DEVELOPING COUNTRY PERSPECTIVE: SOUTHERN AGRICULTURE AND THE WORLD ECONOMY: THE MULTILATERAL TRADE NEGOTIATIONS

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The Uruguay Round marks the eighth time since the end of World War II that the member countries of General Agreement on Tariffs and Trade (GATT) have attempted to negotiate a reduction in trade restrictions and protection. Previous rounds of negotiation have had remarkable success in reducing trade protection. Average tariffs in major industrial countries have been reduced from about 40 percent in the 1940s to less than five percent after the Tokyo Round which concluded in 1979. This reduction in import barriers has been a key factor in the ninefold increase in world trade and the fourfold increase in world GNP in real terms since 1950.

Although the developing countries have gained from previous rounds, in most cases, those gains have been limited. Agriculture, one of the most important sectors for developing countries in terms of employment, export earnings, and income, has been kept outside of this negotiating process. The Uruguay Round, by proposing to extend the GATT's reach over agriculture, as well as to textiles, services, intellectual property, and "gray area" measures such as voluntary export constraints, offers the possibility of directing more of the benefits of liberalized world trade to developing countries. As such, it is the most important and ambitious of the negotiating rounds and will play a large role in determining the growth and prosperity of developing economies for decades.

THE WORLD AGRICULTURAL POLICY DILEMMA

The state of agriculture and the policies directed at the sector are dramatically different between industrial and developing countries. In many industrial countries, the main objective of agricultural policies has been to stabilize and increase farmers' income. In countries that experienced wartime shortages, these income goals have been supplemented with a drive to achieve self-sufficiency in food production. Support of farmers' incomes and the efforts to achieve self-sufficiency have contributed to rapid technological change, higher growth in production, and accumulation of large stocks. Now many industrial countries are searching for policies that would counteract excessive production and would reduce the enormous budgetary subsidies to farmers while maintaining farm incomes and rural economies at politically acceptable levels.

In many developing countries, the stated objectives of agricultural policy in terms of rural incomes and self-sufficiency are similar to those of many industrial countries. The actual outcome of their policies however has been dramatically different. Direct and indirect taxation of domestic agricultural production and exports has hindered growth of the sector. Over-valued exchange rates and protection of domestic manufacturing, which has turned the internal terms of trade away from agriculture, and food subsidies and price controls in urban areas have contributed to the depressed state of agriculture in developing countries. While industrial countries, by way of agriculture subsidies that exceed US $100 billion per year, are awash in surpluses, developing country imports continue to grow, irrigation systems deteriorate, agro-industry largely stands in ruin, and export earnings from agriculture stagnate. Meanwhile, rural-to-urban migration accelerates and hunger persists both in cities

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and in the countryside. The state of agriculture in developing countries along with an external debt that is projected to exceed $1.25 trillion in 1988 threatens the viability of developing countries and the world economy. The relocation of agricultural production from developing to developed countries through extensive government intervention has benefitted the farmers and rural economies of industrial countries but at the cost of large losses of income and employment in poorer countries. The Uruguay Round negotiations in agriculture, tropical products, and textiles are fundamental to reversing this process and thus have implications well beyond the problems of excessive stocks and large budgetary costs in industrial countries.

THE POTENTIAL GAINS AND LOSSES TO DEVELOPING COUNTRIES

Many attempts have been made to model the consequences of trade liberalization in agriculture. Estimates from these models provide rough approximations of the potential gains and losses from a successful negotiating round in agriculture. For example, the World Bank estimates the efficiency gains to the world economy from removing protection and intervention in both developing and industrial countries to exceed U.S. $40 billion (in 1980 prices). Roughly half these gains would be realized by developing countries.

These estimates of worldwide gains mask two important aspects of trade liberalization. According to the World Bank estimates, if the liberalization proceeded only in industrial countries while government invervention continued in developing countries, the developing countries as a whole would be net losers on the order of U.S. $12 billion. Furthermore, among developing countries themselves, the consequences of trade liberalization would differ substantially, with net food-importing countries such as those in Africa and parts of Latin America losing and net exporting countries such as Argentina gaining. The losses to some of the developing countries are primarily a result of the rise in primary commodity prices and their growth of dependence on wheat imports in the 1970s and 1980s. It is important to note that estimates of the price rises and losses to net food-importing countries resulting from trade liberalization are mitigated by the model's assumption that supply controls such as acreage set asides are removed. If supply controls continue or are expanded to other countries, the losses to many net importing developing countries could be potentially much higher.

To fully value the importance of the Uruguay Round, however, it is necessary to compare the gains from liberalized trade not just to the current state of agricultural protection but to the possible outcome of a failed negotiating round.

If the Uruguay Round fails, it is likely that many of the industrial countries would either seek autarky in agriculture or enter into bilateral deals that would most likely include production controls and world-wide dividing of market shares. Most developing countries would have little to offer in bilateral negotiations and would most likely be effectively excluded from the negotiating process. Although some countries—because of strategic or colonial ties—might gain from preferential treatment, most would not. Even for those that did gain preferences, these concessions would be precarious, subject to withdrawal at the initiative of the granting government. If the Uruguay Round fails, higher food prices, instability in trade, political uncertainty, and limited market access could characterize international agriculture markets for developing countries. Such an outcome would indeed be a dismal one.

When compared to this worst case scenario, the gains from participating in the process are thus great even for those countries that appear to lose in these comparisons of current protective states to liberalized trade in agriculture. An even more restrictive and government controlled system of trade in agriculture would have dire consequences for most developing countries. Developing countries should then have a strong impetus to participate and actively influence the negotiations in the Uruguay Round. While some developing countries recognize the importance of the agricultural negotiations and have taken an active role, mainly through the Cairns groups, many countries remain on the sidelines, viewing the negotiations as essentially being between industrial countries, primarily those countries represented by the European Community (EC) and the United States.

THE CONCERNS OF DEVELOPING COUNTRIES

Besides the major concern that the negotiating process would fail or reach an unsatisfactory solution, developing countries have other concerns over the outcome of even a successful Uruguay Round. These concerns relate to: (1) the transitional period and the structural adjustments required by a new international trading environment; (2) the internal political sensitivity with respect to food security; (3) loss of preferential treatment; (4) the types of interventions that potentially would be permitted; (5) the availability of food aid and other foreign assistance; and (6) the possibility that industrial countries will impose supply controls either as an interim or long-term measure. Concern has also been expressed over the long-run stability of a world agricultural system based on more liberal trade.

In the proposals of the Cairns group, of the EC, and of the Japanese, the need to address the concerns of developing countries has been explicitly acknowledged through offering the possibility of special and differential treatment for developing countries. However, as yet this special provision has not been translated into specific actions or proposals. Furthermore, the U.S. proposal makes no offer for special treatment for developing countries. The exact nature of how developing countries will be treated in the negotiations remains unspecified and heightens the uncertainty of the negotiations for the developing countries. We will now address each of these concerns.

THE TRANSITION PERIOD AND THE REQUIRED STRUCTURAL ADJUSTMENT

The major proposals currently on the negotiating table recognize that it will take many years to fully liberate agricultural trade. The United States has proposed a ten-year period for the removal of all interventions and supports. The Cairns and EC proposals both offer a two-phased approach, an immediate freeze in subsidies and interventions followed by other measures over an unspecified longer period.

The developing countries have two concerns with respect to the transition. First, they are worried about the consequences of the "emergency" measures, in particular if they imply market-sharing arrangements which would limit their export possibilities or restrict the availability of imports. Furthermore, the short-term temporary measures, in the view of the developing countries, might become permanent measures if the negotiating process drags on or the political will to negotiate diminishes.

Second, the developing countries are concerned with how they will finance the adjustments that may be required of their economies. If food prices increase, some countries that already have balance of payment deficits and are major food importers would be unable to meet their debt-servicing requirements or would have to cut back on other necessary imports such as capital goods. Furthermore, with public investment and expenditure budgets already restricted by the economic crisis, many developing countries would find it difficult to respond to the new opportunities offered by higher and different relative prices for agricultural commodities.

International facilities, however, do exist that could ease both the short-term balance of payment problems and fund the structural adjustment process. Besides their normal balance of payment lending, the International Monetary Fund (IMF) has various compensatory facilities including the Compensatory Finance Facility and the Enhanced Structural Adjustment Facility, while the EC has the Stabex Scheme. The World Bank also has funds for financing adjustment processes. However, the IMF, the Stabex, and the World Bank facilities are designed to handle more random and isolated events and may be insufficiently funded to compensate for a more global event having an impact on many countries, as would be the case with a major adjustment in world agriculture. For example, World Bank lending for structural adjustment has been effectively limited to around 20 percent of its annual commitments or about U.S. $3 billion. This limit has already been reached by current requirements for supporting structural and sector adjustments in developing countries. To support adjustments of a larger scale would require more resources beyond those now available. Industrial countries would either need to authorize capital increases to these institutions or schemes or support a new facility that could finance the requirements of the adjustment process.

FOOD SECURITY AND SELF-SUFFICIENCY ISSUES

Many politicians have promoted the rhetoric of food security and self-sufficiency for their countries. Although this rhetoric could be directed at production of an array of food crops, it is usually directed at self-sufficiency in a single staple, for example, rice in Asia and parts of Africa, wheat in Africa and parts of Latin America, and maize in Mexico. These commodities have been designated by governments for special incentives, either through higher protection or support prices, or special subsidies on inputs. For these politicians now to argue for increased reliance on international markets for the supply of these foods would be difficult and unpopular. Regardless of the argument that supply of these commodities would become more certain through reliance on world markets, the political imperative may dictate "special treatment" being given for supporting these commodities up to some negotiated percentage of self-sufficiency. Such a concession, although reducing the market for exporters of these staples, would probably not significantly distort international trade. Recognizing that "sacred cows" exist would be one way that special consideration could be given to some developing countries.

PREFERENTIAL TREATMENT

Despite the underlying GATT principle of most-favored-nation, whereby all member countries must receive trade benefits given another country, a clause in the Agreement has permitted developed countries to grant special preferences to developing countries through tariff concessions. Currently about 25 developed countries give special preferences to developing countries.

Since these special preferences are selective and are at the discretion of the granting country, they can be divisive to the unity of developing countries and could be used as a means by which countries can be punished by the granting governments for various actual or alleged economic or political offenses. Furthermore, many agricultural commodities are excluded from the preferences or are restricted by non-tariff barriers, thus limiting their usefulness.

Some countries that view the negotiations myopically will place high priority on maintaining their preferential treatment. Others currently without preferences will attempt to have the coverage extended to their own countries. Commodity groups in developed countries may use the issue of preference to preserve "escalating" tariffs, whereby processed commodities are levied at a higher rate than the raw commodity. As a consequence, developing countries may have much to lose from insisting on preferential treatment and most likely little to gain.

TYPES OF SUPPORT AND INTERVENTION PERMITTED

The U.S., EC, and the Cairns Group have proposed to use the Producer Subsidy Equivalent (PSE) as a key measure of support and intervention for agriculture in the negotiations. As currently defined, the PSE includes an array of interventions from direct border measures such as tariffs to research and extension and infrastructure. Although border measures including non-tariff barriers clearly influence trade flows, and should be considered in the negotiations, other supports to agriculture such as public expenditures on infrastructure, research, and extension are less directly trade-distorting and should remain outside the negotiations.

Developing countries would reject a PSE measure that includes development expenditures. For developing countries, expenditures on research and extension and on other types of public-good activities are part of the development process. This then is clearly an area where special treatment could be granted to developing countries.

FOOD AID

One of the key means of transferring assistance to developing countries has been food aid, either through bilateral donations such as the U.S. PL480 program or by multilateral grants through the World Food Program. Although food aid remains controversial because of its possible disincentive effects to agricultural production in the recipient country, it is an important instrument of development assistance, one which many developing countries want continued. Several of the proposals include provisions for humanitarian assistance and the orderly disposal of stocks. However, the U.S. proposal is silent on the issue of food aid.

As government support to agriculture declines, surplus public stocks available for food aid will diminish or possibly disappear. Food aid, which historically has been integrated with the disposal of surplus public stocks, will become more dependent on the purchase of privately-held stocks. However, purchase of private stocks could be subject to abuse. In practice, it will be difficult to establish if government purchases are meeting requirements for supplies for food assistance or are constituting price or other types of support for agriculture. Even if it were required to match purchases and food aid donations, the timing of purchases and deliveries could be used to support agriculture. The potential for abuse, or the possibility of governments erecting "gray" area interventions under the auspices of food assistance, may require that restrictions be placed on government purchases for food assistance. These restrictions, combined with generally lower levels of world food stocks, would raise concern about the adequacy and reliability of food assistance among food deficient developing countries.

As with assistance to short-term and longer-term structural adjustment, developed countries could establish a special fund for the competitive purchase in international markets of food for development assistance. If the fund were administered by a "neutral" multilateral agency such as the World Food Program or Council, this food assistance could be largely independent of national agricultural programs.

SUPPLY AND PRODUCTION CONTROL MEASURES

Some of the discussion associated with the multilateral trade negotiations has been about "bringing supply into balance with demand." If this refers to allowing prices to be the equilibrating mechanism through free and uninhibited markets, it would be consistent with the objectives of promoting international trade and providing a better allocation of the world's productive resources. The concern of the developing countries is that it does not mean equilibrating supply and demand through price but through supply controls.

The developing countries have good reason for their concern. Through the acreage set asides and conservation reserve programs, the United States could potentially pull 80 million acres, or 20 percent of their cultivated acreage, out of production. Furthermore, the EC has instituted controls on the production of dairy products and is currently discussing production controls for cereals. Controls on production represent for the industrial countries a low-cost mechanism of satisfying the objective of income support to farmers with minimum budgetary outlays while at the same time politically uniting environmental and conservation coalitions with farmers' groups. If the Cairns group can also be brought along into implementing supply control measures through the promise of higher prices, then the necessary conditions for effective worldwide supply control would be achieved. Consumers would of course pay the costs. In industrial countries, these costs would be only a small part of total private expenditures, perhaps a lesser amount than consumers in the EC and Japan are currently paying.

This concern that the negotiations would turn to supply controls has in part motivated net food-importing countries to attempt to form a coalition against these and other possible initiatives—so far unsuccessfully. To alleviate this concern, the developed countries would have to exclude such measures unless they are clearly conservationist in nature. While the U.S. Secretary of Agriculture has publicly come out against supply controls, other major negotiating groups so far remain silent on the issue.

GLOBAL AGRICULTURE STABILITY

International prices for agricultural commodities have always been volatile. Simulation models indicate that with trade liberalization this volatility would be reduced by about ten to 15 percent. Nevertheless, considerable volatility would remain that would foment the desire of many governments to buffer both consumers and producers from price fluctuations. Although efforts to stabilize domestic prices have generally been costly, many developing countries will nevertheless want to continue with price stabilization schemes. This desire would become even greater if unexpectedly price volatility increases coincidentally or as a consequence of the trade liberalization. Although futures and options markets could be used to transfer risk, they would not necessarily reduce price fluctuations. Futhermore, the constraints on the movement of capital, as is common in developing countries, make futures markets generally infeasible. However, until this concern over price volatility and risk management is satisfactorily addressed, it will remain an important issue for developing countries.

FINAL THOUGHTS

The Uruguay Rounds of agricultural trade negotiations are important to the well-being and growth of both developed and developing countries. The Uruguay Round has progressed well so far, with major proposals having been placed on the negotiating table. While the negotiating positions of the industrial countries appear to be well prepared, not much attention appears to have been given to the concerns of the developing countries other than the general acceptance of the need for special dispositions. If the Uruguay Round hastens to resolve the immediate problems of agriculture in developed countries, while failing to adequately account for the concerns of and the impact on the developing countries of agricultural trade liberalization, then the long-term viability of any agreement will be threatened. With the debt crisis constraining the possibility of rapid adjustments in the economies of many developing countries, such a neglect would have global repercussions.

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