CHAPTER 9

AGRICULTURAL TRADE LIBERALIZATION UNDER DOHA

The risks facing African countries

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INTRODUCTION

Global agricultural policies affect many economies in a similar way, but may have more severe economy-wide consequences in Africa. Most African countries find themselves at the lower spectrum of the economic development process, which implies a greater dependence for overall economic growth on domestic demand, agricultural incomes and agricultural trade. In addition, the structure of domestic production and export sectors, the level of capacities to absorb economic shocks, and the historically outward-oriented nature of the economies, when taken together, constitute distinguishing characteristics of African countries at present. These features do not only make African economies more vulnerable to distortions and changes in global trading policies in the agricultural sector, but they also determine the implications of agricultural trade liberalization among African countries.

The first section of the paper discusses relevant features of African economies and examines the resulting vulnerability with respect to global agricultural trading policies and their induced changes in world agricultural markets. The second section presents some of the key outcomes of the Uruguay Round Agreement on Agriculture and their implications for African agriculture. It also highlights lessons learned and future global trade policy challenges and options facing African countries. The final section of the paper looks at the ongoing agricultural trade negotiations, identifies potential risks for African countries and discusses options for global trade liberalization that would best benefit African economies.

N. Koning and P. Pinstrup-Andersen (eds.), Agricultural Trade Liberalization and the Least Developed Countries, 153-173.

The paper will argue that trade preferences have not been beneficial to African economies, have not compensated them for the negative impact of global protectionism, and are unlikely to do either in the future. Moreover, it will show that the insistence on the part of African countries on Special and Differential Treatment entails much more risk than benefit for their economies. The paper will also disagree with the widely accepted conclusion that African countries would suffer from liberalization of global agricultural policies because they tend to be net food importers. This conclusion does not sufficiently take into consideration the dynamic long-term effects of global policy changes on production and trading patterns among African countries and the potential efficiency effects that would emanate from them.

RELEVANT FEATURES OF AFRICAN ECONOMIES

Long before the debate about economic openness occupied the centre of the post-structural-adjustment growth and development agenda, economists started to stress the critical link between overall trade, economic development and growth performance in the agriculture sector in the early stages of the development process[1]. The growth literature of the 1960s and 1970s in particular emphasized the importance of domestic demand for the growth process. Its findings suggest that “a minimum threshold of development is needed before export growth and economic growth are associated” (Heller and Porter 1978, p. 192), and that the weak relationship between the two in the early period of development is due to the “relatively low level of manufactured exports in several countries” (Balassa 1978, p. 183). Furthermore, the analysis of the relative contributions of domestic and foreign demand to economic growth by Urata (1989) shows a much stronger contribution of domestic absorption at lower levels of economic development. A key conclusion from the above is that, at lower levels of development, the stimulus for structural transformation and growth must come from internal demand, which in turn is fuelled by growth in the agricultural sector.

The crucial role of agricultural growth as a stimulus to the process of overall growth has also been documented in micro-level studies. For instance, in their study of small enterprises in several African countries, Liedholm et al. (1994) found that differences in local agricultural growth were the most important determinants in explaining the differences in enterprise start-up rates and expansion, as well as in employment creation in the studied zones. Similarly, a study by Delgado et al. (1994) on growth linkages within the local economy in a sample of African countries estimated growth multipliers to be much larger than previously thought and fully comparable to estimates in the Asian literature. The estimates obtained in their study show the effect of adding one dollar to farm tradable incomes in the study zones to be an increase in total incomes by 2 to 3 dollars. In other words, a sustained expansion of revenues from agricultural tradables would result in an increase in overall incomes in the local economy that is at least twice as high as the initial increase of incomes in the agricultural sector itself.

Globalization has introduced a significant change in the growth dynamics implied above. Falling transport costs, development in international finance, higher levels of trade exchange with the rest of the world and greater degree of openness of domestic economies, have together gradually reduced the dominant role of domestic demand in stimulating structural transformation and growth. These factors explain why Africa's situation today is very different from that of Asia in the 1950s and 1960s. The greater role of internal demand combined with lower levels of external competition in domestic markets in Asia during that period meant that supply-raising agricultural technology advances could go a long way towards meeting part of the growth challenge. This, in principle, explains the extent of the success and impact of the green revolution. African countries find themselves today in a different situation. Globalization and its associated factors listed above mean that advances on the supply side are more intricately linked to factors on the demand side. African countries do not only have to produce more, they also have to 'sell' better in far more competitive domestic as well as external markets in order to raise supplies. The agricultural sector still operates as a crucial stimulant of structural transformation and growth. However, the growth of the sector itself depends on factors outside the domestic economy and the supply-side sphere. Chief among the factors affecting agricultural and overall growth among African countries are global protectionism and its associated policies, including explicit and implicit export subsidies and dumping.

In sum, the vulnerability of African countries with respect to global policies and the trade liberalization agenda arises from characteristics inherent to their economies, such as: strong dependence on agriculture for income, employment and foreign exchange earnings; low shock absorption capacity at national as well as household levels; heavy dependence on food imports; and relatively high degree of sector openness. These conditions render African economies particularly vulnerable to trends and instability levels of world agricultural prices, long-term changes with respect to access barriers to export markets, and global policies affecting the competitiveness of imports in domestic markets across Africa. They also determine the cost to African countries of current global policies as well as eventual gains from trade liberalization.

AFRICAN COUNTRIES AND GLOBAL TRADE LIBERALIZATION: LESSONS FROM THE URUGUAY ROUND AGREEMENT ON AGRICULTURE

The Agreement on Agriculture has not adequately addressed Africa's needs

The objective here is to review the outcomes from the past trade negotiation round and their impact on African countries as a first step towards examining the opportunities and risks facing them under the Doha agenda. There is now a consensus that the Agreement on Agriculture (AoA) has not led to any significant reform of global agricultural policies. In fact, a closer look at the evidence would reveal a marked deterioration in several areas. Figures 1 and 2 below summarize trends in overall support to agriculture, price protection and export subsidies among OECD countries. It is clear from the different graphs that support to agriculture has indeed grown since the agreement in 1994, as has the level of protection as measured by the ratio of farm-gate prices attributable to border protection.

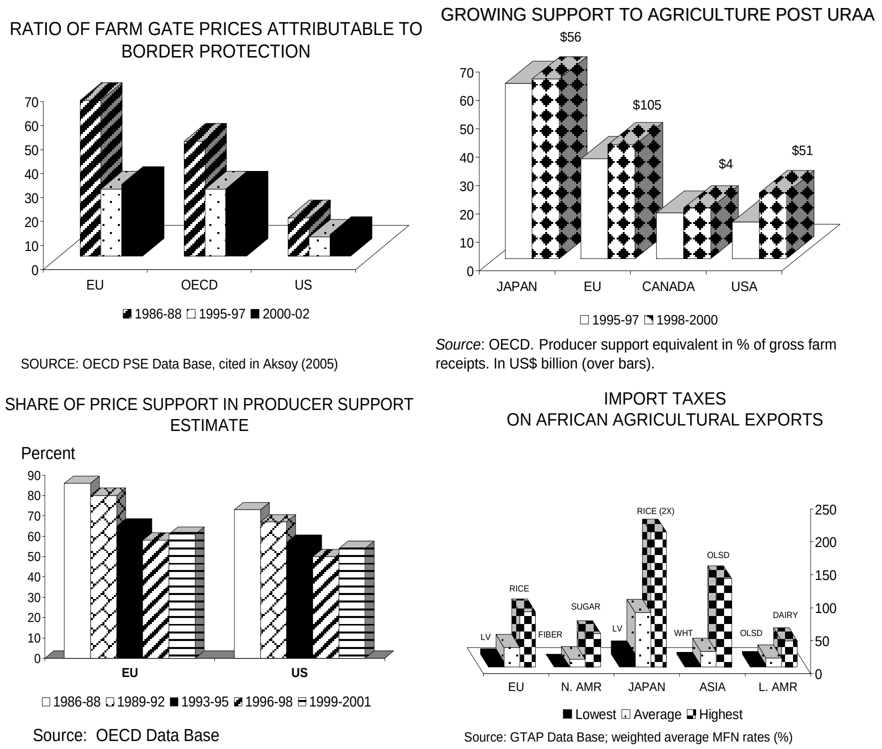


***Figure 1**. Trends in OECD policies*

Moreover, the use of price as a main instrument of support is still widespread. Both in the US and EU, the extent of price support and its share in total producer support have increased again after the mid-1990s. To be sure, they remained lower than in the base years 1986-88. As is well known and documented, that base period was a real outlier and by selecting it, opportunity was provided to weaken the agreement. High levels of protection and support are also prevalent among developing countries, as documented in Anderson et al. (2005).

In the case of African countries, the graphs show that African exports indeed face import taxes in all regions and that these taxes can be quite high for some exports. At the same time, exports to African countries continue to be heavily subsidized.

While it is true that African countries enjoy considerable preferences, in particular when exporting to the EU, the increase in global protection and continued use of price as an instrument of support mean that the associated distortionary implications for world markets in terms of price levels, structure and stability, have remained if not amplified. These effects are transmitted directly into African economies and shape the environment for production and consumption in these countries. The ramifications emanating from this affect the performance of their agricultural sectors. The situation is being further complicated by the emergence of increasingly complex norms and standards and other types of non-tariff barriers. Jaffee and Henson (2005) and Wilson (2002) illustrate the considerable challenge facing African countries with respect to complying with the quality requirements for agricultural exports.

Preferences may not be working

It is often stated in the literature that African countries would lose from further liberalization of global policies given that they are already enjoying preferences that would be greatly eroded by further tariff reduction. This could have been true if the preferences were working. However, a closer look at the evidence reveals that, for whatever reason, they may not be effective. An extensive analysis of the effects of preferences on agricultural exports by African countries has been carried out by Brenton and Ikezuki (2005). The graph in the top right-hand-side corner of Figure 2 is based on their results. It shows the benefit of current preferences by the EU, Japan and the USA to African countries. For that purpose, the value of preferences is expressed in terms of the share in the total exports of individual preference-receiving countries. The countries are then regrouped in three different groupings depending on whether the value of preferences is less than 1% of exports or contained within the 1-5 or 5-20% ranges. In the graph, the bars represent the number of preference-receiving African countries that fall within each of the three groups. For the great majority of African countries, the value of preferences is no more than a small percentage of their exports. The value of preferences granted by the US and Japan, for instance, is less than 1% of exports for about 80% of African countries. Preference benefits are highest for exports to the EU, where more than half of African countries have values ranging between 5 and 20%.

African countries are frequently blamed for failing to exploit these preferences. There may be a multitude of reasons why the value of preferences has been so low, many of them in fact linked to the global trading policy environment, whose impact preferences seek to mitigate. These would include: (i) the long-standing pressure on international agricultural prices due to the rapid expansion of subsidized production in OECD countries over the last four decades; (ii) the increasing instability of world-market prices due to the protection and isolation of domestic markets in an increasing number of countries since the 1960s; and (iii) the degree of distortion that has been introduced into world agricultural markets following decades of intervention in the agricultural sector by dominant trading partners. The agricultural sector in African countries is widely exposed to these developments, which have negatively affected its performance. Furthermore, Africa’s agriculture has been constantly besieged by heavily subsidized exports from a host of sources, not only OECD countries, as shown in the top left-hand-side graph of Figure 2. The recent debates around the Doha round have highlighted the case of the cotton sector in

West Africa, which is just the latest and perhaps more prominent sector to have fallen victim to global protectionism. A closer examination would reveal similar ramifications in other regions in Africa and sectors, including oilseeds, dairy, cereals, beef and, recently, poultry.

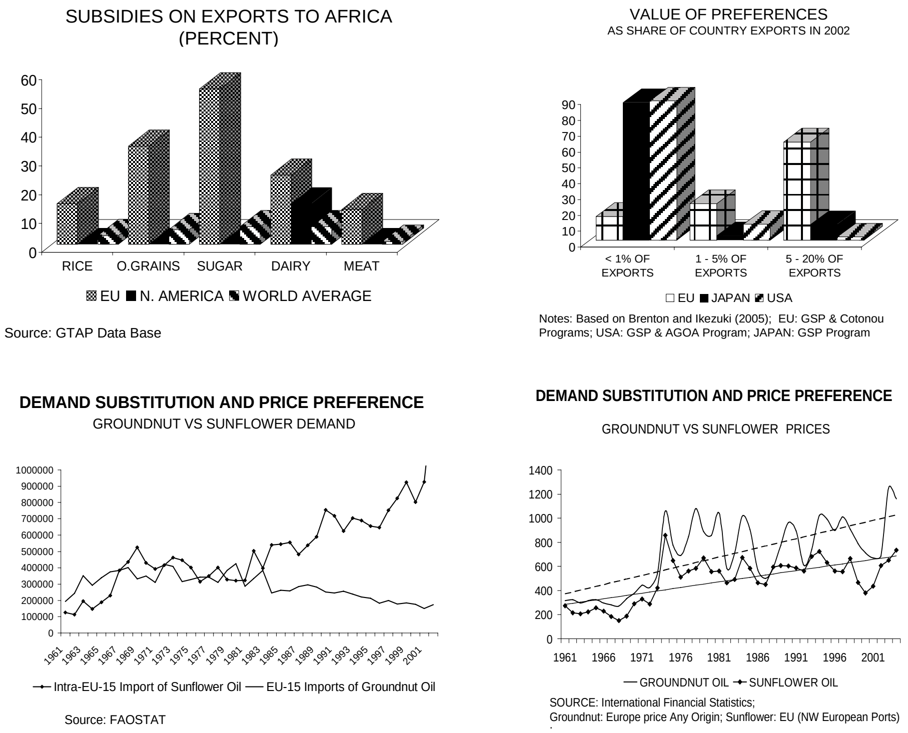


Figure 2. *Subsidies and preferences*

Demonstrative effects of global protectionism undermine preferences

No one can deny the considerable harm that countries' own sectoral policies have done to agriculture in the past. Despite nearly a decade of reforms, detrimental policies still prevail in many African countries. Although they are not necessarily motivated by policy intervention in the North, African governments currently justify distortionary sector policies by pointing to policy regimes in OECD countries, as they have done since the start of the structural adjustment related policy reforms of the 1980s. More importantly, agricultural and agribusiness interest groups more frequently ask their governments simply to copy the North[2]. Recent developments in the cotton sector in West Africa can again be cited here as example. Until the recent collapse of world cotton prices, momentum was gathering to address the institutional and policy weaknesses in the sector. Significant progress was made in the policy debate across the region and some consensus was emerging about the need to reform the sector and create more transparency, greater efficiency and increased participation of farmer organizations in decision making and management. When the world cotton market crisis hit, all the attention was suddenly turned towards subsidies and other support policies in other major exporting and/or producing countries and away from the considerable problems that were threatening long-term viability of the sector from within. It was not the first time that cotton prices collapsed, nor were the policies in competing countries being discovered for the first time. A major factor in the immediate and forceful response among West-African governments to the fall in cotton prices has been its timing. The debate about reforms was at its highest level of intensity and the pressure to move and reform was mounting. It was clear to many actors involved that difficult decisions lied ahead. The crisis was therefore seen and seized as a welcome opportunity to step back from these decisions. The risk and importance of internal institutional and policy deficiencies with respect the sector's long-term viability were quickly ignored. All efforts were now diverted towards fighting production and export subsidy policies in competing countries. The reform process was simply put on hold or eventually rolled back.

A less visible and talked about example happened just recently. At a Presidential Forum organized by an African government and attended by about ten foreign heads of state, the main recommendation was that African countries should erect tariff walls and seek to double prices paid to their farmers. Ironically, the same speakers also recommended that African governments ask developed countries to provide the necessary financial aid also to double prices of export commodities. These positions were defended by several international keynote speakers. The reason was that such policies have succeeded among developed countries. Although the above arguments are untenable and the recommendations certain to be never implemented, they were received with amazing support by the audience. The broad support among the audience highlights one of the many problems associated with the protectionist policy regimes of developed countries: their demonstrative effects for African as well as other developing countries. These regimes have provided some kind of legitimacy for interventionist policies and the continued reluctance to reform them just reinforces the position of those who see no evil in them but rather point to the phenomenal increase in output and dominant position in international export markets after four decades of massive support by developed countries. They do not bother going through the complex analysis of the significant economic losses caused to protecting countries and the high cost imposed on the global agricultural systems.

One can hardly ignore nowadays the fact that global protectionism has emerged as a credibility problem for national as well as international proponents of further reforms in Africa's agricultural sector. It has gradually eroded the support for further reforms that are necessary to restore growth in African agriculture, as it is increasingly perceived as the villain while the exorbitant costs of past domestic policy mistakes are fading in people's memory. The emerging point of view for an increasing number of stakeholders is that, if there is anything wrong with past policies, it is the fact of having reformed or abandoned them. The probable failure of the Doha round in terms of effective liberalization of global trade policies would most likely roll back some of the important sector policy improvement among African countries and hence undermine their capacity to exploit future and possibly expanded preferences.

Demand erosion, demand substitution, and price preference

Preferences basically allow recipient countries to export to preference-granting countries at higher prices. They do not offer protection against export demand erosion due to subsidized expansion in the preference-granting countries of output in the sectors for which preferences are being granted. Nor do they protect against demand substitution, which arises when protection and domestic subsidies boost output of substitute products, which then displace exports in competing sectors. The case of vegetable oil exports to the EU market can be used to illustrate the implications of demand substitution. The bottom left-hand-side graph in Figure 2 shows the evolution of extra-EU imports of groundnut oil compared to intra-EU imports of sunflower oil, a close substitute. The latter rose rapidly during the 1960s, and, by the end of that decade, surpassed the volume of groundnut oil imports, which from that period onward fell steadily. Over the following 30 years, groundnut oil imports into the EU fell by more than half, from a peak of about 400,000 metric tons in the early 1970s to less than 200,000 metric tons in 2002. Intra-EU sunflower oil imports, in contrast, more than doubled to about 1 million metric tons in the same period.

The graph to the right shows the evolution of relative prices during the same period. While the rapidly expanding demand for high-value vegetable oil in the EU has been captured by EU sunflower oil producers, induced changes in world market price ratios between the two products have gradually shifted competitiveness and demand outside of the EU in favour of sunflower oil. Moreover, instability in the groundnut oil market increased substantially over the same period, compared to sunflower oil prices, in addition to a generalized pressure on world vegetable oil prices. That pressure resulted not only from rising vegetable oil production in the EU but also from the expansion of soybean production in countries such as the US and Brazil in order to meet the expanding demand for substitute feed in the EU, following the substantial increase in protected cereal prices in that market. The world market was flooded with soybean oil, a by-product of supplying the EU with soybean meal. The consequence was not only lower export prices for African groundnut oil exporters but also increasing competition in domestic and cross-border markets among African countries. The combination of demand erosion/substitution, unfavourable shift in relative prices, generalized price decline and increasing competition in local markets does not only hurt current producers, processors and exporters, but it also significantly undermines the incentives for long-term investment in the sector. Consequently, the capacity of preference-receiving countries to fill their quotas is weakened, as is that of new entrant countries to invest in expanding production and exports. The trends in the graphs in Figure 2 would suggest that benefits from preferential access to the EU market would be quite limited, certainly much less than African exporters, such as Senegal, would have realized in the absence of the policies that induced the substitution in import demand as well as changes in world prices and vegetable oil supply.

The arguments of demand erosion and substitution are often dismissed quite hastily on the grounds that African countries have often failed to fill their quotas. The counter-argument is weakened by the fact that, like the preferences themselves, the capacity of countries to fill their quotas cannot be treated separately from the global trading environment and its consequences on production and consumption conditions in recipient countries. The failure to fill preference quotas is closely linked to the performance level of export sectors and its underlying factors. As outlined in the preceding sections, the overall performance of domestic sectors in Africa has been significantly affected, directly and indirectly, by global protectionism and trading practices. In other words, preferences are being undermined by the same distortionary effects of global protectionism that they seek to alleviate. The issues are thus broader than price preference and exemption from border protection. Price-related preference erosion should therefore not be treated separately from demand erosion, demand substitution and the possible adjustment in domestic production and consumption patterns in African countries that would result from effective global trade liberalization.

Preferences and incentives for long-term investment in agriculture

A major weakness of preferences, from the long-term growth point of view, is their concessionary character, which makes them less predictable and reliable in the long run. Consequently, they do not create enough incentives for long-term investments. Furthermore, in the context of smallholder conditions, preferences generate rents that are likely to be captured further downstream along the export supply chain, with limited incentive for farm-level investment and modernization. Moreover, in cases where exports are subject to taxation, the preference margins may end up constituting fiscal transfers from preference-granting to recipient countries, with no assurances that the resources so collected would be invested in sectors that are affected by global protectionism.

Even if broad in coverage and more predictable as in the case of EU’s Everything-But-Arms (EBA) initiative, preferences would not solve the problem of demand erosion and substitution resulting from global protectionism. More importantly, the problem is bound to become more acute, the more countries shift their strategies towards markets in preference granting countries in search for ever narrowing export markets. Only effective liberalization of global policies, which is required to remove border protection and eliminate domestic support, would solve the problem of demand erosion and demand substitution. Effective liberalization would, however, render preferences unnecessary. Moreover, broad liberalization would open the rapidly expanding export markets in emerging economies for African exports. By justifying the perpetuation of global protectionism, preferences delay the access to these markets. In summary, preferences need to be coupled with broader liberalization in order to have sustained impact and affect the growth process. Broad and effective liberalization would, however, take away the justification for preferences. From the point of view of African countries, this paradox weakens the case of preferences as a strategic objective under multilateral trade negotiations. The argument of preference erosion loses appeal, unless one assumes that global trade liberalization is impossible and that demand erosion and substitution as well as international trade distortions were to persist. That assumption, albeit currently widely shared, should however not affect the way we account for the benefits and losses of the current system for African countries.

Is the current Agreement on Agriculture benefiting or hurting African countries?

As indicated above, the case against preferences and, as will be seen further below, Special Differential Treatment (SDT), as key pillars of negotiating positions for African countries, is that both are justified only in the case of continued global protectionism, which they, in turn, serve to legitimize. By definition, preferences imply the existence or – in the current case – continuation of protection. SDT for least-developed countries, on the other hand, can be seen as the *quid pro quo* for agreement with a continuation of border protection and domestic support by developed WTO member countries. The numbers shown in Figure 2 above clearly show that preferences have not compensated African countries for the harm they suffer due to global protectionism. On the other hand, the available evidence, in the majority of cases, suggests that African countries would gain from a liberalization of global policies. While there may be disagreement about the size of the gain, there is consensus about the sign of the impact[3]. In all estimates, the cost of global protectionism, as measured by the simulated changes in GDP, value added or incomes, is far greater than the estimated values of preferences reported in Figure 2.

Net food importing countries are often seen as losers because liberalization would lead to higher import prices. These simulations emphasize the effect of increasing world market prices on food import cost in these countries. They often fail to capture the dynamic effects of changes in global policy distortions on production and consumption patterns in African countries. The depressing and destabilizing effects of international agricultural policies on world market prices have been widely analysed and documented. The same policies have also distorted the structure of world market prices quite considerably and increased competition in local and trans-border markets in Africa. Furthermore, preferences and other concessionary arrangements lack the long-term predictability and reliability to induce significant investment in agriculture in African and other preference-receiving countries. Moreover, agricultural protection among OECD countries has a strong demonstrative effect among African policy makers, who see them as proof of acceptability and effectiveness of interventionist and distortionary policies.

If the Doha Round were to lead to effective liberalization, the expected changes in the structure, levels and stability of world prices and of supply conditions in domestic markets would most likely have the double effect of stabilizing and raising the average levels of profits in Africa’s agricultural sector. To the extent that higher and more stable levels of profit, greater transparency in the international trading environment, and improved national policies in African countries translate into higher levels of investment and technological innovation, liberalization would accelerate the rate of growth in African agriculture in the longer run. Indeed, studies that incorporate the dynamic effects of global protectionism suggest levels of gains from global trade liberalization that are several times higher than indicated through standard comparative static methods. For instance, simulations by Anderson et al. (2005), when treating productivity endogenously, increase the gains from trade liberalization in terms of real income among developing countries from US$ 90 billion to nearly US$ 700 billion. The increase among low-income countries would be from US$16 billion to US$ 70 billion. The comparative static version of the study also indicates that the average income gain resulting from global liberalization would be higher in Sub-Saharan Africa than in all other regions. The projected agricultural output and employment growth rates are higher, or at least comparable to, rates that are estimated for other regions[4].

THE DOHA ROUND AND ITS POTENTIAL RISKS FOR AFRICAN COUNTRIES

There are two major risks associated with potential outcomes of the ongoing Doha Round negotiations: (i) a lack of effective liberalization, and thus continuation of global protectionism, with consequences similar to that of the Uruguay Round, as described above; and (ii) Special and Differential Treatment clauses which may perpetuate old, or induce new, policy distortions in African countries that are harmful to their domestic agricultural sector.

The risk of another lost decade for African agriculture[5]

From the point of view of African countries, the real risk is not whether or not an agreement will be reached under Doha. The issue is, rather, whether such an agreement will prove to be any more effective than the current AoA at reducing global policy distortions and opening up market access for African exports. There are several reasons why Doha may not lead to effective liberalization of agricultural policies in OECD countries and thus in the potentially important markets for African exports in emerging countries. Firstly, negotiation modalities for the reduction of domestic support are based on final bound levels as opposed to actual AMS levels, making it unlikely that effective reduction would take place, given the level of cuts that would be implied. Also, given the similarity of modalities with the AoA, the chances of decoupling should be limited if the experiences with the current agreement are taken as indicators. According to Baffes and de Gorter (2004), “the experience with decoupling agricultural support has been mixed while the switch to less distortive support has been uneven across commodities and countries. Rules have changed with new decoupling programs added so expectations about future policies affect current production decisions. Time limits were not implemented and if so, were overruled”.

On the other hand, proposed modalities for market access foresee tariff reduction to be made from bound rates instead of actual, applied levels. In many cases, the gap between the two, or the binding overhang, can be so substantial as to render any tariff cuts ineffective. In addition, countries will have the possibility of designating ‘sensitive products’ which would enjoy ‘flexibilities’ in terms of tariff reduction. The elimination of tariff quotas is not envisaged, nor is broad reduction of in-quota tariffs on the table. It is not clear at this stage that significant progress will be achieved in terms of eliminating tariff peaks, high tariffs and tariff escalation. In addition, such efforts could be further undermined by the introduction of ‘sensitive products’, which may be primary candidates for the application of quotas or subject to high tariffs, tariff peaks and tariff escalation[6]. On the export competition front, export subsidies are still defined in terms of budgetary outlays and quantity commitments, as under the AoA, and not in terms of *ad valorem* subsidy equivalents. The reluctance to negotiate on the basis of *ad valorem* subsidy equivalents would lead to the same loopholes and delays in disciplining export competition. Moreover, as in the other cases, final bound commitments of export subsidy volumes and outlays are being used as a basis for further reduction, not actual levels. Although the objective is to reduce subsidies to zero by the end of implementation period, the modalities involve considerable risk of delaying subsidy cuts for important sectors.

The extent of binding overhang with respect to domestic support and export subsidy commitments is illustrated in Figure 3 below. The left-hand-side graph shows the extent of export subsidy commitment use for selected products, both in terms of volumes and outlays, by all 25 countries that are concerned under the AoA. The share of products benefiting from export subsidies is added. The graph indicates that there should be plenty of room to expand export subsidization both in terms of individual product coverage as well as aggregate quantities and expenditures. It can therefore be expected that a weak agreement would very likely fail to restore export competition effectively.

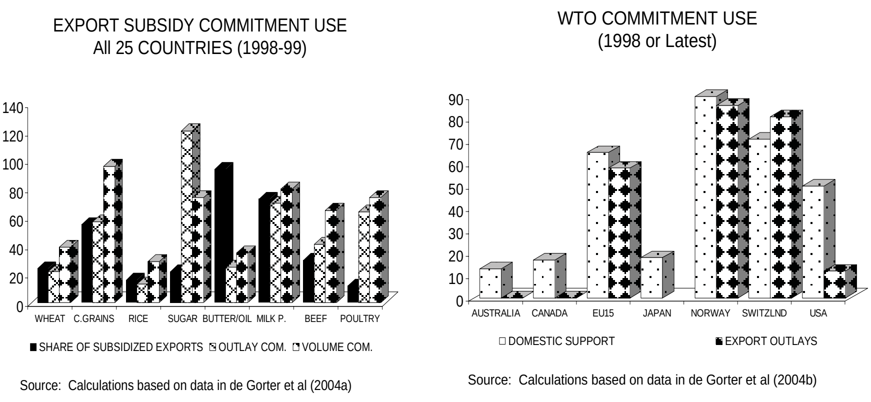


***Figure 3**. Commitment use under AoA*

The right-hand-side graph shows the situation with respect to export subsidies as well as domestic support commitment for selected exporters. Here again, it appears that the binding overhang would call for substantial cuts in domestic support and export subsidies in order to effect real changes. Failure to do so in either case would allow countries to compensate cuts in one area by expanding support in another. Still on the export side, proposed rules to discipline food aid call for the provision of non-emergency food aid in the form of untied financial grants. They would, however, allow in-kind aid to be provided within the framework of programs or projects operated by specialized United Nations food-aid agencies or non-governmental humanitarian organizations and private charitable bodies. The latter two groups would be more difficult to police and could provide considerable loopholes.

The above examples indicate that there are significant risks of another lost decade for African countries in terms of reducing global protectionism and improving access to markets. This conclusion, as well as the preceding discussion, does not ignore the difficulties of negotiating agreements nor the complexities involved in arriving at mutually acceptable outcomes. All it does is to stress the risks that these very difficulties and complexities, as reflected in the draft modalities and the work program (WTO 2003; 2004), may well mean that possible outcomes at this Round would not lead to effective liberalization of global agricultural policies over the next ten years. If that is the case, African countries have would not have much reason to expect great economic benefits from the outcomes.

SDT and its risks for African agriculture

Global negotiations are about detrimental effects of national policies upon trading partners and arrangements to reduce or eliminate such effects. They do not deal with the harmful effects of the same policies on individual countries' own domestic sectors. Agricultural policies in African countries have, however, caused more harm to domestic sectors. Furthermore, Special and Differential Treatment under global trade negotiations seeks to alleviate the burden of compliance with global policy changes among African and other low-income countries. While doing so, they not only ignore the harmful effects of national policies on local agricultural sectors, but also may perpetuate or even accentuate these effects. This risk results from the fact that SDT may be easily accepted by developed countries because they involve little cost to their economies. Ironically, such SDT may have substantial and detrimental effects on agriculture in the developing countries that are requesting them, since they often reflect more the biases of bureaucrats requesting them than the real needs of farmers in African countries.

Several proposed SDT measures are analysed below that entail the risk of encouraging policies that are detrimental to African agriculture. While warnings have been made in the past regarding the risks associated with SDT, there have not been efforts to review negotiation modalities systematically with respect to such risks. For instance, Oyejide (2002) stresses the potentially counterproductive effects of SDT. He suggests the introduction of multilateral rules governing the granting of derogation. However, he sees the risk as limited to derogation with respect to tariff reduction and is open to the granting of full derogation with respect to other obligations. As will be shown, SDT risks under Doha go well beyond tariff reduction.

Current modalities suggest that proposed disciplines outlawing new export prohibitions, restrictions or taxes on foodstuffs shall not be applicable to developing countries (WTO 2003, paragraphs 39 and 40). It is difficult to see how this derogation can be beneficial to the agricultural sector. If anything, it would legitimate and perpetuate a practice that has done and continues to do quite significant harm to the agricultural sector in African and other developing countries. Under export competition, developing countries can, under certain conditions, request an exporting country to provide more generous export-financing terms than permissible under the proposed new rules seeking to discipline export financing. This measure is open to abuse given that both exporting countries and importing countries, willing to satisfy interests of trader groups, would have incentives to use it. Similarly, SDT under export finance rules would allow developing countries to use longer maximum repayment terms and longer instalment periods for principal and interest repayments when providing export finance. While few African countries would make use of this measure, it would weaken the agreement by opening the door for continued subsidization of exports into Africa by exporting developing countries, as illustrated in Figure 2.

Proposed SDT measures under Article 6.2 would allow countries to provide input subsidies. The benefit to farmers from such derogation is obvious. However, the absence of discipline as to under which conditions and in which form such subsidies can be provided could lead to government interference in input distribution and output marketing sectors. Similarly, SDT related to provision of subsidies for concessional loans through established credit institutions for the establishment of credit cooperatives entail the risk of interference with lending policies and practices and hence viability of the banking sector. Also, SDT targeting assistance for the establishment and operation of cooperatives, risk management and compliance with sanitary and phytosanitary measures should be beneficial. It may, however, lead to intervention in the marketing system to control prices, crop movement or other sales strategies.

Under export competition, proposed rules disciplining State Trading Enterprises (STEs) would exempt developing countries from prohibition of STEs to restrict the right of any interested entity to export agricultural products or purchase such goods for export. Further, the Doha Work Program (WTO 2004) postulates that “STEs in developing country Members which enjoy special privileges to preserve domestic consumer price stability and to ensure food security will receive special consideration for maintaining monopoly status” (Annex A, paragraph 25). Another proposed rule that would be applicable to all WTO members would ensure that STEs do not export at a price that is less than the price paid to domestic producers. While such a rule would protect foreign suppliers from dumping, the exemption being granted to developing countries under the above SDT measure would, on the other hand, allow STEs in these countries to suppress export demand and thus lower prices paid to local farmers. While it is difficult to see how such derogation could benefit the agricultural sector in African countries, its risks for the sector are enormous and obvious.

In all the above cases, SDT should spell out certain principles governing their application. One may contend that global negotiations are not the place to address strictly self-inflicted harm and that it is the responsibility of SDT-using countries to use them wisely and to the benefit of their farming sector. History has taught us that this is not always the case, certainly not in many African and developing countries. On the other hand, it can be argued that SDT measures resulting from global negotiations provide some sense of global legality to distortionary practices in the sense that they can be now seen as WTO compliant. When practices are being cemented and legitimized in international agreements, it is certainly justified to expect that such agreements provide safeguards against abuse of these practices. For instance, disciplines could be introduced in connection with the above SDT, which would ensure that subsidies are applied at farm level and without interference with the pricing and distribution of inputs by private sector operators. SDT dealing with market risk, compliance with norms, and support to cooperatives should include provisions to avoid their leading to price controls and other forms of restrictions to operations by private traders.

At a more general level, SDT implies delayed reform by African and other developing countries. As shown by most studies, a significant share of the potential benefits from global trade reform would come from changes in policies in developing countries. Anderson et al. (2005), for instance, conclude that “reform by developing countries is nearly as important in terms of economic welfare gains to the South as reform by high-income countries”. Furthermore, if liberalization were to follow the tiered formula proposal in the current modalities, developed countries would reap 90% of the gains from reforms. If that is the case, then the cost and risks of SDT would significantly reduce its value to African and other developing countries.

KEY ELEMENTS OF SUCCESSFUL DOHA OUTCOMES FOR AFRICAN COUNTRIES

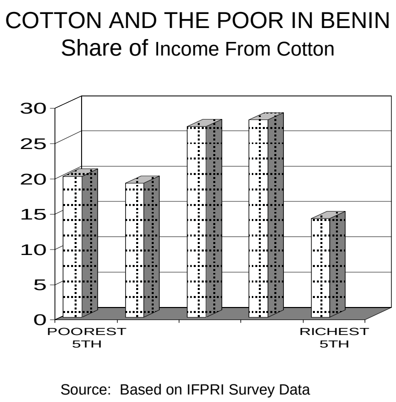
One often reads in the literature that reform of policies in OECD countries is politically unfeasible. Yet, OECD leaders are at the forefront of trade negotiations efforts. Either they believe that changes are possible or they are convinced that the current situation is increasingly politically unacceptable and thus have to display a willingness to act. Whatever the case, African countries cannot and should not buy into that argument. They have the most to lose under a continuation of global protectionism. Their efforts to achieve sustainable growth would be significantly hampered. On the other hand, OECD countries do have choices. They have the possibility to choose instruments that help them achieve their goals in the agricultural sector while not harming African economies. The difficulty for African countries is that global negotiations are based on a philosophy that places the emphasis on give and take, a mutual removal of harms caused by economic policies. If one party is hurt by the policies of another party but the former is not in a position to remove some harm that is caused by its own economic policies on the latter – because such harm is limited or does not exist, such as in the case of African countries – then it becomes difficult, if not impossible, for the former party to obtain satisfaction.

So far, trade negotiations have been effective in dealing with mutual harms. They have not been able to deal with a situation where the harm is in one direction and the economy that is being harmed has no economic means of pressure on the perpetrating country. African countries find themselves in this situation with respect to global protectionism. Considerable pressure has been exerted on developed countries at the beginning of the Doha Round to shift the negotiating philosophy to deal with unidirectional or absolute harm, when the policies of a given country are causing considerable harm to another, which is not in a position either to retaliate or to offer some type of economic reprieve. The strategy here has been to move towards a so-called development round. Looked at carefully, the rationale underlying the ‘development round’ concept is one that is based on the unlikelihood or impossibility of African policies to cause harm. The underlying argument is that they have not caused harm now, and hence do not have to be targeted for reform in the negotiations; they cannot cause harm in the future, and thus should be exempted from future agreements through SDT and other types of derogation.

As pointed out earlier, the consequence of this strategy is to legitimize the perpetuation of global protectionism from the point of view of African countries and their advocates. It has, however, been quite helpful in taking the negotiations away from the offer and counter-offer paradigm. In order to be really helpful to African countries, the strategy should be expanded to recognize the right of African economies to equal opportunity to compete. Two decades of bilateral and multilateral conditionalities and reforms to rid their economies of policy distortions give them the right to expect removal of distortions and policy interventions, in particular, in the countries that have supported and helped enforce these conditionalities. African countries also have the right to expect the discourse about globalization and their integration into the world economy to be reflected in the rules and principles governing global trade and economic relationships between countries. A basic principle is that economic relationships and exchange between countries be based on the market mechanism. African countries have the right to demand that these principles be also extended and fully applied to agricultural trade. Whether or not they succeed in obtaining satisfaction during the Doha or subsequent rounds should not change this position. More importantly, they should have no interest in entering into agreements that would keep them away rather moving them closer to that outcome.

Furthermore, the efforts by OECD countries and multilateral organizations to mobilize the world in eliminating poverty in African and other developing countries should dictate greater efforts towards effective liberalization of global agricultural markets. A continuation of global protectionism would starkly reduce the capacity of many African countries to achieve faster and broad-based growth. It would also reduce returns to official development assistance (ODA) and other efforts to spur growth in these countries. Vast segments of the population in these countries would continue to suffer the vagaries of international markets resulting from global protectionism.

Figure 4 illustrates the vulnerability of the poorest segments of the population in Africa to developments in international agricultural markets. Contrary to what many may think, many poor households in Africa depend on export crops for their livelihood, as indicated by the share of cotton in the incomes of poor rural households. In the present case, the poorest 40% among rural households derive about 20% of their income from cotton against less than 15% among the richest 20% of households. The right-hand-side graph shows the impact of falling world-market prices on poverty among rural households. A one percent decline in the world market price of cotton translates to a 0.5% decline in average incomes. It raises the poverty incidence (P0), or the number of households below the poverty line, by 1.5%. It increases the poverty gap (P1), or the difference between the average income of poor households and the poverty line, by nearly 2%. It makes the poorest among the poorest poorer by increasing the poverty depth (P2) by 3.5%.



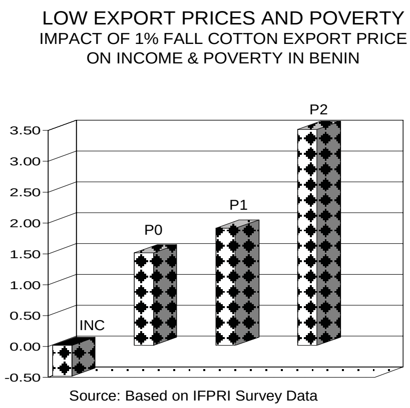


Figure 4. *World markets and poverty in Africa*

Based on the arguments laid out above, successful negotiations from the point of view of Africa's long-term development interest should include: (i) effective decoupling of domestic support measures; (ii) full elimination of export subsidies; (iii) removal of border protection, including in emerging and middle-income countries; (iii) pursuit of the reform agenda in African countries; and (iv) disciplined SDT targeted as much as possible to compliance assistance. Preferences and untargeted SDT would just serve to legitimize global protectionism and hinder global liberalization efforts. Even, in this case, it is unlikely that agreements would be reached for all developed counties to provide EBA-style duty and quota free access for imports from African countries, as is timidly proposed in the current modalities. Moreover, such arrangements would need to be made binding to some extent to make some difference to long-term investment and growth. Such an option is currently not on the table. Rather, countries are being asked to consider EBA-style preferences on a voluntary and autonomous basis. Still, EBA-style preferences by developed countries would not open access to the faster growing markets in emerging countries to African exports. As illustrated in Bouët et al. (2001), market access measured by MAcMaps' aggregate measure of protection, which converts and sums up the *ad valorem* equivalents of various instruments of protection, is also highly restricted among emerging and other developing economies. The numbers that are reported for a sample of developing countries including Brazil, China and Morocco show overall food and agricultural protection and tariff peak levels that are similar to or higher than the levels observed in the US, EU or Japan. The ranking of countries by degrees of overall protection places these countries ahead of the US, EU and Japan.

Africa would still need some type of SDT in the case of full liberalization, but it would focus on compliance assistance rather than preferences and derogation. If SDT measures should involve derogation, they would have to be disciplined and rules defined for their applicability in cases where there is substantial risk of abuse. African governments would have to improve governance and economic management significantly. They would have to invest in business skills development, quality management systems, research and infrastructure. Although they will need assistance for a while to come, there is quite a bit that African countries can do on their own in these areas. For instance, the types of 'development interventions' that Dorward et al. discuss in their chapter in this volume could apply here, but not as substitutes to global trade liberalization. Rather, they could be considered accompanying measures. All three types of interventions – supply chain coordination, pump priming of investments, and threshold shifting – can be carried out through public partnership programs.

More problematic would be proposals for African countries to resort to protection, as implied partly under the threshold-shifting intervention option. Although one can try to make a historic case for protection, as in the chapter by Koning, there is enough evidence in the literature to show that the price instrument is too costly in terms of its intersectoral and economy-wide ramifications. Protection may have worked historically, perhaps, because it was an answer to slow and long-term changes in comparative advantages. It would be a poor answer to relative cost changes that result from foreign production and export subsidies that can be varied at will and overnight to wipe out any benefit from protection by African countries. Moreover, protection in African countries in the context of continued global protectionism would fail for the simple reason that African countries could not possibly 'outprotect' OECD countries. And even if they could, the cost and level of required protection among African countries would be lower with lower levels of global protectionism. Protection by African countries can therefore not be seen as an alternative to global trade liberalization.

Also, the research community will have to be significantly more relevant and helpful to African governments as they strive to cope with the effects of globalization and international protectionism. Rather than investigating Africa-wide implications of global trade liberalization, which is helpful in highlighting the overall cost of protectionism, or assuming away the capacity of African countries to adjust positively to changes in the global trading environment in the case of liberalization, the research community could be looking at investment and policy options that would help individual African governments craft strategies to gain from such liberalization. There is no Africa-wide government that can apply lessons and recommendations that are drawn from studies where African countries are lumped together in an artificial construct. Also, research that inherently assumes that African governments would respond to liberalization with little or no changes in strategies should be neither helpful nor relevant. We know the implications of the *status quo* and they are disastrous for African development, as indicated by the preceding discussion. The real issue is how to make effective liberalization beneficial for African countries, a question that can only be answered by country-level research that targets necessary investment and policy adjustment options.

CONCLUDING REMARKS

African countries are more vulnerable to global protectionism in agriculture than any other region of the world, due to the key characteristics of their economies. They have been affected negatively by the combination of domestic subsidies, border protection, unfair export competition and distortions in global markets. The preferences that have been introduced to mitigate some of the effects of global protectionism on African counties turn out to be less beneficial than hade been hoped for. In the aftermath of the Uruguay Round and in particular during the Doha Round, African countries and their supporters have placed substantial emphasis on Special Differential Treatment and other derogation to global trading agreements. While the value of preferences has been shown to be limited, SDT can involve significant risks and be open to abuse. Perhaps African countries have given up the hope that global protectionism can be reformed. Ironically, by positioning themselves for preferences and SDT, they help perpetuate and legitimize international protectionist policies.

Most studies conclude that African countries would gain from effective global trade liberalization. These gains are higher when long-term productivity adjustments are taken into consideration. By failing to reform international protectionist policies effectively, global trade negotiations have not responded to the real needs of the African economies. The philosophy of offer and counter-offer characterizing these negotiations is not geared towards addressing situations where there is absolute and not relative or mutual harm, in other words, a situation where the harm is unidirectional and the party being hurt is not in a position to offer some type of economic reprieve as an incentive for concessions from the party perpetrating the harm. It is only when negotiations are ready to deal with absolute harm that they will be able to address the case of African countries effectively and satisfactorily. The introduction of food security and development objectives into the Doha Round is a step in the right direction. The next step would be to reduce the emphasis on preferences and untargeted and undisciplined SDT in seeking to address these objectives under the framework of global trade agreements.

Elimination of the detrimental impact of global protectionism on economic growth and development prospects among African countries would require effective liberalization of global agricultural policies. This should be the objective of African countries under international trade negotiations. Any SDT to be sought and granted under such negotiations should be targeted to compliance facilitation and disciplined in order to avoid possible abuse. The time for such dramatic changes may not have arrived yet. The Doha agenda and the current modalities are too timid to lead to any significant reduction in actual support, subsidies and access barriers during this round. African countries will have to look beyond Doha, accept the reality of another lost decade, and use the coming years to prepare themselves appropriately for maximum success during the next round.

NOTES

[1] See Johnston and Mellor (1961), Lewis (1954), Michaely (1977), Heller and Porter (1978) and Balassa (1978). More recent work on the link between trade, economic growth and poverty can be found in Dollar and Kraay (2004), Winters (2002; 2004) and Winters et al. (2004).

[2] Such demands often target the more distorting and rent-inducing elements of OECD policies than the more justifiable interventions such as investments in infrastructure and research, for instance.

[3] For recent estimates, see Van de Mensbrugge and Beghin (2005), Anderson (2003; 2004), Francois et al. (2003), William Cline (2004), Ianchovichina et al. (2001) and Hoekman et al. (2001).

[4] See Anderson et al. (2005), Tables 16, 12.3, 12.12 and 13.

[5] The modalities and disciplines cited in this section are described in WTO (2003; 2004).

[6] Simulation results in Anderson et al (2005) suggest that application of 'sensitive product' status to 2% and 4% of production in developed and developing countries, respectively, would reduce gains from reforms by about 80%. Furthermore, protection measures based on CEPII's MAcMaps tariff measures reported in Bouët et al. (2001) indicate that elimination of tariff peaks alone would significantly reduce the aggregate rate of tariff on agricultural and food products.

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