

Institute of Diplomacy and International Studies

**“ THE ROLE OF AGRICULTURAL SUBSIDIES IN THE
WORLD TRADE ORGANIZATION (WTO) NEGOTIATIONS,
1995 – 2005 ”**

**Research Project submitted to the Institute of Diplomacy and
International Studies in partial fulfillment of the requirements for the
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DECLARATION

I declare that this project thesis is my original work and has not been submitted anywhere for any academic purposes.

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DEDICATION

I would like to dedicate this project to my family members, namely my mother Teresia Kabura, my dad Simon Kamau, my husband David Karanja and sons, Joseph, Victor and Adrian.

ACKNOWLEDGEMENT

For their support, encouragement as well as confidence and trust in me, I would like to whole heartedly acknowledge my family members namely, my husband David Karanja, and sons Joseph, Victor and Adrian.

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ABBREVIATIONS

ACP	African Caribbean and Pacific countries
AGOA	African Growth and Opportunities Act
AOA	Agreement on Agriculture
ASEAN	Association of South East Asian Nations
CAP	Common Agricultural Policy
CITEE	Centre for International Trade Economics and Environment
CUTS	Consumer Unity and Trust Society
DDA	Doha Development Agenda
DFQFA	Duty-free and quota – free market access
EBA	Everything but Arms initiative
GATS	General Agreement on Trade in Services
GATT	Agreement on Tariffs and Trade
GDP	Gross Domestic Production
ICTSD	International Centre for Trade and Sustainable Development
IF	Integrated Framework for Trade-Related Technical Assistance to Least Developed Countries.
IFPRI,	International Food Policy Research Institute
ILEAP	International Lawyers and Economists Against t Poverty
IMF	International Monetary Fund.
KIPI	Kenya Industrial Property Institute
MFN	The Most Favored Nation Treatment
NAFTA	North American Free Trade Area
NAM	Non- Aligned Movement

NAMA	Non Agricultural Market Access
NGO's	Non-Governmental Organizations
NIEO	New international Economic Order
OTDS	Overall Trade Distorting Support
QRs	Quantitative Restrictions
S&D	Special and Differential treatment
SEATINI	Southern and Eastern Africa Trade Information AND Negotiations Institute
TRIMS	Trade Related Investment Measures
TRIPS	Trade Related Intellectual Property Rights
TWN	Third World Network
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNFCCC	United Nations Framework Convention on Climate Change
URAA	Uruguay Round Agreement on Agriculture
VER's	Voluntary Export Restraints
WB	World Bank
WTO	World Trade Organization

ABSTRACT

There are different views on the reasons that have contributed to the stalled Doha Round of Trade Negotiations in the World Trade Organization. Most scholars as well as some WTO Members suggest that the main cause of the stalled negotiations is the controversy surrounding the negotiations in agriculture and particular the agriculture negotiations on subsidies. This study explores the main reasons that have led to the stalled Doha Round of trade negotiations, and whether this lack of progress in the negotiations can only be attributed to the controversy surrounding the agriculture negotiations and in particular the subsidies negotiations or to other factors. The history of the inclusion of agriculture as a subject of negotiations in the Multilateral Trading System is discussed in the study as well as the role that coalition groups have played in the negotiations. The dependency Theory is used to explain the current status of the WTO negotiations and the prevailing relationships and interaction among the developed and developing countries in the WTO negotiations. The methodology used in the study includes personal interviews and documentation on the WTO negotiations, mainly books, reports, government records as well as written articles. The key findings from the study are that the negotiations on agricultural subsidies are not the only factor contributing to the lack of progress in the WTO negotiations and that other factors may also be contributing to the slow progress of the negotiations e.g. the enlarged WTO agenda, increased Membership and the political dynamics in the negotiations. The study concludes that these other factors should be addressed in tandem with the

agriculture negotiations. In addition, the study concludes that developing countries should not be expected to further liberalize their agricultural sectors but they should be allowed to subsidize their farmers by the WTO. The study further concludes that the developed countries should reduce the trade distorting support to their farmers in order to create a level playing field in the international scene.

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Chapter 1

BACKGROUND TO THE STUDY

I.1 Introduction

After the Second World War, restoring economic growth and stability through the promotion of trade was crucial to securing lasting peace. It was this vision that led to the creation of the Multilateral Trading System in 1948. At first, this was a provisional agreement between 23 countries called the General Agreement on Trade and Tariffs (GATT). However, on January 1, 1995 the World Trade Organization (WTO) was formed replacing GATT with a more formal institutional arrangement. The WTO was born out of negotiations, and everything the WTO does is the result of negotiations. Its membership today includes 153 countries, each with its own level of economic development and with its own set of economic priorities. As of 4th April, 2011, Russia and Vanuatu accessions were at the final stage.¹ The WTO Headquarters are in Geneva, Switzerland.

The World Trade Organization is the only international organization that oversees trade among member nations and acts as a forum for governments to negotiate trade agreements and settle trade disputes under a system of rules and procedures. The WTO is responsible for overseeing the Multilateral Trading System, which has gradually evolved over the last 50 years. Its aim is to increase world trade by lowering barriers to

¹ <http://www.wto.org>

the international sale of goods and services, including intellectual property. At the heart of the WTO are trade agreements, negotiated and signed by the bulk of the world's trading nations. These documents provide the legal ground rules for international commerce. They are essentially contracts, binding governments to keep their trade policies within agreed limits. Although negotiated and signed by governments, the goal is to help producers of goods and services, exporters, and importers conduct their business, while allowing governments to meet social and environmental objectives.

The WTO is guided by some fundamental principles of the trading system: The Most Favoured Nation (MFN) principle which stipulates that Members cannot discriminate between trading partners in terms of tariffs, regulations and minimum protection of inventions. The National Treatment principle demands that imported and domestic goods should be treated equally in terms of domestic duties and regulations. The WTO advocates for the prohibition of quantitative restrictions (QRs) and the use of tariffs as the only other measure for members to undertake tariff-binding commitments.² In addition the WTO encourages transparency and therefore WTO Members are required to notify any measures or regulations which are affecting trade to other WTO members. Lastly, the WTO undertakes regular reviews of member countries trade policies measures for transparency purposes. For example, the Trade Policy Review of the East African Countries (EAC) is scheduled to take place in October, 2012 in Geneva.

² <http://stats.oecd.org>

The bulk of the WTO's current work comes from the 1986–94 negotiations called the Uruguay Round and earlier negotiations under the General Agreement on Tariffs and Trade (GATT). The WTO is currently the host to new negotiations, under the 'Doha Round of Trade negotiations launched in 2001, Qatar during the Fourth WTO Ministerial Conference. The Doha Work Programme is often referred to as the Doha Development Agenda(DDA) because of the emphasis it placed on addressing the development needs and concerns of developing and least developed countries.

The Doha Work Programme consists of issues that are under negotiation and those that are non-negotiating issues. The issues subject to negotiations are under the overall supervision of the Trade Negotiations Committee³ chaired by the Director – General of the World Trade Organization. These issues include the following: Agriculture, Non Agricultural Market Access (NAMA), Trade in Services, Trade Facilitation, Clarification of WTO Rules on Anti-dumping, Subsidies and Countervailing Measures, Regional Trade Agreements, Fisheries Subsidies, Trade and Environment, Trade Related Intellectual Property Rights (TRIPS), and Special and Differential Treatment provisions (Development Issues).

The issues outside the negotiating mandate of the Doha Work Programme are those related to the implementation of past commitments as well as issues subject to discussion with a view to drawing up any possible recommendations. These issues are

³ The Trade Negotiations Committee (TNC) operates under the authority of the WTO General Council. It was set up by the Doha Declaration, which in turn assigned it to create subsidiary negotiating bodies to handle individual negotiating subjects.

under the supervision of the WTO General Council⁴ and include the following: Trade Related Intellectual Property Rights (TRIPS) and Public Health, Small Economies, Technical Cooperation, Trade and Transfer of Technology, Trade and Debt, Coherence and Aid for Trade.

The WTO system's overriding purpose is to help trade flow as freely as possible - so long as there are no undesirable side effects - this is important for economic development and well-being of the people. That partly means removing obstacles to trade. It also means ensuring that individuals, companies and governments know what the trade rules are around the world, and giving them the confidence that there will be no sudden changes of policy by ensuring that the rules are 'transparent' and predictable.

Trade relations often involve conflicting interests. Agreements, including those painstakingly negotiated in the WTO system, often need interpreting. The most harmonious way to settle these differences is through some neutral procedure based on an agreed legal foundation. That is the purpose behind the dispute settlement process written into the WTO agreements.

There are two main benefits that accrue from the WTO system. First, the system helps to keep the peace by allowing disputes to be handled constructively. As trade expands

⁴ The General Council is the WTO's highest-level decision-making body in Geneva, meeting regularly to carry out the functions of the WTO. It has representatives (usually ambassadors or equivalent) from all member governments and has the authority to act on behalf of the ministerial conference which only meets about every two years.

in volume, in the number of products traded, and in the numbers of countries and companies trading, there is a greater chance that disputes will arise. The WTO system helps resolve these disputes peacefully and constructively. In addition it gives smaller countries more voice and frees the major powers from the complexity of having to negotiate trade agreements with each of their numerous trading partners.

The second benefit of the WTO is that of raising incomes and standards of living. Lowering trade barriers allows trade to increase, which adds to incomes - national incomes and personal incomes. Trade stimulates economic growth, and that can lead to employment. In practice there is often factual evidence that lower trade barriers are conducive for employment.

Some of the other most prominent ongoing economic negotiations, especially regionally, include; the Association of South East Asian Nations (ASEAN), North American Free Trade Area (NAFTA), Organization of European Community Development (OECD), African Growth and Opportunity Act (AGOA). The agreements out of these negotiations are meant to remove trade barriers and enhance the smooth flow of trade among member states, thus contributing to peace and stability within the regions.

1.2 Statement of the Research Problem

The Multilateral Trading System plays a fundamentally important role in global food security. Agricultural trade remains in many countries an important part of overall economic activity and continues to play a major role in domestic agricultural production

and employment. For example in Kenya, agriculture directly contributes 26% of the GDP and obliquely a further 27% of the GDP through linkages with manufacturing, distribution and other service-related sectors⁵. There has been differing views on the role of agriculture in world trade as well as what should be the main focus of the WTO agriculture negotiations. While some scholars express the importance of fully liberalizing the agricultural sectors others argue that particular attention need to be given to the agriculture sectors in developing countries so that gradual rather than rapid liberalization is advocated for in these countries. Arising from the sensitivities attached to the agriculture sector in most WTO member countries, it has been argued that agriculture negotiations hold the key to the success of the Doha Round and that progress in other areas of the negotiations is determined by progress in the agriculture negotiations.

It is worth noting that the environment in which trade negotiations take place has changed since the completion of the Uruguay Round of trade negotiations in that most developing countries have joined the WTO. Given their consequent greater representation (two-thirds of the 153 members of the WTO) this group plays a more active role and their specific interests have more influence in shaping the agenda of the future rounds of trade negotiations. Other important changes include the current agricultural policy reforms in the European Union; the implementation of the various new trade arrangements (e.g. MERCUSOR, NAFTA, CARICOM, ASEAN etc.), the domestic agricultural policy adjustments in the USA, Australia, Canada and Japan

⁵ www.planning.go.ke

amongst others and the unilateral trade liberalizing policy reforms that have been adopted in several developing countries.

My interest in undertaking research on this topic developed from a quest to ascertain whether claims that the delay of the conclusion of the Doha Round which has been ongoing since 2001 is caused by disagreements of WTO members on agriculture and not other factors e.g. the political dynamics in the WTO negotiations.

This study will therefore explore the main reasons for the stalled WTO Doha Round of trade Negotiations and whether this lack of progress in the negotiations can be directly associated with the sensitivities involving agriculture subsidies negotiations. The delay in the conclusion of the Doha Round requires detailed research because it may affect the credibility of the WTO as an organization, the development of fair trade rules in agriculture for third world countries who heavily depend on agriculture and this may in the long run threaten international peace and security.

In particular the study will focus on the role subsidies have played in delaying the conclusion of the agriculture and by extension the entire WTO negotiations. The research will therefore shed light on existing debates on the importance attached to agriculture subsidies negotiations as it concerns progress on other related areas of the negotiations i.e. the intersections between agriculture, services and manufactured products in the negotiations and their implications for both process and outcomes.

Given the difficulties experienced by WTO Members in arriving at a mutually beneficial outcome of the Doha Round due to the concerns raised in the agriculture negotiations, the research will seek to establish whether these concerns have been the main factors behind the delayed conclusion of the Doha Round of trade negotiations. Other factors that may contribute to the delay will also be examined. The research will also briefly examine the reasons behind the failure of other economic negotiations such as climate change, for comparative purpose.

1.3 Research questions

- What are the key contentious issues in the agriculture negotiations?
- Is the reduction of subsidies a contribution to the failure of progress in the WTO negotiations on agriculture and by implication the entire WTO negotiations?
- Should developing countries be allowed to continue subsidizing and protecting their agricultural sectors?

1.4 Purpose of the Study

The general purpose of the research is to identify the key contentious issues in the agricultural subsidies negotiations and their contribution to the stalemate in the WTO negotiations.

1.5 Objectives of the Study

Specifically the study aims to:

- a) Examine the key contentious issues in agriculture negotiations,
- b) Determine whether subsidies have contributed to the failure of progress in the WTO negotiations on agriculture,
- c) Examine the extent and manner in which developed countries subsidies affect and perpetuate poverty and economic decline in agricultural productivity in developing countries.

1.6 Justification of the study

The Doha Round of Trade negotiations was supported by the developing countries during its launch at the Fourth WTO Ministerial Conference held in on 14th November 2001 in Doha Qatar due to the fact that the Round was expected to place the needs and interests of the developing countries at the centre of its work programme. At this Conference, WTO Members also committed themselves to establish a fair and market oriented trading system through a program of fundamental reform, rules and specific commitments in order to prevent restrictions and distortions in world agricultural markets. This objective has not been achieved to date.

This research is important in the sense that it explores the extent to which WTO members have catered for the interests of developing countries during the agricultural negotiations. It also explores whether the controversy in the WTO negotiations in agriculture have led to the stalled WTO negotiations.

Agriculture has been chosen as the focal point over other equally important issues for this study largely because of the centrality of agriculture and therefore food security in the development agenda of developing and African countries.

For example, it is notable that most African country economies are agriculture based yet not much has been achieved in terms of mechanization of the processes which most often exposes them to the vagaries of nature hence frequent food shortages.

This research is important to policy makers such as key government officials for example in the Ministries of Agriculture & Trade as it will assist them to formulate liberal policies that open up the markets while safeguarding national interests. Similarly, it establishes whether the Doha negotiations have led to a fair market oriented trading system with less restrictions and distortions in the agricultural sector. Specifically the information gathered in this research will not only be useful for developing and African countries policy makers both at the national and domestic levels but will also be utilized by developing country negotiators particularly those from Africa to articulate and support their positions in the agriculture negotiations at the WTO.

In the field of academics, the research will add to the existing body on knowledge with regard to WTO trade negotiations on agriculture.

1.7 Literature Review

Since 1947, when the General Agreement on Tariffs and Trade (GATT) was created, the world trading system has benefited from eight rounds of multilateral trade liberalization, as well as from unilateral and regional liberalization. The last of these eight rounds, the so-called "Uruguay Round" was completed in 1994 and this led to the establishment of the World Trade Organization (WTO) in January 1995 to help administer the growing body of multilateral trade agreements. The Uruguay Round will be discussed in detail in Chapter two.

The WTO Agreement on Agriculture was negotiated during the 1986–94 Uruguay Round and was a significant first step towards fairer competition and a less distorted agriculture sector. The Agreement came into force on 1 January 1995. During the Uruguay Round WTO member governments agreed to improve market access and reduce trade-distorting subsidies in agriculture. In general, these commitments were expected to be phased out in over six years from 1995 (10 years for developing countries). The WTO Agriculture Committee oversees the Agreement's implementation.

Up-to-date, WTO members have not succeeded in establishing a fair and market oriented agricultural sector as envisaged in the Agreement on Agriculture. The negotiations have been difficult because of the wide range of views and interests among member governments. The agriculture negotiations aim to contribute to further liberalization of agricultural trade. This is expected to benefit those countries which can

compete on quality and price rather than on the size of their subsidies. That is particularly the case for many developing countries whose economies depend on an increasingly diverse range of primary and processed agricultural products, exported to an increasing variety of markets, including to other developing countries.

WTO members are currently engaged in the Doha Development Agenda (DDA) negotiations which were launched in 2001 in Doha Qatar. The main objective of these negotiations was to address the trade imbalances between the developed and the developing countries hence the incorporation of the development aspect of the negotiations specifically to take on board the interests of developing and least developed countries in the negotiations. The Doha Declaration⁶ recalls the long term objective referred to in the Agreement on Agriculture to establish a fair and market oriented trading system through a programme of fundamental reform encompassing strengthened rules and commitments on support and protection in order to correct and prevent restrictions and distortions in world agricultural trade. It also reconfirms that special and differential treatment for developing countries will be an integral part of all elements of the negotiations.

However, WTO members are still engaged in negotiations with the aim of fulfilling the mandate agreed upon during the Uruguay Round and reaffirmed at Doha, Qatar. They have not been successful in completing the negotiations mainly because of the sensitivities in the agriculture negotiations. Political engagements at Ministerial level

⁶ The Doha Declaration was adopted by the WTO Ministerial Conference of 2001 in Doha on November 14, 2001

have also ended in disagreement mainly because of disagreements in agriculture. It may therefore be argued that until there is positive movement in the agriculture negotiations chances of concluding the Doha negotiations soon are very narrow.

It is worth noting that the performance of agriculture over the last three to four decades has not been particularly robust. The sector experienced very low rates of growth in 1970s but growth rates increased somewhat during 1980s and 1990s. In particular real annual average agricultural Gross Domestic Product (GDP) growth rose from 1.1% in the 1970s through 2.3% in the 1980s to 2.5% in 1990s. (Townsend, 1999: FAO, 2003⁷) In spite of this upward trend, the growth of African agriculture, per capita agricultural growth has been low or negative over much of this period. Africa continued to lag behind other developing regions and remained the only region with agriculture growing at a rate that is below the overall population growth rate.

The Doha Development Round or Doha Development Agenda (DDA) is the current trade-negotiation round of the World Trade Organization (WTO) which commenced in November 2001. Its objective was to lower trade barriers around the world, to facilitate the increase of global trade. As of 2008, talks had stalled over a divide on major issues, such as agriculture, industrial tariffs and non-tariff barriers, services, and trade remedies. The most significant differences are between developed nations led by the European Union (EU), the United States, and Japan and other major developing countries led and represented mainly by Brazil, China, India, South Korea, and South

⁷ Townsend, 1999: FAO, 2003

Africa. There is considerable contention against and between the EU and the USA over their maintenance of agricultural subsidies seen to operate effectively as trade barriers.

The Doha Round began with a ministerial-level meeting in Doha, Qatar in 2001. Subsequent ministerial meetings took place in Cancun, Mexico (2003), and Hong Kong (2005), Germany 2007 and Geneva 2009.

At the 2011 annual conference of the World Economic Forum in Davos, British Prime Minister David Cameron called for the Doha talks to conclude by the end of the year, saying that “we’ve been at this Doha round for far too long. It’s frankly ridiculous that it has taken 10 years to do this deal”. Similar comments were made by German Chancellor Angela Merkel and former WTO Director – General Peter Sutherland.⁸

Agriculture has become the lynchpin of the agenda for both developing and developed countries. Three other issues have been important. The first, now resolved, pertained to compulsory licensing of medicines and patent protection. A second deals with review of provisions giving special and differential treatment to developed countries; the third addresses problems that developing countries are having in implementing current trade obligations.

Agriculture has become the most important and controversial issue particularly for developing countries, because around 75% of the population in developing countries

⁸ <http://www.bbc.co.uk/news/business>

live in rural areas, and the vast majority are dependent on agriculture for their livelihoods. The first proposal in Qatar, in 2001, called for the end agreement to commit to substantial improvements in market access; reductions (and ultimate elimination) of all forms of export subsidies; and substantial reductions in trade-distorting support. Some progress has been made in market access and export subsidies but not much progress has been achieved towards substantial reductions of trade-distorting support.

In the WTO Agriculture negotiations, the United States is being asked by the European Union and the advanced developing countries, led by Brazil and India, to make a more generous offer for reducing trade-distorting domestic support for agriculture. The United States has insisted that the EU and these developing countries agree to make more substantial reductions in tariffs and to limit the number of import-sensitive and special products that would be exempt from tariff cuts. Import-sensitive products are of most concern to developed countries like the EU, while developing countries are most concerned with special products – those exempt from both tariff cuts and subsidy reductions because of development, food security, or livelihood considerations. Brazil has emphasized reductions in trade – distorting subsidies, especially by the United States, while India has insisted on a large number of special products that would not be exposed to wider market opening.

A major topic at the Doha Ministerial Conference regarded the WTO Agreement on Trade Related Aspects of Intellectual Property Rights (TRIPS). The issue involved the balance of interests between the pharmaceutical companies in developed countries.

Before the Doha meeting, the US claimed that the current language in TRIPS Agreement was flexible enough to address health emergencies, but other countries insisted on new language.

On 30th August 2003, WTO members reached an agreement on the TRIPS and medicines issue. Member governments approved a Decision that offered an interim waiver under the TRIPS agreement allowing a member country to export pharmaceutical products made under compulsory licenses to least- developed countries and certain other members.

Regarding Special and Differential Treatment in the Doha Ministerial Declaration, trade ministers reaffirmed special and differential (S&D) treatment for developing countries and agreed that all S&D treatment provisions be reviewed with a view to strengthening them and making them more precise, effective and operational.

The negotiations have been split along a developing/developed country divide. Developed countries wanted to negotiate on changes to S&D provisions and keep proposals together in the WTO Committee on Trade and Development, and set shorter deadlines. They underscored that deadlines should be dictated by progress on the substance of the negotiations. Developed countries on the other hand wanted to study S&D provisions, send some proposals to negotiating groups, and leave deadlines open. Developing countries claimed that the developed countries were not negotiating in good faith, while developed countries argued that the developing countries were

unreasonable in their proposals. At the December 2005 Hong Kong Ministerial Conference, members agreed to five S&D provisions for Least Developed Countries (LDCs), including the duty – free and Quota – free market access (DFQFA).

The Duty-free and quota – free market access for LDCs currently being discussed cover 97% of tariff lines and if the USA alone were to implement the initiative, it would potentially increase LDCs exports by 10% (or \$1bn). Many major trading powers already provide preferential access to LDCs through initiatives such as the Everything but Arms (EBA) initiative and the African Growth and Opportunities Act (AGOA). However, due to LDCs narrow export – base, 100% of tariff lines must be covered for real impact.⁹

Developing countries that are members of the WTO claim that they have experienced problems with the implementation of the agreements reached in the earlier Uruguay Round because of limited capacity or lack of technical assistance. They also argue that they have not realized certain benefits that they expected from the Round, such as increased access for their textiles and apparel in developed country markets. They therefore seek a clarification of language relating to their interests in existing agreements and technical assistance to implement commitments taken in the Uruguay Round before accepting new commitments arising from the Doha Round.

⁹ www.un.org

Before the Doha Ministerial, WTO members resolved a small number of these implementation issues. At the Doha meeting, the Ministerial Declaration directed a two-path approach for the large number of remaining issues: (a) where a specific negotiating mandate is provided, the relevant implementation issues will be addressed under that mandate; and (b) the other outstanding implementation issues will be addressed as a matter of priority by the relevant WTO bodies. Outstanding implementation issues are found in the area of market access, investment measures, safeguards against unfair trade practices, rules of origin, and subsidies and countervailing measures, among others. WTO members are still engaged in negotiations on outstanding implementation issues.

The pre-WTO system which was embodied in the General Agreement on Trade and Tariffs (GATT) was sometimes regarded as a rich man's club as it was felt that it was primarily of interest to affluent developed countries. At the time of launching the Uruguay Round of Trade negotiations (1986) only a comparative number of developing countries were showing interest in the work of GATT by having Permanent Missions in Geneva, the headquarters of the World Trade Organization. The situation, however, changed dramatically after the launch of the Round. By the time the Round was completed and GATT was transformed into the World Trade Organization, a much larger number of these countries had been engaged and were continuing to engage in negotiations and discussions. The majority of them have now established Permanent Missions in Geneva. In addition following the collapse of Communism a number of

transitional economies began applying for membership. At present 153 countries are members of the WTO and thirty (30) countries are in the accession process.¹⁰

A few factors have led to the developing countries change in attitude towards the WTO membership and the attendant interest in the rule based system of the Uruguay Round. The first is related to the pace at which the world economy is globalizing through international trade and the flow of foreign direct investment. The revolutionary changes which have taken place in transport and communication now make it possible even for small manufacturers in the developing countries to look for markets for their products in countries thousands of miles away. Second, the process of globalization which has increased the dependence of countries on international trade is further accelerated by the shift in economic and trade policies noticeable in many countries. The collapse of communism led to the gradual adoption of market oriented policies in most countries where production and international trade had been state controlled. These countries which had primarily traded among themselves are increasingly trading on a worldwide basis. Third, these liberal and open trade policies and the measures countries are taking to encourage foreign direct investment have prompted Multinationals to obtain their components and intermediate products from countries where costs are lower and to establish production facilities there. Thus, increasingly, the products available on the market today result from production processes undertaken in more than one country.

¹⁰ <http://www.wto.org>

The increasing dependence on foreign trade, both as exporters and as importers of goods and services, has made governments aware of the vital role which the multilateral trading system can play in safeguarding their trade interests. The rule based system assures them that the access which their products enjoy will not be disrupted by certain sudden disruptions by Government measures such as rising of tariffs or the imposition of prohibitive or restrictions on imports.

Up to 1995, GATT rules were largely ineffective in disciplining key aspects of agricultural trade. In particular, export and domestic subsidies came to dominate many areas of world agricultural trade, while the stricter disciplines on import restrictions were often flouted. The 1986-1994 Uruguay Round negotiations went a long way towards changing all that.

The Uruguay Round has brought all agricultural products (as listed in the agreement on agriculture) under more effective multilateral rules and commitments, including "tariff bindings"¹¹ - WTO members have bound themselves to maximum tariffs on nearly all agricultural products, while many industrial tariffs remain unbound. For example Kenya has bound its tariffs on agricultural products at 100%. In addition, for the first time, member governments were committed to reducing agricultural export subsidies and trade-distorting domestic support.

¹¹ A Commitment by WTO Member States to establishing a maximum level of duties (tariffs) and not to raise that level unless it is renegotiated with the rest of the membership.

The November 2001 Doha Ministerial Declaration set a new mandate by making the objectives more explicit, building on the work carried out during the Uruguay Round, and setting deadlines. Agriculture trade was therefore firmly included within the multilateral trading system. The WTO Agriculture Agreement, together with individual countries' commitments to reduce export subsidies, domestic support and import duties on agricultural products were a significant first step towards reforming agricultural trade. Whether these objectives have been met so far, that is another story all together.

Agricultural trade remains in many countries an important part of overall economic activity and continues to play a major role in domestic agricultural production and employment. There have been differing views on the role of agriculture in world trade as well as what should be the main focus of the agriculture negotiations. While some scholars express the importance of fully liberalizing the agricultural sectors others argue that particular attention need to be given to the developing countries so that gradual rather than rapid liberalization is advocated for these countries. For example, Kym Aderson, et.al (2001)¹² argues that the potential welfare gains from further liberalization of agriculture are huge both absolutely and relative to gains from liberalizing textiles or other manufacturing. He further argues that the probability of the Doha Round delivering sizeable agricultural protection reduction and benefiting the world's poor, the vast majority of whom are developing countries will be significantly greater if negotiations also give prominence to reductions in other sectors, especially services and some of the new areas in the WTOs agenda e.g. trade and competition policy, trade and

¹² Kym Aderson, et.al (2001)

transparency in government procurement and trade and investment. He underscores that the major problem confronting reform minded policy makers is to identify and assess the usefulness of alternative policy options. For instance competition in services may be of great importance in facilitating reform as services frequently account for the lion's share of the value added of food products offered for final consumption. Barriers to entry in key service sectors may lead to high cost margins and affect the ability of farmers to confront international competition. Kym Anderson concludes that the negotiators at the WTO risk focusing too much on agricultural interventions per se and not enough on removal of those non-farm policies that are impeding the ability of agriculture to be competitive on world markets.

The preamble to the Agreement on Agriculture outlines the objectives of the negotiations on agriculture. The preamble recognizes that the agreed long-term objective of the reform process initiated by the Uruguay Round reform program is to establish a fair and market-oriented agricultural trading system. The main areas under negotiations therefore are increased market access particularly for developing countries, reduction of trade distorting support and export competition.

According to the WTO Secretariat in Geneva¹³ WTO members have made significant progress in the agriculture negotiations between its member governments. However, there are many hurdles left to overcome in the negotiations in order to have a truly harmonious commitment that all countries are likely to follow.

¹³Inside U.S. Trade, 25th May 2001

The WTO Secretariat points out that the main contentious issues are those that fall under the market access and domestic support pillars. On the market access pillar the exporters who are mainly the developed countries are eager to have the markets of the developing countries opened to ensure increased flow of their export products to these countries. The U.S in particular has made it clear that without commensurate market opening in advanced developing countries¹⁴ it is not ready to give any concessions in reduction of domestic support given to its farmers and in other areas of the WTO negotiations. The U.S. has further resisted the introduction of a Special Safeguard Mechanism (SSM) for developing countries to address incidences of import surges and price declines arising from the liberalization process. Another area that has proved extremely sensitive is preference erosion particularly for the African Caribbean and Pacific (ACP) countries who receive preferences from the U.S. and U.S.

The Latin American countries for example Colombia, Paraguay and Ecuador have insisted that they have been discriminated against in the markets of preference granting countries. They are therefore opposed to preference products receiving lesser trade liberalization because of the effect that this would have on preference granting countries markets. Kym Anderson, Bernard Hoekman and Anna Strutt¹⁵, from the Centre of International Studies, Australia, highlight that in the domestic support pillar the culprit is the U.S. which is targeted for drastic reduction in domestic support measures (subsidies) extended to their farmers. These subsidies have rendered the farmers from

¹⁴ That subgroup of developing countries that has experienced particularly rapid industrialization of their economies, also known as the newly industrializing countries NICs; usually includes: China India Brazil in the WTO context.

¹⁵ Kym Anderson, Bernard Hoekman and Anna Strutt, Discussion paper No99/14, Centre of International Economic Studies, University of Adelaide Australia.

the developing countries uncompetitive in the agricultural world market. This is particularly the case with cotton, a product which the U.S. heavily subsidizes rendering cotton producers in Africa uncompetitive.

It is important to note that the environment in which agriculture trade negotiations take place has changed since the completion of the Uruguay Round of trade negotiations. According to Smith Fiona in her book, "Agriculture and the WTO"¹⁶, these key changes include: (i) Most developing countries have joined the WTO and given their consequent greater representation (currently two thirds of the 153 members of the WTO) this group plays a more active role and their specific interests will have more influence in shaping the agenda of the future rounds of trade negotiations, (ii) the current agricultural policy reforms in the European Union and the renegotiation of the Lome Convention, (iii) the implementation of the various new trade arrangements (e.g. MERCUSOR, NAFTA, CARICOM, ASEAN etc.) , the domestic agricultural policy adjustments in the USA, Australia, Canada and Japan amongst others and (v) the unilateral trade liberalizing policy reforms that have been adopted in several developing and transition economies.

While the interests of developing countries on specific issues under the agriculture negotiations vary there are enough similarities on some areas of interest which would define some common interest of most, if not all, developing countries. Albert Valdes and

¹⁶ Smith Fiona L.L. M, *Agriculture and the WTO towards a New Theory of International Agriculture Trade*, Cheltenham, U.K Nothampton, M.A Edward Elgar, (2009)

Alex F. McCalla in their book. *Issues, Interests and options of developing countries*¹⁷ identify these areas of interest as: (i) Better functioning international agricultural markets; (ii) Better access for their exports in foreign markets; (iii) Increased stability of world prices; (iv) Improved system for the resolution of disputes; (v) Clearer guidelines for implementing Sanitary and Phytosanitary measures and (vi) Clearer rules regarding contingency measures e.g. safeguards, countervailing duties and anti-dumping provisions) to provide for transparency and to reduce the risk of these being used as disguised protectionism.

Fatoumata Jawara and Aileen Kwa, in their book, "Behind the Scenes At the WTO,"¹⁸ while commenting on the role of the developing countries in the WTO mention that domestic policies of industrial countries are of vital interest to developing countries because they represent a large transfer of funds to agriculture which impacts significantly on the pattern of global production and food security in these countries. At the same time there are significant costs for developing countries of being active participants in WTO and its negotiations. In particular, full implementation of the Agreement on Agriculture represents a substantial financial and technical support in the overall process. The agriculture negotiations are expected to give special considerations to the situation of the most vulnerable developing countries which are heavily dependent on agricultural export revenues for their development. Indeed developing countries have argued that given their levels of development which have

¹⁷ Albert Valdes and Alex F. McCalla, Issues, interests and options of developing countries

¹⁸ Fatoumata Jawara and Aileen Kwa -Behind the Scenes At the WTO: The Real World Of International Trade Negotiations (Zed Books, London, New York), 2003

rendered some of them net food importers special consideration of this situation need to be taken into account and that technical and financial assistance should be extended to them to improve food production and to elevate the status of self sufficiency.

However, the developed countries particularly the U.S. have made it clear that as long as the categorization of developing countries include countries such as Brazil, India and China the special consideration sought by developing countries in general would not be visible. They argue that these countries need to accept the fact that they are advanced developing countries and contribute to the negotiations accordingly.

The WTO Agriculture negotiations seem to give trade liberalization an upper hand without taking into account the effect of drastic liberalization on the economies and food security of most developing countries. Jikun Huang¹⁹ argues that trade liberalization affects rural populations in a number of ways. On the one hand it increases the employment and wages of workers in the rural areas. Framers benefit from new opportunities to export agricultural goods and from better market access to more affordable imports. In addition, rural consumers benefit from access to cheaper food. On the other hand, rising imports of lower priced commodities reduce farm profits and improved market access to export markets raises prices to domestic consumers and to producers that use agricultural goods as inputs.

¹⁹ Jikun Huang, World Bank Report, volume 18, 2006.

T. Ademola Oyejide and Dominique Njinkeu in their book "African Imperative in the New World Trade Order"²⁰ point out that market liberalization policies in many African countries started in 1980 under the Structural Adjustment Programmes (SAPS). The impetus of the reforms gained momentum in most countries in 1980s with the requirements by the World Bank for removal of distortions in the economy as a conditionality for the disbursement of the Banks Loans (Swamy 1994). The policy reforms were aimed at reducing the involvement of the Government in economic activities and therefore letting African countries move towards free market economies. They cite Kenya as an example where policy reforms were first detailed in the Sessional Paper No. 1 of the 1986 on Economic Management for Renewed Growth. It was not until 1993 however that serious commitment to implementation of the policy reforms by the Government began. These included monetary, trade and fiscal policy reforms, price decontrol on all commodities, removal of import licensing and exchange rate controls, abandonment of import substitution, and adoption of outward oriented policies as well as privatization of public enterprises. Kenya also dismantled its quantitative import restrictions and price controls on major products and tariffs remained as the main trade policy instrument. The tariff structure was rationalized along with the incentive schemes. Several public enterprises were restructured and the influence of most agricultural boards on pricing and marketing was reduced. The agriculture sector in Kenya is therefore fully liberalized due to the unilateral steps taken by the Government under the SAPs. This scenario applies to many other African countries including Cameroon, Cote de Voire, Ghana and Nigeria.

²⁰ T. Ademola Oyejide and Dominique Njikeu- African Imperatives in the New World Trade Order Volume 1: Case Studies of Agriculture and Food Security (An AERC Publication)

E. Diaz Bonilla (2006) in his book, "*WTO and Agriculture liberation*"²¹, argues that the progress of integration of developing countries in the Multilateral Trading System has been uneven in recent decades. Progress has been very impressive for a number of developing countries in Asia and, to a lesser extent, in Latin America. These countries have become successful because they chose to participate in global trade, helping them to attract the bulk of foreign direct investment in developing countries. This is true of China and India since they embraced trade liberalization and other market-oriented reforms, and also of higher-income countries in Asia—like Korea and Singapore—that were themselves poor up to the 1970s.

But progress has been less rapid for many other countries, particularly in Africa and the Middle East. The poorest countries have seen their share of world trade decline substantially, and without lowering their own barriers to trade, they risk further marginalization. About 75 developing and transition economies, including virtually all of the least developed countries, fit this description. In contrast to the successful integrators, they depend disproportionately on production and exports of traditional commodities. The reasons for their marginalization are complex. Some have argued that this is as a result of deep-seated structural problems, weak policy frameworks and institutions, and protection at home and abroad. On the other hand other scholars have argued that this is due to the fact that WTO Members particularly the developed countries e.g. U.S, New Zealand and Canada have not appreciated the fact that the

²¹ E Diaz-Bonilla, S E Frandsen and S Robinson WTO Negotiations and Agricultural Trade Liberalization: The Effect of Developed Countries' Policies on Developing Countries (CABI June 2006)

developing countries need to systematically liberalize their agricultural sector given their low levels of development, and lack of financial resources to heavily subsidize their farmers so that that they can be able to equally compete on the international arena.

As a group, developing countries have become much more important in world trade—they now account for one-third of world trade, up from about a quarter in the early 1970s. Many developing countries have substantially increased their exports of manufactures and services relative to traditional commodity exports: manufactures have risen to 80 percent of developing country exports. Moreover, trade between developing countries has grown rapidly, with 40 percent of their exports now going to other developing countries.²² As the sector accounting for the dominant share of gross domestic production, employment, export earning and food supply, agriculture carries a great deal of the economic burden and contains much of the potential of many African countries, Thus the agricultural sector is critical for both overall economic growth and the reduction of poverty in developing countries particularly in Africa.

International negotiations on climate change have experienced similar slow progress and delayed conclusion as the Doha Round of Trade Negotiations. The Climate Change negotiations began in 1992 at the Rio Earth Summit organized by the United Nations. The result of the Summit was the United Nations Framework Convention on Climate Change (UNFCCC) which was signed and ratified by most of the countries in the world. The goal of UNFCCC was to stabilize emissions of greenhouse gases at 1990 levels by

²² Sarath Rajapatirana, *The Trade Policies of Developing Countries: Recent Reforms and New Challenges*. Washington: AEI Press, 2000, pp 39

the year 2000 through voluntary measures taken by individual countries. In the subsequent decade, few substantive policies were implemented, and global emissions of greenhouse gases rose considerably. From that perspective, the UNFCCC seem to have failed to achieve its goal. However the Convention did set up a mechanism under which negotiations could continue as periodic Conference of Parties (COP) meetings. Between 1997 and 2001, there were seven COP meetings.

The main decision reached at COP1 in 1995 was that the UNFCCC would have little effect on greenhouse gas emissions unless individual countries were held to quantified limitation and reductions objectives within specified timeframes an approach now described as setting targets and timetables. All subsequent COP meetings have been devoted to designing an international treaty along those lines, in which participating countries would agree to achieve specific targets for emission of greenhouse gases by a given date. The result is the Kyoto Protocol, which was initially adopted at COP3 in 1997 and has been revised and refined in subsequent meetings. The Protocol never had any real chance of ratification by the U.S. Senate and in mid 2001 was rejected by the Bush administration. Negotiations over the Protocols details continue to be held but the Protocol appear increasingly unlikely to enter into force in the near future due to differences between developed and developing countries.

According to Warwick J. McKibbin and Peter J. Wilcoxon²³ one of the problems with the Kyoto Protocol is that it would put enormous stress on the world trade system. The

²³ Warwick J. McKibbin; Peter J. Wilcoxon: The role of Economics in Climate Change Policy- The Journal of Economic Perspectives, VOL. 16, No. 2. (Spring,2002),pp.107

balance of trade for a developed country that imported permits²⁴ would deteriorate substantially possibly leading to increased volatility in exchange rates. Developing countries that exported permits under the Clean Development Mechanism²⁵ would see their exchange rates appreciate, causing their other export industries to decline or collapse. Moreover, revenue from the Clean Development Mechanism would come with strings attached: much of it would have to be invested in improved energy technology to reduce emissions. Since this strategy is unlikely to be ideal for long-term economic development, it would make the policy unattractive to developing countries. They further argue that one of the main reasons that the Kyoto Protocol only set up a system of trading among the developed economies and the former Soviet Union was because developing countries have been so unenthusiastic about international permit trading.

Towards the end of 1999, at the Copenhagen Conference²⁶ anti-globalization protesters held a series of demonstrations which turned into riots outside the building in which the conference was being held. The reasons for these protests included a feeling that the conference represented the interests of the highly industrialized nations, particularly the

²⁴ Refers to emission trading (using a tradable permit system for emission rights) where a developed country may buy unused permits from another.

²⁵ Designed to extend participation in the Kyoto Protocol to developing countries. Under this Mechanism, a developed country can receive emissions credits for undertaking a suitable emissions-reducing project in a developing country host country.

²⁶ In 2012 the Kyoto Protocol to prevent climate changes and global warming runs out. To keep the process on the line the parties of the UNFCCC realized that there was an urgent need for a new climate protocol. At the conference in 2009 the parties of the UNFCCC meet for the last time on government level before the climate agreement need to be renewed.

United States, at the expense of the lesser developed countries, but more importantly, that the world trade helps destroy the environment.

Independent Variables	Dependent Variables
Technical and financial assistance to developing countries policies and implementation mechanisms	Food security and rural development in developing countries.
Demands by developed countries to open up the agriculture sector in developing countries	The Success or failure of the WTO
Provision of subsidies to farmers in developed countries.	Agricultural production in developing countries.
Reduction of domestic subsidies	Conclusion of Doha Round of Trade Negotiations

1.8 Theoretical Framework

The following section discusses the theoretical framework which has been adopted for purposes of this study and its relevance to the research topic. This section also looks at other theories such as the political economic theory, world systems theory, Lewis two-sector theory and the stages of theory of economic development.

The Political Economy Theory - According to James A Caporaso and David P. Levine²⁷, theories of political economy were used to study the production, distribution and consumption of goods and services and their effective management in a country or a government system. The word Political Economy is a combination of two Greek words "polis" meaning city or state and "oikonomos" meaning one who manages the household.

This theory is used in today's world where international trade and finance, and bilateral trade agreements can be examined using the logic of International Political Economy. For example, free trade between countries or among many countries in a particular region is the evidence of economic and political considerations. Countries may initiate free trade agreements to advance sale of goods between them which will produce an increase in export earnings. It may also lead to large scale production with falling costs.

This theory, if applied properly can lead to the solution of developmental issues pushing third world countries into the low level equilibrium confine. The theory can also competently and operatively handle the issues of Intellectual Property Rights and trade liberalization in this globalised world.

It is one of the most comprehensive theories in the world which can become a successful tool in combating the complex and serious issues threatening to nullify the bounties of liberalization and globalization.

²⁷ James A. Caporaso & David P. Levine, *Theories of Political Economy*, Cambridge University Press, 1992.

Some of the prominent political economy theorists included: Adam Smith²⁸, David Ricardo²⁹, and John Stuart Mill³⁰ just to name but a few.

Adam Smith is renowned for his free market policies. He was of the view that the role governments play in economic growth is to implement contracts and award patents and copy rights, offer public goods such as infrastructure among others. He was suspicious of government interference in the market.

He was a proponent who supported invention and new ideas through his patent enforcement and support of infant industry monopolies. In addition, he was in favor of retaliatory tariffs and believed that they would eventually bring down the price of goods. In Adam Smith's famous book, "*The Wealth of Nations*" he states that when individuals chase their self-interests they are advancing the good in society. He further states that this self-interest will result in self-interested competition in the free market economy which would assist everyone in society by ensuring prices of products remain low while possessing a motivation for other goods and services. Despite, this he warned against crooked business that would go against the public by raising their prices on products.

While other theories disagree on agriculture, he states that agriculture provides few opportunities to division of labor by increasing its prices. U.S. and Europe's agriculture is subsidized.

²⁸ Adam Smith, *The wealth of nations*, W.Strahanand & T.Cadell Publishers,London, 1776.

²⁹ David Ricardo, *The principles of political economy and taxation*,3RD edition, John Murray, 1821.

³⁰ Mill John Stuart, *Principles of political economy with some of their applications to social philosophy*, London; Longmans Green and Co., 1909.

Smith was also of the view that when competition is present it leads to the reduction of prices. He further states that people like manufacturers, landowners and laborers are consumers who represent the face of the universal good.

David Ricardo was of a different view. He did not trust the above people as he believes they acquire income in a monopolistic way.

John Stuart Mill was of the view that for dictatorial management to end in a political economy, economic democracy must be advanced where workers would appoint members of management. This promotes liberty and equality in the economy.

He further stated that increase in wealth would only be feasible only if land and capital are present to assist the increase of production and the labor force. He also stated that profits made from hiring unproductive workers do not produce wealth or income since it was the productive workers who perform productive utilization. This in turn, increases the productive ability of the population.

I support the above scholar's views with regard to increase in wealth. I believe this is true because this would increase the levels of production and increase the labor force in the developing countries. Because of the high cost of goods, tariffs would work best to bring the prices down especially for developing countries who are highly dependent on them. There is also a positive need for individuals to possess self-interest as this will lead to competition hence resulting in the low prices of products. This theory however, does not explain the relationship and interaction among states during negotiations and therefore it would not be applicable to my study.

The World Systems Theory - Immanuel Wallerstein³¹ is one of the scholars behind this theory. He asserted that the modern nation state exists within a wide economic, political and legal structure which he called the world system. Modern nations are all part of this world system and it is this world system that he sought to comprehend.

Wallerstein characterizes the world system as a set of mechanisms which redistributes resources from the periphery to the *core*. In his terminology, the *core* is the developed, industrialized part of the world, and the *periphery* is the "underdeveloped", typically raw materials-exporting, poor part of the world; the *market* being the means by which the core exploits the periphery.

The disadvantage with using this theory in my opinion is that it is too inclined to generalization in terms of lacking quantitative data. It also does not give too much burden to the idea of social class.

Another related theory is the Lewis two-sector theory. Although this theory is simple and reflects the historical experience of economic growth in the west, some of its key assumptions do not fit the institutional and economic realities of most contemporary developing countries. This is because the theory implicitly assumes that the rate of labor transfer and employment creation in the modern sector is proportional to the rate of modern-sector capital accumulation and the second assumption is the notion that surplus labor exists in rural areas while there is full employment in the urban areas.

³¹ Wallerstein Immanuel. *The Modern World System I; Capitalist Agriculture and the origin of the European World Economy in the Sixteenth Century*. New York; Academic Press, 1974.

Some of the scholars behind this theory were Arthur Lewis,³² John Fei,³³ Gustav Ranis,³⁴ and just to name but a few.

Arthur Lewis who was the first black economist to win a prize in this field is rewarded for among other writings his article titled: "*Economic Development with Unlimited Supplies of Labor*"³⁵. He advances the view that capitalist economies can advance when labor is picked from a backward agriculture sector. When this happens there will be no need to raise the salaries of workers as the capitalist economies would have expanded. Further in his book, titled: "*The Theory of Economic Growth of 1955*"³⁶ he states that economic growth is driven by inquisitiveness and practicality.

John Fei³⁷ gives an example of how Taiwan has been able to do well because its policy makers were willing to accept mistakes and learn on improving their policy objectives. Taiwan is both a developed and developing country. Its economic achievements give us the notion that right policies were put in place to spur growth. Its policy makers had the

³² Lewis, W. Arthur, "Economic Development with Unlimited Supplies of Labor." Manchester School of Economic and Social Studies, Vol. 22, 1954.

³³ John C.H. Fei and Gustav Ranis, Growth and Development from an evolutionary Perspective. Blackwell Publishers, 1997.

³⁴ Gustav Ranis, Arthur Lewis contribution to development thinking and policy, Yale University, Economic Growth Centre, Discussion paper No.891, 2004.

³⁵ Lewis, W. Arthur "Economic Development with Unlimited Supplies of Labor." Manchester School of Economic and Social Studies, Vol. 22, 1954..

³⁶ Lewis William Arthur, *The Theory of Economic Growth of 1955*. London: Taylor and Francis publishers. 2003.

³⁷ John C.H.Fei, Gustav Ranis, Sheng- Cheng Hu, Yunpeng zhu, The Political economy of Taiwan's Development into the 21st century, Essays in Memory of John C.H. Fei, Vol.2 Edward Elgar Publishing limited. 1999.

spirit of experimenting thus replacing policies that were not working with new ones. The policies that did work were espoused.

Gustav Ranis³⁸ advances the view that because democracies do not go to war with each other they are able to promote economic growth and development as opposed to those that go to war with each other. This begs the question if democracies are less likely to experience internal suffering and if so does this slow down economic growth?

The political ideas of the scholars named above is relevant to my study because if policy makers in the developing countries were able to open up to new thinking then they would come up with policies that enable them to be self- dependent rather than continue depending on the developed countries. Leaders of autocratic countries must also strive to enable their countries achieve democracy because without this it results is slow or no economic growth.

This theory relates to the experiences of economic growth within individual states which does not necessarily accrue as a result of negotiations at the multilateral level. This is not the focus of this study.

The Stages Theory advocated for advanced countries passing the stage of 'take-off into self-sustaining growth', the underdeveloped countries had to follow a certain set of rules of economic development. This theory, however failed to take into account the crucial fact that contemporary developing nations are part of a highly integrated and complex

³⁸ Gustav Ranis, David R. Cameron, and Annalisa Zinn, *Globalization and Self- determination. Is the nation state under siege?*, Routledge Publishers, 2006.

international system in which even the best and most intelligent development strategies can be nullified by external forces beyond the countries control. Its most open and influential advocate was the American economic historian, Walt W. Rostow.

1.8.1 The Dependency Theory that is associated with among others Amir Amin,³⁹ Paul M. Sweezy,⁴⁰ Andre Gunder Frank⁴¹ and Henry Bernstein⁴² has elaborately discussed the dependency theory. According to these theorists, the dependency theory is predicated on the notion that resources flow from a "periphery" of poor and underdeveloped states to a "core" of wealthy states, enriching the latter at the expense of the former. It is a central contention of the dependency theory that poor states are impoverished and rich ones enriched by the way poor states are integrated into the "world System".

This research is therefore based on the dependency theory as advanced by the above theorists because it based on a historical condition which shapes a certain structure of the world economy such that it favours some countries to the detriment of others and limits the development possibilities of the subordinate countries, a situation in which the

³⁹ Amin, Samir, *Unequal Development: An Essay on the Social Formation of Peripheral Capitalism*. New York: Monthly Review Press, 1976.

⁴⁰ Sweezy Paul and Harry Magdoff "The two faces of Third World Debt; A fragile financial Environment and Debt Enslavement, Monthly Review press, 1984.

⁴¹ Frank, Andre Gunder, , *Capitalism and underdevelopment in Latin America: Historical studies of Brazil and Chile*. New York. Monthly Review, 1967.

⁴² Ankie M.M., Hoogvelt. *Sociology of developing societies*, Humanities Pr. London, 1977.

economy of a certain group of countries is conditioned by the development and expansion of another economy, to which their own is subjected.

In their work, they mention that the premises of the dependency theory are that:

1. Poor nations provide natural resources, cheap labor, a destination for obsolete technology, and markets to the wealthy nations, without which the latter could not have the standard of living they enjoy;
2. Wealthy nations actively perpetuate a state of dependence by various means. This influence may be multifaceted, involving economics, media control, politics, banking and finance, education, culture, sport, and all aspects of human resource development (including recruitment and training of workers);
3. Wealthy nations actively counter attempts by dependent nations to resist their influences by means of economic sanctions and/or the use of military force.

Some of the assumptions that they give on the dependency theory are:

- a) First, dependency characterizes the international system as comprised of two sets of states, variously described as dominant/dependent, center/periphery or metropolitan/satellite.
- b) Second, external forces are of singular importance to the economic activities within the dependent states. These external forces include multinational corporations, international commodity markets, foreign assistance,

communications, and any other means by which the advanced industrialized countries can represent their economic interests abroad.

- c) Third, the relations between dominant and dependent states are dynamic because the interactions between the two sets of states tend to not only reinforce but also intensify the unequal patterns.
- d) Dependency is a very deep-seated historical process, rooted in the internationalization of capitalism as such it is an ongoing process.

Dependency theory originates with two papers published in 1949 – one by Hans Singer, and the other by Raúl Prebisch – in which the authors observe that the terms of trade for underdeveloped countries relative to the developed countries had deteriorated over time: the underdeveloped countries were able to purchase fewer and fewer manufactured goods from the developed countries in exchange for a given quantity of their raw materials exports.

Dependency theory was perfected by Andre Gunder Frank who argued that capitalism on a world scale promotes development of the metropolis at the expense of underdeveloping and dependent satellites. He called this development of underdevelopment because as the metropolis developed the more its capacity to loot satellites expands.

Other leading dependency theorists include Walter Rodney, Egyptian economist Samir Amin and former Brazilian President Fernando Henrique Cardoso.

1.8.2 Implications of Dependency Theory

While there are many different and conflicting ideas on how developing countries can alleviate the effects of the world system, several of the following protectionist/nationalist practices were adopted at one time or another by developed countries:

- Promotion of domestic industry and manufactured goods. By imposing subsidies to protect domestic industries, poor countries can be enabled to sell their own products rather than simply exporting raw materials.
- Import limitations. By limiting the importation of luxury goods and manufactured goods that can be produced within the country, the country can reduce its loss of capital and resources.
- Forbidding foreign investment. Some governments took steps to keep foreign companies and individuals from owning or operating property that draws on the resources of the country.
- Nationalization. Some governments have forcibly taken over foreign-owned companies on behalf of the state, in order to keep profits within the country.

1.8.3 The relevance of Dependency Theory to the research topic

The enhanced performance of the agricultural sector in the developing countries is highly dependent on the reduction of domestic and export subsidies in the developed countries. This will enable the farmers in the developing countries to compete equally with those from the developed countries on the international market. It is critical

therefore that the developed countries reduce domestic support and export subsidies provided to their farmers to boost production and increase efficiency in developing countries and to ensure fair competition on the international market.

If one accepts the analysis of the dependency theory, then the questions of how poor economies develop become quite different from the traditional questions concerning comparative advantage, capital accumulation, and import/export strategies. Some of the most important new issues include:

1. The success of the advanced industrial economies does not serve as a model for the currently developing economies. When economic development became a focused area of study, scholars adopted an analytical strategy that focused on the understanding that all nations need to emulate the patterns used by the rich countries. Indeed, in the 1950s and 1960s there was a paradigmatic consensus that growth strategies were universally applicable, a consensus best articulated by Walt Rostow in his book, *The Stages of Economic Growth*⁴³. Dependency theory suggests that the success of the richer countries was a highly contingent and specific episode in global economic history, one dominated by the highly exploitative colonial relationships of the European powers. A repeat of those relationships is not now possible for the poor countries of the world.

2. Dependency theory repudiates the central distributive mechanism of the neoclassical model, what is usually called "trickle-down" economics. The neoclassical model of

⁴³ Walt Whitman Rostow, The Stages of Economic Growth: A non-communist manifesto (1960)

economic growth pays relatively little attention to the question of distribution of wealth. Its primary concern is on efficient production and assumes that the market will allocate the rewards of efficient production in a rational and unbiased manner. This assumption may be valid for a well-integrated, economically stable economy where people can quickly adjust to economic changes and where consumption patterns are not distorted by non-economic forces such as racial, ethnic, or gender bias. These conditions are not pervasive in the developing economies, and dependency theorists argue that economic activity is not easily disseminated in poor economies. For these structural reasons, dependency theorists argue that the market alone is not a sufficient distributive mechanism.

3. Since the market only rewards productivity, dependency theorists discount aggregate measures of economic growth such as the Gross Domestic Production (GDP) or trade indices. Dependency theorists do not deny that economic activity occurs within a dependent state. They do make a very important distinction, however, between economic growth and economic development. For example, there is a greater concern within the dependency framework for whether the economic activity is actually benefiting the nation as a whole. Therefore, far greater attention is paid to indices such as life expectancy, literacy, infant mortality, education, and the like. Dependency theorists clearly emphasize social indicators far more than economic indicators.

4. Dependent states, therefore, should attempt to pursue policies of self-reliance. Contrary to the neo-classical models endorsed by the International Monetary Fund and

the World Bank, greater integration into the global economy is not necessarily a good choice for poor countries. Often this policy perspective is viewed as an endorsement of a policy of autarky, and there have been some experiments with such a policy such as China's Great Leap Forward or Tanzania's policy of Ujamaa. The failures of these policies are clear, and the failures suggest that autarky is not a good choice. Rather a policy of self-reliance should be interpreted as endorsing a policy of controlled interactions with the world economy: poor countries should only endorse interactions on terms that promise to improve the social and economic welfare of the larger citizenry.

1.9 Hypotheses

- a) Agricultural subsidies are the most controversial negotiating issues in the WTO and therefore progress in any other area of the negotiations depends on progress in this area.
- b) The demands made on developing countries, particularly those in the African Continent, and in the various WTO coalition groups to drastically liberalize their agriculture sectors affect the agricultural production in these countries.
- c) An outcome of the WTO negotiations that permits developing countries to subsidize⁴⁴ their agricultural sector could improve their agricultural production, food security and rural development.
- d) If developed economies such as the U.S. accepted to reduce their agricultural domestic support to their farmers, this would pave way for the conclusion of the Doha Round.

⁴⁴ Subsidies that are directly linked to production are prohibited by the WTO e.g. production subsidies - cash payments for production of a given agricultural good or service.

1.10 Research Methodology

In this section the research process is described. Specifically the research design, research strategy, data collection method, sample selection and sample population.

1.10.1 Research Design

The research purpose and research questions of this study indicate that this study is primarily exploratory in that no such other study has been conducted in Kenya. Exploratory research is suitable when a problem is difficult to structure and when there is uncertainty regarding what models to use and what characteristics and relations are important. According to Reynolds, exploratory research is designed to allow an investigator to "look around" with respect to a phenomenon with the aim being to develop suggestive ideas (Reynolds, 1971). The study becomes somewhat descriptive as data is collected and analyzed. Descriptive research is often used when a problem is well structured and there is no intention to investigate causes/effect relations (Yin, 1989). The research design to be used in this study will be both exploratory and descriptive research design.

1.10.2 Research Strategy

The selection of the research strategy depends upon, the type of research questions asked and the degree to which the focus is on contemporary events. Precisely, there are five primary strategies in the field of social sciences, experiment, survey, archival

analysis, history and case study ⁴⁵(Yin, 1989). In this research the strategy to be used will be survey and archival analysis ⁴⁶(Yin, 1989) which determined the formulation of the research questions. This study is qualitative in nature, focusing on contemporary time.

1.10.3 Data collection method

The data collection methods to be used in this study will include personal interviews and documentation, mainly books, reports, and documents on the WTO negotiations including those from development organizations and government records as well as written articles.

In particular, interviews will be a form of the primary data collection method in this study, on account of their strength in focusing directly on the topic of the research. As a data collecting method, interviews are one of the most significant sources for use in obtaining research information. Specifically, the interview method allows the researcher to focus directly on the case study's topic. Additionally, interviews are insightful in that they give perceived causal conclusion (Yin, 1994). Potential disadvantages with interviews include the threat of bias due to poorly constructed questions as well as the risk of reflexivity, meaning that the interviewee tells the interviewer on what he/she wants to hear (ibid).

⁴⁵ Application of Case Study Research, Yin R.K.
⁴⁶ Application of Case Study Research Yin R.K.

1.10. 4 Sample selection

Collecting data in research, from all the potential units of analysis included in the research problem is often impractical. Therefore a sample has to be chosen to represent the relevant attributes of the whole set of units termed "population". However, due to the fact that samples are not perfectly representative of the population from which they are drawn, the researcher cannot be absolutely certain that the conclusion drawn generalize the entire population (Graziano & Raulin 1997)⁴⁷. It is for this reason that the sample population was selected as shown below.

1.10.5 Sample Population

The sample population will include government officials from relevant ministries, for example the Ministry of Trade, Ministry of Agriculture, Ministry of Foreign Affairs, Farmers Associations, Kenya Industrial Property Institute (KIPI), local and international non-governmental organizations' officials.

1.10.6 Site selection and description

The study was carried out in Nairobi, Kenya.

1.11 Scope

This study will cover WTO negotiations on agricultural subsidies between 1995 and 2005. The main focus will be on the differences between developed and developing

⁴⁷ Research Methods (Third Edition) Anthony M. Graziano and Michael L. Raulin

countries and the resultant delay in the conclusion of the Doha Round. This period has been chosen deliberately because this is the time during which many ground breaking negotiations were undertaken that have continued to lay the foundations of any subsequent efforts. It is appreciated that despite this efforts, a lot of issues have remained unresolved and these form the basis of this study. The study will be limited to gathering information form key players in the negotiations for logistical purposes.

1.12 Limitations

The study faced some limitations. These include:

1. Most available literature is hard to access,
2. Respondents are busy people and not easily accessible,
3. For those accessible government officials they were reluctant to share the needed information freely particularly information relation to policy formulation.

Assumptions

The study was premised on the following assumptions;

1. That relevant literature is readily available,
2. That the concerned officials were well informed and forthcoming with information.

1.13 Definition of Terms

Developing Countries - These are the countries that have not yet achieved sustainable levels of development especially in economic terms and are heavily reliant

on agriculture and foreign aid. The majority of these countries are found in Africa, Asia, South America and parts of Eastern Europe.

Developed Countries - These are the countries mainly in the West and parts of Asia that have achieved sustainable levels of economic development and independence, and always wield a lot of powers in multilateral or bilateral negotiations with poor countries.

Subsidies - The term refers to the concessions and compensations, monetary or fiscal that are extended to business people, in this case farmers to protect them from any price fluctuations in the international trade. This enables such farmers to sell their products at lower rates to the disadvantage of farmers in countries where subsidies are not provided.

World Trade Organization - commonly referred to as the WTO, this is the body which succeeded GATT and is the main forum through which trade negotiations are undertaken. It is headquartered in Switzerland.

Uruguay Round - This is an agreement that was signed in April 1994 and became effective in 1995 after passage by 124 national legislatures which substantially reduced tariff and non tariff trade barriers in many sectors.

Agricultural Sector - The portion of the economy comprising agriculture, forestry and hunting.

Trade Liberalization - Removal of obstacles to free trade, such as quotas, nominal and effective rates of protection, and exchange controls.

Trade in Services - Refers to the sale and delivery of an intangible product, called a service, between a producer and consumer.

Revenue - The amount received from the sale of a good or service. It equals the price of the good or service multiplied by the quantity sold.

Trade Related Intellectual Property Rights (TRIPS) - Exclusive rights of ownership that allow the use, transfer, and exchange of property.

Doha Round - Agreement signed in 2001 in Doha, Qatar, to continue with the efforts started at the Uruguay Round.

Trade Facilitation - The policies and measures put in place by way of agreement among nations to enhance trade.

Trade and Environment - Refers to the current attention on environmental issues whereby trade must be carried out in a way that sustains the environment.

MERCUSOR - Also known as the Southern Cone Common Market, is a free trade area finalized in a 1994 agreement between Argentina, Brazil, Paraguay and Uruguay.

NAFTA - Also known as the North Atlantic Free Trade Area is a trade agreement between Canada, Mexico and the United States of America.

ASEAN - The Association of South East Asian Nations, is a free trade agreement between members within that region.

CARICOM - The Caribbean Common Market is an agreement signed between Caribbean countries to eliminate barriers of trade between them.

Tariffs - refer to duties imposed by a government on imported or in some countries exported goods. Most of the times these duties are regulated by the government to favour the countries economic situation or counter exploitations from other countries for example dumping of used good or sub standards goods. A protective tariff is often used by governments to attempt to control trade between nations to protect and encourage

their noncompetitive or undeveloped local industries, businesses, unions etc. giving them time to become competitive.

Non-tariffs Barriers - A form of restrictive trade where barriers to trade are set up and take a form other than a tariff. Trade between countries involves trade in goods, services and factors of production that is (labor capital and land). Non-tariff barriers to trade include import quotas, special licenses, unreasonable standards for the quality of goods, bureaucratic delays at customs, export restrictions, limiting the activities of state trading, export subsidies, countervailing duties, technical barriers to trade, sanitary and phyto-sanitary measures, rules of origin, etc. Sometimes they include macroeconomic measures affecting trade. Non-tariff barriers are frequently used by large and developed economies.

Tariff binding commitments - Under the World Trade Organization, when members open their markets through the removal of barriers to trade, they "bind" their commitments. Thus, when they remove or reduce their tariffs through negotiations, they commit to bind the tariff reduction/ elimination at a fixed level negotiated with their trading partners beyond which tariffs may not be increased.

Best Endeavour – "Best endeavor" clauses which are quite prevalent in the WTO Agreements, express what might be termed as "moral" obligation on Members to "try their best" towards achieving a certain objective. The clauses do not impose an obligation on any WTO member to achieve that particular objective. If the objective is not achieved, then none of the WTO members is in breach of the best endeavor's obligation.

Sensitivities – Sensitivities in this study refer to the importance that WTO member countries attach to the agriculture sector due to its contribution to Gross Domestic Production (GDP), employment, rural development and overall economic growth. WTO Members are therefore cautious about their engagement in the negotiations on agriculture because the outcome of these negotiations may affect not only the agriculture sector itself, but also the entire economy.

Concerns – refer to the issues that are affecting the agriculture sectors in individual WTO Member countries and need to be addressed at the multilateral trade negotiations

Summary

This chapter has provided the background to the study, stated the problem as well as the purpose and objectives of the study. It has also examined the research questions, justification and the scope of the study and appreciated the limitations as well as assumptions attendant to the study. The literature review, theoretical framework and the methodology to be used in the study have also been covered in this Chapter.

Chapter 2 THE URUGUAY ROUND OF TRADE NEGOTIATIONS

2.1 History of the inclusion of agriculture as a subject of negotiations

To assess the origin of the demands made by developed countries to developing countries to liberalize their agricultural sectors, it would be important to step back into the history of the world trade negotiations and look at how and when the agriculture sector was included as a subject of negotiations in the multilateral trading system. Was it included as a condition from the developing or developed countries, and did it as assumed in the dependency theory reinforce and intensify the unequal pattern that already existed in the multilateral trading system between the dominant members (developed countries) and dependent members (developing)?

The Uruguay Round is the name given to the eighth round of international talks and agreements on economic issues, since the Second World War. The talks were undertaken within the purview of the General Agreement on Tariffs and Trade (GATT). The Round was launched in 1986 by the Punta del Este Declaration⁴⁸. The original meeting took place in Punta Del Este in Uruguay in September of 1986, and continued until April of 1994. It was preceded by four to five years of discussions and pre-negotiations at the General Agreement on Tariffs and Trade (GATT). It set out rules and principles to cover all global trade, from banking to consumer products. The vast array

⁴⁸ Ministerial Declaration of 20th September 1986 in which Ministers of the GATT Contracting Parties decided to launch the Uruguay Round of Trade Negotiations.

of rules and accords were discussed in secret negotiations among a small group of negotiators, and presented to others virtually on a take-it-or-leave-it basis.⁴⁹

The Uruguay Round negotiations were to have been concluded at a Ministerial Meeting in Brussels in 1990, but there was no consensus on the contents of the outcome. The negotiations therefore continued in Geneva at level of Geneva GATT representatives. At the end of 1991, the then GATT Director-General and chairman of the Trade Negotiations Committee, Mr. Arthur Dunkel tabled a Draft Final Act (DFA) text, consisting mostly of agreed texts negotiated in various areas among a small group of negotiators, but there were a few areas, in the Dunkel text where there was no agreement. A major observation made by developing countries regarding the Dunkel text at Uruguay was that in areas where there was an agreement between the US and EC, the Dunkel text followed this; but in those areas where the US and EC differed, he made some compromise suggestions. Issues that were not acceptable to the US or the EC were opened up for negotiations among a few, and presented to others who formally accepted them by consensus, but with no real options to refuse."⁵⁰ These observations are familiar because they can still be heard along the corridors of the WTO today regarding texts prepared by the Chair of the various negotiating groups in the current Doha Round of trade negotiations mostly from developing countries delegates.

Developing countries were rarely involved in the international trade negotiations that took place before the Uruguay Round and when they were involved, they did not

⁴⁹ Will Martin & L. Alan Winters, *The Uruguay Round and the Developing Countries*, The World Bank, Cambridge University Press, 1996, p.392

⁵⁰ John Whalley, *Dealing with the North, Developing countries and the Global Trading System*, Centre for the study of international Economic relations, the University of Western Ontario, 1986

negotiate on a reciprocal basis to allow for a mutual exchange of concessions with their trading partners. Their negotiating stance in the GATT Rounds was passive and they could easily have passed for observers in the negotiations. Developing countries claimed that they had unique trade problems e.g. balance of payment and special needs for economic growth that would not allow them to reciprocate the concessions that were being extended to them by the developed countries. The then GATT model of reciprocity worked well as the negotiations were led by the United States and managed by the transatlantic alliance with the European Community.⁵¹ I must mention that these same arguments about the unique economic situations of developing countries are being voiced today by the developing countries in the WTO negotiations twenty five years down the road. The question that arises therefore is, how genuine were the developing countries regarding their unique trade situation during the Uruguay Round or were they playing their role as dependent countries in the political system that prevailed then? This is question that requires further research.

However, we must appreciate that developing countries lacked the expertise and analytical resources for trade policy-making. For example during the entire range of pre-negotiations and the Uruguay Round negotiations themselves, little or no attention was paid in the developing world to these negotiations and within governments to the issues under negotiations. Indeed the negotiations were left to be handled by a small circle of trade officials and bureaucracies, who kept even other sections in their governments informed on a 'need-to-know' basis. This applied to Kenya as well

⁵¹ Bernard M. Hoekman and Michael M.Kostecki, *The Political Economy of the World Trading System: The WTO and beyond*, Oxford University Press,2009,

because very few officials within Government were aware of the technical details of the negotiations. What the Government officials knew was that Kenya was a founder member of the GATT and that here were negotiations going on in Geneva on the Seventh Round of Trade negotiations, the Uruguay Round. Government officials in Nairobi were not aware of the technical details on the substance of the negotiations.

However, there was a paradigm shift in the 1970s when developing countries “woke up” and it dawned on them that their presence in the negotiations was not recognized at all. Out of this frustration, they started advocating for a New International Economic Order (NIEO) which they insisted needed to take on board their concerns and recognize them as equal players with the developed countries in the multilateral trading system. The New International Economic Order was a comprehensive package of multilateral policy options that aimed to improve the position of Third World countries in the world economy relative to the richest states. It came together at the Non- Aligned Movement (NAM) Conference held at Algiers in September 1973. The leaders of the NAM requested a Special Session of the UN General Assembly to address issues associated with international trade in raw materials. At this Session in April 1974 the Group of 77 (G-77) secured the adoption of the Declaration and Programme of Action for a NIEO although it lacked the support of the United States and a small group of advanced industrialized countries.⁵² The developing countries were aware that the GATT born after the Second World War was in practice the only forum where multilateral trade negotiations could take place and therefore to concretize the

⁵² J.Michael Finger, implementation and imbalance : dealing with hangover from the Uruguay round Oxford Review of Economic Policy, Volume 23, Number 3, 2007, p.440

developing countries "cry" for a NIEO that would address issues relating to trade in raw materials and bring them at par with their developed countries counterparts. They raised these concerns in the multilateral trading system, particularly during the Uruguay Round negotiations.

The global recession and mounting debt crisis of the late 1970's as well as the fall of the Berlin wall brought a major transformation in economic policy . The World Bank and the International Monetary Fund advocated that economic reforms—deregulation, privatization, liberalization -- were crucial for launching and sustaining growth in developing countries. Increasingly, the deterioration of economic conditions in developing countries led to the use of structural adjustment as the means for achieving development goals. There are differing views today regarding whether the Structural Adjustment Programmes (SAPs) assisted in improving the economic conditions in developing countries. However in an area like trade in services many developing countries began to see reform of key service sectors such as telecommunications as essential building blocks in the soft infrastructure underpinning growth. The General Agreement on Trade in Services (GATS) was viewed as a means to furthering domestic reform. Even though developing countries have not significantly liberalized trade in services, acceptance of the GATS has paved the way to further developments in the telecommunications and financial services negotiations.

The Uruguay Round was one of the longest Rounds of Trade Negotiations then since it took seven years to complete but it has been overtaken by the current Doha Round which is in its eleventh year. As will be seen later in the chapter, the negotiations took such a long time because of the differences between the U.S. and the E.U on

agriculture. Although the developing countries that participated in the negotiations mainly within the few alliances that emerged at Uruguay put up strong negotiating positions particularly on opposing the new issues that were being proposed for inclusion in the agenda, they did not maintain this position until the end. By the conclusion of the Uruguay Round in December 1993 developing countries had softened their rigid negotiating positions and focused on spearheading calls for the rapid liberalization of agriculture and textiles and clothing, many undertook unilateral liberalization of tariffs and other trade barriers, through the Structural Adjustment Programmes advocated by the World Bank and the International Monetary Fund. The developed countries markets to agriculture and labour intensive manufactured goods, especially textiles and clothing were on schedule for liberalization and the much resisted new issues i.e. trade in services (GATS), trade related intellectual property rights (TRIPS) and trade related investment measures (TRIMS) were to be included into the trading system.

The outcome of the round also led to the creation of a new institution, the WTO, with the strongest dispute settlement mechanism in the history of international law. Unlike the outcome of the previous rounds of trade negotiations where developing countries could pick and choose which agreement to sign onto, the outcome of the Uruguay Round was to be accepted as a "single undertaking"⁵³. What this implied was that the deal was pretty much taking it or leave it especially for the developing countries. So

⁵³ Virtually every item of the negotiation is part of a whole and indivisible package and cannot be agreed separately. "Nothing is agreed until everything is agreed".

they signed on the dotted lines without a full understanding of the policy changes that would be demanded at the national level by this new trading system.

One notes that with the softening of the developing countries position on the new issues developed countries also lowered their expectations and gave in to some limited progress in agriculture and in textiles and clothing involving a promise to end the Multi-Fibre Arrangement in 2005 with most of the restrictions to be eliminated later rather than sooner; a rather significant reduction in tariffs in goods in exchange for deeper cuts and more comprehensive bindings by developing countries, elimination of voluntary export restraints (VER's) which were mostly relevant to Japan and some of the rapidly growing middle income countries in East Asia.

One of the most significant outcomes from the Uruguay round was the addition of new issues into the negotiating agenda of the multilateral trading system and the creation of the WTO which changed the institutional infrastructure of the domestic economies of the participating member countries. Trade policy formulation and practices were no longer based on border barriers of the GATT but on domestic regulatory and legal systems of the economy. Unlike in the past the trading system directed governments on what they needed to do at the domestic level to ensure the smooth flow of trade. In the past the system was more dictatorial since it instructed governments on what they should not do to comply with the system. The system was therefore more of a "policeman/woman" rather than a facilitator. Again, taking services trade as an area that perfectly demonstrates this change, it is evident that barriers to access for service providers stem from laws, regulations, administrative actions which impede cross-border trade. In the case of Trade Related Intellectual Property Rights (TRIPS) the

move to positive regulation is more dramatic since the Uruguay Round negotiations covered not only standards for domestic laws but also detailed provisions for enforcement procedures to enforce individual (corporation) property rights.

The institutional change emanating from the Uruguay round brought heavy financial burdens on developing countries governments in terms of adapting the national institutional frameworks to cope with the implementation of the obligations of the Uruguay Round including a new trade institution and a dispute settlement system that required expertise in trade law, for instance. Furthermore, due to the limited participation of developing countries, the implementation period requested by the developing countries was arrived at without any research and analysis to back the number of years proposed. For example, the developing countries agreed to ten years implementation period on the Agreement on Agriculture because this was suggested to them by the developed countries (U.S., E.U.). As far as the developing countries were concerned, ten years had to be the appropriate period for implementing the Agreement on agriculture since the developed countries who were their colonial masters to most of them at some point in history had said so. The developed countries could not make any suggestions that were wrong in the negotiations! Every proposal from the developed countries was taken as the gospel truth. So they took ten years as the right period to implement the agreement, only to realize at a later stage that they require more time to domesticate the requirement of the agreement on agriculture. We should not also forget that most of the developing countries did not consult their capitals before making and committing themselves to the decisions made at the Uruguay Round negotiations.

As a result, and due to the lack of expertise both in Geneva and at their capitals, developing countries did not understand the implication of the transformation of the trading system. However, the developed countries also were not fully aware of the implications of the new trading system emanating from Uruguay and as Rubens Ricupero, the then Secretary General of UNCTAD noted, "awareness of the Uruguay Round in most member countries was very limited until the final stages of the negotiations and it was hardly surprising that for many developing countries it could plausibly be seen as the result of some conspiracy by government in collusion with transnational corporations"⁵⁴

Developing countries have however improved their participation and co-ordination in the multilateral trading system after the Uruguay Round. For instance, at the preparatory meetings for the Third WTO Ministerial Conference which was held in Seattle the developing countries through the various coalition groups (detailed discussion on the role of coalition groups in the WTO negotiations covered in chapter four) spoke in one common voice and submitted most of the proposals suggesting specific changes to the draft text for the Ministerial meeting. They emphasized that at that point in the multilateral trading system negotiations they were most concerned with technical assistance to implement the commitments that they had undertaken during the Uruguay Round (implementation issues), special and differential treatment aspects of the agreements and the need for capacity building to enable them fully integrate into the multilateral trading system. Developing countries were also against the inclusion of

⁵⁴ Rubens Ricupero, A Development Round: Converting Rhetoric into substance. A not circulated as background to the Conference on Efficiency, Equity and Regitimacy: The Multilateral Trading System at the Millennium, John Kennedy School of Government, Havard University, June 1-2, 2000, p 1.

new trade topics in the agenda (new issues) such as investment, competition policy, labour and environment. Unlike during the Uruguay Round where the position that developing countries held at the beginning of the meeting was totally different from what they agreed to at the end of the meeting, the developing countries opposed the inclusion of the new issues until the closure of the Seattle meeting. This demonstrated some level of "maturity" in the participation of developing countries and it was the disagreement on inclusion of these new issues in the WTO agenda that led to the failure of the Seattle meeting.

The improved participation of developing countries in the negotiations can be attributed to the fact that most of them were no longer under colonial rule and they felt free to air their views in the negotiations. There was also an increased awareness of trade policy issues among the business community, the politicians and the public at large. The history of trade negotiations shows that only a well-informed business community can provide a partnership for governments in international rule-making. In developed countries, business is routinely very active in influencing government positions in multilateral or bilateral trade negotiations. It is the opposite in most developing countries since business participation in the negotiations is limited. During the Uruguay Round for instance developing countries delegations to the negotiations were only composed of Government officials who claimed that the presence of the business community was not necessary since their interests were fully represented by Government. What the developing government delegations forgot was that the implementers of the obligations committed by the government at Uruguay would be the business community. As the saying goes, "it is the wearer of the shoe that knows

where it pinches most". Of course, governments will make decisions on political grounds – as Schumpeter⁵⁵ wisely noted, policy is the product of politics. But informed discussion in the WTO, and also in national capitals may help to make good policy good politics.

Non Governmental Organizations (NGOs), interest and participation in the multilateral trade negotiations has also been growing enormously. NGOs especially from developing countries, have increasingly taken part in shaping international trade policies and practices that affect their countries, and contributed to international dialogue on trade. Most of us are well aware of the growing prominence over the 1990's of Non-governmental Organizations (NGO's) in international policy and their role in United Nations activities and, especially after Seattle, their impact on the WTO⁵⁶.

Most of these NGOs are based in developing countries and their focus is on trade policy or trade related issues especially on environment. Developments in Asia and Africa explain this new phenomenon. Examples of NGOs in Asia include the Third World Network and the Global South based in Thailand. In Africa the International Lawyers and Economists against poverty (ILEAP) and the Southern and East Africa Trade

⁵⁵ Capitalism, Socialism & Democracy, Joseph A. Schumpeter, Routledge Publishers, p. 280.

⁵⁶ NGOs were not direct players in the Seattle Ministerial Conference, but they had a significant indirect impact on the discussions and outcome of the meeting through their interaction with delegates and Ministers outside the Conference negotiating rooms. Their role in the Conference went beyond political activism. After Seattle, NGOs were active in advocating for the WTO to reduce its role to a suitable range of genuine trade issues and to correct the flaws in agreements such as agriculture, intellectual property and investment measures. This view was taken up in the discussions within the WTO particularly those relating to WTO Reform.

Information and Negotiations Institute (SEATINI) are good examples. The establishment of the South Centre in 1995 in Geneva which was funded by the G77 to carry out research and support the group in the multilateral trade negotiations has extended this network of NGOs. The link between Asian and African NGO's is provided by CUTS (Consumer Unity and Trust Society), which arose out of the consumer movement of the 1980's but then established CITEE (Centre for International Trade Economics and Environment) and other resource groups in Asia and Africa in the 1990's. This network of NGO's in the developing countries is also linked to and supported by NGO's in the developed countries. Some examples are the World Economy, Ecology and Development (WEED), based in Germany and dedicated to training and consultancy for developing countries NGO's; ICTSD (International Centre for Trade and Sustainable Development, established in Geneva in 1996 and jointly funded by Governments & Foundations as well as the Consumer Unity and Trust Society (CUTS) and OXFAM (a confederation of 15 like-minded organizations working together to find lasting solutions to poverty and injustice. Some of the training and research institutions that provides training for developing countries NGO's as well as information and analysis include ACTION AID and CHRISTIAN AID of the U.K.

The developing and developed countries network of NGOs together constitutes an "informal" secretariat for both categories of countries in the multilateral trade negotiations through the increased use of internet. The United Nations Conference on Trade and Development (UNCTAD) which was created in 1964 and was largely a product of the Cold War as was the G77 bloc of developing countries could be termed as the "formal" Secretariat for the Developing countries. The role of UNCTAD is, in the

words of its Secretary-General, to assist the Southern countries to develop a "positive agenda" for the developing countries.⁵⁷

Having looked at the background, the process and the dynamics of the entire Uruguay Round negotiations, the remaining part of the Chapter will zero- in on the agriculture negotiations and focus specifically on the discussions that led to the agreement among the Uruguay Round participants to include agriculture in the negotiations. As mentioned earlier, agricultural trade was excluded from the GATT trade talks before the Uruguay Round. The completion in 1993 of the Uruguay Round of trade negotiations marked a historic turning point in the reform of the agricultural trade system. It is the Uruguay Round Agreement on Agriculture (URAA) that for the first time put in place a set of rules which have already gone some way toward improving the conditions under which agricultural goods are traded. Bound tariffs have replaced non-tariff import measures, export subsidies have been curbed and domestic programs have been codified on the basis of their potential to distort trade⁵⁸.

As is still the case today with the WTO members, most GATT contracting parties considered that agriculture was a special sector that needed to be treated differently from other sectors of the economy because of reasons relating to national food and livelihood security. The focus of the earlier GATT Rounds was on the removal of border barriers e.g. tariffs on industrial products which resulted in an expansion of the

⁵⁷ Enhancing the development role and impact of UNCTAD – Report of the Panel of Eminent Persons, UN, 2006.

⁵⁸ Tim Josling, Professor and Senior Fellow, Institute for International Studies, Stanford University. The Uruguay Round Agreement on Agriculture: A Forward looking Assessment

industrial sector but a relative decline of the agriculture sector. Given the importance of the agricultural sector, this downward trend created concern and to slow down the decline farmers lobby groups especially in the US and EU pressurized their governments to protect agriculture from the negative effects of the international market. It was therefore, not until the Uruguay Round that agriculture, for the first time was a subject of discussion on the GATT negotiating table. However certain agricultural products did previously appear in the negotiations but as individual commodities. For example, "the Dillon Round succeeded, in cutting tariffs on Soya beans, cotton, vegetables and canned fruit to very low levels, and the International Wheat Agreement and the International Dairy and Meat Agreement were negotiated under the auspices of the Kennedy Round"⁵⁹.

Since there were no multilateral disciplines on agriculture, developed countries resulted to protection and support for agriculture. This was the origin of the high levels of protection in agriculture experienced today because countries such as the U.S introduced export subsidy programmes in order to maintain their market share. Agricultural exporters mainly from the developing countries that did not have the resources to provide support to their farmers experienced drastic market share decline. The protectionist policies of the developed countries led to global market instability arising from depressed world prices of agricultural products and as a result of the large distortions in world food markets. International tension and also disputes over agricultural trade increased. In fact, 60 percent of all trade disputes submitted to the

⁵⁹ Stephen Healy, Richard Pearce & Michael Stockbridge; The implications of the Uruguay Round Agreement on Agriculture for developing countries, Food and Agriculture Organisation of the United Nations (FAO), 1998 P.121

GATT dispute settlement process between 1980 and 1990 were concerned with agriculture⁶⁰. These disputes were mainly between the U.S and the E.U. Indeed, it was the desire to reduce continual friction between the U.S. and the EC over agricultural trade that brought agriculture to the negotiations at Uruguay. The Uruguay Round negotiations lasted for seven years mainly due to the resistance from the E.U. to include agriculture in the Uruguay Round package given the impact that multilateral rules on agriculture would have on the E.U. Common Agricultural Policy (CAP). The E.U was not ready to undertake any reforms in the CAP since the reforms had been negotiated and agreed upon by all the E.U. member countries. The economic rationale for bringing agriculture within the framework of the GATT revolved around: comparative advantage; world market instability and the effects of protectionism⁶¹.

The Punta Del Este Declaration which launched the Uruguay Round stipulated that the objectives with regard to agriculture were "to achieve greater liberalisation of trade in agriculture and bring all measures affecting import access and export competition under strengthened and more operationally effective GATT rules and disciplines"⁶². The effects that domestic agricultural policies had on trade were clearly outlined in the Declaration. An agricultural negotiating group was set up in Uruguay with the main actors being from the USA, the EC and, to a lesser extent, the Cairns

⁶⁰ J.G. Merrills, *International dispute Settlement*, Cambridge University Press, 2005 p.298

⁶¹ Kym Anderson, *Distortions to agricultural incentives; a global perspective*, World BANK Publications, 2009, p.541

⁶² Ministerial Declaration of 20th September 1986 in which Ministers of the GATT Contracting Parties decided to launch the Uruguay Round of Trade Negotiations.

Group. The Cairns Group which was one of the trade alliances that emerged from the Uruguay Round in 1986 and was a group of agricultural exporters from developed and developing countries determined to ensure that liberalization of agricultural trade was at the forefront of the negotiations.

The U.S. main interest in the agriculture negotiating group was to bring the ECs Common Agricultural Policy (CAP) under multilateral discipline while that of the E.C. were to shield the CAP from any reforms dictated by the emerging new trading system. Developing countries outside of the Cairns group did not have a major influence over the proceedings on the agriculture negotiations. Japan and the Republic of Korea though not members of the negotiating group had an interest in the negotiations because they had highly protected domestic rice markets. Domestic resistance to reform the agriculture sector remains strong in these countries up to today. The Net Food Importing Developing Countries (NFIDCs) , (another developing countries group emerging out of Uruguay) were mainly concerned with the impact of the Round on the cost of food imports. However, regardless of all these players, the Uruguay Round agricultural negotiations was a platform mainly for negotiations between Europe and the United States.

When the negotiations on agriculture began, sharp differences existed in the positions held by the US and the EU as well as the Net Food Importing Developing Countries. The differences arose out of the protectionist approach that the US and the EU took in the negotiations. To demonstrate its commitment to reform trade in agriculture the US demanded that all agricultural subsidies and all quantitative restrictions on agricultural imports be phased out over a period of ten years, and that world health and safety

measures be harmonised⁶³. Although this position found favour within the Cairns Group, the EU as expected was totally opposed to this position because it would negate the objectives of the CAP reform to provide export subsidies to its farmers. Japan, like the EC was keen to protect its farmers from international competition, particularly in the rice sector, for which it sought special treatment on the basis of its role in the Japanese diet, culture and environment. The NFIDCS argued that the impact of the reform on agriculture should not be greater on their economies than it would be on the developed countries and that they be given a longer period of time in which to fully implement any policy changes.

In 1998, there was an Uruguay Round mid-term review in Montreal but positions still remained far apart. The Cairns Group in particular refused to approve the draft texts of any of the other negotiating groups until there was a text on agriculture. The Group insisted that they would not be party to any agreement on any other issues under the negotiations unless there was an agreement on agriculture. In addition, the group was totally opposed to the inclusion of trade in services, intellectual property and investment which were new subjects of negotiations. The U.S. negotiators argued that without the new issues it was doubtful that their Congress would have supported the outcome of the negotiations. The Cairns Group countries however maintained that they also had a constituency back at home that needed to be convinced about the economic value of the Uruguay Round package to their respective countries. The new issues they argued would lead to an additional implementation burden at the domestic level.

⁶³ World Trade Report Report , Geneva,WTO,2003, p. 53

A breakthrough eventually came with the resumption of the mid-term review in April 1989. This culminated in the Geneva Accord, that saw the United States negotiators drop their demand on the CAP reform, and led to the adoption of a series of short-term measures that involved a freeze in the current levels of domestic support, export subsidies and border protection⁶⁴. The parties to the negotiations reaffirmed their commitment to the long term objective of reducing government intervention in agriculture and it was proposed that negotiations should develop commitments in domestic support, export subsidies and border protection. The EC delegation remained opposed to making substantial cuts in its export subsidies enshrined in the CAP. It was not until 1991, having missed the December 1990 deadline for the conclusion of the Uruguay Round that the negotiators finally arrived at a consensus that concessions were to be made in import access; domestic support; export subsidies. However, establishing the levels of concessions was another uphill task which took two additional years. At the end of 1991 the director-general of the GATT, Arthur Dunkel⁶⁵ presented a comprehensive Draft Final Act, known as the Dunkel Draft, in the hope of bringing the Round closer to a conclusion. The Draft covered agriculture, as well as all of the other areas under negotiation in the Round. It included the first complete text on

⁶⁴ Petros C. Mavroidis, *Trade in goods; the GATT and other agreements regulating trade in goods*, Oxford University Press, 2007 p. 273

⁶⁵ Andreas F. Lowenfeld, *International Economic Law*, Oxford University Press, 2002. p 101

agriculture, in which quantitative proposals were presented with respect to concessions in each of the three major disciplines.⁶⁶

Meanwhile, there were changes within the EC on the CAP, the Macsharry Plan for the CAP reform of May 1992⁶⁷, accelerated the negotiations because it was not too far from the proposals in the Dunkel Draft. However the EC still remained reluctant to make substantial cuts in export subsidies as proposed by the U.S. It was this lack of convergence between the E.U and the U.S. regarding the acceptable disciplines that were to be developed on agriculture that led to the inclusion of agriculture as a subject of negotiations in the Uruguay Round and hence the multilateral trading system. How did this happen?

The American and EC negotiators undertook a series of bilateral discussions, to break the stalemate on agriculture that eventually led to an agreement, known as the Blair House Accord.⁶⁸ The meeting that achieved this took place at Blair House in Washington in November 1992, and focused on making suitable amendments to the Dunkel Text.

The Blair House Accord broke the impasse in the agricultural negotiating group, and as the Uruguay Round drew to a close in December 1993. A consensus, on how to include

⁶⁶ Robert Amrita Narlikar and Diana Tussie, "Multiple Access Points: Knowledge generation for the Group of 20," in *The Politics of Trade: The Role of Research in Trade Policy and Negotiation*, ed. Diana Tussie (Buenos Aires: Republic of Letters/Brill/IDRC, 2009).

⁶⁷ Joachim Zietz, Alberto Valdes, *Agriculture in the GATT: An analysis of alternative approaches to reform*, 1953

⁶⁸ Steve Wood and Wolfgang Quasser, *The New European Union: Confronting the challenges of integration*, Lynne Rienner Publishers, 2007, p. 162

agriculture within the framework of the GATT, and on the commitments that this would entail, was finally reached. The Agreement on Agriculture was included in the "Final Act Embodying the Results of the Uruguay Round Multilateral Trade Negotiations"⁶⁹. Thus, agriculture became subject to GATT disciplines and was included in the final outcome of the Uruguay Round.

2.2 Conclusions

The inclusion of agriculture as a subject of negotiations reinforced the unequal pattern of the dominant (developed countries) and dependent (developing countries) in the multilateral trading system. Throughout this chapter, we have seen how the agricultural trade talks often were a platform mainly for negotiations between Europe and the United States. The developing countries played a passive role in these negotiations. I would not be wrong to state that although they were present in the plenary meeting of the agriculture negotiating group, they were merely spectators and their views were not taken seriously as is evident in the Dunkel draft text. Indeed it is interesting to note that the inclusion of agriculture as a subject of negotiations in the multilateral trading system during the Uruguay Round was as a result of the differences that existed between the US and the EU. It's clear that the developing countries signed onto the Uruguay agriculture text without realizing that they were in fact endorsing the interests of the two key players in the negotiations. However since they were told by the developed countries that there had been a breakthrough in agriculture and that the Uruguay Round was to be concluded, they quickly signed onto the agreement that had

⁶⁹ International Agricultural Trade Research Consortium, *Bring Agriculture into the GATT; implementation of the Uruguay Round Agreement on Agriculture and issues for the next round of agricultural negotiations*, 1997p.149

been reached without asking a single question. As Will Martin and Allan Winters state, the package was presented on a take it or leave it basis. They were later to realize after analysis undertaken mainly by NGOs that the agriculture text was a reflection of the interests of the developed countries. The text had condemned them to continue being providers of raw materials to the dominant countries.

It took seven and a half years of negotiation, almost twice the original schedule. By the end, 123 countries were taking part. It covered almost all trade, from toothbrushes to pleasure boats, from banking to telecommunications, from the genes of wild rice to AIDS treatments. It was quite simply the largest trade negotiation ever, and most probably the largest negotiation of any kind in history.⁷⁰

⁷⁰ <http://www.worldtradereview.com>

Chapter 3 THE WTO NEGOTIATIONS ON AGRICULTURAL SUBSIDIES

3.1 Introduction

Having looked at the background to the inclusion of agriculture as a subject of negotiations in the multilateral trading system, this chapter will narrow down to the WTO negotiations on agricultural subsidies and the sensitivities surrounding the negotiations, during the period 1995-2005 with a view to determining whether these sensitivities have contributed to the slow progress of the Doha Round of multilateral trade negotiations.

The reform programme adopted under the Agreement on Agriculture negotiated in the Uruguay Round tries to bring under the discipline of GATT trade in agriculture, a sector in which as mentioned in the earlier chapter, rules were not applied by all members before the Uruguay Round. The programme aimed at establishing a fair and market oriented agricultural trading system by requiring countries that were members of the WTO to adopt policies that disciplined the use of border measures to control imports and the use of export subsidies and other subsidies that governments granted to support the prices of agricultural products to assure a reasonable income to farmers. Some countries granted large subsidies to producers (this trend continues today), while others could not afford such expensive policies. The Uruguay Round Agreement on Agriculture was a first step towards improving competition in the field of international agricultural trade.

WTO member countries providing subsidies to their farmers agreed to reduce by specified percentages export subsidies and domestic support subsidies considered to

be trade distorting. In order to ensure that the benefits of the reform were shared equally, among developed and developing countries, the agreement on agriculture also called for the need to extend special and differential treatment to developing countries.

It is important to note that the Agreement applies to both primary and processed agricultural products. For practical reasons agricultural products are sometimes divided into two groups that is tropical and others. There is no agreed definition of tropical products at the WTO but beverages like tea, coffee and cocoa; cotton and hard fibres like jute and sisal; fruits like bananas, mangoes and guavas; and other products that are almost predominately produced in developing countries are treated as tropical products.⁷¹ As these products were of export interest to developing countries, priority was given in the past rounds of GATT negotiations to removing barriers to trade in such products. Most developed countries however continued to apply to imports of other agricultural products like wheat and other grains, meat and meat products high levels of tariffs. The developed countries basic objective in providing protection to such products was to guarantee domestic producers prices that were much higher than world prices in order to assure them reasonable incomes. These policies apart from reducing trade opportunities for competitive foreign producers also put heavy burdens on the budgetary resources of governments. In addition, the high cost of production in excess of domestic requirements would be disposed off in international markets through export subsidies.

⁷¹ Business Guide to the Multilateral Trading System, International Trade Centre and Commonwealth Secretariat, Second Edition, 1999

It is clear therefore that in addition to the high level of tariff protection, distortions in international trade in agricultural products are caused by subsidy practices, mainly in some developed countries. Over the years GATT had been able to bring under discipline subsidies provided to industrial products but due to the sensitivities attached by countries to the agricultural sector, the GATT had failed to discipline subsidies granted by governments to the agricultural products.

Some scholars e.g. Justin Yifu Lin⁷² Chief Economist and Senior Vice President of the World Bank argue that the most trade distorting subsidies granted by governments are export subsidies. Export subsidies are given to farmers to enable them sell their products in the international market without making any losses. Export subsidies are also used to dispose of the surplus production especially from the developed countries U.S., E.U in the international and local markets. The subsidy element in exports offset the difference between the domestic and international price and therefore farmers from the subsidizing country are able to sell their products at a lower price in the international market.

For farmers that have not received any subsidies from their governments and this applies to most farmers from the developing countries their products cost more on the international market and therefore cannot sell easily due to the available subsidized cheap agriculture products in the international market. This scenario also applies to the

⁷² Justin Yifu Lin *Economic Development and Transition: Thought, Strategy, and Viability*, New York: Cambridge University Press, 2009, 170 pp.

domestic markets where subsidized products are sold at cheaper prices than the local products thus affecting the local production in these countries. It was the recognition of this unfair competition that is created by export subsidies that at the conclusion of the Uruguay Round WTO members agreed that export subsidies had to be reduced both in the amount of subsidies and the quantities of subsidized exports.

Domestic agricultural support to farmers is a sensitive issue for all countries producing agricultural commodities. Domestic support subsidies are trade distorting and the approach that was taken to address this particular issue at the Uruguay Round was to require countries to accept commitments to reduce trade distorting subsidies. The Agreement on Agriculture divides subsidies into three categories for this purpose; Green,⁷³ blue⁷⁴ and amber⁷⁵.

One of the concerns raised by WTO members is that domestic subsidies to farmers have increased substantially since 1986–88, and that there has been a switch of support toward the green box, too. Nevertheless, there is evidence that high levels of direct payments to farmers for some programs in the green box like those in the United States (US) and the European Union (EU) do in fact distort trade. In addition, countries have taken advantage of the complex set of rules to repackage subsidy programs and

⁷³ All subsidies that have no or at least minimal, trade distorting effects or effects on production and do not have the effect of price support to producers e.g. government expenditure on agricultural research, pest control, marketing and promotion services. These types of subsidies are exempt from reduction.

⁷⁴ Direct payments to farmers to discourage them from production. These are subsidies that are targeted at limiting production and are mainly used in the European Union based on fixed areas, yields or fixed number of heads of cattle

⁷⁵ Trade distorting subsidies that are directly linked to production.

label them non-trade distorting. Therefore, the URAA has not properly defined and quantified subsidies; hence it has not reduced trade-distorting domestic support measures in many instances.⁷⁶

Another sensitive issue in the subsidies negotiations on subsidies has been the question whether subsidies should be eliminated or substantially reduced. The mandate resulting from Uruguay Round calls for substantial reduction but given the distortive nature of subsidies most WTO member countries would prefer to have them eliminated. The U.S for instance argues that elimination of subsidies would be too drastic to allow them to continue with the reform process in agriculture at the domestic level. A second concern particularly from the developing countries has been that the developed countries and in particular the U.S. has not revealed the exact amount of subsidies it gives to its farmers and therefore branding the U.S. as an uncommitted negotiator in the agriculture negotiations. There has been an agreement among the WTO Members to eliminate all forms of export subsidies and therefore the main culprit in the subsidies negotiations has been the U.S which has continued to provide huge amounts of domestic support to its farmers.

According to the International Food Policy Research Institute (IFPRI), the Green-box (non trade-distorting) expenditures for domestic nutrition programs dominate the total dollar values notified by the United States. The main notified components of the U.S. support policies for agricultural producers include fixed direct payments, disaster assistance, and environmental payments in the green box; market price supports for

⁷⁶ Domestic Support For Agriculture: Agricultural Policy Reform and Developing Countries, the World Bank Group, September 10, 2003

dairy and sugar and substantial price-linked, crop market loss assistance payments, countercyclical payments, and crop and revenue insurance subsidies. The Institute further notes that the United States' notification of domestic support has not exceeded the Uruguay Round commitment of \$19.1 billion and therefore there is essentially no constraint on U.S. domestic support policies. The WTO constraints would be tighter on the U.S if the proposed Doha Development Agenda disciplines of July 2008 are agreed upon.⁷⁷ The current proposal is for "a 70% cut in Overall Trade Distorting Support (OTDS) by the US and 80% by the E.U. A 70% reduction would bring US overall trade distorting support (OTDS) to about US\$ 14.5 billion, from their current level of US\$ 48.2 billion which is well above their estimated applied level of US\$ 7 billion in 2007."⁷⁸ The 2008 proposals expect the U.S. to reduce its Uruguay Round domestic support commitments by 60%.⁷⁹ In that case, the United States would still have some leeway to increase expenditures under its commitments.

One big difference between the Uruguay Round and the Doha Round is the situations surrounding the U.S. during both rounds of trade negotiations. Back during the time of the Uruguay Round, the U.S. essentially kept to a pro-liberalization stance, finding little need to become defensive in any area, including agriculture. In the current round of negotiations, however, many countries are strongly demanding that the U.S. reduce its agricultural domestic support. Given the internal political situation and the strong

⁷⁷ David Blandford & David Orden, IFPRI Discussion Paper 00821, November 2008, United States: Shadow WTO Agricultural Domestic Support Notifications

⁷⁸ http://commerce.nic.in/trade/international_trade_tig_agriculture_stateofplay_Doha_round.asp

⁷⁹ Report by the Chairman of the negotiating Group on agriculture, H.E. Mr. David Walker to the Trade Negotiations Committee, 21 April 2011

agriculture lobby group in the U.S, however, it would be extremely difficult for the U.S. to realize such reductions. Being on the defensive in the problem of agricultural domestic support, the U.S. has been unable to take leadership or present a middle ground to facilitate negotiations in this area. This situation begs the question whether this lack of leadership from the U.S. in the agriculture negotiations has been mistaken for lack of progress in the subsidies negotiations from all members? One point that has to be kept in mind is that in most countries, agriculture is inextricably linked with politics and any step in this area carries considerable political significance.

Although developing countries are allowed in the Agreement on Agriculture to subsidize their farmers most of them do not do so because of the limited financial resources. They are not therefore able to compete with the treasuries of the rich developed countries. For example within the Agreement on Agriculture developing countries are permitted, in order to encourage their agricultural and rural development, to utilize without any reduction commitments investment subsidies generally available to agriculture, input subsidies generally available to low-income resource-poor producers and subsidies to encourage diversification from growing narcotic crops (mainly for Latin American countries). However very few developing countries have taken advantage of these provisions of the Agreement

It is no doubt that developing countries require an enabling agricultural environment to eliminate poverty being the dominant sector in these countries in terms of contribution to Gross Domestic Production. For this to happen, agricultural commodities must be priced fairly at both the international and domestic markets. The elimination of subsidies by the

major subsidizers i.e. U.S and E.U. could be a catalyst to poverty reduction and economic development in the developing countries. For example studies that have looked at the impact of subsidies on agricultural production in Sub-Saharan Africa show how subsidies have destroyed viable agricultural sectors. The subsidization of cotton farmers by the U.S and the consequential impact on the economies of the West African Cotton producing countries e.g. Chad, Benin, Burkina Faso and Mali for example has elicited a very controversial debate in the WTO subsidies negotiations. In the small, remote village of Logokourani in western Burkina Faso, cotton is everything. It is the mainstay of that rural community, providing the major, and in some cases the only, source of income for many inhabitants. Cotton pays for health and education. It helps build houses and schools. When exports of cotton increased in value, production expanded in that part of the country, raising village incomes. But the collapse of the cotton price on the world market has dropped by 54 per cent since the mid-1990s and threatened the very existence of communities such as Logokourani. ⁸⁰

A quote from an Action Aid Publication summarizes the subsidies issue vis a vie developing countries "Governments in rich countries are paying over \$300 billion each year to subsidize their agricultural sectors - six times the total amount of aid to developing countries. That's enough to feed, cloth, educate and provide healthcare for every child on the planet. In a massive breach of faith, rather than complying with the spirit of agreements reached during the Uruguay Round negotiations of the World Trade Organization and reducing levels of agricultural subsidies, rich countries have actually increased them. At the same time, developing countries have been forced to reduce or

⁸⁰ Gumisai Mitume, *Africa Recovery*, Vol. 17 #1 (May 2008) page 18

eliminate their subsidies under pressure from international donors. Developed countries are practicing a double standard – protection for the rich and the free play of market forces for the poor.”⁸¹

3.2 The link between the subsidies negotiations and the stalled WTO negotiations

Having assessed the WTO negotiations on subsidies the question remains whether these negotiations can be singularly blamed for the failure of the conclusion of the Doha Round which as seen earlier has about eight areas of negotiations i.e. Agriculture, Non-Agricultural Market Access, Trade in Services, Trade facilitation, Trade and Environment, Trade-Related Intellectual Property Rights, WTO Rules and Special and Differential Treatment. Technically, the US has been blamed for causing the delay in the Doha Round, because it is felt that developing countries would not open markets in the same way that the U.S is being asked to open its market. A fair deal for the U.S is for the rich countries to open their markets, and poor countries to do the same in return. However, global trade has always been unequal, in favour of, dominated by, and influenced by, the rich countries. Hence, this “tit for tat” reciprocation would continue the unequal global trade—under the guise of equality.

The Doha “Development” Round, as it has been known, was nicknamed that way to show that the trade negotiations were to favor poor countries’ ability to develop and prosper from global trade, while acknowledging the unequal nature of global trade, dominated by industrialized countries, at the direct expense of the developing world. However, development is yet to become a reality in the negotiations and it may not be

⁸¹ Action Aid Publication 2003, Farmgate: The developmental impact of agricultural subsidies

brought about by the reduction of subsidies, other areas of the negotiations may be equally important. The role of subsidies in the WTO negotiations and the resultant delayed conclusion of the Doha Round may therefore have been unnecessarily amplified at and outside the WTO. Yes, for sure the effect of Doha's failure to conclude for international security as well as economic relations around the world could be enormous. The consideration of a mini-package (early harvest) as proposed early this year (2011) by the Director General of the World Trade Organization, Mr. Pascal Lamy seem to have reached a dead end. An early harvest would have achieved modest real liberalization; by nature of its small impact, however, it did not sufficiently motivate a coalition able to overcome entrenched local interests, including those of the United States.

It is critical to analyze the causes of the Doha malaise other than repeating the rhetoric central role of agriculture and agricultural subsidies and devise a rescue strategy that can be implemented in time. Progress in the agricultural negotiations and in particular the subsidies negotiations should not be seen as a panacea to the successful conclusion of the Doha Round. As a trade expert, Mr. Martin Khor observed that "The main problems that undermine the prospects for a successful Doha Round lie outside the negotiations themselves. Three factors stand out: the massive current account imbalances and currency misalignments pushing trade politics in dangerously protectionist directions in both the United States and Europe; the strong and growing anti-globalization sentiments that stalemate virtually every trade debate on both sides of the Atlantic and elsewhere; and the absence of a compelling reason for the political leaders of the chief holdout countries to make the necessary concessions to reach an

agreement. Progress on each front is necessary for the Doha negotiators to have a chance of succeeding.”⁸²

⁸² Martin Khor, The WTO Agriculture Negotiations: Domestic Support, United Nations Development Programme (UNDP) Workshop - Doha and beyond: Incorporating Human Development into Trade Negotiations, 17-18 December 2007, Penang, Malaysia.

Chapter 4 MULTILATERAL TRADE NEGOTIATION MECHANISMS: THE ROLE OF COALITION GROUPS IN THE WTO

4.1 Introduction

Developing countries have formed coalition groups in the WTO and agriculture negotiations to enhance their power and influence as well as make their participation in the negotiations more meaningful. The demands made on developing countries whether individually or in the coalition groups to drastically liberalize their agriculture sectors will affect the agricultural production in these countries. In this Chapter, I shall look at the role that coalition groups have played in the negotiations, their impacts and the challenges faced.

Coalition groups have played an important role in the WTO Negotiations and in particular the agriculture negotiations. They have mainly surfaced based on specific issues of interest in the negotiations for purposes of increasing bargaining power. These groups often speak with one voice using a single coordinator or negotiating team. One important advantage of having these coalition groups in the negotiations is that members unite together towards a common goal. For instance, for many developing countries, participation in coalitions with other developing countries has become an effective strategy for visibility and enhancing their influence in the negotiations.

Developing countries coalitions in the multilateral trading system are not new, but they have evolved significantly. There has been a proliferation of coalition groups in the WTO

since the years of the GATT. An excellent example is the Group of 77 (G77) a group of developing countries that has operated in the international trade arena since the 1960s. Along with the non-aligned movement (NAM), the G77 has played a critical role in UNCTAD as well as the WTO. The Informal Group of Developing Countries (IGDC), is yet another example which was formed by a sub-set of developing countries in the lead up to the launch of the Uruguay Round.

Having examined the Uruguay Round negotiations in the previous chapter and observed that most countries negotiated as individual countries at and before the Round, the question that comes to mind is why the formation of coalition groups in the WTO? What changes took place that warranted countries to come together and negotiate as a group instead of individual countries.

There are a number of reasons that can be attributed to the formation of coalition Groups in the WTO. One of these reasons is that negotiating as a group gives economic and political strength to individual countries vis a vis their trading partners. Coalitions can help countries build negotiating positions and proposals where their understanding of issues might be otherwise weak. Where countries seek an outcome to negotiations, the growing use of coalitions can be seen as advantageous because it can help build convergence among the broad WTO Membership by facilitating learning and the forging of compromises.⁸³ Many coalition groupings are now visible in the WTO and one can comfortably say that the WTO negotiations are to the largest extent among and

⁸³ Bernal, L., Kaukab, R., Musungu, S. and Yu, V. 2004. 'South-South Cooperation in the Multilateral Trading System: Cancún and Beyond.' Trade Working Paper 21: Geneva. South Centre.

driven by coalition groups. The most active groupings in the WTO negotiations and in particular the agriculture negotiations being my subject of research are the G10, the Cairns Group, the G20, the G33, the African Group, the Caribbean and Pacific Group of States (ACP) and the Least Developed countries (LDCs).

There are many WTO members who make these groupings as shown below.

Group of 10: Bulgaria, Chinese Taipei, Republic of Korea, Iceland, Japan, Liechtenstein, Mauritius, Norway and Switzerland.

Cairns Group: Argentina, Australia, Bolivia, Brazil, Canada, Chile, Colombia, Costa Rica, Fiji, Guatemala, Indonesia, Malaysia, New Zealand, Paraguay, Philippines, South Africa, Thailand and Uruguay. The Philippines and Indonesia, although still members of the Cairns Group do not share many of the positions taken by this group in the negotiations, especially with respect to market access.

Group of 20 : Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Thailand, Tanzania, Venezuela and Zimbabwe.

Group of 33 : Antigua and Barbuda, Barbados, Belize, Benin, Botswana, China, Congo, Cote d'Ivoire, Cuba, Dominican Republic, Grenada, Guyana, Haiti, Honduras, India, Indonesia, Jamaica, Kenya, Republic of Korea, Madagascar, Mauritius,

Mongolia, Mozambique, Nicaragua, Nigeria, Pakistan, Panama, Peru, Philippines, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Senegal, Sri Lanka, Suriname, Tanzania, Trinidad and Tobago, Turkey, Uganda, Venezuela, Zambia and Zimbabwe.

The African, Caribbean and Pacific Group of States (ACP): The group encompasses 79 States of which 54 are WTO Members.

The African Group : This Group includes 42 African Countries that are WTO members: Angola, Benin, Botswana, BurkinaFaso, Burundi, Cameroon, Cape Verde, Central African Rep., Chad, Congo, Congo (Democratic Rep.), Côte d'Ivoire, Djibouti, Egypt, Gabon, Gambia, Ghana, Guinea,Guinea Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali,Mauritania, Mauritius, Morocco, Mozambique, Namibia,Niger, Nigeria, Rwanda, Senegal, Sierra Leone, SouthAfrica, Swaziland, Tanzania, Togo, Tunisia, Uganda,Zambia, Zimbabwe

Least Developed countries (LDCs) : Angola, Bangladesh, Benin, Burkina Faso,\$"ay Burundi, Cambodia, Central African Republic, Chad, Ethiopia, Gambia, Guinea, Guinea-Bissau, Haiti, Lesotho, Madagascar, Malawi, Maldives, Mali, Mauritania, Mozambique, Myanma, Nepal, Niger, Rwanda, Senegal, Sierra Leone, Solomon Islands, Tanzania, Togo, Uganda, Zambia.

Group of Cotton Four (C4): Benin, Burkina Faso, Chad and Mali⁸⁴

4.2 The reasons behind the composition of coalition groups in the WTO negotiations?

The above listings of countries elicit the question as to what is the driving force behind the composition of these coalition groups. The composition of a coalition group mostly is driven by a common issue of interest in the negotiations e.g., the G-20, the G-33, the C4, and G10). Other countries may come together because they have similar levels of development or weight in world trade e.g. the Least Developed Countries (LDC) Group, the Small Vulnerable Economies (SVE) Group, the G-77/China and regional groupings e.g. the African Group and the African, Caribbean, and Pacific (ACP) Groups also come together to project trade interests that emanate from specific regional groupings. It should be noted that although there are specific developing countries coalition groupings e.g. the G20 some of these groupings combine developed and developing countries (e.g., the Cairns Group). The purpose of coalitions groups as well as the negotiating strategy vary considerably.

At this point, I would like to discuss the role that coalition groups have played in the WTO negotiations with particular reference to the agriculture negotiations. These views represent opinions collected from discussions with Kenya Government officials who

⁸⁴ Source of Members of Coalition Groups: <http://www.wto.org>

represent their Governments on WTO negotiations and Geneva based negotiators from Africa.

One important area that was viewed as having been influenced by the increase in the number of coalition groups is the decision making process in the WTO. The organization was once branded as the "rich man's club"⁸⁵ in which decision were made by those that had the political power e.g. the U.S E.U. Australia etc. The weaker countries had to swallow the decisions taken by these countries on their behalf without any complaints. In fact Kenya is a good example of a country that experienced this kind of coercive decision making if I may call it so. Although Kenya did not effectively participate in the Uruguay Round negotiations, it was party to the signing of the outcome of the negotiations despite the fact that the country had no idea how the obligations taken at Uruguay were to be implemented at the domestic level. The obligations themselves were not properly understood by the Kenyan delegation to Uruguay but since Governments representatives were asked to sign the outcome then Kenya had no alternative but to comply. Back at home from Uruguay, Kenya realized that it did not have the capacity to implement the obligations that it had signed onto and the process of seeking an extension of the implementation period and technical assistance to implement these obligations which the country had voluntarily signed began.

⁸⁵ Eileen kwa, Behind the WTO scene

With the formation of coalition Groups, this type of decision making has not been feasible because members of coalition through their co-ordinators have to be represented in any open or closed (Green Room)⁸⁶ meetings in which decisions that affect the WTO Organization are expected to be made. This shift to explicitly include coalitions groups in WTO decision-making process began with preparations for the Doha Ministerial Conference in 2001 and has become further institutionalized. At the Ministerial in Hong Kong in 2005 for example the African Group was represented by Egypt, the ACP Group represented by Mauritius, the LDCs represented by Zambia, the G20 represented by Brazil and the G33 represented by Indonesia were all active participants in the inner circle consultations.⁸⁷ Other observations made included the fact that consensus building has been made easier by the existence of coalition groups. Before the WTO members meet in the plenary for the main negotiations the coalition groups normally meet before hand and prepare their positions on the area/ issue under negotiations. What this means is that the positions to be tabled in that particular negotiating Group e.g. the negotiating group on agriculture is not 153 positions from all members but a limited number of positions depending on the number of coalition groups represented in that particular meeting. This makes building of consensus easier because the process will already have began within the coalition groups.

⁸⁶ Meetings of representatives of a limited number of WTO members specifically selected and invited by the host (often the WTO director-general) in order to work out an agreement among themselves, and then present such agreement to the broader WTO membership for general acceptance.

⁸⁷ Carolyn Deere Birkbeck and Meg Harbour: Developing countries Coalitions in the WTO: Strategies for improving the influence of the WTOs Weakest and POOREST Members, GEG Working Paper 2011/63

The second role that these groups have played is exerting pressure on the major countries to change their domestic policies that may be negatively affecting international trade. The progress achieved so far in the negotiations on agriculture would not have been the case in the absence of coalition groups. Pressure from these groups particularly the G20 led to the acceptance by the E.U. and other countries to eliminate all forms of export subsidies by the year 2013. With the delayed conclusion of the Doha Round, this end date will need to be revised. The Cairns Group and the G20 Group have exerted pressure on the U.S. to reduce its domestic support. If countries were negotiating individually, it would not be possible to discipline the unfair domestic trade policies of the politically powerful countries. For example Chad cannot as an individual country discipline the domestic support on cotton provided by the U.S government in the negotiations. The U.S. may threaten to stop the financial aid and any other assistance that it is extending to Chad with immediate effect!

A third major role of coalition groups that came up from speaking to the trade experts was that the negotiating/bargaining strength that emerges from these Groups have brought issues that may have been considered of little economic significance to the forefront of the negotiations. A good example is the commodity issue within the agriculture negotiations. At the beginning of the negotiations in 2001, Kenya had raised the concern that the declining prices of commodities were affecting the food security and livelihood of those developing countries that are dependent on the export of a few commodities. The U.S. and the E.U. did not appreciate the relevance of this issue and relegated it to one of those issues that needed to be negotiated last. Kenya however

took the commodities discussion to the African Group and managed to get it endorsed as an issue that affected the entire African group countries. With the negotiating mandate on commodities being transferred to the co-coordinator of the African Group the issue was given more attention and a concrete outcome on this issue is expected with the conclusion of the Doha Round.

There are a number of challenges that face the existing coalition groups. These challenges include: inadequate resources and expertise, diversity and divergent interests within groups, effective leadership and representation, internal coordination and accountability, and challenges to engage with more powerful states and coalitions⁸⁸.

Given these challenges, how effective have the coalition groups been in the negotiations. It should be noted that the success of one group cannot be compared to another because each group has different objectives and strategies. However, it has been observed particularly by African countries negotiators in Geneva that the coalition groups that have emerged out of the interest to defend a particular negotiation issue that is of national interest to all the members of the Group seem to have been more effective in the WTO negotiations. The G20, the Cairns Group and the Cotton 4 may be cited as good examples in this regard. The G20 has consolidated its position by being specific about its position and significantly recast the agenda of the agriculture

⁸⁸ Carolyn Deere Birkbeck and Meg Harboud: Developing countries Coalitions in the WTO: Strategies for improving the influence of the WTOs Weakest and POOREST Members, GEG Working Paper 2011/63

negotiations.⁸⁹ The Cairns Group has exhibited technical knowledge on the issues under negotiations and has an efficient internal co-ordination mechanism. Its success can also be linked to its access to resources and institutional support. The Cotton four i.e. Chad, Benin, Burkina Faso and Mali can also be cited as a group that has progressed due to its success in combining efforts to call for the reduction of cotton subsidies to create a fair playing field for farmers from all regions. Like-minded groups e.g. the G90, the G110 are effective on addressing general and not specific issues under the negotiations. They focus more on political statements and broad principles such as ensuring that the development component of the Doha Round is captured in any outcome of the negotiations. Regional grouping spend plenty of time trying to agree on a common position in the negotiations. Taking the African Group as an example, the Group was established in 1997 and has a membership of 42 countries. The African Group rotates its leadership and co-ordination among members. It also selects focal points to take charge of suggesting, formulating and articulating group positions. Government Trade experts views both from the capital (Nairobi) and in Geneva vary regarding the success of the African Group at the WTO negotiations. Some are of the view that the African Group has not achieved much in the negotiations. They cite lack of specific negotiating issues that join the group together and therefore the group tends to be engaged in broad political statements that are not substantive. The lack of technical expertise and thorough analytical work on issues was also cited as a weakness of the African Group. The lack of focus and concentration among the African delegates was also mentioned as a weakness since most of them are normally exhausted from

⁸⁹ *Mayur Patel, Project Associate of the Global Trade Governance Project, University of Oxford.*

attending other negotiating group meetings. It should be noted that most African Missions have one or two representatives in their Missions in Geneva. It is extremely difficult for these delegates to cover all meetings including those of the African Group. Some of these meetings run simultaneously. Language barrier was also mentioned by one delegate as a hindrance to positive progress in the African Group discussions. Yet another delegate underscored the fact that some African countries consider themselves more advanced than others and consider the African Group meetings as "a waste of time". One delegate expressed concern that the African Group has no specific trade issues and is used by Non Governmental Organizations to articulate their issues of concern.

However, other delegates were of the view that the African Group has been one of the most successful coalition groups in the WTO. Examples were cited in the Special and differential treatment where the African Group was at the forefront for advocating the need to make this provisions effective and operational. Indeed, the 88 special and differential proposals⁹⁰ with specific amendment language were developed by the African Group. The successful amendment of the TRIPS agreement to address the problems of developing countries with insufficient manufacturing capacity was mentioned as another example. The commodities issue emerged as another example of the group's specific contribution in the negotiations.

⁹⁰ The African group identified the special and differential provisions that were best endeavour clauses and proposed language to make them more effective and operational in accordance with the Doha Mandate.

In summary there are varying views and opinions on the role that coalition Groups have played in the WTO and particularly the agriculture negotiations. However it is clear that the rise of coalition groups have improved the visibility and the bargaining power of the weaker countries in the WTO. This is manifested by the success of some of the major coalition groups in the agriculture negotiations e.g. the Cairns Group and the G20 success in getting developed countries to agree to eliminating all forms of export subsidies by 2013 and drastically reducing domestic support to their farmers.⁹¹

⁹¹ The Cairns Group and the G20 have the same interests in the agriculture negotiations which are aimed at liberalizing trade in agricultural products through a rule based system in order to make progress towards a more fair and equitable agriculture. The two groups have succeeded in spearheading the negotiations on the formulas and other methods to be used to reduce tariffs and subsidies on agriculture products. It is estimated that 50 per cent reductions in barriers to market access, domestic support and export subsidies will raise annual global incomes (Gross National Product) by US\$ 53 billion Australian Bureau of agricultural and Resource Economics and Sciences (ABARE), current issues, July 2001, www.abares.gov.au

Chapter 5 CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

Although the issue of subsidies is controversial in the WTO negotiations it cannot be viewed as the only contributing factor to the delay in the conclusion of the Doha Round negotiations. Other factors have also contributed to the delay in the conclusion of the negotiations. These factors include: an enlarged agenda and increased membership. For example, the WTO currently faces significant resource constraints. The WTO staff and budget compare poorly with those of other international organizations e.g. the OECD and the International Labour Organization(ILO). The small size of the WTO Secretariat constrains its ability to conduct legal and economic analysis. It is important that the WTO management structure is reviewed because "unlike other international organizations WTO is directed by a Council comprising the entire membership. Attempts to form an executive board through weighted voting have been opposed by smaller WTO members".⁹² In addition other areas of the WTO negotiations that are considered sensitive to all members such as services, manufacturing products negotiations, special and differential treatment, implementation issues need to be addressed in tandem with the agriculture negotiations to address the current stalemate in the negotiations.

Developing countries should not be expected to further liberalise their agriculture sectors since they had undertaken unilateral liberalization under the Structural Adjustment Programmes (SAPs) advocated by the World Bank(WB) and the

⁹² Jeffrey J. Schott, Institute of International Economics <http://www.iie.com>

International Monetary Fund (IMF). Instead, they should be given credit for this voluntary unilateral liberalization which put them ahead of the other members in the WTO.

Developing countries within coalition groups should not give in to the demands made by developed countries e.g. the U.S demand that the Group of 33(G33) limit the number of special products to be exempted from liberalization due to their contribution to food and livelihood security and rural development. In addition the G33 should maintain their stand on introducing a Special Safeguard Mechanism (SSM) in agriculture to address import surges.

Developing countries can be allowed to subsidize their farmer in order to enable them compete fairly on the international scene. However, they need to be assisted financially by developed nations or a fund established in the WTO for this purpose.

Completion of the entire Doha Round and not the agriculture negotiations only is critical. The negotiations have progressed at low pace mainly because of divergent views between developed and developing countries on a number of key issues. Although the main obstacle to progress has been the adoption of modalities in Agriculture and Non Agricultural Market Access, the lack of leadership from the U.S. which is a key player in the negotiations has also contributed to the delayed conclusion of the Doha Round.

The Proliferation of bilateral and regional agreements- Although WTO provides an exception for regional trade agreements under GATT Article XXIV the increase of these arrangements threatens the existence of the WTO.

Emerging new economic issues- The maintenance of open trade, particularly, during periods of economic crisis is a challenge that confronts the WTO. This challenge was put to test during the recent financial crisis when many countries slipped back to protectionist practices.

Emergence of coalition groups- The negotiating process has become complex since negotiations are not between individual members but among coalition groups e.g. African Group, G20, G33, G90, G110 etc. Consultations within these groups take a long time contributing to slow progress of the entire process.

All the above can be seen to have contributed to the slow pace of the negotiations.

5.2 Recommendations

Some of the Developing countries particularly those in Africa are still struggling with the implementation of commitments⁹³ made during the Uruguay Round. Discussions to address the Uruguay Round implementation issues and concerns should therefore be expedited.

⁹³ WTO negotiations produce general rules that apply to all Members, and specific commitments made by individual Member governments. The specific commitments are listed in documents called "schedules of concessions", which reflect specific tariff concessions and other commitments that they have given in the context of trade negotiations, such as the Uruguay Round. During the Uruguay Round developing countries undertook obligations/commitments to implement agreements such as intellectual property, customs procedures, sanitary and phytosanitary measures which they have not successfully integrated into their domestic policies up to-date.

There is also need to operationalise Special and differential treatment (S&D) and technical assistance provisions. The WTO Agreements contain provisions that extend favorable treatment to developing countries in terms of concessions and technical assistance to enable them implement commitments. However these provisions have remained "best endeavor" clauses, with developed countries arguing that the provision of technical assistance is not mandatory.

Developing countries should enhance their coordination to enable the preparation of common positions and strategies in the WTO. These countries are divided into various coalition groupings which lead to duplication and weaken their bargaining power.

The WTO negotiating process must also be reformed to ensure that it is transparent and all inclusive. The centrality of the multilateral negotiations needs to be maintained to ensure ownership of the outcome of the negotiations by the entire membership.

The reluctance of the U.S to engage in the agriculture negotiations by reducing domestic support provided to its farmers and to shoulder responsibility as a key player in the negotiations has made progress in the WTO negotiations difficult. The U.S should provide constructive leadership in the WTO negotiations to enable member countries deliver a breakthrough deal on agriculture and in the other areas of the negotiations⁹⁴.

One may ask why the U.S. should consider providing constructive leadership when it may be benefitting from the current status quo in the WTO negotiations. The

⁹⁴ Abstract, The Demise of Development in the Doha Round Negotiations, pg575, Sungjoon CHO, Chicago-Kent College of Law,, ILLINOIS Institute of Technology.

dependency theory explains this scenario. It indicates that dependency is a continuous process and that the interaction between the dominant and the dependent states tend to not only reinforce but also intensify the unequal patterns. Susan Bodenheimer referring to Latin America underdevelopment says "Latin America is today, and has been since the sixteenth century, part of an international system dominated by the now-developed nations. Latin underdevelopment is the outcome of a particular series of relationships to the international system"⁹⁵. The U.S. may not be willing to relinquish its position as a dominant member of the WTO by giving in to the requests of the dependent developing countries.

Subsidies have traditionally been used by the developed countries Governments to keep prices down by providing financial assistance to farmers. The Doha Round was expected to eliminate subsidies which result in unfair competition on the international market. Although general consensus has been reached to eliminating export subsidies by 2013⁹⁶ the reductions of subsidies that have direct effect on production mainly provided by the U.S (e.g. fertilizer) remain contentious. The U.S. should be prevailed upon to show leadership in the WTO negotiations and particularly in this area.

In conclusion the approach to be taken by the African Countries on the reduction/elimination of subsidies should be analyzed and needs further research.

There exists some grey area on the issue of subsidies and African countries since most

⁹⁵ Susanne Bodenheimer, "Dependency and Imperialism: The Roots of Latin American Underdevelopment," in Fann and Hodges, *Readings, op. cit.*, p. 157.

⁹⁶ Refer to the Draft Revised Modalities ,TN/AG/W/4/rev.4, 6th December 2008,

of them are net food importers and are not self food sufficient. The question remains whether the removal of subsidies by developed countries will be beneficial to Africa or will it enhance starvation, hunger and poverty in Africa?

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Questions posed to Kenya and Zimbabwe delegates in Geneva and Mr. Moses Otieno, Chief Trade Development Officer in the Department of External Trade, Ministry of Trade

Q 1 What is the main cause of the delayed conclusion of the WTO Doha Round of Trade negotiations

- Overloaded WTO Agenda Emergence of Coalition Groups
 Concerns raised in the agriculture negotiations Political dynamics

Q 2 Should developed Countries that provide distorting domestic subsidies to their farmers reduce this support

- Yes No yes, but gradually
 No, all WTO Members should provide trade distorting domestic subsidies to their farmers

Q 3 Developing countries should liberalize their agricultural sectors as demanded by developed Countries at the WTO negotiations. Do you agree?

- Yes No Probably Yes, but gradually

Q 4 Should developing Countries be allowed to provide subsidies that are prohibited at the WTO e.g. Production Subsidies

- No Yes, but need financial assistance
 Yes
 Need for further studies

Q 5 Agriculture was included as a Subject of negotiations during the Uruguay Round. In your view, have the inequalities between developed and developing countries that existed then been addressed in the current agriculture negotiations

- 50% No 10% Yes

Q 6 Progress in the agriculture negotiations will unblock progress in all other areas of the negotiations. Is this true?

Yes No No comments A fair observation

Q 7 The emergence of coalition groups in the WTO has highly improved the functioning and decision making progress in the WTO

Not at all Yes No tremendously

Q8 Issue-based WTO coalition groups e.g. G33,G20 have been effective in the WTO negotiations

True False Some of them

All have not been effective

Q 9 Regional WTO coalition groups have made some positive contribution to the Doha Round of Trade negotiations

False True To some extent None

Q 10 Has the WTO African Group been effective in the WTO negotiations

Yes No To some extent

To a large extent

Q 11 What has been the main barriers (if any) to the effective contribution of the African Group in the WTO negotiations

Language Leadership Technical Skills

Co-ordination

Q 12 What needs to be done to improve the participation of the African Group in the WTO

Increased representation in Geneva

Produce all documents in the WTO Official Language

Train African delegates on Research and Analysis

Improve Co-ordination within the Group