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Concessions and Exemptions For Developing Countries in the Agricultural Negotiations: The Role of the Special and Differential Treatment

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Concessions and Exemptions For Developing Countries in the Agricultural Negotiations: The Role of the Special and Differential Treatment

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Abstract: The main provisions of the special and differential treatment (SDT) granted to developing countries in the agriculture and food sector under the present World Trade Organization agreements are presented. The different provisions seem to have had a limited impact on developing countries, and revision is needed. The positions of the various developing countries regarding the SDT in the negotiations are summarized. Recent simulations of the consequences of a plausible agreement under the Doha negotiations suggest that there is a case for a special treatment for poorest countries, but also for a subset of countries that are likely to lose at multilateral liberalization, because of the erosion of existing preferences. Suggestions are made in order to make special and differential treatment provisions more effective. While direct assistance could play a role, a revised system of preferences could deserve some attention.

Keywords: Developing countries, agricultural trade, WTO, trade preferences

1. Special and differential Treatment in the WTO Negotiations

The 2003 Ministerial conference in Cancún saw the emergence of a group of developing countries, the G20. They resisted the conclusion of an agreement on agriculture unless some major concessions were obtained from entities such as the United States (US) or the European Union (EU), in particular on important issues such as cotton subsidies and export subsidies. The unity of developing countries has proven more solid than EU negotiators expected, given their very heterogeneous interests in the negotiation. Recently, the common declaration of the Group of 77 and China (November 2004), suggested that the common incentive to get concessions from the EU and the US was stronger than the centrifugal forces at work. This declaration also shows that the demand for a "Special and differential treatment" (SDT) is a unifying force that cements the position of developing countries.

Skeptics point out that the expression of SDT is broad (and vague) enough to include very different concepts, on which developing countries do not necessarily agree. Indeed, the consultation phases of the Doha Round showed that demands from developing countries included a variety of issues, such as derogations from the WTO discipline on tariff reduction, the possibility to support some particular sectors (staple food) on behalf of food security, longer adjustment periods, and even, at some point, the right to increase tariffs.

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The objective of this paper is to assess the rationale for SDT in agriculture, to discuss what should be included in SDT so as to address the specific problems faced by developing countries in the trade liberalization process, and to assess whether the 2004 Framework Agreement meets their the expectations.

We first provide an overview of the provisions of the SDT in the WTO Agreement on Agriculture. We then present a brief assessment of these provisions, and we describe the proposals for a SDT during the Doha Round as well as the STD provisions for agriculture of the 2004 Framework Agreement. We then provide elements regarding the case for a SDT. We show the very uneven consequences of a Doha agreement on agriculture across developing countries, and we discuss the need for adjustments and, possibly, compensation to potential losers. We believe that a more ambitious SDT is necessary in order to garner support of developing countries for a WTO agreement, but that the present dichotomy between developed and developing countries is not appropriate. While there is presently strong criticism of preferential regimes, we think that preferential market access could play a significant role in correcting for the uneven effects of a Doha agreement, and that the 1960s principles on granting preferential access still deserve some attention, provided that the basis of these preferences is renovated.

2. SDT in the 1994 Agreement on Agriculture

Under the General Agreement on Tariffs and Trade (GATT), SDT took the form of preferential access to developed country markets and exemption from disciplines applying to the protection of domestic industries under particular conditions. Preferential market access was justified as a means to encourage export diversification by developing countries in order to escape the ongoing decline in their terms of trade. This led to the implementation of the Generalized System of Preferences (GSP) in the early 1970s. Exemptions from the disciplines on the use of protective measures were justified by arguments that the trade policies appropriate to developing countries are different to those required in developed countries, that the developed countries themselves used selective protection in earlier periods, and thus that the policy disciplines which apply to the latter should not apply to the former (Matthews, 2005).

The meaning of SDT changed during the Uruguay Round. Developing countries (apart from the Least Developed Countries, hereafter LDCs) were expected to assume the general obligations of membership. The focus shifted towards responding to special adjustment difficulties in developing countries which might stem from their implementation of WTO decisions. This included a lower level of obligations and longer implementation periods, as well as technical assistance for capacity building.

The 1994 Uruguay Round Agreement on Agriculture provided SDT for developing countries in four main areas. First, developing countries were required to accept less constraints in terms of reduction of support and tariffs. For example, they had to cut tariffs by 24 percent rather than 36 percent for developed countries. Because they were also allowed to opt for rather arbitrary ceilings for binding their initial tariff levels, they could *de facto* secure high bound tariffs (often higher than the ones they applied) from which they made reductions. In practice, most developing countries still have bound tariffs that far exceed their applied tariffs. Developing countries were also allowed to make use of a time-limited special treatment provision to exempt their staple food crop from the tariffication requirement, provided they opened their market to minimum access (4 percent of consumption).

On the domestic support side, developing countries were allowed to provide farm support linked to output¹ up to 20 percent of the value of production under the *de minimis* clauses (10 percent on both

¹ Remember that the WTO discipline applies only to support that is linked to output or inputs ("non decoupled"). All support to farmers that has no or minimal impact on the level of production ("decoupled") is not subject to any limitation under the Agreement on Agriculture. Other subsidies must be counted towards a country's Aggregate Measures of Support (AMS) unless exempted under *de minimis* or blue box provisions. These allow

product specific and non specific support), even though they had no prior record of providing this kind of support (developed countries were required to cut production distorting support, and were allowed a tolerance up to 10 percent of the value of production under the two *de minimis* clauses).

On export subsidies, developed countries agreed to reduce by 36 per cent the value of export subsidies from their 1986-90 base level and to cut the quantity of subsidized exports by 21 per cent over six years. For developing countries, the reduction commitments were two-thirds of those applying to developed countries, and the implementation period is extended to ten years. No reductions were required of LDCs. The Agreement on Agriculture also prohibited the use of new export subsidies where they are not reported in a country's Schedule as having existed in the base period, with some exception for food aid.

Second, in addition to lower reductions in their tariffs and support, developing countries benefited from a longer implementation period. That is, for example, they had to reduce their bound tariffs over the 1995-2005 period rather than the 1995-2000 period for developed countries. Developing countries were also given more flexibility in the use of certain instruments such as investment subsidies and export subsidies, than developed countries. Aid to farmers in order to encourage diversification away from narcotic crops, or subsidies to inputs and investment targeted to low income farmers were also exempted from reduction. Government stockholding programs for food security purposes and food aid were not subject to limitations, as they were included in the "green box".

Third, an even more special treatment was granted to some categories of developing countries. Least developed countries (LDCs) were not required to undertake any tariff reduction commitment, for example. Special commitments were entered under the *Decision on Measures Concerning the Possible Negative Effects of the Reform Program on Least-Developed and Net Food-Importing Developing Countries*. With this decision, WTO Members agreed to establish appropriate mechanisms to ensure that the implementation of the Uruguay Round Agreement on Agriculture would not adversely affect the availability of food aid at a level which would be sufficient to continue to provide assistance in meeting the food needs of developing countries.

Finally, other agreements which matter a lot for the agricultural sector also include SDT provisions. This is the case for the 1994 Sanitary and Phytosanitary (SPS) agreement, which was implemented in order to address the fact that some countries could use national regulations in order to restrict trade through non-tariff barriers. Article 10 of the SPS agreement states that "members shall take account of the special needs of developing countries" and in particular of the LDCs. It recommends longer time frames for compliance to SPS measures so as to maintain the export opportunities of these countries. It also states that the SPS Committee of the WTO can grant developing countries some limited exceptions to the obligations of the agreement. This may mean less need to justify scientifically a given provision.

The 1979 Technical Barriers to Trade agreement was significantly modified during the Uruguay Round. Article 12 states that a differential and more favorable treatment should be provided to developing countries. These provisions are mainly an encouragement to take into consideration the difficulties for developing countries to comply with Northern standards. Time exemptions are suggested, as well as assistance in the preparation of technical regulations, standards and conformity assessment procedures.

support for a particular product to be exempted if that support is not greater than 5 per cent of its value of production (10 per cent for developing countries) or non-product specific support if it is less than 5 per cent of the total value of agricultural production (10 per cent for developing countries). The remaining support included in a country's Base AMS was to be reduced by 20 percent over a six year period. This reduction commitment was 13.3 per cent over a ten year period for developing countries and zero for the LDCs.

3. An assessment of the Uruguay Round provisions

The 2001 WTO Ministerial Declaration which launched the Doha round of negotiations reaffirmed that "Special and differential treatment for developing countries shall be an integral part of all elements of the negotiations on agriculture". However, it is unclear whether the ongoing round should adopt the same framework as the Uruguay Round in this area.

Tariffs. During the tariffication phase of the Uruguay Round (conversion of previous protectionist measures into tariff only protection), the latitude to set ceiling tariffs gave developing countries the possibility to set high bound tariffs, higher than the ones applied. This explains why the flexibility provisions granted to developing countries on tariff reduction (smaller mandatory reduction, longer period) have not been particularly needed: they applied to bound tariffs, which were not actually binding. With a few exceptions (Egypt, some Latin American countries), developing countries apply tariffs that are often only 15 to 60% of the level of their bound tariffs (source: Gibson et al, 2001; Sharma et al, 2002). Bhir et al (2005) assess the average, ad valorem equivalent binding overhang to be as high as 87 percentage points for LDCs, and 29 points for other developing countries. Thanks to this "binding overhang", developing countries can increase tariffs when they believe they need it, without hitting the bound tariff ceiling.

In many cases, this freedom was constrained by non-WTO pressures. They included the obligation to lower tariffs under structural adjustment programs, the need to keep low food prices for consumers, or the need to have tariffs compatible with neighboring countries within a regional integration strategy (Matthews 2005). Even if they made little use of it, this provision was nevertheless a safety valve and made it possible to adjust to external shocks. Further reductions in the bound tariffs under the Doha Round will erode significantly the margin between bound tariffs and the applied ones. Already, some authors believe that this could have worrying consequences, by depriving developing countries of an adjustment tool that few of them have so far much used (Sharma 2002, Stiglitz and Charlton 2004).

In spite of the Uruguay Round provisions for SDT, developing countries actually have less access than developed countries to the safeguards mechanisms that are normally designed to adjust border protection when imports surge. Under the 1994 Agreement on Agriculture, a special safeguard makes it less complex than the regular GATT/WTO emergency safeguards provisions to trigger an increase in tariff, for those countries which went through the "tariffication" of former protection measures. However, the right to implement the special safeguards had to be reserved by countries in their tariff schedules. As a result, while most developed countries have done so, only 21 developing countries are now allowed to make use of this provision. During the 1995-2001 period, very few of them had actually used it (Sharma 2002). It is difficult to know whether they did not need these provisions (they could increase their applied tariffs up to the bound ceiling), or they could not gather the necessary conditions to invoke the safeguard, or they faced political pressures not to do so.²

Export subsidies. The flexibility given on export subsidies for agricultural products is of little use for developing countries, since few or none of them provide such subsidies (indeed, many tend to tax the export sectors).³ While more flexibility on export subsidies could be, in theory, part of price stabilization schemes that could be needed in some developing countries, this aspect of SDT has not proved particularly useful.

² Several members of NGOs report, in private, that attempts of West African countries to impose extra duties on products whose exports were subsidised by the EU or the US were subject to pressures and informed of threats to financial assistance. However, there is obviously no evidence of such practices.

³ There are some repeated allegations of indirect export subsidies on some particular products such as ethanol from Mercosur countries, but they have not led to formal disputes, and if they exist, they do not fall under the STD of the Agreement on agriculture. Matthews (2002) reports some limited use of the SDT provisions on export subsidies (Article 9.4. of the Agreement on agriculture) for cut flowers, fresh fruits and vegetable by developing countries.

On the domestic support side, if developing countries were subject to less constraint in percentage terms than developed countries, in absolute terms, the agreement is particularly uneven (Matthews, 2002). Developed countries started from a very high base, as measured by the Aggregate Measure of Support (AMS) and had to decrease only the support linked to production (amber box). In practice, they were not constrained by the Agreement on Agriculture, and could maintain considerable volumes of assistance to the farm sector, even though the Agreement forced some major reorientation of their agricultural policies towards more decoupled and less distorting forms of support.

Few developing countries were providing substantial level of assistance to the farm sector (work from the World Bank and the Economic Research Service of the US Department of agriculture in the early nineties showed that most of them operated some negative level of support to the farm sector, siphoning resources from it, while developed countries heavily subsidized it). Only 13 developing countries reported a positive base AMS in 1994. Some 96 others have therefore no prior support, and no basis to provide support to their farmers under the AMS provisions of the Uruguay Round Agreement on Agriculture. They can provide support under the *de minimis* clause, but the amounts are much more restricted than what past AMS commitments allow developed countries to spend.

Overall, the WTO disciplines on domestic support leave little room for maneuver for a developing country that would like to support the farm sector with output- or input-targeted payments. This could be a problem if, for example, some compensation was given as a result of changes in some agreements (such as for example changes in the EU banana regime or the EU sugar regime that resulted in rents to particular countries). If a developing country receiving such compensations wanted to use the funds to implement production enhancing payments, it would face WTO constraints. In addition to the *de minimis* provisions, such a country could use some "blue box" provisions mentioned under the August 2004 framework (assuming that these are maintained under the future Doha agreement), but such payments can only be granted if there are some clauses restricting output. Beyond this, extra assistance to farmers would need to fall under the "green box", i.e. environmental or social payments with no or minimal link to production.

Some limited possibilities to subsidize investment and inputs in agriculture nevertheless exist under the Article 6.2. of the Agreement on Agriculture. These latter are restricted to "low income or resource-poor producers" and diversification from growing illicit narcotic crop. Such payments are exempt from reduction commitments. Sharma (2002) reports that 23 developing countries have made use of these provisions, but, with the exception of Malaysia, Morocco and Turkey, their outlays for subsidies to farmers are negligible (less than 2% of the value of production).

Matthews (2005, 2002), who has analyzed these issues in detail, concludes that the WTO commitments on domestic support have not been constraining for developing countries, because they do not have the budgetary means to provide significant support to their farmers. That is, the SDT on this issue is of little relevance. However, it is noteworthy that the Uruguay Round allows greater freedom to developed countries than to developing countries to provide domestic support.

Other measures. Regarding the other measures that can broadly fall under the SDT framework, the Annex 2 provisions of the Agreement on Agriculture, that governmental stockholding for food security purposes is not considered as support subject to reduction commitments, is seen as positive by many developing countries which have underlined the need for special provisions regarding food security.

The SDT provisions of the SPS and TBT agreements have not proven particularly effective. Developing countries have been hit by regulations that have imposed obstacles to their exports. This has been the case of sanitary restrictions for fish in East Africa (EU), and, more generally, of the whole SPS system of countries such as Australia and Japan, which is so strict that it creates major impediments to developing country exports (OECD 1999). It has been suggested that future regulations in preparation, following consumer pressures in developed countries, could even make things worse (Cerrex 2003). In addition, recent work has shown that private standards, to which WTO

decisions do not apply, are now becoming major impediments to the exports of African, and more generally the poorest countries (Bureau et al 2004). Indeed, surveys suggest that the requirements of traceability and certification by the downstream sectors has pressed some importers to give up imports from some of these countries, even though there is sometimes little evidence of risk (case of frozen fish), because of the fear of liability. In face of these growing non-tariff barriers, the SDT provisions of the SPS agreement do not seem to be particularly efficient.

These provisions could provide a basis for challenging some of restrictive regulations. But experience has shown that only middle-income countries tend to bring trade issues to the WTO dispute settlement body. These are not the countries most affected by the regulations.

It is noteworthy that there has been some genuine effort, in particular from the European Union, to provide assistance for the upgrading of plants so as to match EU requirements, as suggested in the TBT agreement. However, the financial assistance to do so remains limited, and at the same time, significant funds were given to Central European countries to upgrade their plants and match the *acquis communautaire*. In some cases, the processing of developing countries exports has shifted from West Africa to Poland, because it became easier to match the EU demands for certification in these improved facilities. That is, the SDT in this area remains far below what would be necessary to help significantly the poorest developing countries.

In spite of the commitments *vis-à-vis* the Net food importing developing countries, no real action has followed from it to date. As pointed out by Matthews (2002), in the case of food aid, the Food Aid Convention concluded in 1999 actually lowered the minimum guaranteed quantities donors intend to provide. As regards financing facilities, the *Decision* recognizes that the two groups of countries facing difficulties "may be eligible to draw on the resources" of existing facilities of the international financial institutions, or such new facilities as may be established. But most of the *Decision* countries already have access to these resources. On aid programs, the *Decision* does not bind any country nor give any specific guideline on how "full consideration" is to be given to requests for technical and financial assistance to improve their agricultural productivity and infrastructure.

Overall, the SDT provisions of the Uruguay Round Agreement on agriculture have not had a significant impact. They relaxed some of the constraints of the agreement in a way that has not been particularly useful for developing countries, either because they do not have the financial possibilities to use the corresponding instruments (direct payments, export subsidies), or because they had little need for them (lower cuts in bound tariffs). The most significant degrees of freedom for adjusting their trade policies to market circumstances came from the tariffication process, where they could bind tariffs at a high level, and then apply lower tariffs. This was a one shot policy, and these degrees of freedom will be eroded by future decrease in bound tariffs. Overall, the SDT provisions of the Uruguay Round agreements have been more defensive rather than offensive. They have provided possibilities for developing countries to opt out certain clauses, but little genuine "positive" advantage.

4. The proposals for SDT during the Doha Round

During the Doha Round, developing countries have been largely in favor of an ambitious trade liberalization scenario. They have been vociferous in attacking the protectionist policies in OECD countries, and in arguing against US cotton subsidies and EU export subsidies. They have shared a common position on issues such as tariff cuts, lowered tariff dispersion, a strong reduction in tariff escalation, and a greater transparency in tariff structures whose complexity is seen as acting against developing countries.⁴ Developing countries have also called for the simplification of the

⁴ See, for example, the proposal on market access submitted Cuba, Dominican Republic, El Salvador, Honduras, Kenya, India, Nigeria, Pakistan, Sri Lanka, Uganda and Zimbabwe, G/AG/NG/W/37. See the position of India G/AG/NG/W/33.

administration of tariff rate quotas and that they should be made more transparent and equitable for all trading partners.

However, a detailed examination of the negotiating positions of developing countries shows that their interests are largely dissimilar, in spite of the common front against developed countries' agricultural policies (Bjornskov and Lind 2004). Cairns Group developing countries aim at large reductions in MFN tariffs and the ending of export subsidies. This is not in the best interest of net food importing countries, which fear that trade liberalization results in higher world prices for agricultural and food products. In the area of tariff reductions, Caribbean and African countries fear the erosion of their preferential access to the EU and US markets, and the increased competition of Central America (bananas), Brazil, Australia (sugar, meat) and Argentina (beef). LDCs, the group of the *Small Island Developing States*, and *Landlocked Developing Countries* fear the competition from these efficient exporters.

Looking at the negotiating positions, as expressed during the preliminary phase of the Doha Round, it appears that, if they clearly agree that developed countries should reform their trade policies, developing countries are more reluctant to consider large cuts in their own tariffs. For some countries, the loss of tariff revenue is a significant issue. Some developing countries have even expressed the idea that, in order to be able to promote domestic food production as a means to greater food security, developing countries should be able to raise tariff bindings on food staples, even though this proposal was opposed by other developing countries in addition to most developed countries during the Round.⁵

Developing countries want to keep the possibility of altering tariff rates in order to stabilize domestic farm prices in the face of low world prices. International organizations argue that the abolition of variable protection should, in theory, lead to more stable world prices. However, developing countries will be reluctant to forego this instrument until they have more confidence in the stability of the world market. Thus, some developing countries consider that the use of variable tariff schemes could be a component of the SDT, and be only allowed to developing countries. Developing countries have also argued that the right to make use of the Special Safeguard clause should be similarly confined to developing countries.

Some developing countries argue that the Uruguay Round Agreement on agriculture represents a very unbalanced and skewed set of obligations, in particular because of the very unequal initial situation from which a common discipline was imposed on both developed and developing countries (this is particularly the case in the area of domestic support). The exemptions and rule changes to the Agreement on Agriculture sought by a number of developing countries have become known as the Development Box (Matthews, 2005). For some countries, this Development Box is seen as the main objective for a future SDT. This is the case for the group of countries that worry about the safety of their food supply and see the SDT as insurance that they can continue to implement measures to protect the production sector for staple foods. This group argues that changes to WTO rules are necessary if they are to have the flexibility to implement specific policies to address their food security concerns. Earlier in the negotiations, as part of its proposal for a Food Security Box, for example, India has proposed that all measures taken by the developing countries for poverty alleviation, rural development, rural employment and diversification of agriculture should be exempted from any form of reduction commitments.⁶

⁵ See the proposal on 'Special and Differential Treatment and a Development Box' submitted by Cuba, Dominican Republic, Honduras, Pakistan, Haiti, Nicaragua, Kenya, Uganda, Zimbabwe, Sri Lanka and El Salvador, G/AG/NG/W/13.

⁶ See G/AG/NG/W/102 Proposals by India in the areas of (i) Food security (ii) Market access (iii) Domestic support, and (iv) Export competition.

5. The SDT in the 2004 framework

In August 2004, the Framework Agreement set out some principles for a future agreement on agriculture under the Doha Round. However, it only includes general principles, and not the detail of, say, the percentage reductions in tariffs, or the way domestic support will be reduced. There is a special section on SDT, and it is stated that "... the modalities to be developed will need to incorporate operationally effective and meaningful provisions for special and differential treatment for developing country Members. Agriculture is of critical importance to the economic development of developing country Members and they must be able to pursue agricultural policies that are supportive of their development goals, poverty reduction strategies, food security and livelihood concerns."

The Framework envisages a tiered formula under a single approach under which deeper cuts will be made in higher tariffs, but with flexibilities for sensitive products. The formula approach remains to be negotiated, and it is stated that SDT will be an integral part of all these elements of the negotiations. The Framework also envisages that developing country Members will have the flexibility to designate an appropriate number of products as Special Products, based on criteria of food security, livelihood security and rural development needs which will be eligible for more flexible treatment. The criteria and treatment of these Special Products are to be further elaborated during the negotiation phase. Finally, the Framework envisages the creation of a Special Safeguard Mechanism for use by developing country Members.

The Framework states that SDT treatment remains an integral component of domestic support disciplines. It is agreed that the modalities to be developed will include longer implementation periods and lower reduction coefficients for developing countries for all types of trade-distorting domestic support. Continued access to the provisions under Article 6.2 of the Uruguay Round agreement on agriculture will be allowed. Reductions in *de minimis* are foreseen, but developing countries that allocate nearly all of their *de minimis* programs to subsistence and resource-poor farmers will be exempted.

Developing country Members will benefit from longer implementation periods for the phasing out of all forms of export subsidies. Following the deadline for the phasing out of export subsidies in general, a time limit, to be agreed, will be placed on their continued access to the provisions of Article 9.4 permitting developing countries to provide limited types of export subsidies even where no such subsidies had been provided before.

6. The case for a SDT: the likely impacts of a Doha agreement on agriculture

Until recently, there was a relative consensus that developing countries had a lot to gain from an agreement on agriculture in Doha. Authors such as Hertel et al (2003) concluded that developing countries would reap most of the benefits of trade liberalization. The World Bank, in the 2004 edition of its *Global Economic Perspectives*, found that the liberalization of agricultural trade would generate worldwide annual gains of some 358 billion dollars (at 1997 prices), more than two thirds of which (240 billions) would accrue to developing countries, and would lift hundreds of millions people out of poverty.

Recent results have challenged this optimistic forecast. Bouët et al (2004) and Laird et al (2004) showed that better access to developed countries markets and higher world prices would benefit exporters of agricultural products, but that not all developing countries were in this situation, or were even in the process of becoming net exporters. Their simulations showed that the gains in terms of trade that developing countries could expect from trade liberalization were limited, even when positive, for many developing countries. Trade preferences have already removed most tariff barriers for many developing countries, including most of the poorest ones, and a multilateral liberalization would mean, for them, an erosion of their preferential access.

The reasons why economic models now lead to much more contrasted results than in the past regarding the potential gains of trade liberalizations for developing countries come mainly from better data, and from more disaggregated approaches. For example, Bouët et al (2004a) carefully considered the preferential regimes granted to developing countries when simulating the effect of a multilateral reduction in tariffs. Indeed, taking more precise account of the applied bilateral tariffs markedly alter the conclusions that can be drawn from such exercises for the developing countries. In particular, this study shows that the lowering of MFN duties by Northern countries erodes the preferences granted to sub Saharan Africa. Countries such as Australia or Brazil would then replace the preferential exports of Africa, the Caribbean or the Andean countries.

The reduction of internal support would have a more significant effect than other measures in the rice, cotton and, to a lesser degree, the cereal and oil crop sectors (Bouët et al, 2004a). In the sugar sector, the removal of export subsidies would have the most significant impact. In the other sectors, particularly fruit and vegetables, it is the lowering of tariffs which is most important. Nevertheless, apart from significant impacts on the world price of rice, milk and sugar, the price effects of the Doha round will be small. Growth in production would certainly occur for developed countries in the Cairns group and, to a smaller degree, developing countries of the same group (Brazil, Argentina and Thailand particularly). Considering the effects of erosion of preferences, it is principally the exports of the Cairns group (and to a lesser degree, China and the Asian developing countries) which would increase, to the detriment of EU exports. African countries would see no significant growth in their exports.

The welfare effects in developing countries presented in Table 1 are the combination of changes in the terms of trade, allocative efficiency, and government revenues, as well as gains for agricultural producers and losses for consumers. In Mediterranean countries and sub-Saharan countries, the welfare effect of the Doha Round would be negative. Other developing countries (Asian and some South American countries) would experience a net increase in welfare, but by a limited amount (Table 1, and Bouët et al 2004a for more details). Some of the poorest countries, or at least some countries that include the largest number of the poor, such as India, Pakistan or Bangladesh (part of "South Asia" in Table 1) experience a slight increase in welfare, mainly due to allocative efficiency gains generated by the elimination of their own domestic distortions. However, others, also among the poorest, experience welfare losses. This is the case of Sub-Saharan Africa, which includes many of the least developed countries.

Note that the farm sector in Sub-Saharan Africa benefits from higher world prices, even though trade liberalization hurts consumers. This is not the case in South Asia, because of larger cuts in agricultural tariffs (an indication of the effects on the farm sector is given by the returns to agricultural land in Table 1. See Bouët et al 2004a for more details).

Table 1. Impact of a Doha agreement on agriculture (changes in % relative to a 2005 baseline)

	Change in agricultural and food production	As & food exports	Ag & food imports	Returns to agricultural land	Welfare (equivalent variation)
EU 25	-1.57	2.7	12.8	-15.06	0.14
USA	-1.05	0.8	2.8	-0.21	0.07
Asia Developed	-2.08	11.8	9.6	-1.79	0.06
EFTA	-2.73	-3.8	3.7	1.10	-0.03
Cairns Developed	3.66	12.8	2.8	1.08	0.04
Mediterranean	0.73	8.8	-1.5	0.77	-0.16
Cairns Developing	1.25	10.4	-0.7	0.60	-0.07
China	0.01	13.2	10.1	0.30	0.15
RoW	0.64	6.8	-0.7	1.15	-0.08
South Asia	-0.01	6.4	7.8	-0.10	0.15
SubSaharan Africa	0.76	4.7	-0.8	0.22	-0.05
World	-0.39	6.1	6.0	-	0.09
Rich	-1.20	4.2	8.5	-	0.09
DCs	0.74	9.4	1.0	-	-0.05
Poorest	0.23	5.4	3.9	-	0.10

Source : Bouët et alii 2004a.

Overall, recent works largely confirm the findings by Bouët et al that some developing countries will be adversely affected by multilateral liberalization in agriculture. This is, in particular the case of the work by UNCTAD, the FAO and the Economic Commission for Africa of the United Nations using the ATPSM model (see Laird et al 2004, for example). After they adopted more detailed data, the World Bank came up with results that differ significantly from their previous finding. Indeed, the gains for developing countries generated by agricultural liberalization were smaller and they found a list of countries for which welfare changes were negative (Anderson and Martin 2005).⁷ The debate has even been more controversial recently, since economists with impeccable free trade credentials warned publicly against the fallacies that agricultural trade liberalization would benefit all developing countries. Because of the combined effect of preference erosion, and higher world prices, they claim that some developing countries will be made worse off (Panagariya, 2005).

7. New roles for SDT

The original concept for SDT for developing countries relied on the idea that exemption from the disciplines applying to developed countries was necessary in order for them to have more time and support in order to become sufficiently competitive (Matthews 2005). However, the proposals of developing countries in Doha (see section 3) show that SDT is also sought given the variety of functions in agriculture. It is seen as a way to protect food security, to account for the very specific place of agriculture in developing economies, to protect poorest farmers from the competition of much more productive farmers in capital intensive countries, to provide subsidies to basic agricultural production. The fact that SDT is so multifaceted, and ambiguously defined, certainly explains its role as a cement between developing countries in the negotiation, but clearly raises the question of the content of a desirable SDT, beyond being a politically useful concept.

Some of these attempts to justify SDT lack economic foundations. Opting out of WTO disciplines is unlikely to help developing countries in the long run: they keep imposing very high tariffs between each other, for example, which are likely to hurt them more than tariffs imposed by developed countries (Bhagwati 2003). Regarding provisions that would allow developing countries to provide more farm subsidies, one may defend it as a way to build production capacity. However even though the EU or US agricultural sectors have benefited from farm subsidy policies in the 20th century, these countries have found it difficult to end subsidies that have been granted, and it is not the best road for developing countries to take. Trade policy is a very blunt instrument to address problems where rural communities and small farmers may be excluded from or damaged by open markets.

However, SDT could play a significant role in bringing the benefits of market access, encouraging reforms, while helping to keep adjustment costs to a minimum. It could also be an instrument bringing flexibility to reforms, necessary for political stability. Finally, it could be a way of making sure that no country would lose in the process of multilateral negotiation. This would require a larger, and more "positive" SDT, which should not only be an option for opting out or delaying reforms, and which would rely on a more relevant differentiation than the self declaration of belonging to the group of "developing countries".

Flexibility in adjustment. One of the roles of SDT should be to bring flexibility in the WTO discipline for developing countries. There can be some negative consequences of the Doha Round on developing countries for different reasons. In some cases, such as net food importing countries, it is the increase in world prices that may generate difficulties for the urban population. Sharma et al (1996) believe that this may contribute to the risk of destabilization. While the figures of Bouët et al (2004a) suggest more limited increases in world prices, this risk must be kept in mind. In some other cases, the fall in tariffs can also destabilize entire sectors of production. The unfortunate example of the destabilization of the

⁷ Part of the lower gains also came from the new benchmark in the World Bank model, which accounted for the fact that some trade had already been liberalized since the old reference year (1997).

rice sector by cheap imports in Haïti illustrates this issue (Oxfam, 2004). And reduced tariffs can cut the major source of funding (tariff revenue) for basic needs such as education and health.⁸

These issues are not raised in order to deter reforms and trade liberalization. Indeed, not all negative effects will occur at the same time (e.g. if prices increase, the negative welfare effects on consumers will correspond to gains for producers). But the problems are very different according to the characteristics of each country. This suggests that the potential negative effects of multilateral trade liberalization will need to be addressed on a case by case basis, sector by sector, country by country, according to the composition of exports and imports, and the sensitivity to price changes. The SDT should therefore provide the possibility for developing countries to adjust their trade policies, i.e. their tariffs and domestic support, according to their best interest, and to their internal policy pressures in countries where there is a risk of instability, that governments are better placed to assess than the WTO. This could justify the definition of "special products" in a Doha agreement.

Stabilization. A second role of SDT would be to leave developing countries the possibility to stabilize their market price and their supply. Indeed, the effect of trade liberalization on the volatility of agricultural prices is largely unknown. In spite of the mantra of the international organizations, which stress that a larger world market will dampen fluctuations, there is a risk that the concentration of production in some geographical areas (especially because these areas are subject to larger climatic variations than, say, Western Europe) may increase this volatility. Matthews (2005) argues that the need to protect particularly vulnerable producers who have no safety-net options against price volatility transmitted from the world market, is persuasive. There is a convincing case for making a special agricultural safeguard measure available to developing countries in the case of food security products, both for its substantive effect in protecting vulnerable producers against the worst effects of volatility in world market prices, and because it would make it easier for developing countries with high bound tariffs on these products to agree to significant tariff reduction commitments more generally. Such a special safeguard should be available on a permanent basis.

Food security. A third role for SDT could be to address the concerns of some developing countries which believe that food self-sufficiency is an important element in their food security strategy. Indeed, countries which have bound their tariffs on food staples at relatively low levels are concerned at the possible consequences for food security of further tariff reductions. Other countries are concerned that their ability to pursue growth promoting agricultural policies may be limited because they will come up against the low ceiling limits for domestic support. While raising tariffs on food is not an effective way to improve a country's food security, a lower rate of tariff reduction for a limited number of food security products, with a minimum threshold below which countries would not be required to go, at least until there had been a much more significant dismantling of agricultural protection in developed countries, can be justified (Matthews, 2005). It is important to recall that, in the Framework Agreement, the Least Developed Countries will be exempted from making any tariff reductions in the Doha Round.

Compensation for Doha? A fourth role for SDT could be to ease the transition for those countries that will lose from the Doha round. Findings such as those by Bouët et al (2004) suggest that a trade agreement in Doha will result in marginalizing a group of developing countries, including some of the poorest ones, even though it will help others to catch up with the developed world. One may argue that, while the countries that benefit most from the Doha Round (China, India, Brazil, etc.) are not the poorest countries, they include the largest number of poor (Winters, 2001). However, this does not offset the negative consequences of the round on other countries such as the LDCs, the NFIDCs or SSA. SDT should be defined so as to provide offer some form of compensation through a more favorable treatment to the losers. We spell out this argument in the next section.

⁸ In Guyana, the rent provided by the preferential export of sugar to the EU is estimated to amount to 10% of GDP and is the backbone of Guyanese economy (LMC, 2004). The erosion of such a preference is likely to have significant impact on the whole economy.

8. Preferential market access as part of the SDT?

Formally, "compensation" for potentially damaging effects of the Doha round, such as the erosion of the preferences, cannot be part of a WTO agreement for legal reasons. Corrective measures could consist in direct assistance from individual countries, bilateral arrangements or, possibly, measures under the International Monetary Fund provisions for Compensatory Financing Facility (CFF), although this fund is designed to cope with temporary and short term export losses; or the *Trade Integration Mechanism*, set up in 2004 to help member countries that experience balance of payments problems because of trade liberalization. Recently, there have been suggestions to constitute a special fund for countries that would suffer from the erosion of preferences with annual funding of some 500 million US\$ (Page, 2005).

However, direct compensation raises problems of targeting. In addition, the idea of raising funds for compensating unwanted effects already has a bad record. For example, the special commitments to alleviate the negative effects of the Uruguay Round on net food-importing countries and LDCs have not led to any real action to date. One may also think that it is rational that a country that suffers from a diversion of trade should get some form of compensation through a possible expansion of its market. That is, while well-targeted direct assistance may be efficient, it is worth exploring how a special treatment for the countries could be implemented through trade-based measures.

Clearly, the idea of granting preferential treatment to a particular set of countries is likely to raise objections. Preferential trade has been subject to considerable criticisms over the recent period, even though some of them have been triggered by vested interests. Critiques of preferential trade regimes claim that preferences divert trade between developing countries and create as many losers as winners; they say that preferences divide developing countries in international fora, undermining cooperation agreements; that preferences tend to make beneficiary countries advocates for rather than against the continuation of MFN tariffs, diminishing considerably the number of WTO members negotiating for their reduction. Preferences are also said to lock developing countries into the production of particular goods for which they show little competitiveness. It is even claimed that preferences have no or even a negative effect on growth and delay growth-promoting reforms (Ozden and Reihardt; 2003). Some authors, such as Anderson (2004) criticize the very concept of non reciprocal preferences, arguing that the gains to EU consumers under multilateral liberalization would be sufficient to allow them to increase their aid to developing countries such as the LDCs to compensate for the loss of income from preference erosion.

There are indeed serious issues to deal with, such as the risk of arbitrariness in criteria for eligibility, the risk of undermining multilateral discipline, and the possible resulting trade diversion. It is also likely that, in the longer run, trade preferences will lose effectiveness given the prospects of a general fall in tariffs and a reform of the domestic farm policies. However, the arguments of the detractors of preferential regimes are not compelling. Several recent works suggest that these preferences have significant positive effects on growth (Pomfret 1997; Romalis 2003), or at least on exports (Cline 2004). Often, the criticism of preferential agreements relies on fragile evidence.⁹ Some of the distortions caused by preferences come from the fact that they are limited to a subset of products, and this would not be the case if they were more evenly spread. Case studies suggest that preferences have had a positive impact, and that the main reason why this impact is limited is because preferences are too limited in coverage or depth and come with too many strings attached (Stevens and Kennan, 2004). Bouët et al (2005) show that preferential schemes such as the EU-ACP Cotonou Agreement or the US-Caribbean Basin Initiative are of particular importance for beneficiary countries. Preferences

⁹ For example the "Copenhagen Consensus" dismisses granting free access to LDCs exports as a measure not worth of interest, compared to multilateral liberalization (Lomborg 2004). When looking at the evidence to support the inefficiency of this free access, it seems that the authors rely essentially on simulations by Hoekman et al (2003). However, these simulations are based on a rather simple partial equilibrium model. This type of model is known for its sensitivity to elasticities, and it is not clear that their work was intended to be used for drawing the broad conclusions reached by the Copenhagen Consensus.

are actually well utilized and bring significant benefits in the agricultural sector (see OECD 2005, Candau et al 2004, Wainio et al 2004).

Preferences could be a component of a SDT targeted not only towards poorest countries, but also towards countries that lose from multilateral negotiations. Reformed preferences would need to include removing some of the strings attached to the regimes, setting a predictable time horizon for importers and investors, expanding the coverage of the preferences to all goods so as not to induce artificial specialization, and expanding the number of countries that would provide preferential access. Indeed, in a longer run, the structure of the world market will be radically different. Countries such as China and India, which will continue to have high MFN tariffs given their present level, will become major trade partners. A preferential access to a large share of world demand bears a potential for growth that could well offset some of the negative consequences of multilateral liberalization. It might prove more efficient than direct assistance in enabling a set of countries that desperately fail to take part to the world market to catch up. In addition, simulations suggest that developed countries and transition countries, as well as China, will be the main beneficiaries of the multilateral negotiations. Asking these countries to contribute to some form of compensation for the losers can be seen as fair.

A major problem that remains is the differentiation of developing countries for a SDT. Clearly, the dichotomy between developed and developing is not relevant, given the heterogeneous effects of the Doha Round. Any special treatment bears the risk of arbitrariness and questionable thresholds for eligibility. Defining a single category of countries that will be left behind, or even suffer from the negative consequences of trade liberalization, is difficult. The income criterion is important, since potential losers include the LDCs which have consistently failed to participate in the world market, and which are increasingly lagging behind (Cline 2004). However, the group of Net food importing countries (NFIDCs) are likely to be on the losing side of the WTO negotiations because of the deterioration of their terms of trade. So is most of Sub-Saharan Africa (SSA), also increasingly lagging behind. So are the Small Islands Developing States (SIDS), as well as wealthier developing countries whose preferential exports will face competition from other sources, and whose preferential rent will be eroded. All these groups could be seen as deserving some preferential treatment as compensation. So could a group of vulnerable countries whose economy depends on one of a few export commodities, which would be exposed to significant risks caused by increased price fluctuations or import surges.

Opening the door to granting a special status to every special category is clearly a Pandora's box. However, there could be a more differentiated classifications of developing countries, say, in three categories according to income per capita, with some possibility for countries in a particular situation, such as dependency on a few vulnerable sectors, to apply to the lower category (IPC, 2004). On the other hand, the distinction between the higher income group of developing countries and developed countries as far as obligations are concerned should be less delimited. For example, it seems reasonable, for example, that gainers such as Cairns group developing countries be required to implement the same tariff reductions as developed countries, albeit with perhaps a longer implementation period.

While the poorest countries would not be required to implement serious commitments, as it is the case in the 2004 Framework Agreement, they should be also given preferential access to developed countries, but also to emerging countries markets. By nature, any preference contradicts WTO principles, and must be allowed under special provisions. For that reason, if an ambitious set of trade measures must be implemented, it should be done through a reformed GSP. Indeed, the framework of the GSP benefits from a well-defined legal framework under the 1979 Enabling Clause, and a 2004 ruling of the WTO Appellate Body clarified the jurisprudence regarding discrimination under the GSP and the consistency with multilateral rules. That is, an ambitious and reformed GSP should be a complement to the SDT measures defined in the 2004 Framework agreement. This would bring the SDT back to its original roots, when non-reciprocal preferences were seen as a constructive form of "trade for aid".

9. Conclusion

Under the WTO, the SDT mainly consists in a lower level of obligations and longer implementation periods in for trade discipline. Basically, these are mainly options for opting out the liberalization process, which are unlikely to alleviate possible negative effects resulting from multilateral liberalization in third countries (Matthews, 2005). SDT should mean more than simply a longer time period in which to adjust to new trade and domestic support disciplines.

The SDT provisions of the Uruguay Round agreement on agriculture have not proved very useful. Developing countries now insist that the SDT corrects some of the imbalances of the Uruguay round, and exempt them from commitments. While some of the demands of developing countries are misplaced, an ambitious SDT must be implemented, in order to give them the necessary degrees of freedom to cope with the adjustment costs of more liberalized trade.

Because some developing countries see SDT as part of a development box, the provisions should also allow for special policies on a limited number of staple foods. They should also make it possible for developing countries to protect themselves from possible increased fluctuations of world market prices. The SDT principles within the August 2004 Framework agreement contain measures that go in that direction. However, if the international community wants to offset some of the negative effects of the Doha round, more ambitious and positive measures must be implemented. There is also a need to adopt a finer tuned distinction than the dichotomy between "developing" and non-developing country. Indeed, among the 148 WTO members, more than 100 are treated as developing countries, on a self-declaration basis, while they will benefit very unevenly from the negotiations.

Recent modeling efforts stress that the effects of trade liberalization will be very uneven across developing countries. Some "intermediate income" countries should benefit significantly from the opening of new agricultural markets, while others, among the poorest ones and the more specialized in a small number of products, will face the negative consequences of extra competition on their traditional markets and a deterioration of their terms of trade. In order to reach a fair agreement, the countries that benefit most from the Doha round (including some developing countries) should be asked to apply low or zero tariffs on imports from the poorest, or the more vulnerable countries. A reformed SGP could discriminate more against countries so as to target those that benefit less from liberalization. If a set of intermediate countries also decided to grant GSP preferences to the poorest, for the latter, the expansion of their market could offset some of the losses caused by multilateral liberalization. This would also allow them to benefit from increased access to the most rapidly growing markets, where quality standards are perhaps more accessible.

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