provisions that were put in the agreements. When we asked other developed members to stick to these provisions, they tell us "Well, you know, this is 'best-endeavour' language, not binding." It is

unfortunate that that is the case. These are the major types of implementation issues. And it is only fair that these be resolved before new issues, very complicated issues like investment, for example, come into the WTO.

Our 'implementation proposals' address specific concerns faced during the course of experience gained during implementation (of the past Round). There were specific proposals, written documents were provided and they were explained during the special sessions on a number of occasions. It is very frustrating to see little progress. Most of these proposals have to be accepted by powerful members from the developed countries' group. Since this is a consensus-based organisation, we have to go on trying to convince our trading partners. This is the only route available to us. In good faith, we are making our efforts. No delegation said implementation issue can be wished away or can be brushed aside. They may not deliver but we have to continue to press our claim.

Moreover, we would like to see all proposals addressed. They are all equally important to all the countries and the approach we have taken is to see that all these proposals are taken together. Our objective is to get all these proposals addressed by the major delegations with a view to getting meaningful decisions before Doha.

Example of TRIPS

Probably the best example of the kind of problems contained in the implementation package is the TRIPS Agreement. More than 70 member countries of the WTO have yet to start drafting their legislation and the transition period is already over! Some of them are LDCs. So they have some more years but the vast majority are developing countries and therefore, the transition period is over. It is not

supposed to be a model law, but some countries think otherwise - they want exactly the provisions they have in their laws, so that their standards of protection are matched. It is really impossible to think that new issues like competition, investment and other issues being proposed, are going to be accepted when we have these pending issues. TRIPS, of course, happens to be in the news, but how about Customs Valuation? The transition period is over and now we are supposed to accept the invoice from the exporter as the document with juridical validity. There is no way we can match those prices from the prices of origin. We have serious problems of fraud and so on and the capacity of customs in developing countries is very limited. With no computers, there is no way to check with data bases. These kind of problems come up again and again and that is why this package is called the implementation issues and they need to be resolved before new issues are put on the table.

Link with Round questionable

If you look at the problems of implementation, they have a historical basis. When the Seattle Conference failed, this was meant to be a confidence-building exercise. There were some proposals in paragraph 21 which were meant for immediate action and paragraph 22 where action was supposed to be taken a bit later. But in no way was the resolution of these proposals linked to a Round. That was not the understanding. So, without a Round, the major delegations have a major responsibility to address these issues in themselves. And that is why we all agreed that the resolution of the implementation issues should be on a separate track and it should not be linked to broader negotiations - as is being posed by the major delegations today. So, we do not see any justification in anybody saying that

these proposals can only be addressed in the context of a new Round. It just means that they are going back on their words - that they would want to genuinely engage in good faith to find meaningful decisions for the problems we are facing.

In agriculture, for example, we have mandated negotiations. Everybody has to engage in good faith and try to do their best. Now people are saying "No, no, without a big Round and no new subjects, we cannot engage ourselves in negotiations." But the same delegations, if you recall their statements made after telecom negotiations, made after financial services negotiations, after ITA-I (Information Technology Agreement) negotiations - "Oh, the days of big Rounds going for eight years are all over! Now we can have a critical mass and do these things." Because agriculture is a sensitive subject for some powerful countries, it is being argued that unless they get a large number of other subjects, there is an inherent lack of fairness.

Moreover, there is no guarantee that new promises from a new Round will actually be delivered. In fact, tomorrow you may not get anything even with a new Round. First, we are told a new Round is necessary, you will get everything. Then when you try to go into detail, (you may discover) it is a matter of your capacity to negotiate!

Doha not synonymous with Round

We have said that we need not think that Doha will be a success only if there is a launch of a Round. Unfortunately, there is a lot of conceptual confusion. First, we have to agree on an agenda. Second, to see if there is merit in putting it in the framework of a Round. The third stage is whether this Round should be viewed as a single undertaking. These are all

different stages. Different considerations should go into various aspects. For now, there is no consensus on the agenda. Technically speaking, mandated negotiations in agriculture and services, plus mandated reviews - TRIPS, TRIMS etc., and some other elements can themselves be put into a framework of a Round but when you say Round here, people are mostly talking about the type of 'comprehensive' Round which EU is always referring to. So, it is unfair to say that success will be there only if there is a launch of a Round and failure otherwise.

Way Forward

Quite frankly, all our delegations are on record on the kind of things we can accept if implementation problems are resolved. Our statements have been circulated. The position of most of us is that we do not oppose the idea to move forward. The problem is that when you talk about a Round, most of the developing countries are not comfortable with the agenda - what to be discussed is the first problem. The second problem, and the most important one - while we are struggling with implementing the existing commitments, with obligations of the existing agreements, it is not fair to expect developing countries to assume additional obligations which we do not know whether we are in a capacity to implement. Take for example, the new Singapore issues. The proponents always said you will benefit from this. But we do not know the implications, we do not know the costs for us. It is not as if we do not want this organisation to move forward. That is not in our interest. Our problem is we are trying to make our trading partners understand our problems.

We have problems with including new issues. This is recipe for failure if they insist on including the new issues. We need more

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time to study the implications. They have only told us about the benefits. They never tell us about the costs. We are not the *demandeurs*. We need to hear from them what it is going to cost us. A good agreement for us is where the benefits outweigh the costs. Not the other way round. Moreover, the subject must be trade-related. For instance, we are not convinced that investment is a trade-related issue. Those questions have not been fully answered by the proponents.

With regard to future negotiations, the majority of the members of the LMG are not saying no. We would like to know what the agenda is. But first, let us address our

problems - the implementation. If there is willingness to do that, is the agenda going to reflect our interest? We do not know yet if all that is acceptable. And then, why is it that everything has to be packaged into a Round? If there is no consensus to negotiate on investment or competition policy, why should they be lumped together on an equal basis. There can be a differentiated treatment of issues. And we have not got down to the point because our colleagues from the EU just keep coming back, despite the fact that there is no consensus. They keep coming back saying we have to have negotiations on investment and competition policies and trade facilitation - when it is quite clear

that there is no consensus within the house. So those are the kind of problems we are facing with regard to the approach of our partners.

If you look at the presentations during the last two days, from the African countries, ACP, LDCs - whether they were for or against a Round, every group of developing country which spoke said that until our concerns are addressed, we are not in the game.

That is the basic message. And that message did not come from just the LMG - it came from a much larger spectrum of the membership of the WTO. So if you take that as the litmus-test, it is clear.

CONFIDENCE-BUILDING AND CONSOLIDATION MORE IMPORTANT FOR DOHA

*The active participation of developing countries in the WTO activities since Seattle and in the run up to Doha must be read as an attempt to address three fundamental deficits - developmental, democratic and institutional. According to **Rashid S. Kaukab, Senior Consultant, South Centre Project on the WTO**, the main objective for Doha should be to move the WTO from a 'survival' to a 'consolidation' phase. He argues that it is important for the WTO to be seen as the anchor of a rule-based and fair multilateral trading system. To make that happen, the Doha Ministerial Conference should take decisions and launch a process to remedy the three major deficits in the organisation. The following article is based on Mr. Kaukab's presentation to the Wilton Park Conference in the UK in early July.*

The debate in Geneva and elsewhere is often couched in terms of proponents versus opponents of a Round. This has led to misunderstandings on both sides. Instead of arguing about a "Round", - it is useful to concentrate on the real objectives and interests for Doha, of both the developed and developing countries. It is also useful to bear in mind that the issues raised under 'implementation' are not always purely of interest to the developing countries: some of them should also be beneficial to developed countries.

Looking at developing countries' situation and participation in the WTO since Seattle, three things clearly emerge:

(i) In almost all developing countries, the governments have

been engaging in an open dialogue on WTO issues with all stakeholders: private sector, NGOs, media, etc. I have been to many national seminars organised by governments and intergovernmental organizations in developing countries and have been struck by the transparency that now surrounds WTO-related debates in developing countries. Moreover, often developing country governments are under public pressure to remedy the inequities of the Uruguay Round (UR) Agreements. The message is that, unlike during the UR, there is much more public scrutiny and developing country governments can not simply sign deals that can be struck in WTO meeting rooms or Green Room, unless these can be shown to be fair and beneficial to their countries.

(ii) Developing countries are committed to the multilateral trading system, perhaps sometimes more than some of their developed country partners. This is borne out by their active involvement and participation in all WTO activities whether related to on-going negotiations or to the agenda setting for Doha.

(iii) Developing countries have been contributing positively to the strengthening of a rule-based and fair international trading system by raising the implementation issues that are aimed at redressing the existing weaknesses and shortcomings, and which cover almost all UR Agreements. The main point is that the solution of implementation issues will strengthen the international trading system which is what all want.

Hence, through involving their public in WTO debates, through actively participating in BIA (built-in-agenda) negotiations and reviews, and through raising implementation issues in the WTO, the developing countries are trying to remedy three important deficits, i.e., development deficit, democratic deficit and institutional deficit, in the present WTO.

The Development Deficit

This refers to the gap between the development objectives set for the WTO and the reality. While the preamble to the Marrakech Agreement establishing the WTO clearly recognises the need for positive efforts to ensure that developing countries and the least developed countries secure a share in the growth in international trade commensurate with the needs of their economic development, the implementation of UR Agreements has fallen short of this objective. There are many dimensions of this gap or deficit, including the following three prominent ones:

(i) With respect to the benefits to developing countries from UR liberalization commitments, a brief look at two sectors is pertinent: agriculture and textiles and clothing. In these sectors, developing countries had the most promises and expectations and these are the sectors where the frustrations have been the greatest.

(a) What has been the impact of implementation of commitments under the Agreement on Agriculture (AoA) on developing country trade in agricultural products? Rather contrary to what developing countries had expected. According to the UN Food and Agriculture Organization (FAO), growth in agriculture exports in the period 1990-97 was 3.05 per cent per annum for developed countries and, only 0.63 per cent per annum for developing countries. On the

other hand, annual growth in agriculture imports during the same period was 1.85 per cent for developed and 3.87 per cent for developing countries. Why the results are contrary to the expectations? This is quite a long and dismal story of the way in which the AoA has been drafted and implemented.

(b) The story of textiles and clothing sector is equally sad. This is yet another tale of unfair trading arrangements that have been going on for more than forty years. The Agreement on Textiles and Clothing (ATC) under the WTO too has not worked as well as expected. The way in which the major importing countries have implemented the Agreement so far means that till the very end of the ten-year transition period, only 20 per cent of under quota trade will be liberalised instead of the expected 51 per cent. To quote some specific numbers: USA would have liberalised only 56 quotas out of the total of 757 in the ten-year transition period, the EC, 52 out of 167, and Canada 54 out of 241. Then there are problems relating to anti-dumping and special safeguard actions, visa requirements, arbitrary changes in rules of origin etc. As a result again, in a sector of major export interest to developing countries, implementation has not improved market access opportunities.

(ii) Another important dimension of development deficit that many developing countries try to address is the lack of an effective level playing field. The system and rules should ensure equal participation by, and equitable benefits to all. This, the multilateral trading system, recognising various levels of development of Members, has tried to do through the concept and application of the so-called special and differential (S & D) treatment in

favour of developing countries. There are three relevant points here:

(a) S&D is not charity. Perhaps, here again, the name is responsible for some misunderstanding. Instead of being a form of charity to developing countries, S&D is based on a concept that aims to create an effective level playing field by recognising the strengths and weaknesses of developed and developing country enterprises and economies.

(b) The enterprises in developed countries have certain advantages that their counter-parts in developing countries do not enjoy. These include: better access to markets, finance and technology; good support infrastructures; market power; and, do not be surprised, high subsidies and protection. Let me give you some figures to substantiate this last point which is not very well known generally. According to OECD, industrial support programmes in OECD countries transfer about US\$ 50 billion every year from public budgets to enterprises. Consumer transfers to industry, through high protection, are an additional US\$ 150 billion per year. Developing countries do not have the means to compete on that scale to strengthen their industries, attract finance, and permit industrial research and technological development. The S&D, therefore, is a means to give some instruments to developing countries to compete in this environment.

This can be explained with an analogy. It is like a football game. Developed country teams have much better access to training, coaches, equipment and sporting gear, etc., i.e., access to finance, technology and infrastructure. They also are

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physically superior, in part due to high doses of performance enhancing drugs, i.e., protection and subsidies. Moreover, they often decide when, where and with whom to play, i.e., market power. Developing country teams do not have any of these. It will not be fair to have a competition between such unequal teams. Instead, developing country teams need time and support to nurture and develop their potential. S&D should do just that: create playing fields for teams of equal strength which can be called effective level playing fields. This has not happened due to the very weak S&D provisions in the Agreements as well as due to the lack of implementation of these provisions which rightly is a cause of great concern to developing countries.

(c) The issue of name is important. Perhaps S&D is not the right term because there is nothing "special" in this treatment, as many developed countries also have special arrangements, allowed under WTO disciplines, to support their enterprises. Nor can we say that "differential" means favourable if we take into account the varying strengths of enterprises in the developed and developing countries. Perhaps we should look for a new name that better reflects the reality. Perhaps we should call it 'Formal and Proportional Treatment'. That will help in dispelling the wrong impressions and in emphasising the need of such treatment for developing countries to create a truly level playing field.

(iii) The third dimension of development deficit is related to certain provisions and Agreements in the Rules area which unfortunately do not cover and address the actual problems that

developing countries face in these areas, for example, the Agreement on Customs Valuation. This dimension is also included in the implementation issues raised by developing countries.

The Democratic Deficit

This deficit, that developing countries are attempting to redress, relates to the issues of internal transparency and lack of equal and effective participation by all. While this can be fully and finally remedied through reformed WTO procedures - both formal and informal - developing country efforts, despite their very limited human, financial and technical capacities, to participate in the discussions, negotiations and reviews, are certainly efforts in the right direction. For example, in the first phase of negotiations on agriculture, almost 50 per cent of the proposals were submitted by developing countries. Though they did not submit a similar percentage of proposals in the first phase of services negotiations, their active involvement in the drafting of Negotiating Guidelines greatly contributed to improve the balance and tone of these Guidelines. Similarly, developing countries have tried to pro-actively participate in the various on-going reviews. For example, close to 75 per cent of suggestions and proposals regarding TRIPS review under Article 71.1 have come from developing countries.

This pro-active participation should be welcomed and reciprocated by developed countries as this will ensure that all Members contribute and direct the agenda setting and negotiations in the WTO, making it a truly democratic and participatory organisation for all.

The Institutional Deficit

The third deficit that developing countries are trying to fill-in through raising implementation issues and

other suggestions regarding Doha, relates to what can be called, for want of a better term, institutional deficit. That refers to a tendency among Members to ignore the core mandate of the organisation and to work for narrow interests that often means pulling the organisation into different and sometimes opposite directions. This creates frustration in the short term and damages the credibility and relevance of the institution in the long term. When it comes to the multilateral trading system, it is in the interest of all to strengthen it and to make it fair for all. This system belongs to all. Perhaps the analogy of a boat is more appropriate this time. The WTO is like a boat which is supposed to carry all to the island of prosperity. Bringing heavy logs and rocks of new issues, exotic and exquisite though they may be for some, will take the limited space and may ultimately sink the WTO 'boat'.

Institutional deficit also covers the neglect by some of the necessary repairs to various parts of the boat that are essential to continue the journey. And the necessary re-tooling perhaps that will require throwing away some of the extra baggage which will make it comfortable for all of us.

Developing countries have tried to address this deficit in three important ways.

(i) First, by bringing the focus of the organisation back to its core mandate and area of competence, i.e., mutually beneficial trade concessions. This they have done by pro-actively participating in the built-in-agenda negotiations. Not only that they submitted close of 50 per cent of the total proposals during the first phase of agricultural negotiations, but it can be argued that the proposals made by a group of developing countries were probably the most ambitious. These proposals suggested:

- a) Reduction of domestic subsidies and tariffs, not by percentages that perpetuate present distortions, but by bringing them down to agreed ceilings;
- (b) Substantial reduction of export subsidies and disciplining of all forms of export competition;
- (c) Addressing other issues that are presently left out of the Agreement on Agriculture, like the issue of market power in agricultural markets; and
- (d) A possible approach to addressing non-trade concerns like food security.
- (e) Creation of a Development Box to effectively address the problems of developing countries.

Similarly, in services negotiations, developing countries are emphasising the importance of liberalising movement of natural persons which will bring parity of treatment between capital and labour. This is like an effort to chart a direct course for the boat in waters that are well known.

(ii) The second way in which developing countries are addressing the institutional deficit is by suggesting necessary repairs in various parts of the boat. This they have done through raising implementation issues. The understanding, realisation and experience of the past six years have shown where the leaks are, where the boards are not properly fitted, where design is problematic etc.

Hence, the points they have raised under implementation issues and related to various Agreements like on Trade-Related Intellectual Property Rights (TRIPS), Trade-Related Investment Measures (TRIMs), Anti-Dumping, Subsidies and Countervailing Duties, etc., will

fix these faults which will be beneficial for all not just the developing countries.

This can be explained with reference to the Agreement on TRIPS. While in the WTO developing countries have taken the lead on this issue, many others in the developed world are also questioning the utility of the present TRIPS model. Let us leave aside for now the obvious anomaly that TRIPS is as it retards the flow of ideas through an organisation that facilitates the flow of goods and services. Let us also leave aside for now the fact that the losses to developing countries from TRIPS-patents protection far outweigh the gains from manufacturing market access, as calculated by M. Finger, former lead trade economist of the World Bank. There are other fundamental issues like whether this agreement strikes the right balance between producers and users of intellectual property rights (IPRs); and whether this model provides the right incentive structure for innovators, small and big.

These questions have been raised often in the North. The Economist calls it "The Tragedy of Anti-Commons." And a paper by the U.S. National Institute of Healthcare Management has shown that "... much of the record profits garnered as a result of this patent protection have not been spent on research, but on marketing."

According to Jeffrey Garten, Dean of Yale School of Management, "We need a 21st century framework for IPR that better balances the interests of artists and inventors - critical as their contributions to our lives have been - with those of users and the public." Lastly, John Kay wrote in the Financial Times, "Intellectual property legislation confers too much protection on existing well-established businesses." These

are only some examples of imbalances in the TRIPS model that are being pointed out by respected people in developed countries. Developing countries, by raising TRIPS and other such issues in the WTO have, in fact, provided an opportunity to their developed country partners to fix these leaks in the boat.

(iii) The third way in which developing countries are trying to take care of the institutional deficit is by not yielding to the pressure by some to let in the new and sometimes non trade-related issues. Investment, competition and transparency in government procurement are heavy and unwieldy and currently there is no room in the boat for these. Let them, therefore, be examined closely, their correct weight and dimensions determined, and see whether after necessary repairs, there can be room in the WTO boat for these or one needs other boats to carry them. Labour and environment are dear to all. But they belong elsewhere - International Labour Organization (ILO) and Multilateral Environment Agreements (MEAs). Let them remain where they belong. One cannot put containers in an oil tanker and vice versa.

Conclusion

Thus, developing countries have identified the interests and concerns that are central to the multilateral trading system - in the context of the built-in-agenda negotiations and reviews, and the implementation issues, and have shown the way in which these can be addressed. But these are issues that ought to be of interest and concern to all. Hence our common objective for the Doha Ministerial Conference should be to consolidate WTO by taking decisions and setting an agenda that remedies the existing development, democratic and institutional deficits in the WTO.

BUILDING A 'DEVELOPMENT BOX' IN WTO RULES ON AGRICULTURE

*There appears to be widespread dissatisfaction among developing countries with the workings of the AoA (Agreement on Agriculture) to date. Those concerns have been expressed both in the Analysis and Information Exchange (AIE) process at the WTO as well as in their submissions in the first phase of the ongoing agriculture negotiations. In particular, a group of 15 developing countries submitted, during the first phase of negotiations, a proposal to create a 'Development Box' to address many of these concerns. The discussions so far in the Committee on Agriculture have shown that in the ongoing second phase of the agricultural negotiations, development and food security concerns are high on the agenda. In the following article, excerpted from a paper by **Shishir Priyadarshi** of the South Centre and **Duncan Green** of CAFOD, the aid agency of the Catholic Church in England and Wales, the authors suggest creation of a 'Development Box' to enable developing countries to address their development concerns, including on food security.*

Shortcomings in the current AoA

The experience of implementing the AoA has shown a number of basic shortcomings in the provisions, including the following :

Inequity in AoA design & application

The AoA was designed with developed country agriculture in mind. It institutionalised the production and trade distorting practices employed by the most powerful countries. These countries now enjoy a unique privilege among members of the WTO in the sense that the AoA gives them the legal right to continue to distort agricultural markets. Thanks in part to the blue and green box exemptions, there is in practice no limit to the level of domestic support provided by them which, despite the AoA reduction commitments, continues to be very high. Subsidies to producers in OECD countries made up 40 per cent of farm income in 1999, the same percentage as in the mid-1980s. For Japan, South Korea, Norway and Switzerland, this figure was over two-thirds. Total OECD support for agriculture in 1999 was \$360bn, 90 per cent of it in the EU, US and Japan. These figures compare with total agricultural exports from developing countries of \$170 billion.

Fundamental differences not recognised

Agriculture is a way of life for majority of the population in many developing

agrarian economies, and support to agriculture and agricultural production is essential for ensuring food security and alleviation of poverty. It employs over 70 per cent of the labour force in low-income countries, 30 per cent in middle-income countries and only 4 per cent in high-income countries. It is also a significant contributor to GDP in developing countries. Between 1990 and 1996, the contribution of agriculture as a proportion of GDP was an average of 34 per cent for low income countries as compared to 8 per cent for upper middle income countries, and 1.5 per cent for the high income countries of the OECD.

Agriculture continues to be an important source of foreign exchange and revenue for developing countries, accounting for 27.3 per cent of developing country and 34 per cent of least developed country merchandise exports from 1995-97. By contrast, agricultural exports accounted for only 8.3 per cent of developed country exports over the same period.

Food consumption accounts for a large share of expenditure out of the total household income in developing countries, while in developed countries, it accounts for a small and decreasing proportion. Therefore, even small changes in agricultural employment opportunities, or prices, can have major socio-economic

effects in developing countries. For most developing countries, the need is to raise agricultural productivity and increase production, particularly of basic foodstuffs. In contrast, in developed countries the primary concern appears to be to maintain some sort of parity of income between the small proportion of the work force in farming and those in industry.

The social and economic vulnerability of agriculture in developing countries is generally reflected in parameters such as the substantial contribution of agriculture to their GDP, low level of commercialisation of agriculture, low productivity, weak market orientation, the preponderance of small and marginal uneconomical operational landholdings, lack of infrastructure, dependence on rainfall, susceptibility to natural calamities, and dependence of a very large percentage of population on agriculture for their livelihood. Such vulnerability fully justifies the extension of special provisions to the developing country members for ensuring their food and livelihood security concerns.

Need to increase food production not addressed

Looking to the future, it is in the developing countries that nearly all of the increase in global food demand will come. It is in these countries that food will have to be predominantly produced to meet

increasing needs coming from population (and income) growth. Yet the AoA fails to differentiate between support used to boost exports and support used to enhance production for the domestic market.

Furthermore, the AoA does not adequately recognize the major transportation bottlenecks existing in many developing countries which prevent an effective link between surplus rural areas and deficit urban areas. Such bottlenecks, if not alleviated by state intervention, will perpetuate the increasing dependence of these countries on imported food supplies and deprive rural communities of the opportunity to develop their agricultural potential and to stem unsustainable levels of rural-to-urban migration.

No exemptions for food security purposes

Aside from a very specific exception in Annex 5, the AoA does not distinguish between staple foods needed for food security, and other crops. This paper argues for a range of special measures for what it terms 'food security crops'. These are crops which are either staple foods in the country concerned, or which are the main sources of livelihood for low-income and resource-poor (LI/RP) farmers. That is, crops which are sensitive from a food security perspective.

Inability to correct anomalies in tariff structure

Several developing countries inadvertently bound tariffs of certain important and sensitive staple products at zero or at very low levels. This has increased the vulnerability of their agricultural sector, particularly given pressures for further trade liberalisation. These countries should be allowed the flexibility of renegotiating their tariffs, especially for food security crops, without having to 'pay twice' through further trade-offs in the new negotiations.

Insufficient recognition of impact of import surges

The AoA does not recognise the particular impact of cheap imports on LI/RP farmers and fails to answer the developmentally crucial question, how do you address the concerns and threats to small farmers when you liberalise the agriculture sector? The experience of the Uruguay Round already shows that, following trade liberalisation in developing countries, agricultural imports have risen more rapidly than have exports, leading to import surges in some countries and a deterioration in the net agricultural trade position. Rules and procedures should take account of, and allow governments to compensate for, this asymmetrical response to trade liberalisation. However the current provisions fail to do so: few developing countries have the resources and institutional and legal capacity to apply the measures in the general safeguard agreement, while only 21 developing countries are eligible for the Special Safeguard (SSG) provisions within the AoA, and then only on a limited range of nominated product lines. This is because only those developing countries opting for line-by-line tariffication, rather than general ceiling bindings, are eligible for SSG under the AoA.

Ineffective implementation of the Marrakech Decision

The Marrakech Ministerial Decision was supposed to protect the Net Food-Importing Developing Countries (NFIDCs) from price spikes caused by the AoA. However, in spite of an increase in the import bill of NFIDCs in the post Uruguay Round period, very little has been done to ensure effective implementation of the decision. Proposals for the Decision's reform include the creation of a fund, managed by the FAO, that could be drawn on to cover price hikes and an automatic trigger for the

fund, to avoid the politics that marred the Decision's non-implementation since 1996.

Food Security and the AoA

Even though there are references to 'food security' in the AoA, both in the preamble and in Annex 2 of the Agreement (the Green Box), there is no attempt to define the term or set out any specific measures that would enable developing countries to address their food security concerns. The 1996 World Food Summit, committed governments to halving the number of malnourished people in the world by 2015. Latest projections from the FAO, however, suggest actual progress is likely to fall well short of that figure, with 580 million people expected to be malnourished in 2015, rather than the target of 400 million. The most recent figures (1996-98) show that 792 million people in developing countries are currently undernourished.

Although the AoA would undoubtedly benefit from adopting the World Food Summit definition of food security, neither the agreement nor the definition make any reference to income levels, poverty, or employment generated by the agricultural sector. Given the centrality of agriculture to the livelihoods of the world's poor, this is a serious omission. In the light of this, and of the international community's undertakings at the WFS, food security should have figured far more explicitly and prominently in the AoA.

During the course of the current negotiations, several developing countries have made the argument that food security is part of national security. Under GATT Article XXI, national security issues may be exempted from WTO trade disciplines. Food security is inextricably connected to national security and political sovereignty. Chronic food insecurity and a

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growing dependence on imported food supplies puts national security in jeopardy by placing at risk the health of a large number of people. It also incites internal turmoil and instability.

Amartya Sen's entitlements approach provides a useful framework for exploring the impact on food security of different aspects of trade policy. Sen portrayed production as one of four possible sources of food, the others being trade (producers' ability to sell their crop), labour and transfers (usually from government). Each of these sources is affected to some degree by aspects of the AoA.

The Development Box: Key Issues and Debates

In devising a framework and specific proposals for a Development Box, there are several key issues which need to be addressed:

I: Should the Development Box work at a national or a sub-national level? In particular, should it aim to enable governments to give special support to LI/RP farmers?

The debate in the WTO has at times glossed over the different concerns of developed and developing countries with both sets of players trying to squeeze in their specific problems under the general guise of 'food security'. Still less has the discussion focused on the specific problems of LI/RP farmers who often bear the brunt of the vulnerability of the agricultural sector.

LI/RP farmers are critically important to the economies of many developing countries, and yet they are frequently among the poorest groups in society. In many East and Southern African countries, for example, small-scale, often subsistence, farmers account for as much as 85 per cent of domestic

food production, and for the majority of the rural poor. Small-scale farmers usually live in marginal and degraded lands, and lack access to assets such as production inputs, credit, technology and infrastructure, which inhibits their productivity and capacity to establish reasonable terms of trade. Such farmers have only small plots of land, and use human labour as the main source of power and transport. Female smallholders are particularly disadvantaged as they often face discrimination in access to land, credit and social services, as well as having less control over income from staple and cash crop production.

Historically, LI/RP farmers have been at the heart of many successful development experiences. For example, this 'farmer road to development' is one of the reasons why the US, with its initial equitable pattern of smallholder agriculture, developed more rapidly and evenly than Latin America, with its highly skewed pattern of land distribution. More recently, the post-war experiences of Japan, South Korea and Taiwan demonstrate the importance of smallholder agriculture in launching countries along equitable development paths.

It is important to try and separate out and give priority to the specific needs of LI/RP farmers, distinguishing them from those of large farmers or agribusiness interests which frequently dominate the agenda of global trade negotiations.

II: The significance of domestic food production (rather than reliance on food imports) for development and food security needs to be established. The rapid rise of developing country dependence on food imports is a cause for concern. At some \$458 billion, the value of food trade was over five times greater in 1997 than 20 years earlier. Developing countries accounted for some 37

per cent of total food imports in 1997, up from 28 per cent in 1974. However over the same period, their share of total food exports had risen only to about 34 per cent from 30 per cent. As a result, their trade balance in food commodities has turned negative. Their net trade deficit in food came to \$13 billion in 1997.

According to the FAO, developing countries over the last 30 years have seen their trade deficit in cereals rise from 17 million tonnes to 104 million tonnes. The FAO sees this as a 'precarious trend', since historically both developed and developing countries have achieved food security through enhanced domestic food production.

Projections by the FAO and the International Food Policy Research Institute show that over the next 20 years, almost all of the increase in world food demand will take place in developing countries. For poverty reduction and developmental reasons, it is vital that domestic producers, especially LI/RP farmers, supply as large a share as possible of this increased demand.

While many small developing economies may not reasonably be able to achieve total self sufficiency, even if that was desirable, there are compelling economic and political reasons for seeking to maximise the contribution of domestic food production to the overall domestic requirements of developing countries, including the following:

- Foreign exchange constraints facing many countries are exacerbated by the increasing import bill for foodstuffs. Although in theory a shift out of food production into export agriculture could generate the foreign exchange needed, in practice a combination of supply side constraints in developing countries, and subsidies and trade barriers in

developed economies, have often prevented this from happening. Given the priority of feeding the population, other imports such as capital goods suffer because of conflicting demands on scarce foreign exchange reserves, thereby further endangering long-term growth prospects.

- LI/RP farmers in particular often face obstacles in shifting from food to cash crop production in response to trade liberalisation. These obstacles include low literacy levels and limited infrastructural facilities, credit and technical support, and the high degree of quality control involved in entering the export market. They therefore risk being hit by lower prices due to food import surges, without having the necessary capacity to access global markets for their exports.

- Rural employment: food production is often more labour intensive than export agriculture, and therefore plays a central part in rural development and poverty alleviation efforts in the countryside.

- Food aid has often been accompanied by conditionalities - that is there is often a political price to pay for food aid. Moreover, food aid suffers from the perverse effect that the quantities on offer are often inversely related to world prices. When prices are low, Northern governments often support their own farmers by increasing their food aid purchases, but periods of low world prices are the times when developing countries are least in need of food aid. Disciplines and best practice need to be improved to deal with these failings.

- Global food sufficiency, which many will argue is a solution to this problem, has in the past not been able to address the individual food security concerns of most developing countries. Surpluses in one part of a country have not been able to quickly overcome or

ameliorate shortages in another part of the same country, let alone shortages in other countries. Markets require purchasing power, lacked by many people in developing countries.

- Moreover, studies have shown that if major consumers such as India were to enter the international market to procure even a small percentage of their food requirements, it could have a major impact on world prices, thereby negatively affecting the import bills of other NFDCs.

- Countries may wish to protect the production of culturally significant foodstuffs not otherwise available on the world market.

- Domestic production can contribute to maintaining biodiversity by making a unique gene pool of locally adapted crops available to local farmers.

III: This relates to the impact of Proposed Development Box on Poverty. As Amartya Sen makes clear, poverty and food insecurity can spring from a range of different factors besides the ability to grow food. Most rural families are at the same time producers, consumers, sellers of labour and recipients of government transfers. There is understandable concern that the Development Box, by giving special treatment to small farmers, may harm other consumers, such as the urban poor, through higher food prices or taxes. However, in practice, liberalisation has not always led to a better deal for consumers. One literature review of case study material on the impact of trade liberalisation finds that:

A recurrent theme in Burkina Faso, Central African Republic, Mali, Madagascar, Senegal and Nicaragua was the lack of government capacity in deregulating the economy in an efficient and effective manner. In almost all

of sub-Saharan Africa, as a result of imperfect market conditions, domestic prices (both for producers and consumers) do not reflect trade liberalisation gains. In Burkina Faso, urban traders have kept control of the sector to a large extent. This is also the case in Cameroon and Mali.

There are a number of further points to make here. While trying to ensure governments have the flexibility to protect and promote the livelihoods of small farmers, it is important to note that a development box would not limit governments from taking other measures to ensure food security.

Under Annex 2, Government feeding programmes, regional assistance schemes and food security buffer stocks are exempt from domestic support reductions. It is important that governments maintain and extend this flexibility through the AoA negotiations, in order to allow them to keep prices down and compensate for any price rises (or slower price falls) due to a more development-sensitive approach to liberalisation.

If governments opt for tariff increases, or slower rates of tariff reduction, they will have more revenue to spend on targeted safety-net programmes.

While the tariff measures proposed under the development box may cause prices to rise, or fall less slowly, other development box measures such as exempting government spending on marketing support and transportation should lead to lower prices for consumers.

SSG measures under the AoA are a response to sudden price drops due to a surge in imports, and are structured so as to partially offset the price fall, but not to turn it into a price rise. Thus the Development Box proposal to extend the right to introduce SSG

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measures to all developing countries should not lead to price rises.

Cheap food achieved in the short term at the expense of local farmers may rebound negatively in the longer term through greater import dependence.

The Development Box: A Proposal

As a solution to some of the above-mentioned problems, a group of developing countries have, in the ongoing negotiations, already suggested the creation of a 'development box', the provisions of which would be geared to provide developing countries the requisite flexibility to enhance domestic production for domestic consumption and to take such other measures necessary to protect the livelihood of their farmers. This proposal builds on that initial work. Given the widespread confusion over terms such as food security and S&D, it is important to clearly define what are the objectives being sought by a 'development box'.

Broadly, the endeavour is to suggest specific provisions which are at best minimally trade - distorting and yet are able to provide developing countries with the flexibility they need to pursue policies aimed at reducing poverty and achieving sustainable development. This leads to the following broad parameters:

This proposal applies to developing countries only

Given the fundamental differences

in the kinds of agriculture practiced and the role agriculture plays in developing and developed countries, there is a clear case for devising a development box whose provisions would apply only to developing countries. Arguments about multifunctionality (being advocated by some of the rich developed countries) should not be confused with the concerns and specific problems of the rural poor of developing countries.

- Within developing countries, focus is on low income and resource poor (LI/RP) farmers. The key to poverty reduction and rural development is to defend and enhance the livelihoods of the world's LI/RP farmers. Although, in the actual implementation of any scheme, it is sometimes difficult to distinguish clearly between large and LI/RP farmers, a market access focus on those crops produced by the latter and greater flexibility for domestic support to LI/RP farmers would both build on existing articles in the AoA (article 6.2) and would offer a way forward in ensuring that the S&D provisions of the AoA benefit the poor.

This approach should also allay any fears that S&D provisions might be misused to further the interests of agribusiness lobbies in developing countries, even though this has rarely been the case in the past.

Ensuring food security a major objective

This proposal focuses on what it terms 'food security crops', which it defines as 'crops which are either

staple foods in the country concerned, or other crops which are the main sources of livelihood for low-income and resource-poor (LI/RP) farmers.' Based on these overall objectives, the development box aims to:

- protect LI/RP farmers, who are often engaged in subsistence farming of food security crops, from surges of cheap or unfairly subsidised imports;
- protect and enhance the efficiency of developing countries' domestic food production capacity, particularly in key staples;
- provide and sustain existing employment and livelihoods opportunities of the rural poor;
- promote improved in-country movement of surplus production.

Translating the above ideas of an appropriate 'development box' into effective and implementable provisions would require specific instruments built into the new agreement, under the existing three pillars of the negotiations. Such provisions would allow developing countries, including the NFIDCs, to further their food security by protecting their own agriculture sector and markets and exempting them from the WTO demands of minimum market access, reduction of tariffs etc., as well as allowing them to increase domestic support for agriculture until they have achieved a greater level of food self-reliance.



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