

The role of wto in trade and development



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This report will deal with the role of WTO in trade and development of the world economy, and specifically the content of the agricultural agreement on agriculture. Most of us have already known that the aim of the WTO policies is to make the world to have free trade. The organization contents that free trade is the most effective ways to carry out development to improve the human welfare. With free trade production and consumption will move to efficiency points. The production will have the lowest cost and the consumption will face the cheapest price and for each individual in the world. Hence, free trade will be able to move factors of production into the most efficient production system and enjoy the highest price, while the output of the production activities will increase and reach the most efficient point with the lowest price for the consumers.

However, while trade has been understood as an engine of growth, it does not mean that free trade does not carry with it any problem, especially for the developing countries. Although the trade regulation does not prohibit the developing countries to export their products to the developed countries; but in practice many developing countries do not have enough capacities to produce and to fulfill the developed countries markets due to many reasons. Among the many reasons is that the developing countries lack of efficient technology and skills. These factors result in a high cost of production in the domestic market as well as in the world markets. Furthermore, most developing countries are producing similar products among themselves and even similar with the products produced by the developed countries where technologies are better developed and efficient. Consequently the developing countries output prices become more expensive than those of

the developed countries. Besides that, the qualities of the outputs are also better for the developed countries compared with those for the developing countries. As a final result, demands for the domestic products in the developing countries become lower relative to the demand for the developed countries' commodities. This high competition of the two kinds of product will hit the domestic production activities of the developing countries, and may cause a high level of unemployment and reduce the income level of the people. This is in fact the tragedy of the free trade for the developing countries. Without any trade barriers, it seems that the developing countries will suffer from high competition. Due to the extremely low capacity and technology resulted from the high intensity of poverty in the region; therefore they will never have any capacity for free competition. They lose their fight against the developed countries, especially because the rule or regulation is developed in favor of the developed countries. The end result is a good one in theory, but in practice the process toward the gains from trade is painful for the developing countries, since they do not have strong capacities and technology as well.

The WTO agreements on agriculture tend to abolish tariffs and subsidies both at the cultivation and trade sectors. The introduction of the WTO agreement on agriculture in fact has caused developing countries to suffer from double attacks in the field of agriculture, because the trade agreement prohibits the adoption of high import tariffs and was accompanied with the abolition of input subsidies in the agricultural sector.

The WTO agreement on agriculture

The Agreement on Agriculture is one of the two main sectoral agreements in the Uruguay Round Agreements that provides the specific rules in the liberalisation of agricultural products. The other one is the Agreement on Textiles. As in all the other multilateral trade agreements that came into effect in 1995, the Agreement on agriculture is binding to all members of the WTO.

Based on its declared goal of establishing a fair and market-oriented trading system in agriculture, the Agreement on agriculture obliges member nations to increase market access and reduce trade-distorting agricultural subsidies.

The implementation period is different for developed and developing countries, with the former given six years or until 2000 to implement their commitments and the latter ten years or until 2004.

However, it can be discussed that, the agriculture agreement itself is fundamentally flawed and highly iniquitous and that instead of leveling the playing field in international trade in agriculture, it reinforces the monopoly control of wealthier countries and their transnational corporations over global agriculture production and trade.

The main components of the Agriculture Agreement

The agriculture agreement has three main pillars: market access, domestic support, and export competition. Trade liberalization commitments in these three areas are required for all members of the WTO.

The commitments, which had been largely negotiated among countries before the end of the Uruguay Round, are reflected in the country schedules

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which are integral parts of the Agreement. These commitments are supposedly based on an agreed set of modalities which were outlined in a modality paper. This paper is not part of the Agreement as it served only the purpose of providing the basis for calculation of each member's commitment.

1. Market Access

All countries are obliged to eliminate all their non-tariff barriers like import ban, import quota or quantitative restrictions on imports, etc. and convert these to tariffs. This is called, in the WTO, "tariffication." The tariff rate should be equivalent to the barriers that were imposed in the base reference period of 1986-88. All countries have to bind their tariffs on all agricultural products and progressively reduce all tariffs starting from their initial bound rate in 1995 to their final bound rate at the end of the implementation period. The average reduction for developed countries is 36% within six years and for developing countries, 24% within 10 years.

Exceptions to tariffication are allowed under the Special Safeguard provision and the Special Treatment clause for specific commodities. The Special safeguard can be invoked only for commodities which have been subjected to tariffication. This provision allows countries to apply additional duties on imports that should not exceed one-third of their existing normal custom duties, in the event of import surges or sudden fall in the world price of the affected commodities. Only one of these conditions can be used to justify a safeguard action at any one time. The Special Treatment clause, like the safeguard clause is not a full exemption to tariffication but a mere

postponement to allow protection of specific commodities like staple foods. For developed countries, postponement is allowed until at least at the end of their implementation period which is 2000 and for developing countries until the 10th year or 2004.

Another provision for increasing market access is the minimum and current access volumes. However, this is contained only in the modality paper and is therefore legally binding only if it is reflected in the specific commitments and detailed in the members' country schedules. The minimum access obliges a country to provide access opportunities for agricultural products where there have been no significant imports in the past, at lower or minimal tariffs. This lower tariff is referred to as the " within-quota tariff" and the quantity of goods imported at this lower tariff is called the " tariff-rate quota" (TRQ). The TRQs are to be allocated equally to all countries or on what they call the most-favoured nation (MFN) basis.

2. Domestic Support.

This pertains to government support to domestic producers. The AoA categorizes domestic support measures into three types:

Amber Box – These are measures that are considered trade-distorting and are therefore subjected to reduction. These are supports that have effect on production like price support and input subsidies.

Green Box – These are assumed not to have effects on production and therefore considered not trade-distorting. They are acceptable under AoA

and are not subjected to reduction. They include support for research, marketing assistance, infrastructure services, domestic food aid, etc.

Blue Box – These are measures such as direct payments to farmers that are intended to limit production. These are considered acceptable and are not subject to reduction, too.

Subsidies categorized under the Amber Box are calculated using the Aggregate Measure of Support (AMS) and are reduced in each year of the implementation period. This means that the annual reduction is computed based on the over-all support in terms of the annual amounts and not on product-specific subsidies. A country is free to choose the product and the rates of subsidy subjected to reduction discipline within the over-all limit of the total amount of subsidy during that year. This provision stipulates for a general de minimis exclusion from subsidy reduction, which is 5% of the value of production of a product for product-specific subsidies and 5% of the value of total agricultural production for non-product specific subsidies for developed countries and 10% for both subsidies for developing countries. Subsidies above those levels are subjected to reduction from the base period 1986-1988 level by 20 percent for developed countries over six years (1995-2000) and by 13 percent for developing countries over 10 years (1995-2004).

3. Export Subsidy.

Countries providing direct export subsidies are obliged to reduce these subsidies from their 1988-1990 average level by 36% percent in value and 21 percent in volume for developed countries over 6 years and by 24% in

value and 14% in volume for developing countries over 10 years. Countries which do not have any export subsidy and therefore did not reflect these in their schedule are not allowed to provide export subsidies in the future.

why the Agriculture Agreement is unfair.

The agreement is basically skewed in favor of developed countries' interests. The discipline on market access, domestic support and export subsidies couched numerous provisions that basically enhance measures used by developed countries to protect their markets and agriculture. While developing countries are accorded what they call special and differential treatment, in the form of slightly lower tariff and subsidy reduction and longer implementation period, it remains grossly negligible compared to the huge concessions and exemptions that are made available to developed countries to protect their existing trade-distorting subsidies and agricultural dumping practices.

The principle of free trade which underpins the trade liberalization commitments in the AoA inherently works against the development and food security needs of developing countries. Under free trade, countries should produce only the goods which they can produce cheaply or with which they have comparative advantage and import those including the food crops which they produce domestically, from others who can produce them cheaper and more efficiently. The implication is that developed countries, which by virtue of their huge subsidies can dump food products in the international market, should continue supplying developing countries with their highly subsidized agricultural surplus and developing countries should

focus on exporting crops that will earn them the foreign exchange to buy food from rich countries. Thus, developing countries end up becoming more dependent on imports that continually drain their scarce foreign reserves, stunt the growth of their agriculture and economies and weaken their capacity to feed their own population in the long-term.

AoA focuses merely on further liberalizing markets of poorer countries even as it continues protecting the subsidies and protectionist measures such as tariff peaks and other trade barriers employed by rich countries. Reciprocity, which is a core principle of the WTO and which supposedly directs the trade liberalization commitments of members has been rendered meaningless. It has, in fact misled many developing countries to rapidly open up their markets to dumped imports from the North in order to gain access to the latter's huge markets. But their actions were not "reciprocated" by equally aggressive steps in the North. Instead, developed countries put up higher tariff walls called tariff peaks and tariff escalation upon tariffication that effectively discriminated against developing countries' exports. Worse, the subsidies employed by developed countries to protect their agriculture, expand their production and gain monopoly control in the international market are accorded more protection with the exemptions introduced in the AoA's subsidy reduction. The categorization of subsidies into trade-distorting, which are subject to reduction discipline and into non-trade distorting, which are not, allows the developed countries to shift their existing grossly huge subsidies into acceptable boxes or categories that are exempted for subsidy reduction (e. g. green box and blue box). Meanwhile, the exemptions that apply to developing countries are often of not much use given the long-

running negative fiscal position of many of these countries. In the end, with such gaping loopholes, the AoA clearly serves only to legitimize and strengthen the trade-distorting practices of developed countries.

Developing countries are prohibited from using the same tools that enable developed countries to pursue their development and food security goals in the past decades. While developed countries are allowed to retain and even expand their huge agriculture subsidies, developing countries are prohibited from raising their subsidies beyond the de minimis level. They are not also allowed to use any export subsidy in the future.

Many important provisions in the AoA allow developed countries to circumvent their trade liberalization obligation thus ensuring that their agriculture remain protected. The Due Restraint Clause under Article 13 protects those subsidies that have been exempted from reduction from being challenged. The Special Safeguard provision, which applies only to those products which have been tariffied, has benefited mostly developed countries.

The AOA exacerbates the inequalities existing between the highly industrial agriculture of the North and the predominantly subsistence and backward agriculture of the South. In many developing countries, agriculture is dominated by small-scale producers tilling very small plots of land, with very little access to capital and productive resources, and is perennially indebted to landlords and moneylenders. Because of their marginal existence, small-scale farmers are not in a position to compete in the international markets. Thus, as the small-scale and traditional farming of the South lose out in a

clearly unfair competition with the industrial North, millions of small farmers are displaced and the livelihoods of the majority of agricultural producers in these countries are put to increasing risks. This condition worsens the deepening income inequalities between and within nations.

The AoA and its inherent bias for commercial agriculture production devastate not only the livelihood of poor farmers but also the food security of many developing countries. The dismantling of protection and support to agriculture in developing countries creates not only gross disincentives against domestic food production, but wipes out its viability and sustainability. Since the mid-90's developing countries have faced declining growth rates in food production output which seriously threatens their capacity to meet domestic food consumption.

Food Security of Developing Countries

Since the implementation of the AoA in 1995, the capacity of developing countries to ensure their long-term food security has been increasingly eroded. Two patterns that have direct impact on food security and agriculture in the South have clearly emerged. One is the increasing agriculture subsidies in the North, despite the avowed goal of the AoA to curb trade-distorting subsidies. Another is the massive flooding of artificially cheap food imports in developing countries' markets that continues to displace domestic food production.

Rising Subsidies in Developed Countries

Although the AoA is supposedly designed to discipline domestic support and export subsidies in developed countries, the years following the enforcement of the AoA ironically saw the uncharacteristic rise of these subsidies. A result of AoA's categorization of subsidies into trade distorting and non-trade distorting, developed countries shifted their existing trade-distorting subsidies into acceptable boxes that are exempted for reduction such as the green and blue boxes. Thus, while subsidies under the AMS (Amber Box) decreased, there was a corresponding increase in subsidies under the Green and Blue Boxes. In the US, for instance, Green Box subsidies totaled US\$50 billion in 1998, compared to a total of \$10 billion Amber Box subsidies (Khor, 2002). The largest component of these exempted subsidies was food aid. The introduction of the US Farm Bill in 2002 provided an additional support of US \$ 180 billion in the next ten years to its domestic producers. The same trend can be seen in the EU. Its AMS support under the amber box is being shifted to direct payments (blue box), which are supposedly less trade distorting as they are tied to production limiting programmes. The current CAP reforms are in the direction of further moving subsidies in the form of direct payments to decoupled payments, which essentially is shifting again from the blue to the green boxes (categorized as non-trade distorting). In effect, the AoA has legitimized the trade-distorting subsidies and dumping practices of developed countries by allowing the shifting of directly price-related subsidies to direct payments or decoupled payments that are protected and even allowed to increase under the AoA.

As world prices continue to fall, export subsidies of developed countries like the EU inversely rise to offset possible losses of domestic producers. The EU

continues to provide export subsidies while the US hides its export support under export credits and food aid. For both, domestic spending has increased to support their producers, although most of the beneficiaries are the big producers and traders. The EU and US continue to dump agricultural products in the world market, which means the selling of products at less than the cost of production. Their massive subsidies in agriculture -both for domestic producers and exporters lead to dumping which continue to wreak havoc on small farmer's livelihoods in developing countries.

A noted Indian food policy analyst, Devinder Sharma, pointed out the gross injustice of this system when he compared the amount of subsidy a cow in Europe and America receives day, which is about US \$ 2. 70 per cow to the daily income of a small and marginal farmer in the Third World, which is about less than half of this amount.

Rising Food Imports in Developing Countries

The other disastrous consequence of a flawed agreement is the massive penetration of highly subsidized food imports into developing countries' domestic markets. As a result of tariffication and the progressive reduction of tariffs stipulated in the AoA, developing countries now have very low tariffs with bound rates averaging at 30-40% and at a much lower applied rates, at 7- 15% in the case of the Philippines. Logically, such low rates could not provide protection to domestic producers long saddled by depressed farmgate prices, spiralling costs of production and lack of access to scarce capital and resources. Food imports and sudden import surges have led to

the displacement of small farmers and the erosion of food security in many developing countries.

A study conducted by the Food and Agriculture Organization (FAO) on the impact of AoA on 14 developing countries in 2001 revealed that AoA's liberalization policy significantly increased food importation in these countries, with many registering sudden increases in the value of their food imports in the years following their accession to the AoA. The food import bill more than doubled in countries that are significant food producers and exporters such as Brazil and India and increased 50-100% in countries like Bangladesh, Pakistan and Thailand. In fact, many agricultural exporting countries in the 70's and 80's like the Philippine have been transformed into net food importers as a result of import liberalization under AoA. As there were no corresponding dramatic increases in developing countries' agricultural exports after their accession to the WTO, the massive food imports and import surges contributed to the huge trade deficits in agriculture they incurred during this period.

The study also pointed to the general trend towards land concentration as small-scale farms were edged out in the competition. This has led to displacement of small farmers and food-insecure groups, further exacerbating hunger and food insecurity among rural households. While AoA allows protection of agriculture by developed countries, it promotes market liberalization in developing countries that have seriously undermined rural livelihoods and food security. Agriculture subsidies by developing countries have been significantly reduced and in many cases withdrawn resulting in increased indebtedness of poor farmers. Fertilizer subsidies were removed in

countries like Indonesia and Zambia. State procurement and public food distribution programs have been scaled down while in some countries, procurement centers that are strategically located in farming villages were shut down like in Pakistan. These policies have left poor farmers at the mercy of traders and moneylenders who exact huge profits from under pricing farmer's produce and raising loan interests exorbitantly. In many cases, government stopped procuring from their own farmers and relied upon cheap food imports to replenish their stocks.

The very same tools that developed countries generously employed to achieve food security and food self-sufficiency such as imports controls and higher tariffs are now being denied to developing countries as they are now considered trade barriers under AoA. Subsidies that could have provided support to subsistence and cash-strapped farmers are being withdrawn as these are also considered trade-distorting under the AoA. Indeed in a short span of time, AoA has actually succeeded in reversing policies and measures used by developing countries to achieve food security. In fact, the WTO has succeeded in redefining food security from one of having increased production capacity to meet domestic food consumption to having mere access to food imports supplied by countries which can produce them cheaply. The US, which instigated the launching of the Uruguay Round to capture greater market for its agriculture exports, has exactly this concept in mind. This was echoed by no less than John Black, the US Agriculture Secretary at that time, when he said at the start of the Uruguay Round negotiations in 1986 that the "idea that developing countries should feed themselves is an anachronism from a bygone era. They could better ensure

their food security by relying on US agricultural products, which are available, in most cases, at much lower cost.” (IFG, 2002).

But as the implementation experience of developing countries would attest, trade liberalization in agriculture in fact has led to increased hunger, starvation and poverty among the rural poor.

Rural women and the AoA

In many Asian societies, rural women play key roles in agricultural production, yet they barely have ownership and control over the land they till. Nevertheless, they fulfill numerous and significant roles in the different aspects of agricultural production. These roles range from producers of staple foods such as rice, wheat and corn to keepers of seeds as well as indigenous farming knowledge and practices. In addition to this they not only take care of but also breed livestock and poultry. And yet the crucial roles that women play in such activities have been largely ignored.

As the worst hit by unbridled trade liberalization are the staple food sectors, women as producers and food preparers ultimately suffer the most. Women farmers and agricultural workers like their male counterparts lost their traditional livelihoods as domestic crop industries fold down under heavy competition from extremely cheap food imports. It is the women, who because of their nurturing roles in the households are pressured to look for alternative jobs outside of the farms. But lacking knowledge and skills, displaced women workers and farmers end up in extremely low paying, domestic and oftentimes hazardous jobs. In the Philippines, the rural women

workforce is usually found in the informal sector, such as in vending, community services, and domestic work.

It is also important to note that under an increasingly liberalized trade regime that promotes an export-oriented model of agriculture, women all the more losses their access to land, water, seeds and productive resources. Lands devoted to food crop production have been massively converted into other uses such as commercial farms, plantations for exports and aqua farms. In Java, where 60% of Indonesia's fertile rice lands are located, the area devoted to rice farming has considerably constricted in the past years due to conversion to golf courses and tourism projects. Women farmers are forced to work as contractual laborers in plantations or as caddies in golf courses and even as entertainers to augment their family's income. This in turn leads to the break up of the traditional family productive unit, and under extremely scarce and exploitative work options, might also lead to unbearable work loads, increases in child labor and family disintegration.

Recommendations

Despite increasing evidence that the AoA had in fact worsened rural poverty, devastated small scale agriculture and the livelihoods of small farmers and rural women, and deepened class and gender inequalities, the on-going negotiations on the AoA have failed to seriously address these fundamental issues. The review of the AoA, which began in 2000, is not intended to look into the devastating impact of the agreement on small farmers and the vulnerable sectors but to push for intensified trade liberalization in the direction of expanding global trade in agriculture. The 800 million hungry

and malnourished poor in the south nor the threatened livelihoods of millions of small farmers in the world seem not to be a compelling agenda for this multilateral negotiation.

After a series of formal and informal meetings, proposals and counter-proposals from members, the Committee on Agriculture that is now undertaking the review of the AoA is nowhere from where it started in 2000. The modalities text that the committee's chairman drafted, which was supposedly based on the proposals of members, reflected little the many proposals for rectifying the iniquities in the agreement. While remaining blind to the fundamental flaws of the agreement, the draft pushes for deeper tariff cuts and grants more legitimacy and protection to the tradedistorting subsidies and dumping practices of developed countries. But even as the text reflected much of their aggressive trade liberalization agenda, the rich nations particularly the US and the EU seem to be ever locked in serious disputes over how these modalities should best serve their own respective interests. Meanwhile, developing countries and their development agenda remain on the sideline.

As the Fifth WTO Ministerial Meeting in Cancun fast approaches, the urgency of rescuing and protecting small farmer's livelihoods and securing food for the millions of poor and hungry in the South is more than highlighted. Farmers, women, indigenous peoples, fishers and artisans from the third world countries have resisted the incursion of WTO into their lives and livelihoods. The reverberating call is for WTO to cease its rule over food and agriculture. For the social movements and farmers movements who believe that small farmers from the third world can never compete with

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transnational corporations controlling global trade in agriculture, the WTO, could never be an arena for deciding their development issues.

Agriculture remains crucial to the development of most Asian countries. It provides food and subsistence to more than half of the population of many of these countries, employs a majority of their labor force and accounts for a significant share of their GDP. Achieving food security, livelihood security and sustainable rural development requires a fundamental policy shift away from the present free trade framework of the WTO that has debilitated small-scale agriculture in the South and towards a more people-oriented development path that upholds food sovereignty, economic self-determination of nations, gender equity and sustainability. Food sovereignty, as demanded by people's movements encompasses the rights and control of small farmers, agricultural workers, women and other vulnerable sectors to sustainable and secure livelihoods; to land, water, seeds and other agricultural resources; and to adequate, safe and nutritious food.

But genuine rural development, one that meets not only the basic needs of small farmers and women but enable them to exercise their rights and freedoms, as well as protect their resource base for sustainable production, can only come from truly democratic governments exercising their political will to protect, support and develop their agriculture and economies. Hence, the challenge is not only to remove an unjust trading regime ruled by the WTO but to transform political and economic structures at the national level that have consigned the majority of peoples to debilitating poverty.

Given this enormous challenge, the tasks at hand for social movements, farmers movements, women's movements and NGOs campaigning for food security, food sovereignty and rural development in the developing countries are the following:

At the international level

Expose the WTO-AoA, its inherent flaws and inequalities, and the on-going AoA negotiation as a meaningless process for developing countries as it seeks for “ more of the same” AOA.

Demand for an immediate end to dumping of agricultural products by developed countries.

Demand for the immediate elimination of domestic support and all forms of export subsidies of developed countries that result in chronic dumping of agricultural commodities.

Demand for the abolition of all agreements, AoA, TRIPS, FTAs and other bilateral agreements that disadvantaged the poor countries and their people while expanding the dominance and control of transnational corporations over trade and agriculture.

Work for a just and sustainable trade between and among nations based on respect for the sovereign rights of nations, the protection of the rights and livelihoods of the poor majority, food security, gender equality and sustainability.

At the national level

Demand for an immediate halt to massive food and agricultural imports by installing protective measures such as higher tariffs, import quotas and other safeguard measures. It is the bound duty of national governments to protect their disadvantaged sectors from dumping and unfair competition that have wrecked the livelihoods of small farmers and small independent producers.

Develop national policies on agriculture and trade within the alternative framework for food sovereignty. These policies should be able to protect small farmers rights and livelihoods and will strengthen their access, ownership and control of