CHAPTER 4

Market access and agricultural trade: the double standards of rich countries

Trade can provide a powerful engine for economic growth and poverty reduction. For that engine to function, poor countries need access to rich-country markets. Expanding market access can help countries to accelerate economic growth, while at the same time creating new opportunities for the poor. This is especially so for agricultural products and labour-intensive goods, since the livelihoods of so many people living below the poverty line are concentrated in these sectors.

Unfortunately, trade liberalisation under globalisation works against the interests of the poor. As Chapter 5 explains, developing countries have been rapidly liberalising imports, while rich countries, despite the free-market rhetoric of their governments, have remained fiercely protectionist in their approach to developing-country exports. These protectionist policies are one of the reasons why integration into world markets is not delivering its full benefits to poor countries. Tariff and non-tariff barriers penalise developing countries in precisely the areas where they have a strong comparative advantage. Poor countries seeking access to Northern markets for manufactured goods face trade barriers four times higher on average than rich-country competitors.

Reducing trade barriers in rich countries will not automatically increase the world market shares of developing countries. Many producers – especially in low-income countries – lack the infrastructure, skills, and capacity to take advantage of market opportunities. However, when market opening is combined with measures to develop supply capacity, major benefits are possible. Lacking access to land, credit, and market information, and facing high transport costs, the rural poor are the last to benefit from the opportunities created by trade. That is why developing-country governments have a responsibility to implement rural development programmes that redistribute opportunities to the poor and address the particular barriers faced by women.

The first section of this chapter documents the extent of protection imposed by high-income countries. It does so by using a Double Standards Index (DSI) – a measure of the gap between free-market principle and protectionist practice. The DSI measures a wide range of tariff and non-tariff barriers. Ranked on a simple scale, the European Union tops the DSI, although its performance is rivalled by the United States, with Canada and Japan coming close behind.

The second section considers textiles and garments, which remain the most important labour-intensive manufactured export for the developing world. Production for export has created millions of jobs, especially for women. However, restrictions on exports mean lower wages, worse employment conditions, and unemployment. As in agriculture, rich countries have pledged to phase out import restrictions in textiles and garments, but they are far behind schedule.

The third section focuses on agriculture. Trade in this area is vital for poverty reduction, since more than two-thirds of the developing world's poor live in rural areas. Also, women account for the majority of agricultural producers worldwide. International markets can provide an important source of demand for developing-country exporters, supporting livelihoods and stimulating the rural economy. Northern protectionism undermines that demand and destabilises local markets. Having pledged to cut farm subsidies, rich-country governments have increased them to record levels. As a result, developing-country producers are losing global markets and facing ruinous competition from subsidised exports in local markets. Using a new indicator to measure the gap between production costs and export prices – the Export Dumping Estimate – we highlight the extent of unfair competition between large-scale Northern agriculture and developing-country agriculture. The chapter ends by setting out an agenda for reform.

The costs of Northern protection

Trade barriers in rich countries inflict real costs on poor people in poor countries. Some of the world's most vulnerable communities are being denied an opportunity to reap the potential benefits of integration into global markets. Poor people in general and women in particular bear the brunt, since it is they who produce the goods most affected by import barriers: agricultural and labour-intensive manufactured products. Agriculture accounts for 62 per cent of women's employment in developing countries, and women make up 70 per cent of workers in export-processing zones (Chen et al. 1999).

The financial losses associated with import restrictions in rich countries outweigh the benefits of aid. Import tariffs, the least significant weapon in the protectionist arsenals of rich countries, cost developing countries around $43bn a year (Anderson et al. 2001). The total costs of all forms of trade barriers – including tariffs, non-tariff barriers, anti-dumping measures, and product standards – are more than double this amount, rising to over US$100bn, or more than double the total sum of development assistance.

Such figures understate the real impact on the poor. They do not capture the costs of protectionism in terms of reduced opportunities for employment, reduced income for essential goods such as food and health care, or the long-term economic losses associated with restricted opportunities for investment. Nor do they capture the disproportionate impact on very poor households. Because Northern governments impose the most punitive import restrictions on goods produced by the poor, they systematically diminish the potential for trade to act as a catalyst for poverty reduction.

In the agriculture sector, where two-thirds of the poor in developing countries live and work, industrialised countries' policies (including tariffs and subsidies) cause annual welfare losses of $20bn for developing countries, or 40 per cent of the value of aid flows (World Bank 2001d). Labour-intensive manufactured goods face equally intense discrimination. Losses incurred by exporters of textiles and garments alone amount to more than $30bn. This is the main source of foreign-exchange earnings for a large group of poor countries, as well as a source of employment for millions of vulnerable women workers.

Improvements to market access in these labour-intensive sectors therefore have the potential to increase equity for women. Since women tend to spend more of their income than men on the welfare of children and families, the benefits of improved market access are likely to be widely dispersed through society. Apart from causing unemployment, uncertainties caused by restrictive market-access policies can push employers to try to reduce labour costs by lowering standards and using increasingly flexible labour arrangements, which damages workers' rights.[1]

Since the Uruguay Round of world trade talks, industrialised countries have been gradually reducing their trade barriers. However, there are worrying signs of a protectionist resurgence, especially in the USA. The recent proposal by the US International Trade Commission (ITC) to raise tariffs against steel imports to 40 per cent in order to protect the ailing US steel industry is just one example of the double standards that rich countries employ to protect their own commercial interests. If implemented, the ITC proposal would affect a number of developing countries which export steel to the United States, including Mexico, Brazil, South Africa, and Argentina, many of which have already faced US anti-dumping restrictions against their steel exports.

Northern trade barriers are especially damaging because most developing-country exports are directed towards industrialised-country markets. In 2000, more than 50 per cent of Asia's exports, 75 per cent of Latin America's exports, and 70 per cent of Africa's exports of merchandise goods were destined for Western Europe, North America, or Japan (WTO 2001a). However, developing countries also apply trade barriers against each other. These restrict the development of South–South trade, undermining a potential source of economic dynamism and employment creation.

Improving market access for exports from poor countries is vital, but will not alone be sufficient to make a positive impact on employment and livelihood opportunities. Infrastructure, skills, and productive assets are also essential, if poor people are to benefit. Increased development assistance is also required, targeted to address supply constraints in poorer countries; this should be complemented by national development strategies to help poor people to take advantage of new market opportunities on beneficial terms.

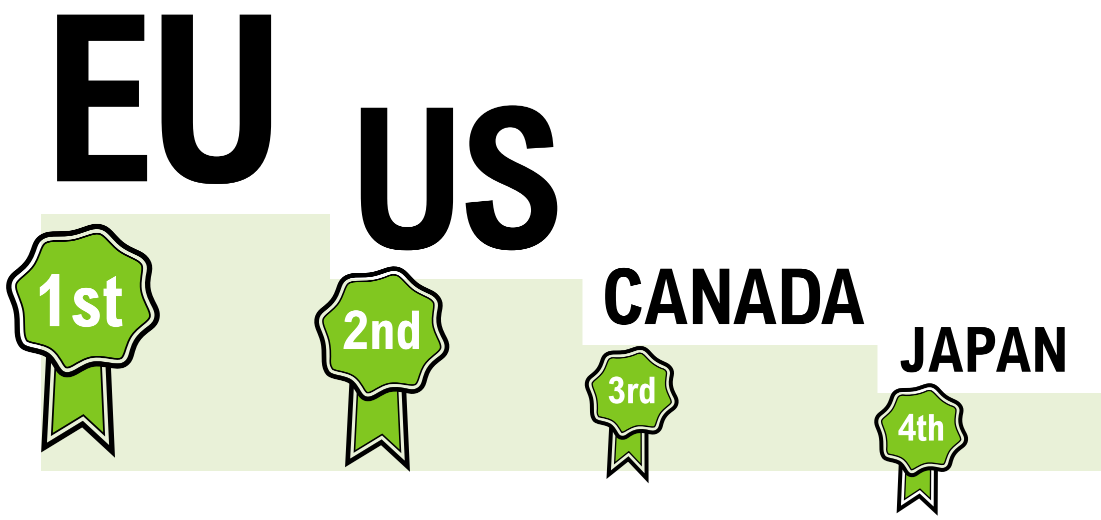
Table 4.1

The Oxfam Double

Free trade rhetoric versus protectionist practice in rich countries: ten indicators of trade barriers facing poor countries in the European Union, the United States, Canada and Japan.[2]

	Percentage share of imports from developing countries (non-LDCs) subject to tariffs over 15%	Percentage share of imports from LDCs subject to tariffs over 15%	Average MFN tariff rates applied to products subject to tariff peaks over 15%	Highest tariff peak 1999 (percentage)	Producer Support Estimate (PSE) as a % of farm income, 1998 – 2000
EU	4.9	2.8	40.3	252 (meat products)	40
US	6.6	15.0	20.8	121 (groundnuts)	23
CANADA	4.8	30.2	30.5	120 (meat products)	18
JAPAN	2.8	2.6	27.8	170 (raw cane sugar)	63

Figure 4.1
Oxfam awards for double standards in trade policy



Standards Index

Extent of tariff escalation on agricultural products post-UR (average tariff on processed products as a multiple of average tariff on unprocessed products)	Average agricultural tariff – simple average post-UR bound rate	MFA phase-out: % restrained imports liberalised by 2002 compared to ATC target	Average tariff on textiles and clothing. Simple average post-UR bound rate	Number of antidumping investigations initiated against developing countries 1 July 1995 – 30 June 2000	**Overall ranking based on protectionist policies**[3]
2.75	20.0	24	7.9	145	**1** MOST PROTECTIONIST
1.25	9.0	23	8.9	89	**2**
3.00	8.8	not available	12.4	22	**3**
3.75	29.7	–	6.8	0	**4** LEAST PROTECTIONIST

The Double Standards Index

One of the problems with assessing trade barriers is that they assume so many different shapes and sizes. This makes it difficult to compare the damage inflicted on developing countries by individual industrialised countries, whose policy makers are adept at arguing that problems in one area are counterbalanced by generosity in another. In an effort to develop a comprehensive comparative indicator, Oxfam has produced a '**Double Standards Index'** (DSI). Reduced to its essentials, this compares the level of protectionist trade policies employed by the richest and most powerful trading nations against exports from developing countries. We refer to it as a Double Standards Index because it highlights the gap between free-trade principle and protectionist practice. The Index ranks the four major industrialised-country (or 'Quad') markets on ten indicators. These range from standard measurements of tariffs (including the average tariff rates applied to developing countries), the extent of tariff peaks in excess of 15 per cent, tariff escalation, agricultural subsidies, the pace at which restrictions on textile imports are being phased out, and anti-dumping actions.

Figure 4.2
Unequal treatment: average tariffs imposed by high-income countries on labour-intensive manufactured goods and agricultural goods from developing countries

Source: Finger and Schuknecht 1999

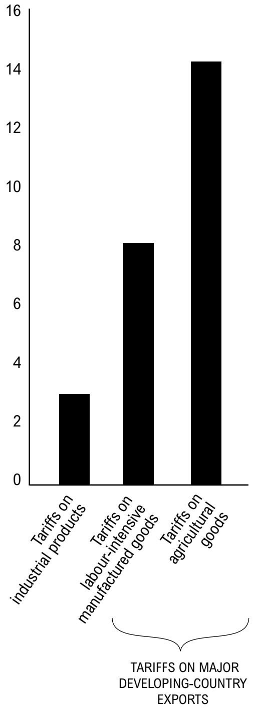


Figure 4.2 provides a simplified summary of the DSI. It shows that developing-country exports of agricultural and labour-intensive manufactured products face far higher barriers when they enter the major Northern markets than do industrial products, which are primarily exported by industrialised countries. The poorest countries face the highest barriers. Industrialised countries apply tariffs four times higher on imports of manufactured goods from developing countries than they apply to manufactured goods imported from other industrialised countries.

The more detailed results of the DSI review are summarised in Table 4.1. Among the most striking findings to emerge are the following:

- 30 per cent of Canadian imports and 15 per cent of EU imports from the least-developed countries face peak tariffs (in excess of 15 per cent).
- The average tariff on these 'tariff peak' items ranges from a low of 21 per cent for the USA to 40 per cent for the EU.
- Agricultural subsidies account for one-quarter of farm output in the USA, rising to 40 per cent in the EU and over 60 per cent in Japan.
- Average tariffs on processed agricultural products exported to Japan and Canada are more than three times higher than those facing unprocessed agricultural products.
- Average agricultural tariffs are close to 10 per cent in Canada and the USA, rising to more than 20 per cent in the EU and Japan.
- The EU and USA have eliminated only one-quarter of the textiles and clothing import-quota restrictions that they are committed to remove under the WTO Agreement on Textiles and Clothing.
- Between them, the USA and EU launched 234 anti-dumping cases against developing countries in the five years following the end of the Uruguay Round.

Taken individually, each of the trade restrictions considered in the DSI is deeply damaging to developing countries. Considered collectively, they help to explain why developing countries have been unable to increase their share of world trade, and why the links between international trade and poverty reduction are so weak. While no industrialised countries meet the criteria for providing a fair deal to poor countries, some are more unfair than others. The EU is the worst offender by a small margin, with the USA close behind.

The costs of Northern protectionism can be illustrated through economic models that predict the potential gains from import liberalisation. One such model shows that moving to full import liberalisation by the industrialised countries between 2000 and 2005 would generate gains of the following order (Anderson et al. 2001):

- more than $3bn each for India, China, and Brazil
- more than $14bn for Latin America
- more than $2bn for sub-Saharan Africa
- more than $600m for Indonesia

Large as they are, even these figures understate the potential gains from reduced trade barriers. This is because they do not take into account the dynamic effects on investment and innovation that market opportunities could generate. In the case of Brazil, one survey, covering just nine product groups, estimated potential trade gains of $831m from the removal of US trade barriers.[4]

Trade barriers in industrialised countries weigh most heavily on the poorest countries. The 48 least-developed countries (LDCs) face tariffs on average 20 per cent higher than the rest of the world on their exports to industrialised countries. This rises to 30 per cent higher for manufacturing exports (IMF and World Bank 2001a). LDCs are losing an estimated $2.5bn a year in potential export earnings as a result of the high levels of tariff protection in Canada, the EU, Japan, and the United States.

The losses in LDC export earnings resulting from industrialised-country protectionism offset the benefits of aid flows to these countries. In 1999, the Quad countries provided LDCs with almost $10bn in aid. But for every $4 of aid, the same countries took back $1 through the imposition of trade restrictions on LDC exports. This incoherence between industrialised-country trade and development policies can sometimes reach absurd proportions: trade restrictions in Canada cost LDCs approximately $1.6bn in lost export revenue, which is around five times the level of Canadian aid flows to the LDCs (Oxfam International 2001a).

Improved market-access opportunities could help to reverse the relentless marginalisation of LDCs in international trade. Providing tariff-free and quota-free access for all products exported from LDCs currently facing tariff peaks in these countries would generate an 11 per cent increase in total LDC exports (Hoekman et al. 2001). These gains would derive from increased LDC textiles and clothing exports to the USA and Canada. LDC agricultural exporters would also gain from improved access to the EU and Japan, especially for sugar and some cereals. The costs for other developing countries would be minimal, amounting to less than 0.1 per cent of their total exports. For industrialised countries, free market access would generate gains for consumers and minimal costs for producers. In contrast, the increase in total LDC exports would translate into important livelihood and employment opportunities for people living in poverty, as well as increased revenue for impoverished governments.

Despite the modest adjustment costs of improved market access and repeated pledges of action from Northern governments, little has so far been achieved. Industrialised countries have repeatedly committed themselves to provide free access for all exports from the world's poorest countries. Yet the vast majority of their initiatives to date have excluded key products of export interest to LDCs. Only New Zealand has fully opened its markets to all products exported by the LDCs.

Protectionist pressure orchestrated by politically powerful lobbies is one factor that impedes the development of market-access opportunities. The EU's 2001 'Everything But Arms' (EBA) initiative was originally intended to provide immediate free market access for all non-military exports from LDCs. However, following a concerted campaign by European producers and traditional Caribbean exporters, who feared that they would lose market share to LDC exporters, the proposal was modified so that free LDC market access for three important products (rice, sugar, and bananas) will be delayed for up to eight years.

With the introduction of EBA, some LDCs have gained export opportunities. For example, having been excluded from the EU market for sugar, Mozambique now has some (quota-limited) access to the EU over the eight-year transition period to 2009. This is expected to provide a new export market for several thousand tonnes of

Mozambique's sugar per year, which is expected to create 8000 new jobs in the sugar mills and plantations. The jobs will benefit poor people living in rural areas where there are few alternative employment opportunities, and help to stimulate the wider rural economy (Hazeleger 2001, Hanlon 2001). However, the benefits of unrestricted access would have been far greater.

All too often, the small print of ostensibly generous trade concessions limits the scope to improve export performance in developing countries. The US Africa Growth and Opportunity Act (AGOA) provides free market access for selected products exported from the 39 African LDCs. However, only 'non-sensitive' products qualify, and these face strict conditions, for example the required use of US fabrics and yarns in African textile and garment exports. Further, African countries seeking eligibility to export under the AGOA face extensive conditions, such as opening their markets to US trade and investment, and implementing market-based economic reforms.

The barriers facing developing countries

The DSI demonstrates the range of trade barriers confronting developing countries. But because it captures only broad averages, it understates both the scale of Northern protection and the implied costs for developing countries. Among the highest barriers are tariffs, tariff escalation, non-tariff barriers, product standards, and anti-dumping actions.

Tariffs

Tariffs are taxes on imports of products into a country. Because they increase the price of imported goods on the domestic market, they protect domestic producers of the same or similar goods (and their suppliers) from foreign competition. Tariffs also provide revenue for the government.

Industrialised countries reduced their average level of tariff protection from around ten per cent in the early 1980s to five per cent in 1999. However, tariffs far higher than the average rates are imposed on products of particular export interest to developing countries, in particular on staple food products, tobacco, some beverages, fruit and vegetables, food-industry products, including fruit juices and canned meat, and textiles, clothing, and footwear (World Bank 2001b). These so-called tariff peaks can exceed 100 per cent, even more. The EU applies a 250 per cent tariff on imported meat products, and the USA and Canada impose import tariffs exceeding 120 per cent on groundnuts and meat products respectively. Leather shoes exported to Japan face standard import tariffs as high as 160 per cent, with only very limited quantities of exports from developing countries allowed entry at half this tariff rate.

Tariff escalation

Escalating tariffs that rise with the level of processing undergone are especially damaging. They act as a disincentive to investment aimed at adding value locally, while at the same time discouraging diversification. This leaves many developing countries locked into volatile primary-commodity markets, characterised by low and deteriorating world prices. As we saw in Chapter 3, this is an almost guaranteed route to marginalisation in world trade. The removal of escalating tariffs would enable developing countries to capture locally a larger share of the final value of export earnings, in turn generating local employment and investment opportunities.

The processed-food sector is particularly affected by tariff escalation. Fully processed, manufactured food products are subject in the EU and Japan to tariffs twice as high as products in the first stage of processing. In Canada, tariffs on processed food are as much as 13 times higher than those on unprocessed products. Thirty per cent of all peak tariffs applied by the EU protect the food industry. These tariffs range from 12 to 100 per cent, affecting sugar-based products, cereals, and canned fruit. The situation is similar in the USA, where the food industry accounts for one-sixth of all peak tariffs, including orange juice (30 per cent) and peanut butter (132 per cent). Forty per cent of all Japanese peak tariffs protect the food industry, affecting a wide range of products from cocoa powder and chocolate to canned meat and fruit juices (UNCTAD 2000a).

Although food processing is a key export industry in many developing countries, most of their exports are concentrated in the first, relatively low-value, stage of processing. More advanced processed-food products account for a mere five per cent of LDC agricultural exports, and for only 17 per cent of those of all developing countries. In contrast, high-value processed-food products constitute 32.5 per cent of the agricultural exports of industrialised countries (ibid.).

Non-tariff barriers

Non-tariff barriers (NTBs) are frequently a more significant obstacle to developing-country exports than tariffs, which are falling. NTBs include quantitative restrictions such as import quotas, seasonal import restrictions, rules of origin (see the section headed 'Improving market access in the EU and USA'), and a wide range of product standards. NTBs can be just as effective as tariffs in restricting exports from developing countries, and are less transparent. The true level of protection afforded to European industry, for example, rises from 5.1 per cent if tariffs alone are included, to 9 per cent if both tariff and non-tariff barriers are taken into account (Messerlin 2001).

Consumer boycotts can act as effective unofficial non-tariff barriers, with devastating effects on developing-country trade. For example, the US pressure group People for the Ethical Treatment of Animals (PETA) campaigns against the use of leather produced from Indian cowhides, on grounds of animal cruelty. The resulting ban on the use of Indian leather in products imported by major European and US companies, including Gap, Marks and Spencer, and Clarks, has resulted in a seven per cent reduction in Indian leather exports, with consequent negative effects on the livelihoods of the 2.5 million people employed in the sector.

Product standards

When developing countries export to industrialised countries, they have to meet rigorous health and safety standards, especially applied to agricultural produce. Most of these standards genuinely aim to protect public health. However, the rules can be applied in a way that undermines the ability of developing countries to take advantage of export opportunities, and leaves them locked out of important markets. A recent World Bank study (Otsuki et al. 2001) showed that implementation of new EU standards to protect consumers against aflatoxin (a naturally occurring carcinogen) will cost African exporters of nuts, cereals, and dried fruits $670m a year, without generating significant health benefits.

Product standards create problems for developing countries, because they often lack the capacity to comply. The legislation that governs standards can be complex and requires detailed legal and scientific knowledge to interpret it. Product standards can cover matters ranging from packaging requirements to permitted additives, food hygiene and processing standards to pesticide residues. Monitoring and enforcing compliance with these standards requires a level of scientific and technical expertise not often available

Box 4.1

EU blocks exports of Indian bed linen

In August 2001, a WTO ruling found that EU anti-dumping duties that had been imposed on imports of bed linen from India since 1997 had been unjustified. As a result, the duties were suspended, but they have had a devastating impact on Indian companies and their workers.

Anglo-French Textiles was one of the companies affected by the EU anti-dumping action. The company is based in the southern Indian city of Pondicherry, a French outpost until 1954. Pondicherry has a population of approximately 400,000, and is ranked seventh in India in the production of cotton cloth. In 1997, Anglo-French Textiles employed 6000 people; 30,000 more were estimated to benefit indirectly, either by supplying services or other inputs to the factory, or because family members worked there.

The UK was the main market for Anglo-French Textiles, which supplied bed linen for use in the National Health Service and hotel industry. Following the imposition of EU anti-dumping duties as high as 25 per cent against its bed-linen exports, Anglo-French was unable to continue exporting to the UK. As a result, the company's turnover fell by more than 60 per cent between 1997 and 2000, from $11 million to $4 million. The company has shed more than 1000 jobs over the same period, as a result of closing a number of stitching units, introducing a voluntary redundancy scheme, and imposing a freeze on recruitment. This has meant the loss of employment opportunities for potential workers, and an overall negative economic impact on the city of Pondicherry, where Anglo-French Textiles is the biggest industry and employer.

Since the suspension of the EU's anti-dumping measures in August 2001, Anglo-French Textiles has begun to try re-building its share of the UK market. However, the company's management expects that it will take at least two years to re-gain the same level of European orders as before the anti-dumping action. There is no provision under WTO rules for companies affected in this way to seek compensation for the losses they incurred.

(Source: private communication with Anglo-French Textiles export manager)

in poorer countries. Meeting standards is not cheap: the costs of complying with legislative requirements, including testing and certification, can be as high as ten per cent of the overall product cost for some agricultural goods (DFID 2001). Even industrialised-country exporters often find it difficult to meet stringently applied standards. For example, US fresh-fruit exporters have frequently complained that the EU applies product rules in the most rigorous possible manner, effectively using them as a non-tariff barrier (BER 2001).

In some cases, product standards have an overtly protectionist outcome, whether by design or intent. Consider the case of Vietnamese catfish. In recent years, fish farmers in Vietnam have earned a decent living from increasing exports of this product to the USA. However, in November 2001, a US catfish-industry campaign persuaded Congress to change the definition of a catfish to exclude the Vietnamese species, in spite of a US Department of Agriculture ruling that there are no scientific grounds for this decision. This dubious restriction threatens the livelihoods of 15,000 Vietnamese families who had invested their life savings in buying the floating cages needed for production.

Product standards severely damage livelihoods. Fair-trade organisations seeking to promote small-scale programmes for producing honey in Africa have seen their efforts undermined by stringent EU conditions on the monitoring of pesticide residues. In some cases, precautionary action is taken to extremes. In 1997 the EU responded to a cholera outbreak in East Africa by imposing a ban on fish imports from any country in the region, without first investigating the potential dangers involved. Following intervention from the World Health Organisation, which pointed out that fish were an unlikely means of transmitting cholera, the ban was rescinded. Unfortunately, a great deal of damage had already been done. Exports of fish from Kenya to the EU fell by one-third, undermining the livelihoods of Kenya's 40,000 fishermen and their families, as well as the wider fish-processing and related industries.

Anti-dumping measures

The WTO anti-dumping agreement allows member countries to protect themselves against unfair competition from 'dumped' products. In broad terms, it aims to prevent countries and firms from gaining an unfair advantage by selling products at artificially low prices, for instance through subsidies. Unfortunately, the agreement itself is sufficiently vague to allow countries to initiate anti-dumping actions even on the most spurious grounds, and developing countries have been prime targets.

Dumping is defined as the sale overseas of a product at prices lower than those on the domestic market of the exporting country. The WTO agreement allows members to respond to dumping by imposing fines, or anti-dumping duties, which increase the price of the imports relative to domestic prices. Investigations are typically initiated following complaints by firms or industrial bodies affected. Anti-dumping duties can be imposed for up to five years. Since the new WTO agreement was signed in 1995, the EU and USA have initiated 234 anti-dumping actions against developing countries. Although some of the larger developing countries, such as Argentina and Brazil, have also started to use anti-dumping actions, many others are the targets of actions by industrialised countries. Preliminary data from 2001 suggest that rich countries are once more increasing their anti-dumping activity, with the USA and Canada initiating high numbers of cases in the first six months of the year (WTO 2001c).

The USA has developed some of the most imaginative strategies for abusing the letter and the spirit of the WTO's anti-dumping provisions. Under legislation known as the Byrd amendment, customs authorities are mandated to collect anti-dumping duties, and then transfer them to US firms alleging damage – in effect providing them with a subsidy. This practice is the subject of a WTO dispute following complaints from nine countries – including Brazil, Thailand, India, and Indonesia – that have been adversely affected.

As globalisation and technological change intensify the competitive pressures on industries, anti-dumping actions provide a quick-fix solution for those with political influence. Lacking retaliatory capacity, developing countries are often a preferred target. For example, the US steel industry has targeted rolled carbon steel from Brazil for anti-dumping actions, even though it accounts for less than one per cent of the US market.

The procedure for establishing that dumping has taken place is complex and costly, and therefore many developing countries have difficulty in challenging anti-dumping measures imposed by industrialised countries. Yet the impact of anti-dumping duties on a developing-country exporter can be devastating: the quantity of exports and production will drop, very often resulting in job losses in the company (see Box 4.1).

There can be knock-on effects in the wider economy, affecting suppliers of the company in question. And the future of the exporting company can be uncertain, affecting investment, the expansion of production, and future exports.

South–South trade and 'open regionalism'

Protectionism by high-income countries is especially damaging to developing countries for some obvious reasons: most developing-country exports are directed towards the industrialised world and, by definition, rich countries have higher levels of purchasing power. However, developing countries also face problems when they trade with each other. South–South trade has increased over the past two decades. It accounted for 40 per cent of developing-country exports in 1999, compared with 26 per cent in 1980. But the growth of trade links between developing countries has been constrained by import restrictions. The average tariff applied by developing countries to other developing countries' exports of manufactures is more than three times higher than the average tariffs imposed by rich countries. Developing-country tariffs on agricultural exports from other developing countries are also higher (World Bank, 2001b).

Regional trade arrangements provide one possible route to closer trade links, but regionalisation takes a variety of forms – not all of which are favourable for the developing world. At one level, talk of a global economy is exaggerated. An increasing share of economic activity takes place within regions and under rules stipulated in regional trade agreements (RTAs). The dominant view is that 'open regionalism', or regional agreements that extend free trade, is good for globalisation and good for poor countries. That view is wrong: open regionalism is almost a contradiction in terms, since regional trade preference implies discrimination. More importantly, regionalism is having an enormous influence on market access and the distribution of benefits from trade.

RTAs are systems of trade preferences in which members share with each other advantages that they withhold from others, except on a negotiated basis. More than two-thirds of the European Union's merchandise trade is conducted on an 'in-house' preferential basis. The USA, Canada, and Mexico – the members of the North America Free Trade Agreement (NAFTA) – also trade mainly with each other. Over half of their exports and nearly half of their imports are traded on an intra-NAFTA basis.

Developing countries have organised their own regional trade groups. In some cases, these have helped to stimulate intra-regional trade. In Latin America, the four members of Mercosur (Argentina, Brazil, Uruguay, and Paraguay) account for one-fifth of each other's exports. In South-East Asia, ASEAN member countries trade around one-quarter of their exports with other members of the regional trade bloc.[5] There have been moves towards a customs union in West Africa, and RTAs in that region and southern Africa have resulted in increased trade, even though coverage remains limited. RTAs are least developed in South Asia. The South Asian Association for Regional Co-operation, which includes Bangladesh, India, Nepal, and Pakistan, accounts for only four per cent of its members' exports, the same share as at the start of the 1990s.

During the 1990s, the spread of globalisation was accompanied by a proliferation of regional and sub-regional trade agreements. The EU has recently concluded free-trade agreements with Mexico and has launched negotiations with Mercosur. Under the new Cotonou agreement, the EU is linked to 71 poor African, Caribbean, and Pacific (ACP) States. Its vast network of preferences now covers almost every country in the world.

'Open regionalism' has also emerged as a trade-policy priority in the USA. The Bush Administration has given a renewed impetus to plans to extend NAFTA through the Americas, with the aim of concluding a Free Trade Area of the Americas by 2005.

What are the implications of all this for the distribution of benefits from international trade? According to the received wisdom, all countries will gain, since trade liberalisation is assumed to enhance growth. Leaving aside that dubious proposition, the fact remains that some stand to gain far more than others. Consider the case of NAFTA. In 1992, Mexico exported $1bn of textiles and garments to the United States. During the 1990s, this increased to $10 billion. Exports of textiles and garments from Bangladesh and India grew far more slowly, from $2 to $5 billion over the same period. NAFTA may have created trade, but the market has been biased against two of the world's poorest countries in favour of Mexico, with damaging implications for their share of world markets. Bangladesh also stands to be adversely affected by the American Trade and Development Act of 2000, which has extended preferences on textiles to competitors in the Caribbean.

RTAs can become vehicles for protectionism and trade rules that are inherently bad for poor countries, as Chapter 8 will show. As the weakest partners in the world trading system, it is developing countries that are most at risk from protectionist practices. But there are other ways in which RTAs can bias the benefits of trade in favour of rich countries. For example, the EU has negotiated preferential access to the markets of Mexico and South Africa, but neither country enjoys privileged access to the other's market, which gives European exporters an obvious advantage.

Potentially, RTAs could strengthen the position of developing countries in various ways. They can create dynamic growth centres, supporting linkages between firms and producers in developing regions. They can also spread risk, reducing dependence on a small number of Northern markets, and diminish vulnerability to a downturn in those markets. But in their current form, RTAs are helping to increase, rather than reduce, inequalities in world trade.

Textiles and clothing – how not to phase out the Multi-Fibre Arrangement

The textiles and garments sector is the single largest source of manufactured exports from developing countries by value. For many developing countries, the way in which rich countries manage these markets is a measure of their entire approach to trade and development. With considerable justification, the same countries see the Multi-Fibre Arrangement, and the failure of industrialised countries to remove it, as one of the most blatant examples of double standards in international trade.

The Multi-Fibre Arrangement

Since 1974, trade in textiles and clothing has been regulated by the Multi-Fibre Arrangement (MFA). From its inception, the MFA has been a clear departure from the principles underpinning the entire multilateral trading system. It is inherently protectionist in design, and discriminatory in application in that it is targeted against developing countries.

The MFA is essentially a system of quotas restricting the quantity of textiles and clothing products entering the Canadian, EU, Norwegian, and US markets. During the Uruguay Round of world trade talks, industrialised countries agreed to phase it out. The WTO Agreement on Textiles and Clothing (ATC) provides for its removal in four stages between 1995 and 2005. Unfortunately, importing countries have exploited every loophole in the agreement, and a few more, in order to delay liberalisation.

For developing countries, the ATC was a bad agreement which reflected their unequal negotiating strength. The elimination of quotas was 'back-loaded', with quota-free market access for about half of all imports due to enter into force at the very end of the implementation period. Under the ATC, industrialised countries were supposed to remove import quotas from at least 51 per cent of their imports of textiles and clothing products by January 2002. Although the EU and USA will have technically complied with this commitment, they will have removed quotas from only 12 per cent of textile and clothing imports that were previously restrained by import quotas under the MFA. This is because they have prioritised the 'liberalisation' of those categories of products that developing countries hardly export, such as parachutes, and the removal of those import quotas that developing countries have regularly failed to fill.[6] Norway is the only exception, since it has unilaterally removed all quotas over four years.

Contrary to the ATC requirement that WTO members would allow for continuous adjustment and increased competition in their markets, the USA declared at the start of the ATC process that it 'will ensure that integration of the most sensitive products will be deferred until the end of the ten-year period'. Similarly, the EU policy has 'considered it appropriate to retain control over quotas with a view to keeping the possibility of using them as a bargaining chip to obtain better market access in third countries'.[7]

Where Canada, the EU, and the USA have liberalised some products that were previously restrained by import quotas, these tend to be low-value yarns and garments, rather than higher-value clothing products. By January 2002, only 12 per cent of the products liberalised by the USA and Canada will be higher-value clothing products, a proportion which rises to 18 per cent for the EU.[8] Overall, it has been estimated that by 2004, the 11 principal developing-country textile and clothing exporters will still face quota restrictions on more than 80 per cent of their exports to industrialised countries (Spinanger 1999). These delaying tactics will result in a single major adjustment in January 2005, with the removal of all import quotas from around 80 per cent of previously restrained textile and clothing products, rather than the gradual adjustment that was originally envisaged. Developing-country exporters fear that this may trigger increased political resistance to liberalisation in importing industrialised countries, and the imposition of new protectionist measures such as anti-dumping actions, in addition to the already high tariffs.

Another threat from sudden changes in trading rules in textiles and clothing industries is that the costs of adjustment will be borne by women, many of whom are home-workers and therefore overlooked by government authorities. Gender bias at all levels in the labour force devalues flexible employment and women home-workers, and tends to make the livelihood and welfare impacts of such changes invisible to policy makers.[9]

Apart from the immediate injustice of industrialised countries failing to act on their commitments, developing-country exporters will continue to face problems, even after the removal of MFA quotas. Average tariffs on textile and clothing exports will be as high as 12 per cent – three times higher than the overall average tariff rate on industrial goods. A reduction in tariff protection, alongside the MFA phase-out, could lead to a growth in textile and clothing exports for many developing countries, with positive impacts on employment, investment, and poverty reduction.

Winners and losers from the MFA phase-out: the case of Bangladesh

The phase-out of the MFA will create a complicated picture of winners and losers. Developing countries as a group lose from the MFA. However, some have benefited from quotas, since these provide what amounts to a protected market. Managing the phase-out to maximise the gains and minimise the costs is a pressing priority.

No country stands to lose as much as Bangladesh, which developed its garment-export sector on the basis of guaranteed market access to industrialised countries under the MFA quota system, which sheltered its companies from competitors in India and China. Garment exports account for three-quarters of Bangladesh's total exports, having grown from $1m in 1978 to over $4bn in 2000. More than 1.5 million people, most of them women, are employed in the industry. Considerable domestic, as well as foreign, investment has been mobilised, with some companies using hi-tech techniques to produce higher-value products. Despite this, Bangladesh has found it difficult to develop backward linkages, leaving the industry highly dependent on imported inputs (see Chapter 2). This places the country at a disadvantage, compared with competitors which have developed complementary domestic industries.

There are inevitable fears that, following the MFA phase-out, Bangladesh will lose market share in industrialised countries to other exporters, such as India and China. This could leave huge numbers of Bangladeshi women without work, or forced to accept lower wages as the industry tries to reduce its production costs. Few alternative livelihood opportunities are open to them.[10] This would inevitably have an impact on poverty levels in Bangladesh, not only for the women directly affected, but also for their families, who depend on the remittances sent home from the city to pay for food, schooling, and health care.

Improving market access in the EU and the USA[11]

The Bangladeshi government and donors urgently need to turn their attention to the development of an industrial policy that strengthens local industry. At the same time, the EU and USA could do far more to reduce the costs of adjustment by improving the terms on which Bangladeshi products enter their markets. Between them, the EU and the USA account for 70 and 25 per cent respectively of knitted-garment exports, and for 46 and 49 per cent respectively of woven-garment exports.

The biggest problem facing Bangladesh in the US market is continued quota restrictions. More than half way through the implementation period of the ATC, around 70 per cent of textiles and clothing products exported by Bangladesh to the USA continue to face these barriers. Liberalisation of MFA quotas undertaken by the USA in the first two stages of implementing the ATC (in 1995 and 1998) failed to include products of export interest to Bangladesh. The third phase of implementation (due on 1 January 2002) liberalised only two items for which Bangladesh faces quota restrictions: gloves and silk trousers/shorts. This means that 80 per cent of Bangladesh's higher-value clothing exports will remain subject to quota restrictions until the end of the WTO agreement (31 December 2004). Even in the absence of quota restrictions, Bangladeshi garment exports to the USA face extremely high tariff barriers. Tariffs for many products of export interest to Bangladesh are as high as 20 per cent – five times higher than average tariffs in the USA.

The EU provides preferential market access for Bangladesh's garment exports, exempting them from its 12.5 per cent import tariff. Yet stringent rules of origin imposed by the EU inhibit the ability of Bangladesh fully to utilise this advantage. Prior to 1996, knitted garments faced a highly restrictive three-stage transformation requirement to qualify for EU preferential market access: although the original fibre did not have to originate in Bangladesh, the three processes of making fibre into yarn, yarn into knit fabric, and knit fabric into knit garments all had to take place within the country. This meant that Bangladesh's capacity to utilise its preferential access to the EU market was restricted by its limited capacity to produce yarn domestically.

Following requests by Bangladesh for greater flexibility in the rules of origin, and a dispute over its compliance with the rules, an interim arrangement prevailed between 1996 and 1998, under which the rules were relaxed but Bangladesh's garment exports were limited by quota restrictions. In 1999, the EU removed the quota restrictions and relaxed its rules of origin so that Bangladesh's knitted-garment exports made from imported yarn qualified for preferential market access. In 2000, the EU further relaxed its rules of origin by providing preferential access to the countries of the South Asian Association for Regional Cooperation (SAARC) on the basis of 'regional cumulation'. This means that Bangladesh's garment exports may qualify for EU preferential access even if the fabrics used are imported from another SAARC member country, such as India or Pakistan. However, the rules require that the value added in Bangladesh to the final exported product must be higher than the value-added of any imported inputs from any other regional country. Since the local value-added of Bangladesh's garments which use imported fabrics is generally only 25–30 per cent of the total export value, compared with 70–75 per cent of the value arising from the fabric produced in India, the majority of garment exports from Bangladesh fail to qualify for duty-free preferential access to the EU market.

The following measures would assist Bangladesh in preparing itself for increased competition in export markets after the MFA phase-out, and help to protect the jobs of more than one million women workers:

- The removal of all tariff and quota restrictions in the USA.
- The relaxation of EU rules of origin for Bangladesh's exports, to enable them to qualify for preferential (tariff-free) market access. This will require a lowering of the local value-added requirement under regional cumulation.
- The provision of technical and financial assistance to support the government of Bangladesh in developing a competitive garment-export industry, by investing in human resources and gender equity, and by creating backward linkages, for example, to increase domestic capacity to produce textiles and other inputs.

Agricultural trade – dumping on the poor

Agricultural trade and the rules that govern it have an important bearing on poverty. The majority of the world's population surviving on less than $1 a day live in rural areas, most of them working as smallholder farmers. More than two-thirds of women work as agricultural producers. Many poor and small-scale farmers produce primarily for national and regional markets. Their livelihoods depend critically on the functioning of local markets, and on effective national policies that promote rural development

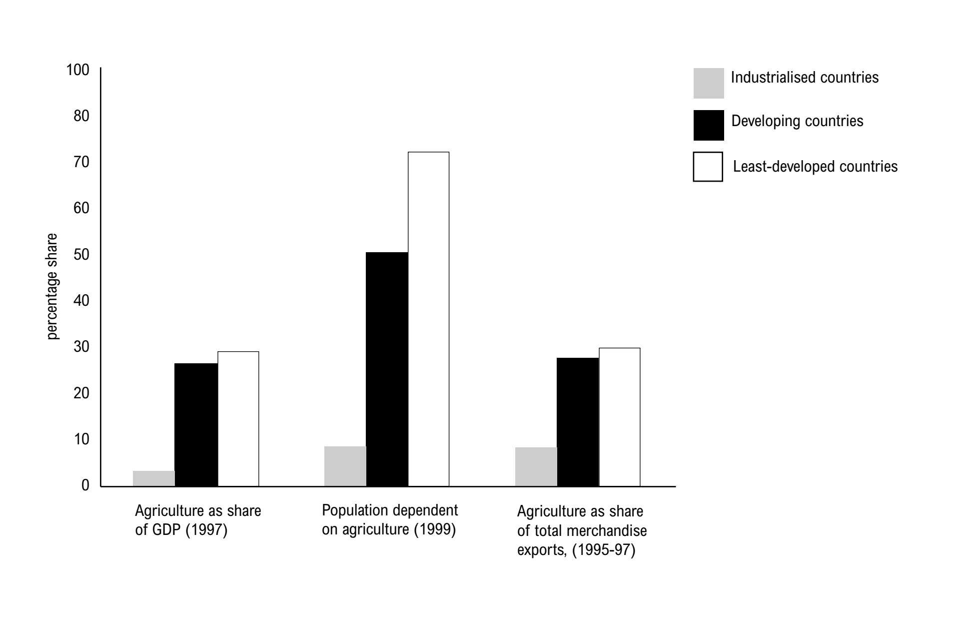


Figure 4.3
Importance of agriculture in terms of GDP, employment, and exports for rich and poor countries

Source: OECD, FAO

through the provision of infrastructure and the fair distribution of productive assets such as land and credit (see Chapter 3). But a significant proportion of farmers in developing countries produce for export markets, using the income to pay for health care and education and to purchase essential inputs. International trade rules critically affect these farmers' livelihoods.

Despite the growth of manufacturing exports from developing countries, agriculture still accounts for more than one-third of export earnings in around half of all developing countries. These exports can play an important role in poverty reduction. They generate income and employment for vulnerable households, creating opportunities that might not otherwise be available. But it is not only exports that have an impact on poverty. The terms on which countries import agricultural goods are also important, not least since this influences local prices.

Many developing countries have an obvious comparative advantage in agriculture, yet although they have significantly increased their share of world manufacturing trade, the same has not happened in agriculture. In the 17 years up to 1997, the developing world's share of world agricultural markets rose by one per cent; it reached only 43 per cent in 1999. Although this share is slowly continuing to increase, industrialised countries retain a disproportionately large market share, particularly considering their low dependence on agriculture as a source of economic wealth, employment, and exports.

No sector of world trade is more distorted than agriculture. Global markets are dominated by industrialised countries, for whom farming represents a negligible amount of GDP, employment, and export earnings, largely by virtue of heavy subsidies (Figure 4.3). So producers in developing countries suffer low prices, lost market shares, and unfair competition in local markets. Reform of agricultural trade is a core requirement for making international trade work for the poor. Of particular concern are:

- the scale and nature of rich countries' subsidies
- the continued practice of export dumping
- the impact of dumping on developing countries.

The scale of subsidies

Agriculture is by far the most heavily subsidised and protected sector in international trade. In 2000, rich countries subsidised their farmers to the extent of US$245bn. This represents around five times the value of annual aid flows. During the Uruguay Round of world trade talks, rich countries pledged to cut agricultural subsidies. In fact they have done the opposite. Agricultural trade is unique in that it is the only area in which 'liberalisation' has meant an increase in subsidisation, at least in rich countries.

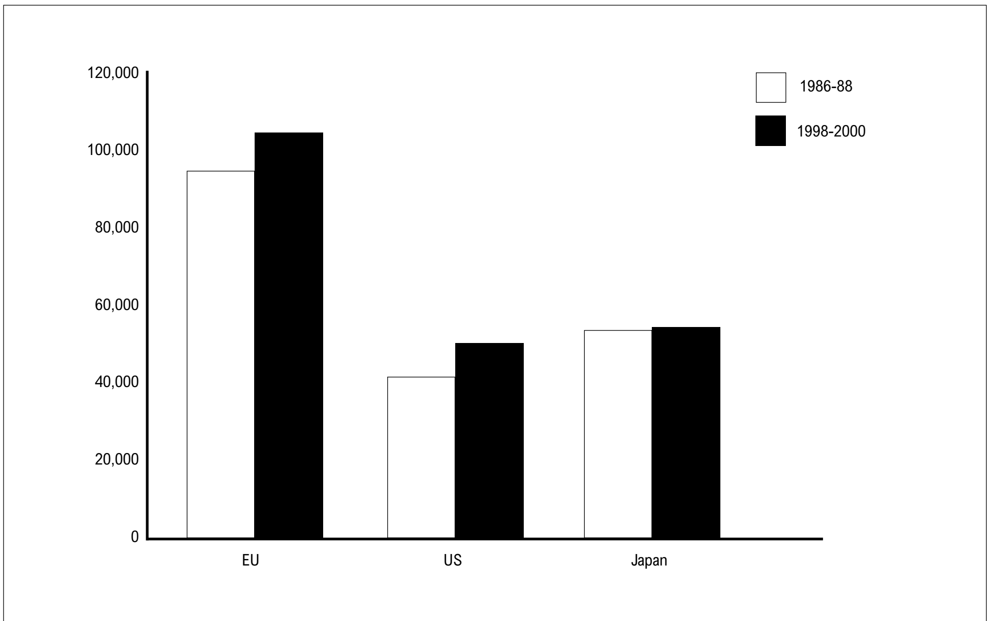
Since 1986-88, overall budgetary outlays for agricultural support in most industrialised countries have actually increased.[12] Subsidies to agriculture take a wide variety of forms. Government intervention in agriculture in both developing and industrialised countries can be important to promote legitimate rural development and environmental objectives. The problem is that the current systems of support in the EU and USA fail to deliver the social and environmental outcomes that they claim to promote, and they have devastating effects on poor farmers in developing countries.

The OECD Producer Support Estimate (PSE) measures the scale of industrialised countries' farm subsidies. Using that indicator, the EU and the USA were spending $9–10bn more at the end of the 1990s than they were a decade earlier, with farm subsidies accounting for 40 per cent and 25 per cent respectively of the total value of production (Figure 4.4). These subsidies have a major bearing on the structure of competition in international markets, and in local food markets in developing countries. Farmers in the poorest nations are competing not just against farmers in the industrialised world, but against the financial power of the world's richest countries. US negotiators in particular like to stress their commitment to 'a level playing field' in agriculture. However, for producers in the developing world, competition is an uphill struggle: millions of smallholder farmers have to survive on less than $400 a year in total income. They are competing against American and European farmers who receive respectively an average of $21,000 and $16,000 a year in subsidies (Figure 4.5).

The sheer scale of Northern subsidisation, and the resulting unfairness of international trade, can be demonstrated by some simple comparisons:

Figure 4.4
Producer Support Estimates ($ millions): EU, US, and Japan (1986/8 – 1998/2000)

Source: OECD



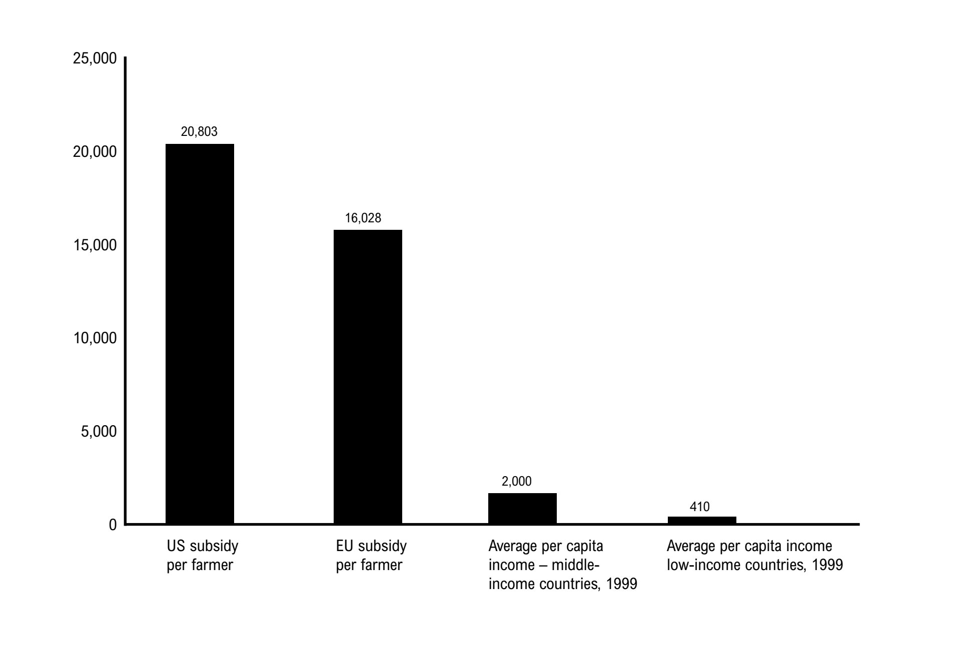


Figure 4.5
Subsidies received by US and EU farmers (average 1998-2000) compared with average per capita incomes in low-income and middle-income countries in 1999 ($)

Sources: OECD and World Bank

- Total OECD agricultural subsidisation exceeds the total income of the 1.2 billion people living below the poverty line.
- The US programme of 'emergency' farm payments exceeds the UN's humanitarian aid budget.

During the Uruguay Round of world trade talks, European and US negotiators reduced the debate on agricultural trade liberalisation to a game of semantics. Having agreed in principle to reduce subsidies, they proceeded to change the definition of a subsidy to allow them to continue on a business-as-usual basis. Two particularly imaginative devices were developed under the colourful headings of 'Blue Box' and 'Green Box'. Under the 'Blue Box' arrangement, countries are allowed to provide unlimited direct income payments to farmers, provided that these are linked to 'production-limiting' programmes. One such programme is called 'set-aside', under which the EU provides income support to farmers, on condition that they remove a certain amount of land from cultivation. 'Green Box' payments include subsidies given for environmental reasons, insurance, and a range of additional measures.

When is a subsidy not a subsidy?

According to the EU, the overall level of support to agriculture matters less than the structure of subsidies. The contention is that industrialised countries have scaled down subsidies that directly encourage production, in favour of subsidies that support farm income. From a developing-country perspective, this is an unconvincing argument, for at least two reasons.

The first is that market-price support and farm payments linked to output remain the major form of producer support in rich countries, accounting for almost three-quarters of payments in 2000 (OECD 2001a).[13] Whatever their convoluted mechanisms, these programmes typically operate in the same way. Governments restrict imports and buy agricultural commodities at prices above world market levels, transferring income to their farmers. They then transfer the same commodities on to world markets, usually with the help of hefty export subsidies, pushing down world prices. Rich countries spend around $7bn a year on export subsidies.

Second, far from being 'non trade-distorting', payments under the multi-coloured box arrangements can have an impact on production decisions, notably by taking the risk out of the market. In the USA, 'emergency payments' ostensibly designed to compensate farmers for losses resulting from weather damage are now provided on an institutionalised basis, regardless of losses. US apple growers receive $100m a year to compensate them for 'market losses', and the American Farm Bureau is pressing for this sum to be raised to $500m. The OECD itself has noted that these payments affect decisions about production, as they send a strong signal to farmers that they can expect to receive extra support at times of low world prices. This affects the international competitiveness of US and EU agricultural production, and the price at which these countries are able to export on world markets.

This is not to argue against the use of carefully targeted policies in the EU and USA that promote legitimate rural development and environmental objectives. But the idea that existing industrialised-country agricultural policies benefit poor and small-scale farmers and are good for the environment is a myth. On the contrary, there is overwhelming evidence that the main beneficiaries of current farm support are the largest farmers and agribusiness companies. In the EU, 17 per cent of farms receive 50 per cent of agricultural support (ABARE 2000). In the USA, the 80 per cent of farms that are small-scale receive only 16 per cent of agricultural support.[14] By concentrating subsidies in the hands of the richest farmers, agricultural policies are hastening the demise of smallholder agriculture.[15]

Apart from providing a highly regressive transfer to high-income farmers, current subsidy patterns, with their emphasis on expanding production, have encouraged the industrialisation of agriculture, with a premium on the heavy use of chemical inputs. Among the most immediate consequences are extensive environmental damage and continual threats to public health. Other environmental consequences include the pollution of lands, rivers, and water reserves as a consequence of the intensified use of fertilisers and run-off from intensive livestock production; land erosion as a result of intensive production; and a reduction in biological and landscape diversity (Fanjul 2001).

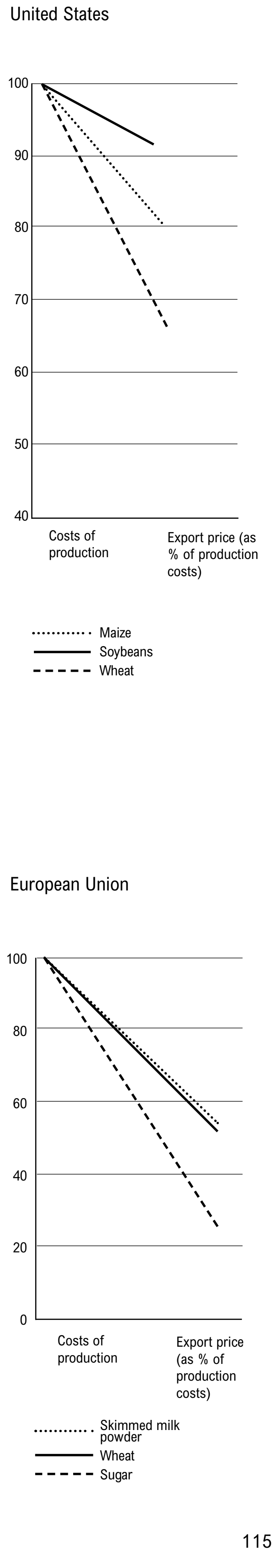
The scale of export dumping

The practice of exporting agricultural surpluses on to world markets at less than the cost of production – or 'dumping' – is one of the most pernicious aspects of industrialised-country trade policies, which the WTO has failed adequately to address. Unfair competition from dumped agricultural produce creates problems for developing countries by depriving them of foreign-exchange earnings and market share, and undermining local production, rural livelihoods, and food security.

Debates about definitions and levels of agricultural dumping are even more complex and obscure than those about tariffs. In an attempt to simplify the issue, Oxfam has developed a new indicator, drawing on the principles used in the OECD's measurement of subsidy estimates. The Export Dumping Estimate indicator looks beyond the semantic debate on how to define a subsidy, to assess a more relevant issue: the gap between export prices and costs of production.[16] For some of the major commodities traded on world markets, that gap is very large. The data are summarised in Figure 4.6. Among the main findings:

- The USA and the EU account for around half of all wheat exports. Their export prices are respectively 46 per cent and 34 per cent below costs of production.
- The USA accounts for more than one-half of all maize exports. It exports at prices one-fifth below the costs of production.
- The EU is the world's largest exporter of skimmed-milk powder. It exports at prices representing around one-half of the costs of production.
- The EU is the world's largest exporter of white sugar. Export prices are only one-quarter of production costs.

Figure 4.6
US and EU dumping subsidies: export prices as a percentage of production costs (selected products)



The dominance of the EU and the USA in world markets means that these dumping margins effectively set world market prices. This is because rival exporters have to follow the export price levels set by EU and the USA, or lose market share. For practical purposes, the world agricultural market is a dumping market in which prices are unrelated to costs of production.

There is no other area of international trade in which it is legitimate for exporters to sell on world markets at prices so far removed from the costs of production. The intensive use of subsidies that sustain this practice diminish the world market share of rival exporters and drive down prices, producing large foreign-exchange losses. Another effect is to create highly unequal competition in developing-country food markets. All too often, developing-country governments are willing to open their borders to cheap, subsidised imports in the interests of reducing food prices, with highly damaging implications for domestic farmers.

As the dominant exporters of a range of agricultural commodities, EU and US export prices largely determine world agricultural prices. The result is that farmers and exporters in developing countries receive prices for their crops at or below the artificially low prices set by the powerful industrialised countries' policies. Developing countries are estimated to face annual welfare losses of $20bn a year as a result of Northern agricultural policies (World Bank 2001d).

The impact on developing countries

For the agricultural sector in developing countries, the overall costs of lost market shares and lower prices are very large. Latin America is the worst-affected region, losing $4bn annually from EU farm policies alone. The impacts are particularly damaging for Argentina and Uruguay, for whom the EU Common Agricultural Policy (CAP) depresses terms of trade by seven per cent and eight per cent respectively. Estimated losses to Argentina, a country in the grip of a major financial crisis, are $2bn a year.

In domestic markets, poor farmers operating with limited resources, often in ecologically fragile areas, cannot hope to compete with products produced under heavily subsidised conditions in the EU or USA. However, trade liberalisation in developing countries is increasingly exposing domestic farmers to ruinous competition, driving down prices and undermining rural wages and employment.

In the Philippines, trade liberalisation in the corn market in 1997 reduced import prices for US corn by one-third. At the time, US corn farmers were receiving $20,000 a year on average in subsidies, while Filipino farmers in one of the main corn-producing areas on the island of Mindanao had average annual income levels of around $365. Viewed from the perspective of poor families in Mindanao, opening the market to subsidised

Box 4.2

A Development Box in the Agreement on Agriculture

The idea of introducing a package of enhanced special and differential treatment measures for developing countries in the WTO Agreement on Agriculture has been termed a 'Development Box'. Unlike the existing Blue and Green Boxes, whose provisions institutionalise the agricultural support policies of industrialised countries, a Development Box would provide greater flexibility for developing countries to implement policies that strengthen their domestic production, promote food security, and maintain and improve rural livelihoods.

The Development Box provisions would aim to protect poor farmers from surges of cheap or unfairly subsidised imports, enhance the efficiency of developing countries' domestic food-production capacity, particularly in key staple crops, and provide and sustain existing employment and livelihoods opportunities for the rural poor. Specific instruments would include exempting food-security crops from trade-liberalisation commitments, allowing developing countries the flexibility to raise tariffs against cheap agricultural imports that are damaging domestic production, and exempting government subsidies for low-income producers from liberalisation commitments.

(Green and Priyardarshi 2001 provides more detail on the proposed Development Box.)

US corn posed a direct threat to their livelihoods. Corn is a major cash-crop on the island, as well as being a source of food. Research conducted by Oxfam found that many of the poorest households were deriving more than three-quarters of their income from corn sales, so that any fall in household income would have devastating effects on resources available for food, health care, and education. More than half of corn farmers were already living below the poverty line, and one-third of all children below the age of five were suffering from malnutrition. In this instance, the impact of exposing poor corn farmers to competition with heavily subsidised US producers was to leave some of the poorest households worse off (Watkins 1996).

Subsidised European dairy exports have inflicted severe damage on a number of countries. In Jamaica, trade liberalisation in the early 1990s resulted in the substitution of locally produced fresh milk by subsidised European milk powder as the major input for the Jamaican dairy industry. EU milk-powder exports to Jamaica grew from less than 2000 tonnes per year in 1990-93 to more than 4000 tonnes per year in 1995-98, for which European exporters received more than four million euros per year in export subsidies. While these exports accounted for only a tiny proportion of total EU dairy trade, they dominated the small Jamaican dairy market, with devastating consequences for local producers, many of whom are women who run their own businesses. As the dominant dairy supplier on the world market, the level of EU subsidies determines – and depresses – world prices. And the level of subsidies is high: in 1999, the value of EU export subsidies on milk powder amounted to more than half the value of milk powder on the world market (Black 2001).

Many of the agricultural subsidies provided in industrialised countries enable manufacturing companies to reduce the raw-material costs on goods exported to third-country markets. This can disadvantage developing-country firms in local markets. As part of the CAP-reform process, the level of price support received by EU farmers is being reduced, and farm incomes are being supplemented by direct aid subsidies. This means that European food processors are getting raw materials at artificially depressed prices (EU cereal prices have fallen by 50 per cent since 1992 under the impact of this 'reform' process), which increases their competitiveness on world markets. On top of this advantage, EU food processors receive export subsidies on the agricultural raw-materials content of processed products equivalent to any remaining difference between EU and world market prices (this covers the sugar, dairy, egg, cereal, and rice content of manufactured goods).

In South Africa, these changes are creating subtle new forms of dumping. Although sugar prices in South Africa are lower (less than half) those in Europe, European confectionery manufacturers have been able to obtain sugar for use in exported products at prices around one-third cheaper than their South African counterparts. According to the South Africa Chocolate and Sweet Manufacturers' Association, an increase in imports of EU sugar and chocolate confectionery contributed to a 21 per cent decline in consumption of domestically produced sweets and chocolate between 1997 and 2000. This has affected production and employment in local chocolate and sweet manufacturing. The largest South African-owned sweets and chocolate manufacturer, Beacon Sweets, laid off 1000 staff between 1997 and 1999. It also cut purchases of local sugar from 40,000 tonnes in 1995 to 35,000 in 1999, with adverse consequences for rural wages and employment (Goodison 2001).

These examples illustrate the negative impacts on food security, rural livelihoods, and local industrialisation of US and EU dumping of subsidised agricultural surpluses on world markets. They highlight the need for an immediate ban on agricultural dumping, which would bring international agricultural trade rules into line with the disciplines that apply to all other sectors. More broadly, it is important that developing countries avoid making liberalisation commitments that are inconsistent with policies for rural poverty reduction and national food security. Given the distorted state of world agricultural markets, the free-market case for liberalisation is weak. WTO rules must recognise the right of developing countries to protect their domestic agricultural sectors as a means of promoting food security and rural livelihoods, the development of which will be crucial for the achievement of poverty reduction. This is one of the aims of the Development Box advocated by a number of developing countries (see Box 4.2).

Food aid

Food aid has an important role to play in responding to emergencies that arise from conflict or natural disasters. However, food-aid programmes have historically been subject to extreme abuse, with industrialised countries using them to dispose of surpluses and create food dependency. Such abuse continues today, and the US is the worst offender. The following remark by former US Secretary for Agriculture, Dan Glickman, illustrates well the US attitude to food aid: '*Humanitarian and national self interest both can be served by well-designed foreign assistance programmes. Food aid has not only met emergency food needs, but has also been a useful market development tool.*'[17] Similarly, a 1996 USAID report boasted that 'nine out of ten countries importing US agricultural products are former recipients of food assistance' (USAID 1996).

There is strong evidence of an inverse relationship between the availability of food-aid donations and the need of recipient countries: food-aid donations are typically highest during periods of low commodity prices (and high stocks), and vice versa. In 1999/2000, US food-aid donations of wheat and wheat flour increased when prices

Box 4.3

Guyana rice exports to Jamaica – undercut by US food aid

'PL480 [US food aid] was meant to boost food security,' says Dharankumar Seeraj of the Guyana Rice Producers Association. *'It was supposed to assist in the elimination of poverty, not in creating it. Yet we have seen a direct effect whereby in the very process of eliminating poverty [in one place], we have poverty being created in another region.'*

Rice exports provide an important source of income for poor communities on Guyana's northern coastal plain, contributing to rural development and poverty alleviation through improved roads, schools, and health services. Following a reduction in EU trade preferences in 1996, Guyanese rice farmers switched their focus from exports to the lucrative but restricted EU market to exports to neighbouring countries in the Caribbean Community (CARICOM). In 1997, Guyana succeeded in capturing almost half the Jamaican rice market, at the expense of US sales, which had previously accounted for 99 per cent of the market.

A major set-back for Guyanese rice growers has been unfair competition from US food aid in the Jamaican market. US rice is supplied to the Jamaican government on concessional terms as food aid under US Public Law 480 (known as PL480). In response to complaints from Guyana about unfair competition from PL480 rice, a deal was struck: Jamaica would purchase 40,000 tonnes of Guyanese rice, but in exchange the rice would be milled in Jamaica. The US-owned rice mill, Grains Jamaica Limited, asked the US government to intervene, arguing that the 'explicitly stated purpose of PL480 is to build commercial customers for US agricultural goods. We recently upgraded our mill and need PL480 rice to recover this additional investment and recapture the market [from Guyanese rice].'

As a result of political pressure, combined with a surplus in the US rice harvest, Jamaica's allocation of PL480 rice was suddenly doubled for the year 2000 to 24,000 tonnes, after falling consistently throughout the 1990s. In December 1999, the US Ambassador in Jamaica and the US industry's allies convinced the Jamaican government to sign a five-year tariff-waiver to reclassify PL480 rough rice as a raw material, so that it could enter Jamaica duty-free. Simultaneously, rice was removed from the list of commodities to which CARICOM's Common External Tariff (CET) would be applied, therefore removing Guyana's preferential treatment in the Jamaican market as a CARICOM member relative to US rice imports.

However, the required consultation process to remove a product from CARICOM's list of products eligible for the CET was not undertaken and, following complaints from Guyana, rough rice has now been replaced on the list. Guyana maintains that unfair competition with rice produced in the region contravenes the mission of PL480, and it has asked the US authorities to end this abuse of food aid. No response has yet been received, but no rice was allocated to Jamaica under PL480 in 2001.

Source: Oxfam Canada, 2001

were low, the very time when recipient countries could most easily afford to obtain supplies on the world market. Conversely, when prices were high and the need for food aid may have been expected to increase, levels of US donations fell. Over half of US wheat-flour exports in this period were sent in the form of food aid, compared with less than 10 per cent for other exporting countries. Furthermore, these US wheat-flour exports were destined for a number of countries where there was no food emergency, or which have the resources to purchase food.[18]

The WTO Agreement on Agriculture binds members to ensure that the provision of food aid is not tied, directly or indirectly, to commercial exports of agricultural products to recipient countries. It also requires that international food-aid transactions be carried out in accordance with the United Nations Food and Agriculture Organisation (FAO) Principles of Surplus Disposal, which stipulate that major exporters should report all types of food-aid activity for monitoring, to ensure that food aid is directed to those in need, and that it does not interfere with normal patterns of production and international trade. Unfortunately, the FAO Principles are non-binding, and members' adherence to the notification process is sporadic. WTO disciplines need to be strengthened to guard against the abuse of food aid to dispose of domestic agricultural surpluses.

Recommendations: strategies for reform

The challenge ahead is to expand opportunities and enable the world's poorest countries and people to benefit from trade. That challenge will not be met without radical reforms to the trade policies of industrialised countries. The willingness of the rich world to undertake those reforms will predict the success – or failure – of the WTO negotiations launched in Doha in November 2001. More fundamentally, they are a test of the willingness of the industrialised world to convert its rhetoric on inclusive globalisation into practical action. Trade can realise its potential only if industrialised countries reshape the global trading system to spread opportunity more equitably.

They should start by dismantling the protectionist barriers described in this report. Industrialised countries should implement the following measures:

- Provide comprehensive duty-free and quota-free access, not just for Least Developed Countries, but for all low-income countries by 2005. Take immediate action to provide duty-free and quota-free access for all products exported by the LDCs.
- Implement an immediate across-the-board reduction of all tariff peaks in excess of 15 per cent to less than 10 per cent, with further reduction to less than 5 per cent by 2005.
- Immediately eliminate all tariff escalation on products exported from developing countries.
- By the end of 2002, implement their obligations under the Uruguay Round agreement on textiles and clothing.
- By the 2005 deadline for implementing the agreement on textiles and clothing, adopt a tariff ceiling of five per cent on all developing-country exports of these products.
- Impose a unilateral moratorium on anti-dumping actions against developing countries, and adopt a ban on anti-dumping actions against low-income countries.
- Establish a Standards Attainment Agency to assist developing countries in meeting the import standards set. The agency should be constituted with an annual budget of $2bn.

The EU and USA cannot continue with their existing agricultural policies. They are subject to a series of pressures for reform, ranging from domestic budgetary constraints (for example, arising from the planned enlargement of the EU to include a number of large agricultural economies in eastern and central Europe) to growing concern among domestic constituencies about the impact of intensive, industrialised agricultural production methods on environmental sustainability, food safety, and the situation of small and family farms and rural communities. The WTO negotiations on agriculture provide another pressure, since the Doha Declaration commits WTO members to negotiations aimed at 'substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support'.

The key question is: how should the EU and USA address the structural problem of over-production? For it is the tendency of existing EU and US farm policies to encourage excessive production that has resulted in the use of dumping as a means of disposing of surpluses, and environmental damage arising from the intensification of production methods.

It is beyond the scope of this report to offer detailed proposals for reform of US and EU agricultural policies. However, it is possible to identify a number of principles that indicate the direction in which reform should proceed, as follows.

- **A comprehensive ban on export dumping.** The practice of export dumping, whether the result of direct export subsidies or other forms of agricultural support, must be outlawed in international trade rules. The same rules and principles that are applied to manufactured goods should be applied to agriculture, with a ban on exports at prices below costs of production. Many importing developing countries face technical and resources constraints that limit their ability to prove the existence of agricultural dumping, and therefore to be confident in imposing countervailing duties to bring the dumping prices up to the cost of production levels. One option to overcome this constraint is for the OECD to publish each year an estimate of the full cost of production, including all producer-paid costs, government-paid costs, marketing costs, and a reasonable profit, at least for all OECD member countries. Importing countries could use these figures as a reference for establishing minimum import prices. Imports at prices below these levels would be subject to countervailing duties in an amount equal to the level of dumping (Ritchie et al. 2000).
- **Recognition of the right of developing countries to protect their agricultural systems.** To protect food security, developing countries have the right to protect their domestic agricultural sectors. Given their high levels of subsidisation, the EU and USA should respect that right. Industrialised countries should support developing countries' proposals to incorporate a Development Box in the Agreement on Agriculture. This would establish a range of enhanced special and differential measures, including both domestic support and broader measures that developing countries could use to promote food security and rural livelihoods. In order to ensure that the Development Box is genuinely used to promote poverty reduction, it should require developing-country governments to target protection and support to small farmers and staple food crops.
- **Restructured subsidies to promote extensive agriculture.** Farm-income support is currently biased towards big farmers and intensive agriculture. The result is bad

for equity, the environment, and developing countries. Income support should be restructured to support less intensive farming, geared towards lower output levels through carefully targeted programmes designed to achieve specific social, rural development, and environmental objectives. These are likely to include both an element of price support and the increased use of direct income payments to farmers that are de-coupled from levels of production. The payment of subsidies should be modulated to ensure a more equitable distribution of support across different groups of farmers. Transitional support should be provided to help low-income producers in industrialised countries to adjust if they are negatively affected by changes in agricultural policy.

Implementation of these reforms would provide opportunities for developing countries to increase their share of the benefits of international trade. It is the responsibility of developing-country governments to implement national policies that make trade work for the poor. As we argued in Chapters 2 and 3, of particular importance are policies that address inequalities in access to productive resources such as land, credit, and infrastructure.

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