
John Link

Emerging Trade Issues for Developing Countries

Developing countries are increasingly active participants in multilateral trade negotiations. Of the 135 countries in the World Trade Organization, 70 percent are self-designated as developing countries. In contrast, only 48 countries participated in the multilateral Kennedy Round negotiations in the mid-60's, and only about half were developing countries. Moreover, current and future WTO negotiations will involve significant participation by developing countries, both in setting the agenda and in forging various agreements. The developing countries attribute their minor role in the Uruguay Round to lack of understanding of multilaterally agreed-upon rules governing global trade and to lack of resources to fully participate in the negotiations.

Developing countries are realizing that it is in their interest to help shape rules on global trade policy. Since agriculture often provides a significant amount of the export earnings of developing countries, major policy changes influencing global agricultural trade directly affect their earnings and their financing of imports. The Uruguay Round Agreement on Agriculture (URAA), negotiated during 1986-94, for the first time developed multilateral rules for agriculture similar to those governing trade in non-agricultural products.

Developing countries are not necessarily a monolithic group regarding trade issues. For example, developing countries, particularly the lowest income countries, were afforded trade concessions under the URAA Special and Differential Treatment (SDT) provision, allowing them to make relatively smaller tariff reductions over longer periods of time compared with developed countries, and largely exempting the poorest or "least developed countries" from any major change. Countries benefiting from SDT, especially low-income net food importers, tend to favor continuation of the provision. On the other hand, middle-income developing countries like Argentina and Brazil, leading food exporters, advocate freer trade in agriculture, arguing that SDT lowers the economic benefits of trade reform. Policy concerns of developing countries also vary by region and by type of commodities they trade.

This article highlights major agricultural trade issues of importance to lower income developing countries in Latin America, South Asia, and Sub-Saharan Africa that are likely to emerge in future negotiations. Commodity trade flows, regional economic policies, and unsettled Uruguay Round issues are reviewed.

Commodities & Policy Issues Vary by Region

The specific commodities that are traded influence the trade issues that are important to developing countries. Most smaller and lower income developing countries export only a few primary commodities (such as sugar, cocoa, and bananas) and depend on imports for many goods, including food. Their high-priority trade concerns are limited and are concentrated on only a few export commodities. In larger economies, trade interests and issues are diverse and their negotiating agendas are correspondingly larger.

Historical patterns of trade influence many countries' trade interests. More than half of developing countries' trade is with industrial countries. Moreover, geographical proximity influences trade patterns. For example, the U.S. is the most important trading partner of Latin American countries. Consequently, many of these countries are more concerned with changes in U.S. trade policies than with changes in other industrial countries.

Since the late 1980's, most developing countries have made major policy changes liberalizing their agricultural markets. Economic and trade responses have varied, depending on their policy adjustments and resource endowments. Agriculture's share of total trade, in general, has declined in most developing countries in recent decades as trade in industrial goods has rapidly increased. However, agriculture still represents a larger portion of total trade for developing countries than for developed countries.

The *Latin American and Caribbean* (LAC) region is host to a wide variety of agricultural trading interests. Argentina and Brazil are two of the largest net food exporters among developing countries. But if these two countries are excluded, the region is a net food importer. Most countries in Central and South America are exporters of beverage crops, fruits and vegetables, and sugar. They tend to be importers of grains, oilseed products, and dairy products. The Caribbean countries are largely service-oriented economies that typically depend on imports to provide most of their food supplies.

Many LAC countries have engaged in macroeconomic reform and trade liberalization over the past 15 years, abandoning a development strategy known as "import substitution and industrialization" (ISI). The earlier strategy attempted to promote domestic industrial development by using policy instruments that included highly protectionist trade barriers. Trade reforms that have been implemented effectively lowered transaction costs and trade barriers, leading to greater trade and economic growth in most of the LAC countries.

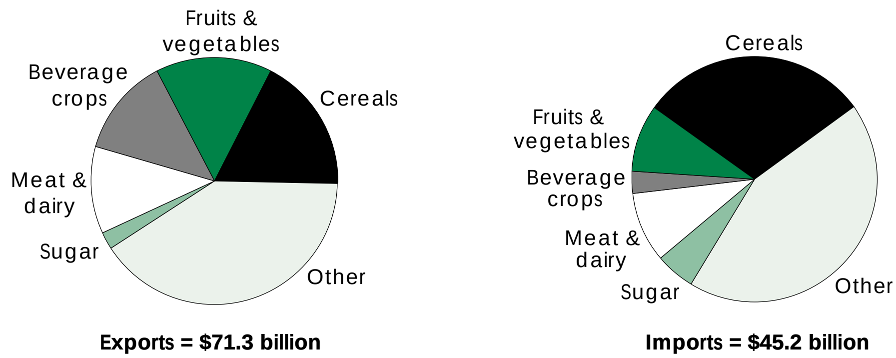
For example, most import quotas were eliminated, while tariffs were dramatically lowered and simplified. The variety of tariff rates for different types of goods also was significantly reduced and simplified. Countries that previously employed multiple exchange rates to ration scarce foreign exchange simplified their regimes with unified exchange rates. Countries that previously supported overvalued exchange rates allowed exchange rates to be determined by market forces, helping eliminate trade deficits and reduce borrowing from foreign countries.

LAC countries have negotiated numerous bilateral and regional trade agreements to promote trade in recent years. These agreements have led to important intraregional trading blocs, notably NAFTA and MERCOSUR, that are now prominent features of the region. Total exports of goods and services within the LAC region (intra-regional trade) have increased from about 15 percent of the region's total exports in 1988 to 21 percent in 1997.

South Asia's share of global exports has remained around 1 percent, unchanged for the last two decades despite high economic growth. Principal exports from this region are textiles, garments, carpets, leather products, and agricultural commodities such as cotton, rice, and tea. In recent years, exports have shifted from food and primary products to manufactured products. The European Union (EU) and the U.S. remain major destinations for South Asia's exports, with East Asia becoming an important market in recent years.

Regional trade within South Asia is limited, less than 4 percent of the region's total trade. India maintains a growing trade surplus in the region, with 1995 regional shipments accounting for 5 percent of its total exports. In contrast, India's imports from the region are only one-half percent of its total imports. Regional trade in South Asia is hampered by India's protectionist policies and the longstanding political conflict between India and Pakistan.

Cereals and Fruits and Vegetables Lead Ag Trade for Developing Countries



Sub-Saharan Africa (excludes Nigeria), Latin America and Caribbean, and South Asia. 1995-97 average.
Economic Research Service, USDA

In South Asia, trade barriers for all goods and services are generally high, although they have been lowered significantly since the early 1970's. Tariffs averaged 39 percent during 1994-98, compared with about 6 percent for developed countries. However, tariff rates differ significantly across the region. Nepal, for example, imposes no tariffs on primary products, and its tariffs on most other products range up to 20 percent. Applied tariff rates in India and Pakistan, on the other hand, often exceed 50 percent. Nontariff barriers, designed to manage domestic supply and protect the domestic manufacturing sector, are prevalent in the region, although they have declined by more than 85 percent between the 1980's and 1990's.

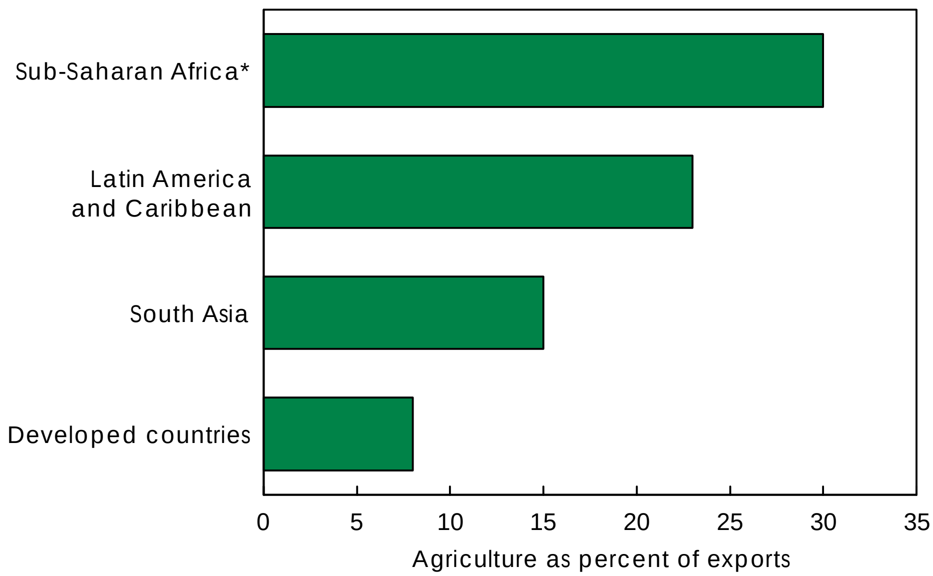
South Asia's agricultural policies generally have been driven by goals of self-sufficiency, which led to trade policies such as export restrictions, licensing procedures, monopoly controls, and export taxes. Since the reform policies implemented in the 1990's, export restrictions have been removed from almost all agricultural commodities in Bangladesh, Pakistan, and Sri Lanka, and from a number of agricultural commodities in India. However, government control of exports and licensing requirements continues to inhibit most major agricultural commodity exports in India, and some agricultural exports and imports in Pakistan.

The *Sub-Saharan Africa* region continues to be highly dependent upon European importers, which recently took about 51 percent of the region's exports, down from around 80 percent in the 1960's. Despite efforts to diversify, exports continue to be mostly unprocessed primary commodities, such as coffee, cotton, and ores. In 29 out of 47 Sub-Saharan African countries, as few as three primary commodities provide at least 50 percent of total export revenues. Trade in Sub-Saharan Africa is strongly affected by trade preference arrangements, particularly the Lomé agreement giving goods from African, Caribbean, and Pacific (ACP) countries preferential access to EU markets.

Most Sub-Saharan African countries have liberalized their domestic and international trade markets since the mid-1980's. Many countries have significantly liberalized their exchanges rates, allowing them to adjust to market levels. These changes have yet to increase the region's share of global trade. Sub-Saharan Africa's share of world exports has actually been shrinking, from 3.7 percent in 1960-62 to 1.5 percent in 1994-96, although its exports have grown.

World Agriculture & Trade

Developing Countries Rely More on Agriculture for Export Earnings Than Developed Countries



1995-97 average.
*Excludes Nigeria.
Economic Research Service, USDA

Nontariff barriers have taken the form of government licenses or other forms of approval of imports. But since the mid-1980's, most countries have reduced the number of products requiring prior approval to import. Several countries in Sub-Saharan Africa, including Madagascar, Kenya, Nigeria, and Zambia, also have begun to promote exports, by reducing export controls, lowering export taxes, reducing the role of marketing boards, and establishing economic processing zones where production occurs in duty-free areas that are close to shipping locations. There also have been efforts to negotiate or re-negotiate trade agreements among countries (such as the Southern African Development Community or SADC), but historically these agreements have not significantly increased trade in the region.

Trade Issues Vary Among Countries

The "three pillars" of URAA concerns are market access, domestic support, and export competition. Market access includes conversion of nontariff barriers into bound tariff levels and reduction of existing tariffs. This has set the stage for future negotiation to finish converting nontariff barriers to tariff barriers, lowering existing tariffs, increasing minimum access levels for tariff-rate quotas, and reducing export taxes.

In the area of government domestic support for agriculture, the URAA rules determined which policies were permitted and which were to be reduced during the implementation period. Trade-distorting domestic support levels are scheduled for reductions based on an "Aggregate Measurement of Support," which measures the monetary value of government support to a sector.

Along with domestic support, continued reductions in all trade distorting subsidies and further clarification of policies and programs that distort trade are key subjects for future negotiation. In the area of export competition, countries agreed to reduce their export subsidy programs and refrain from introducing new subsidy programs.

Most developing countries did not set up a reduction schedule for their domestic support programs, and domestic support or export subsidies may be exempt under SDT accorded to developing countries. Elimination of domestic agricultural supports, while generally a top priority for those developing countries exporting agricultural products, may receive tepid support from food importing countries, especially in Sub-Saharan Africa. Such countries are apprehensive that any reduction of support may result in food shortfalls and increased food prices.

For the poorest countries, foreign exchange availability to finance food imports is closely linked to improved access to developed country markets. Many developing countries have argued that future negotiations on agriculture should focus on improving market access by lowering average tariff levels as well as through reduced tariff escalation, the practice of levying higher tariff rates on value-added products than on basic commodities. Protection of domestic agricultural producers by developed countries limits market access and therefore demand for developing country commodities. This protection reduces prices of agricultural commodities exported by low-income countries, which lowers export revenues and hampers their ability to purchase food imports.

Food security-related trade issues, such as declining food aid budgets and potential rising food prices, are a growing concern for many developing countries. This is particularly true for low-income net food importing countries in Sub-Saharan Africa, South Asia, and Latin America, which have become more dependent upon food imports in recent decades.

Market access is particularly important for countries in South Asia and Africa, where access to textile and apparel markets in developed countries is a top priority. The Uruguay Round's Agreement on Textiles and Clothing phases out the Multifiber Arrangement (MFA), a treaty dating from the 1970's that attempted to limit textile and clothing imports from developing countries. The MFA will be phased out over 10 years, but most of the change is postponed to the final year, 2005. This raises two concerns for exporting developing countries: that the agreement itself precludes any further negotiation on textile issues in the near future, and that it may be politically impossible for importing countries to carry out their Uruguay Round obligations with such a significant proportion of the liberalization deferred to the end of the phase-out period.

Highlights of Commitments from the Uruguay Round Agreement on Agriculture (URAA)

Category/item	Developed countries (DC's)	Developing countries (excluding least developed)	Least developed countries*
Market access			
Tariffication	Convert all nontariff barriers to tariffs	Same as DC's	Same as DC's
	Reduce tariffs by 36 percent overall within 6 years; min. 15 percent per tariff line	Reduce tariffs by 24 percent overall within 10 years; min. 10 percent per tariff line	Exempt from reductions, but must at least bind tariffs
Tariff-rate quotas	Create minimum access of 3 percent of consumption, to increase to 5 percent	Same as DC's	Same as DC's
Special safeguard	Duties allowed on tariff-rate quota commodities if import volume or prices meet certain criteria	Same as DC's	Same as DC's
Export subsidies			
New subsidies	Disallowed	Disallowed	Disallowed
Reductions of old	Reduce 21 percent over 6 years from base	Reduce 14 percent over 10 years from base	Exempt, but no increases
Credits/guarantees	To be negotiated further	Same as DC's	Same as DC's
Domestic support**			
Categorization of exemption/nonexemption	"Amber box," "green box," and "blue box" policies	Same as DC's	Same as DC's
Level of support as indicated by Aggregate Measurement of Support (AMS)	Reduce 20 percent over 6 years	Reduce 13.3 percent over 10 years	Exempt
	"De minimus" provision exempts commodity if less than 5 percent of total value of production	"De minimus" provision exempts commodity if less than 10 percent of total value of production	Not applicable
	Not applicable	Investment, input, and diversification subsidies exempt	Not applicable

*United Nations classification (below $700 per capita annual income).
**For more information on domestic support measures and policies, *see Agriculture in the WTO*, December 1998 (Economic Research Service), and special articles in *Agricultural Outlook*, October 1997 and December 1998.

Economic Research Service, USDA

Another issue for low-income developing countries is the erosion of favorable effects from trade preference arrangements. For the LAC countries, the recent WTO ruling against the European Union on its preferential arrangement for imported bananas from former colonies illustrates how competition is likely to intensify between high-cost, less efficient producers in developing countries who benefit from preference arrangements and lower-cost producers who do not enjoy such arrangements. Likewise, products from Sub-Saharan Africa, which currently face no tariffs in Europe, will confront stiffer competition as developed countries lower their tariffs under URAA and future WTO agreements to other developing countries (especially East Asian countries).

Nontariff barriers have become an important issue for middle-income developing countries, particularly in Latin America and Asia, unable to export their agricultural products to industrialized countries. These middle-income countries claim that nontariff barriers, such as complicated sanitary and phytosanitary requirements, very high health standards, and procedures that take decades to approve an exporting country's production system, have essentially blocked their exports from many potential markets. In upcoming negotiations, debate about nontariff barriers will be further complicated by concerns regarding the environment, biotechnology, and unfair labor practices. Given their limited resources, most developing countries have requested technical assistance from developed countries in interpreting and adopting complex technical rules. Most WTO developed country members are willing to provide such assistance.

Improved market access for their agricultural products appears to be a top priority among developing countries. Participation in multilateral trade negotiations presents developing countries with opportunities for better market access for their agricultural products, as well as opportunities to preserve or change global trade regulations that will enhance their participation in the global trading system while allowing them to meet their development goals. Recognizing this, an increasing number of developing countries in the WTO have started to actively participate in multilateral trade negotiations, such as the recent WTO Ministerial in Seattle. AO

Anita Regmi (202) 694-5161, Michael Trueblood (202) 694-5169, and Shahla Shapouri (202) 694-5166
regmi@ers.usda.gov
trueb@ers.usda.gov
shapouri@ers.usda.gov