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Progress of the GATT Negotiations on Agriculture and Developing Countries: Options and Strategies

By Nurul Islam¹

Introduction

The current GATT negotiations known as the Uruguay Round have entered their last phase; they are expected to be completed by the end of this year, i.e. 1990.² Regarding agricultural trade, attention to date has been focussed on the major disagreements between the EC and the USA about the speed, content and techniques of trade liberalization. It is feared that unless they are resolved, the Uruguay Round as a whole may be jeopardized. In the event the implications for developing countries of the various proposals for reforms under consideration at GATT, as advanced by major trading nations, have not received as intensive an examination as they deserve in the light of the great importance of agriculture in developing countries.

This paper is an attempt to highlight the progress of negotiations on the liberalization of agricultural trade, with a bearing on the main issues of interest to developing countries; it, furthermore, explores various options they face in achieving a resolution of these issues. It examines a few selected aspects which are high on the agenda of developing countries such as "separate and differential treatment" of developing countries, nontraditional exports of developing countries, impact of liberalization on the net food importing countries, price instability and compensating measures for developing countries. This paper ends upon with a summary containing an enumeration of the main policy options for developing countries.

The GATT contracting parties agreed at the Mid Term Review in April 1989 that there was to be substantial progressive reduction in agricultural protectionism, sustained over a period of time, designed to correct distortions. It was also decided that agricultural reforms would be dealt with in a comprehensive manner covering market access, export subsidies as well as domestic support programs, including sanitary and phytosanitary regulations (5).

Regarding the issue of market access, the tariffication approach seems to be gaining ground, whereas in respect of the domestic support measures, there is some agreement on the use of an aggregate measure of support to agriculture (10; 24). Tariffication is the conversion of all non-tariff barriers including variable levies, minimum import price and import quotas into bound tariffs. In the transition period, such an immediate conversion may not be feasible. The use of the "price wedge" for tariffication purposes may result in very high tariffs for commodities for which quota restrictions are very severe. In these cases, the import quota can be gradually

increased so that the gap between the domestic and world price goes down so as not to exceed the ceiling imposed by the level of the bound tariff already agreed upon in advance (16).

Tariffication is not an alternative to the use of an aggregate measure of support, it is complementary to assessing various domestic measures of support, which have trade distorting effects and are to be included in the quantification of the aggregate measure of support. The aggregate measure of support (AMS) has a number of versions. In its comprehensive version, it includes not only a wide variety of domestic measures of support to agriculture but also border measures which restrict trade, i.e., tariff and non-tariff barriers. In a more restrictive version, it includes only domestic measures which affect trade directly or indirectly (14). Three categories of domestic support measures have been identified: (a) measures which push domestic prices above world market prices, and income support policies linked to growth in production; (b) income support policies which are not tied to production, such as marketing, environment and conservation programs and bona fide disaster assistance; (c) all other policies that do not meet the criteria for the previous two categories. It has been suggested that measures in the (a) category should be phased out, while those in the (b) category should be permitted and those in the (c) category should be disciplined and reduced through negotiations (19). The use of AMS is not without difficulty. There are difficulties in estimating AMS for all commodities in all countries. Also, AMS being an aggregate measure can be reduced by increasing some restrictions and reducing others.

It is, however, most likely that the use of the AMS would be mainly a device or mechanism for evaluating or monitoring the progress in agricultural liberalization, whereas the commitments by the countries would be made in terms of specific policy instruments such as domestic support measures as well as tariffs and export subsidies, etc..

There are a few unresolved issues raised by EC and Japan which stand in the way of the ready acceptance of tariffication. The EC wants to be able to vary tariffs within limits to stabilize domestic prices rather than undertaking domestic compensatory measures to stabilize income or to offset effects on those who suffer from price instability. Further, the EC seeks to undertake tariff harmonization as for example, to raise tariff on oilseeds, which currently have low tariffs, to bring them in harmony with other more highly protected commodities (25). Japan would like exemption for rice from the process of tariffication as a way of eliminating trade restrictions on rice; rice, she claims, deserves excess tariffs in view of the need for food security in Japan.

1. Special and Differential Treatment of Developing Countries

How do the developing countries stand in relation to the various proposals for the reform of the GATT rules and for the liberalization of trade in agriculture? In the past

the implications of the "special and differential treatment" of the developing countries were as follows: developing countries were not required to reciprocate the trade concessions which were granted by developed countries; in other words, concessions granted to each other by the developed countries as a result of reciprocal bargaining were extended to the developing countries under the MFN treatment (Most Favored Nation treatment) provided under the GATT rules. Developing countries were permitted to resort to quantitative controls for balance of payment reasons; they were also allowed preferential access to developed country markets (known as Generalized Scheme of Preferences) as well as to enter into preferential trading arrangements among themselves.

The preferential access to the developed country markets under the GSP was frequently granted at the discretion of the developed countries and in respect of a very narrow range of commodities, mostly non-agricultural, which did not pose a serious threat or competition to the domestic production. A very limited number of countries benefitted from the scheme; many others could not take much advantage of the preferential schemes because of their limited production and export capacity. Also, the developed countries frequently attempted to use the Generalized Scheme of Preferences (GSP) as a means for extracting concessions from developing countries in such areas as trade in services, foreign private investment and intellectual property rights etc. Increasingly, the developed countries implemented a process of graduation, by reducing the size and extent of concessions that were granted to high or middle-income developing countries (3).

A growing diversity of interest among developing countries has clearly emerged in the current round of trade negotiations. First, a group of major exporters such as Thailand and Argentina, etc., has combined in the so called CAIRNS group with a number of developed countries such as Canada, Australia and New Zealand, to press for more liberal access in export markets. Second, the food importing countries, such as Jamaica and Egypt, which are likely to suffer from a rise in food prices consequent on trade liberalization have been pressing for compensatory measures. Third, a group of countries which are neither net exporters nor importers but are more or less self-sufficient, such as India, Indonesia, and Pakistan, etc., are mainly interested in freedom to pursue domestic policies for promoting their agricultural development.

This distinction among the developing countries, however, is not a rigid one nor are their interests totally separate. The net food importers at the same time are also often agricultural exporters. Similarly, the major cereal exporters also import some other agricultural commodities, even though not cereals. Today's self-sufficient countries can become tomorrow's importers or exporters. Moreover, with the growing diversification of the export structure of developing countries they have developed a common interest in promoting a larger market access for their non-traditional exports.

The developing countries are loath to abandon their case for "special and differential treatment" at this stage of the negotiations. It is something which they won through hard struggle over the past decades; they can be persuaded to modify them only in

return for some offsetting concessions in other areas of trade negotiations. While the "special and differential" treatment may not be for them the most important negotiating objective, it is certainly considered by them an important tool in their negotiating strategy.

The nature and content of the "special and differential" treatment which may be sought in the future would be different from what was pursued in the last decades (23). For one thing, it seems to be now accepted that developing countries, specially the middle and high income developing countries, would be required to make some reciprocal concessions in order to gain access in the markets of developed countries for commodities of interest to them. In recent years, however, a number of the developing countries, irrespective of their stage of development, have already liberalized trade either unilaterally or, in some cases, as a part of their structural adjustment programs, under the auspices of the World Bank or International Monetary Fund. They desire that the liberalization of trade restrictions already undertaken by them should be considered as a part of "reciprocity" on their part in exchange for trade concessions to be obtained under the GATT.

There seems to be a growing consensus that the "special and differential" treatment to be accorded to developing countries in the future could be along the following lines. First, the developing countries should participate in the policy of "tariffication" but would be allowed temporarily to have higher rates of tariffs, which may be reduced over a longer timeframe. For some commodities they may end up with a higher average level of tariffs than in the case of developed countries. Second, the unrestricted use of quantitative controls as in the past for an unlimited period, irrespective of the stages of their development, on the plea of balance of payments deficit, is to be eschewed under the new GATT rules. However, the right to use quantitative controls for balance of payments reasons may be permitted only for a temporary time period and also that under international surveillance by GATT (20). Third, at least some developing countries, such as the low income or the least developed amongst them, may gain access to the markets of developed countries at a very much lower rate of restrictions or tariffs over a longer period than the rest of the developing countries. Fourth, the domestic measures for the promotion of agricultural development should be permitted under the discipline of GATT. But, there may be a number of development policy measures which are in the grey area, i.e., neither prohibited nor freely permitted under the rules to be set up under the GATT, but which may be allowed for a transition period in developing countries to promote their agricultural and rural development. Fifth, the developing countries may be allowed to undertake a few measures which interfere with trade liberalization such as the use of trade controls or variable levies in order to stabilize domestic food prices. For countries with very low per capita income or with a high percentage of their domestic consumption expenditures on food, the objective of domestic food price stability is frequently a political imperative. Sixth, food importing countries may be provided compensation to meet the adverse impact of a possible rise in food prices in the world market as a result of trade liberalization.

2. Non-Traditional Agricultural Exports

The developing countries have considerable interest in ensuring that the trade liberalization measures and new GATT rules cover the widest possible range of agricultural commodities extending beyond the traditional commodities like cereals, tropical beverages and agricultural raw materials. They should cover such non-traditional exports as horticultural and floricultural commodities, which have bright prospects in world trade. This is due partly to the high income elasticity of demand for them and partly to an increasing diversification of the pattern of food consumption in the developed and middle income developing countries. The developing countries are likely to have comparative advantage in the exports of such products because they are labor intensive and are often capable of being produced efficiently by the small farmers (12).

The average rates of tariffs in the industrialized countries on the imports of horticultural products, both raw and processed, exceed the average rates of tariff on other agricultural commodities. They are, in addition, subject to high non-tariff barriers including, in particular, sanitary and phytosanitary regulations.

The GATT negotiations on agricultural commodities are carried out in separate committees, i.e., Committee on Agriculture, which excludes horticultural countries, and Committee on Tropical Products which includes amongst nontraditional products, only tropical fruits and nuts and flowers and plants. There is a great deal of uncertainty as to the appropriate mechanism or committee for the negotiations on such products. It appears very important that the developing countries should seek their inclusion in many committees including those dealing with tariffs and non-tariff barriers.

In view of the very large number and heterogeneous nature of non-traditional exports such as horticultural products, it is difficult to negotiate trade concessions on a product by product basis, specifically since not much data or analysis for this set of commodities is so far available. For example, it is very difficult to produce an estimate of aggregate support measure (AMS) for such a heterogeneous set of commodities, particularly if the impact of sanitary measures in trade flows is to be quantified as well.

The experience with the working of the Committee on Tropical Commodities indicates not only that the list of commodities covered by this committee is limited but also that within this list the concessions so far offered by the individual developed countries cover only a few selected items. Moreover, in many cases, concessions granted are conditional upon reciprocal concessions to be made by developing countries.

At the start of the Uruguay Round it was agreed that for tropical products, among which are included many non-traditional agricultural commodities, the developed countries will be more forthcoming and will make the speediest and biggest reductions in trade restrictions. This was considered both desirable and politically feasible, because while, on the one hand, this sector is important in a very large number of

developing economies, on the other, trade liberalization in this sector is likely to meet less stiff or organised resistance in the developed countries, as the domestic sector affected by import competition is relatively of minor importance (12).

What is most important for the future growth of horticultural exports of developing countries is a liberal trade regime with stability and certainty over time, since many of these products are new or have been introduced in world trade only in recent years. They require investment in export infrastructure, including marketing and distribution facilities. Furthermore, prospects of future market development are likely to be brighter for the processed rather than for the fresh products; in this regard, the adverse effect of the tariff escalation by the degree of processing is important. Without a substantial liberalization of trade in the processed horticultural products, the future expansion of exports will be limited.

The sanitary and phytosanitary regulations affect very significantly the exports of horticultural products more than any other group of agricultural products. This is an area in which agreement amongst the trading partners seems to be very advanced (6). The principal elements of an agreement are as follows. Firstly, it has been agreed that such regulations should have minimum negative effects on trade. Secondly, they should be harmonized based upon internationally agreed standards, some of which are promoted by UN organizations or other international organizations. Thirdly, it is necessary to provide a scientific basis for national standards. Safety standards for the use of pesticides or fertilizer or their residues can be universal. But the standards for diseases control of plants and animals will vary from country to country because country situations widely differ. It is agreed that these standards should not cover quality or consumer preference but should be mainly concerned with safety, inspection techniques and procedures for testing.

There are two considerations to be kept in mind in the course of implementation of these regulations once they are agreed upon. First, the developing countries need an assurance that these regulations have the widest possible commodity coverage, and are not restricted to commodities which are currently under negotiation in the Committee on Agriculture, i.e. commodities of primary interest to developed countries. Second, when the standards are changed from time to time it is necessary to ensure that they do not unduly disrupt the domestic producers. Third, frequent changes in the standards set by developed countries make it difficult for the exporting developing countries to adjust easily or promptly; hence a period of transition is needed in order to allow adjustment in developing countries' export capacity.

There is a pressing need for transparency in the sanitary and phytosanitary standards, as well as for an effective procedure for the notification of national regulations or bilateral agreements. The process for the settlement of disputes under the GATT auspices should be strengthened; scientific evidence and expertise should bear on the decision making process of the GATT dispute settlement mechanism.

The developing countries require technical and financial assistance, for the establishment of testing laboratories as well as the training of scientific personnel to enforce such standards. The appropriate international organizations, with adequate technical and financial resources, should be entrusted with this responsibility.

3. The Impact of Liberalization on the Net Food Importing Countries

There seems to be an emerging consensus that a rise in world food prices is most probable after the liberalization of trade, even though uncertainty persists regarding its extent. The uncertainty relates, amongst other things, not only to the extent of trade liberalization, including the commodity coverage, but also to the price elasticity of supply and demand in trading countries. There is an uncertainty regarding the extent of price rise due to liberalization as well as to the extent of gains from export earnings due to liberalization.

The extent of price rise is likely to be less if both developing and developed countries participate in the liberalization of trade. This will also be the case if liberalization is partial and not uniform across all commodities, which is probably the most likely outcome. Again, with low international commodity stocks, prices can move significantly with a small change in production. In the short term, prices could rise, due to speculative reasons.

The impact of trade liberalization on the import price of food has two sets of consequences for developing countries. One is the adverse effect on the balance of payments insofar as their food import bill goes up in the short run. The rise in food import will be moderated to the extent that domestic production increases in response to higher price incentive. Second is the adverse impact on the low income consumers. The net food importing developing countries request offsetting measures or compensation which could relieve their balance of payments problems as well as help them to cushion the adverse impact on the poor consumers.

Recently, for a few important net food importing countries an estimate has been made of the impact on their food import bill of a rise in price following the liberalization of trade. It has been found that the net import cost of basic foods for the years 1984-86, consisting of meat and meat preparations, dairy products and eggs, cereals and cereal preparations, oilseeds, fats and oils and miscellaneous foods, is likely to go up by 24% for Mexico, 28% for Morocco, 29% for Egypt, 30% for Jamaica and 33% for Peru (11).

The question of compensation raises some practical problems of implementation. How to measure the rise in prices which is due to liberalization measures, as distinguished from other influences working on prices at the same time? What will be the product coverage for estimating the impact on the balance of payments? To what extent the gains in their export earnings due to trade liberalization offset the adverse

impact on their food import bills? Should all countries, irrespective of income level, be eligible for compensatory payments? Should the compensation be provided mainly to the low income countries and not to the middle income countries? What will be the time limit for the termination of compensation payments? There is also the additional question as to whether compensation should be paid only for a rise in food prices and not for losses which a few developing countries may incur as a result of the termination of their preferential access to the markets of developed countries, which they currently enjoy, as for example, under the Lomé Convention of the EC and the Caribbean Basin Initiative of the US. The emerging consensus seems to be that compensation should be paid for a rise in food prices (the composition of food to be defined later), above the trend level, which otherwise might have occurred in the absence of liberalization.

On the question of compensation two additional issues are relevant. First, should the compensation take place within the framework of GATT as a part of the various trade concessions which are being negotiated? Second, should the compensation be provided outside the GATT mechanism but in coordination with and at the same time as the GATT negotiations are completed? In the latter case there is a need for coordination between the GATT, on the one hand, and other international agencies which might be involved with the compensatory arrangements, on the other. If compensation is provided within the context of GATT, the food importing countries could probably be provided, for a definite period of time, with a higher level of trade concessions on their exports, i.e. a lower rate of tariffs or other restrictions on their exports.

The possibilities outside the GATT framework are: (a) access to the IMF Compensatory and Contingency Financing facilities, and (b) food aid. The recent changes in the IMF facility have made access to its resources more difficult or less automatic, specially in view of the various conditionalities regarding economic policies in the borrowing countries. The eligibility of a country to draw upon the facility depends on the IMF being satisfied that the members' balance of payments difficulties are not due to serious deficiencies in policies. Furthermore, the facility provides a loan, not a grant, and the interest rate on the loan is not concessional. Also, the facility seeks to compensate for prices of cereals and not of all food grains.

There is a more serious limitation on the IMF compensatory financing facility in that the increase in the import cost is offset against any rise in export earnings and it is the net increase in the import cost that is compensated. This leads to an anomaly in the use of the cereal financing facility that makes the developing countries reluctant to use it for this purpose. When the compensatory facility is used to counterbalance shortfalls only in export earnings, changes in imports are not used to determine the extent of their eligibility. It is only in the case of the cereal component of the compensatory facility that a netting of exports and imports comes into play. This asymmetrical interrelatedness of the two components has made the developing countries reluctant to use the cereal facility. They prefer the compensatory mechanism in the IMF facility for exports which has less strict criteria (4; 13).

As far as the role of food aid as a compensatory mechanism is concerned it raises a number of questions. It is generally agreed that food aid, provided it is not used as a hidden export subsidy to promote commercial exports, is permissible under the new proposed GATT regulations. However, food aid, if it is to be used as a compensatory mechanism, needs to be in addition to what the developing countries might be receiving in any case. To prevent food aid from being used as an export subsidy, the members of the GATT will have to adopt and enforce a test of legitimacy. The multilateral food aid -given as a grant- is unlikely to be used as an export subsidy. Moreover, contributions made in cash and used by the multilateral agencies to purchase food from the cheapest source, can seldom be used as an export promotion device. The contribution of cash aid to a multilateral agency to buy food from the cheapest source would be a very significant departure from the current practice. Unless pressure can be brought on the donors for providing high cash donations, total food aid may in fact be reduced under such a multilateral framework; a compromise may be struck by having a combination of cash and food donations. The existing arrangements under the FAO Surplus Disposal Committee which seek to monitor and ensure that food aid does not replace the commercial exports of the competing countries, or promote the commercial exports of the donor country need to be strengthened (9).

However, food aid availability, as a result of liberalization, might be reduced in the future due to a decline firstly in food surplus, and secondly in the publicly held food stocks. Food aid may be further discouraged by the more stringent conditions, as explained above, which are to be put on the grant of food aid under the new GATT rules. To serve as an appropriate compensatory mechanism, the agreement on food aid should be reached simultaneously as the GATT negotiations are finalized. Otherwise, the net food importing countries would have no assurance that additional food aid would be provided as a compensation. The current Food Aid Convention, which is a part of the International Wheat Agreement negotiated in the Kennedy Round of the GATT, is administered by the Food Aid Committee, i.e., a committee of food aid donors. This could also be used as a forum to reach an agreement on the compensatory use of food aid. Thus, it appears that both food aid and additional concessions in terms of trade liberalization can be used in some combination, to compensate the net food importing developing countries.

4. Trade Liberalization and Instability of Prices

As discussed earlier, global trade liberalization has the potential of raising agricultural prices at least in the short to medium run, and also of reducing the instability of world prices (2).

There are at least three ways in which a country can contribute to the instability of world prices. One way is to prevent world price instability from being transmitted to the domestic economy; second, the domestic instability in its turn is transmitted fully or

partially to the world market; third, trade or other policy measures which drive a wedge between the world and domestic prices are changed frequently. The contributions of the instability in policies to the fluctuations in prices has seldom been emphasized. The US policy, for example, as contrasted with the EC policy, is more unstable and thus contributes to the overall instability. This has important implications for the stock behavior of the traders and the producers.

Even a partial trade liberalization, in the sense of liberalization by a group of countries as against worldwide liberalization, can contribute to the reduction in instability as well as a rise in the absolute level of prices. For example, a recent study shows that if only the OECD countries liberalize, the average degree of instability of food prices in the world market is reduced from 34% (year to year fluctuation) to 23%. However, if the developing countries also liberalize at the same time the variability is reduced from 23% to 12% (18). On the other hand, if the developing countries alone reduce trade restrictions, the reduction in price instability would not be significant. In fact, they will suffer from the price instability created by developed countries in the world market. Developing countries, therefore, cannot gain unless all the countries, including developed countries, liberalize.

The degree of instability of world prices in the future will depend not only on the extent of trade liberalization but also on the behavior of stocks, held by the main exporters and importers, i.e. whether stocks respond to price changes in a normal fashion, including the release of stocks when the prices rise and their accumulation when prices fall. The reduction in the size of stocks of cereals held by the US during the late 80s has partly contributed to the instability of world prices. In the coming years there is likely to be a reduction in the stocks-output ratio due to a decline in public stocks; since the behavior of private stocks is uncertain, there might be a tendency towards increased instability. In order to achieve price stability in the world markets, a set of internationally agreed rules which govern the degree of insulation of the domestic markets is preferable to reliance on the uncertain stock behavior of the leading cereal traders such as the USA and the EC.

Even if there is some reduction in the degree of instability in world prices, in the post trade liberalization period, the developing countries might still want to intervene to stabilize prices within a narrower range. Moreover, a higher level of output in the future may be associated with a higher degree of instability, as experienced in the past during the course of the Green Revolution. Furthermore, the developing countries will be reluctant to face the risks of wild price fluctuations, as took place during 1973-74, especially in view of the severe short-run impact on the poor (1).

The intervention in the domestic market to achieve price stability is also justified on the ground that the developing countries lack a sophisticated and well-functioning credit market with easy access for the agricultural producers and the food consumers, particularly the poorer ones among them to offset the impact of price fluctuations. Neither is it financially and administratively feasible for them to undertake direct income payments to those who are adversely affected by price instability (15).

In order to reduce fluctuations in domestic prices, the developing countries would need and, therefore, should seek exemption from the GATT rules so that they are able to use variable taxes and subsidies in border trade and/or to undertake through the state marketing agencies the purchases and sales in the domestic market. Even though a system of tax/subsidy on trade is more cost-effective than the establishment of large domestic stocks and open market operations, variable levies in its turn, introduce instability in the budgetary resources of the country; they do not in any case alleviate the impact of variations in the cost of agricultural or food imports on the balance of payments.

It is necessary, however, that the domestic measures which the developing countries may take for the purposes of stabilization of prices should be justified, be transparent and subject to supervision and surveillance by the GATT. The purpose of the GATT supervision is to ensure that this does not open the door to protectionism and the interest groups in the particular commodity markets under the guise of stabilization do not raise the price level above the long-run trend. Since there is no undisputed and definite trend level in world prices, on which every one agrees, there is always a scope for the interest groups to press for a higher price than justified by the long-term trend.

The price stabilizing measures adopted by developing countries may, however, have the effect of exacerbating international price instability if commodities involved are those in which the developing countries play a major role in world trade. They will gain most if the commodities are those in which they collectively have a small share in the world market such as cereals.

While the instability of food prices is of great concern to the developing countries, the impact of instability in prices of export products, specially tropical products, which have important consequences for their income and balance of payments, has received no attention in the context of the GATT negotiations. Given the limited success of international commodity agreements, the search for effective measures for compensating or offsetting fluctuations in agricultural export earnings of developing countries should be continued through an improvement in the IMF Compensatory and Contingency Financing Facility or in such regional schemes as STABEX under the Lomé Convention.

5. Evaluation

The developing countries should ensure that (a) the trade liberalization has the widest possible commodity coverage including commodities of vital interest to them and (b) that the likely "side effects" of liberalization in terms of a possible rise of food prices in the world market or a constraint on their freedom of action to deal with the instability of agricultural prices are mitigated.

This in turn has implications for the future nature and content of the much debated "special and differential treatment" for the developing countries, which takes into account their financial and trade needs and special constraints on development. Past experience with differential treatment for developing countries has not been encouraging. Preferential schemes have been selective and of limited significance. A gradual process of differentiation and graduation amongst the developing countries has set in. Nonreciprocity has kept the developing countries outside the main stream of the trade liberalization process. They may improve their economic efficiency as well as bargaining power by giving up the "waiver" to use quantitative restrictions for balance of payments reasons, except in the short run and in very well defined and highly selective situations under the surveillance of the GATT.

The developing countries, particularly the middle and high income countries amongst them, are unlikely to gain trade concessions without granting reciprocal concessions. However, their large domestic market to which the developed countries seek access endows them with bargaining power in their trade negotiations, especially if cross-sectoral concessions (i.e. agriculture, industry, services and intellectual property rights) are exchanged towards the end of the negotiation process in the Uruguay Round. To the extent that in recent years they have already liberalized their trade regime either unilaterally or as part of an adjustment programme under the auspices of the World Bank or the Fund, they should seek appropriate "credit" in the course of their current negotiations under the GATT.

At the same time the developing countries need differential treatment in the course of the implementation of the trade reforms in a number of aspects. They include a greater flexibility in the implementation of the trade liberalization measures, such as a longer time frame or transition period for the reduction of trade barriers, and a more generous interpretation of permissible, domestic support measures for agriculture and rural development.

The commodities of special interest to the developing countries, such as tropical products, should receive, as was originally agreed at the time of the inception of the Uruguay Round, the deepest cuts in trade restrictions as fast as possible. The progress so far in the liberalization of trade restrictions on tropical products has been very limited, in spite of high hopes raised earlier.

Special attention should be paid to the need for an enlarged market access for non-traditional agricultural exports, such as horticultural products which hold bright market prospects in the future. In this context two issues deserve serious attention. First, the present structure of the GATT negotiating committees does not clearly specify where the nontraditional commodities such as the horticultural products are to be dealt with. In view of the urgency of this subject, developing countries should, therefore, pursue negotiations on these commodities in all the relevant committees dealing not only with agricultural and tropical products, but also tariffs and nontariff barriers which cut across commodities. Second, significant progress has been made in negotiations on internationally agreed scientific standards to be enforced under the international

surveillance and guidance of the GATT. It is essential that developing countries strive to ensure that all commodities of special interest to them are covered by these regulations. Third, in view of a lack of trained scientific manpower and institutions to enforce and adopt such standards, the provision of technical and financial assistance by the relevant international organizations and others should be assured.

Two additional issues of particular importance to developing countries are: (a) compensation for a possible rise in food prices in the world market following trade liberalization, and (b) freedom to undertake measures, including border measures, to stabilize domestic food prices within acceptable limits. The compensation for a possible rise in food prices is particularly relevant for the low income developing countries which in the short run may not gain advantages from a rise either in the volume or in the price of their export earnings. Several compensatory measures either singly or in combination deserve consideration, i.e. enlarged market access for the exports of the food deficit net importing countries, at least for a transitional period; additional food aid under a renegotiated Food Aid Convention; and IMF compensatory and contingency financing facility. The first two alternatives seem to be more feasible than the last. Irrespective of the particular mechanism chosen it is necessary to make such a compensatory arrangement an integral part of the Uruguay Round.

To the extent price instability in the post liberalization period remains a problem, in order to stabilize food prices, the developing countries should be able to undertake border measures which may result in a partial insulation of the domestic market from the world price movements and, therefore, their use would require exemption from the GATT rules. However, in order to preempt these measures from being used for raising domestic prices in the long run and thus encouraging protectionism, measures intended for promoting price stability should be transparent, well specified and be monitored under the surveillance of the GATT. The need to intervene in trade in order to promote stability could be partly alleviated if some degree of international coordination of national cereal stock policies, under an agreed set of guidelines, is undertaken.

Summary and Conclusions

The developing countries, both as substantial exporters and importers of food and agricultural commodities, stand to derive significant benefits from the liberalization of world agricultural trade currently under negotiations in the Uruguay Round. They, therefore, have a particular interest in bringing agriculture within the framework of the rules and disciplines of the GATT which can liberalize market access and import protection as well as reduce or eliminate export subsidy and domestic support programs. The alternative is discriminatory protection and bilateralism under which the developing countries with limited economic strength will suffer most.

Zusammenfassung

Die Entwicklungsländer können von der Liberalisierung des Internationalen Agrarhandels, über den gegenwärtig in der Uruguay Runde verhandelt wird, sowohl als wichtige Exporteure als auch als Importeure von Nahrungsmitteln und landwirtschaftlichen Produkten profitieren. Sie haben daher ein besonderes Interesse, die Landwirtschaft in das institutionelle System des GATT einzubringen. Dadurch wäre möglich, den Markt zu liberalisieren und Import-Restriktionen, Export-Subventionen und interne Stützungsprogramme zu reduzieren. Die Alternative zu diesem Vorhaben wären diskriminierende Protektion und Bilateralismus, unter denen die Entwicklungsländer aufgrund ihrer geringen ökonomischen Wirtschaftskraft, besonders benachteiligt würden. Der vorliegende Artikel zeigt Wege und Maßnahmen, die zur Liberalisierung des internationalen Agrarhandels führen, und bespricht die Probleme, die gegenwärtig in den Uruguay Round verhandelt werden.

Notes

- 1 Senior Policy Advisor, International Food Policy Research Institute, Washington, D.C., U.S.A
- 2 The analyses in the paper are based not only on the examination of the various comments relating to ongoing negotiations but also on discussions with the delegations from the developing countries participating in the GATT negotiations

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7. GATT: Multilateral Trade Negotiations. Uruguay Round, Tropical Products. 30 May 1989
Two provisions of the GATT negotiating mandate on tropical products agreed upon by the contracting parties, are relevant in this context. Firstly, "Negotiations shall aim at the fastest liberalization of trade in tropical products, including processed and semi-processed forms, and shall cover both tariff and non-tariff measures affecting trade in these products". Secondly, "the contracting parties recognize the importance of trade in tropical products to a large number of less developed contracting parties and agree that negotiations in this area shall receive special attention, including the timing of negotiations and the implementation of the results"
8. GATT. Focus, Newsletter. May. (Uruguay Round Special Issue) Tropical Products: Background Material for Negotiations. January 1988 Also: UNCTAD. Review of Developments in the Uruguay Round (Part V). January 1990.
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12. Islam, N. Horticultural Exports of Developing Countries Past Performances, Future Prospects and Policy Issues. IFPRI Research Report 90, April 1990 With a growing tendency in developed countries to consume organically produced horticultural products, a characteristic which increases the labor intensity of their production, the comparative advantage of developing countries in this sector is likely to be strengthened Furthermore, the processing of horticulture products is highly water polluting The developed countries, worried about pollution and environmental degradation, are liable to impose strict environmental standards on their domestic processing industries. This may promote a relocation of these industries to developing countries with less strict standards. This would add, therefore, to the export prospects of developing countries in processed horticultural products. However, there are two qualifications. Firstly, the developed countries may insist on the developing countries introducing equally strict environmental standards for the processing industries Secondly, failing that, they may impose countervailing duties on products from developing countries which do not impose strict environmental standards
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The magnitude of net welfare gains as well as their distribution between producers and consumers, which result from the stabilization of food prices, has been much discussed. The broader considerations relating to the adverse impact of price instability on macro economic stability, on the one hand, and long run investment and growth, on the other, are no less important, even though they have not been explored quantitatively.

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