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Delivering on Doha's Promise

The Doha Development Agenda was launched with at least a rhetorical commitment to promoting development and reducing poverty. But the argument that agriculture is central to making Doha a development round, because reducing agricultural barriers and subsidies would help billions of poor farmers, ignores a number of facts. First, it misses the fact that agriculture was also the key to breaking the impasse that delayed conclusion of the Uruguay Round for three years, an impasse that was not between North and South but between the United States and the European Union. Second, it ignores the fact that US negotiators in the current round, along with their counterparts from Australia, New Zealand, and Canada, are again demanding increased market access for their farmers in Europe, Japan, and in other markets. Third, it ignores the fact that developing countries are heterogeneous and agriculture is not necessarily a priority for all of them.

Whatever the rhetoric, then, agriculture is at the center of the Doha Development Agenda primarily because it is the sector with the highest remaining barriers in rich countries. These markets are mostly open to manufactured goods (with the important exception of textiles and apparel), and agricultural liberalization is the main thing rich countries can put on the table. Many developing countries also have a comparative advantage in agriculture, and the formation of the G-20, led by Brazil, India, and South Africa, has given the talks a more pronounced North-South flavor than in past rounds.[1] A successful conclusion to the Doha Round

1. The Cairns Group of agricultural exporters, which includes a mix of high- and middle-income exporters, was an important player in the Uruguay Round and remains active in the current talks but has been somewhat eclipsed by the developing-country exporters of the G-20.

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is thus unlikely without significant concessions on agriculture from rich countries.

But that is not enough to deliver on Doha's promise to promote development in poor countries. Most recent trade models do show that agriculture accounts for most of the gains to be reaped from further trade liberalization. But most of those gains accrue to consumers and taxpayers in the rich countries with the highest barriers. For many countries outside Latin America, manufacturing liberalization, especially reductions in tariffs on textiles, apparel, footwear, and other labor-intensive light manufactures, are more important than agriculture. But, and this is an important caveat from the perspective of those concerned about poverty, agricultural trade is important for sub-Saharan Africa. While the numbers are small, World Bank scenarios of possible outcomes from the Doha Round suggest that sub-Saharan Africa could gain more from agricultural liberalization, as a share of national income, than any developing region outside Latin America (Anderson, Martin, and van der Mensbrugghe 2005).

But even among those developing countries for which agriculture is important, the benefits of the round will not be equally distributed. Some of the products that rich countries protect the most, for example dairy and meat, are unlikely to be major exports for many developing countries for some time, even if liberalized. In other cases, such as liberalization of quota systems for sugar and bananas, increased market access will help the most competitive developing-country exporters but harm others that rely on preferential access. Some of the more dynamic product sectors, such as fruits and vegetables, are not as heavily protected by traditional trade barriers, but many developing countries require assistance in meeting quality and safety standards to obtain access to rich countries' markets.

Agricultural liberalization will also have distributional effects within developing countries. Ending the "dumping" of subsidized food by industrialized countries on world markets would help farmers in poor countries. But the poorest are often net buyers of food, unable to produce enough on their own tiny plots to feed their families, and they could be hurt by higher prices in the short run. Alternatively, because many rural poor live in remote areas that are isolated from national and international markets, agricultural liberalization in rich countries might have little or no effect on them.

In sum, agriculture is where the greatest potential *global* gains lie in the Doha Round. And rural development—connecting the poor to markets—can be important to ensuring that growth benefits the poor while the development process proceeds. But agriculture is not the key for every developing country, and when it is, market access alone is often not enough. Developing-country governments and international donors also have to create an environment in which the poor can grasp new trade opportunities.

The previous chapter analyzed what developed countries could do in the Doha Round to help both themselves—since they pay most of the costs

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of agricultural protection—and developing countries. The present chapter looks, first, at what developing countries need to contribute to make the round successful and to ensure that they benefit from it. It analyzes the role of special and differential treatment and concludes that more balance is needed between giving poor countries "policy space" to adopt locally appropriate economic development strategies and disciplining the creation or spread of costly and inefficient agricultural support policies. Moreover, in order to sell politically difficult reforms to their respective legislatures, US, EU, and Japanese negotiators need increased market access in the more advanced developing countries. The second part of the chapter looks at the complementary policies that are needed alongside a Doha Round agreement. In particular, it examines the demands for increased aid-for-trade and suggests a framework for addressing them. The chapter concludes by briefly summarizing the recommendations for ensuring that these trade talks deliver as much as possible on the Doha *Development* Agenda.

Special and Differential Treatment

Special and differential treatment for developing countries under international trade rules has evolved significantly in some areas but very little in others. Countries still "self-designate" as either developing or developed, though the "least developed" country (LDC) designation developed by the United Nations has been adopted by the WTO for that group. Few countries, including South Korea after it achieved high-income status, have chosen to formally graduate from developing-country status, but neither have they taken advantage of the full range of flexibility that goes with that status.

The major changes are in how special and differential treatment operates, not for whom. Prior to the Uruguay Round, special and differential treatment effectively meant that most developing countries played little role in negotiations under the WTO's predecessor, the General Agreement on Tariffs and Trade (GATT), but also that little was expected of them. The "Quad"—the United States, the European Community, Canada, and Japan—negotiated among themselves and then presented the resulting agreement to the rest of the membership. Developing countries generally were not asked to make concessions, but they were able to reap gains from developed-country tariff cuts through the most favored nation principle, which requires that liberalization provided to one GATT member must be extended to all members.[2]

Some have argued that developing countries would have done better to engage and to accept liberalization of their own barriers in exchange for liberalization of areas of interest to them, including textiles and apparel

2. Article XXIV of the GATT provides an exception to the most favored nation principle for customs unions or regional or other preferential trade agreements that meet certain broad criteria.

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and agriculture (Hoekman 2005). Given the political sensitivity of these sectors in the industrialized countries, however, as well as the small part that developing countries played in global trade in the 1960s and 1970s, it is not clear that much more could have been achieved in these sectors through this more offensive strategy.

By the 1980s, however, some countries had developed to the point and were growing rapidly enough that gaining access to their markets was of interest to developed-country exporters. Many developing countries were also gaining ground in export markets and wanted improved access to rich countries' markets for labor-intensive goods where they had comparative advantage. Another trend creating pressures for changes in special and differential treatment was increased attention to nontariff barriers and the need for rules to discipline them.

The Tokyo Round of trade talks in the 1970s addressed issues, such as domestic subsidies and customs valuation practices, that could distort trade and that required approaches other than traditional tariff-cutting negotiations. Developed countries tried to get developing countries to accept application of these rules, but most demurred, and the resulting agreements were implemented as plurilateral codes that applied only to those members who agreed to be bound by them.

Dissatisfaction with the evolution of the system on all sides led in the Uruguay Round to adoption of the "single undertaking" approach. In broad terms, in exchange for agreeing to negotiate liberalization of agriculture and the Multi-Fiber Arrangement (MFA) governing textiles and apparel, developed countries insisted that developing countries accept all parts of the resulting agreement, including new rules on services and intellectual property. In this case, universal application was the norm for most developing countries, and special and differential treatment took the form of longer phase-in periods for implementation and smaller tariff cuts than those made by the developed countries. LDCs were expected to eventually implement all the new rules that were adopted, but were given even longer phase-in periods and were not asked to open their own markets.

The Uruguay Round bargain generated a backlash as it became clear that very little agricultural liberalization was going to occur and that elimination of binding MFA quotas was going to be delayed until the end of the 10-year implementation period. The backlash was particularly strong, however, against the new rules on trade-related intellectual property and the realization that these rules could impede poor countries' access to cheap generic drugs, particularly with the AIDS epidemic spreading across sub-Saharan Africa. These and other new rules, for example, on customs valuation, required costly efforts to pass new laws and to set up enforcement mechanisms. Some researchers calculated that the potential costs of implementing these new agreements on rules and concluded that these were not necessarily areas that should be given priority when resources were inadequate to meet essential needs (Finger and Schuler 2002). Moreover,

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other studies noted that, whatever the costs of implementing new rules, they could be expected to be relatively higher for developing countries because the rules tended to be based on ones already being applied in the richer countries (Hoekman 2005). Thus, it appeared to many developing countries that they had been taken for a ride in the Uruguay Round, having been asked to shoulder expensive new obligations while receiving little new market access in return.

A number of proposals have been made for addressing the problems raised by the single undertaking approach and to reconcile the trend toward rules promoting "best practice" in a number of areas with the differing needs and capacity levels of developing countries. Bernard Hoekman, for example, has suggested that members might agree on a set of "core rules" related to market access (such as most favored nation, national treatment, the prohibition of quantitative restrictions, and the binding of tariffs) that would apply to all members, while the application of other rules would be based on a cost-benefit analysis for individual countries, along with an assessment of potential negative pecuniary spillovers to other members. This approach would mean that even the LDCs would accept the principles of forgoing quotas and agreeing to bind their tariffs, even if they were still allowed to make smaller tariff cuts or no cuts at all.

This approach is intuitively appealing from a development perspective, but it would be a sharp departure from GATT/WTO practice and raises a number of implementation questions. Moreover, since the current round is more narrowly focused on traditional market access issues, it may not be necessary to address these broad institutional issues in the Doha Round. The issues in agriculture are also rather different, and the approach to special and differential treatment developed in the Uruguay Round remains relevant in this area. Although the negotiations cover domestic support policies, as well as border measures, the aim is not to impose costly obligations but to discourage the adoption of new trade-distorting policies that could be quite costly over time. The large numbers of rural poor in most developing countries do suggest a need for caution in determining the pace and sequencing of liberalization. Governments should have the flexibility to adopt policies to provide food security for the poor and to promote rural development as part of pro-poor growth strategies. But the experience of the rich countries vividly illustrates the difficulties in unwinding support for farmers long after they are no longer poor. Thus, some degree of discipline on trade-distorting agricultural policies, even in the poorest countries, would be useful.

The Uruguay Round Agreement on Agriculture allowed developing countries, other than the least developed, to cut subsidies and tariffs by two-thirds as much as the rich countries. As a means of preventing new policies from undercutting the adopted disciplines, the agreement also prohibited countries that did not make reduction commitments from introducing new export or trade-distorting domestic subsidies. While the richer countries, including the more advanced middle-income countries, may not

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be so concerned about access to small, poor markets, they are likely to resist policies that would increase subsidized competition for their exporters in global markets in the future. Therefore, restrictions on new trade-distorting subsidies should be maintained, and countries that want to promote rural development should be encouraged to do so through minimally distorting green box mechanisms.

With respect to market access, flexibility for developing countries to protect food security and rural livelihoods will be a major issue. The Geneva framework proposes a combination of sensitive and special products that would be largely excluded from liberalization commitments. A special safeguard mechanism for agriculture, which was reserved for developed countries in the Uruguay Round, is likely to be extended to developing ones as well. In addition, LDCs will not be required to make any cuts, and cuts by other developing countries will likely be far smaller than they appear because most of these countries have bound tariffs, which they cannot legally raise, and which are well above currently applied levels. Thus, the risk is not too little flexibility but too much. If the agreement produces modest overall cuts in bound tariffs and adoption of a new special agricultural safeguard for developing countries that includes both volume and price triggers for temporarily raising tariffs, as appears likely, that is all the more reason for the list of special products to be limited.

The big question will be whether and how to differentiate among developing countries so that the more advanced emerging markets, such as Brazil, Thailand, and perhaps China and India, provide increased access to their markets as well. Table 6.1 shows indicators that might be used to guide such differentiation. The LDCs account for only a little more than 2 percent of global agricultural exports, yet roughly 7 in 10 of their citizens reside in rural areas and make a living from agriculture. Other low-income countries are somewhat less dependent on agriculture for employment, but the share of the economically active population in agriculture is still over 50 percent and these countries account for an even smaller share of global farm exports. Furthermore, with the exception of India, they are generally small markets. India poses something of a dilemma because it has high levels of rural poor but it is also a large potential market and a relatively large exporter, accounting for nearly as large a share of agricultural exports by itself as all other, non-LDC, low-income countries.

With the large exception of China, agriculture is on average a much less important source of employment in lower-middle-income countries, though it is still significant. When it joined the WTO, China made extensive commitments to liberalize its markets, including for agriculture, and it is not yet clear whether it will have to make substantial additional concessions in the current round. Pressure on Brazil as a successful exporter and leader of the G-20 to offer increased access to its market is particularly strong. Thailand is the only other lower-middle-income country with annual agricultural exports of more than a few billion dollars (an average of $9 bil-

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Table 6.1 Possible indicators for differentiating special and differential treatment under an agricultural agreement

Country	2003 per capita income[a] (millions of dollars)	Share of total employment in agriculture (percent)	Share of total population in rural areas (percent)	Share of world agricultural exports (percent)
Least developed countries[b]	n.a.	n.a.	n.a.	2.3
Angola	740	75	64	n.a.
Djibouti	910	n.a.	15	n.a.
Maldives	2350	32	71	n.a.
Other	323	77	69	
Other low-income countries	505	54	60	1.6
India	540	64	72	1.3
Pakistan	520	52	66	0.2
Lower-middle-income countries	1,686	36	44	5.1
Brazil	2,420	23	17	3.9
China	1,100	72	61	3.2
Thailand	2,190	64	80	1.9

n.a. = not applicable

a. World Bank's Atlas method.

b. The United Nations designates countries as least developed based on a three-part formula that includes size, commodity dependence, and other indicators of vulnerability in addition to per capita income.

Sources: World Bank, *World Development Indicators;* UN Conference on Trade and Development, Trade Analysis and Information System (TRAINS) database.

lion per year from 2001 to 2003, compared with $2.5 billion for second-place Côte d'Ivoire); furthermore, its exports include products that are not primarily tropical and therefore compete with the output of the United States and of other temperate-product exporters. Thus, Thailand is another country that could come under pressure to accept relatively greater obligations on agriculture than other developing countries.

A formula based on objective criteria for determining how to treat countries according to level of development would be the cleanest approach to reforming special and differential treatment. But it would inevitably be arbitrary and the thresholds would be difficult to negotiate. An ad hoc approach that tried to balance concerns of both developed and developing countries might be more feasible and more consistent with past practice (Kleen and Page 2005). In the Uruguay Round, for example, deeper special and differen-

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tial treatment under the subsidies code was provided to a list of non-LDC developing countries with incomes below $1,000 per capita (as measured by the World Bank). Under the Doha Round agriculture agreement, a similar approach might allow greater flexibility for countries with per capita incomes below $1,500 to select special products that would be exempt from formula tariff cuts. This would cover all low-income countries that are not LDCs plus 14 additional lower-middle-income countries with rural population shares of at least a third (half of them have rural population shares above 50 percent). Designation of a list of specific countries could also be used to address developed countries' concerns about large countries, if China and perhaps India are willing to accept the treatment accorded most middle-income developing countries. These countries would likely retain considerable flexibility in protecting special products for reasons of food security and rural development. At the other end of the spectrum, successful middle-income agricultural exporters, such as Brazil, Thailand, and Colombia, might agree to go beyond the commitments of other developing countries and further limit the number of special products they designated.

Aid-for-Trade and Supply Constraints

One legacy of the dissatisfaction with the results of the Uruguay Round is the demand by developing countries that rich countries and multilateral aid agencies do more to help them with the costs associated with trade liberalization, both their own and others'. The dissatisfaction arises from the higher than expected costs associated with implementing new rules, especially on intellectual property protection, but also in regard to product standards, customs, and other areas. The more insistent demands for financial and technical help also arise from the disappointing experience with past, unenforceable promises to provide such assistance.

The full range of costs worrying developing countries includes terms-of-trade losses from higher food prices and preference erosion, costs of implementing more new rules, lost tariff revenues, and costs of labor and firm adjustment arising from the liberalization of their country's markets. In addition, to help with adjustment costs, there is a need for external assistance to address the longer-term supply constraints that might otherwise prevent poor countries from grasping the opportunities offered by increased market access.

The key questions under debate are who should provide funding for which needs, how much is needed, what mechanisms should be used—existing or new—and who will be eligible. At the Development Committee meeting during the joint annual meetings of the International Monetary Fund (IMF) and the World Bank in September 2005, Bank and Fund staff presented a paper that recommended extending existing trade-focused facilities to address some of these costs. In particular, staff rec-

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ommended substantially boosting the resources of the Integrated Framework, which had been created as a joint initiative of the WTO, the Bank, the IMF, the UN Development Programme, the UN Committee on Trade and Development, and the International Trade Center to mainstream trade in development strategies in the LDCs. The Integrated Framework does not provide direct funding for trade facilitation or other projects, but it helps LDCs identify trade priorities and coordinate them with other development priorities. Multilateral development banks or bilateral donors can then be approached to fund the identified projects. The staff paper argued against a new special fund focused on adjustment costs on the basis that these costs should not be addressed in isolation from broader development policies and domestic reforms, that various mechanisms already exist to address adjustment issues, that the costs of preference and tariff revenue erosion might not be as great as feared, and that the costs of setting up a separate fund might exceed the benefits (IMF and World Bank 2005).

This reasoning is compelling, but the argument for a new, dedicated fund arises out of political exigency—developing countries do not believe that sufficient resources will be provided on a timely basis to meet the needs they anticipate facing. That in turn makes them reluctant to take on new obligations, or gives them an incentive to block agreements among others that might result in terms-of-trade losses for them. Fearing a potential breakdown in negotiations at the WTO ministerial meeting in Hong Kong in December 2005, WTO Director-General Pascal Lamy used the occasion of the Bank-Fund meetings to call for a decision to be made to expand the Integrated Framework before or in Hong Kong, with a further agreement on expanded adjustment assistance by the end of 2006.

The Hong Kong ministerial declaration affirmed the commitment by WTO members to ensure that the enhanced Integrated Framework enters into force at the end of 2006, but left the details to a task force that was to report back at the end of April 2006 (another missed deadline). On broader aid-for-trade issues, including the problem of supply-side constraints, ministers in Hong Kong could agree only to "invite the Director-General to create a task force that shall provide recommendations on how to operationalize Aid for Trade" and to consult with member countries and the international financial institutions on where the resources might be found. In addition, Japan, the United States, and the EU member states announced increases in bilateral aid for trade infrastructure and other facilitation activities. If carried through, these promises could mean there would be roughly $8 billion a year from these sources (including the EU Commission, as well as the individual member states) for trade-related needs by 2010.

Both sides in the debate over the best way to approach aid-for-trade make valid points, and as with special and differential treatment, a pragmatic and ad hoc approach may be preferable. In analyzing the debate, it is helpful to divide the issues according to the sources of the need for

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assistance. Table 6.2 divides "adjustment" costs into four types, those arising from

- liberalization by others,
- one's own liberalization,
- institutional development, or
- broad economic development needs (which might better be termed investments rather than adjustment costs, as some have dubbed them).

Because LDCs will likely not be asked to make any commitments in the Doha Round, the most relevant potential costs for them arise from liberalization by others that is out of their control, for example, preference erosion, higher food import costs, and the need for assistance in addressing supply constraints. But as noted in chapter 4, LDCs are not receiving many of the benefits of existing preference programs, especially in agriculture, and food costs may not rise as much as feared. A recent World Bank paper also finds that the costs of preference erosion, which arise primarily from EU liberalization, are substantially reduced when all countries of the Organization for Economic Cooperation and Development (OECD) liberalize, thereby opening new opportunities in the US, Japanese, and other markets with less extensive preferences (Francois, Hoekman, and Manchin 2005). On food imports, most estimates of world price increases for staples are modest, and no one expects the long-term downward trend in commodity prices to reverse. Moreover, some food-insecure countries maintain relatively high tariffs that could be reduced unilaterally if import prices rise as a result of OECD reforms. With respect to other developing countries, the costs from tariff revenue loss, labor adjustment, and rule implementation depend on how much liberalization these countries ultimately accept and how special and differential treatment is applied to any new rules that are adopted.

In most of these areas there are existing mechanisms that could be expanded and adapted to ameliorate the costs. The Fund's Trade Integration Mechanism was designed in part to address potential trade balance problems arising from preference erosion, but special compensation arrangements are likely to be necessary, especially in the European Union, where arrangements with the African, Caribbean, and Pacific countries have more of a contract flavor, with exporters in some sectors, such as sugar, guaranteed a price above world market levels, as well as access. In the case of preference erosion, because of differences in the various programs, it seems preferable to deal with the issue of compensation bilaterally, but also promptly and credibly so that it does not impede the trade talks. Thus far, the EU offer on compensation to exporters that will lose rev-

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Table 6.2 Categories of aid for trade (related to agricultural sector)

Costs arising from	Types of costs	Distribution of costs	Possible mechanisms for addressing costs
Liberalization by others	Preference erosion	Relatively small number of countries, often not the poorest	Mostly EU preferences for sugar and bananas, so a bilateral approach would be most appropriate
	Terms-of-trade losses due to higher food prices	An IFPRI study (Diaz-Bonilla et al. 2000) finds a high correlation between food insecurity and LDC status, but studies do not indicate large price increases for staples, except possibly rice	Reduced food importers' own tariffs IMF Trade Integration Mechanism
Own liberalization	Tariff revenue losses	Size depends on degree of liberalization, which is zero for LDCs; import volume increases could offset rate reduction	IMF Trade Integration Mechanism for balance of payments; Integrated Framework for assistance in altering tax structure
	Labor adjustment	Again, these are minimal for LDCs if there are no liberalization commitments	Stronger case for dedicated facility because safety nets lacking, often neglected in programs But should be available for all dislocations, not just trade-related ones
Institutional development	Implementation of new WTO rules	Costs are inversely related to income level if rules generally are based on existing developed-country practices; LDCs may be exempt for some period	WTO Trade Capacity-Building Initiative Special and differential treatment that requires implementation only as countries develop capacity and can benefit
Economic development	Amelioration of supply constraints	All developing countries, but LDCs most in need	Existing facilities, new funds, with important role for Integrated Framework to identify needs, coordinate responses

IFPRI = International Food Policy Research Institute
LDC = least developed country

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enue from its announced sugar program reform is clearly insufficient.[3]

The area where the case for a dedicated facility seems strongest is labor adjustment, because safety nets and adjustment programs for workers are so neglected in most developing countries. But the US experience with the federal trade adjustment assistance program suggests caution because many of the programs do not appear to have been effective in key areas, particularly retraining. In addition, that experience illustrates how difficult it is to disentangle the reasons for a particular worker's dislocation and demonstrates, in a period of rapid globalization and technological change, that it is usually unwise to try. This conclusion lends support to the Bank-Fund staff recommendation to continue to try to better integrate adjustment assistance into broader development strategies.

Overall, the staff recommendations to increase resources and rely on existing mechanisms to address adjustment problems and capacity constraints seem basically sound. But the spate of *unilateral* commitments in Hong Kong to increase funds to build trade capacity raised the issue of a new mechanism to coordinate the flows. A proliferation of new projects in the absence of multilateral coordination creates the risk of redundancies and increased costs to recipients (Roodman 2006).

Moreover, using existing mechanisms and calling for increased resources elides the real problem: how to enhance the credibility of promises to commit *new* funds, and not just divert existing money. Donor countries have traditionally been unwilling to "bind" their technical and financial promises in trade negotiations, and that seems unlikely to change. Given these countries' low reputations with respect to fulfilling similar promises in the past and the likelihood that rich countries will again refuse to bind their financial commitments in a trade agreement, tangible progress in fulfilling these promises will have to be made before the Doha Round concludes. Creating a mechanism for coordinating the new promised funds from key donor countries could also increase the credibility of the aid-for-trade efforts.

Recommendations for a Doha Package Deal

Trade ministers in Hong Kong managed to agree on just enough at the end of 2005 to avoid a Cancún-style collapse of the talks. But the agricultural negotiations remained at an impasse, and that, in turn, prevented progress in the negotiations on nonagricultural market access and services. As of spring 2006, an agreement to eliminate export subsidies by 2013 was close, conditional on satisfactory progress in other areas of the negotiation. Market access remained the most difficult area, while the negotiations on

3. The amount offered by EU officials as compensation related to its sugar reform is a fraction of the roughly $400 million in losses estimated by Gillson, Hewitt, and Page (2005), and Francoise, Hoekman, and Machin (2005).

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domestic subsidies were further along but in danger of setting ceilings so high as to render any reduction commitments meaningless, as happened in the Uruguay Round. Differences over how to define and discipline "less trade-distorting" subsidies eligible for the blue and green boxes also remained deep.

If these obstacles are overcome, current patterns of trade, as well as, economic modeling, suggest that Brazil and the other competitive Latin American exporters will reap most of the immediate gains. Agricultural trade is also important to sub-Saharan Africa, and a package that addresses tariff escalation and provides assistance in meeting food safety standards could deliver important benefits to that region. A few countries could lose, however, if they are not compensated for potential losses from higher food prices or preference erosion. And many poor farmers in low-income countries may not see much impact at all unless their governments take complementary steps to connect them to markets. A credible aid-for-trade package is thus also necessary to making Doha a development round.

As the talks proceed, the recommendations presented in the following sections may be used as a template for assessing the agreement as it takes shape. Detailed discussion of the recommendations under each of the three pillars in the agricultural negotiations can be found in chapter 5.

Export Competition

The value of export subsidies is small, but eliminating them is an essential part of a meaningful reform package. Specific goals toward that end should include

- phasing out export subsidies no later than 2013 and earlier if possible;
- ensuring that government-backed export credit programs are short-term and self-financing; and
- disciplining the use of food aid for surplus disposal and market development, while coordinating deliveries with the World Food Programme where possible.

Domestic Support

The keys to real cuts in agricultural subsidies are increased transparency and reduced flexibility, including clarification of the rules for allocating subsidies among the amber, green, and blue boxes and improvements in the reporting and monitoring requirements. Negotiators should work toward several specific objectives:

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- Cuts in the aggregate measurement of support (AMS) in the amber box must be at least in the 60 to 70 percent range for the United States and the European Union, respectively, if there is to be a chance of imposing constraints on applied levels of support.
- The base period for setting product-specific caps in the AMS should be 1995–2000, not 1999–2001 as US negotiators proposed, because the latter period was a time of high subsidies, and using it as a benchmark would undermine the intended discipline.
- If market price support (MPS) is not removed from the AMS, product-specific caps should be supplemented with separate ceilings for MPS and subsidies. This would ensure that cosmetic reforms to MPS did not create room under the new AMS ceiling to maintain something close to current subsidy levels.
- The product-specific de minimis category should be eliminated.
- The non–product specific de minimis category should be cut immediately to 2.5 percent and eventually to no more than 1 percent of the value of production, as proposed by the European Union.
- The blue box should be immediately capped at 5 percent of the value of production and then cut to 2.5 percent; product-specific caps are needed to ensure that subsidies cannot be shifted among commodities. If US negotiators are unwilling to accept additional disciplines on countercyclical payments, which do not have the production-limiting features of other blue box programs, they should agree to an additional cut in the ceiling to 1.5 percent of the value of production. This level would exert at least some discipline on countercyclical payments when prices are low, which the 2.5 percent cap would not.
- The bases for calculating blue box payments and decoupled green box payments must be truly "fixed and unchanging," with no updating of base acreage or herd sizes allowed.
- The ruling from the WTO's United States–Brazil cotton dispute panel, which clarified eligibility conditions for allocating decoupled payments to the green box (neither requiring nor restricting production of particular commodities), should be codified in the agreement.

Market Access

To produce meaningful increases in market access, especially for developing countries, the agreement must address tariff dispersion and escalation, as well as the form tariffs take:

- Whatever the formula, the average developed-country bound tariff should be cut at least in half.

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- A tariff cap is needed to reduce dispersion and should be applied to sensitive products.
- The agreement should limit the number of sensitive products and ensure increased market access for those items through meaningful expansion of tariff-rate quotas.
- All other tariff-rate quotas should be expanded even more, and in-quota tariffs should be reduced or eliminated.
- Tariff escalation should be eliminated or sharply reduced by cutting tariffs on processed products by a multiple of the cut for primary products.
- The remaining barriers to tropical commodities should be eliminated, including those on processed products.
- The agreement should bind specific tariffs at their ad valorem equivalents and then apply formula cuts.
- The special agricultural safeguard for developed countries should be disciplined or eliminated, depending on the degree of flexibility permitted in the rest of the agreement.

Monitoring

The Uruguay Round requirement to make timely notifications of all forms of support should be extended and made enforceable under the dispute settlement system to give countries an incentive to comply. One way to do this would be to require countries to immediately bring notifications up to date if their compliance with a provision of the agriculture agreement is challenged. Refusal to do so could be regarded as prima facie evidence of a violation.

Special and Differential Treatment for Developing Countries

The goals of special and differential treatment for developing countries should be flexibility and assistance in the meeting of development benchmarks, rather than superficial universality and adherence to arbitrary deadlines. The utility of trade disciplines in controlling rent seeking also needs to be recognized, and even the LDCs should bring their policies into compliance with core WTO rules. Negotiators should be mindful of several other specific objectives:

- Developing countries, including the least developed, should agree to bind all tariffs, with the size of any cuts to be determined separately.

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- Product-specific subsidies and other new trade-distorting subsidies in developing countries that do not currently employ them should continue to be sharply restricted, as was done in the Uruguay Round.[4]
- Export subsidies should be tightly restricted, with as little differentiation as possible between the elimination schedules of developing and developed countries.
- Developing countries should be granted sufficient flexibility to manage food security and promote rural development, but through tariffs only and with no new quantitative restrictions. The degree of flexibility should be determined by objective indicators such as income level and rural share of the population.
- The agreement should limit the use of special products to as small a number as possible and forbid broad, across-the-board exemptions for products that are not typically grown or consumed by the poor.
- Public policies should focus on non–product-specific rural development programs aimed at "connecting the poor to markets"—infrastructure, research and development, extension services, education, health—which would be likely to go into the green box.

Assistance with Adjustment and Supply Constraints

Negotiators should broadly define aid for trade to include infrastructure and other supply-side constraints and it should not be restricted to training negotiators or customs inspectors. In general, the package should also draw on *additional* funds and not divert resources from other areas that may have higher priority in particular situations. Finally, since US and other donors are unlikely to bind their financial commitments in a trade agreement, tangible progress in specifying dollar amounts and mechanisms for allocating them needs to be made before the Doha Round is completed. Other specific actions that donors and international organizations need to take include:

- Bilateral compensation should be negotiated between preference-giving countries and recipients likely to suffer net losses from preference erosion. Efficient producers that can maintain or expand market shares and thus benefit from higher world prices in third markets need not be compensated beyond that.

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4. The allowance for de minimis subsidies should be sufficient to cover special programs aimed at helping the poorest farmers, as recommended in a recent Overseas Development Institute brief (Howell 2005).

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- Tax regimes and labor market policies should be addressed as part of broader country assistance and poverty reduction strategies because they significantly influence the overall business climate.
- Donors should ensure that the IMF's Trade Integration Mechanism has sufficient resources to address potential fiscal shortfalls arising from tariff cuts in developing countries or preference erosion that is not compensated.
- The Integrated Framework should be expanded and efforts to mainstream trade in overall development policies ratcheted up. The process should ensure that client countries, including through consultations with civil society, producer and other private sector groups, are the ones deciding where trade capacity-building fits in their overall priorities and how much aid trade promotion should get relative to other priorities.
- Donors should ensure that the multilateral development banks and other donor agencies have adequate resources to provide assistance for infrastructure improvements and other rural development programs.
- Donors should create a fund similar to the Global Fund to Fight AIDS, Tuberculosis, and Malaria, with the objective of pooling funds from recent unilateral pledges to increase aid-for-trade and reducing the costs and inefficiencies arising from donor and project proliferation.

Trade creates opportunities, and not just in terms of exports. A consistent finding from trade models is that developing countries do better the more they liberalize their own markets. Trade lowers the costs of food and other essentials that poor people disproportionately consume and allows poor countries to import capital goods and technologies that they cannot produce themselves.

But simply cutting tariffs will not get products to markets, and it will not reduce costly delays inflicted by corrupt customs inspectors. Open trade policies are important to foreign investors, but so are reliable electricity and a ready supply of skilled workers. A trade agreement that makes it easier for developing-country exporters to access global markets, including markets in other developing countries, would be an important step forward, but only the first of many.

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