Low-Income Developing Countries and Trade Liberalization: An Overview of the Issues

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Abstract: The next round of trade negotiations will continue agricultural trade negotiations in the areas of market access, domestic support, and export competition. These issues have major implications for the food security of low-income food-importing countries. Other issues with direct or indirect impacts on the food security of developing countries that may be examined or renegotiated in the next round (or in concurrent international negotiations) include food aid, special preference arrangements, technical assistance, state trading enterprises, biotechnology, and production process issues.

Introduction

Food insecurity of the low-income countries is deeply rooted in many factors that are not all affected by global trade policies. However, with the increasing role food imports play in low income countries, global agricultural market conditions could significantly affect the food security of these countries. Decisions in the new round of trade negotiations can affect food security of the low-income countries through: 1) world price levels and variability; 2) the ability of food insecure countries to increase export earnings, which often come from agricultural products; and 3) availability of food aid for emergency assistance as well as development.

The Uruguay Round of international trade negotiations, which took place over 1986-94, gave heightened attention to agriculture. The resulting Uruguay Round Agreement on Agriculture (URAA), which was signed by a majority of countries, will condition future policies of countries both at the international and national level. Therefore, it is important to understand the main features of the agreement and the likely issues that could be negotiated in an upcoming round.

In this overview, we highlight the major issues that are likely to emerge in the next trade round, especially those that are important to developing countries. Issues that are particularly important for different geographic regions are highlighted in the following articles.

Issues Relevant to Developing Countries in the Next Round

The most important components of the URAA are the "three pillars"—market access, domestic support, and export competition. Highlights of the changes agreed to in the last round are presented in table A-1. In the area of market access, an element of the agreement was the conversion of nontariff barriers into bound tariff levels and the reduction of existing tariffs. This has set the stage for deeper cuts in future rounds. In the area of domestic support, countries determined which policies were permitted and which were subject to discipline. Domestic support policies were placed into different categories ("amber box," "green box", and "blue box"), depending on how distorting the policies are to world markets. Trade distorting domestic support levels are scheduled for reductions based on an "Aggregate Measurement of Support" (AMS), which is an index that measures the monetary value of total government support to a sector. In the area of export competition, countries agreed to reduce their existing export subsidy programs and to not introduce new subsidy programs.[2]

Other agreements that are likely to affect agriculture but are not explicitly included in the URAA are the Sanitary and Phytosanitary (SPS) Agreement and the establishment of the dispute resolution mechanism. The SPS Agreement recognizes each country's sovereignty in establishing levels of SPS protection, but requires that such measures be science-based and non-discriminatory. The dispute resolution mechanism established a panel system to arbitrate trade disagreements and enforce decisions regarding all Uruguay Round agreements, including those for agriculture.

Not all of the above issues are equally important for all countries. For example, the farm policies and programs of the exporting countries have direct implications for food security of low-income countries. If domestic price supports are reduced, the expected effect would be a decline in the production of staple foods and an increase in world prices (other market conditions being constant). Such a policy would have different implications for the food security of

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[2] For more information on these and other issues, see USDA (1998).

Table A-1--Highlights of Commitments from the Uruguay Round Agreement on Agriculture (URAA)

Category/item	**Developed countries (DCs)**	**Less developed countries (LDCs)**	**Least developed countries**
Market access:			
Tariffication:	Convert all nontariff barriers to tariffs	Same as DCs	Same as DCs
	Reduce tariffs by 36 percent in 6 years; min. 15 per line	Reduce tariffs by 24 percent in 10 years; min. 10 per line	Exempt from reductions, but must at least bind tariffs
	Imports of staple foods at least 4-8 percent of supplies by 6 years	Imports of staple foods at least 1-4 percent by 10 years; allow "appropriate market access" for other agricultural products in return for more lenient terms	Same as LDCs
Tariff rate quotas:	Increase access from 3 to 5 percent	Same as DCs	Same as DCs
Most-favored nation:	No special regional schemes unless offered to all	Same as DCs	Same as DCs
Special safeguard:	Duties allowed on tariff-rate quota commodities if import volume or prices meet certain criteria	Same as DCs	Same as DCs
Export subsidies:			
New subsidies:	Disallowed	Disallowed	Disallowed
Reductions of old:	Reduced 21 percent over 6 years from base	Reduced 14 percent over 10 years from base	Exempt, but no increases either
Credits/guarantees:	To be negotiated further	Same as DCs	Same as DCs
Domestic support			
Categorization of policies:	"Amber box", "green box", and "blue box"	Same as DCs	Same as DCs
Aggregate Measurement of Support (AMS):	Reduce 20 percent over 6 years	Reduce 13.3 percent over 10 years	Same as LDCs
	"De minimus" provision exempts commodity if less than 5 percent of total value of production	"De minimus" provision exempts commodity if less than 10 percent of total value of production	Same as LDCs
	---	Investment, input and diversification subsidies exempt	Same as LDCs

Source: Derived from Valdes and McCalla (1996).

developing countries. Those developing countries that have adequate agricultural resources, produce similar or substitutable crops, and have open economic policies would be faced with a higher price incentive to produce. This would increase their domestic food availability and food access and decrease their dependence on food imports to meet overall food needs.

In the short run, however, the impact of higher world prices could hurt the resource-poor countries with high food import dependency, increasing the costs of food imports and reducing foreign exchange earnings for alternative uses. Another related effect of lowering domestic subsidies in exporting countries is that it could reduce stocks, which could increase global price variability. For developing countries, stability in food import prices reduces short-term financial difficulties of importing and allows a more stable flow of capital goods that are important to economic growth.

Foreign exchange availability to finance food imports for food insecure countries is closely linked to the issue of market access. Agricultural commodity exports are a major source of foreign exchange earnings for developing countries. Prices of the primary commodities have been declining for the last two decades. The World Bank estimates that the loss in foreign exchange earnings to developing countries from declining commodity prices totaled $100 billion a year from 1980 to 1993. While complete liberalization of the global market may not reverse the long term decline in commodity market prices, protection of commodities such as sugar and peanuts limits market access and therefore demand, thereby reducing prices of commodities exported by low-income countries. Consequently, this reduces their ability to import foods.

The next round is expected to follow the URAA agenda and continue negotiation in the areas of market access, domestic support, and export competition.[3] In the area of market access, possible areas for negotiation include continuing efforts to finish converting nontariff barriers to tariff barriers, lowering existing tariffs, increasing minimum access levels for tariff-rate quotas (TRQs), and reducing export taxes. With domestic support, continued reductions in subsidies and further clarification as to which policies and programs distort trade are key subjects for negotiation. With export competition, continued negotiated reductions in existing export subsidies is a significant negotiating objective for many countries.

Several other agricultural trade issues are likely to receive attention in the next round, although it is unclear at this point whether new protocols will be opened. These include:

- *Food aid.* This is an important issue for developing countries. Among some donors, there are concerns that food aid may be used as a hidden export subsidy (relatedly, export credits have come under similar criticism). For the recipient countries, there are concerns that food aid quantities have dropped sharply in recent years, despite provisions in place to address possible adverse consequences for food security.[4] With the end of government-held surpluses, food aid availability could become essentially a budgetary issue and a pressing consideration for both emergency and developmental programs if high food aid needs coincide with periods of high prices.

- *Preferential trade arrangements.* Many trade arrangement programs provide special market access for developing countries' commodities and goods. The margin of preference has varied by commodity and time, but for some commodities (such as sugar) the prices received by exporters to the EU and U.S. market have been two to three times the world price since 1980. While these arrangements provide economic benefits to producers in these countries, the arrangements also discriminate against other countries that may be able to produce the same goods more efficiently and at lower cost. If the arrangements are removed, the current producers may not be able to compete effectively in the future, suggesting that these protections may need to be phased out to allow for adjustment.

- *Technical assistance.* Many developing countries signed the Uruguay Round agreements, but lacked the capacity to implement and enforce them. These countries are likely to demand more specific language and funding to support such activities.

- *State trading enterprises (STEs).* Some STEs have monopoly trading power, although countries disagree over the effects of STE privileges on world trade and prices. Given that STEs exist in both developed as well as in developing countries, disciplines imposed on STEs would affect developing countries directly and indirectly.

- *Biotechnology.* Many consumer groups have raised concerns about the possible health and environmental effects from crops using genetically modified organisms (GMOs). Developing countries may be affected by any new standards or regulations that ultimately influence prices as well as the way in which such standards may restrict trade with some developed countries.

- *Production process issues.* Production practices have come under greater international scrutiny and may be addressed through trade negotiations. Examples of these issues include animal welfare (confinement) and different types of fishing nets. Developing countries already have been

[3] The following two sections synthesize the discussions of Valdes and McCalla (1996), IATRC (1997), Hanrahan (1998), Salinger (1998), Thompson (1998), and Valdez and Young (1998). In addition, the authors have benefited from attendance at several recent seminars and conferences sponsored by the Federal government, think tanks and other research institutions.

[4] These provisions are detailed in Part X, Article 16 of the Uruguay Round Agreement ("Measures Concerning the Possible Negative Effects of the Uruguay Round Agricultural Reform Program on Least-Developed and Net Food-Importing Developing Countries").

affected directly by new regulations for the way in which they produce some items (notably fishery products). They also could be affected by rising prices of food exports from developed countries (for example, higher poultry prices if new animal confinement regulations are adopted).

Developing Countries May Have a More Important Role in the Next Trade Round

Many observers believe that the developing countries will have a greater influence in the next trade round compared with the Uruguay Round. Membership in the WTO (previously GATT) has grown very rapidly in the past decade, especially among developing countries. For example, only 48 countries participated in the Kennedy Round negotiations in the mid-1960s, but by the end of the Uruguay Round 118 countries were participants (FAO, 1998). Several countries have new membership applications in progress, some of which have the United Nations "least developed" country status or may seek to join the WTO as a developing country.

Sorting and understanding the developing countries' trade interests is a daunting task. Middle-income developing countries like Argentina and Brazil are leading food exporters and advocate free trade in agriculture. Other lower income countries, many in Sub-Saharan Africa, are net food importers and are vulnerable to external shocks (particularly commodity price shocks) and favor "special and differential treatment" trade provisions. For example, these provisions allow developing countries to make relatively smaller tariff reductions over longer periods of time compared with the developed countries (see table A-1).

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Trade Liberalization and the Sub-Saharan African Countries

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Abstract: The Sub-Saharan African countries could benefit more from participation in the next round of trade negotiations than they did in the last Uruguay Round if they improve their overall economic competitiveness. This could allow them to increase foreign market access for export goods in which they have a comparative advantage and for traditional export commodities. They also could make potentially significant gains if they are able to reduce foreign tariff escalation on value-added goods that they could process in their home countries. These countries also will need to continue monitoring food security issues related to the availability of food aid and the growth and volatility of prices of staple import commodities. Finally, Sub-Saharan African domestic reforms could have more impact than trade reform. The countries will benefit by using the international trading system to help re-enforce domestic policy reforms.

Introduction

A new round of multilateral trade negotiations will aim to cover a broad set of rules that will affect global production and trade of agricultural commodities. Both exports and imports of agricultural commodities are vital to the economic development and food security of the Sub-Saharan countries. Agriculture contributes about 35 percent to the region's gross domestic product (GDP), more than any other region in the world. The share of agriculture is about 40 percent of total export earnings, while imports of food products have been growing. The slow growth of food production and the sluggish performance of exports, which are necessary to finance imports, mean that the region is very food insecure. With more than half of the population dependent on the agricultural sector in Sub-Saharan Africa, it is imperative that these countries take measures to improve their agricultural and trade performance.

However, there are also reasons to be optimistic about several countries.[2] Since the mid-1980s, these countries adopted structural adjustment policies aimed at liberalizing their markets and adjusting their macroeconomic policies, in particular exchange rate policies to improve their trade performance. The implications include: positive recent per capita GDP growth rates, increased macroeconomic stability (inflation, fiscal deficits, trade deficits), privatization efforts, efforts to improve legal systems, and improvement in agricultural performance.

Trade could play an important role for the Sub-Saharan African countries. Economically, trade offers short- and long-run opportunities to improve economic efficiency, raise incomes, and increase the variety and quality of consumer goods at lower prices—all of which raise living standards over time. Politically, trade also can help "lock in" domestic reforms that lead to greater stability and peace.

Background Profile

The agricultural sector has a crucial role in the long-term development of most countries in the region. Agriculture remains the most important source of employment in the region. It has been argued that the poor performance of the African agricultural sector is what has prevented the typical economic structural transformation, that is, the decline in the relative contribution of agriculture to the economy that has been experienced in other developing regions. Internal political situations are often blamed for some of these problems. Currently, of the 508 million people in Sub-Saharan Africa, 12 percent live in countries that are at war, 46 percent live in countries with unstable macroeconomic environments (defined as countries with inflation of greater than 25 percent annually), 19 percent live in minimally economically stable countries, and 23 percent live in strong performing countries (Collier et al., 1997) (table B-1).

Quantitatively, trade flows in Sub-Saharan Africa are distinguished by three features. The first is that Sub-Saharan Africa's share of world trade has been shrinking, from 3.7 percent in 1960-62 to 1.5 percent in 1994-96 (World Bank, 1998). The second feature is that Sub-Saharan Africa continues to be highly dependent upon European trade partners (recently about 51 percent, down from around 80 percent in

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[2] The countries include Angola, Benin, Botswana, Côte d'Ivoire, Equatorial Guinea, Ethiopia, Guinea-Bissau, Lesotho, Mauritius, and Uganda (see Fischer, Hernández-Catá, and Khan, 1998).

Table B-1--Selected Macroeconomic, Trade, and Transportation Indicators

Country	Per capita GNP (1996)	Collier et al. stability category 1/ (1996)	WTO status 2/	Openness ratio [(X+M) /GDP]* 3/ (1994-96)	Avg. OECD tariff, industrial exports (1994)	Avg. post-UR bound tariff, agriculture (1995)	Freight costs/ exports (1991)
	U.S. dollars			Ratio		-----Percent-----	
Benin	350	A	3	0.60	0.7	80	15.1
Botswana	3,210	---	2	0.83	0.9	---	---
Burkina Faso	230	A	3	0.41	1.1	150	25.0
Burundi	170	D	3	0.28	6.9	---	---
Cameroon	610	B	2	0.40	3.4	310	38.1
Central Af. Rep.	310	---	3	0.46	3.7	---	47.6
Chad	160	B	3	0.74	---	---	60.5
Congo, Dem. Rep.	130	C	3	0.58	---	---	13.7
Congo, Rep.	670	B	2	1.49	2.1	30	9.4
C te d’Ivoire	660	A	2	0.79	7.6	215	7.4
Ethiopia	100	A	4	0.37	---	---	55.0
Gabon	3,950	---	2	0.96	0.5	260	6.8
Gambia	320	A	3	1.24	9.6	---	21.1
Ghana	360	C	2	0.63	4.3	98	10.6
Kenya	320	B	2	0.73	7.6	100	21.4
Lesotho	660	B	3	1.40	9.1	---	---
Madagascar	250	C	3	0.50	11.1	280	14.2
Malawi	180	C	3	0.66	---	---	56.2
Mali	240	A	3	0.60	1.2	110	52.6
Mauritania	470	A	3	1.06	3.9	54	7.0
Mauritius	3,710	---	2	1.24	55.8	135	11.0
Mozambique	80	C	3	0.88	---	---	18.3
Namibia	2,250	---	2	1.08	0.8	40	---
Niger	200	C	3	0.40	0.1	132	20.7
Nigeria	240	C	2	0.34	0.6	230	8.3
Rwanda	190	D	3	0.45	---	---	---
Senegal	570	A	2	0.69	7.4	180	18.8
Sierra Leone	200	---	3	0.41	2.1	---	15.6
South Africa	3,520	---	1	0.49	---	40	---
Swaziland	1,210	---	2	1.75	67.5	40	---
Tanzania	170	C	3	0.62	9.9	240	40.6
Togo	300	C	3	0.71	2.2	---	13.4
Uganda	300	A	3	0.31	---	80	71.1
Zambia	360	C	3	0.84	---	124	12.0
Zimbabwe	610	B	2	0.86	---	161	6.2

Key:
--- = Not available.
1/ WTO Status: 1-Developed; 2-Developing; 3-Least Developing; 4-Nonparticipant.
2/ Collier et al.: A - Stable and high growth; B - Stable macroeconomics;
C - Unstable macroeconomics; D - War torn or unrest.
3/ * X = Exports of merchandise and goods and services, M = imports of merchandise and goods and services.

Sources: W. Bank, STARS CD-ROM database; Yeats et al. (1997); Harrold (1995); Collier et al. (1997).

the 1960s) (IMF, 1999). Third, exports continue to be highly dependent on primary commodities despite efforts to diversify. In Sub-Saharan Africa, 29 out of 47 countries depend on three primary commodities to provide at least 50 percent of their export revenues (UNCTAD, 1998).

Qualitatively, imports in Sub-Saharan African have been inhibited by tariff and nontariff trade barriers. The Sub-Saharan African countries have higher import tariffs than the rest of the world. According to the World Bank, in 1992-94 average tariffs in Sub-Saharan Africa were about 27 percent, compared with 9 percent for the fast growing exporters and 6 percent in OECD countries (Yeats et al., 1997). Even after the Uruguay Round, Sub-Saharan Africa's tariffs, which were already high by world standards, have remained relatively unchanged. The nontariff barriers in Sub-Saharan Africa also are high compared with other countries: 34 percent on average compared with 4 percent in the fast growing exporters and OECD countries (Yeats et al., 1997).

Trade in Sub-Saharan Africa also has been strongly affected by trade preference arrangements. The major preference arrangement for Sub-Saharan Africa is the Lomé agreement for the African, Caribbean, and Pacific (ACP) countries (currently Lomé IV; Lomé V is being negotiated now), in which the EU offers preferential trade access for goods from Sub-Saharan African countries. The United States has also offered preferential treatment under the General System of Preferences (GSP), but historically this program has not been that significant in promoting trade between the United States and Sub-Saharan Africa. In both regions, tariffs on goods from Sub-Saharan African rise sharply if the goods involve value-added processing ("tariff escalation").

Two related aspects of trade preferences are emerging that could affect trade patterns in Sub-Saharan Africa. One phenomenon is that there has been a rise in regional free trade agreements around the world in recent years. Most of these regional agreements appear to have contributed to increased intra-regional trade. These agreements generally are believed to have led to trade creation (USDA, 1998; Robinson and Thierfelder, 1999). There are currently efforts to negotiate (or re-negotiate) trade agreements in Sub-Saharan Africa (such as the Common Market for East and Southern Africa or COMESA; and the Southern African Development Community or SADC), but historically these agreements have not increased trade much in the region. Another aspect of trade preferences is the WTO's trading system, which allows nations to self-select their country status in order to take advantage of the special and differential treatment (SDT) provisions (see table A-1 in overview article). Of the Sub-Saharan African countries, one country (South Africa) has chosen to be a "developed country," 13 countries have chosen to be considered "less developed countries," 24 countries are considered "least developed countries" because of their designation as such by the United Nations, and 9 countries are not members of the World Trade Organization.

Finally, given the importance of agriculture to Sub-Saharan Africa, it is important to understand that only three countries (South Africa, Uganda, and Zimbabwe) are self-sufficient in grain consumption (slight grain exporters) in recent years. On average during 1996-98, 19 countries required imports to meet about 3-20 percent of their consumption needs, while another 25 countries required imports to meet at least 20 percent of their consumption needs. Higher prices for food on world markets for these import-dependent countries can significantly affect their capacity for commercial imports of food and nonagricultural commodities. Currently, due to limited financial capacity, 18 of 46 countries rely on food aid to meet at least 20 percent of their grain imports (table B-2).

Economic Policies and Performance

There is general agreement in the economic literature that policy accounts for much of economic performance. There is also abundant available research confirming that countries that choose to trade openly perform better. As for Sub-Saharan African countries, most studies have reached the conclusion that sustained domestic reforms are the keys to economic recovery.

Since the mid-1980s, most Sub-Saharan African countries have liberalized their markets. In the area of trade policy, many countries have significantly liberalized and adjusted their exchanges rates. In general, the region can be divided into two groups of countries based on their exchange rate policies. One group, the Western and Central African countries, has adopted a monetary union and has pegged (fixed) its exchange rates to the French franc (the CFA franc zone). This group has been able to avoid foreign exchange rationing, with less import restriction policies, and have been required to maintain fiscal discipline. The second group (non-CFA countries) has adopted a variable exchange rate policy. The countries in this group have erected tariff and nontariff trade barriers. Among this group, only Mauritius and Ghana have come close to completely liberalizing their foreign exchange markets. Some countries in this group, such as Zimbabwe and Kenya, initially had less distorted exchange rates and financial problems, but have not completed the policy reforms necessary to achieve full liberalization.

In Sub-Saharan African countries, nontariff barriers are mainly in the form of government licenses or approval of imports. The problem with this type of trade distortion is the lack of transparency that could significantly change the price signals that are important incentives for trade. Since the mid-1980s, progress has been made by most countries to reduce the number of products requiring prior approval of imports.

Tariff reform in the region typically has been proceeding in three steps. The first step has been to rationalize tariffs, which reduces the number of tariff rates and systematically organizes any exceptions. This step has been implemented in most countries. The second step has been to reduce the

Table B-2--Selected Agricultural Indicators (most recent data available)

Country	Per capita calorie consumption per day 1/ (1994-1996)	Cereal prod. / cereal use (1995-1997)	Cereal food aid imports / total cereal imports (1995-1997)	Primary commodity export dependency ratio 2/ (1995)
	Ratio	Number	Ratio	Percent
Angola	1,927	0.46	0.39	94.5
Benin	2,362	0.89	0.17	93.8
Botswana	2,253	0.26	0.00	---
Burkina Faso	2,254	0.96	0.22	99.0
Burundi	1,711	0.91	0.08	87.9
Cameroon	2,200	0.90	0.01	---
Central African Rep.	1,928	0.87	0.07	55.7
Chad	1,902	0.96	0.46	60.9
Comoros	1,828	0.34	0.04	70.5
Congo, Dem. Rep.	1,880	0.83	0.06	81.5
Congo, Rep.	2,125	0.15	0.10	99.0
Côte d'Ivoire	2,378	0.76	0.06	55.0
Djibouti	1,886	0.00	0.25	---
Eritrea	1,638	0.41	0.34	---
Ethiopia	1,781	0.95	0.99	79.0
Gabon	2,497	0.23	0.00	99.0
Gambia	2,271	0.51	0.05	---
Ghana	2,561	0.87	0.20	67.4
Guinea	2,135	0.71	0.02	91.3
Guinea-Bissau	2,426	0.73	0.06	92.0
Kenya	1,991	0.82	0.11	56.0
Lesotho	2,169	0.45	0.07	---
Liberia	2,098	0.38	0.40	---
Madagascar	1,991	0.96	0.26	---
Malawi	2,048	0.85	0.21	88.8
Mali	2,099	0.97	0.31	73.8
Mauritania	2,632	0.42	0.00	87.8
Mauritius	2,975	0.00	0.10	---
Mozambique	1,719	0.75	0.38	58.1
Namibia	2,164	0.46	0.04	---
Niger	2,090	0.95	0.36	95.7
Nigeria	2,554	0.95	0.00	---
Rwanda	2,064	0.44	0.96	78.8
Senegal	2,391	0.58	0.01	---
Seychelles	2,411	0.00	0.00	---
Sierra Leone	2,017	0.61	0.15	---
Somalia	1,579	0.73	0.10	---
South Africa	2,881	1.00	0.00	---
Sudan	2,355	0.92	0.19	55.7
Swaziland	2,529	0.59	0.04	---
Tanzania	2,016	0.94	0.14	---
Togo	2,096	0.89	0.05	63.3
Uganda	2,196	1.02	0.99	81.5
Zambia	1,940	0.90	0.20	99.0
Zimbabwe	2,035	1.07	0.01	53.0

--- = Not available.

1/ UNFAO recommends a nutritional minimum 2,100 calories per person per day.

2/ Top 3 primary commodity exports / total merchandise exports.

Sources: UNFAO FAOSTAT internet database; UNCTAD.

dispersion of tariffs, which is done by increasing the lowest tariffs and reducing the highest tariffs. This step also has been implemented by most countries. The third step has been to reduce overall protection by lowering average tariffs. This has been implemented in selected countries (Kenya, for example).

In addition to tariff reform, several countries in the Southern African region have cooperated regionally to harmonize their trade policies, which could enhance trade for both the individual countries and the region. For example, the cross-border initiative in South/East Africa is in its final stage, which will eliminate tariffs on intra-regional trade and harmonize external tariffs for all imports.

Several countries also have taken steps to promote exports using various means. Export licences and controls have been significantly reduced, export taxes have been lowered, the role of marketing boards have been reduced, and economic processing zones (EPZs) promoting exports have been established (examples include Madagascar, Kenya, Nigeria and Zambia).

Foreign direct investment (FDI) could be an important stimulant to economic development. However, the share of FDI in the Sub-Saharan African countries has declined from 6 percent in 1984-89 to 3 percent in 1994-95 (two-thirds was accounted for by Nigeria). A World Bank study found that the reasons for the low inflow of FDI to the region were low GDP growth rates, low trade openness, and highly variable real effective exchange rates (World Bank, 1997). Another study found that "red tape" was extensive, expensive, and time-consuming in many countries, which discouraged trade and investment (Lancaster, 1991). FDI also has been discouraged by poor market infrastructure, which has meant that there are high costs to exporting and less flexibility to take advantage of international market opportunities.

Domestic policy reforms have tended to reduce the government role at the sectoral level. As for the agricultural sector, most countries eliminated the role of marketing boards, allowing markets to determine prices for both products and inputs. However, transportation policy remains an important source of inefficiencies. The region's anti-competitive cargo reservation policies that favor domestic carriers have led to high shipping costs, recently estimated to be 20 percent above the world average. One recent study projected that lowering shipping costs to average world levels would have a much greater impact than any trade policy changes (Hertel, Master, and Elbehri, 1998). Burdensome domestic regulatory policies or nationalized transportation carriers also have raised transportation costs over time (Carbajo, 1993). Finally, transportation freight costs escalate for value-added products, which contributes toward dependency on primary commodity exports.

How Did the Uruguay Round Affect Sub-Saharan Countries?

Most of the quantitative analysis reported here was done during and immediately following the Uruguay Round. These studies are at the regional level and have been computable general equilibrium (CGE) models. Most studies projected that there would be very slight negative impacts (-0.2 to -0.5) on African GDP growth compared to the status quo of no global trade liberalization (Golding and van der Mensbrugghe, 1995; Harrison, Rutherford and Tarr, 1995). Most African countries already received high preferential treatment, so uniformly lowering developed country tariffs has the greatest benefit for other exporting regions (especially Asia). This reduces the market shares of Sub-Saharan African countries. Other studies have made qualitative judgements about the impact of the Uruguay Round, reviewing each region's or country's trade structure, the nature of the trade barriers, and the trade commitments. These studies argue that the Uruguay Round was likely to have very little impact on African countries. The basis for this conclusion was the argument that African countries are not fully committed to trade reforms, at least in the short run (Sorsa, 1996).

One must be cautious about over-interpreting the results of these studies because most of the studies are based upon inadequate data, which limit the quality of the results. The overall evaluation of the previous studies indicates that results are highly dependent on the assumptions related to the flexibility and responsiveness of the economies of these countries.

Trade Issues Particularly Important To African Countries

One area particularly important to African countries is food security. Four aspects of food security concerns are: higher food prices, more volatile food prices, declining food aid, and export taxes/restraints. A preliminary assessment of the first two issues shows that so far international food prices have not risen or become more volatile because of the Uruguay Round Agreement on Agriculture, but these issues will continue to be monitored by the United Nations Food and Agriculture Organization (FAO) so that guidelines may be adopted for providing foodstuffs concessionally (Greenfield, de Nigris, and Konandreas, 1996; Sharma et al., 1996; FAO, 1996; Sarris, 1997).

There are at least three other areas of special concern to Sub-Saharan African countries. One area is the erosion of special preferences such as the General System of Preferences (GSP), but especially the EU's Lomé Treaty, which has created preferential access to the EU market. Currently, the African countries face almost no tariffs to Europe for their export products (but the reverse is not true), so there is not much room to negotiate. However, as developed countries have lowered their tariffs to other developing countries (especially Asian countries), this has eroded the

Table B-3--Decomposition of Agricultural Trade, Selected Sub-Saharan African Countries (SSA), 1995-97 averages

	Total merch.	Agri.	Cereals	Meats	Dairy	Fruits & veg.	Bev. crops	Oil-seeds	Sugar	Other
	--- $ billion ----		----------------------------------- Percent							-----------------------------------
Exports										
Benin	0.41	0.20	0	0	0	2	0	9	0	89
Cameroon	1.75	0.57	0	0	0	13	50	0	0	36
Chad	0.20	0.14	0	0	0	0	0	0	0	100
Côte d'Ivoire	4.09	2.24	1	0	0	8	75	0	1	16
Ethiopia	0.49	0.45	0	0	0	3	69	2	0	25
Ghana	1.49	0.55	1	0	0	4	91	1	0	4
Kenya	2.13	1.16	4	0	0	12	60	0	2	21
Madagascar	0.32	0.14	1	3	0	17	64	0	4	11
Malawi	0.51	0.38	1	0	0	1	10	0	7	81
Mali	0.48	0.28	0	0	0	0	0	1	0	98
Mauritius	1.76	0.44	2	3	0	0	1	0	89	6
Namibia	1.38	0.20	0	43	1	0	0	0	0	56
Nigeria	16.25	0.52	0	0	0	5	39	3	0	54
South Africa	29.61	2.41	16	3	2	36	2	1	6	34
Sudan	0.57	0.54	4	5	0	3	0	22	3	63
Swaziland	0.91	0.30	0	1	0	11	0	1	47	39
Tanzania	0.72	0.44	0	0	0	19	38	2	2	39
Togo	0.23	0.13	1	0	1	0	23	1	0	73
Uganda	0.60	0.46	4	0	0	4	83	2	0	6
Zimbabwe	2.36	1.09	7	2	1	3	5	1	8	73
SSA	83.49	13.74	4	2	1	12	35	2	7	38
Imports										
Benin	0.67	0.12	34	11	6	8	1	0	11	29
Cameroon	1.18	0.12	50	2	7	4	1	0	7	29
Chad	0.25	0.05	41	2	6	2	2	0	21	26
Côte d'Ivoire	3.07	0.44	47	2	11	4	1	0	4	30
Ethiopia	1.09	0.20	58	0	1	2	0	0	6	32
Ghana	1.73	0.24	45	7	5	4	1	0	24	15
Kenya	3.14	0.38	43	0	1	3	1	0	4	47
Madagascar	0.54	0.08	44	0	7	1	1	0	7	40
Malawi	0.57	0.08	58	1	7	3	1	0	0	30
Mali	0.78	0.10	26	0	16	10	16	0	17	14
Mauritius	2.21	0.34	24	10	15	11	2	0	4	35
Namibia	1.55	0.10	20	7	0	44	0	1	23	5
Nigeria	15.67	1.36	31	0	17	0	1	0	16	33
South Africa	27.79	1.99	23	9	3	5	6	2	1	52
Sudan	1.37	0.29	45	0	3	7	16	0	0	28
Swaziland	1.09	0.10	19	11	12	16	6	1	0	36
Tanzania	1.42	0.20	26	0	2	4	0	0	13	54
Togo	0.44	0.07	33	5	8	4	2	0	7	40
Uganda	0.86	0.06	40	0	4	1	0	0	22	32
Zimbabwe	2.87	0.23	33	0	2	8	2	4	2	49
SSA	84.49	10.36	34	5	8	6	3	1	8	35

relative competitive edge of Sub-Saharan African countries. This process of tariff reduction will probably continue in the next round, which will add further pressure on the Sub-Saharan African economies to perform better.

Another area of special concern is tariff escalation. Sub-Saharan African countries, similar to other developing countries, typically face high tariff rates from developed countries as they engage in value-added production. Less well known, however, is that developing countries have even greater escalating tariff rates than the developed countries, which discourages trade among developing countries.

Conclusions

Over time, the economic benefits of trade liberalization include rising incomes, a greater variety of consumer goods at lower prices, and greater production efficiency. The Sub-Saharan African countries are aware of the importance of the next WTO negotiations, and many intend to be more active participants than they were in the Uruguay Round. They hope to protect their trading interests, learn about new trading opportunities, discipline their economies, and attract foreign investment.

Analysis of the Uruguay Round suggests that Sub-Saharan African countries would not be affected by the global trade commitments, but this analysis requires some caution because of data limitations and the assumptions about countries' commitments to trade liberalization. In the next trade round, the Sub-Saharan African countries will need to continue monitoring food security issues, in particular regarding the effects of the agreements on food import bills. It would be to their benefit if they could increase foreign market access for export goods in which they have a comparative advantage (such as textiles, shoes, and leather goods) as well as for traditional export goods (such as sugar, cocoa and coffee) (table B-3). They also could make potentially significant gains if they are able to reduce foreign tariff escalation on value-added goods, which they could process in their home countries.

Eroding trade preference arrangements and the further erosion likely in the next trade round make policy reform critical to Sub-Saharan African countries. Domestic reforms may hold more promise for improving economic performance than trade policy reforms such as lowering tariffs. Any cost-cutting measure is very important to helping the countries be competitive in foreign trade. For example, elimination of cargo preferences that lead to competitive shipping rates and streamlining regulations of domestic transportation carriers and freight could promote exports of value-added goods. The Sub-Saharan countries should also use the international trading system to help re-enforce domestic policy reforms.

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Trade Issues for Low-Income Countries in the Latin America and Caribbean Region

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Abstract: The Latin American and Caribbean (LAC) countries and the United States are significant trade partners, but the LAC region has very diverse economies and trade interests. Since the debt crisis in the 1980s, many countries have displayed much more trade openness. Commitments from regional trade agreements, which continue to proliferate, are often more stringent than the Uruguay Round commitments for the larger countries, that may use the more demanding commitments in the next trade round. The smaller low-income net food-importing countries have struggled to form coalitions that allow them to voice their trade concerns. The loss or erosion of special trade preference arrangements may have negative short run effects on many of the smaller low-income countries.

Introduction

The Latin America and Caribbean (LAC) region is very heterogenous in many ways, including the types of agricultural goods that are produced, consumed, and traded. In this article, we review some of the key agricultural trade issues that are likely to be important to the region in the next trade round.

The major theme that will emerge in this article is the trend over the past 15 years of greater trade openness. This trend has its roots in major policy changes that occurred in response to the debt crisis of the 1980s. The result for most countries has been greater macroeconomic stability and rapid economic and trade growth. However, income inequality has remained a stubborn problem throughout the region, despite this growth.

In this article, we identify some of the major regional agricultural trade interests, examine the net food-importing countries such as those monitored in this report, review the relative importance of multilateral and regional trade negotiations, and discuss the outlook for a few key regional trade agreements currently being negotiated that may affect the extent to which some LAC countries participate in the WTO negotiations.

Background and Trade Interests Of the LAC Region

Compared with other developing regions, the LAC region is relatively well off. The region's per capita income averages $3,390 per year, in contrast to $910 in East Asia and $510 in Sub-Saharan Africa (World Bank, 1998). Food calorie supplies also are relatively high at 2,812 calories per person per day, compared with 2,706 in East Asia and 2,164 in Sub-Saharan Africa (FAO, 1999). Other socioeconomic indicators also suggest that the region is relatively well off. However, these simple national averages mask relatively more skewed income distributions compared with other regions, meaning that the consequences of suffering from poverty are widespread among some of the lower income groups.

The LAC region is host to a wide variety of agricultural trading interests. The region is a net food exporter with an average food trade surplus of $9.4 billion in 1995-97. However, if Argentina and Brazil—two of the largest net food exporters among all developing countries—are excluded, then the region is a net food importer ($0.3 billion deficit). In general, most countries in Central and South America are exporters of beverage crops, fruits and vegetables, and sugar; they tend to be importers of grains, oilseed products, and dairy products. The Caribbean countries are largely service-oriented economies that typically depend on agricultural imports to meet the bulk of their food supplies.

Several countries are among the top producers or exporters for different commodities. Argentina is the world's fifth largest wheat exporter, second largest coarse grain exporter, and third largest soybean exporter. Brazil is the largest coffee exporter in the world, followed closely by Colombia. Brazil is also the second largest soybean exporter. Ecuador is the world's largest banana exporter. Costa Rica is the world's second largest exporter of both bananas and pineapples. Chile is the largest exporter of grapes, while Cuba is the fourth largest sugar exporter.

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It is also important to note that this region is a very important trading partner for the United States. In 1997, the United States exported $57.2 billion in agricultural products to the world, of which $10.4 billion (18.2 percent) went to this region. U.S. agricultural imports totaled $36.3 billion in the same year, of which $12.2 billion came from Latin America (33.6 percent). Mexico is the United States' third largest export market (after Japan and Canada) at $5.2 billion (USDA, 1998a).

The Net Food Importing Countries Monitored in This Report

Economic and trade structure. To some extent, the countries monitored in this annual report exemplify the diversity of the region, representing South America (Bolivia, Colombia, Ecuador, and Peru), Central America (El Salvador, Guatemala, Honduras, and Nicaragua), and the Caribbean (Dominican Republic, Haiti, and Jamaica). However, all these countries are net food importers.

The monitored countries all fall below the LAC region's average per capita income level of $3,940, ranging from $380 in Haiti to $2,610 in Peru (table C-1).[2] All of these countries (except for Haiti, which has suffered from political instability) have followed the regional pattern of showing a decline in per capita income growth in the 1980s compared with the 1970s, followed by a rebound in the 1990s. Reasons for this pattern will be discussed later. In 1996, agriculture represented on average about 17 percent of gross domestic product (GDP) for the 11 countries compared with only 8 percent of the LAC region as a whole (World Bank, 1998). Industry represented about 30 percent of GDP on average while services represent about 53 percent.

The countries also have kept pace with the regional trend of greater trade openness (table C-2). One commonly used indicator of openness is total trade (exports plus imports) as a percentage of gross national product (GNP). By this measurement, nearly every one of the 11 countries has become more open since the debt crisis in the mid-1980s. Jamaica is typical of the smaller, service-oriented economies in the Caribbean where trade is very dominant, which shows up as a very high openness ratio (typically over one).[3]

Agricultural exports are a significant share of total merchandise exports for these countries, accounting for about 31 percent in 1995-97 (table C-3). The largest component of exports is beverage crops (44 percent), followed by fruits and vegetables (25 percent). Agricultural imports represent a smaller share of imports, accounting for about 12 percent. The largest component of agricultural imports is cereals at

Table C-1--Per Capita Income Levels and Growth Rates

Country	Income 1997	Growth rates 1970-1979	1980-1989	1990-1997
	$U.S.	--- Percent per year ---		
Bolivia	970	NA	NA	1.41
Colombia	2,180	3.45	0.85	2.26
Dominican Rep.	1,750	5.74	1.00	2.09
Ecuador	1,570	5.77	-0.50	1.35
El Salvador	1,810	1.19	-3.10	3.29
Guatemala	1,580	3.30	-1.72	1.43
Haiti	380	1.86	-1.48	-3.38
Honduras	740	2.29	-0.70	0.46
Jamaica	1,550	-0.41	0.11	0.74
Nicaragua	410	-3.03	-4.43	2.25
Peru	2,610	0.80	-2.00	3.67
LAC region	3,940	3.44	-0.16	1.18

NA = Not available.

Source: World Bank, World Development Indicators, 1999.

Table C-2--Trade Openness in Latin America

Country	1980-81	1984-86	1989-91	1994-96
	------(X+M)/GDP*------			
Bolivia	0.35	0.32	0.44	0.50
Colombia	0.21	0.20	0.23	0.35
Dominican Rep.	0.46	0.42	0.42	0.96
Ecuador	0.54	0.46	0.50	0.57
El Salvador	0.45	0.38	0.38	0.57
Guatemala	0.49	0.32	0.37	0.44
Haiti	0.18	0.20	0.28	0.34
Honduras	1.10	0.92	0.88	0.86
Jamaica	0.86	1.07	1.17	1.29
Nicaragua	0.88	0.62	0.72	1.00
Peru	0.25	0.21	0.22	0.27
LAC region	0.21	0.19	0.24	0.32

*X = Exports of merchandise and goods and services,
M = Imports of merchandise and goods and services.

Source: World Bank, World Development Indicators, 1999.

38 percent, followed by dairy products (8 percent) and fruits and vegetables (7 percent).

Policies. To appreciate the current policy setting, it is important to have some understanding for the region's economic history. The LAC region traditionally was known for import substitution industrialization (ISI) policies, about which much has been written. The ISI policies were established with the primary goal of achieving rapid industrialization. It was believed that the agricultural sector suffered from declining long run real output prices and by itself would never lead to an effective development strategy. Industry and manufacturing were artificially stimulated at the expense of agriculture by using policy instruments such as overvalued exchange rates, import quotas, and export taxes on agricultural commodities.

Several countries achieved high economic growth rates during the 1950s and 1960s, but the deeper problems with ISI policies eventually were exposed during the 1980s with the debt crisis. In the late 1970s, "petrodollars" from the oil and petroleum exporting countries (OPEC) countries were

[2] Data are for 1997 using the Atlas method. Only Haiti is classified by the United Nations as a Least Developed Country. This allows it to claim Least Developed status in the Uruguay Round's Special and Differential Treatment (SDT) provisions (see table A-1, overview article).
[3] Larger countries tend to have smaller openness ratios as domestic markets serve a larger role in their economies.

Table C-3--Decomposition of Agricultural Trade for the 11 Selected Countries, 1995-97 Averages

Country	Total merch.	Agri.	Cereals	Meats	Dairy	Fruits/ Veg.	Beverage crops	Oil-seeds	Sugar	Other
	--- $ bilion. ---		-- Percent ---							
Exports										
Bolivia	1.15	0.34	1	1	0	12	6	22	6	50
Colombia	10.68	3.52	1	0	0	15	58	0	6	19
Dominican Rep.	0.83	0.39	0	3	0	13	33	0	31	20
Ecuador	4.86	1.67	3	0	0	67	19	0	1	10
El Salvador	1.95	0.59	4	0	1	2	70	1	7	14
Guatemala	2.18	1.36	4	0	0	18	42	3	17	16
Haiti	0.13	0.03	0	0	0	23	72	0	0	5
Honduras	1.33	0.51	0	2	0	35	57	0	1	5
Jamaica	1.40	0.30	3	1	1	27	12	0	35	21
Nicaragua	0.66	0.32	2	14	3	10	39	8	10	13
Peru	6.07	0.57	1	0	0	30	45	0	6	18
Total 11	31.25	9.60	2	1	0	25	44	2	8	17
Imports										
Bolivia	1.61	0.17	51	1	10	5	4	3	0	26
Colombia	14.30	1.62	40	2	3	12	1	6	1	36
Dominican Rep.	3.05	0.53	37	1	15	3	1	0	2	42
Ecuador	4.35	0.42	31	1	3	8	4	1	6	47
El Salvador	3.42	0.49	25	5	12	8	2	1	0	47
Guatemala	3.38	0.47	31	3	9	7	2	1	0	47
Haiti	0.65	0.32	42	1	7	6	0	0	16	27
Honduras	1.79	0.30	34	2	10	7	1	2	0	44
Jamaica	2.95	0.36	31	13	11	6	2	1	7	28
Nicaragua	1.18	0.20	36	1	8	9	1	1	0	44
Peru	8.01	1.24	45	2	10	4	1	1	8	28
Total 11	44.69	6.11	38	3	8	7	2	2	4	37

invested in western banks. Given the general commodity boom of the 1970s and overall investment optimism of the time, these banks lent large sums of money to the developing countries, which borrowed the funds to help survive the oil price shocks. However, several countries quickly became overextended when their economies experienced downturns. In particular, the large outstanding foreign debts of Argentina, Brazil, and Mexico threatened the global financial system. However, several other smaller countries, such as Bolivia and Peru, were also very overexposed with total debt to gross domestic product ratios near or above one.

The debt crisis of the mid-1980s led to a series of major policy changes throughout the region. ISI policies came to be viewed as unsustainable over the long run, leading to economic problems such as high inflation, import rationing, and a lack of spare parts. Under pressure to improve overall economic performance, particularly exports for debt servicing obligations, many countries abandoned ISI policies and embarked on several major policy reforms. Substantial macroeconomic changes brought many countries under monetary and fiscal discipline, resulting in lower inflation and budget deficits. Legal reforms also improved the protection of property rights and foreign investment.

While the macroeconomic reforms have been very important in establishing stability and encouraging investment, the trade reforms that were implemented have been quite remarkable, particularly in light of the region's economic history. Exchange rates have been unified and allowed to drop to market levels. Quantitative import restrictions have been eliminated for the most part. Tariffs have been dramatically lowered and simplified (table C-4). The dispersion of tariff rates within countries was also significantly reduced while export taxes have been eliminated. As indicated above, export growth has increased over the past decade in most countries.

As part of the goal to improve economic and trade performance over the past 15 years, countries in the LAC region have become much more active in negotiating trade agreements, both multilaterally through the World Trade Organization (WTO) and via regional trade agreements.

LAC Region and the Multilateral Trade Negotiations

Prior to the Uruguay Round, only 18 LAC countries were signatory members of the General Agreement on Tariffs and Trade (GATT, now WTO). However, as the negotiations continued, several more countries joined. Today, nearly every country in the LAC region is a member of the World Trade Organization.

The Uruguay Round was helpful in advancing the trade interests of the LAC region. For example, Argentina and Brazil became prominent members of the Cairns Group, which has gained influence by promoting free trade in agriculture. Several countries, particularly in the Caribbean,

Table C-4--Trade Regime Indicators, Pre- and Post-Reform Periods for Selected Countries

Country	Period		Average unweighted bound tariff rates		Tariff range, bound tariff weight		Coverage of quotas on imports	
	Pre-reform	Post-reform	Pre-reform	Post-reform	Pre-reform	Post-reform	Pre-reform	Post-reform
Bolivia	1985	1991	12a	8	---	5-10	---	(-)
Colombia	1984	1992	61	12	0-220	5-20	99	1
Ecuador	1989	1992	37b	18	0-338b	2-25c	100	0
Guatemala	1985	1992	50b	15b	5-90	5-20	6d	0d
Honduras	1985	1992	41b	15b,e	5-90	5-20	---	0
Jamaica	1981	1991	---	20	---	0-45	---	0f
Peru	1988	1992	---	17	0-120	5-25	100	0d

(---) Negligible.

a. Import weighted average tariff. b. Including tariff surcharges. c. Ecuador also has a specific tariff of 40 percent on automobiles.

d. Percentage of domestic product. Guatamala has significant quotas for health and safety reasons; pre-reform they covered 29 percent of domestic manufacturing production. e. Including tariff surcharges. f. Some quotas exist for health and safety reasons.

Source: Rajapatirana 35, (1997).

were strong advocates for the development of the General Agreement on Trade in Services (GATS). This agreement has “three pillars” that are comparable to those of the Agreement on Agriculture [4]—general obligations (for example, most favored nation (MFN) treatment, transparency, etc.), market access commitments, and sectoral annexes. The three are expected to have a positive effect on the trade of services.

To get further insight on the next round of multilateral trade negotiations, it is useful to review the projected benefits and costs from the Uruguay Round.[5] Quantitative models of the Uruguay Round projected that global trade would increase income by $212-510 billion (Nguyen, Perroni, and Wigle, 1994; Francois, McDonald, and Nordstrom, 1994). The models provided a range of estimated impacts upon the LAC region, from -0.3 to 1.68 percent of additional national income growth, although most of the studies suggest a positive economic effect for the LAC region. Much of the modeled regional gains were due to projected agricultural price increases from the Uruguay Round Agreement on Agriculture (URAA), which were expected to have positive effects on Argentina and Brazil, two of the dominant food-exporting countries. Conversely, many of the net food importing countries were expected to be hurt by rising food prices.[6]

[4] The “three pillars” of the Agreement on Agriculture are market access, export subsidies, and domestic support.

[5] One must be careful about overinterpreting these results, given the rapidly changing economic environment in the LAC region and older data used for the modeling projections. The results discussed here are only meant to be suggestive.

[6] As it has turned out, grain prices have continued to go down, despite a short run weather-related price bubble in 1996. Five of the LAC countries monitored in this report (Colombia, Dominican Rep., Haiti, Jamaica, and Peru) particularly would be hurt in the short run by rising grain prices since imports comprise at least 45 percent of their total supplies. Jamaica is an extreme case with nearly 100 percent of its grain supplies coming from imports. There has been very little research on the impact of trade liberalization on smaller net food importing countries. Many economists argue that any short run losses would be more than offset by long run dynamic gains.

Another reason why some studies projected that there might be regional losses is the erosion of preference arrangements. In the LAC region, two preference arrangements that are important are the Generalized System of Preferences (GSP) with the United States and the Lomé Agreement with the European Union for the African, Caribbean, and Pacific (ACP) countries (which is currently being renegogiated). The erosion of the preference arrangements for some countries was projected to allow other regions (notably Asia) to gain.

The issues of preferences recently has pitted some of the LAC countries against each other. In the Central American and the Caribbean regions, exports of bananas, sugar and coffee—commodities typically covered by preferences—account for 40-60 percent of total agricultural exports in recent years (as much as 73 percent for a country like Ecuador). The recent WTO battle over the legality of EU preferences for bananas set the high-cost, less efficient banana producers in the Caribbean, who have benefited from the preferences, against the interests of low-cost producers in Central and South America who have not had such preferential arrangements (Rajapatirana, 1996). This and other WTO rulings may signal the end of preference arrangements over the long run, which might have important implications for production and trade patterns in certain countries (Josling and Tangermann, 1999).

Regional Trade Agreements Have Become Increasingly Important to the Region

A very important force for the LAC countries has been the bilateral and regional trade negotiations between LAC countries. Regional trade agreements (RTAs)—there are now 40 separate trade treaties in effect throughout the LAC region—have proliferated rapidly. Some of the larger treaties include the North American Free Trade Agreement (NAFTA), the Common Market of the Southern Hemisphere (known as MERCOSUR), the Andean Group, the Central American Common Market (CACM), the Caribbean Community

(CARICOM), and the Organization of the Eastern Caribbean States (OECS). NAFTA, which covers inter-regional trade of about $500 billion, is by far the largest RTA (table C-5). The share of trade with other countries within the LAC region has increased from about 15 percent of all regional trade in 1988 to 21 percent in 1997 (IMF, 1998).

Regional trade agreements have stimulated much economic debate about whether RTAs enhance or hinder global trade. Some economists argue that a world of regional trading blocs would lead to a relatively high cost trading system compared with a multilateral trading system. However, defenders of RTAs argue that it depends on the circumstances. RTAs can be useful catalysts in stimulating deeper concessions in multilateral trade negotiations that might not otherwise occur without the RTAs. RTAs also can be viewed as stepping stones for some countries to move towards multilateral trade openness (USDA, 1998c).

Several LAC countries, particularly the larger ones, now have more stringent or binding trade agreements with other LAC countries because of the regional trade agreements. For these countries, such binding RTA commitments may be used as leverage to extract deeper concessions from other countries in the multilateral negotiation process. That is, a country may not be interested in a particular proposal if it already has more stringent commitments with important trade partners in a regional agreement. Therefore it may take a disinterested negotiating position in order to obtain deeper concessions from other countries in the WTO negotiations. However, many of the smaller low-income net food importing countries will have very little negotiating leverage by themselves. For these countries, the challenge will be whether they will be able to join other countries with similar interests to voice their trade concerns, such as the Caribbean countries are doing through CARICOM.

Status of New Regional Trade Agreement Initiatives

The short- to medium-run trade outlook could be affected by a few key regional trade agreements that are currently being negotiated. Whether these negotiations will lead to signed agreements is unclear at this time. However, the potential agreements discussed below could affect some of the low-income net food-importing countries directly by their possible membership inclusion or indirectly by their exclusion.

NAFTA-Chile. Currently the North American Free Trade Agreement is between Canada, United States, and Mexico. However, there have been discussions about allowing Chile to join this agreement.[7] Trade between the present three NAFTA countries has been accelerating in recent years. It is unclear the extent to which the three are willing to consider a fourth trading partner in the agreement. Recent data show

Table C-5--Selected Regional Trade Agreements

Acronym	Full name	1997 Intra-regional exports
		($ million)
NAFTA	North American Free Trade Agreement	496,423
MERCOSUR	Southern Common Market	20,761
---	Andean Group	5,102
CACM	Central American Common Market	1,736
CARICOM	Caribbean Community	1,006
OECS	Organization of Eastern Caribbean States	59

Source: World Bank 1999, 6.5.

Mexico's exports to the other NAFTA partners have grown 13.6 percent on average during 1994-98, compared with 7.9 percent by Canada and 8.6 percent by the United States (IMF, 1999). Recent agricultural trade data also show that U.S. agricultural imports from Mexico have grown 12 percent for the same period, while agricultural imports from Canada have grown 10.8 percent (USDA, 1999).

EU-MERCOSUR. The European Union and the MERCOSUR countries (Argentina, Brazil, Paraguay, and Uruguay) began a 3-year trade negotiation period in August 1999. It is very unclear at this time if such an agreement will be successfully negotiated. Agriculturally, these trading blocs face large obstacles since the MERCOSUR (exporting) countries compete with the EU countries in several arenas. The MERCOSUR countries would like to see EU agricultural subsidies eliminated and want increased access to the EU market.

Free Trade Agreement in the Americas. The free trade zone for all of the Americas—from Canada to Chile—was originally proposed at the first Summit of the Americas in December 1994. Formal negotiations began at the second formal summit with 34 heads of state in April 1998. With such a large number of countries, the agreement obviously faces many potential economic, political, legal, and technical obstacles. However, the potential agreement offers the opportunity to simplify the Americas' many bilateral and multilateral trade agreements. Preliminary modeling projections suggest that the agreement would have a very minor economic impact on the United States and that most LAC countries would stand to gain to varying degrees (USDA, 1998b). Again, this potential agreement might put pressure on the MERCOSUR and NAFTA countries to make important economic alliance choices. The agreement could also strain U.S.-EU relations if the EU thinks it has been effectively excluded from this market.

Conclusions

The LAC region is relatively well off compared to other developing regions and has much economic and agricultural diversity. The economic policy environment in most countries is now conducive to macroeconomic stability, investment, and trade opportunities. The LAC countries will be

[7] It should be noted that there are bilateral treaties currently in effect between Canada-Chile and Mexico-Chile, but not between United States-Chile.

engaged in the WTO trade negotiations, but the many regional trade agreements are likely to continue to have a strong influence on the trade environment.

The low-income net food-importing countries in the LAC region are likely to express their on-going concerns about agricultural trade issues that affect their food security. These issues include projected food price rises, more volatile food prices, and declining food aid availability. Many of these countries also are concerned about eroding trade preference arrangements, such as the Lomé Agreement for ACP countries. The recent WTO ruling against the EU on its preference arrangements for bananas illustrates how competition is likely to intensify between high-cost, less efficient producers in developing countries who benefit from preference arrangements and lower cost producers who do not enjoy such arrangements.

Little is known at this time about trade liberalization impacts on the food security of smaller countries, but it may be fair to conjecture that there will be both winners and losers. Some of these countries may face the unpleasant choice of either liberalizing trade (via regional trade agreements, for example) and hoping for positive results or not joining any trade treaties and getting left behind.

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Trade Liberalization and the South Asian Economies: Adjusting to the Challenges of Globalization

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Abstract: The new round of WTO negotiations presents special opportunities and challenges for the South Asian countries. Active participation by South Asian countries may enable them to secure better market access for their exports. It may also preserve or secure changes in the existing regulations that will enable them to fully integrate in the global trading system, while allowing them to meet their developmental goals. However, to achieve a favorable agreement, South Asian countries, especially India, will need to reform their own protectionist trade and domestic policies. Despite significant trade liberalization within the last two decades, the regional supply of agricultural commodities remains constrained by trade restrictions and anti-agricultural bias in domestic policies. Reforming regional domestic and trade policies will facilitate negotiations, provide impetus for increased agricultural production, stimulate trade and further economic growth, and enhance the overall food security situation in South Asia.

Introduction

Despite significant improvements during the past two decades to combat poverty and hunger, more reform policies need to be adopted to improve food security in South Asia. With about 263 people for every square kilometer, South Asia represents the world's most densely populated region (World Bank, 1999). The region is characterized by large income disparities, with 43 percent of its population living below the poverty line (UNDP, 1997). The overall food supply, although sufficient in quantity, is not distributed uniformly, with Bangladesh and Nepal in danger of shortfalls. Trade is, therefore, vital in alleviating regional food shortfalls, and can also play an important role in generating further policy reform and economic growth. Exports from South Asia increased on average by over 12 percent annually during 1991-95, and the World Bank (1997) estimates that, led by India, South Asia has the potential to have the world's fastest growth in exports for the next 20 years. Exports from the region have also witnessed a large shift from primary agricultural products to manufactured goods, and a significant proportion of high-tech products—primarily from India.

South Asia—A Background Profile

South Asia's economy encompasses traditional village farming, modern agriculture, handicrafts, a wide range of modern industries, and a multitude of support services. Production, trade, and investment reforms implemented during the past two decades have provided new opportunities and generated faster economic growth. Unlike other Asian countries, this region has generally avoided financial problems, attracted some foreign investment, and revived confidence in economic prospects for the sub-continent. Although the overall macro-economic indicators in the region remain fairly strong, Pakistan is currently experiencing political and financial problems, government instability has plagued Nepal's economic development, and further policy changes are needed in India to restore the momentum of reform, especially by continuing reductions in the remaining government regulations.

Despite growing optimism for the region, South Asia's share of global trade has remained unchanged, around 1-percent. The primary exports from this region are textiles, garments, carpets, leather products, and agricultural commodities such as cotton, rice, and tea. In recent years, there has been a significant shift from food and primary product exports to exports of manufactured products. The share of manufactures in South Asia's total exports increased from 53 percent in 1980 to 76 percent in 1996 (World Bank, 1999). Although textiles and apparels dominate the manufactures exports, there is a small but increasing share of machinery and equipment exports from the region. Led by India, South Asia is also increasingly exporting science-based high technology products.

Capital and intermediate goods represent the major imports in South Asia. These include petroleum, petroleum products, machinery, fertilizer, and chemicals. Unlike Sub-Saharan Africa which largely depends on the European market for its trade, South Asia's trading partners are diverse and include Western Europe, as well as the United States, Hong Kong, Japan, and many other countries. Although the European

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Table D-1--Comparative Development Indicators

	GDP per capita	GDP growth	Trade share of GDP 1970	Trade share of GDP 1990	Regional trade share	Agriculture share of GDP	Labor force in agriculture
	$ U.S.	--- Percent ---					
Bangladesh	360	4.6	15	31	7	24	65
India	370	4.3	8	27	67	25	64
Nepal	220	1.7	13	64	1	41	83
Pakistan	500	2.5	22	37	16	25	52
Sri Lanka	800	5.9	54	80	9	22	48
South Asia	380		12	31	1(global trade) 2 (global ag trade)	25	63

Source: 1999 World Development Indicators, The World Bank. 1997 FAO data.

Union and the United States remain major destinations for South Asian exports, exports to East Asia have increased significantly in recent years, accounting for over 19 percent of total exports in 1995.

Regional trade within South Asia is limited, accounting for less than 4 percent of the region's total trade (World Bank, 1997). This figure does not take into account the illegal trade between neighbors, which is thought to be substantial. India maintains a growing trade surplus in the region with its 1995 regional exports accounting for 5 percent of its total exports. By contrast, its imports from the region account for only half a percent of its total imports. Regional trade in South Asia is hampered by India's protectionist policies and the long standing political conflict between India and Pakistan. India's refusal to provide transit facilities to Nepal and Bhutan for regional export, and its growing trade surplus are also considered by its neighbors to be impediments toward improving regional trade.

In December 1985, the South Asian countries formed the South Asian Association for Regional Cooperation (SAARC) to promote economic, social, and cultural cooperation. Members of SAARC include Bhutan and Maldives in addition to the five countries covered in this paper (Bangladesh, India, Pakistan, Nepal, and Sri Lanka). Due to the ongoing political conflict between India and Pakistan, SAARC has achieved little in promoting regional economic cooperation.

In 1993, the South Asian Preferential Trade Agreement, SAPTA, was initiated to promote greater regional economic cooperation. Although SAPTA allows for negotiations on a sectoral basis, the approach taken to date has been to negotiate trade concessions on a product-by-product basis. Therefore, except for a few minor tariff concessions, not much has been accomplished through SAPTA. Studies on regional integration in South Asia point out that unilateral trade liberalization rather than regional trade arrangements will be most beneficial for South Asia (de Melo and Rodrik, 1993). However, other studies indicate that the small economies in the region, such as Nepal and Bangladesh, would gain considerably from a regional trade agreement (Srinivasan, 1994).

Excepting Nepal, which has a very open trade policy, trade in South Asia has been inhibited by restrictive and interventionist government policies. Import tariffs are high, averaging about 39 percent between 1994-98, compared with about 6 percent for OECD countries (UNCTAD, 1994 and 1999). Nontariff barriers, such as quantitative restrictions on imports and the control of imports by parastatal government monopolies, are prevalent in the region. Exports of many commodities are also restricted or controlled by parastatal monopolies designed to manage domestic supply and to protect the domestic manufacturing sector. Despite these barriers, South Asia has come a long way since the early 1970s in opening its market to imports. Current tariffs, although very high, are less than half of those prevailing in the 1970s, the frequency of nontariff barrier use has declined by about 85 percent (UNCTAD, 1994 and 1999), and parastatal control of commodity trade is currently limited primarily to India.

Government policies in South Asia have historically discriminated against agriculture through measures designed to protect the manufacturing sectors. The policies include exchange rate overvaluation, direct control of agricultural commodity trade, and taxes on agricultural exports (Pursell, 1999).

Nevertheless, agriculture has remained an important sector in the economy, accounting for about 25 percent of total GDP and employing over 60 percent of the labor force. In 1997, South Asia produced 29 percent of the world's rice crop, 24 percent of the world's cotton, 15 percent of the world's wheat, and 11 percent of the world's oil crops (FAO, 1999).

South Asia is generally self-sufficient in cereals and the overall food supply, expressed as 2,449 calories per capita per day, exceeds the FAO recommended minimum level of 2,100 calories. However, this figure is below the world average of 2,782 calories per capita per day. Moreover, the food supply is not distributed evenly in the region, and the 1997 per capita daily calorie supply in Bangladesh was below the FAO recommended nutritional minimum. USDA/ERS projections of supplies of grain and other commodities in Bangladesh suggest that per capita calorie supplies will not increase over the next 10 years. Although, excepting Bangladesh, projected regional food supplies are sufficient

Table D-2--Food Availability Indicators

	Wheat production	Rice production	Cereal self-sufficiency	Per capita daily calorie supply
	------1,000 mt-------		Percent	Number
Bangladesh	1,803	28,293	88	2,085
India	66,000	122,244	100	2,496
Nepal	1,030	3,641	105	2,366
Pakistan	18,694	6,587	94	2,476
Sri Lanka		2,692	54	2,302
South Asia	87,532	163,507	98	2,449
World	588,841	563,188		2,782
South Asian share of world production (%)	15	29		

Source: 1997 FAO data.

to meet the minimum nutritional requirements of the population, regional per capita food availability is expected to decline between 1999 and 2009.

The share of food aid in South Asia's total imports has declined during the 1990s. However, food aid continues to play an important role in meeting food demand in the region, exceeding 1.2 million metric tons in 1997. Bangladesh received over 44 percent of the region's food aid in 1997, while India, Pakistan, and Bangladesh together accounted for about 90 percent of the total aid. Although food aid's share of total food imports has generally declined, it has been increasing in Nepal. This reflects Nepal's increasing vulnerability to food shortfalls due to growing population pressures and a sluggish economy.

Economic Policies and Performance

Starting with Sri Lanka in the 1970s, South Asian countries embarked on an economic liberalization that accelerated significantly in the 1990s. The liberalization was driven by a general disenchantment with economic planning implemented in individual countries, and the feeling that the region was missing the growth and development opportunities that East Asian countries were enjoying. Multilateral trade negotiations did not influence the liberalization process. The process was, however, facilitated by substantial devaluation of South Asian currencies that occurred between the 1980s and 1990s. For example, the Indian rupee was devalued in real terms by about 130 percent between 1985 and 1992.

Table D-3--Share of Food Aid in Total Food Imports

	Share of food aid in total imports		Food aid	Food imports
	1991	1997	1997	1997
	----Percent-------		----Metric tons----	
Bangladesh	76	44	548,340	1,257,553
India	32	8	310,251	3,879,714
Nepal	8	25	40,833	164,714
Pakistan	22	7	203,551	2,997,453
Sri Lanka	29	6	137,669	2,392,491
South Asia	41	11	1,245,903	10,840,607

Source: FAO.

In recent years, reform in government policies has also been undertaken under the International Monetary Fund's (IMF's) structural adjustment program. Nevertheless, trade liberalization has not been uniform within the sub-continent, with India, Bangladesh, and Pakistan still implementing several interventionist policies. Between 1970 and 1997, Nepal's indicator of trade openness (measured as total imports plus exports as a percentage of GDP) increased from 13 to 64 percent. Although Sri Lanka's trade openness indicator changed by only 26 percent, Sri Lanka has a relatively open economy, as indicated by its 1997 trade openness measurement of 80 percent. The remaining three countries, especially India with the lowest measure at 27 percent, would benefit from further reform to liberalize their trade.

Market access reform in South Asia, in general, was launched with the objective of streamlining procedures, reducing and harmonizing tariffs, and gradually removing import prohibitions. The average applied tariff rate on imports decreased about 37 percent between the 1980s and 1990s (UNCTAD, 1994 and 1999). However, current tariff rates remain high, averaging about 39 percent. There is a large difference in applied tariff rates across the region. Nepal has no tariffs on primary products, and tariffs on most other products range between zero and 20 percent (Pant, 1999). The applied tariff rates in India and Pakistan, on the other hand, often exceed 50 percent (Sharma 1999; Qureshi, 1999).

South Asia's nontariff barriers declined more than 85 percent between the 1980s and 1990s (UNCTAD, 1994 and 1999). Nevertheless, import restrictions and prohibitions remain on over a quarter of all tariff lines in India and on a very small number of commodities in other South Asian countries (Athukorala and Kelegama 1999; Chowdhury et al. 1999). Given the recent WTO ruling against India, on a case brought up by the United States, the Government of India is expected to accelerate the phase-out of all import restrictions.[2]

Export restrictions, licensing, monopoly control, and export taxes generally burdened the agricultural sector in South Asia. Since the reform policies implemented in the 1990s, export restrictions have been removed on almost all agricultural commodities in Bangladesh, Pakistan, and Sri Lanka, and on a number of agricultural commodities in India. However, parastatal control of exports and licensing requirements continue to inhibit the export of most major agricultural commodities in India and some agricultural commodities in Pakistan.

South Asia's domestic policies in the 1990s have been characterized by reform measures such as privatization of state enterprises, reduction of subsidies to industries, liberalization of capital markets, and other reforms that encourage trade and foreign investment. Liberalization of trade regimes and deregulation of domestic markets have created new business and export opportunities. Although the overall climate in the region looks very promising, there are significant hurdles on the horizon. Sri Lanka's robust economy is constantly burdened by the fighting between the Sinhalese and the minority Tamils. Bangladesh's progress is often halted by recurring natural disasters. Pakistan has been battling financial problems stemming from years of loose fiscal policies. Nepal's growth is inhibited by its landlocked geographic position and the frequent change of governments. Finally, India's economic growth has been hampered by the slow pace with which the government implements reform.

What Were the Estimated Impacts from the Last Round on South Asian Countries?

Most of the studies that looked at the impact of the Uruguay Round on developing countries noted that the implementation of the Uruguay Round may marginally increase agricultural commodity prices (Goldin and van der Mensbrugghe, 1996; Ingco, 1997). However, analysis of agricultural commodity prices indicates that such increases did not occur. Studies on the Uruguay Round's impact also point out that the negative impacts of increased food prices on consumers can be more than offset by gains arising from reforms in domestic policy. All studies emphasize that the gains from multilateral trade agreements are particularly large in developing countries that open their trade regimes. In general, the studies have estimated the impacts of the Uruguay Round on South Asia to be positive (Ingco, 1997; Sharma et al., 1999).

For a major agricultural producing region such as South Asia, where yields (despite some improvements brought about by the Green Revolution) have remained well below the world average, increased commodity prices and reduction of trade barriers provide incentives for increased production and exports. Sharma et al. (1999) indicate that the Uruguay Round Agreement may result in a net trade surplus of over US$1.3 billion in South Asia, with food imports reduced by about $1 billion and additional exports of about $300 million.

The manufacturing sector of South Asia, which produces mainly textiles and apparel, has actually been estimated to benefit more from the Uruguay Round than agriculture (Majd, 1995). The eventual elimination of the Multi-Fibre Arrangement (MFA) by 2005 is expected to increase South Asia's textile output by 17 percent and exports by 26 percent. Hertel et al. (1996) have further argued that the gains from MFA reform will amount to about 27 percent of South Asia's overall gains from implementation of the Uruguay Round Agreement. Martin (1999) points out that although South Asian textile and apparel industries are poised for rapid growth, South Asia will need to implement complementary domestic policy reform to take full advantage of the MFA reform.

WTO Issues Particularly Important To South Asia

Market access for export commodities is a top priority for South Asia, especially access for textiles and apparel. Tariffs on textiles and apparel were generally excluded from the Uruguay Round reduction commitments and have remained high. Because the MFA will be fully implemented by 2005 and textiles may not be on the negotiating table, tariffs on textiles will be a difficult issue to tackle in the next trade negotiations. It has often been noted that importing countries have chosen to phase out textile quotas in such a way that very little liberalization occurs during the phase-out period (Martin, 1999). Exporting countries, including South Asian countries, are concerned that having deferred a significant proportion of the liberalization to the end of the phase-out period, it may be politically impossible for importing countries to carry out their Uruguay Round obligations by 2005.

Maintaining, in some form, the provisions of the "special and differential treatment" accorded to developing countries under the Uruguay Round Agreement is important for South Asia. The value of this provision has often been debated by those who question whether exemptions and lesser reform requirements for developing countries have contributed to their smaller gains from the Uruguay Round Agreement. Nevertheless, special provisions, especially those that will provide flexibility in reducing domestic support measures, are very important to South Asian countries. Many developing countries, including South Asian countries, did not set up a domestic support reduction schedule after the Uruguay Round Agreement, thus precluding themselves from implementing support programs for agriculture outside of "Green

[2] In April 1999, a WTO Dispute Settlement Panel ruled that India's continued use of quantitative restrictions on imports of a wide range of consumer goods under the Balance of Payments provisions of GATT Article XVIII:B was inconsistent with the GATT guidelines and called for their removal.

box” policies and in excess of *de minimus* levels (see Overview table A-1).

However, the special and differential treatment provisions currently allow developing countries to implement these programs to support their agricultural and rural sectors. If the special and differential treatment provisions are not extended in the a round, many developing countries will be unable to provide any support to their agriculture. South Asian countries are also concerned that the current domestic support provisions do not take into consideration the impacts of inflation and currency exchange rate fluctuations on a country’s ability to comply with its WTO obligations.[3]

Given the important role that imports and food aid play in meeting South Asia’s food demand, most countries in the region consider it a priority that a new round take into consideration the concerns of net food-importing developing countries and adopt measures to ensure that the outcome does not result in higher food prices and decreased food availability. South Asian countries, like many other net food-importing countries, seek assurances from exporting countries that food export supplies will remain reliable and not subject to sudden restrictions. Additionally, importing countries also argue that since global food sufficiency does not always address local food insecurity concerns, especially when the purchasing power of a food-insecure country is limited, a new round will need to consider special measures to address food security concerns of food-importing countries.

Conclusions

The next round of WTO negotiations represents an opportunity for South Asian countries to seek better access for their export products, especially textiles. Further reform of the global trading system will likely require accelerated reform in the domestic policies of South Asian countries. Reforms in domestic policy and global trade rules have the potential to propel additional growth in a region that is already on a rising economic growth path.

Reform in domestic policies and agricultural trading rules will create incentives to remove the anti-agricultural bias existing in the region. This should lead to significant increases in agricultural production in the sub-continent, where average yields are well below the world average. Likewise, South Asia’s manufacturing sector, especially textiles and apparel, is estimated to be poised for major expansion with the impending open trade environment. Increased food production, and rising economic growth brought about by trade liberalization should substantially enhance regional food security and improve general living conditions for many in the region.

[3] Under the Uruguay Round Agreement on Agriculture, the comparison of current domestic support with the base period support level is done using nominal prices. The use of nominal prices can cause current support to exceed the base levels even when the actual level of support has decreased.

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