What the Developing Countries Want from the WTO

Alex F. McCalla

Professor Emeritus of Agricultural Economics, Department of Agricultural and Resource Economics, University of California, Davis

There is a very strong consensus among economists that developing countries have the most to gain from movements towards freer trade under the WTO. But the Seattle WTO meeting was suspended in part because of vocal NGOs who charged that free trade and globalization were not in poor countries’ interests. This paper makes three points. First, developing countries do have much to gain from general trade liberalization. Trade expansion is positively linked to growth. Second, agricultural trade liberalization offers even greater gains than liberalization in other sectors because of the heavy dominance of agriculture in poor countries’ economies. Third, not all developing countries are poor, food-deficit, importing countries. They are a heterogeneous group and many are agricultural exporters. An open-economy development strategy has historically paid off for developing countries and is still the best bet for the future. Therefore, a WTO agreement which provides a fair, open, transparent, and rules-based international trading environment is absolutely critical to reducing poverty in these countries. They need access to markets and protection from predatory practices by large rich countries. The WTO is the best game in town.

Keywords: developing countries; NGOs; non-trade issues; open trade regimes; protectionism

Introduction

There are few issues on which most economists agree. One of these surely is the notion that movements towards freer trade, on balance, provide positive benefits. Freer trade by definition involves greater interdependence among nations and, in this day and age, is
termed globalization. There is also a very strong consensus among economists that developing countries, particularly the poorest, have a great deal to gain (Krueger, 1999; Srinivasan, 1999; Bergsten, 2000; Stiglitz, 2000; Anderson, Erwido and Ingco, 1999; Tangermann and Josling, 1999; Huff, 2000; and Meilke, 2000). Development requires growth, and greater access to world markets is a powerful necessary condition for more rapid growth. Therefore poor countries have the most to gain from a more freely functioning world market, or—stated in the negative—poor countries have the most to lose from a failure of WTO (The Economist, 2000).

Yet well-organized and highly vocal protesters caused the suspension of the WTO meeting in Seattle and much turmoil at two more recent World Bank/IMF meetings. The cry is that freer trade and globalization are not in poor, developing countries’ interest and that it will cost already poor people dearly. Let me quote at length from one pamphlet prepared for Seattle.

First, the Least Developed Countries’ (LDCs’) share of world exports and imports had fallen sharply since the Uruguay Round, according to the United Nations Commission on Trade and Development (UNCTAD). According to UNCTAD, as a result of the implementation of the Uruguay Round accords, the world’s poorest nations—the 47 least developed countries—will lose an estimated $163 billion to $265 billion in export earnings while paying $145 million to $292 million more for food imports (Wallach and Sforza, 1999).

I should note that our review of the referenced UNCTAD document (UNCTAD, 1998) could not locate these numbers. However, the tone of the UNCTAD document clearly suggests that it is the UNCTAD Director General’s view that the poorest countries have not gained yet and may be left farther behind as a result of subsequent negotiations in the WTO.

In addition, powerful coalitions of NGOs, led by Public Citizen’s Global Trade Watch (Wallach and Sforza, 1999) and Friends of the Earth, argue that in addition to the negative impacts on the poor, the WTO is a threat to the environment—water and air, food security, forests, endangered species, and food safety—and it seeks to force bioengineered foods on an unsuspecting world. The rhetoric is strong and emotive even if for some the “factual” backup is less convincing. Finally, there is a strongly expressed fear of multinational corporations’ perceived power to destroy the environment and impoverish the small and powerless.

Thus, the first part of this paper tries to lay out the general case for the benefits that developing countries might get from the WTO (I am after all an economist). I will also recognize that every economic change creates both gainers and losers. The case for freer trade is that, on balance, gainers outweigh losers.

But the topic of this workshop is about agricultural trade liberalization. How do developing countries relate to this? My proposition is that they have even more to gain here than
in some other sectors. The poorest developing countries are still predominantly agricultural, with 60 percent or more of their labour force in agriculture and 40 percent or more of their GDP originating in agriculture. Further, for many of them agriculture is a major source of export earnings (FAO, 1999). Therefore access to a freely functioning market for agricultural products is absolutely vital to their development. This case makes up the second part of the paper. At the same time, it must be recognized that developing countries are a heterogeneous lot. Thus as I move to the third part of the paper, which is about how developing countries could benefit from agricultural trade liberalization, we will need to differentiate clearly between exporters, importers, and the poorest, food-deficit countries.

The Macroeconomic Impacts of Trade Liberalization

It is now generally accepted that poverty reduction is the overwhelming and dominant objective of development. There is a new consensus emerging that growth (getting prices right, appropriate investments, and freely functioning markets) is a necessary but not a sufficient condition for poverty reduction. Growth with equity requires positive public policies that focus on the poorest of the poor, investing in education, health, infrastructure, and properly functioning institutions. This new consensus does not abandon growth through well-functioning markets, but rather surrounds that process with positive investments in social and economic infrastructure.

Market-led growth requires access to profitable outlets for goods and services wherever the outlets are located. Thus trade is a crucial element in “growth with equity” strategies as Stiglitz argues:

More is at stake than simply the exploitation of the gains from comparative advantage. Trade is critical to the dynamics of successful development (2000, p. 452).

Meilke has stated the general case well and concisely:

Since 1950 world GDP has increased by 600 percent while world trade has increased nearly 2000 percent. In 1950 world exports accounted for 8 percent of GDP, by 1999 they had increased to 20.4 percent. While increased world trade and openness have not been the only engines of growth and improved living standards, they have been important ones [emphasis added] (2000, p. 2).

Countries that have pursued open-economy, export-oriented growth and development strategies have almost always done well (e.g., the “East Asian Miracle”—Japan, Taiwan, Korea, Hong Kong, Singapore, Malaysia, Thailand, and yes, even Indonesia). Rapid growth in many Latin American countries in the late 1980s and 1990s came about with domestic policy liberalization and open-economy models, which reduced trade barriers. On the other hand, most African countries have persisted with inward-looking, protectionist models and have done poorly.
Again, quoting Meilke, “It has been proven time and time again that countries with an outward, trade orientation grow and flourish, while those who hide behind protectionist barriers stagnate” (2000, p. 2). A common characteristic of virtually all of these success stories is that they have invested early and heavily in rural development and agricultural productivity improvement.

This, then, is where the WTO comes in. If countries are to pursue an open-economy strategy, they have to have access to markets (the big ones are in developed countries) where they can express their comparative advantage. And there has to exist a trading system that is open, transparent, rules based, and perceived as fair. Krueger argues forcefully that even “larger” developing countries are “small” in terms of global GDP. They need an international system of rules which are enforceable against larger, developed countries because they lack economic bargaining power in bilateral negotiations with the likes of the United States or the EU. The developing countries, argues Krueger, have a high stake in a growing international economy and thus have a “common strong interest” in strengthening the multilateral trading system. This needed strengthening, according to Krueger, includes:

• protection against capricious antidumping (AD) or countervailing duty (CVD) actions on the part of developed countries;

• ensuring that the undertakings made under the Uruguay Round, especially with respect to Agriculture and the MFA (Multi-Fiber Agreement), are carried out; and

• thwarting efforts to achieve protection against developing countries’ exports via labour standards and/or environmental agreements (1999, p. 912).

If the case for potential gains for developing countries from general trade liberalization is so strong, why have some argued that it was developing countries who contributed to the scuttling of the ministerial meetings in Seattle? One probable reason was that they saw the efforts of developed countries, in particular the United States, to include environmental issues and labour standards in the negotiations as thinly veiled efforts to slow or even roll back movement towards a more freely functioning world trading system. Stated bluntly, they saw these efforts as having strong potential to increase, not reduce, protectionism. There is no question that developing countries as a group see access to world markets as crucial to their development.

Thus the bottom line of nearly unanimous conventional economic thinking is that developing countries have a greater stake in a multisectoral, comprehensive, and fair set of WTO proceedings than do developed countries (Stiglitz, 2000, p. 441). The opposition’s case is made more on the basis of issues that should be outside the WTO—environment, labour, trade-related aspects of intellectual property, and food safety—and on unsubstantiated arguments that all poor countries lose from liberalization.
Agricultural Trade Liberalization, Developing Countries, and the WTO

Let’s now move on to focus on the subset of issues dealing with the rural/agriculture sector. Why is agricultural trade liberalization important? (Kerr, 2000; Huff, 2000; Anderson, Erwidodo, and Ingco, 1999; Tangermann and Josling, 1999; Valdes and McCalla, 1999). I present three propositions: (1) the poorest countries have the highest dependence on agriculture; (2) a rural/agriculture-led growth strategy for poor countries is unlikely to succeed unless they are able to participate in fair, functioning international markets; and (3) given extremely high existing levels of protection in rich countries’ agriculture, the potential gains from liberalization are extremely high. Let me briefly address each of these propositions before addressing the heterogeneity of developing countries and how the gains and losses may play out.

Proposition One

Most developing countries are more dependent on the rural/agriculture sector for employment and GDP generation than are developed countries. The poorest developing countries are still predominantly agricultural. Nearly 70 percent of the world’s poor are still rural dwellers and the majority of these depend on agriculture for some or all of their income. Further, these millions of poor farmers manage most of the world’s arable land and available fresh water. Therefore growth, at the early stages of development, absolutely requires rural/agricultural growth.

Proposition Two

These facts seem to dictate a rural/agriculture-led growth strategy. Despite overwhelming evidence from Asia, including India, that agricultural-technology-driven productivity improvement contributes to overall poverty reduction, too few countries give appropriate attention to such strategies. While it is true that negative, antirural exchange rates, taxation and trade policies have lessened, it still remains true that growth strategies with the rural sector in the lead are few and far between. Breaking out of the mold of food self-sufficiency and focusing on the comparative advantage of the rural sector requires most developing countries to enter world markets as exporters, importers, or both. The implication of this, of course, is that developing countries should pursue a positive rural growth strategy, instead of focusing on food grain self-sufficiency. A necessary corollary to this is that there must be a world agricultural marketplace that is fair, rules driven, and predictable. Poor developing countries need to trust world markets and believe that a rules-based system will protect them from the unilateral predatory actions of larger countries or big multinational firms.
Finally, here are some obvious further reasons why developing countries should be interested in the outcome of agricultural negotiations:

- Developing country members of the WTO should be concerned because the rules developed in the Uruguay Round are influencing their own agricultural policy choices. New rules and obligations can influence their flexibility in the future.
- WTO outcomes influence world prices and access of agricultural exporters to markets both in other less developed countries and in more developed countries.
- The WTO influences the rules for conducting agricultural trade as well as world price levels, making it of great interest to developing country importers.

**Proposition Three**

There is much to be gained from agricultural trade liberalization. Stiglitz argues persuasively as follows:

Moving ahead on agriculture in the next Round would have big payoffs. Abolition of agricultural export subsidies and achievement of sharp cuts in import tariffs would benefit most developing countries. A 40 percent reduction in agricultural support policies globally contributes almost exactly the same amount to global welfare as a 40 percent cut in manufacturing tariffs (Hertel and Martin, 1999). This reflects the huge size of distortions in agriculture relative to manufacturing, despite the fact that manufacturing value added is two-and-a-half times that of agriculture globally (2000, p. 441).

Anderson, Erwidodo and Ingco argue that the gains to developing countries of dismantling OECD farm policy would be substantial:

Developing countries in particular have a major stake in the process of farm policy reform continuing: according to these model results, the farm policies of OECD countries contribute 44 percent of the cost of global trade distortions to developing economies, nearly as much as the 58 percent contribution of their own trade-distorting policies. OECD textiles and clothing policies also harm them greatly, but only half as much as OECD farm policies (1999, p. 6).

The case for benefits to developing countries of trade liberalization in agriculture seems strong. However, there could be price impacts. Many of the static models of OECD trade liberalization suggest that world grain prices might increase modestly. This would be so because if all developed countries were to reduce their agricultural trade distortions (i.e., their domestic producer protection) internal farm prices in developed countries would fall, production would contract, consumption rise, and either net exports would contract or net imports would increase. Either way it would put upward pressure on world grain prices. This, of course, is no problem for developing country exporters but it is a potential issue for food grain importers.
I will make three brief comments about this. First, price increases would be small and would in fact only be slowing up the centuries-long downward trend in real grain prices. Second, compensation or adjustment possibilities are built into the Marrakesh Agreement; or, use could be made of the IMF’s Commodity Price Adjustment Facility. Third, even if grain prices rise and these increases are transmitted to poor farmers in importing countries, rural poverty would be reduced. I am not minimizing the potential for particular countries in particular circumstances to be affected by world prices rises. I am saying, however, that there are better ways to deal with this issue than isolating a country from world markets.

Since the Uruguay Round (UR), following a brief run-up of prices (not caused by the UR), world grain prices have fallen to their lowest level in a century. Despite this, some NGOs see falling prices as a problem for poor importing countries. The following statement seems to defy logic.

_Falling Commodity Prices Undermine Food Security._ Primary commodity prices already have fallen by 25 percent since 1995, the year the WTO went into effect, and now are at historic lows. Compounding the problem of lower export earnings caused by plunging commodity prices is the fact that least developed countries have become net importers of food and therefore must have a steady stream of foreign exchange simply to finance the imports needed to feed the population (Wallach and Sforza, 1999, p. 57).

Most of the low income LDCs have always been food importers and therefore it is difficult to understand how falling prices can hurt them. Anyway, given the very limited actual liberalization under the UR, it is unlikely the WTO is having any impact on grain prices in either direction.

**But Not All Developing Countries are the Same**

So far we have been discussing general impacts on developing countries as if all of these countries were the same. Clearly this is not the case, and given that trade liberalization will affect world prices and access to markets, there is a need to consider in more detail subsets of developing countries.

My colleague Alberto Valdes and I did an analysis recently of 148 developing countries—many of which are members (or are waiting to become members) of the WTO (Valdes and McCalla, 1999). We wanted to analyze the often stated perception that most developing countries are importers and the Least Developed Countries are all Low Income Food-Deficit Countries (LIFDCs (a UN classification for the 58 poorest countries)) and all food importers. The results are presented in table I. What the table shows is that while two-thirds (105) of the 148 developing countries are net food importers (NFIMs), two-fifths (63) are net agricultural exporters (NAEXs), including 33 low income countries (LICs). It also shows that at least 28 of the LIFDCs are in fact net agricultural exporters. In sum, 43
percent of developing countries are net agricultural exporters, including 28 of the poorest countries. Heterogeneity also exists in terms of the size of the country and in the geographic distribution of export destinations and import origins.

Table 1  Developing Country Income Taxonomy\(^1\) (WB by UN)

<table>
<thead>
<tr>
<th>UN Categories</th>
<th>World Bank Classification</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Low Income Countries (63)</td>
</tr>
<tr>
<td>LIFDCs(^2)</td>
<td>58</td>
</tr>
<tr>
<td>TRANS(^3)</td>
<td>6</td>
</tr>
<tr>
<td>SIDCs(^4)</td>
<td>5</td>
</tr>
<tr>
<td>NFIMs(^5)</td>
<td>48</td>
</tr>
<tr>
<td>NFEXs(^6)</td>
<td>15</td>
</tr>
<tr>
<td>NAIMs(^7)</td>
<td>30</td>
</tr>
<tr>
<td>NAEXs(^8)</td>
<td>33</td>
</tr>
</tbody>
</table>

\(^1\) The three income categories follow the WB definition of the 1999 WDI Report, namely:
- Low Income Countries (LIC) ≤ $785
- $785 < Lower Middle Income Countries (LMIC) ≤ $3,125
- $3,125 < Upper Middle Income Countries (UMIC) ≤ $9,655

\(^2\) Low Income Food-Deficit Countries (LIFDC), from FAO database; based on three criteria:
- the country is an LIC, i.e., per capita income ≤ US $785 in 1996;
- the country’s food net trade position is averaged over the preceding three years; and
- the self-exclusion criterion is applied when countries that meet the above two criteria specifically request to be excluded from this category

\(^3\) Transition Markets (TRANS), from FAO database
\(^4\) Small Island Developing Countries (SIDC), from FAO database
\(^5\) Net Food Importing Countries (NFIM), from FAO database; based on 3-year average (1995-97) of food products trade balance, excluding fish
\(^6\) Net Food Exporting Countries (NFEX), from FAO database; based on 3-year average (1995-97) of food products trade balance, excluding fish
\(^7\) Net Agricultural Importing Countries (NAIM), from FAO database; based on 3-year average (1995-97) of agricultural products trade balance
\(^8\) Net Agricultural Exporting Countries (NAEX), from FAO database; based on 3-year average (1995-97) of agricultural products trade balance

Let’s turn to address in more detail three subgroups of developing countries: (1) agricultural exporters, (2) agricultural importers, and (3) low income food-deficit countries. I submit that all three groups not only have the same general interests discussed above but also have additional, more specific interests, given their respective trade positions.
**Developing Country Exporters**

These countries, many of which already belong to Cairns Group, have the following particular interests.

- Improved access to developed country markets, particularly the EU, the United States, Japan, and OECD countries in general. There are still many administrative barriers as well as high tariffs despite tariffication, e.g., butter tariffs in Canada exceed 350 percent.
- Better access to developing country markets. South-South trade has the potential to grow.
- Reductions in still high levels of effective protection for developed countries’ processing industries which, for example, let coffee beans in free but apply high tariffs on processed coffee. This gives high protection to domestic coffee grinders and limits value-added imports from developing countries. This situation could worsen if tariffs on raw products are further reduced while tariff escalation persists for processed products.

Developing country exporters share with many other countries their desire for: (1) reductions in competitive export subsidies; (2) more stable prices; (3) protection against embargoes and political trade restrictions; (4) sanitary and phyto-sanitary rules not being used as barriers; and (5) protection against misuse of antidumping and countervailing duty provisions.

In summary, market access and fair, transparent rules are their major interests.

**Developing Country Importers**

Developing country importers have particular interests in:

- A fair market with transparent rules and the absence of political or retaliatory export restrictions by other countries.
- Available supplies when needed, at predictable and reasonably stable prices. They can deal with some annual price instability but not wide swings in price levels, which can cause serious balance-of-payments problems.

In sum, they want assurance of supply and relatively stable price levels. These, of course, should follow from liberalization. The more traders that open their markets, the more stable markets will be.

**Low Income Food-Deficit Countries**

These countries have low export earnings and/or significant food import requirements. They are troubled by both short-term price instability and wide swings in general price levels. They are also fearful of being cut off from the physical availability of supplies in crisis periods. Many LIFDCs historically have been dependent on food aid and are concerned
that further policy liberalization in the United States, the EU, and Japan will further reduce food aid availability, as has clearly happened after the UR. Finally, they are frequently subject to natural disasters—drought, floods, El Niño, typhoons, earthquakes.

That these countries are a special case was recognized in the UR in two ways. First, special compensation was offered for adverse price impacts caused by the Uruguay Round Agreement on Agriculture. These countries tried to make the case for compensation during the 1995/96 price increase, but clearly that price run-up was caused by other factors. Subsequently prices have fallen, which should be to their consumers’ advantage. Second, these countries receive special and differential treatment. Very poor countries were given total exemptions from reductions in internal support, market access, and export subsidies. Other developing countries faced lesser cuts than developed countries, over a longer period of time.

As a result of these allowances, most of the poorest developing countries have had to make very little domestic policy adjustment to implement the UR. But they remain fearful that further liberalization in the next round could affect them in unknown ways. These countries historically were not players in international markets. They lack understanding of how world markets work. They lack analytical capacity to analyze and project market trends. They think they would rather be protected from international market forces rather than take the risk of participating. Yet these are the very countries that could benefit most from opening their economies to global competition. They would have access to cheaper imports and better export prices. International discipline could help force these countries to consider more open policies. Giving them a free ride removes that incentive. Thus, in my view, special differential treatment has not worked to their advantage.

But to take advantage of world market opportunities, these countries will clearly need assistance in preparing to be players. Established WTO members should play a role in helping them understand the reality of international markets. The poorest developing countries are naïve optimists on the export side; they see export bonanzas but have no idea of the hard market requirements for consistent stable supplies, quality standards, health and safety standards, and the financing of trade. On the import side, they are pessimists because they see their small farmers destroyed by subsidized exports from developed countries, such as rice, dairy products, and beef in the case of West Africa. Therefore, if developing countries are to be integrated into world markets, it is in every country’s interest to help them understand, cope with, and ultimately take advantage of the opportunities world markets provide. If these countries are to grow, reduce poverty, and become full-fledged players in world markets, an open trade environment is critical.
Conclusions

My conclusions are short but important. All developing countries want a lot from the WTO. First, a fair, open, transparent, and rules-based international trading environment they can trust. Second, access to rich countries’ markets, as well as those of each other, so that they have an opportunity to experience trade-led growth. Third, protection against bullying by large countries or large firms. Fourth, poor developing countries desperately want agricultural trade liberalization in the WTO and an effective end of the Multi-Fiber Agreement.

Their demands are simple.

• They want substantial reductions in agricultural tariffs in rich countries. While the UR mandated tariffication, many countries set their bound tariffs obscenely high (Srinivasan, 1999).

• They want the end of agricultural export subsidies.

• They want reduced domestic support and an end to questionable bailouts in rich countries to compensate for low prices. The U.S. behavior in this regard has been deplorable.

• They want the fair implementation of the agreements on Sanitary and Phyto-sanitary Measures and Trade-related Aspects of Intellectual Property.

• They want the WTO to stay out of non-trade issues such as environment and labour.

• They want the WTO to be ever vigilant against new forms of protectionism such as multifunctionality.

• They want clarification and correction of how the AoA was implemented in terms of tariff-rate quotas (is “tariff-rate quota” a new name for the old insidious “variable levy”?).

• They want monitoring of possible misuse of antidumping and countervailing duty provisions.

• Finally, they want technical assistance to become fully functioning members of the global community.

By way of conclusion let me say that it is in developed countries’ interests to have poor countries grow and become full-fledged members of the global community. It is also very much in Canada’s interest—remember that in 2025, 83 percent of the world’s eight billion people will live in the now developing countries. That is the future market for the developed countries.

Endnotes

1. Significant research assistance from Massimiliano DeSantis is fully acknowledged.

2. An earlier version of this paper was presented at the Canadian Agri-Food Trade Research Network Workshop on Agricultural Trade Liberalization: Can We Make Progress? Quebec City, Quebec, October 2000.
References


*The views expressed in this article are those of the author(s) and not those of the Estey Centre Journal of International Law and Trade Policy nor the Estey Centre for Law and Economics in International Trade. © The Estey Centre for Law and Economics in International Trade.*