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*SPECIAL AND DIFFERENTIAL TREATMENT OF DEVELOPING COUNTRIES  
IN THE URUGUAY ROUND AGRICULTURAL NEGOTIATIONS*

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SPECIAL AND DIFFERENTIAL TREATMENT OF DEVELOPING COUNTRIES  
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ABSTRACT

This paper argues that the Uruguay Round (UR) negotiators should not compel developing countries to liberalize their respective agricultural sectors because their non-agricultural manufacturing sectors remain protected. One-sided agricultural liberalization is inconsistent with promoting agricultural development, encourages rural-urban migration, and unnecessarily constrains agricultural policy management and planning. Thus, special rules should apply for developing countries. In developing the argument, the paper traces the evolution of special and differential treatment for developing countries in the GATT and discusses some of the critical issues in the UR agricultural negotiations.

The paper also argues that a mechanism for reviewing invocations by developing countries of the principle of S & D should be agreed upon and decided by the UR negotiators. In the interest of agricultural development, all developing countries should be accorded special measures in order to develop. Such measures applied on a per product basis may be questioned by any contracting party before a possible GATT committee that would be tasked to deal with agricultural S&D complaints, with the power to decide whether the product-specific agricultural development measures under question are legitimate.

## SPECIAL AND DIFFERENTIAL TREATMENT OF DEVELOPING COUNTRIES IN THE URUGUAY ROUND AGRICULTURAL NEGOTIATIONS\*

Ramon L. Clarete

### INTRODUCTION

As a contracting party to the General Agreement on Tariffs and Trade (GATT), the Philippines is concerned with the future of the special and differential (S&D) treatment given to developing countries under the GATT trading system. The S&D principle, introduced in the 1950s, exempts developing countries from various GATT regulations and obligations.

Today, the S&D principle is increasingly seen by various groups as one of those GATT derogations whose time has run out. With the Uruguay Round of negotiations underway in Geneva to strengthen multilateral trading rules on agriculture, many developing countries feel that the S&D treatment must be removed.

However, other groups see the S&D principle as necessary to provide developing countries with the needed flexibility in planning and in formulating economic development measures. Because of the growing perception among UR negotiators that S&D is anachronistic, there is a danger of watering down S&D-related provisions in this round

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of negotiations. The same danger exists in the negotiations for agricultural liberalization.

The S&D treatment given to developing countries is integrated in the Cairns Group proposal on agricultural reforms.<sup>1</sup> It will also be integrated in the final outcome of the agricultural negotiations, as mentioned in the Ministerial Declaration of April 1989. However, there is a current lack of concrete ideas on how the S&D principle will be applied to the proposed GATT rules governing agricultural trade. If applied thoroughly, the S&D principle should defer the dismantling of agricultural and rural development programs in developing countries.

This paper argues that, in the case of agriculture, there are economic grounds for not compelling developing countries to liberalize their respective agricultural sectors. For one, their non-agricultural manufacturing sectors remain protected. One-sided agricultural liberalization is inconsistent with promoting agricultural development; it also encourages rural-urban migration, and unnecessarily constrains agricultural policy management and planning. Thus, special rules should apply for developing countries.

To emphasize this argument, this paper discusses briefly the nature and evolution of S&D treatment for developing

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The Cairns Group is a coalition of 14 developed and developing countries (Australia, Argentina, Brazil, Canada, Chile, Colombia, Fiji, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand, and Uruguay) whose sole interest is to help negotiate agricultural trade reforms within a multilateral framework.

countries, followed by a description of the Uruguay Round negotiations where the prospects of agricultural liberalization in developed and developing countries are being evaluated. Then it argues the case for the S&D principle. Finally, this paper describes the nature, scope, and duration of the S&D treatment for developing countries.

In conclusion, this paper recommends that the Philippines support the retention of S&D treatment in agricultural trading; it also proposes how to apply the S&D principle into the suggested GATT rules on agriculture.

#### NATURE AND EVOLUTION OF THE S&D TREATMENT

In the 1950s, the number of developing countries signatory to the GATT increased from 10 (in 1948, when GATT was founded) to 16. In contrast, there were 21 signatories from developed countries. Although a minority in GATT, developing countries were able to obtain important concessions from the developed countries.

In 1973, the GATT contracting parties declared "the importance of the application of differential measures to developing countries in ways which will provide special and more favourable treatment for them in areas of negotiation where this is feasible and appropriate" (GATT, 1974). This declaration, upon which the term S&D treatment was derived,

culminated the long process which had to undergo in order to  
secure preferential treatment in the global trading system.<sup>2</sup>

### GATT Concessions

One concession involved the strengthening of the provision allowing developing countries to impose trade barriers to protect their infant industries. According to Hudec (1987), the contracting parties acknowledged that

...economic development furthers the objectives of the General Agreement, thus making clear that the trade barriers authorized by Article XVIII were not derogations from the GATT policy but, instead, were entirely legitimate measures in complete harmony with GATT policy. (p. 27)

A second concession made in 1955 resulted in the provision of a new article to deal with balance of payments trade measures, now known as Article 18B. A third concession provided that developed countries should not expect reciprocal trade concession from developing countries to enable the latter to develop their economies.

These concessions were in response to earlier calls by developing countries during the Havana Charter negotiations in 1947. The negotiations produced the International Trade Organization Charter (ITO) which was never implemented because the US Congress failed to ratify it (Weston and Mark, 1989). With ITO's future uncertain, a group of 23

developed and developing countries formed the GATT, whose Articles of Agreement were taken from the ITO Charter. When it became clear that the ITO was dead, the GATT contracting parties reviewed the GATT articles in the mid-1950s. This gave developing countries the opportunity to renew their demands for preferential treatment, such as economic development measures and non-reciprocity in trade.

Articles 18 and 28 of the General Agreement sum up the major concessions obtained by developing countries. Article 18A allows them to renegotiate tariff bindings in order to promote the establishment of a particular industry. However, this provision imposes on the developing country to offer compensation to affected parties, or face retaliation.

Article 18B provides developing countries the license to impose trade measures as a means to address their balance of payments difficulties. In contrast to the original balance of payments provision in Article 12, this new article, applicable only to developing countries, has less stringent requirements for imposing balance of payments measures. Since developing countries have great foreign exchange demands, the new article effectively gives them nearly complete freedom to impose any trade measures they want.

Articles 18C and 18D grant developing countries protection privileges for their infant industries. As with Article 18A, a developing country invoking this article is expected to offer compensation, or else face retaliation.



Article 28, meanwhile, states that, in the conduct of tariff negotiations, the developing countries' need to use tariffs for protective and fiscal purposes shall be taken into account by all contracting parties.

One of the factors that disturbed the balance of interests between developed and developing countries in the GATT was the growing number of newly-independent developing countries; this led to the rewriting of the GATT articles in the 1950s. According to Hudec:

"Cold war" competition for the loyalty of these emerging countries intensified when the Soviet Union began to press for creation of a global trade organization, within the United Nations, that would provide an alternative to the Western-dominated GATT. (p. 39)

The prospect of having to deal with a rival organization, hovered over GATT with the creation of the United Nations Conference for Trade and Development (UNCTAD) in 1964. Known as the "UNCTAD threat", this gave developing countries another source of bargaining power. If they, as a group, did not participate in GATT, it would have serious implications in the overall geopolitical balance between the Western and the Soviet block countries.

#### Unilateral Concessions

At this point, new demands to benefit developing countries emerged from the Harberler Report (Harberler, et



al., 1958). The developing countries were facing various problems, including unstable export earnings, sluggish growth in commodity exports, and agricultural protectionism. The Harberier report pointed out that domestic policies in the developed countries contributed to the decline in exports of developing countries. The developed countries were, therefore, urged to open their markets to exports from developing countries.

In response to the Harberier Report, the contracting parties in the GATT called upon the developed countries to examine and unilaterally remove their export barriers in order to increase the export earnings of developing countries. This call set the pace for institutionalizing in the GATT the non-reciprocity principle for developing countries. In 1963, the GATT trade ministers approved the idea of duty-free access for tropical products with no expected reciprocal concessions from developing countries (GATT, 1964).

Developed countries were reluctant to give up the principle of reciprocity, but they agreed to the unilateral concessions in the belief that there were some areas of trade policy in which the reciprocity requirement would not be appropriate. This was reflected in the formulation of the special rule for developing countries, which was approved in the Kennedy Round in 1964. As quoted by Hudec,

the following was the first version of the special rule:

...every effort shall be made to reduce barriers to exports of the less developed countries, but... the developed countries cannot expect to receive reciprocity from the less developed countries.

This rule was expanded so as to retain some features of the doctrine of reciprocity:

...the contribution of the less developed countries to the overall objective of trade liberalization should be considered in the light of the development and trade needs of these countries.

In other words, reciprocal contributions were still expected of developing countries, but the nature of these contributions was up to the developing countries to decide.

#### Generalized System of Preferences

The next component in the GSD treatment package was the Generalized System of Preferences or GSP. In the mid-1960s, developing countries aired demands for tariff preferences in an attempt to introduce Article 15 of the ITO Charter in the GATT. Since GSP directly violated the principle of most favored nation (MFN) in GATT, it was opposed principally by the US. The European Economic Council (EEC) was sympathetic to the idea because it had been illegally extending GATT tariff preferences to the colonies or ex-colonies of its member states. Other developed countries saw in GSP a way

to respond to the call for unilateral trade concessions in favor of developing countries.

The GSP debate was settled in the second UNCTAD conference in 1963, in which the US reversed its position. The GSP was institutionalized in the GATT in 1971, when the contracting parties approved a ten-year waiver exempting developed countries from the principle of MFN so that they could legally extend tariff preferences to developing countries (GATT, 1972). This was later made permanent during the Tokyo Round in 1979 through the so-called Enabling Clause (GATT, 1980).

The GSP significantly weakened the GATT legal discipline. The principle of MFN which it violated was one of the basic principles upon which GATT was organized. ITO and, therefore, GATT architects saw this principle as the best protection of smaller and weaker countries from the power of larger and stronger countries in the trading system. Its relaxation in the form of GSP gave the developed countries some leverage over developing countries since they can withdraw the GSP unilaterally. GSP neither serves as a contractual obligation of the developed countries to the developing countries.

#### Part IV

Another component of the S&D treatment which UNCTAD helped shape indirectly was Part IV of the General

Agreement. The UNCTAD "threat" compelled GATT to initiate its own program that addresses the problems of developing countries. The result was Part IV of the Agreement entitled "Trade and Development" and consisting of Articles 36, 37, and 38.

Article 36 recognizes the development needs of less developed countries, including wider market access for their products, more stable earnings from primary commodity exports, compensatory financing facilities, export diversification, and non-reciprocity.

Article 37 covers best-endeavors commitment of developed countries to reduce their trade restrictions on developing country exports, refrain from introducing new export barriers, and avoid fiscal policies that would hamper the growth of their consumption of primary commodities from developing countries.

Article 38 outlines the possibilities for joint action to address the primary commodity problems of developing countries.

The significance of Part IV may be summed up by the following observations of Hudec:

In summary, the S&D treatment represents the developing countries' repeated calls for special rules in the GATT trading system. These special rules are viewed as an

important means of advancing the economic interests of, and overcoming declining export earnings and other constraints faced by developing countries. The treatment reflects the view that it was unfair to accord equal treatment to economically unequal countries.

#### URUGUAY ROUND AND THE AGRICULTURAL NEGOTIATIONS

After almost four years of impasse, the contracting parties launched in September 1986 the current Uruguay Round<sup>3</sup> of GATT negotiations, dubbed as "the most ambitious set of multilateral negotiations ever, covering a wide range of issues" (Whalley, 1989). The UR has two sets of negotiations: talks concerning trade of goods and negotiations on trade of services. The negotiations on trade in goods are organized under fourteen negotiating groups, one of which is on trade in agriculture. The negotiators have four years to complete the negotiations.

Agriculture occupies a central position in the UR. One of the so-called "backlog issues," agriculture, among all sectors, probably has the highest number of GATT derogations. Lack of any effective international discipline

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In November 1982, the contracting parties met to assess the Tokyo Round and discuss existing problems in the multilateral trading system. While they saw a need to hold a new round of negotiations, there were fundamental differences on what to talk about, such as whether to negotiate on the new issues (services), or to settle the "backlog issues" first, such as those dealing with agricultural trade.

in agricultural agreement exempts agricultural products from GATT's general rule of not using quantitative restrictions (see GATT, 1986, Article 11:2c).

Also, the General Agreement is unclear whether it allows subsidies for agricultural exports or not. Paragraph 3 of Article 16 states that the

contracting parties should seek to avoid the use of subsidies on the export of primary products. If, however, a contracting party grants directly or indirectly any form of subsidy..., such subsidy shall not be applied in a manner which results in that contracting party having more than an equitable share of world export trade in that product, account being taken of the shares of the contracting parties in such trade in the product during a previous representative period...."

The ambiguity of this paragraph gave rise to many interpretations. Although the Tokyo Round Subsidy Code defined the "previous representative period" as the "three most recent years in which normal market conditions existed," it failed to define "normal market conditions" (GATT, 1986b).

#### Agricultural Policies of Member Countries

The most basic reason for the lack of discipline in



agricultural trade is the so-called "grandfather clause" which excludes from any GATT rules national programs that have existed prior to the contracting party's membership to GATT. In the case of the US, GATT granted a waiver in 1955 whereby policies under the US Agricultural Adjustment Act may be continued even if they were inconsistent with Articles 2 and 11 of the General Agreement. This derogation of GATT rules prompted the European Community to continue their agricultural import restrictions for balance of payments purposes beyond the period for which they were allowed by GATT.

Budgetary problems in the US are critical factors in the decision to undertake negotiations on agriculture. There are three components of US agricultural policy, namely: price support loans, production controls, and deficiency payments. In the 1980s export prices for agricultural products declined. As a result, a land retirement program, funded by a payment-in-kind scheme, was instituted to control the amount of land devoted to agriculture. When the markets and prices further deteriorated in 1985, the freezing of target prices, followed by the reduction of such prices, was added to the land retirement program. However, assistance measures were increased through subsidies and subsidized credits under the Export Enhancement Program. The US programs in agriculture came under heavy domestic criticism on account of huge budget deficit. Thus, in 1986,

the US placed on the negotiating table its 1955 agricultural waiver.

Difficulties in financing agricultural subsidies in the European Community also led to a decision to negotiate on agricultural trade. The Community's agricultural policies are embodied in its Common Agricultural Policy which has three principles: common prices, domestic preference, and common funding. Variable levies have been used to help stabilize common agricultural prices. Such interventions were not costly as long as the Community was a net importer of agricultural products, or as long as its internal agricultural prices were less than world prices. But as a result of price incentives it has been providing its farmers, the Community became a net exporter of agricultural products. This development contributed to the fall in world prices of agricultural products, which in turn increased the budgetary requirements of the Community's agricultural policies. From 1972 to 1982, the Community's cost of production and export subsidies grew by 400 percent.

Japan and other developed countries have also agreed to negotiate on agriculture but for different reasons. Japan was under pressure particularly from the US to liberalize its agricultural policies in order to bring down its huge trade surplus. Japan's agricultural policy tries to achieve self-sufficiency and maintain the farmers' income at levels comparable to the other sectors of the economy. Thus, farmers are being subsidized. In the case of smaller

developed countries, like Canada and Australia, their demand to liberalize agricultural trade was triggered by their having become victims of the agricultural subsidy crossfire between the US and the European Community, which resulted in falling world prices. Lately, these countries have also resorted to subsidizing their farmers to help them through the period of declining farm prices.

Developing countries are not united on agricultural liberalization. On the one hand, there are the net food exporting countries which stand to lose if production and export subsidies for food products by developed countries are withdrawn. On the other hand, there are developing countries—such as Argentina, Brazil, the Philippines and Thailand—who stand to gain from such liberalization. W P

#### Effects of Liberalization

Studies stress that agricultural distortions induce wastage of economic resources. Tyers and Anderson (1986) calculated that the removal of distortions in five agricultural products (wheat, coarse grains, ruminant meat, dairy products, and sugar) would increase significantly the prices and volumes of such exports. Export earnings would increase although net exports would tend to decrease as a result of higher import prices which agricultural liberalization entails. In terms of net economic welfare, however, all countries, except the US and Bangladesh, would stand to gain from the universal liberalization in 1985 of

selected agricultural products including grains, meat, dairy products, and sugar.

✓ It is important to note that if the developed countries would liberalize their agricultural products, the increase in total economic welfare of the developed world would be higher compared to a universal agricultural liberalization. Tyers and Anderson noted, however, that the economic welfare in the developing world would tend to go down if only developed countries liberalized their agricultural sector.

This observation seems to be supported by the studies of Valdez and Zeitz (1987); Frohberg, Fischer, and Parikh (1986); and Matthews (1985). Valdez and Zeitz estimated that developing countries stand to lose if trade barriers of developed countries on sugar, beef, wheat and maize are removed; in particular, low income countries would suffer the greatest losses. Frohberg, et al. concluded that, in general, developing countries are worse off because of higher world market prices, especially of cereals and ruminant products. Matthews argued that developing countries would suffer from the elimination of agricultural protection by the European Community.

Recent studies using the general equilibrium model are more optimistic about the effects of liberalization on the economic welfare of developing world (e.g., Loo and Tower, 1988; Whalley and Wigle, 1987). Loo and Tower estimated that developing countries would be better off by \$25.9

billion per year as a result of removing OECD interventions in agriculture. The biggest gains, about \$13.3 billion per year, would accrue to highly indebted countries, including the Philippines, as a result of a shift of resources from industry to agriculture due to improved agricultural prices.

Whalley and Wigle (1988) also argued that, in the event of agricultural liberalization, the net food importing countries may not be worse off. At least in the case of grains, because of the land retirement program in the US. Under this program, farmers avail of subsidies from the US government on condition that a certain percent of the acreage is set aside. Thus, if the subsidies are removed (and with that, the land retirement program is terminated), the acreage planted to grains may increase. Therefore, the world supply of grains would tend to increase, while grains prices would tend to decline.<sup>4</sup>

Most developed countries see a need to negotiate among themselves in order to arrest the deterioration of the agricultural trade crisis. There are at least two ways to solve this dilemma. One is for the major players to go into a marketing arrangement among themselves along the Multi-Fiber Arrangement model. This approach, which is a distinctly possible outcome of the Uruguay Round negotiations, further undermines the GATT-supervised trading

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An opposing view is taken by Gorter (1987) who argued that the present US price support cum acreage control program "may have contributed to the weakening of the world market prices."

system. Another way, which strengthens this system, is the strengthening of GATT rules and applying these rules to agriculture. The latter, however, implies that developed countries would have to give up the waivers and the GATT derogations they have always used to justify agricultural protection.

#### S&D Principle and Developing Countries

This perceived legal sacrifice on the part of developed countries pushes them to seek a similar concession from developing countries—to enforce discipline on the use of the S&D principle in agriculture. The S&D treatment, as discussed earlier is a derogation of GATT rules and principles which benefit developing countries. Developed countries think that if they have to give up their waivers to bring agriculture under the discipline of GATT, why should developing countries not be required to phase out the S&D treatment starting with agriculture?

Pressures on developing countries to just do this are manifested within the Cairns Group; this group aims to bring agriculture within GATT's rules and regulations. Developed countries in the Group (Canada, Australia, and New Zealand) are reluctant, to say the least, to grant developing countries a very liberal interpretation of the S&D principle.



Developing countries, on the other hand, appear ready to succumb to these pressures. For example, Brazil, which is traditionally regarded as a "hardliner," submitted a proposal to GATT asking for a five-year postponement of the application of the new rules and regulations on agriculture in developing countries. The pragmatic among developing countries appear ready to reciprocate the concessions to be made by developed countries, by agreeing in principle to cut agricultural tariffs and other support measures, although at a lesser rate compared to cuts by developed countries. ✓

Thus, the S&D principle in agriculture is very much on the negotiating table. It is very important that we assess the arguments in favor of retaining such a treatment and the ways of applying it in agriculture.

#### S&D TREATMENT IN AGRICULTURE

Should the GATT provide S&D treatment in agriculture for less developed countries?

The Uruguay Round calls for expanded trade in agricultural products through lower trade barriers and trade-related support measures. The Philippine government's main proposal on agriculture echoes this call for liberalization. Should developing countries be exempted from this call? Or should the S&D treatment in agriculture be relaxed?

Various literature on trade and protection have noted that the agricultural sectors of developing countries are penalized rather than protected.<sup>5</sup> This may be because agricultural procedures are less concentrated in any given location compared with those in manufacturing. Farmers are thus placed at a disadvantage because they are unable to conduct effective campaign for agricultural protection.

Another cause involves the underlying theoretical orientation of development economics since the 1950s which has always been in favor of industrialization through import substitution trade policies. In order to industrialize, a developing country has to raise its trade barriers against manufactured imports in order to promote local production of their substitutes (Prebisch, 1964).

This particular orientation has been institutionalized in the main GATT agreement as Article 18C, which provides protection privileges for infant industries of developing countries. However, many developing countries seem to prefer using Article 18B which allow import restrictions for balance of payments problems (Anjaria, 1987; Eglin, 1987).

The above two articles are important components of the S&D treatment given to developing countries. Because of

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This means, the protection rates are negligible or negative. For example, see World Bank (1986). In the case of the

these and of the political-economic situation obtaining in developing countries, the structure of their tariff protection tends to be high for manufactured goods and low for agricultural products.

Thus, the bias of trade policies against agriculture has its roots in the underlying development orientation which has endured in the post-war years and in the institutional accommodation of such an orientation in the S&D treatment provisions of the main GATT agreement.

Without a simultaneous liberalization of industrial trade policies, agricultural liberalization may not result in agricultural development. Enlarging import access by lowering tariff and non-tariff barriers against agricultural imports will accentuate the anti-agricultural bias of existing trade policies in many developing countries. Private investors will further shy away from agriculture.

Without prior or simultaneous liberalization of industry (which is a major net importer in developing countries), agricultural liberalization will fail to sustain the positive effects of such measures in the long run, because excessive protection of import substitutes will bring about an appreciation of the exchange rate (Clarete and Rouinasset, 1990).

The need for simultaneous liberalization of the industrial and agricultural sectors suggests that any relaxation of the S&D treatment in agriculture cannot be

made in isolation from the entire S&D principle in the GATT General Agreements. If the Uruguay Round negotiators will tamper with the S&D principle, they should also look into, and assess the merits of Article 18 and Part IV in the light of such possible outcome of the negotiations.

#### Employment and Labor Cost Adjustment

Majority of the population in developing countries reside in the rural areas and depend on agriculture for their livelihood. Since private investments hardly flow into the agricultural sector, disguised unemployment in the rural areas persists. Liberalizing the agricultural sector without doing the same in the industrial sector of developing countries may worsen this disguised unemployment.

While liberalization can be beneficial in terms of a more efficient resource allocation in agriculture, alone it will not be able to reap the larger real income gains. In fact, agricultural liberalization alone may further pull resources out of agriculture and/or discourage resource owners from investing in agriculture.

Studies indicate that reducing the relative protection of agriculture through liberalization encourages migration from rural to urban centers.<sup>6</sup> If the S&D treatment in

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See Harries and Todaro (1970). Harries and Todaro argued that in developing countries rural residents migrate to urban centers to avail of higher wages and employment opportunities. This effect has been observed to occur even before agriculture is liberalized.

agriculture is relaxed, one likely effect is an increase in the rural-to-urban migration. This implies adjustment costs on the part of migrants and increased spending by local government which has to provide them services. Moreover, a substantial number of these migrants will not be able to find work in the urban areas. Thus, disguised rural unemployment becomes urban unemployment problem.

Economists recommend that the problems associated with rural-to-urban migration may be solved by narrowing down the wage gap between rural and urban workers.<sup>7</sup> This signifies that unemployment in developing countries cannot be solved by agricultural liberalization alone.

#### Flexibility in Agricultural Development Measures

The anti-agricultural bias of trade policies discussed above is further strengthened by spending policies that fail to allocate capital resources for social overhead in agriculture. The lack of agricultural support services in turn prevents the development of agricultural markets and, therefore, overall agricultural development.

Public investments in agriculture include spendings for building roads, bridges, ports, fish landings, irrigation

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See Bhagwati and Srinivasan (1974) and Basu (1983). They argue that the unemployment problem in the cities can be reduced by subsidizing urban employers to encourage them to hire more workers, and by creating more jobs in the rural areas, and/or providing direct subsidies to rural workers.

systems, post-harvest facilities, power and communication systems, as well as research development and extension. They also cover income transfers to agricultural producers under sectoral development programs and/or sector stabilization programs.

Because of lack of funds, the rural areas—and, therefore, the agricultural sectors—continue to receive inadequate investment support from the government. In contrast, cities where the majority of the manufacturing sectors are located receive more government support. Consequently, production costs in agriculture are high, reflecting the bias of government spending.

Given this resource gap, agricultural liberalization becomes an obstacle to agricultural policy makers in developing countries. Policy measures become limited to those allowed by GATT. Export subsidies, non-tariff measures, input subsidies, output subsidies, and the like would be illegal under GATT.

In situations like this, economists would be tempted to recommend a focusing of meager public funds in building more roads and other infrastructure systems for agriculture. This, of course, makes sense since these are areas to which private investments are ordinarily not applied. And since these are public goods, the benefits are shared by the entire agricultural sector. Thus, specific agricultural lobby groups will build up the pressure on the government to



come up with sector-specific development programs.

Without appropriate government action, such lobbies for sector-specific programs in agriculture may result in frequent turnover of agricultural policy management to the detriment of agricultural development objectives.<sup>8</sup>

Developing countries must be given a wider scope of policy measures to address their agricultural development problems. Without this flexibility, the GATT rules on agriculture will be a hindrance to agricultural development, and the GATT itself may be seen by developing countries in the same light as the conditionality-imposing multilateral development institutions, such as the World Bank and the International Monetary Fund.

#### REALISTIC APPLICATION OF THE S&D PRINCIPLE IN AGRICULTURAL TRADE

For the negotiations in agriculture to move forward, the negotiators have to accept the political difficulty of getting rid of the S&D principle in the final agricultural agreement. What constitute a realistic and non-distorting S&D treatment for developing countries?

A realistic application of the S&D principle in the final agreement on agriculture should result in promoting development, minimizing adjustment problems, and avoiding

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Some authors oppose the concept of special rules because they do not force developing countries to discipline their respective domestic lobby groups asking for protection. For an example of this argument, see Wolf (1987).

unnecessary turnover of agricultural policy management in developing countries. The final agreement on agriculture, therefore, should help developing countries channel scarce development resources to agriculture, where they earn the highest possible returns and promote sector-neutral (vis-à-vis non-agricultural sectors) border policies. These are the long-term objectives in agricultural development of developing countries.

Thus, the following public investment areas should not be prohibited in the short and long terms of the final agreement:

- agricultural social overhead investments such as roads, bridges, irrigation, portwork, post-harvest facilities (especially those requiring lumpy investments), communication and power infrastructure, agricultural research, and development, promotion, and extension;
- sanitary and phytosanitary-related public investments, including programs to contain and eliminate existing, or avoid potential diseases carried by plants, livestock, aquatic animals, and animal feeds; and programs to eradicate pests;
- investments to protect the environment and conserve natural resources; and

- disaster-related investment, including programs to help farmers prepare for adverse weather conditions and reduce uncertainty in agricultural production.

### Border Measures in Agriculture

In the transition, developing countries should not be compelled to give up any border measure they currently use to accomplish self-sufficiency in food. This is because, in developing countries, agricultural liberalization through lower trade barriers will further strengthen the anti-agriculture bias of border measures if this is not also applied to the industrial sector. This will not result in agricultural development.

Developing countries should realize that, in the long term, agricultural development requires an efficient allocation of scarce resources. Thus, demands for total food security (i.e., 100 percent sufficiency in all food items) by their respective agricultural lobby groups, should be assessed relative to the cost of meeting such demands. Since the economic cost of total food security is expectedly high, developing countries should determine their realistic extent of food security and bargain away excess trade protection in exchange for market access of their products abroad.

The transition period of the agricultural reform process in developing countries cannot be defined in terms of a given number of years. For them, such period starts from this point on, until they are ready to lower industrial protection.

#### Internal Measures

Internal measures, including output and input subsidies, are generally preferred to border measures in so far as domestic prices are not altered relative to their given world prices.<sup>7</sup> However, these measures have disadvantages. Since government resources are limited, internal support measures in developing countries typically do not apply to the entire production. Therefore, the objective of enhancing agricultural production through such measures is only partly accomplished.

Internal measures also have additional administrative costs. The government bureaucracy has to supervise the granting of subsidy to prevent abuse of the program by unscrupulous elements of society. Unlike border measures, internal support measures create additional expenses that may offset their advantages over the former.

Moreover, in developing countries with relatively underdeveloped post-harvest systems (including marketing

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This argument applies to the majority of developing countries which are price-taking developing economies.

infrastructure), internal support measures can cause additional economic waste. Since agricultural products are relatively perishable, they have to be processed promptly and sold in the market to minimize post-harvest losses. Internal support measures tend to increase production. Without adequate post-harvest systems and marketing assistance, post-harvest losses, which are proportional to production, will increase. This wastes economic resources<sup>10</sup> and frustrates agricultural development objectives.

It is imperative, therefore, that developing countries develop the required social overhead capital for agriculture and focus their meager resources on delivering basic development services rather than on sector-specific subsidy programs.

However, all these considerations should be adjusted to the fact that at least 50 percent of the population in developing countries depend on agriculture. The withdrawal of any existing internal support measures will cause serious adjustment problems.

In transition, therefore, developing countries should not be forced to freeze or roll back existing agricultural subsidy programs in order to maintain rural employment at a time when agriculture remains unattractive to investors because of lack of social overhead capital and the anti-

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The same argument applies to border measures.

agriculture bias of border measures. Again, this transition period cannot be defined by a given number of years.

#### Towards A Negotiable Position

Extreme positions in the UR negotiations dealing with agriculture are likely to be counter productive. On one hand, developing countries tend to prefer a very liberal concept of S & D which accords the privilege not to follow whatever rules that apply to developed countries for an indefinite period of time. Many developing countries realize that this position cannot be a realistic outcome in the negotiations. Thus, alternative proposals are put forward including "voluntary liberalization", the Brazilian proposal giving developing countries a ten year transition period before they implement their respective commitments to liberalize agriculture, or the proposal submitted by the Cairns Group consisting of policy measures which are to be exempted from the process of agricultural liberalization, longer time frame for implementing reform programs, and lighter commitments.

Developed countries, on the other hand, argue that developing countries should give up S & D and follow the rules in agriculture which would be agreed upon in the negotiations. This is of course a difficult position to sell to the developing countries. Most developed countries, accordingly, concede that some S & D treatment for



developing countries will have to be observed in the final agreement. But the exact nature and scope of S&D are still open to suggestions.

The U.S. proposal on agriculture falls short at doing this; it proposes to disqualify some developing countries from enjoying the privilege of S & D treatment. It is unlikely that many developing countries will agree to the U.S. proposal. However, many of them are prepared to agree to accept fuller responsibilities in the trading system in "due course."

This paper proposes an S&D treatment which is policy-flexible, product-specific, and applicable to all developing countries for a period of time tailored to individual development needs. However, this privilege is subject to a multilateral review process. Under a flexible S & D, a developing country can expand or initiate new assistance measures for agricultural products. This exceptional treatment should be product-specific in recognition of the fact that agricultural sectors in many developing countries are unevenly developed. The duration of application depends upon the individual country's needs and situation.

In order to minimize the trade distorting effects of government assistance measures of developing countries in agriculture and to ensure that agricultural development efforts by developing countries are closely following

internationally competitive levels, the continued invocation of the special and differential treatment of developing in agriculture is subject to a multilaterally agreed review process.

Under this review process, a GATT committee, say an Agricultural Development Committee (ADC), will be set up similar to the Balance of Payments Committee (BOP) in the GATT. The ADC may have the following functions:

- receive complaints against any developing country invoking special and differential treatment on a specific product(s);
- assess the merits of the complaints;
- decide on whether or not to allow the developing country to continue to invoke the special and differential principle on the specific product(s) mentioned by the complainant;
- decide on requests for a phased adjustment process in the event such adjustment is ruled to be necessary;
- call agricultural Development consultations; and
- notify the contracting parties of its activities and decisions made.

In recognition of the importance of agricultural and rural development in the developing countries, the task of

proving that a developing country has no need for commodity specific agricultural development measures falls on the complainant.

The committee is guided by the following principles in assessing the merits of the complaint: material injury suffered by the complainant, extent of the trade distorting effects of the agricultural development measures under review, and extent of the assistance measures provided by the developing country. On the other hand, the interests of the developing country, invoking special and differential treatment, is promoted in this review process through the Committee's mandate to assess the importance of the industry to the economy of the country and the seriousness of the adjustment problems induced by withdrawing the agricultural development measures being contested.

The above ideas are put forward as a possible negotiable position on the issue of S & D in agriculture. Under this position, developing countries get the following: a policy-flexible and product-specific S & D, as well as a duration of this privilege which is tailored to their needs and situation. On the other hand, developed countries get a review process institutionalized in the GATT which would ensure fuller participation of developing countries in the GATT on a per product basis.

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