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Issues for developing countries

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Key to symbols used in tables

n.a.	not applicable
..	not available
-	zero
.	insignificant

Abbreviations

AARES	Australian Agricultural and Resource Economics Society
ACIAR	Australian Centre for International Agricultural Research Act
AFFA	Department of Agriculture, Fisheries, Forestry (Australia)
AusAID	Australian Agency for International Development
IMF	International Monetary Fund
LDC	least developed country
OECD	Organisation for Economic Cooperation and Development
SPS	sanitary and phytosanitary
S&D	special and differential
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme

Issues for developing countries

First of all I would like to thank AusAID and ACIAR for their financial support, which allowed us to bring trade experts from several developing countries in the Asia Pacific to this forum. Hopefully, a two-way benefit will result from making it possible for analysts and policymakers in Australia, New Zealand and the United States to hear about the issues that developing countries will likely bring to the next negotiating round of the World Trade Organization (WTO) and for participants from the developing countries to learn about trade policy in developed countries.

I would also like to thank Paul Morris of AFFA and the President of the ACT branch of AARES for his efforts in putting this workshop together. My thanks also go to Donna Brennan and Ray Trewin for their part in the organisation of the workshop. What with the Spring Festival and Tet, as well as illness, floods and competing meetings being held at short notice, the arrangement of international participation has at times been a frustrating exercise. I sincerely thank the international participants for your involvement and I hope you find this workshop worthwhile and also enjoy the annual conference over the next three days.

Regarding the content of the workshop, we envisage discussion of issues of concern to those developing countries undertaking accession to the WTO and also agricultural issues of concern to existing members. Countries undertaking accession have been given the right to attend as observers during the next WTO Round. The accession process has been criticised recently for its length and complexity, and this will no doubt be a topic for discussion during the next WTO Round. We have therefore invited representatives from the Kingdom of Cambodia and Lao People's Democratic Republic who have been closely involved in the accession process of their respective countries. The Cambodian and Lao representatives will discuss their experience of the process as well as agricultural issues of concern to their countries. China has recently acceded to the WTO and we will be hearing about the accession commitments it agreed to after nearly 15 years of negotiation.

Agriculture is one of the most important issues that will be tackled in the next Round. The barriers to international trade in agricultural products are still very high, in both developed and developing countries. The average for bound tariffs on agricultural products in 1997 was more than 40 per cent. Meanwhile, support of agricultural production in OECD countries in 1999 (PSE terms—Producer Support Estimate) totalled US$361 billion—considerably higher than the 1995 total of US$282 billion, and double the value of agricultural exports from developing countries. Average tariffs in the Quad countries (United States, European Union, Canada and Japan) are around 5 per cent, but tariffs on some products exported by developing countries are much higher (so-called 'tariff peaks'). Tariff rates on major agricultural food products such as meat, cereals, sugar and milk frequently exceed 100 per cent (Hoekman et al. 2001). Tariff escalation also remains a widespread problem in developed countries. To illustrate, in 1997, Canada's average tariffs for primary, semi-processed and fully processed products were 1.8 per cent, 7.2 per cent, and 42 per cent respectively.

It is a concern of developing countries that the potential benefits from lower tariffs agreed on during the Uruguay Round are being thwarted by both developed and developing countries' increased use of non-tariff barriers. This concern applies particularly to anti-dumping action, technical standards and regulations, and sanitary and phytosanitary (SPS) requirements. These are areas where the multilateral trading system exercises only limited discipline, especially so in the case of anti-dumping. Since 1995, developing countries have been responsible for about half of all anti-dumping actions (Bacchetta and Bora 2001).

The concerns of developing countries over the use of such contingent protection measures are amplified by the possibility that developed countries may seek to justify them on the grounds of environmental protection and labour standards. Since developing countries generally have lower labour and environmental standards than developed countries—for sensible economic reasons—such developments obviously threaten their export and development interests. One example of a seemingly restrictive use of SPS tests is Japan's recent imposition of 104 tests for pesticide residues on Chinese rice imports, instead of the 47 tests applied earlier. For its part, China also has strict hygiene and other quarantine regulations that block foreign products (such as Dutch cheese).

The barriers to agricultural trade set up by developed countries are part of the reason agricultural exports from developing countries' share of global agricultural trade only increased from 36.4 per cent to 37.5 per cent over the period 1980–97. Over the same period, developing countries' share of global manufacture trade increased from 18 per cent to 29 per cent. The main reason for this difference is a shift of manpower out of the agricultural sector and into the manufacturing and services sectors, a shift driven on the one hand by improvements in agricultural productivity and on the other by the new exploitation by developing countries of their comparative advantages in labour-intensive manufacturing and services.

While the lowering of the developed countries' trade barriers should be the main focus of the agricultural-exporting developing countries (as represented by the Cairns Group), market access should not be the main focus of net food-importing countries, who for the most part fail to grasp that their own barriers to trade are the main reason for the poor performance of their agricultural sectors. For these countries, the reciprocity of trade negotiations can be important in terms of building coalitions to overcome domestic protectionist interests. Gaining market access in exchange for lowering their own trade barriers can get exporters and potential exporters on-side in this never-ending battle. But it is surprising that this potential coalition against protectionist interests is hardly ever mobilised—even in developed countries.

The high barriers erected by developing countries, especially in relation to industrial products and services, are often mainly directed at other developing countries, a result of years of so-called 'preferential' treatment of developing countries allowed in WTO agreements.

There are two kinds of Special and Differential (S&D) treatment for developing countries. First, implementation schedules to lower trade barriers are made more lenient for developing countries than for other countries. Second, developing countries receive non-reciprocal, preferential access to high-income country markets. The assumption that underlies these so-called 'concessions' stems from the 'infant industry' argument. One of the most difficult concepts for lay persons to grasp is that barriers against imports effectively amount to a tax on exports. This is so because, in the short run, higher import prices raise the costs of production of imports and, in the long run, in order for imports and exports to balance, exports must be reduced, and this is achieved by increasing the real exchange rate and thus choking off exports. Thus, by supporting the development of certain industries through protection, developing countries sacrifice the development of other industries in which they are more likely to have a comparative advantage.

Where preferential access to high-income markets is given to developing countries, developing country exports sell at higher prices than they would on open world markets. This can be seen as a form of international aid. Like so many good intentions, however, it has unfortunate unintended consequences. First, because the high-income countries restrict entry to other imports, world prices are lower than they would otherwise be. This means that the exports of countries that do not receive preferential treatment—often also developing countries—sell at lower prices than they would otherwise.

Second, preferential treatment of developing countries encourages them to undertake activities in which they do not have a comparative advantage. Effectively, developing countries receive preferential treatment in activities in which the concerned high-income country does not have a comparative advantage (otherwise they would not be protected). This is a poor basis for selection of activities for a country to undertake.

Third, the preferences create an 'unholy alliance' between the countries giving the protection and those receiving it, the effect of which is the upholding of the restrictions that allow the preferences. EU and US sugar quotas are an example of this.

Fourth, preferences are a very inefficient form of aid. Borrell (1999) has shown that the EU policy of granting preferences to certain banana-producing countries has cost EU consumers an extra US$1 billion a year because of the higher prices they pay for bananas. Of this amount, however, the banana-exporting countries receive only US$75 million—that is, each US$1 of aid costs EU consumers US$13 to deliver. Moreover, other banana-exporting countries suffer because world prices are lower than they would be if there were no trade restrictions and preferences.

Enormous amounts of technical and financial aid go both to facilitate countries' accession to the WTO and to assist with membership responsibilities. Capacity building—in terms of analytical policymaking capacity, negotiation skills, legal and legislative skills, and even political skills—is very important in this respect.

An important recent aid-related development was the establishment of the Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries to integrate the assistance provided to least developed countries (LDCs) by the WTO, the IMF, UNCTAD, the UNDP and the World Bank. The framework's objective is to promote greater policymaking cohesion in LDCs by helping them to mainstream trade reforms into their poverty reduction strategies. Cambodia was one of three countries selected for pilot studies of LDC accession to the WTO. Its pilot study found that WTO accession and membership requirements for LDCs are very demanding and that it is important for LDCs to develop a domestic capacity for assessing and developing trade policy. Understanding what was WTO-allowable was considered to be less important than understanding what was good economic policy for Cambodia. The pilot study also cautioned against the extension of

S&D provisions to developing countries on the grounds that they are more likely to be viewed as escape clauses for bad policies than guidelines for good policies.

In appraising negotiating strategies for the upcoming WTO round, developing countries should look for common interests with all other WTO members. The North–South paradigm is not useful in this respect. I doubt if it ever was. The achievements of the Cairns Group in the Uruguay Round showed that interests cut across the North–South divide and that such coalitions can be very effective. A substantial threat to developing countries is posed by demands for international labour and environmental standards to be set and enforced through the WTO. Some developed countries also see these demands as an inappropriate use of the WTO, and these countries can become partners with developing countries in a coalition against such pressures.

The inappropriate use of technical standards is another area where developing countries can find common cause with developed countries, since current international norms have been established by a subset of developed countries.

Developing countries could play a role in changing the WTO's approach to trade liberalisation—an approach that has not changed since the beginning. WTO agreements are negotiated and agreed upon in a 'top-down' process, which leads to a lack of country 'ownership' of reforms and consequent 'backsliding' on agreements. A 'bottom–up' approach, involving public evaluation of the benefits of the better resource allocation resulting from trade liberalisation and the benefits of improved market access, is key to developing 'ownership' of the reform. Trade liberalisation, along with other reforms, should be integrated within a country's overall development strategy. This could create offsetting benefits for countries that are likely to lose out from trade reform and therefore resist it.

I am very pleased to welcome you all to this workshop, and I am sure we will have very useful discussions throughout the day.

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