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## Why an Agreement in Agriculture is within Reach

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As the WTO Ministerial Conference at Hong Kong approaches, agriculture has become the make-or-break issue of contention among the United States, European Union (EU) and the G-20 group of the mainly larger developing countries. Two years ago, trade talks at Cancun had also broken down principally because the offers by the US and EU on agriculture fell substantially short and the G-20 countries essentially said: go back and get us a better offer.

On the surface, obstacles to an agreement in agriculture seem insuperable. Yet, a careful examination of the highly complex agricultural trade regime today reveals that the prospects for an agreement need not be as bleak as they appear in the see-saw of current negotiations. To see this with clarity and conviction, it is necessary to sort through and assess the consequences of the different policy instruments that are currently being used worldwide. When this is done, and the current fog is dispelled, the present impasse looks misplaced and the outlines of a successful negotiation emerge

### **A Complex Regime: Border Barriers, Domestic and Export Subsidies**

Until the Uruguay Round Agreement on Agriculture (URAA) came into force on January 1, 1995, international trade in agriculture had remained almost entirely out of the multilateral discipline of the GATT. This had given the powerful farm lobbies in developed countries a free hand. They sought and got over the years custom-made border protection complemented by export subsidies, price supports and output subsidies of various kinds. It also needs to be emphasized that no effective countervailing actions came from the developing countries. As it happened, these countries were convinced that

development was synonymous with industrialization and therefore focused their energies on seeking access to developed country markets in industrial products rather than agriculture.

Given the resulting highly-distorted initial regime and continued influence of farm lobbies in the economically powerful countries, URAA was little more than a step in the right direction: its objective was to proceed towards a rationalization, and then dismantling, of the inherited protectionist regime in agriculture. As a result, unlike with industrial goods, the trade regime in agriculture remains highly complex with multiple interventions in the form of trade barriers (“market access” instruments), and domestic and export subsidies, of which the first two are particularly complex in design and implementation.

### **Border Barriers**

The URAA was broadly implemented during 1995-2000 in developed and 1995-2005 in developing countries. The agreement required each WTO member to replace all *border* barriers (i.e. tariffs, quotas and combinations thereof known as “tariff quotas”) against the imports of an agricultural commodity measured in a base period (1986-88) by an equivalent ad valorem tariff: the equivalence meant that the replacement tariff would approximately reproduce the protectionist effect of the existing tariff and non-tariff barriers. This was the so-called “tariffication” process and was intended to introduce transparency and to rationalize the chaotic protectionist regime resting on many legs. The resulting tariff was then ‘bound’, meaning that it defined the *maximum* legal tariff on the commodity that the country was henceforth permitted to impose.

Taking advantage of the high protection in the base period and de facto flexibility in defining a tariff ‘equivalent,’ virtually all countries managed however to bind the tariffs on their import-sensitive commodities at levels which were substantially higher than their respective Most Favored Nation (MFN) applied tariffs prevailing in 1995. The URAA liberalization commitments required the member countries to cut these initial bound tariffs by a pre-specified percentage according to an agreed-upon timetable.

While these tariff cuts have now been fully implemented, current bound rates on the import-sensitive commodities continue to remain considerably higher than the corresponding MFN tariffs in most member countries.

This situation is further complicated by the fact that even the MFN tariff in many cases happens to be prohibitively high. Anticipating this problem, the URAA had required the member countries to offer a pre-specified minimum (*de minimis*) market access in each product. Most countries chose to satisfy this obligation by introducing a quota equal to the *de minimis* obligation. For within-quota imports, they introduced a third, even lower tariff. Once the quota is filled, the tariff jumps to the MFN rate.

As of now, therefore, the bound rate is often substantially higher than the applied rate, with the latter being either the MFN rate or the yet lower within-quota rate. In the negotiations, the bargains are over the bound rates. Therefore, unless the Doha negotiations bring deep cuts in the bound rates, no actual liberalization would take place in many commodities. Minimally, each bound rate needs therefore to be brought sufficiently far down that the MFN rate itself comes down.

## Subsidies Regime

But if the tariff regime, defining what the negotiators call “market access” presents such complexity, the current domestic subsidy regime is no less complicated. Ideally, the regime should contain just two categories of subsidies. One category should contain measures such as income support payments and agricultural research subsidies that do not distort trade and are permitted without restriction since the provision of subsidies that do **not** impact production and trade should be an internal matter. Using the WTO terminology based on traffic signals, subsidies in this category would define the *green* box. The other, *red* box category would contain measures such as the output subsidies and price supports that do distort trade and therefore would be prohibited.

But thanks to the historical legacy and political compulsions, the agricultural subsidy regime created by the URAA is substantially more complex. Under the current WTO rules, countries are free to employ four categories of subsidies: subsidies in the green, blue and development boxes and de minimis subsidies. Subsidies in the *green* box are those that have no or at most minimal distorting effect on production and hence trade. They include measures decoupled from output such as the income support payments, safety-net programs, payments under environmental programs and agricultural research and development subsidies. The *blue* box contains direct payments under production limiting programs. They cover payments made on fixed areas and yield or a fixed number of livestock. They also include payments made on 85 per cent or less of production in a defined base period. Blue box measures are distinguished from green box measures in that they usually require production to receive the payment and may have an effect on the current output. The *development* box covers direct or indirect measures

aimed at encouraging agricultural and rural development in developing country members. They include investment subsidies available to agriculture and agricultural input subsidies available to low-income or resource-poor farmers. Finally, under the *de minimis* provision, all member countries are allowed the use of subsidies other than those in the green, blue and development boxes up to 5 percent of the total value of domestic agricultural production (10 percent for developing countries).

All subsidies outside of the green, blue and development boxes are currently assumed assigned at the WTO to an *amber* box and include such measures as support prices, direct production subsidies and input subsidies. These are assumed to be generally trade-distorting and hence the proper subject for reduction in the multilateral trade negotiations. Hence, *Aggregate Measure of Support (AMS)*, defined as the *Amber* box subsidies net of *de minimis* subsidies, was the target of URAA. The URAA required the member countries to report the total AMS in a base period (1986-88), bind it and then reduce it according to an agreed-upon schedule. Those reductions have now been fully implemented but there remains a large gap between the bound and the actual, applied total AMS.

### **Export Subsidies Today: Small in Magnitude**

Consider then the current export subsidies which are very much in news. They are no longer a major source of distortion, at least in aggregate. The URAA required all countries to report export subsidies they used in a base period (1986-88), product by product, bind them and then lower them by a certain percentage according to an agreed-upon timetable. Countries reporting no export subsidies on a commodity had to bind the relevant subsidy at zero. In all, 25 WTO members including nine developing countries

reported any export subsidies at all and all of them on a limited set of commodities. As with tariffs, the current bound rates for export subsidies are higher than the applied rates.

The latest year for which complete data on export subsidies from the WTO are available is 1998. The total amount of export subsidies by all WTO members that year was \$5.4 billion. Of these, the EU accounted for \$4.95 billion, followed by Switzerland with \$292 million and the United States with \$147 million. The figure for EU dropped to \$2.6 billion in 2000 and to \$80 million for the United States in 1999.<sup>1</sup> Though we do not have data on all countries beyond 1998, it is safe to assume that the total export subsidies in 2000 did not exceed \$3 billion. This means that the total elimination of export subsidies by 2010 as currently envisaged is a small step, not a big leap.

### **Domestic Subsidies: Bigger Problem but Greatly Exaggerated**

Consider next trade-distorting domestic subsidies (classified in the *amber* box and constituting the *AMS*). These are much larger than the export subsidies but even here the picture is far more sober than commonly painted. Under the URAA, only 34 countries reported any *amber* box subsidies in excess of *de minimis* levels. While many developing countries such as Argentina, Brazil, Mexico, Republic of Korea, South Africa and Thailand were in this group, the magnitudes of their subsidies were small relative to those in the major developed countries: subsidies are more difficult to finance in the poor countries with tighter budget constraints.

Based on the latest and most complete data available from the WTO, total AMS provided by the top five domestic-subsidy users, namely, EU, USA, Japan, Switzerland

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<sup>1</sup> Hoekman, Bernard and Patrick Masserlin, "Removing the exception of agricultural export subsidies," ch. 7 in Anderson, Kym and Will Martin, ed., *Agricultural Trade and Doha Development Agenda*, ed. Forthcoming. See <http://www.worldbank.org/trade/wto>.

and Norway in that order, was \$71.1 billion in 1998. If we extend the list to the top ten users thereby including additionally Mexico, Republic of Korea, Canada, Israel and Thailand, the figure goes up to \$74.8 billion. Individually, the EU contributed \$51 billion and the US \$10.4 billion to these figures.<sup>2</sup> Even if we were to raise AMS to include the non-contested *blue* box and *de minimis* subsidies, the sum would rise only to \$100.7 billion for the top five and to \$106 billion for the top ten offenders, with Brazil replacing Thailand on the latter list. All indications from the available information are that these 1998 numbers are smaller today. EU, in particular, has been moving steadily towards decoupling its *amber*-box subsidies from current output and thus turning them into *green*-box subsidies.<sup>3</sup>

### **Explaining the Alarmist Perceptions**

How do we then reconcile these much smaller numbers on export and domestic subsidies with the much larger numbers commonly cited in the press? For example, a recent *New York Times* editorial (October 27, 2005) on the Doha Round repeats the often-cited figure of \$1 billion per day in agricultural subsidies by developed countries. In the same vein, the World Bank President Paul Wolfowitz refers to ‘\$280 billion on support to agricultural producers in developed countries’ in a recent op-ed on the multilateral trade negotiations in the *Financial Times* (October 24, 2005). The NGO Oxfam routinely accuses rich countries of giving more than \$300 billion annually in farm subsidies.

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<sup>2</sup> WTO Committee on Agriculture, “Members’ usage of domestic support categories, export subsidies and export credits,” paper TN/AG/S/1.

<sup>3</sup> Hart, Chad, E. and John C. Beghin, “Rethinking agricultural domestic support under the World Trade Organization.” In Anderson, Kym and Will Martin, ed., *Agricultural Trade and Doha Development Agenda*, chapter 8, available at <<http://www.worldbank.org/trade/wto>>.

Unfortunately, the press, NGOs and senior staff members at international financial institutions have been either naïve or disingenuous in making these inflated claims. Rather than report the export subsidies and the *amber*-box domestic subsidies, which are the only subsidies considered as trade-distorting by all WTO members, they have chosen to focus instead on an altogether different source and concept, the OECD Producer Support Estimate (PSE), and misleadingly calling them “subsidies.” But the PSE estimates are not even all subsidies, whether trade-distorting or not, but in fact measure the total increment in revenues earned by producers over the world price, whether through tariff protection, export subsidies, output subsidies or price support programs.

This means that even if there were zero subsidies as conventionally defined but tariffs or quotas raised the domestic price above the world price, the PSE would be positive. Few economists would approve of such a definition of subsidy! Indeed, in March 2004, when the then WTO Director General Supachai referred to the OECD estimate of PSE at \$300 billion as farm subsidies by developed countries in a speech in Costa Rica, the then EU Trade Commissioner Pascal Lamy, now himself the WTO Director General, is reported to have unceremoniously admonished Supachai for using “misleading” and “contestable” figures, in a letter written to the latter.<sup>4</sup>

### **Tariffs: Not Just a Developed Country Problem**

Finally, consider tariffs. Here too the routine assertions are mistaken and misleading. Contrary to the NGO, media and occasional international-bureaucratic complaints about “double standards” leveled at the developed countries, the facts are that

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<sup>4</sup> For more details on the letter in which Lamy accused Supachai of misleading assertions, see <[http://Www.crowell.com/content/Expertise/CMInternational/Publications25/20045/DDU\\_040204.htm](http://Www.crowell.com/content/Expertise/CMInternational/Publications25/20045/DDU_040204.htm)>.

the developing countries more than match the developed-country tariff protection in agriculture.

This can be seen from the trade-weighted average applied tariffs in 2001, the latest year for which such calculations are available.<sup>5</sup> At the aggregate level, this rate was 14.3 percent in developed and 20.9 percent in the developing countries. Taking some specific developed countries, the rate was 35.5 percent in Japan, 28.6 percent in the European Free Trade Area, 11.8 percent in the EU and 2.7 percent in the United States. Among specific developing countries, the rate was 93.9 percent in Korea, 44.1 percent in India, 38.9 percent in China, 30.4 percent in Pakistan, 25.6 percent in non-LDC Sub-Saharan Africa and 12.9 percent in MERCOSUR (Argentina, Brazil, Uruguay and Paraguay).

These aggregate rates mask some important variations across commodities. In particular, commodities in which countries had to introduce a quota with a lower tariff rate than the MFN rate in order to satisfy their minimum market-access commitments under the URAA are subject to disproportionately high tariffs. For example, the trade-weighted average applied tariff on these goods was 36.9 percent in developed and 63.7 percent in developing countries. The rate in Japan reaches 103 percent and in Korea 226 percent. Thus, any liberalization must focus specifically on this set of products.

One specific commodity, sugar, is highly protected in virtually all major developed and developing countries. This cannot be fully appreciated without looking at the tariff

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<sup>5</sup> Bouet, A. Y. Decreux, L. Fontagne, S. Jean and D. Laborde, 2004, "A consistent ad valorem equivalent measure of applied protection across the world: the MacMap-HS6 Database," mimeo., CEPII, Paris, 20 December. The reported data reproduced in Tables 4.1 and 4.2 by Jean, Sebastian, David Laborde and Will Martin, "Consequences of alternative formulas for agricultural tariff cuts," in Anderson, Kym and Will Martin, ed., *Agricultural Trade and Doha Development Agenda*, ch. 4, forthcoming. See <http://www.worldbank.org/trade/wto>.

rates on sugar across a broad spectrum of countries. Therefore, the following list gives the MFN rates in some of the major countries: 23 percent in EU, 74 percent in other European countries, 43 percent in the U.S., 60 percent in Japan, 72 percent in South Africa, 17 percent in Argentina and Brazil, 23 percent in Central America, 56 percent in high-income developing Asia, 18 percent in China and 60 percent in India. Thus, the reform in this product requires liberalization by virtually all. The EU and United States are the major offenders but others including developing countries are not without blemish.

While therefore the applied tariff rates in agriculture are high worldwide and equally so, in the developing countries, the bound tariffs are higher, in fact much higher, than the applied tariffs. In developed countries, the average bound rate is nearly twice the applied rate; in developing countries, it is two and a half times. Bangladesh offers the most egregious example with an average bound rate that is more than ten times the average applied rate. Other extreme examples where the average bound rate is more than three times the applied rate are India, Pakistan and Sub-Saharan Africa.

### **Winners and Losers**

How does all this stack up, in terms of the winners and losers from the existing regime, for the different sets of countries principally engaged in the Doha Round's agricultural negotiations? The answer is: somewhat differently from what is assumed generally, and in fact, more optimistically.

The essential thing to note is that tariffs, export subsidies and domestic subsidies have two features in common: they raise the price received by producers in the country providing them and they lower the price in the world market. For example, a tariff or

export subsidy by the EU diverts sales from the domestic to the world market, thereby raising the internal EU price and lowering the world price. A domestic output subsidy by EU increases the EU output of the product and lowers the sales price in the EU and the rest of the world but by less than the subsidy per unit. Therefore, once we add the subsidy to the sales price, the effective price received by EU producers rises.

Once we recognize these effects of a tariff, export subsidy and output subsidy, their implications for the various affected parties are readily understood. Producers in the country employing these instruments, say, EU, necessarily benefit since the price they receive as well as the total quantity they sell rises in all cases. Unsurprisingly, the producers oppose the dismantling of these interventions. The overall impact of the interventions on the EU is negative, however. This applies with potency in the case of subsidies since they partially spill over to the importer countries in the rest of the world in the form of lower prices. In technical jargon, the terms of trade deteriorate for EU.

Countries that *import* the product subject to these interventions, however, benefit from reduced world prices. For example, tariffs and subsidies on cereals by the EU benefit food-importing countries by making food imports cheaper in the world markets. On the other hand, the exporting countries such as the members of the Cairns Group, which includes the world's most competitive agricultural producers, are hurt by the lower world prices and therefore have the greatest incentive to seek liberalization from the offending countries such as EU.

There is one important exception among exporters, however. The poor countries that enjoy duty-free access to the tariff-levying country's market will be able to sell their exports at the *internal* price of the latter. Thus, they end up enjoying the same protection

as the producers of the tariff-levying country: they are therefore winners, not losers, even in the current agricultural regime. This is clearly the case with the Least Developed Countries (LDCs) that have duty-free access to the EU market under the Everything But Arms (EBA) initiative. The argument holds *mutatis mutandis* also for the African, Caribbean and Pacific (ACP) countries, which enjoy substantial preferences for their exports to the EU under the Cotonou Agreement that succeeded the Lomé Convention. Likewise, many African developing countries are offered substantial preferences in the US market under the Africa Growth and Opportunity Act (AGOA).

These observations allow us to draw some key conclusions. First, the common assertion that rich-country agricultural liberalization, which would dismantle the current agricultural regime, would bring large benefits to LDCs is mistaken because these countries, among them many of the poor African countries, currently benefit because they can sell their exports at the high EU prices and buy imports at the low world prices. Cotton is perhaps the sole exception in which the US subsidies hurt them since, the EU tariff on it being zero, its internal cotton price is the same as the world price. Even in the case of the often-cited case of sugar, many African countries benefit from access to the higher internal EU price.

Second, liberalization by developed countries will principally benefit themselves. Ending their own agricultural subsidies will not only benefit them by eliminating inefficiencies but also by ending the spillover of the subsidy to the importing countries. The end to tariffs will generate benefits, called “consumption gains” by economists, by lowering the consumer prices.

Third, countries that have comparative advantage in agriculture will surely benefit from the higher world prices following liberalization by the developed countries. But these are mainly developed countries such as Australia, New Zealand, Canada and the United States and also the richer developing countries such as Brazil, Argentina, Malaysia and Indonesia who, as members of the Cairns Group, have pushed the hardest for agricultural liberalization.

Fourth, the gains to developing countries other than the Cairns Group would accrue principally from their own liberalization. The principle of comparative advantage applies just as much to agriculture as to industry and there are gains to be had from specialization in the crops of comparative advantage in this sector as well. Moreover, since developing countries do not currently enjoy trade preferences in each other's market, they stand to gain from access to each other's market.

Finally, the gains from the removal of subsidies under the Doha Round are likely to be much smaller than previously thought. For one thing, negotiable subsidies were never as large as they had been publicized. Moreover, over the years, they have declined in importance. Today, export subsidies are less than \$3 billion and domestic *amber* box subsidies subject to negotiations are well below \$100 billion. These numbers are not insignificant but they are much smaller than those commonly publicized and they point to tariffs as the more serious barrier affecting agricultural trade.

These conclusions are supported by the numerous numerical estimates, recently made by several economists focusing on agriculture, of the gains from agricultural liberalization by developing and developed countries separately and jointly. The actual dollar figures obtained depend on the model structure, parameter values, the initial levels

of tariffs and subsidies assumed, the extent of the cuts considered, the year for which the calculations are done and the changes in productivity built into the calculations. Besides, insofar as domestic subsidies are concerned, all investigators make somewhat arbitrary assumptions regarding their levels since the AMS is not available on a product-wise basis as required by several of the computable models used to generate the estimates: e.g. some analysts simply use the PSE and split it into a tariff and a subsidy component without truly mapping into the required AMS. Because of these and other limitations, numerical estimates of gains and losses are of rather limited value and should be used with great caution. Nevertheless, they are popular with the media, which reproduce them mechanically without the qualifications and *caveats* provided by the authors.

One fact that is intuitive from the qualitative analysis, and robust across the quantitative studies done by the more careful among these researchers, however, is that the gains to developing countries outside of the Cairns Group from developed-country agricultural liberalization are meager and the countries that enjoy preferences in the rich-country markets typically lose from it. Developing countries, especially small ones and those with high initial protection of their own, benefit more from their *own* liberalization.<sup>6</sup>

### **Outlines of a Doha Agreement on Agriculture**

That agriculture remains the most contentious issue on the table is unfortunate. After all, the progress made during the last decade suggests that liberalization in this sector should be within reach. For instance, the export subsidies that were the center of

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<sup>6</sup> Thus, see the excellent summary and synthesis of the numerical estimates in Francois, Joseph, "The implications of agricultural trade liberalization and preference erosion for developing countries," UNIDO, September 2005.

everyone's attention not too long ago are now less than \$3 billion. Likewise, domestic subsidies subject to the WTO discipline are down to well below \$100 billion. Some may complain that the United States and EU have inappropriately shifted many trade-distorting subsidies into the green or blue box. If so, the adversely affected member countries can successfully challenge these in the WTO dispute settlement body: recently, Brazil did successfully challenge some of the cotton subsidies the U.S. had inappropriately placed in the green box. So, one needs to ask once the rhetoric is discarded and a true understanding reached about the consequences for different players of the current agricultural regime: what could be a realistic negotiation that would help conclude the Doha Round?

Begin with export subsidies that are perhaps most straightforward to tackle. Given their current insignificant level, their complete removal by 2010 as proposed in the latest U.S. offer is well within reach. Admittedly, the benefits from this reform are likely to be small but it offers a significant psychological benefit in that it puts an end to an entire category of subsidies.

As for domestic subsidies, the first point to emphasize is that there remains a significant gap between the bound and applied *amber*-box subsidies. Based on the latest data available, this gap was approximately 25 percent for the United States in 2001 and 35 percent for the European Union in 2000.<sup>7</sup> What these gaps tell us is that if the United States had agreed to lower its bound rates by 25 percent in 2001 and the European Union by 35 percent in 2000, they would have had to make no reductions whatsoever in their applied subsidies which of course define the actual support. It is safe to assume that

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<sup>7</sup> Hart and Beghin, *op. cit.*

these gaps are larger today. Given this fact, the 60 percent reduction by the United States and 80 percent reduction by the European Union in the bound rates by 2011 currently sought by the United States is an achievable goal: in effect, it is less than meets the eye, since the reductions in the applied rates would be substantially smaller.

A different issue pertaining to domestic subsidies concerns the *de minimis* and *blue* box subsidies. The aim now must be to phase out both these measures to achieve a clean subsidy regime. *De minimis* subsidies are clearly trade distorting and should be required to be phased out. As regards the *blue* box, the objective of the reform should be to simply eliminate it, moving the subsidies that distort trade to the *amber* box and those that do not to the *green* box. These reforms will increase transparency by simplifying the subsidy structure, much the way it has now been done with subsidies on manufactures. Is it too much to ask the negotiators to attempt this?

The maximum likely gains in agriculture to all parties involved, especially developing countries, however are from the relaxation of border barriers, mainly tariffs. But the reality of negotiations in this area is that they require action from not just developed but also developing countries. Indeed, as already argued above, the gains from the liberalization of border barriers to developing countries would be minuscule if it is limited to developed countries.

In the Framework Agreement, the member countries have accepted the principle that higher tariffs should be subject to deeper cuts than lower tariffs. This makes sense for two reasons. First, given the substantial gaps between bound and MFN tariffs, shallow cuts would leave the actual tariffs entirely untouched. Second, given large variations in

tariff rates across commodities, it will also be essential to cut higher tariffs more and lower tariffs less.

The current disagreement surrounds the extent of the cuts. The United States proposes the top bound tariffs be cut 90 percent with average cuts being 75 percent. The EU has proposed a less ambitious approach that cuts the highest bound tariffs 60 percent with average cuts of 46 percent. The G-20 proposal lies between the US and EU proposals: it proposes average tariff cuts of 54 percent. EU also proposes designating 8 percent of the products as 'sensitive' that would then be exempted from the bulk of the cuts. The United States proposes to limit such exceptions to just 1 percent of the products.

At one level, the U.S. insistence on larger tariff reductions and fewer sensitive products is justifiable for at least two reasons. First, given the substantial gaps between bound and MFN tariffs, shallow cuts would leave the actual tariffs entirely untouched, especially at the high end. A long list of sensitive products would likewise allow countries to exclude entirely the products with highest tariffs and therefore largest potential trade gains from liberalization. Second, from the U.S. perspective, having already given a major concession by exempting the LDCs from reciprocity obligations in the Framework Agreement, it needs within-agriculture reciprocity from the EU, Japan and non-LDC developing countries if it is to successfully persuade its own farmers to give up their subsidies and protection.

On the other hand, EU too must be "compensated" for its concessions. Recall that it dropped at Cancun three Singapore issues (to which it was wedded) from the negotiating agenda; and since EU does not have comparative advantage in agriculture, it is naturally seeking across-sector reciprocity in the form of liberalization in industrial products and

services. The next step in breaking the US-EU impasse is to now put the offers on industrial products and services promptly on the table. But this is a step forward since industrial products are where the elimination of tariff peaks in developed and liberalization by developing countries promises gains commensurate with agricultural liberalization.

Three final points, all relating to developing countries, may be made. First, the Framework Agreement already has done a disservice to the LDCs by giving them complete exemption from liberalization commitments in agriculture. Their own liberalization could have at least partially counteracted the adverse effects of diminished *de facto* access to developed country markets on account of preference erosion and rising health and safety (Sanitary and Phytosanitary) standards on their exports, a handicap not faced in the same degree by the bigger and more developed Cairns group exporters who have better ability to handle such protectionist tactics. LDCs wishing to minimize the damage from these well-intentioned but misguided exemptions will be well advised to proceed with such liberalization unilaterally and seeking as much technical assistance as possible to build capacity to meet the health and safety standards imposed by importing countries.

Second, the framework agreement allows developing countries to declare certain products as “special” and apply a special safeguard clause to be negotiated to combat import surges in them. If the special safeguards list is allowed to be long and the safeguard is also relatively easy to invoke, any liberalization achieved in developing countries will be greatly undermined.

Finally, to make liberalization attractive to developing countries, aid would be necessary from multilateral institutions such as the World Bank for two reasons. Countries that experience preference erosion will need to be compensated at least in the short run. Estimates of these losses vary widely but a figure in the neighborhood of \$1 billion cannot be ruled out since the losses in sugar alone are estimated at \$450 million.<sup>8</sup> Aid is also required to assist countries in meeting the adjustment costs of liberalization. Developed countries have various trade adjustment programs. They are absent, however, in developing countries for the reason that they lack resources. Given the importance the World Bank attaches to trade liberalization, an “aid for trade” program under its auspices is called for if the hesitations of the developing countries about trade liberalization are to be addressed.

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<sup>8</sup> World Bank, *Global Economic Prospects*, 2004, p. 128.