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## Introduction

The trade talks launched in Doha, Qatar, in November 2001 were the first of the nine rounds of multilateral trade negotiations held since World War II to “place the needs and interests [of developing countries, especially the poorest] at the heart” of the talks. This commitment, contained in the ministerial communiqué launching the Doha Development Agenda, was a response to an increase in the number of developing-country members in the World Trade Organization (WTO), more active involvement by these countries in negotiations, and the dissatisfaction of many of them with the results of the previous round. Since many developing countries have a comparative advantage in agriculture and since many of the world’s poor live in rural areas, it seems logical that increased agricultural market access subsequently emerged as a central issue in the talks.

But even without the development focus, agriculture would have been central because it is the major piece of unfinished business from previous trade rounds. This means that it is the sector with the highest remaining barriers in rich countries and the greatest potential gains from further liberalization of merchandise trade. And it is not just key developing countries, such as Brazil, and poor commodity-dependent regions, such as sub-Saharan Africa, that are interested. US agricultural exporters have traditionally been an important part of the pro-free trade coalition, and they will give up some of their subsidies only if they get increased market access abroad. Thus, agricultural liberalization is the key to a successful Doha Round because that is what key countries want and most of what the rich countries have left to contribute in a reciprocal negotiation.

The implications for development and for poverty alleviation in poor countries are more complicated, however. Developing countries and groups within them are diverse, and farm policy reforms in rich countries will affect them in different ways. Farmers stand to benefit from higher world prices for agricultural products, but poor consumers could lose. Some countries will see their preferential access to developed markets eroded. Within countries, many rural poor live in remote areas that are isolated from national, much less international, markets. Connecting the rural poor to markets and increasing demand for their products, including through exports, would contribute to reduced global poverty, but increased market access alone is not enough to achieve that goal. Many countries, especially the poorest, also need to adopt complementary policies to create an environment in which the poor can grasp new trade opportunities and where the losers are compensated. And the rich countries should help them.

Before tackling those challenges, however, rich countries must be persuaded to reduce subsidies and increase access to their markets. It is no accident that agricultural protection sticks out like a sore thumb. Agricultural products were largely excluded from international trade rules from the start of the postwar system, and negotiations have had little impact on farm policies in the industrialized countries since then. Even when this policy area was finally addressed, in the 1986–93 Uruguay Round, the conclusion of the negotiations was delayed for three years over farm policy, and the Agreement on Agriculture, when finally reached, was shaped by the content and scope of internal reforms in key countries rather than the reverse. In the current round of talks, the ministerial meeting planned for the midterm of the round in Cancún failed, in part over US and European unwillingness to be more forthcoming on agriculture. And a year after the scheduled January 2005 end date for the Doha Round passed, yet another ministerial meeting, in Hong Kong, concluded with minimal progress because of a continued impasse over agriculture.

This account of the history is not meant to discourage the pursuit of ambitious goals for agricultural policy reform; rather, it is intended to inform it. Compromise will no doubt be required, and careful attention to the details could lead to an agreement that is politically feasible in the rich countries and also delivers meaningful benefits to developing-country exporters. With a view to putting reform efforts in context, the present chapter first briefly reviews the history of attempts to discipline agricultural policies through trade negotiations and analyzes what is at stake in these talks. The challenges poor countries face in taking advantage of new trade opportunities and the need for complementary policies to address domestic supply constraints are then described. The chapter concludes with a preview of the remainder of the book.

## Why Is Agricultural Liberalization at the Center of the Doha Round?

Agriculture is the key to getting a deal in the current round of trade talks because previous negotiations failed to deliver significant reforms in this sector. The Uruguay Round created a more transparent framework for measuring and capping agricultural support, but it did little to lower the level of applied subsidies or trade barriers. Since the eight previous trade rounds reduced average tariffs on manufactured goods (other than textiles and apparel) to the low single digits in rich countries, agriculture is what remains as a market-access target, especially for key developing countries.

### The Uruguay Round Was Only a Start

The Uruguay Round of trade negotiations (1986–93) was the eighth under the General Agreement on Tariffs and Trade (GATT), and the first to seriously address agricultural trade distortions. From the creation of the GATT after World War II, agriculture received special treatment.<sup>1</sup> Export subsidies and import quotas were prohibited for manufactured goods but were permitted for agricultural and primary products under conditions designed to limit the impact on international markets (Jackson 1991, 44, 101). But the constraints were weak, and agricultural policies from the 1950s through the 1970s were set largely in response to domestic political demands.

With US farmers increasing exports in the 1960s, US policymakers came to regret their role in resisting international disciplines on agricultural trade. Beginning with the “Chicken War” in the early 1960s (over European barriers to poultry imports), US negotiators used both bilateral and multi-lateral trade negotiations to try to restore some restraint, particularly on European subsidies and import barriers. Bilateral pressure and threats of trade retaliation produced some limited successes in constraining the EU Common Agricultural Policy (CAP), but agricultural policies remained mostly beyond the GATT’s reach. Finally, in September 1986, with strong backing from Australia, New Zealand, Brazil, and other members of the Cairns Group of agricultural exporting countries, US negotiators succeeded in getting agreement to address agricultural subsidies and trade barriers in the GATT negotiations launched in Punta del Este, Uruguay.

What finally emerged, but only after the United States and the European Community came close to a trade war over oilseeds (Iceland 1994), was a deal that produced much less reform than many had hoped for. While roundly condemned by the Cairns Group and other agricultural exporters,

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1. There are many excellent treatments of postwar agricultural trade policies; Hathaway (1987) provides a succinct summary. Also see the references in chapter 3.

it was ultimately accepted as the best possible deal at the time.<sup>2</sup> The most important contributions of the resulting agreement include

- affirmation of the principle that trade negotiations must address trade-distorting domestic subsidies, as well as export subsidies and trade barriers;
- creation of a framework for measuring and reporting on agricultural support policies that has increased the transparency of support measures; and
- movement toward eliminating quantitative restrictions.

But with the exception of export subsidies, whose use has declined substantially, the resulting reductions in trade barriers and subsidies were minimal.<sup>3</sup>

The result was very little increased market access, including for middle-income developing countries in the Cairns Group. Developing countries had conceded on adoption of the intellectual property standards of the wealthier countries, as well as new rules on opening service sectors. These concessions supposedly were in return for increased market access for agricultural and clothing exports, where many of the developing countries have a comparative advantage. Disappointment with agricultural liberalization in practice, along with a back-loaded schedule for eliminating quotas under the Agreement on Textiles and Clothing, contributed to the perception among the developing countries that they had gotten a “bum deal” in the Uruguay Round.<sup>4</sup>

Lingering dissatisfaction with the results of the Uruguay Round and the feeling among some developing-country negotiators, especially from Africa, that their concerns were being ignored, contributed to the failure of efforts to launch a new round in Seattle in 1999. The focus on development in the communiqué that finally launched the round in 2001 was crafted to avoid a similar outcome. A legacy of this history, however, is the sluggish pace of the Doha Round amid developing countries’ complaints over the lack of progress on their issues. These simmering grievances came to a boil in August 2003, when US and EU negotiators announced a joint proposal on agriculture. The Cairns Group and other developing-country exporters interpreted the proposal as an attempt to cut a deal that would protect sensitive sectors of the US and European economies at the expense of other

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2. For a comprehensive and detailed history of the Uruguay Round, including agriculture, see Croome (1998).

3. For more on the details, see Josling (1998, chapter 3).

4. The most restrictive quotas generally were not liberalized until the end of the 10-year phaseout period; see Bhattacharya and Elliott (2005).

**Table 1.1 Average applied tariffs, 2001** (percent)

Category	European Union	Japan	United States	High-income countries	Developing countries
All partners, import weighted					
Agriculture	13.9	29.4	2.4	16.0	17.7
Textiles and apparel	5.2	9.7	9.8	7.5	17.0
Other manufacturing	2.2	1.4	1.8	1.9	9.0
Total merchandise	3.2	5.2	1.8	2.9	9.9
Developing-country partners, production weighted					
Agriculture	34.4	158.1	5.0	n.a.	n.a.
Total merchandise	7.5	26.9	2.8	n.a.	n.a.

n.a. = not available

Sources: Anderson, Martin, and van der Mensbrugge (2006); Roodman (2005).

countries. The negative reaction to the proposal triggered formation of the "Group of 20," a coalition of developing countries whose principal demand is significant liberalization of the more affluent countries' agricultural policies. The developing countries' reaction to the proposal also contributed to the failure of the midterm ministerial meeting in Cancún a month later.

### Farm Trade Is Where the Barriers Are—and the Potential Gains

With the long-awaited end of the global quota system restricting trade in textiles and apparel in January 2005, agriculture has no competitors for the title of most distorted sector of the global economy. It is now the only sector where both quantitative restrictions (tariff-rate quotas) and export subsidies are still permitted, and the level of protection for agriculture is far higher than that for manufactured goods. Clearly, agriculture offers the choicest targets for liberalization.

The data in table 1.1 give only a hint of the distortions of global agricultural trade, which are analyzed in detail in chapter 2. On average, agricultural tariffs applied by high-income countries are more than five times higher than the average tariffs they apply to merchandise overall, and almost eight times higher than those they apply to manufactured goods other than textiles and apparel. An alternative calculation presented at the bottom of the table mostly uses the same underlying data but a different weighting scheme. These adjustments result in higher tariff levels but a similar ratio between agricultural and total merchandise tariffs in the European Union

and Japan, which is the key point here.<sup>5</sup> The apparently low US figures are misleading because they do not include the effect of domestic subsidies, which the United States uses more heavily than trade measures.

All of the figures likely underestimate the overall distortionary effects of rich countries' farm policies for at least two other reasons. First, it is difficult to be precise about the protective effects of tariff-rate quotas, and they are almost certainly not fully reflected in table 1.1. Another potential problem is that the data include detailed information on bilateral applied tariffs that take into account preferential tariff arrangements, such as the European Union's Everything But Arms program and the United States' Africa Growth and Opportunity Act. On the one hand, this dataset is an improvement over previous ones, which mostly ignored these preference programs. On the other hand, the approach that is used also results in underestimation of the average applied tariff because the compilers of the dataset assumed that all exports eligible for preferential treatment receive it. Numerous studies suggest otherwise (see chapter 4).

Because its rates of protection are well above average, the agricultural sector offers the largest potential gains from further liberalization of merchandise trade, even though agriculture is a small part of the global economy.<sup>6</sup> Table 1.2 shows the results of three recent efforts to model the benefits from moving to global free trade (Bouet 2006, Cline 2004, Anderson, Martin, and van der Mensbrugghe 2006). Although the overall levels of benefits differ, the distribution of gains and the distribution of the sources of gains are broadly similar.<sup>7</sup> All three models show developing countries gaining relatively more as a share of national income than high-income countries; they also show developing countries capturing around 30 percent of total global gains, which is roughly 50 percent more than their share of global income. All of the models also show that agricultural liberalization accounts for roughly 60 percent of the total, with the caveat that services liberalization is not included.

Still, these numbers are quite small, relative either to trade or national income. Moreover, the new World Bank estimates of the gains from global

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5. Import weights are commonly used for calculating average tariffs but can lead to underestimation because imports will be low or nil when tariffs are prohibitive. See Roodman (2005) for a detailed discussion.

6. Many analysts believe, and the few empirical analyses that exist suggest, that the benefits from services liberalization would be greater. But most models exclude services liberalization because the data on services are often of poor quality and the quantification of barriers to trade in services is in its infancy and subject to uncertainty because of the difficulties in distinguishing market-improving and market-distorting regulations. A few efforts to estimate the benefits from liberalizing services have been made, however, and they suggest that the gains could be far larger than those from liberalizing agriculture. See, for example, Hertel and Keeney (2006).

7. For a discussion of the differences in the models and the results, see Elliott (2005a), Bouet (2006), and van der Mensbrugghe (2006).

**Table 1.2 Estimated gains from global free trade**

<b>Computable general equilibrium model results</b>	<b>Cline (2004)</b>	<b>Anderson et al. (2006)</b>	<b>Bouet (2006)</b>
Base year	1997	2015	2015
Model type	Static	Dynamic	Dynamic
Total (billions of dollars)	228	287	100
Relative to national income (percent)			
High-income countries	0.87	0.60	0.30
Developing countries	1.09	0.80	0.4–0.8 <sup>a</sup>
Share of global gains (percent)			
Captured by developing countries	30	30	26
Resulting from agricultural liberalization	55	63	55
Resulting from textiles and apparel liberalization	11	14	n.a.

n.a. = not available

a. 0.4 for middle-income countries and 0.8 for low-income countries.

free trade, when adjusted for greater comparability, are far smaller than Cline's results and also far smaller than earlier World Bank estimates (World Bank 2002). Two key differences in the baseline most likely account for the smaller gains indicated by the new World Bank figures. The first is the use of the new database incorporating detailed information on bilateral and regional preference arrangements, which lowers the observed rate of protection against developing countries—and also likely leads to underestimation of the remaining gains from freer trade as noted above. The second difference from most previous studies is that the baseline scenario incorporates the final implementation of the Uruguay Round, including the end of the textile and apparel quotas in 2005, China's membership in the WTO, and the accession of 10 Eastern European countries to the European Union. In sum, the new World Bank estimates do not indicate smaller benefits per unit of liberalization. Rather, there is less liberalization remaining to be done than previously assumed.

These studies and others not discussed here find that almost all developing countries gain from a move to free trade, but the distribution becomes more uneven under some of the less ambitious partial liberalization scenarios. Table 1.3 shows results from several Doha Round scenarios analyzed by Anderson, Martin, and van der Mensbrugge (2006).<sup>8</sup> A scenario

8. Other scenarios may be found in Bouet, Mevel, and Orden (2005) and Polaski (2006), but they are not included because of differences in assumptions and models that make them difficult to compare.

**Table 1.3 World Bank estimates of gains from Doha liberalization scenarios**

<b>Group</b>	<b>Agricultural liberalization, no sensitive products: Scenario 1</b>	<b>Agricultural and nonagricultural liberalization, no sensitive products: Scenario 7</b>	<b>Same as scenario 7 but developing countries take same cuts on manufacturing</b>	<b>Share of liberalization gains due to agriculture: Scenario 7</b>
	(billions of dollars)	(billions of dollars)	(billions of dollars)	(percent)
World	74.5	96.1	119.3	77.5
High-income countries	65.6	79.2	96.4	82.8
Middle-income countries	8.0	12.5	17.1	64.0
Low-income countries	1.0	3.6	5.9	27.8
East Asia and the Pacific	0.5	4.5	5.5	11.1
South Asia	0.4	2.5	4.2	12.0
Middle East and North Africa	-0.8	-0.6	0.1	-133.3
Sub-Saharan Africa	0.3	0.4	1.2	75.0
Latin America and the Caribbean	8.1	7.9	9.2	102.5

**Scenario definitions:**

Scenario 1 assumes cuts of 45 to 75 percent in agricultural tariffs for rich countries and 35 to 60 percent for developing countries, with higher tariffs being cut more than lower ones.

Scenario 7 is the same as scenario 1 for agriculture, plus 50 percent cuts in nonagricultural tariffs for developed countries and 33 percent cuts for developing countries.

Note: The scenario numbers are the same as those in the World Bank study. All scenarios assume elimination of export subsidies, cuts from actual levels of agricultural domestic subsidies in developed countries, and no commitments by least developed countries.

Source: Anderson, Martin, and van der Mensbrugghe (2006, 360, 370–71).



assuming average tariff cuts of 40 to 50 percent in agriculture and manufacturing by developed countries, smaller reductions by most developing countries, and no reductions at all by the least developed countries produces about a third of the overall potential gains from global free trade—\$96 billion versus \$287 billion (column 2; see table notes for details).

As in the free trade scenario, the majority of gains are from agricultural liberalization, but the regional breakdown shows interesting variation, and developing countries reap only about 20 percent of the potential gains they could accrue from full free trade.<sup>9</sup> Among developing countries, middle-income countries gain the most in the agriculture-only scenario, with most of the gains, not surprisingly, being captured by competitive Latin American exporters. Among low-income countries, agriculture is not the major source of gains, with the important exception of sub-Saharan Africa. The Middle East and North Africa region is a net loser in several of the World Bank's scenarios because many of the countries in this area are net food importers. In the scenario with broader and deeper liberalization by developing countries, however, all regions reap overall net gains (column 3).

Thus, even in a world of high trade barriers and subsidies, several middle-income developing countries have become important agricultural exporters, and these countries have the most to gain in the short run from further liberalization. But not all developing countries would gain equally from agricultural liberalization by wealthy countries, and there are significant challenges in many countries in translating such liberalization into meaningful opportunities for poor farmers.

Still, even countries that might lose in the short run would gain in broad terms from a deal that affirmed the utility and preserved the credibility of the multilateral trade system. A failure in this negotiation would have the potential to undermine the commitment to the WTO of the large, powerful countries that have alternative means of protecting their interests. A likely outcome would be further proliferation of bilateral and regional trade agreements that typically exclude the most vulnerable.

## **Why Is a Doha Agreement on Agricultural Liberalization Not Enough?**

More than trade liberalization is needed to ensure that developing countries and the poor gain from globalization. Trade creates losers as well as winners, and policymakers interested in reducing poverty need to find

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9. Anderson, Martin, and van der Mensbrugge's (2006) central Doha scenario (the second column of table 1.3) shows middle-income and low-income countries gaining \$16.1 billion, compared with the \$86 billion that can be calculated from Anderson, Martin, and van der Mensbrugge's global free trade scenario in table 1.2 (30 percent of \$287 billion).

ways to compensate the losers or help them adjust. Many countries also lack the capacity to respond effectively to changing conditions in global markets and will need assistance if they are to take advantage of these changes.

As noted, many countries are net food importers that could lose from increased world prices for subsidized commodities; other countries might experience the erosion of their preferential access to markets in rich countries. In the poorest countries, the challenges are even greater. Many rural poor are subsistence farmers with potentially little to gain in the short run if the costs of getting their crops to market outweigh any price gain (Hertel and Winters 2006). But much analysis also suggests that these losses are not likely to be as great as feared (e.g., Badiane 2004). Moreover, gains in other developing countries that do not enjoy preferential access would counterbalance some of these losses. It is far better to compensate the losses and provide assistance to overcome obstacles to exporting than to forgo the potential gains.

In addition, there is a need to look beyond the traditional trade barriers and subsidies that are at the center of the negotiation. Many developing countries have responded to the distortions created by rich-country farm policies by focusing on exports of products that are relatively less protected and that exploit comparative advantage, such as tropical products (other than sugar) and fruits and vegetables. In these areas, it is also important to ensure that developing-country exporters can meet the quality and food safety standards that consumers increasingly demand.

Rich-country liberalization is thus only part of the answer because it may not trigger a significant supply response in countries where farmers lack infrastructure (transportation links, storage facilities), access to inputs including credit, and sensible national policies. Even substantial trade policy changes in rich countries are likely to produce disappointing results for the poorest unless the need for complementary domestic policy reforms and investments is also addressed. If both sets of challenges are addressed—market access in rich countries and supply constraints in poor ones—the World Bank (Hertel and Winters 2006) and Cline (2004) calculate that the long-term and dynamic gains from global free trade could lift 100 million to as many as 400 million people out of poverty by the middle of the next decade.

## Plan of the Book

A successful Doha Round would open new opportunities for many poor countries, but grasping those opportunities and ensuring that poor people in those countries also benefit will require far more. The present volume organizes the discussion of these issues around three questions: First, what are the obstacles to a successful agreement in the agricultural area? Second, what are the likely distributional consequences of such an agreement?

Third, what would a good deal look like from the perspective of developing countries?

Chapters 2 and 3 address the problems posed by how rich countries support their agricultural sectors. Chapter 2 considers which products are supported by particular countries and examines the mechanisms they use. Chapter 3 focuses on the evolution of policies in the United States and the European Union in order to explore why agricultural protection in rich countries and so resistant to reform.

Chapter 4 explores the potential distributional effects of an agricultural agreement by examining current trade patterns involving developing countries and agriculture. The data highlight the opportunities that offer the greatest potential gain to developing countries, as well as the challenges some of these countries face in exploiting those opportunities.

Chapters 5 and 6 explore the elements of a potential deal. Chapter 5 examines the “devil in the details” of the Doha Round and suggests what rich countries need to do to ensure that meaningful agricultural liberalization occurs. Chapter 6 concludes with recommendations for the broad package that is needed to deliver on the promise to make Doha truly a development round.

