Chapter 2

Agriculture and the Next Round of WTO Negotiations

by

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of WTO Negotiations[*]

There is a mixture of views within East Asia about agricultural trade reform and hence about its inclusion in the Uruguay Round (UR) agreements. On the one hand, governments in the wealthier, densely populated countries are under pressure to continue to protect their farmers from import competition and to be seen to be providing an adequate degree of food security. In the countries with a stronger comparative advantage in agricultural products, on the other hand, governments are keen to secure more access to markets for their farmers' exports (Sicular 1989; Anderson 1994).[1] This difference of views within East Asia surfaces periodically in Asia-Pacific Economic Cooperation (APEC) as well as World Trade Organization (WTO) fora. Since it is mirrored in other regions of the world too, agriculture is guaranteed to be a controversial part of the next round of multilateral trade negotiations, launched in Doha in late 2001, just as it was in the previous round that ended in 1994.

Given the high degree of distortion in world food markets that existed in the 1980s, every impartial observer agrees that one of the great achievements of the Uruguay Round was to start to bring agricultural policies under GATT discipline and to agree to return to the negotiating table by the turn of the century.[2] Since the signing of the UR accord in 1994, nontariff barriers to agricultural imports have been tariffied and bound and the tariff bindings are scheduled for phased reductions. Farm production and export subsidies also are being reduced, mostly between 1995 and 2000 (with developing countries having an extra four years or more). That UR Agreement on Agriculture, together with the Agreement on the Application of Sanitary and Phytosanitary Measures, or SPS Agreement (to limit the use of

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[1] The recent financial crisis in East Asia has strengthened the agricultural comparative advantage of several developing countries in the region, as capital withdrawal effectively "re-agriculturalized" these economies somewhat (Anderson and Strutt 1999).

[2] On the long history of exceptional treatment of agriculture in the GATT, see Josling, Tangermann and Warley

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Deleted: simply focus on traditional market access issues in agriculture and services, the two sectors included in the built-in agenda from the Uruguay Round, rather than also include market opening in other sectors and negotiations on "new trade agenda" items? We argue in this paper that while agricultural market access negotiations should be given high priority, the probability of the

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quarantine import restrictions to cases that can be justified scientifically as a risk to human, animal or plant health), and the Dispute Settlement Agreement (which has greatly improved the process of resolving trade conflicts), hopefully means that agricultural trade will be less chaotic in future than prior to the formation in 1995 of the new World Trade Organization. Much remains to be done, however, before agricultural trade is as fully disciplined or as liberal as world trade in manufactures.

This paper has four main parts. First, it explores empirically the scope for further gains from liberalizing agricultural markets in OECD countries, both absolutely and relative to the welfare gains from cutting those countries' barriers to imports of textiles and other manufactures. Second, it explores what is likely to be included in the next agricultural negotiations. Third, it asks if the likelihood of the next WTO round delivering sizable agricultural protection cuts and benefiting the world's poor (the vast majority of whom are developing country farmers) will be significantly greater now that negotiations are to include protection cuts for other sectors and at least some of the new issues on the WTO's agenda. Fourth, it examines whether rule-making efforts to accommodate new issues should be de-linked from the agricultural negotiations on border measures, rather than simply included under the three headings used in the Uruguay Round Agreement on Agriculture (import market access, export subsidies, and domestic support). The latter approach may be more expedient, but it prolongs the time until agriculture is fully integrated with other sectors in the WTO. Finally, it lists the next steps needed, as we see it, to maximize the chances through WTO disciplines of keeping the agricultural reform process going.

The potential gains from further agricultural policy reform

The post-1950s period saw substantial growth in agricultural protection and insulation in the advanced industrial economies and its subsequent spread to newly industrializing economies (Johnson 1973; Anderson and Hayami 1986; Lindert 1991; Tyers and Anderson 1992). That tendency accelerated in the 1980s to the point where some protectionist countries went beyond self-sufficiency to generate surpluses that could be disposed of only with the help of export subsidies. While this led to serious budgetary pressures and increasing domestic opposition to the cost of agricultural support policies, protection growth nonetheless continued. Traditional agricultural exporting countries thus insisted that the Uruguay Round

(1996).

of multilateral trade negotiations must focus on reversing this agricultural protection trend. The Round's Agreement on Agriculture that resulted from that effort has altered the climate of farm policymaking, to the point where reforms in OECD countries—e.g., attempts to shift from price and trade measures to more direct forms of farm income support—have laid the foundations for reducing assistance to farmers that depresses international prices.

The Uruguay Round is scheduled to be fully implemented in all sectors and regions by 2005. At that time, what will be the potential for further gains from reforming agricultural markets of OECD countries compared with the gains from protection cuts in other sectors? That question has been addressed in a recent paper that makes use of the global economy-wide model known as GTAP. Anderson, Hoekman and Strutt (2001) use GTAP to project the world economy to 2005 following full implementation of the Uruguay Round. Their estimates of the extent of distortions to world trade that will remain in 2005, even after China and Taiwan have joined the WTO, are given in Table 1. According to those estimates, the agriculture and processed food sector will still be a major anomaly. Globally, it has twice the import tariff average of textiles and clothing and nearly four times that for other manufactures. At the same time, significant distortions to farm production and exports will still be in place if no further policy reforms occur. The pattern of distortions will still differ between regions, with the numbers in parentheses in Table 1 showing OECD countries subsidizing, and developing countries taxing, farm production and exports.[3] Within East Asia, the richer Northeast Asian economies are more highly protective of their farmers than are the Southeast Asian economies, especially relative to manufacturing protection (except for Hong Kong and Singapore, which have few distortions to their trade in goods).

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What is the global economic significance of these projected distortions in the different sectors? That depends not only on the size of those ad valorem price wedges but also on the value society places on the production and consumption distortions induced by them. Those quantity distortions depend largely on the value of production of each sector and the importance of its products in consumption. Table 2 provides an indication of the relative importance of the various sectors in regional and world production, consumption and trade.

[3] Version 4 of the GTAP database gives lower estimates of protection levels for 2005 than Version 3, but the relativities across sectors are quite similar in the two versions (see Hertel and Martin 1999, Table 3). On reasons for this pattern of distortions across countries, including its antitrade bias, see Anderson (1995). There are of course many other distortions to markets that are not captured in Table 1, the most notable being those affecting services trade and government procurement. Until estimates of the extent of those latter distortions are available for a wide range of countries, however, their magnitude or effects cannot be compared with those that are captured in Table 1.

Consider first the effects of removing distortions to OECD country markets for (1) agriculture and processed food, (2) textiles and clothing, (3) other manufacturing, and (4) all goods combined, and then to (5) all developing economies' goods markets and finally to (6) all OECD and developing economies' goods markets together.[4]

The welfare consequences of these alternative comparative static scenarios are summarized in Table 3. If both OECD and developing countries were to liberalize all their goods markets in 2005 post-Uruguay Round, these results suggest that global welfare would be greater by US$260 billion per year.[5] Almost one-third (32 percent) of the estimated global gains from goods trade liberalization are estimated to come from agricultural reform in OECD countries—even though farmers in those countries contribute only 4 percent of global GDP and less than one-tenth of world trade (see Table 2).

Textile and clothing reforms appear to pale by comparison with farm reform: their welfare contribution is only one-eleventh that of agriculture's. The reasons for this big difference are several. One is that distortions to prices for agriculture are more than twice those for textiles and clothing, according to Table 1. Another is that the latter products contribute only 1.5 percent to the value of world production and 5.5 percent to the value of world trade, barely half those shares for farm products (Table 2). But two key assumptions made by the modelers also contribute to this result. One is that China and Taiwan enjoy the same accelerated access to OECD markets under the UR Agreement on Textiles and Clothing (ATC) as other developing countries that are WTO members. The other is that OECD countries fully implement the ATC. The latter is far from certain to happen though, particularly as China is to be given more access to textile markets in the next few years following its accession to WTO in December 2001. Dropping either of those assumptions reduces very substantially the estimated gains from Uruguay Round implementation (Anderson et al. 1997b), and therefore would raise the potential gains from textile and clothing reform in the next WTO round. Even so, agricultural protection would remain far more costly to the world economy than barriers to textiles and clothing trade—and more

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[4] The relatively very small economies of the former Soviet Union and Central Europe and "rest of the world" are assumed not to change their policies in these scenarios.
[5] This is a gross underestimate of the *aggregate* gains from trade liberalization for several reasons: because services and government procurement policies are excluded; because no account is taken of the benefits of increasing the degree of competition and the scope for scale economies; because of the high degree of regional and product aggregations in the version of the model used; and because the dynamic growth-enhancing consequences of reform are not captured. Those omissions may not distort greatly the estimated *relativity* of the gains from reforming the various markets for goods, however.

costly even than protection for other manufactures, despite the latter having much bigger shares in the value of world production and trade than farm and food products.

The WTO membership was right, therefore, to insist that OECD agricultural reform must continue into the new century without a pause. East Asian and other developing countries have a major stake in that process continuing: according to the above GTAP results, the farm policies of OECD countries are almost as harmful to developing economies as their own trade-distortionary policies. Certainly, OECD textile and clothing policies harm developing economies greatly, but less than half as much as OECD farm policies (see middle row of Table 3). Barriers to OECD imports of "other manufactures," by contrast, actually help developing economies. The reason is that those trade restrictions lower international prices of those products, thereby improving the terms of trade of developing countries. Welfare decomposition of the GTAP results shows that three-quarters of the loss to developing economies from OECD countries removing restrictions on their imports of "other manufactures" is because of the raised international price of these products (see numbers in parentheses in Table 3).

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Furthermore, Anderson, Hoekman and Strutt (2001) find that each of the major developing country regions benefits in terms of real income gains from OECD agricultural policy reform. And even for the OECD economies themselves, despite the fact that agriculture and food represent only about 5 percent of their GDP, abolishing their remaining agricultural protection in 2005 would contribute one-quarter of their welfare gains from liberalizing all goods trade globally—and almost two-fifths of the gains from liberalizing trade in all goods in the OECD alone.[6] Clearly, it is even more in the economic interests of the OECD countries than the developing countries that agricultural protection policies are reformed.

What to include in the agricultural negotiations of the next WTO round

Substantial progress has been made at the Committee on Agriculture of the WTO in increasing understanding of the issues involved in completing the reform process, and in

[6] By contrast, textile and clothing trade reform appears to harm OECD economies slightly. Recall that Voluntary Export Restraint quotas on developing country textile and clothing exports are scheduled to be replaced by OECD import tariffs on those goods by 2005 under the Uruguay Round's ATC. The very considerable projected efficiency gains from subsequently lowering those tariffs in the next WTO round are just slightly more than offset by the rise in the international price of those goods, according to the welfare decomposition results summarized in parentheses in Table 3.

formulating initial positions. While some countries, particularly the Cairns Group, have laid out an ambitious agenda for negotiation, other countries, such as Japan and Korea, remain reluctant to embrace further reform. There has also been some reform reluctance on the part of the East Asian countries whose economies were worst hit by the Asian financial crisis. The European Union, too, is finding it difficult to get a consensus for more than modest reform of its Common Agricultural Policy under its Agenda 2000 (on which its WTO negotiating position is to be based—see Tangermann 1999). There are also concerns in many developing countries about food security and the problems created by surges of subsidized exports from industrial countries.

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How, then, should the new WTO round of agricultural negotiations proceed? The fact that (often discriminatory) farm export subsidies are still being tolerated continues to distinguish agricultural from industrial goods in the GATT, a distinction that stems from the 1950s, when the United States insisted on a waiver for agriculture of the prohibition on export subsidies. Moreover, early in the new century, farm export subsidies need be only about one-fifth lower than they were in the late 1980s to comply with the Uruguay Round agreement. True, the budgetary expenditure on export subsidies is to be lowered by 36 percent from the base period, but for some commodities it may be only the agreed cut in the *volume* of subsidized exports (21 percent for industrial countries, 14 percent for developing countries) that bites because international food prices are now higher than in the base period, so exportable surpluses can be disposed of with lower subsidy outlays.

The extent of reductions in bound tariffs by the end of the 1990s was even more modest than for export subsidies: the *unweighted* average tariff cut must be 36 percent (24 percent for developing countries), but it could be less than one-sixth as a *weighted* average, since each tariff item need be reduced by only 15 percent of the claimed 1986-88 tariff equivalents (10 percent for developing countries).[7]

Moreover, the claimed tariff equivalents for the base period 1986-88, and hence the initial tariff bindings, are in many cases far higher than the actual tariff equivalents of the time. The European Union, for example, has set them on average at about 60 percent above the actual tariff equivalents of the Common Agricultural Policy (CAP) in recent years, while

[7] Tangermann (1994) gives the example of a country with four items subject to tariffs, three sensitive ones with 100 percent duty rates and one with a 4 percent duty. Reducing the three high rates to 85 percent (a 15 percent cut) and eliminating the 4 percent rate (a 100 percent cut) would give an unweighted average cut of 36.25 percent. This would meet the requirement for an unweighted average cut of 36 percent and minimum cuts per item of 15 percent, but it would allow high protection on sensitive products to remain and it may increase the dispersion of rates.

the United States has set them at about 45 percent above recent rates—and developing countries are even more involved in the practice (Ingco 1995, 1996). “Dirty” tariffication has two consequences. One is that actual tariffs may provide no less protection early in the new century than did the nontariff import barriers of the late 1980s and early 1990s. The other consequence of binding tariffs at such a high level is that it allows countries to set the actual tariff below that but to vary it so as to stabilize the domestic market in much the same way as the EU has done in the past with its system of variable import levies and export subsidies—and has continued to do since 1995 (Tangermann 1999). This means there was little of the reduction in fluctuations in international food markets in the 1990s that tariffication was expected to deliver.

It is true that some countries have agreed also to provide a minimum market access opportunity, such that the share of imports in domestic consumption for products subject to import restrictions rises to at least 5 percent by the year 2000 under a tariff quota (less in the case of developing countries). But that access is subject to special safeguard provisions, so it offers only potential rather than actual access (another form of contingent protection). As well, market access rules formally introduce scope for discrimination in the allocation of import quotas between countries, where within-quota imports attract a much lower tariff than above-quota imports. Perhaps even more important, the administration of such quotas tends to legitimize a role for state trading agencies, such as Bulog in Indonesia. When such agencies have selling rights on the domestic market in addition to a monopoly on imports of farm products, they can charge excessive markups and thereby distort domestic prices easily and relatively covertly—just as such agencies can hide export subsidies if they are given a single-desk selling monopoly. There are thus elements of quantitative management of both export and import trade in farm products now legitimized under the WTO, including scope for discriminatory distortions to trade volumes as well as prices.

The third main component of the Uruguay Round agriculture agreement is that the Aggregate Measure of domestic Support (AMS) for industrial country farmers was to be reduced to four-fifths of its 1986-88 level by 2000. That too required only modest reform in most industrial countries because much of the decline in the AMS had already occurred by the mid-1990s. This has been possible because there are many forms of support that need not be included in the calculation of the AMS, the most important being direct payments under production limiting programs of the sort adopted by the US and EU. A risk that needs to be curtailed is that the use of such “blue box” instruments, as with exempt “green box” instruments such as environmental provisions, may spread to other countries and other commodities as farm income support via trade and direct domestic price support measures becomes WTO-constrained.

Given the limited progress over the past seven years in making agriculture more market oriented, the first priority for the next WTO agricultural negotiations must be to further that process. Until the turn of this century it was expected that that would not be as difficult to agree to now as it was when the Uruguay Round was being launched, given unilateral farm policy reforms in the United States and—at least to some extent—in the EU and Japan during the mid-1990s (IATRC 1997, Chs. 1, 2 and 6; Tracy 1997). But European intransigence expressed at the WTO Ministerial in Doha and attempts to raise farm subsidies in the United States in late 2001 indicate that agricultural trade negotiations will continue to be heated.

Nothing less than a ban on farm *export subsidies* is needed to bring agriculture into line with nonfarm products under the GATT. With respect to *domestic subsidies*, an early decision needs to be made as to whether to strengthen or abandon the attempt to constrain domestic policies under the WTO. Even though a plausible case can be made for the latter (Snape 1987), the Cairns Group has decided to pursue the former. The blue box items, containing the US and EU direct payments to farmers who restrict their output or at least some inputs, were granted exemption from challenge until 2003 under the Blair House agreement as a way of moving the Uruguay Round talks forward. Only if reforms to the policies of the US and EU were to continue for internal reasons would it be possible to remove the blue box in the next round of talks. Efforts to tighten the green box criteria could be made, so as to reduce the loopholes they provide for continuing output increasing subsidies and to further reduce the Aggregate Measure of Support. One of the possible benefits of getting countries to commit to further reducing their AMS is that it will encourage them to make more of their policies conform to the green box criteria, the rewards for which are exemption from the AMS and avoidance of challenge (IATRC 1997, Ch. 11). That in turn makes it all the more important that the green box criteria are tightened such that policy instruments so exempted are not in practice encouraging further production.

The third and perhaps most important area requiring attention has to do with *import market access*. Tariffication has made restrictions on imports much more transparent, but the degree of "water" currently in those tariffs exaggerates the barriers and makes most bindings ineffective. The combination of dirty tariffication by developed economies and the adoption

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of very high ceiling bindings by developing economies allows countries still to vary their protection as they wish in response to changes in domestic or international food markets. Getting those bound tariffs down from 50-250+ percent to the 0-15 percent range of tariff rates for manufactures is the challenge ahead. If the steady rates of reduction of the past are used, it will be several decades before that gap is closed.

At least three options for reducing tariffs on farm products present themselves. One is a large across-the-board tariff cut. Even if as much as a 50 percent cut by, say, 2005 is accepted, however, that would still leave some very high tariffs. A second option is the "Swiss formula" used for manufactures in the Toyko Round, whereby the rate of reduction for each item is higher the greater the item's tariff level. This has the additional economic advantage of reducing the dispersion in rates that was introduced or exacerbated during the Uruguay Round. And a third option is the one used successfully in the information technology negotiations, namely, the "zero for zero" approach, whereby, for selected products, tariffs are eliminated altogether. In contrast to the second option, this third option would increase the dispersion of tariffs across products, increasing the risk that resources will be wastefully diverted from low-cost to higher-cost activities. While that might appeal as a way of allowing attention to then focus on the politically difficult items, such as dairy and sugar, the manufacturing sector's experience with long-delayed reductions in the protection of textiles and cars makes it difficult to view this option optimistically as a quick solution.

The tariff reductions discussed above refer to out-of-quota imports. There is also a pressing need to focus on in-quota imports, that is, those that meet the minimum access requirements in the UR Agreement on Agriculture (generally 5 percent of domestic sales by 2000 for developed economies). Agricultural exporting countries are understandably reluctant to suggest that the tariff rate quota (TRQ) be removed, because the TRQ provides at least some market access at low or zero tariffs.[8] Nor would allowing TRQs to be auctioned be seen by all as a solution, because that would be like imposing the out-of-quota tariff on quota-restricted trade, which the TRQ was designed to avoid.

Perhaps the best alternative to banning TRQs is to expand them, so as to simultaneously reduce their importance, increase competition and lessen the impact of high above-quota tariffs. One can imagine an outcome that is either optimistic or pessimistic from a reformer's viewpoint. On the one hand, the optimists would say: if the TRQs were to be

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[8] Nearly 1,400 TRQs have been notified to the WTO so far, about 200 of which are country specific rather than global. On the complexities of TRQs, see Skully (1999).

increased by, say, the equivalent of one percent of domestic consumption per year, it would not be very long in most cases before the quota became nonbinding. Expanding the TRQ could thereby be potentially much more liberalizing in the medium term than reducing the very high out-of-quota tariffs. Such an approach may require binding within-quota tariffs at a reasonable level (such as that for manufactures) and perhaps allowing countries not to have to reduce those bound within-quota tariffs before the quota becomes redundant.

Negotiators familiar with the tortuous efforts to reform the quota arrangements for textiles and clothing trade, on the other hand, see the agricultural TRQs as yet another MFA: a multilateral food arrangement![9] The first inception of textile quotas was around 1960, and it looks like it will take 50 years or so before they are finally abolished. If that is the expected lifetime of agricultural TRQs, a strong case could be made by the Cairns Group and others for the total elimination of agricultural TRQs (along with export subsidies and credits) and a radical reduction in bound (out-of-quota) tariffs. The quid pro quo could be to put less emphasis on trying to discipline farm domestic supports: the almost infinite scope for re-instrumentation makes that very difficult anyway and, as Snape (1987) has pointed out, constraints on border measures would ensure that the cost of domestic supports was exposed via the budget and thereby subjected to regular domestic political scrutiny.

The above agenda for those seeking more liberal agricultural markets will be resisted by those seeking a continuation of special favors for protected agricultural sectors. The latter are forming coalitions with other groups to find reasons and excuses for not lowering trade barriers or to lobby for interventions abroad that would raise their competitors' costs. The key issues being raised by these groups, which are likely to be more prominent in the new round of WTO negotiations than in the Uruguay Round, are discussed below. In assessing the implications of these priorities for farm and trade policies, the following should be kept in mind: that where there are several policy objectives, typically an equal number of policy instruments is required to deal efficiently with them; that the most efficient policy instrument for achieving a particular objective will be that which addresses the concern most directly; that trade measures in particular are rarely the most efficient instruments for addressing nontrade concerns; and that trade reforms will be welfare improving so long as optimal domestic interventions are in place to deal with those nontrade concerns.[10]

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[9] Credit goes to Joe Francois for suggesting that acronym.
[10] What follow draws on Anderson (1998a).

The claim is often made that a high level of food self-sufficiency is necessary before a nation feels food-secure. This is inconsistent with the usual definition of food security though, which is that everyone always has access to the minimum supply of basic food necessary for survival. Lower rather than higher consumer prices for food would by that definition boost the number of food-secure people, suggesting that *lower* import barriers and export subsidies should be called for.

However, becoming more dependent on food imports does raise questions about the preparedness of exporters to always supply foreign markets. For that reason, food importers such as Japan are calling for stronger disciplines on the exceptions to GATT Article XI.1, which prohibits export restrictions other than export taxes. For example, GATT Article XI.2(a) permits temporary quantitative export restrictions to relieve critical food shortages in an exporting country. True, Article 12 of the UR Agreement on Agriculture added some discipline to that provision, requiring that due consideration be given to the effects of such a restriction on WTO members that are food importers, that such affected members be consulted and that the WTO be notified of the nature and duration of the restriction. Even more discipline could be called for in the next WTO round. For example, if it were shown that in the past longer-term customers were being served first and charged less in years of shortfall, agricultural exporting countries could be asked to cease that practice and instead provide nondiscriminatory access to their supplies of basic foodstuffs at all times.

In addition to concerns about food security, there are also concerns about food safety. The demand for higher quality, safer food rises with per capita incomes. However, perceptions about the safety of different foods and food production and processing methods, and conformity assessment procedures, differ greatly—even among countries with similar income levels. These differences can be exaggerated when groups with an economic interest in trade restrictions join forces with extremist lobbying groups pushing for excessive food safety measures. The rapid rise in media hype over genetically modified products (GMPs) is a clear case in point: it has fueled consumer concerns in Western Europe to such an extent that trading partners fear their access to EU markets may be curtailed (Nielsen and Anderson 2001). Developing country farmers are concerned for different reasons: because intellectual property protection in their countries is so poor that producers of GM seeds may not sell the new varieties to them, causing their agricultural comparative advantage to diminish; and because some high-income countries may erect barriers to prevent GMPs originating in developing countries from penetrating their markets (Anderson and Yao 2001). For the sake

Deleted: this issue may well be on the agenda for the next agricultural negotiations in some form of farmers and consumers everywhere, and to reduce uncertainty for R&D firms seeking to invest further in GMPs, it is imperative that rules and standards governing trade in GMPs be clarified.

Why agriculture needs other sectors and “new trade agenda” issues in the new WTO round

The probability of the new comprehensive WTO round launched in late 2001 delivering significant agricultural reforms and thereby benefiting the world’s poor (the vast majority of whom are developing country farmers) will be greater with the inclusion of negotiations on protection cuts for other sectors and some of the new issues on the WTO’s agenda. (Initial negotiations on services had been proceeding in parallel with those on agriculture from early 2001 as part of the built-in agenda from the Uruguay Round.)

Textile reform should be included, not least to reduce the likelihood that OECD countries renege on current obligations under the Uruguay Round’s Agreement on Textiles and Clothing. The above simulation results suggest that further textile reform would give a major welfare boost to developing economies. It would boost the manufacturing exports of the most densely populated of Asia’s developing countries. But since they in turn would then import more farm products, reductions in textile barriers would indirectly also boost the farm sectors of other countries.[11] However, it has been argued that because the ATC runs to the end of 2004, and the newt round is scheduled to be completed around then, there is no need to reconsider textile barriers in this round. And the East Asian economies with sizable quotas at present may be happy to hang on to them for a little while longer.

In return for any further reductions in barriers to agricultural (and textile) markets in rich countries, developing countries would be leaned on to liberalize their manufacturing and services markets and their government procurement procedures. The welfare gains to developing countries’ agriculture (and the overall economy) from such nonfarm policy reform could well be as large as those countries’ gains from farm policy reform by OECD countries. This is because of the direct impact those reforms would have on developing countries’ farm input costs and the cost of services required to market their farm outputs, as well as the standard indirect general equilibrium effects on the cost of mobile labor and

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[11] Similarly, if China were restrained from raising protectionist barriers to farm imports and given more access to US and EU textile markets, the agricultural sectors of other East Asian countries would benefit (Anderson et al. 1997a, b).

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As for new trade agenda issues, their inclusion in the next round is considered by some (including East Asian developing country) negotiators as undesirable because it would distract their attention from the current agenda items. On the other hand, however, their inclusion would have the advantage that more nonagricultural groups would take part in the round, which could counterbalance forces favoring agricultural (and other sectoral) protection. As well, better rules on some of those new issues would reduce the risk of farm trade measures being replaced or made ineffective by domestic agricultural measures and technical barriers to trade that may be almost as trade distorting—a risk that has grown considerably in recent years (Anderson, McRae and Wilson 2001; Roberts, Josling and Orden 1999).

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The decline in traditional trade barriers will cause attention to focus increasingly on the trade-impeding effects of domestic regulatory regimes. This is what has given rise to the "new trade agenda." It revolves around policies such as the setting and enforcing of product standards, state trading, subsidy regimes, export controls, competition law and government procurement practices. Such policies can effectively distort competition, even if applied on a nondiscriminatory basis.

Virtually all these new issues have relevance to the agricultural liberalization agenda. The Uruguay Round negotiations on agriculture focused on only some of them, notably production subsidies and product standards. In the Uruguay Round progress was made in designing rules for the application of sanitary and phytosanitary (SPS) standards and disciplining the ability of governments to grant agricultural production subsidies. However, disciplines are weak, country specific or nonexistent in many other areas, including the extraterritorial application of production process standards and competition-related policy and regulation. The latter include the nexus of state trading, export taxes and cartels, and intellectual property (broadly defined to include indications of geographic origin, traditional expressions, breeder's rights and seed varieties).

While attempts to discipline and regulate the use of domestic subsidies under GATT auspices have been pursued for decades with little success, somewhat greater progress was made in the Uruguay Round with sanitary and phytosanitary standards. The SPS Agreement seeks to ensure that any SPS measures are imposed only to the extent necessary to ensure adequate food safety and animal and plant health on the basis of scientific information and are the least trade-restrictive measures available to achieve the risk reduction desired. Although there is substantial “wiggle room” in the wording of disciplines, consultations between WTO members are leading to conflict resolution in numerous cases. The dispute settlement evidence to date shows that exporting countries can succeed in obtaining rulings against the most egregious cases of protectionist abuse of standards (Roberts 1998). A problem that confronts developing countries in this area, however, is that they may find it difficult to satisfy partner countries that their domestic institutions can be trusted to enforce the required standards. Alternatively, such institutions may not be able to perform testing and certification functions effectively without imposing significant burdens on trade.

The focus of GATT/WTO negotiations has always been on increasing the contestability of markets by reducing or eliminating discrimination against foreign products and producers. One way to apply this rule of thumb to the new trade agenda is to seek to extend the reach of the nondiscrimination principle to issues such as subsidies, competition legislation, foreign investment regimes and government procurement practices. In all these areas governments are currently free to pursue discriminatory policies, and often do.

Liberalizing foreign investment and extending the national treatment principle to foreign suppliers of goods and services would have a significant impact in terms of “leveling the playing field.” An open investment regime in general, complemented by a commitment to apply national treatment to the supply of service sectors in the GATS context would go a long way in making markets more contestable. Investment liberalization is already on the agenda of the GATS for service sectors, as nations can make specific commitments on market access and national treatment for foreign providers that seek to establish a “commercial presence,” that is, to engage in foreign direct investment. This approach could be extended to investment more generally, including in agriculture, where restrictions are often very severe (e.g., in Indonesia).

Why “new trade agenda” issues for agriculture should be treated generically

Should rule-making efforts to accommodate the new issues be de-linked from the agricultural negotiations on border measures? A suggestion by Josling (1998) is to incorporate all the new issues as they apply to agriculture under the three headings used in the Uruguay Round Agreement on Agriculture, viz., import market access, export subsidies and domestic support. While such an approach might have been necessary if the next round had been confined to

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just agriculture and services, or may be more expedient and therefore preferred if a prompt conclusion is desired, it simply prolongs the time until agriculture is fully integrated with other sectors in the WTO. While that separation remains, WTO rules are less clear, and exceptional (i.e., less liberalizing) treatment is encouraged. Thus a more generic approach to the new issues should be entertained.

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Conceptually, the matter is relatively clear-cut: what is required is a determination as to whether domestic policies that have detrimental effects on foreign suppliers can be justified on public interest grounds. More specifically, it can be asked whether a more efficient, less trade-distorting policy instrument can be identified to achieve a particular objective. If so, the presumption would be that the measure can be contested. Of course, making this basic economic principle operational in the international context is not straightforward, not least because in practice measures may be pursued because a nation has the power to influence the terms of trade in its favor, and because there will always be differences in opinion as to whether alternative instruments are feasible or not.

Snape (1987) has argued that, with respect to subsidies, governments should be left free to pursue whatever domestic policies they wish—an argument that can be extended to regulatory policy more generally. A rationale for this argument is that in practice it is impossible to determine when subsidies are economically “legitimate” in the sense of offsetting market failures or being the least-cost instrument to pursue certain non-economic objectives, and that governments and interest groups will always be able to identify instruments that are not subject to multilateral disciplines to pursue their aims. The result of pursuing multilateral disciplines is then a never-ending process with uncertain benefits.

This argument is unlikely to be acceptable to policymakers, however. If negotiations on domestic policies are to be pursued, though, a strong case can be made that specific rules just for agriculture are not necessary. Consider four sets of examples.

Domestic subsidies

Agreements on subsidies (and countervailing duties) should apply to all sectors of economic activity equally. The WTO Subsidies Agreement takes a similar approach to the agriculture agreement and defines a set of general, nonactionable subsidies. These include support for research, aid for disadvantaged regions and assistance to firms adapting plants to new environmental measures. Disciplines in the area of services are yet to be developed and are likely to figure on the agenda of the prospective negotiations on services. Given a general desire by WTO members to define clearer rules on subsidy practices, efforts should be made to merge the agricultural disciplines with those applying to other merchandise and to be developed for services so that a common set of rules and principles emerge.

Competition policies, including state trading

Similar arguments apply to competition policies. For example, many countries have government-sanctioned single-desk selling agencies or export monopolies for agricultural commodities, and the activities of such entities have become a concern to the international community. State trading was considered a relatively minor aspect of policy among the original signatories of the GATT and is not subject to serious constraints under GATT law. Partly this reflects the fact that it was most prevalent in agriculture—a sector that remained largely outside the purview of multilateral discipline until the Uruguay Round. However, with the reintroduction of agriculture in the WTO, the adoption of multilateral disciplines for services (GATS) and the prospective accession to the WTO of many economies in transition, state trading has become a higher-profile issue that is part of the much bigger complex of policy questions to do with the conditions of competition in markets.

The issue of State Trading Enterprises (STEs) is a subset of the more general problems of dealing with the possible anti-competitive effects of entities with dominant positions or exclusive rights and privileges. In the recent WTO agreement on basic telecommunications, countries adopted a set of pro-competitive regulatory principles that require the establishment of independent regulatory authorities to monitor the behavior of dominant telecom suppliers and ensure interconnection on the basis of cost. Efforts to extend the reach of such principles more broadly to both STEs and other firms with exclusive rights should be pursued, with common rules applying to all such entities whatever the sector of activity in which they are engaged.

Technical standards, including sanitary and phytosanitary measures

Many countries use very blunt quarantine instruments, such as import bans that restrict imports well beyond what is necessary for protecting the health of plants and animals (and citizens, in the case of food safety concerns). For example, there are outright bans on imports of many products, including from agricultural exporting countries seeking to preserve a disease-free image. The levels of protection involved are in some cases equivalent to tariffs of more than 100 percent.[12] Without some form of notification requirement on WTO members that forces them to disclose the degree to which trade is restricted by such measures, reform in this area is likely to be confined to the very small proportion of those cases that are brought before the WTO's dispute settlement body. The expense of such legal proceedings and the time involved in concluding each case ensures that the pace of reform by that means alone would be glacial.

Even among countries with similar income levels, there may be large differences in perceptions about the safety of different foods, food production and processing methods, and conformity assessment procedures. The WTO dispute settlement case between the US and EU on beef hormones showed that differences of opinion on standards are difficult to resolve even with the best scientific advice. Other examples are irradiated food, genetically modified organisms and cheese made from unpasteurized milk (Mahe and Ortalo-Magne 1998; Henson 1998). Increasingly over time, such issues will arise under the Uruguay Round's SPS and Technical Barriers to Trade agreements (Anderson, McRae and Wilson 2001). But they will also arise in other, non-agriculture-related contexts. As with state trading, subsidies, and competition and industrial policies more generally, here again there is a strong case for developing common disciplines for all types of products, whether agricultural or not. There is nothing special about food as compared with, say, dangerous chemicals or heavy metals that may enter into the production and disposal of manufactured goods.

Environmental standards

Attempts to "export" environmental or social standards have become particularly controversial in recent years. Agriculture's contribution to the natural environment is most probably negative in a net sense. Some claim that it is adding to biodiversity and the landscape by preserving, for example, hedgerows in Europe, but that could be done simply by paying some landowners not to destroy their hedgerows. Others in rich countries claim that farmers need to be compensated for adopting less environmentally damaging farming practices. This pay-the-polluter idea is the opposite of the OECD-sponsored polluter-pays principle, whereby farmers would be taxed according to the extent of damage their practices cause.[13]

[12] See James and Anderson (1998) and Roberts and DeRemer (1997). The latter study reports more than 300 technical barriers to imports in 63 countries that are believed to threaten, constrain or block almost US$5 billion of US farm exports.

[13] Presumably it is rationalized as subsidizing the use of an abatement technology that provides a positive

Of major importance to developing country exporters of farm products is the erection of trade barriers against foreign products because of the way they are produced. Mexico won its case at the GATT against the US ban on imports of tuna that were deemed to be caught in nets unfriendly to dolphin, and the shrimp-turtle case had a similar outcome, but both cases have made the GATT/WTO very unpopular with environmental groups. Developing countries will need to continue to argue against import restrictions being allowed on products produced by methods not liked by importing countries—otherwise there would be no end of restrictions being imposed on such grounds (Anderson 1998b). As with all the other issues discussed in this section, there is no need or rationale for agriculture-specific approaches. The issues are generic; rule-making (and opposition to certain types of rules) should also be general in nature.

Final remarks

Liberalization of access to traditional agricultural markets should continue to be the priority issue for developing countries. From an agricultural perspective, attention should focus also on reducing protection granted to manufacturing and services industries in developing countries themselves, as protection in those sectors bestows a significant anti-agricultural bias in many low- and middle-income economies, making it more difficult for them to benefit from the agricultural trade reform of OECD countries. Those reforms can be done unilaterally, but the WTO offers an opportunity to obtain a quid pro quo and can be a useful instrument through which to lock in such reforms. As far as the multilateral agricultural agenda is concerned, the focus should be on further reducing agricultural protection in industrial countries so as to give developing country farmers better access to export markets.

The next stage of agricultural reform will, however, be conducted in an environment in which globalization forces (including ever-faster international transfers of information, ideas, capital, skills and new technologies) will have ever-stronger impacts on markets but simultaneously may trigger sporadic policy backlashes. Examples of the former forces affecting agriculture include the new genetically engineered crop seeds that are part of the biotechnology revolution in the seed and pesticide industries. Both industries are also experiencing surges in economies of scale that, together with the liberalization of the world's financial markets over the past 15 or so years, are encouraging rapid expansion of foreign

externality, but that logic ignores the source of the abated damage in the first place.

direct investment by large multinational corporations. The WTO is a contributor to that expansion (e.g., in providing more secure property rights for seeds through the TRIPs agreement). The privately optimal international location of production may well change in nontrivial ways as a result, bringing forth new forces for adjustment. The recent East Asian financial crisis reminded us that in stressful circumstances governments may be tempted either to embrace the forces of change and facilitate efficient and rapid adjustment to the new market-driven circumstances or to try to resist change by turning their back on reform and intervening in those markets.

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Given that attempts to reduce, let alone eliminate, traditional measures of farm protection will continue to confront significant resistance in numerous countries, the mercantilist logic of trade negotiations requires that the agenda of the next set of multilateral negotiations should include “new trade agenda” items. High-income countries are demandeurs on services, investment and competition policies, creating the potential for beneficial issue linkages and tradeoffs. Many of the new regulatory issues are not sector specific. Any new disciplines and agreements should therefore apply across the board.

However, care should be taken not to pursue the benefits of international agreements on too many new trade issues. From an economic development perspective, the main gains to poorer countries will come from market access liberalization: reducing agricultural and textile protection in OECD countries at least to the levels applied to other manufactures and reducing the anti-agriculture bias in developing countries induced by their own protectionist and regulatory policies in manufacturing and services. Limited analytical and negotiating resources in developing countries make a number of them hesitant about a new round with lots of new issues, to say the least. But developing countries may need to agree to discuss at least some of the new trade issues if they want to ensure that agricultural market access remains high on the new WTO round’s agenda.

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There are clearly many challenges as well as opportunities ahead. For East Asia’s developing economies interested in seeing agricultural market reforms continue in the new century, their key priorities can be summarized as follows:

- Ensure that all the main forms of distortions to agricultural markets remain high on the negotiating agenda of the new WTO round, to minimize the possibility that reforms in one area will be offset by policy re-instrumentation to trade-distortive support measures not yet disallowed.

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- Facilitate the accession of new members to the WTO, particularly the aspirants that are significant in world agricultural markets, such as Russia, Ukraine and Vietnam.

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- Keep explaining why trade reforms are desirable and why they need not be a threat to food security, to food safety or to the environment, especially if appropriate first-best policy instruments are used to address the latter concerns.
- Explore the prospects for more coalition building among WTO members and for reducing animosity between members where that is based on incomplete or incorrect information.

Agricultural exporting countries also have a clear, if indirect, interest in ensuring the continuation and spread of rapid industrialization in densely populated Asian countries and other developing countries, for that will expand these countries' net imports of farm products. That industrialization in turn depends heavily on advanced economies honoring and then extending their commitments to liberalize markets for labor-intensive manufactures, especially textiles and clothing. Scope may exist for agricultural exporters and textile exporters to work collectively to ensure the continuation of reform in textile and clothing trade.

At home, food-exporting countries will do themselves a favor by removing their own remaining domestic or trade policy barriers to their agricultural exports (Anderson et al. 2001). This includes addressing any underinvestment in public infrastructure in rural areas. That will enhance their chance of gaining further market openings following the new WTO round.

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For densely populated food-importing developing countries, following in the steps of more industrial economies, in the sense of increasingly protecting their farmers from import competition as economic growth proceeds, is no longer a long-run option under the WTO. The economically superior option, of facilitating adjustment by farmers to market forces, will yield far greater dividends—and yet will not lead to the feared disappearance of their agricultural sectors. Indeed, it is likely to lead to specialization in production that may even see some new niche firms and industries emerge with differentiated, high value added farm products that are internationally very competitive.

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Table 1. Post-Uruguay Round tariffs (and agricultural production and export subsidies), various country groups, 2005
(percent)

Region	*Agriculture and food processing*	*Mining*	*Textiles and clothing*	*Other manu-factures*
1.Western Europe	30	0	11	4
2.NAFTA	15	0	18	7
3.Australia and New Zealand	3	0	25	9
4.Japan and Korea	57	3	9	4
5.China, Hong Kong and Taiwan	22	1	2	2
6.Southeast Asia (ASEAN)	19	3	15	11
7.South Asia	19	8	55	29
8.North Africa and Middle East	24	19	38	24
9.Sub-Saharan Africa	13	10	18	9
10.Central and South America	12	6	27	18
All OECD economies (1-4)	36 (1, 7)[b]	1	14	6
All developing economies (5-10)	20 (-2, -2)[b]	6	12	11
All economies[a]	29 (0, 3)[b]	2	14	8

Note:
[a] Includes the former Soviet Union and Central Europe and "rest of the world" (made up mostly of small island economies plus Turkey and tiny European, Mediterranean and East Asian economies, such as North Korea and Mongolia).
[b] The figures in parentheses are production and export subsidy rates for agriculture.
Source: Anderson, Hoekman and Strutt (2001), drawing from the GTAP database.

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Table 2. Sectoral shares of GDP, post-Uruguay Round in 2005, and of private household consumption and of trade in 1995
(percent)

	Agriculture and food processing	*Minerals and fuels*	*Textiles and clothing*	*Other manufactures*	*Services*
Sectoral shares of regional GDP					
All OECD economies	5	3	0.8	19	72
All developing economies	19	9	4.4	16	52
All economies[a]	8	4	1.5	18	68
Regional and sectoral shares of global GDP					
All OECD economies	4	2	0.6	15	58
All developing economies	3	1	0.7	3	8
All economies[a]	8	4	1.5	18	68
Sectoral shares of regional household consumption					
All OECD economies	12	0	2.6	11	74
All developing economies	30	2	5.7	14	48
All economies[a]	15	1	3.3	12	69
Sectoral shares of regional exports					
All OECD economies	8	3	3.5	67	18
All developing economies	9	14	10.3	50	17
All economies[a]	9	6	5.5	62	18
Regional and sectoral shares of global exports					
All OECD economies	5.8	2.1	2.5	47.2	12.9
All developing economies	2.8	4.0	3.0	14.7	5.0
All economies[a]	8.6	6.1	5.5	61.9	17.9

[a] Includes the former Soviet Union and Central Europe and "rest of the world" and so is not just the weighted sum of rows 1 and 2.
Source: Anderson, Hoekman and Strutt (2001) and Hertel and Martin (1999), calculated using the GTAP data and model.

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Table 3. Effects on economic welfare (equivalent variation in income) of removing distortions to various goods markets post-Uruguay Round, major economic regions, 2005
(percent, and 1992 US$ billion p.a. difference from post-UR base case in 2005)

	Contribution from removing distortions in OECD economies' markets for:					
Region	*Agriculture and food processing* (percent)	*Textiles and clothing* (percent)	*Other manufactures* (percent)	**Contribution from removing distortions in all goods markets of OECD economies (sum of columns 1-3)[a] (percent)**	**Contribution from removing distortions in all goods markets of developing economies (percent)**	**Net benefit from removing distortions in all goods markets of OECD and developing economies ($ billion p.a.)**
All OECD economies	26	-3	38	68	32	217
	(-50)	(192)	(6)	(-17)	(98)	(20)
All developing economies	55	28	-29	42	58	45
	(97)	(84)	(76)	(106)	(-249)	(-106)
All economies[b]	32	3	27	62	38	260

Note: The figures in parentheses are the percentage of each result that is due to the change in the terms of trade, most of the rest being the change in allocative efficiency.
[a] Not just the sum of columns 1-3 because distortions to minerals and fuels also are removed, and there are different interactions between sectors when all goods markets are liberalized simultaneously as compared with individually.
[b] Includes the former Soviet Union and Central Europe and "rest of the world" and so is a little more than the sum of OECD and developing economies.
Source: Anderson, Hoekman and Strutt (2001), using the GTAP model.

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new WTO round delivering sizable farm protection cuts will be significantly greater if other goods markets are also liberalized and at least some of the new issues are included. This is not only because the inclusion of other sectors and issues would ensure that nonagricultural groups take part in the round to counterbalance forces favoring agricultural protection. We also argue that rule-making efforts to accommodate the new issues should be de-linked from the agricultural market access negotiations, notwithstanding the temptation simply to slot those affecting agriculture into the three negotiating modes used in the Uruguay Round (market access, export subsidies and domestic support).

Keywords: WTO, multilateral trade negotiations, agricultural policy reform, new trade issues

JEL codes: F13, K33, Q17, Q18

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