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The Uruguay Round of trade negotiations, under the auspices of GATT, is distinguished from the previous rounds in a number of ways. First, for the first time agriculture is high on the agenda, unlike in earlier rounds when agriculture enjoyed exceptions and waivers. Second, as a central concern in the negotiations during this round, not only import restrictions but also export subsidies, as well as various direct and indirect measures, including domestic agricultural support policies with a trade-distorting effect, are included. Third, the developing countries are expected to play a more active role. In the past, they played, on the whole, a passive role, and whatever benefits they derived from trade liberalization were a result of bargaining and negotiations among the developed countries. Fourth, in view of the current state of disarray in world agricultural trade, including threats of trade war and tension among the major trading partners, and given the high hopes placed on GATT negotiations for agricultural trade liberalization, success in negotiations on agriculture may be crucial to the success of the overall GATT negotiations.

How are the different groups of developing countries affected by the liberalization of trade in agricultural commodities? In which commodity groups have they special interests? Are there losses to set against gains from trade liberalization? Should they offer reciprocal concessions, and how effective will they be in GATT negotiations if they—or at least some among them—do not offer reciprocal concessions? Should the developing countries receive special and more favourable or differential treatment in the GATT negotiations? What are the essential components of special treatment for developing countries?[1] This paper seeks to examine these and related questions about the interests of developing countries in the Uruguay Round of Agricultural Trade Negotiations.

Developing countries have an important share in world exports and imports of agricultural commodities. They accounted for about 30 to 33 per cent of the world trade in agricultural commodities during the early 1980s. Moreover, agricultural exports constituted 37 per cent of non-oil exports of developing countries as a whole in 1980-82; agriculture's share in Africa and Latin America was 58 to 56 per cent of their total exports, and in the Near East and Far East the shares were 32 and 25 per cent respectively. Agricultural imports constituted about 19 per cent of their total imports.

One can distinguish between two groups of commodities as far as the interests of developing countries are concerned. The first group consists of those commodities in which developed and developing countries compete in world markets as well as in the national markets of each. Developed countries are major producers and exporters of many of these commodities. The group includes cereals, livestock, dairy products, sugar, oilseeds and vegetable oils. The second group of commodities are those produced predominantly by the developing countries, i.e., tropical products such as beverages, agricultural raw materials, cotton, jute, rubber, and tropical horticultural products. Fish and forest products cut across both groups.

The agricultural commodities of interest to developing countries are allocated to a number of different GATT committees. These are expected to conduct simultaneous negotiations in commodities assigned to them, and any trade-off (i.e., concessions in one committee to be offset by concessions in another) will take place at the end when the results of the negotiations in different committees will be brought together.

Effects of Trade Liberalization on LDCs

The developing countries face tariff and non-tariff barriers of various kinds on their agricultural exports to developed countries. The average tariff rate facing their exports in 1983 was about 5.5 per cent for food and 0.5 per cent for agricultural raw materials, as against 2.7 per cent for all items (3.7 per cent for chemicals and 6.7 per cent for manufactured goods). Of 20 selected agricultural imports (raw and processed) by the EEC from developing countries with average tariff rates above 5 per cent, 10 items had tariff rates higher than 10 per cent and 2 were higher than 20 per cent. Among 41 items imported by Japan, 35 had rates higher than 10 per cent and 6 higher than 20 per cent. Out of 18 items of imports by the United States, 8 had tariffs greater than 10 per cent and 2 were over 20 per cent.[2] At the same time, the percentage of all agricultural imports from developing countries that was subject to non-tariff barriers of all types in 1983 ranged from 67 per cent for Switzerland to 15 per cent for Norway, with 27 per cent for the EEC, 25 per cent for the United States and 53 per cent for Japan.[3]

Various studies of the effects of liberalizing world agricultural trade have focused attention on a few salient aspects: the effect on the level of world prices of commodities in respect of which trade liberalization occurs; the effect on the stability of prices in the world market; the effect on the export earnings of various groups of countries; and the effect on producers, consumers, tax payers and on the net welfare of the countries which undertake liberalization.

The effects of trade liberalization would depend on (a) which countries liberalize, i.e., OECD countries, or all countries including developing countries, and (b) which commodities undergo liberalization. Also, because of linkages between commodity markets, commodity price results depend upon whether liberalization is undertaken simultaneously or not. The effect of liberalization in wheat markets, for example, would be different depending on whether it is accompanied by liberalization in livestock markets. The degree of protection, the extent of liberalization, and the supply and demand elasticities of individual commodities – all influence the outcome.

Even though the various studies of the impact of trade liberalization are not comparable because of differences in commodity coverage, methodology and the degree of liberalization envisaged, the orders of magnitude are widely agreed upon. Generally speaking, world prices of most commodities would rise in varying degrees. In the case of sugar, red meats and dairy products, i.e., commodities where the degree of protection in the major producing and trading countries is significant, price increases of as much as 10 to 30 per cent have been suggested.[4]

Second, price instability is likely to be reduced, especially in cereals and livestock products, the extent of such reduction varying widely between individual commodities. To date the analysis of the impact of trade liberalization on price stability has been carried out in respect of complete trade liberalization. The estimates of the impact of partial liberalization are not available; a reduction in the level of variable import levies, for example, does not by itself reduce the degree of price variability in world markets even though it reduces the gap between domestic and world price.

Third, developing countries are expected to achieve a sizable increase in export earnings, especially if liberalization covers all commodities, including tropical and other commodities of interest to them, not just cereals and other temperate zone products in which they do not have large exports. (On the contrary, in a few of these commodities they are net importers.) The gain to developing countries will accrue mainly from sugar (the largest gain), beverages and tobacco, meat, coffee, cocoa, vegetable oils and fats.[5] Some countries may lose, especially those with heavy dependence on imports of commodities that are currently highly protected and subsidized in exporting countries, such as cereals and livestock products, and that will record a greater than average rise in world prices after liberalization.

The gains in export earnings by developing countries have all been variously estimated, ranging from $7 billion dollars for total food and agricultural commodities in 1980 prices to a much higher figure of $15.8 billion for only sugar, beef and dairy products. This wide range results mainly from widely different methodologies and prices elasticities of demand, as well as the different levels of protection on which estimates of the effects of liberalization have been based.

Because gains from trade liberalization will not be distributed equally among the different groups of developing countries, their interests will not coincide. The middle-income developing countries stand to gain more because the commodity composition of their exports is such that they gain substantially from trade liberalization. In many tropical products, such as tea and coffee, the gain in export earnings will result more from price increases than from the expansion of export volume.

A few points of clarification may be needed regarding the various analyses of the effects of trade liberalization on world prices. First, most analyze the consequences of complete rather than partial liberalization of trade, which is the more realistic possibility. Second, most of the studies are based on the nominal protection rates prevailing in late 1970s or early 1980s. In subsequent years the level of protection in the OECD countries increased, in some cases significantly, and the extent of a rise in world prices following reduction or elimination of this higher level of protection would be greater. For example, one study shows that if present policies persist in developed countries, average world prices of seven selected food products in 1995 would be 40 per cent below the levels of 1980-82. If the protection levels in 1980-82 were eliminated, however, prices would go up by 16 per cent from this depressed level. If liberalization took place in 1988 when protection levels were even higher, the world price levels reached in 1995, after long-term adjustment to effects of liberalization had taken place, would be 30 per cent higher than what otherwise would have prevailed in its absence.[6]

Third, most if not all studies of the impact of trade liberalization on world prices do not incorporate the impact of cost-reducing technological innovations which have led to the historically observed downward trend in world cereal prices. This downward trend is likely to continue, and the effects of trade liberalization will be superimposed, so that prices are likely to be higher than what would otherwise obtain without liberalization but with technological progress. At the same time, they could be lower than prices prevailing today. However, an additional aspect of technological innovations is induced or stimulated by domestic price support or incentives. A reduction in price incentives following liberalization is expected to slow down the rate of technological progress in the developed countries, in developing countries, higher price incentives, may speed up a rate of technological progress. The magnitude of such price induced technological innovations is unknown. However, one study, on the assumption that a 10 per cent rise in prices leads to a 1 per cent rise in productivity, shows an increase in long-run supply elasticity of 0.5 but an insignificant impact on the world price level.[7]

The loss that would be incurred by cereal-importing low-income food deficit countries as a result of a rise in world cereal prices has often been emphasized in recent discussions. However, their losses may be partially or fully offset by benefits from trade liberalization in respect of other agricultural exports, including horticultural and processed agricultural commodities as well as manufactured exports. Furthermore, recovery in cereal prices from today's depressed, heavily subsidized levels would encourage domestic production in many developing countries with comparative cost advantages in the production of cereals that remain unexploited in the face of prevailing low world prices. Current low world prices are unlikely to obtain in the future; past experience indicates that levels of domestic support programs or subsidies in major developed countries or regions fluctuate over time. For developing countries to formulate food production strategies with reference to current world prices would be to sacrifice their long-term comparative advantage and to incur a loss of fixed investment resources that cannot easily be reallocated to alternative uses when prices change.

To the extent that a more efficient allocation of resources in the developed countries, resulting from trade liberalization, stimulates their long-run growth, demand and markets for developing country exports over a wide range of products should receive a stimulus. If developing countries also undertake domestic agricultural and trade policy reforms, there will be gains from increased efficiency in the allocation of resources in their economies not only within the agricultural sector but also between agriculture and rest of the economy, to set against the possible terms of trade loss incurred through a rise in import price. One of the principal advantages that the developing countries should expect to gain from trade liberalization would be opportunities to diversify and to develop new agricultural exports. In a dynamic context, trade restrictions not only limit the expansion of existing exports but also inhibit long-term investment in the development of new exports, which requires predictable market access and an open trading environment. The uncertainty of market access, or the possibility that market access would be closed abruptly, act as disincentives to the diversification of production and trade. For example, the developing countries have an increasing interest in high-value agricultural exports like horticultural products, some of which are and can be produced in a labour-intensive way in developing countries with labour surpluses. To ensure a widespread interest among developing countries in the GATT, it is necessary to liberalize trade in a very broad range of commodities that are of export interest to all or the majority of developing countries, so that gains and losses can be offset and are widely distributed.

Apart from tariff and non-tariff barriers, the developing countries have considerable interest in the sanitary and phytosanitary regulations and standards affecting their agricultural exports, particularly livestock, dairy and horticultural products. First, there is the problem of harmonizing the diverse standards or regulations imposed by developed countries. Second, the developing countries need technical assistance from countries imposing such regulations and standards to help them overcome both the substantive and the administrative problems arising from these measures.

Food Aid and Trade Liberalization in Cereals

Would the food aid-dependent developing countries be affected adversely by liberalization of trade in cereals and by elimination or substantial reduction in surplus food stocks in developed countries?

In this formulation, food aid is conceived predominantly as a surplus disposal program. In other words, food aid is a net addition to financial aid and does not compete with it. Under present conditions, this is probably to a large extent the case but not entirely so. It is difficult to quantify the extent to which it is additional. There seems to be a paradox; the price for providing food aid is to create such a large surplus that the world price is pushed down through competitive export subsidies, below the cost of production of the most efficient producers. In a more rational world, it should be possible to reduce the excess supply in the world market and to use the large production capacity in the donor countries to produce enough food to meet the needs of both commercial exports and food aid. Moreover, food aid or grants can offset any possible adverse impact, through a rise in import prices, on the poorer developing countries that are heavily dependent on food imports.

Is food aid inconsistent with attempts to strengthen GATT rules to eliminate export subsidies? Food aid amounts to concessional food sales, and this compares with subsidized exports. It may replace the commercial imports that may otherwise have taken place; it may reduce export sales by countries with comparative advantage in food production. However, the replacement of commercial sales by food aid is comparable to and is no different from replacement of other imports by non-food aid. When food aid is linked to development projects and to an employment oriented strategy for expanding income and food consumption of the poor, an increase in demand for food matches the increased supply. To the extent that food aid is provided to the poorer developing countries, its denial would scarcely be substituted by an equivalent increase in commercial imports.

There are two reasons why enough supplies would probably be available for meeting food aid needs. First, as in the past, there will be weather-induced fluctuations in cereal production that can be matched partly by variations in domestic stocks. These stocks can be managed with a view to meeting food aid and commercial needs. Second, under the Food Aid Convention, the developed countries agreed in the aftermath of 1974 World Food Conference to provide 10 million tons of food aid annually. The commitment of food aid under this Convention fluctuated in the past, it is true, in response to variations in domestic supplies in donor countries, but it could have been and can be in the future more stable over time if donors make multi-year commitments.

Technological progress in industrial countries will continue to generate a high rate of growth in productivity in the cereal sector, which can be matched partly by (a) a fall in the real price of food, as has been happening in the past decades, and (b) food aid to promote development and alleviate poverty in developing countries.[8] Rather than being a response to an unwanted food surplus generated by a distorted price system and consequent misallocation of resources in the food sector, food aid can be provided as an instrument for development, and supply in donor countries will respond to the provision of food aid, through the utilization of their large production potential.

Agricultural Policy Reforms in Developing Countries and GATT Negotiations

Obviously, developing countries gain from trade liberalization by developed countries through enlarged market access for their agricultural exports. Should they themselves also undertake trade liberalization, i.e., change their border as well as their domestic policies affecting trade in agricultural commodities? How do their current policies, as well as concerns for rapid agricultural development, fit in with the liberalization of trade under GATT auspices?

Two aspects deserve serious consideration in this regard. First, a large number of developing countries tax their agriculture directly and indirectly. Second, a few countries, for example, among the high-income developing countries in East Asia and Latin America, protect their agriculture, especially in respect of commodities that are import substitutes. This tendency seems to be on the increase.

A distinction needs to be made between policies specific to agriculture and economy-wide policies with significant impact on agriculture in terms of the relative profitability of resource use in agriculture compared to non-agricultural sectors. Sector-specific policies that discriminate against agriculture include export taxes on agricultural products, low procurement prices offered by state marketing agencies with purchase monopolies or subsidies on agricultural output such as consumer food subsidies. In the case of import substituting products, direct sector-specific policies have become less discriminatory against agriculture in the recent years; in fact, in an increasing number of instances they enjoy a positive nominal rate of protection, i.e., domestic prices exceed world prices. Average tariff rates on food and agricultural commodities in a large number of developing countries range between 16 and 25 per cent, and non-tariff barriers affected 37 to 48 per cent of the imports in 1985.[9]

The economy-wide policies that discriminate against agriculture include (a) overvalued exchange rates, and (b) high protection of the industrial sector. The extent of discrimination against agriculture involved in economy-wide policies frequently exceeds, sometimes by a considerable margin, the impact of sector-specific policies on agriculture. The negative impact of economy-wide policies in many cases more than offsets the positive nominal protection provided to import substituting commodities by sector-specific policies. In the case of export commodities, in the majority of cases, both sets of policies reinforce each other and heighten the extent of discrimination against agriculture.[10]

Insofar as sector specific policies are concerned, the taxation of agricultural imports and exports, or profits of state trading agencies engaged in agricultural commodities, are often the principal means for raising revenue in the developing countries. Any substantial reduction in such taxation will have to be offset by alternative sources of revenue, such as various forms of direct taxation, which in the context of developing countries are not easy to devise or implement. As economic development accelerates, reliance on taxes on foreign trade will be reduced. Until that time, reliance on this source of revenue will continue. However, efficiency considerations warrant a reduction in the current wide dispersion of the nominal rates of protection.

Discriminatory policies against agriculture in developing countries, which discourage domestic production, expand imports and hampers exports, even though they cause misallocation and inefficient use of resources, does not engage the attention of GATT, since they do not adversely affect the trade of other countries in terms of market access of export competition. Consequently, exchange overvaluation which discourages exports has not been the subject of GATT's concern or concern of trading partners, even though undervaluation which encourages exports has been.

In GATT negotiations, trading partners are greatly concerned about export subsidies; few developing countries use or can afford export subsidies. Export taxes on commodities that face elastic world demand misallocate domestic resources. However, export taxes are often imposed with a view to reducing the cost of raw materials to the domestic processing industry and strengthening its competitive strength in export markets. A reduction of import barriers in developed countries on processed agricultural commodities, which escalate in direct proportion to the degree of processing, would obviate the need for such taxation. It is important to recognize that reform of trade policy in developing countries cannot be implemented without the development of a broad-based efficient taxation system. In fact, many countries facing budgetary imbalances and the need to mobilize greater financial resources have been under pressure, often supported by international financing agencies, to raise rather than lower taxes on foreign trade, albeit reducing its dispersion.

To the extent developing countries reduce the level of industrial protection, they will reduce the extent of discrimination against agriculture. However, exchange rate policies are not part of the GATT negotiations, even though they significantly affect the relationship between domestic and world prices. The prices of tradable commodities, mostly agricultural, are depressed below what they would otherwise be in the presence of what is mostly an overvalued exchange rate. This reinforces rather than offsets or counterbalances the effect of exports subsidies provided by the developed exporting countries. This emphasizes that action on trade policies cannot be divorced from supporting action on exchange rate policies.

Should the developing countries reduce or eliminate discrimination against agriculture as a part of GATT negotiations? This will enable them to exploit their comparative advantage on resource utilization, promoting overall development through intersectoral linkages, especially in the non-tradable sectors, and expanding foreign exchange resources. They will be able to take advantage of and gain maximum benefits from trading opportunities opened up by liberalization by developed countries. It will contribute to global efficiency in the allocation of resources by encouraging low-cost sources of production. Therefore, ending discrimination against agriculture is in the interests of developing countries as well as of a more efficient world agricultural economy.

Agricultural development requires more than the elimination of discrimination against agriculture; it requires positive measures of support. In addition to providing market incentives, the state has a vital role to play in such areas as (a) research, extension and training, (b) development of infrastructure, roads, transport and communication systems, (c) marketing and distribution systems, and (d) institutions for mobilizing and allocating capital. Subsidies for inputs like fertilizer may be needed in the early stages to reduce the risks and uncertainties involved in introducing a new technology. Furthermore, so long as economy-wide policies such as overvalued exchange rates continue to discriminate against agriculture, subsidies on inputs and direct expenditures by the state on improving agricultural productivity may partly offset the adverse impact of an overvalued exchange rate.

The various measures of support for domestic agriculture, which are included in the measurement of "producer's subsidy equivalents" but are not directly trade distorting, need much greater emphasis in the context of developing countries. In fact, the Cairns Group of countries, whose 13 members include 9 from the developing world, endorsed "support measures in relation to domestic economic programs to promote economic and social development which are not explicitly linked to export measures." The process of growth and structural adjustment takes time; trade liberalization and associated policy reforms will need a longer time frame for implementation in developing countries and need to be recognized by all the parties concerned.

Trade Liberalization and Structural Adjustment

It is recognized increasingly by developing countries and the international community that the process of trade liberalization cannot be viewed in isolation from exchange rate policy, industrial protectionism and other macroeconomic policies bearing upon the allocation of resources to and within agriculture.

The implementation of policy reforms following this recognition is carried out not in relation to GATT negotiations, but in the context of negotiations on long term development assistance and short-term balance of payments support. Many countries, in agreement with bilateral and multilateral financing institutions, have embarked upon exchange rate adjustment or trade liberalization, including a wide variety of domestic agricultural policy reforms. The structural adjustment and stabilization programs required or currently undertaken in many developing countries, reduce investment and constrain economic growth in the short run, even though greater efficiency in resource use is expected to facilitate higher growth in the long run; also, they inflict losses on some sectors of the economy which are either vulnerable or vocal or both. This may jeopardize the process of adjustment itself by endangering the social and political acceptability and hence the implementation of the adjustment programs themselves. Additional external assistance may ease the process of adjustment in developing countries, which in view of their low income or limited resources, are unable to maintain the growth momentum or compensate the losses, relying on their own recourses only.

There is, moreover, an asymmetry between developed and developing countries in this respect. Whatever concessions developed countries provide will be in the context of GATT negotiations or bilateral trade negotiations outside GATT, such as the U.S.-Canada trade agreement and the U.S. and Japan/EEC negotiations (later to be incorporated, it is hoped, in the GATT framework). To the extent, therefore, that developing countries are to bargain in the GATT for access to markets in developed countries, their prior and unilateral liberalization reduces their bargaining strength.

In an ideal world, unilateral liberalization, be it in a developed or a developing country, promotes its welfare and efficient allocation of resources, independently of what its trading partners do. Admittedly, welfare gains from world trade are greater if all liberalize, and the extent of readjustment in the allocation of resources within any production sector is also less following multilateral liberalization. However, in the real world, or at least in the GATT world, liberalization is considered a concession to the trading partners in return for reciprocal concessions. Furthermore, governments embarking on trade liberalization face stiff opposition from domestic pressure/interest groups that are hurt by the reduction of trade barriers in the short run and are obliged to readjust; exchanging concessions in export markets enables governments to win the support of the exporters who are the gainers, thus offsetting pressure from the losers. Developing countries, especially the middle-income countries among them, to the extent that they will be called upon to make reciprocal concessions, should be able to claim credit for the trade liberalization that they have already introduced under various structural adjustment programs in the last few years. The time period for allowing credit for such liberalization measures can be linked to the timing of their undertaking adjustment programs in agreement with the World Bank or the IMF. These two sets of negotiations on the part of developing countries are also related in respect of policy instruments, for example, the use of quantitative controls for balance of payments purposes, where developing countries traditionally have been given greater flexibility under the GATT rules.

Stability in Agricultural Trade and Prices

The Uruguay Round remains silent on the issue of stability in world prices and on the related issue of International Commodity Agreements. Trade liberalization contributes to a reduction of instability, but most analyses of a decline in price instability are based on the assumption of complete liberalization – an unlikely possibility. Furthermore, even under complete trade liberalization, a reduction in price stability, strengthened by future markets wherever they are effective, may be less than what is considered desirable by developing countries. This is of some importance to a large number of developing countries heavily dependent on commodity exports.

Ideally, international commodity agreements, based upon buffer stocks and price ranges that closely follow long-term market trends, should neither create surplus nor misallocate resources, but those based on quotas are likely to do so, unless quotas are revised frequently to follow changing market shares. Not only are such ideal conditions never met, but as past experience indicates, consensus on price ranges, quotas or stock financing arrangements is extremely difficult to reach; if consensus is reached, it is rarely sustained for any length of time. Furthermore, at the level of individual countries, exchange earnings fluctuate because of weather-induced variations in supply, lags in supply response, and so on.

The developing countries should therefore evince a greater interest in the availability of compensatory financing facilities for export shortfalls, as well as for meeting a rise in food import prices, for example, rather than in commodity agreements that seem continually to elude their grasp. These financing facilities as for example the IMF Compensatory Financing Facility for export shortfalls or Cereal Financing Facility, with further improvements and with enlarged access, will help them meet the consequences of supply and price fluctuations. To the extent, however, that they seek to stabilize domestic market prices for consumers or producers, they have no option but to resort to domestic stock management supported by border measures such as taxes on imports or exports. It may, however, be possible to keep short-term variations in border measures within limits, while ensuring that long-term trends in domestic prices are in line with and do not diverge from world price trends

Differential and More Favourable Treatment for Developing Countries

Should developing countries receive "differential and more favourable treatment"? There are several aspects of this problem. One is the question of reciprocity. The Uruguay declaration confirmed that the "developed countries do not [illegible]t reciprocity for commitments made by them in trade negotiati[illegible] reduce or remove tariffs and other barriers to trade of devel[illegible] countries. Developed contracting parties shall, therefore, not seek neither shall less developed contracting parties be required to make concessions inconsistent with the latter's development, financial and trade needs." It was agreed that the latter's "capacity to make contributions or negotiated concessions or take other mutually agreed action [would] improve with the progressive development of their economies and improvement in their trade situation," and that special attention be given to "problems of least developed countries and to the need to encourage positive measures to facilitate the expansion of their trading opportunities."

Two other related aspects of the role of developing countries in the GATT system are (a) the Generalized System of Preferences for developing countries in trade concessions, and (b) the creation among developing countries of preferential trading arrangements on either a regional or worldwide basis.

Within the GATT framework of negotiations, trade liberalization and concessions are reciprocal. In the past, developing countries did not offer any concessions; concessions exchanged among developed countries were extended under the Most Favoured Nation clause to other contracting parties, including developing member countries. However, the developing countries are often obliged to make reciprocal concessions in bilateral trade negotiations or agreements, as for example, when they agree to voluntary export constraint; sometimes concessions cut across sectors as, for example, when textile quotes are linked to food imports from quota giving country even if the latter is not the cheapest source. Since concessions were exchanged among developed countries, the commodities involved were necessarily those of interest to them and not to developing countries. Furthermore, developing countries faced discriminatory export restraint arrangements in commodities where they demonstrated substantial comparative advantage.

In the forthcoming negotiations, the developing countries can continue past practice and not grant reciprocal concessions. Since changes in the rules and procedures of GATT require agreement by all the GATT member countries, their bargaining strength consists of merely slowing down or blocking such changes. But if rules cannot be changed because of lack of agreement by the developing countries, the developed countries may resort to codes that require agreement only of the countries subscribing to the codes. Moreover, such steps by developing countries may encourage bilateral or plurilateral deals among developed countries – the beginnings of which are already visible. The developed countries, faced with import competition from middle-income developing countries in specific sectors, would be able to fend off more successively domestic opposition by affected interest groups to multilateral trade liberalization if they secure seme reciprocal trade concessions. In the ultimate analysis, if GATT negotiations fail, the Most Favoured Nation Treatment in trade concessions will be jeopardized to the great disadvantage of the developing countries.

The developing countries might find it more advantageous to participate on the basis of reciprocity – at least limited reciprocity – and exercise their bargaining power, which could be greatly enhanced if they could act together in the GATT negotiations. Potentially they provide the expanding market of the future, if their state of economic growth is accelerated. Furthermore, active participation will enable them to obtain liberalization of trade in commodities of special interest to them. Most of them will be or are in the process of liberalizing, because of efficiency considerations and/or in the course of negotiations with lending agencies, so it would be to their advantage to link it up with or do so under GATT auspices. They may offer reciprocity in terms of eliminating or substantially reducing discrimination against agriculture, which will promote their own growth and is in their long-term interest. The developing countries have a vital interest in trade liberalization in labour-intensive manufactured goods, in which they are expanding production and have comparative advantage; this is also true of labour-intensive agricultural commodities like horticultural products. Also, the elimination of certain internal taxes in developed countries that constrain consumption of commodities of export interest to developing countries will be helpful to the expansion of their commodity trade. They are likely to gain from cross-commodity/cross-sectoral concessions and need skillful balancing of one set of concessions against another.

While participating effectively in GATT negotiations, the developing countries will need to obtain recognition of their special circumstances because of their relative underdevelopment; this includes, among others, agreement on a broader range of domestic support measures for promoting their agricultural and rural development, reliance on taxes on foreign trade for mobilizing financial resources until economic development widens their tax base, border measures to support domestic price stabilization efforts, and credit for unilateral policy reforms, both border and domestic policy measures affecting trade, that have already been or are being undertaken.

It needs to be recognized that growth in income and demand in developing countries is crucial for the expanding world trade in agriculture. It is necessary therefore, to put in proper perspective the role of trade liberalization by developing countries in the expansion of world or developed country exports. The largest portion of the trade of developed countries is with each other. For the developing countries, on the other hand, the major sources of imports and major export markets are the developed countries. Thus the liberalization of trade by developed countries is vital for the trade expansion of the developing countries but the reverse is not true. For the majority of developing countries (the exceptions are a few high-income countries and selected sectors) it is not the level of their import restrictions as much as the size of their domestic market, as determined by low per capita income and limited import capacity, that limits the expansion of agricultural imports from developed countries.

In the light of the foregoing analysis, what will be the role of the Generalized Scheme of Preferences for developing countries? This is not a part of the GATT system of reciprocal trade concessions and hence is considered a voluntary measure, which can be changed at the discretion of the country giving preference in terms of coverage of both the countries and the commodities eligible for preferential concessions.

It is noteworthy that GSP includes only tariffs and excludes non tariff barriers, whereas non-tariff barriers are more rampant for agricultural than for manufactured goods. Moreover, commodities with higher tariff rates in the developed countries tend to have higher non-tariff barriers as well, and GSP coverage is narrower on imports with higher tariff rates. Secondly, GSP covers a smaller proportion of agricultural commodities than of manufactured goods. For example, the share of GSP-covered commodities in all MFN dutiable agricultural imports in 1980 was 30 per cent for the EEC, 21 per cent for Japan, 43 per cent for the United States, 30 per cent for Canada; the corresponding percentages for manufactured imports were 87 per cent, 94 per cent, 55 per cent, and 55 per cent respectively.[11] The net increase in exports, both agricultural and manufactured, of the GSP recipient countries resulting from the implementation of GSP is relatively small; in 1983 it was estimated at about $6.5 billion above what would otherwise have taken place in the absence of GSP; this compared with $280 billion in total imports by the preference giving countries from the recipient countries.[12]

With the flexibility and freedom of action allowed by the GSP scheme, the developed countries found it a better – less costly – alternative to (a) a commitment of non-discriminatory treatment of developing countries and strict adherence to MFN, and (b) a substantial reduction in the tariffs on commodities that are important exports of developing countries. Graduation is already being practised by changing the coverage and extent of concessions under the GSP scheme according to the stage of development or level of income of the recipient country. There is nothing in the current GATT rules that prohibits or prevents such a policy.

A recent study found that if developed countries were to extend GSP to all products and implement them at zero rates, the countries now receiving preference would gain an increase in exports not significantly higher than what they would gain if developed countries were to eliminate all duties on an MFN basis.[13] Particular groups of countries may lose as a result of the termination of existing preferential arrangements such as the ACP countries under the Lome Convention of the EEC or preferential quotas enjoyed by the Caribbean countries or the Philippines in the U.S. market. These losses are expected to be more than offset by world-wide trade liberalization. However, so long as tariff barriers remain, their elimination on a preferential basis in respect of all exports from developing countries could result in a substantial increase in the exports of developing countries – a most unlikely possibility. If GSP were to yield its expected benefit, it needs to be a binding and predictable obligation to be implemented in full through a substantial reduction or elimination in tariff barriers. It seems that, at most, such a major preferential scheme could be only a part of much broader international action to transfer resources to the developing countries, and not just a part of GATT negotiations. So long as this likelihood is very small, especially for the middle-income and high-income developing countries, it may be more advantageous to opt for a substantial reduction on an MFN basis of tariffs on commodities of special interest to developing countries.

They may need to make coalitions with like-minded countries or countries with common interests. The Cairns Group of developing countries has combined with a few developed countries for liberalizing agricultural trade; the former should be able to receive the support of the latter to liberalize trade in their manufactured exports as well. Developing countries can strengthen efforts of the United States to liberalize agricultural imports of the EEC and Japan, while securing U.S. support to liberalize manufactured imports of all industrial countries, including the United States.

The least developed countries constitute a distinct category and have been recognized as such not only in the Uruguay declaration but also in other forms of international negotiations in the UN system. They should continue to receive preferential access at zero rate from developed countries; in most cases, they do so now. It is necessary not only to adhere to the strict definition of least developed countries as accepted by the international community but also to rule out any arbitrary change in the definition by the preference giving country. Secondly, the lease developed countries should receive preference on all their exports without exception. The sacrifice incurred by the preference giving countries is small, but the gain for the least developed countries will be considerable, given the importance of agricultural products in their trade

Conclusions

The developing countries have a vital interest in GATT negotiations to liberalize of agricultural trade (i.e., eliminate both tariff and non-tariff barriers) in a broad range of agricultural commodities of interest to them. The countries heavily dependent on food imports may incur higher import costs as a result of a rise in world prices of cereals and livestock products, but this is likely to be compensated by a substantial reduction in restrictions on a wide range of their agricultural and manufactured exports, as well as by food aid so far as the poorer developing countries are concerned.

It may be advisable for the developing countries, especially the high-income countries among them, to grant limited reciprocal concessions in the GATT negotiations so as to exercise their bargaining strength and ensure trade liberalization in commodities of special interest to them. This does not preclude bargaining for a speedier and greater reduction in barriers on their exports as worldwide or restrictions on an MFN basis are being lowered. The GSP for developing countries in its present voluntary form does not bring much gain and is highly uncertain.

Many developing countries are already engaged in liberalizing trade and domestic agricultural policies, both because of efficiency considerations and as part of negotiations with external financing agencies. They should receive credit for such liberalization efforts in GATT negotiations. However, they should seek a longer time frame for implementation of reforms agreed to under GATT. They should be entitled, in view of their current state of underdevelopment, to a wider range of domestic support measures for promoting their agricultural rural development, including, for example, a recognition of their need for reliance on taxes on foreign trade as a source of revenue and for measures to stabilize prices and income in their highly volatile agricultural sector. At the same time, the special case of the least developed countries needs to be recognized; the implementation of an effective preferential scheme for both tariffs and quotas on all their exports deserves high priority.

Notes

1. It is noteworthy that GATT, unlike in the United Nations system, does not have a clear definition of the category of countries called developing countries. The UN not only defines the developing countries but also a category of countries called the least developed countries. This latter definition seems to be accepted by the GATT.

2. C Nogues, J. Olechowski, and L. Winters. "The Extent of Non-Tariff Barriers to Imports of Industrialized Countries,' World Bank Working Paper No. 789 (1986).

3. *Protection in Developed and Developing Countries: An Overview.* World Bank and Thai Development Research Institute Conference, Bangkok (1986). UNCTAD, *Liberalization of Barriers to Trade in Primary and Processed Commodities*, (January 1983).

4. A sample of estimates of the extent of increase in world prices for selected commodities following trade liberalization is as follows: meat (5-18 per cent), dairy products (8-27 per cent), wheat (5-18 per cent), sugar (8-29 per cent), roasted coffee (11 per cent), cocoa powder (14 per cent), tea (2 per cent) and palm oil (3 per cent). All estimates refer to protection levels of the late 1970s or early 1980s.

5. J. Zietz and A. Valdes. "The Costs of Protectionism to Developing Countries: An Analysis for Selected Developing Countries," World Bank Staff Working Paper 769 (Washington, D.C., 1986); A. Valdes, " Agriculture in the Uruguay Round: Interests of Developing Countries," *The World Bank Economic Review* 1:4 (1987); R. Tyers and K. Anderson, "Distortions in World Food Trade: A Quantitative Assessment," Background Paper for the World Development Report 1986.

6. It should be noted that price levels in these analyses refer to world prices; not domestic prices. Protectionism shifts the location of production to the high-cost producers, whose domestic

prices are raised in order to cover their high production costs, by driving a wedge between domestic and world prices. High domestic prices in the protectionist countries restrain consumption, expand production, reduce import demand, and consequently have a depressing effect in the world market; furthermore, high domestic prices soon produce surpluses for export, as in the EEC, which can be sold in the world market only at subsidized prices. The cumulative effect of an excess supply in the world market is a fall in world prices. The elimination of protectionism therefore results in a fall in domestic prices as high support prices are reduced, but it leads to a rise in world prices through an expansion of demand and contraction of supply in the world market. The largest percentage fall in domestic prices would occur in the EEC and Japan, and the smallest in the United States. The self-sufficiency ratio of the EEC and Japan would be substantially reduced, and exports by low-cost producers like the United States, Canada and Australia would expand. R Tyers and K. Anderson, "Liberalizing OECD Agricultural Policies in the Uruguay Round: Effects on Trade and Welfare", forthcoming in *Journal of Agricultural Economics* 30:2 (May 1988).

7. R. Tyers, "Developing-Country Interests in Agricultural Trade Reform," Conference on Directions and Strategies of Agricultural Development in the Asia-Pacific Region, Taipei, (January 1988).

8. This is not inconsistent with a rise in world prices following trade liberalization. World prices following trade liberalization would be higher than what they would be in its absence, but at the same time could be lower than what they were prior to the cumulative rise in domestic support programs and competitive export subsidies that commenced in early 1980s. In other words, the long-run downward trend would be less than what would occur with the continuation of present policies.

9. These figures relating to protection rates and non-tariff barriers are not strictly comparable to those given earlier for developed countries; first, the commodity coverage is not the same and second, for non-trade barriers the methodology is not exactly the same, even though in both cases the percentage of items subject to NTBs is weighted by the volume of imports. But the orders of magnitudes are comparable. Moreover, average tariff rates on agricultural products in developing countries are lower than on manufactured goods as it is in developed countries, whereas

NTBs are roughly comparable between agricultural and non-agricultural products in developing countries, but in developed countries NTBs on agriculture are higher than that on non-agricultural imports. UNCTAD. "The Profile of Protectionism in Developing Countries." Discussion Paper 21.

10. Ann Krueger, M. Schiff, and A. Valdes, "Measuring the Impact of Sector-Specific and Economy-Wide Policy on Agricultural Incentives in LDCs", *The World Bank Economic Review* (forthcoming 1988).

11. In the case of the United States the figures refer to those imports that actually received preference rather than only being eligible for preference. Imports eligible for GSP do not always actually receive such preferences; for example, the ratio of imports actually receiving preference to the total imports covered by GSP was 57 per cent for the EEC (1980), 92 per cent for Japan (1980), 66 per cent for Canada (1976). This is because in the implementation of GSP scheme, restrictions or conditions are imposed regarding ceilings on imports, tariff quotas, maximum amount allowed per country, competitor status, etc., which limit the amounts actually receiving preferences. UNCTAD, *Liberalization of Barriers to Trade*, *op. cit.*

12. G. Karsenty and S. Laird, "The Generalized System of Preferences – A Qualitative Assessment of the Direct Trade Effects and of Policy Options," UNCTAD, Discussion Paper No. 18.

13. *Ibid.*

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