The Agricultural Negotiations in the Uruguay Round and the Developing Countries

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As the mid-term review of the GATT round of trade negotiations approaches, Alan Matthews of Trinity College, Dublin considers the agricultural negotiations as they affect developing countries. He reviews studies of the probable effects of agricultural trade liberalisation on developing countries and discusses the optimal negotiating strategy for developing countries in the Uruguay round.

Introduction

The Uruguay Round marks the eighth time since the Second World War that members of the GATT (the General Agreement on Tariffs and Trade) have initiated a round of negotiations to reduce trade barriers in a multilateral framework. During this period the multilateral format has had considerable success; average tariffs in the major industrial countries declined from about 40 per cent in the mid-1940s to less than 5 per cent following the most recent Tokyo Round (1974-79). This move to a more open trading system was of fundamental importance to the ninefold increase in world trade and more than fourfold increase in world real income between 1950 and 1985.

The present round has been inaugurated in rather inauspicious circumstances (Timoney 1986 surveys the background). Continuing high unemployment and trade imbalances, the huge swings in competitiveness arising from exchange-rate fluctuations and the apparent threat from increased imports from the low-cost newly industrialising countries, have led many industrial countries to reintroduce restrictions on access to their domestic markets, particularly through nontariff measures which are less easy to police and regulate within the GATT framework. Thus a major objective in the present negotiations is to bring under control and to roll back the proliferation of non-tariff barriers to trade in recent years. Secondly, in view of the growing importance of traded services (banking, insurance, shipping, etc.), countries with a strong competitive position in providing these services are insisting that a start be made in extending the GATT framework to this area. Finally, previous GATT rounds failed to address the question of agricultural protectionism, and this has become a major issue in the Uruguay Round.

It is easy to understand the heightened importance being given to agricultural trade liberalisation. World agricultural markets are in considerable disarray. World market prices are very depressed, and for some commodities are below economic costs of production for even efficient producers because of the export subsidy programmes of major exporters. Commodity stockpiles, although recently reduced in some countries, have grown enormously and their overhang effect has contributed to the depressed state of world markets. The gap between world prices and the domestic prices paid to farmers in many countries has been increasing, leading to rapidly growing government expenditures for agricultural support. All this means that the location of agricultural production is determined more by the willingness of governments to underwrite their farmers than by comparative costs of production. Friction in agricultural trade remains considerable as a result, and threatens to extend to other products, sparking a full scale trade war.

In the negotiating objective for agriculture agreed at Punta del Este in Uruguay in September 1986, GATT members agreed that there was an urgent need to bring more discipline and predictability to world agricultural trade. In particular, they agreed that:

"Negotiations shall aim 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, taking into account the general principles governing the negotiations, by:

(1) improving market access through, *inter alia,* the reduction of import barriers;

(2) improving the competitive environment by increasing discipline on the use of all direct and indirect subsidies and other measures affecting directly or indirectly agricultural trade, including the phased reduction of their negative effects and dealing with their causes;

(3) minimising the adverse effects that sanitary and phytosanitary regulations and barriers [intended to protect the health status of plant, animal and human populations] can have on trade in agriculture, taking into account the relevant international agreements."

This is a very broad agenda. Whether the GATT parties will live up to these ambitious objectives is as yet unclear. In December 1988 the participants will have the opportunity to review the negotiations to date at the Mid-Term Review of progress to be held in Montreal. The purpose of this article is to examine the stance of developing countries with respect to the agricultural trade negotiations in the Uruguay Round, to ask how they would be affected by progress towards the negotiating objectives above, and to suggest the elements they should seek to have included in any final agreement. The next section outlines the way agriculture has been dealt with previously in the GATT and explains the reasons for its special position. The following section describes the positions of the various parties in the current negotiations. The subsequent section summarises the results of various empirical studies of the effects of agricultural trade liberalisation on developing countries. The final section considers some suggestions for developing country strategy in the current negotiations.

Agriculture in the GATT

One of the reasons for the lack of progress in agricultural trade liberalisation is that special rules apply to agriculture in the GATT. GATT rules are intended to set down how governments may intervene to protect domestic markets and industries. Once these rules are agreed, governments are expected to bring their practices into line with these rules. But, as Hathaway (1987) has observed, for agriculture, the process was exactly the reverse. The GATT rules were written to fit the agricultural programmes then in existence, especially in the United States. The special treatment for agriculture is seen most clearly in the rules on subsidies and quantitative restrictions.

The question of subsidies is dealt with in Article XVI of the GATT. It specifically prohibits export subsidies on all products other than primary products. In the case of primary products, it merely requires that export subsidies shall not be applied "in a manner which results in that contracting party having more than an equitable share of world trade in that product, account being taken of the shares of the contracting parties in such trade in the product during a previous representative period, and any special factors which may have affected or be affecting such trade in the products". The vagueness of this injunction is obvious, and it gives plenty of latitude to exporters in the use of subsidies. An attempt was made to tighten up this provision in the negotiations on the Subsidies Code during the Tokyo Round in 1979, but to little avail. It should be noted that there is no prohibition in the GATT against domestic subsidies, merely an obligation to report such subsidies if they are likely to affect trade.

The GATT rules relating to quantitative restrictions in trade are another area where agriculture receives special treatment, set out in Article XI. In essence, this allows countries to impose quotas on imports of agricultural or fishery products provided domestic commodity programmes to limit domestic production are also put in place. Although this formulation of the rules was written to fit the US agricultural programmes existing at the time, the US soon found it could not live with it. In 1955 it insisted upon and received the famous "temporary" waiver which permits it to apply import restrictions without the necessity for similar domestic restrictions. The US sugar and dairy programmes operate under this waiver at present. Now that the US is leading the battle for freer agricultural trade, it is ironic to reflect that it was largely at its insistence that the special rules for agriculture were put in place in the first instance. The EC, of course, controls imports not through quantitative restrictions but through a variable levy which, in practice, may be even more restrictive. Technically, the status of the variable levy under the GATT has never been determined.

From the beginning, therefore, agriculture was accorded special treatment in the GATT. The reason for this differential treatment lies in the specific nature of agricultural protection. Protection for industry is intended to provide a margin of support for domestic industry against lower-cost competition from abroad. Agricultural protection, however, functions primarily in support of domestic price support policies intended to redistribute income to agriculture. Agricultural trade barriers can be reduced only if there is a willingness to reduce domestic farm prices and to put in place farm income support measures which do not distort trade. It is the interaction of agricultural trade policy and the use of commodity price policy to support farm incomes which makes the removal of agricultural trade barriers so difficult.

Another difference between industrial and agricultural protection is that tariffs have been the predominant form of protection for industry (at least until recently, when there has been greater recourse to non-tariff measures such as so-called 'voluntary export restraints' to by-pass bindings made in GATT). Quantitative restrictions and various other forms of non-tariff barriers have been much more important in the case of agriculture. Tariffs are easily measured, and comparisons of the degree of tariff protection across commodities and countries can be readily made. Countries can relatively easily weigh up the gains and losses from particular tariff-cutting proposals, and thus multilateral tariff reduction negotiations can be conducted in a transparent way. In the case of non-tariff barriers, their protective effect is much more difficult to assess, and the wide variety of measures in use makes it much more difficult for countries to evaluate and monitor proposals for their removal.

Given the difficulties of trying to identify the separate protective impact of each non-tariff barrier on trade, the idea of constructing an overall measure of agricultural protection and using this either as the basis for negotiations or as a way of monitoring the consequences of particular proposals and subsequent compliance is an attractive one. One such measure which has had a lot of attention in the GATT Negotiating Group on Agriculture is the concept of 'Producer Subsidy Equivalent' (PSE). This is defined as the payment that would be necessary to compensate farmers for the loss of income which they would suffer if all the farm policies employed in a particular country were removed. It can be thought of as the 'cash' value of farm output due to the difference between domestic market and world prices, plus the value of any input subsidies or direct payments accruing to farmers which do not affect the domestic market price. A PSE can be calculated for individual commodities, or in aggregate terms for agriculture as a whole. While the concept is clear in principle, there are considerable practical difficulties in ensuring a consistent coverage of policy measures across countries (one country might assist farmers through a subsidy on fuel oil use, another country might give a tax exemption), and in accurately measuring their effects.

Much of the spade-work on measuring PSEs by commodity for the major industrial countries has been undertaken at the OECD. Its findings for the period 1979-81 are shown in Table 1. Here the PSEs are presented as a percentage of the value of domestic production at domestic prices in order to facilitate comparisons between countries. Australia, New Zealand, the United States and the Mediterranean countries emerge with the lowest overall agricultural protection on this indicator (although more recent unpublished figures show a significant increase in these countries), while Japan and the Nordic countries have the highest level of support. Dairy products and rice (because of the Japanese policy) are the two most highly supported commodities, and the white meats and soyabeans the least supported. These figures underline the extent of the policy distortions in agricultural trade, and why agricultural trade has such a high profile in the Uruguay Round.

Despite the usefulness of the PSE measure, there remain serious objections to its use in trade negotiations. For one thing, the concept measures the income transfer effects of agricultural policies, not the supply, demand and trade effects. Government expenditure on agricultural research will have a very different effect on production and trade than similar expenditure on price support, yet both payments would be equally weighted in the PSE. For another thing, a policy measure which delivers a particular PSE when combined with supply controls has a much smaller production and trade effect than

TABLE 1

PRODUCER SUBSIDY EQUIVALENTS BY COMMODITY AND COUNTRY
(Average 1979-81)
(percentages)

	USA	*Canada*	*EC-10*	*Australia*	*Japan*	*N.Zealand*	*Nordic*[1]	*Mediterr.*[2]	*Austria*	*OECD*
Dairy	48.2	66.5	68.8	20.8	83.3	18.0	70.8	68.4	77.9	63.5
Wheat	17.2	17.6	28.1	3.4	95.8	–8.2	56.6	10.7	21.1	21.5
Coarse Grains	13.1	13.3	27.9	2.9	107.1	5.3	54.7	14.8	19.5	19.0
Beef and Veal	9.5	13.1	52.7	4.0	54.9	12.5	61.6	17.6	42.9	30.0
Pigmeat	6.2	14.5	21.7	2.7	14.0	7.4	23.5	16.7	32.2	16.5
Poultrymeat	6.3	25.7	16.4	2.5	20.5	4.7	43.4	19.4	28.4	14.0
Sugar	17.1	12.5	25.0	–5.0	48.4	–	33.4	39.7	39.4	26.6
Rice	5.4	–	13.6	14.4	68.8	–	–	41.9	–	61.0
Sheepmeat	–	–	45.0	3.1	–	18.2	63.5	14.8	–	28.5
Wool	–	–	–	3.9	–	16.3	0.0	26.9	–	9.4
Soyabeans	6.9	–	36.2	–	108.1	–	–	21.9	–	9.0
Average, all above commodities	16.0	23.9	42.8	4.7	59.4	15.5	56.1	26.1	42.8	32.1

– = not calculated

1 = Finland, Iceland, Norway, Sweden, Switzerland
2 = Portugal, Spain, Turkey

Source: OECD, *National Policies and Agricultural Trade* – Country Reports one without. Thus part of the negotiations in the early stage of the Uruguay Round has concerned the usefulness of and role which PSEs might play in these negotiations.

Initial negotiating positions on agricultural trade

The negotiating schedule called for the participating governments to deposit their outline proposals on how the agricultural negotiations should proceed. The fundamental negotiations are between the United States and the European Community, which between them account for the bulk of world agricultural exports of temperate zone commodities. Both countries (the EC is not, of course, a single country but it does negotiate with a single voice in the GATT talks; individual member states are not permitted to voice their own views in the GATT forum) have different views on how the negotiations should proceed and what their eventual outcome should be. While it is likely that whatever common ground is eventually reached between these two 'Green Powers' (and, to a lesser extent, with Japan) will become the accepted outcome, other countries and groups of countries have been attempting to make their voices heard. Indeed, the emergence of 'international lobby groups' is a characteristic of the present negotiating round.

While all countries are concerned and affected by the state of disarray in world agricultural markets, there are different views of how to address the fundamental problem of overcapacity in the agricultural sector, whether by lower agricultural support or by taking steps to blunt its consequences for world markets (Franklin 1988 summarises the different proposals tabled). The managed approach to world markets, favoured by Japan, the Nordic countries and some EC members, seeks to regulate world trade so as to limit the extent of the distortions introduced by domestic subsidy programmes. Quantitative controls would be used to restrict production, and market access for other exporting countries would be dealt with through bilateral or multilateral access agreements for specific quantities of specific commodities. This approach recognises that nearly all countries have domestic intervention programmes which imply restrictions on international trade. Therefore international trade rules in agriculture should be adjusted to fit the realities of domestic programmes rather than the other way round.

The alternative approach is to seek agreement on the elimination of all import controls and production subsidies which affect international trade and to open up agricultural trade to market forces. This approach would utilise some overall measure of protection, such as aggregate PSE, agree to limit it and then gradually reduce it over time. It has been proposed by the United States, and is supported by the Cairns group of agricultural exporting countries, whose membership includes both developed and developing countries (Argentina, Australia, Brazil, Canada, Chile, Colombia, Hungary, Indonesia, Malaysia, New Zealand, Philippines, Thailand and Uruguay).

The US has called for the complete elimination of all agricultural subsidies and import barriers over a ten-year period, but with the important exceptions of income subsidies unrelated to ('decoupled' from) production and bona fide food aid and food assistance programmes. A two-stage negotiating process is envisaged. In the first stage, the level of support provided by each country would be measured. The US favours the use of PSEs for this, and agreement would have to be reached on their scope, coverage etc. In the second stage, 'implementation plans' would be agreed for each country setting out how it intends to move from its present support level to complete elimination over the ten-year period. These plans would be bound in GATT and subject to appropriate monitoring. The US proposal would take agricultural trade to a position where it would be far more liberal than even industrial trade today. Politically, the domestic farm income and farm price stability implications of this approach will make it unattractive to many governments. It is unclear whether even the US, which is the strongest proponent of this approach at present, could in fact carry such a proposal through Congress at the present time.

The implications of agricultural trade liberalisation for developing countries

Much of the developing countries' interest in agricultural trade liberalisation has arisen because of concern about the effects of the agricultural support policies of the industrial countries, and this section will be mainly concerned with evaluating these effects. Changes in agricultural protection have their effect on developing countries primarily through their impact on the level, pattern and stability of world prices (Matthews 1985). But because of the close interrelationships between agricultural products in both production and consumption, the impact of trade liberalisation on commodity prices is not always obvious. The normal expectation is that agricultural trade liberalisation will lead to an increase in world market prices because total agricultural production will now be smaller than before. But there can be exceptions. For example, the high protection given to cereals in the EC has created a demand among animal feed compounders for imported cereal substitutes, including manioc from Thailand, which can enter the Community (albeit in some cases in limited quantities) at low or zero duties. In this instance, agricultural trade liberalisation would eliminate this trade, and manioc exporters would suffer as a result.

The world market effects of reducing protection to the cereals-livestock sector as a whole are even more complex. The direct impact of lower support to cereals producers would be to raise world cereal prices because less cereals would be grown. However, if livestock production is also reduced because support for it is lowered, this will have the indirect effect of reducing the demand for cereals for animal feed. If the fall in demand more than compensates for the cutback in supply, then world prices for cereals would actually fall. The lesson is that the interdependencies between agricultural commodities should not be neglected when assessing the impact of trade liberalisation.

If the consequences of lowered protection for markets other than the market immediately affected are ignored, then the impact on particular LDCs depends solely on whether the LDC concerned is an importer or exporter of the commodity in question. Higher world market prices as a result of agricultural trade liberalisation by industrial countries means more expensive imports for food-importing countries, and they will suffer a terms of trade loss. But higher world market prices will benefit agricultural exporters, who will experience a corresponding terms of trade gain. The welfare consequences of these terms of trade impacts in developing countries will be influenced, in addition, by the extent to which countries permit their domestic prices to respond to the rise in world prices, by their flexibility in shifting resources between production sectors, and by the structure of production and consumption of the commodity, among other factors.

Table 2 shows one set of World Bank estimates of the effect on world prices of complete agricultural trade liberalisation in temperate

TABLE 2

INTERNATIONAL PRICE EFFECTS OF LIBERALISATION OF SELECTED COMMODITY MARKETS, 1985

Country or country group in which liberalisation takes place	*Wheat*	*Coarse grains*	*Beef/ lamb*	*Pork/ poultry*	*Dairy products*	*Sugar*
	Percentage change in world price level					
EC	1	3	10	2	12	3
United States	1	–3	0	–1	5	1
OECD	2	1	16	2	27	5
Developing countries	7	3	0	–4	36	3
All market economies	9	4	16	–2	67	8

Source: World Bank, *World Development Report*, 1986 zone commodities (grains, livestock and sugar) by the OECD countries, the developing market economies, and all market economies respectively. Price changes would be greatest for beef and dairy products, and least for wheat and coarse grains. These differences reflect both the magnitude of the respective PSEs (Table 1) and differences in the volume of produce traded on world markets. When these terms of trade effects are translated into welfare gains and losses, the World Bank (1986) study estimates that LDCs as a group would be disadvantaged by around $12 billion if the industrial countries liberalised alone (a more recent study by the same authors based on updated data suggests a rather smaller loss, see Tyers and Anderson 1988). Among developing countries exporters would of course gain, and the overall loss simply reflects the fact that LDCs as a group are now net importers of the temperate zone commodities included.

There are a number of reasons why this figure may underestimate the advantages to LDCs of agricultural trade liberalisation by the industrialised countries. First, it excludes a number of protected products, such as fruits and vegetables, where LDCs are net exporters and would expect to gain from liberalisation. Second, the net importing status of LDCs is partly due to the discrimination faced by the food-producing sector in many countries because of overvalued exchange rates, compulsory purchase requirements at low official prices, and the neglect of agricultural research. If world prices increased, it is argued that this would encourage LDC governments to reverse these policies more quickly, thus reducing the size of food import deficits and perhaps returning more LDCs to food exporting status. There seems to be little empirical evidence on the importance of this relationship, but to the extent it exists, it would reduce the $12 billion loss figure in the longer term. Third, reduced protection will tend to stabilise world prices (because trade volumes will be larger, fluctuations in world supply and demand can be absorbed more easily). Both LDC exporters and importers will gain from this effect.

When the analysis is extended to take account of the effects of agricultural price and trade volume changes for other markets, further important mechanisms are uncovered by which LDCs as a whole would benefit from agricultural trade liberalisation. The results of two recent such studies might be quoted to give the flavour of their findings.

Burniaux and Waelbroeck (1985) focus on the effects of liberalisation of the EC's Common Agricultural Policy (CAP) for LDCs. Although they find that particular groups of LDCs (Africa, oil exporters, the Mediterranean countries) would be worse off as a result, these losses are outweighed by the gains to other groups, so that on balance LDCs as a whole would gain. Two mechanisms in their study account for the difference with the previously quoted finding. First, markets for temperate zone and tropical agricultural products are interlinked, and higher prices for the former would spill over into higher prices for tropical products as purchasers adjust their expenditure to the change in relative prices. Because LDCs are substantial net exporters of tropical products, their higher prices bring corresponding gains.

Second, there would be significant consequences for the European non-agricultural sector as a result of CAP liberalisation. The EC would have to finance its increasing food deficit by exporting more manufactured goods. In turn, it can increase its market share only by reducing manufactured goods' export prices. Since food is much cheaper, improvements in competitiveness can be achieved without a reduction in workers' purchasing power. However, cheaper EC exports of manufactures help the terms of trade of those LDCs which are net importers of manufactured goods. Living standards rise and more food is consumed compared to the situation where the CAP continues unchanged. Burniaux and Waelbroeck warn, however, that not all groups within LDCs will gain. In particular, higher food prices and greater industrial competition will squeeze urban living standards and food demand over much of the Third World. They conclude that this is the most explosive factor that LDC governments would have to reckon with if EC agricultural trade, and by implication, agricultural trade in general, was liberalised.

A different line of argument is pursued in a study by Loo and Tower (1988). They examine the consequences for LDCs of a relative shift in prices in favour of agricultural products, in the typical LDC situation where agricultural production is taxed and industrial production is subsidised, and where the LDC government relies heavily on trade taxes (import duties and export taxes) for its revenue. In this situation, two additional sources of gain to LDCs are identified, in addition to the initial (positive or negative) terms of trade impact of higher world agricultural prices. First, because more resources are drawn into the efficient, taxed sector of the economy (agriculture) from the inefficient, subsidised sector (industry), LDCs will experience a real income gain from better resource allocation. Second, because they assume the volume of trade will be higher (partly as a result of the higher real incomes), the government can obtain its required revenue at lower tax rates, and thus cause less costly distortion of economic activity.

Loo and Tower estimate (admittedly on the generous assumption that agricultural trade liberalisation would raise all agricultural prices by 10 per cent) that the real incomes of LDCs would rise by nearly $26 billion as a result, and that both net food exporters and net food importers would gain. However, accepting their assumption that government intervention through taxes and subsidies imposes substantial costs on LDCs, it would be open to LDCs to reap the bulk of these benefits through domestic policy reform even in the absence of agricultural trade liberalisation. The findings of the study should be interpreted as indicating the level of potential gains to LDCs in the presence of these distortions. To the extent that LDCs follow the advice of the World Bank, the IMF and others and align their domestic prices more closely to world prices, much of this putative benefit would evaporate.

At the end of this *tour d'horizon* of empirical studies of the consequences of industrial country agricultural trade liberalisation for LDCs, the reader will be forgiven for feeling a sense of confusion. It is almost as if, by choosing the appropriate model, one can come up with any pre-ordained result that one wants. But perhaps one should not shoot the messenger! For the reality is that the consequences of agricultural trade liberalisation for LDCs *are* complex, and any attempt to simplify them into a series of slogans is likely to be seriously flawed.

The overall conclusions of this author are that developing country exporters stand to gain significantly from moves to reduce agricultural support in developed countries. Developing countries which are importers of food, on the other hand, stand to gain very little from the negotiating process, although the indirect effects discussed in this section (possibly higher prices for tropical products, cheaper prices for manufactured goods imports, and the gains from more efficient resource allocation internally) should ensure some compensation for the terms of trade losses higher food import prices will impose. However, all LDCs will welcome the search for predictability, certainty and stability in world agricultural trade — the objectives of this GATT round — and thus it is in all their interests to ensure a high priority for the agricultural trade aspects of the negotiations.

Developing country interests in the agricultural trade negotiations

On the assumption that the Uruguay Round will result in some progress towards more liberal agricultural trade policies, the obvious question for developing countries is whether they should participate in this movement by opening up more their own agricultural markets to world market trends. While this might seem an odd question to ask of countries which are, after all, participants in the negotiating process, compliance by LDCs with the outcome of the negotiations is not necessarily required. At the outset of the Uruguay Round, as was the case with previous GATT negotiations, the industrialised countries agreed that special and differential treatment should be provided for LDCs, and that the less developed countries would not be required "to make contributions which are inconsistent with their individual development, trade and financial needs". In the past this has been interpreted to allow LDCs to maintain tariff barriers against imports as part of their industrialisation strategies. The LDCs may want to argue, on similar grounds, that they should not be restricted in their use of whatever agricultural policies they deem apppropriate to pursue food security, rural development and economic development objectives.

LDC agricultural policies are far from homogeneous. For export crops and among many low-income LDCs domestic policies have often resulted in negative protection. Among some of the rapidly-industrialising, middle income LDCs, there is more evidence of positive agricultural protection. Government intervention, whether positive or negative, invariably imposes costs on LDCs, although against these costs must be set the expected benefits from the agricultural policies pursued. The World Bank (1986) study estimates that liberalisation by LDCs themselves of their own agricultural policies could benefit them by around $18 billion. These gains would come about because resources would shift into more productive uses, consumers would be better off and better use would be made of scarce foreign exchange. Few commentators today argue that the benefits from negative protection of (or, in other words, discrimination against) LDC agriculture are worth these costs, and indeed many LDC governments have embarked on reforms of their agricultural pricing policies in recent years. The more difficult case concerns those LDCs which provide positive protection to their agricultural sectors, and whether they should be asked to dismantle this protection as part of a global move towards liberalisation.

The arguments in favour of positive agricultural protection, especially in those middle-income LDCs which are now in a position to envisage transfers from the urban to the rural sector, are exactly similar to those rehearsed by supporters of the CAP. They include arguments of food security, the maintenance of rural populations and the redistribution of income towards a low-income sector. The weight of the evidence on the costs and distributional consequences of agricultural protection discussed earlier strongly suggests that these LDCs *in their own interests* would find it beneficial to at least place a ceiling on the amount of support provided as a prelude to its ultimate dismantling, possibly over a longer time span than that agreed for industrial country policies. This conclusion is strengthened by considerations of negotiating strategy as well.

One of the vexing questions in the current round, and not only where agriculture is concerned, is the question of reciprocity. As noted above, the industrial countries have accepted that LDCs could benefit from tariff reductions on the most-favoured-nation principle in the past, without requiring that these countries extend reciprocal concessions in return. Indeed, under the General System of Preferences, developing countries have been entitled to more favourable treatment for much industrial trade on a unilateral basis. Some observers have argued, however, that this 'privilege' has tended to marginalise LDCs in the process of the negotiations and has reduced their ability to argue for concessions in areas of particular interest to them, such as textiles.

In the light of the increasing export success of a number of the middle-income LDCs, the industrial countries are keen to introduce the notion of 'graduation' in the current GATT round, i.e. that the more successful among the LDCs would no longer be exempt from the GATT rules and should become subject to the same disciplines as apply to them. This would imply differentiating the rights and obligations of smaller, low-income developing countries from those of the larger, middle-income developing countries.

Valdês (1987) has argued that LDCs face a similar danger of marginalisation in the context of the agricultural trade negotiations. He has pointed to the possibility that the three big powers — the US, EC and Japan — will strike a deal among themselves before starting negotiations with the developing countries. He believes that to become influential the developing countries must offer some incentive to the major powers to take their interests into account. This argument would seem to be particularly important for the middle-income developing countries associated with the Cairns group. These countries have a particular interest in more liberal market arrangements for beef and sugar, for example, which will have a lower priority for the developed country negotiators. Reciprocity and graduation are two areas where these middle-income developing countries have bargaining chips. A reduction in either positive agricultural protection or industrial tariffs (the latter often instituted in support of import substitution industrialisation strategies but increasingly continued because of the power of vested interests) could be two areas which these LDCs could trade off to gain concessions in areas of agriculture of particular interest to them. Lower-income LDCs, which would have little to gain from increases in world food prices, could nonetheless support this move on the grounds that it would mean the available preferences in industrial trade would not be reserved exclusively for them. If this argument about negotiating strategy is accepted, then a corollary is that LDCs should oppose the preference of some industrial countries (e.g., the EC) to hive off the agricultural negotiations into a separate, self-contained box, because this would limit the LDCs' ability to offer concessions on graduation and reciprocity.

In terms of the two competing philosophies of how to deal with the present crisis, developing countries might be expected temperamentally to side with countries like Japan, the Nordic economies and some EC members which would prefer to manage world trade in ways which were consistent with maintaining high levels of domestic price support. Such an approach would have to be based on a series of international commodity agreements which would specify the minimum import obligations of importers and the maximum export quantities of exporters. Developing countries were strong supporters of commodity agreements in the 1970s, and might be expected to favour the approach in the 1980s. Past experience with commodity agreements, however, does not hold out much hope for the long-term success of this approach to managing world trade. The lack of enthusiasm for the Integrated Programme for Commodities, even among developing countries, and the lessons from the collapse of the International Tin Agreement in 1986, also suggest that developing countries are increasingly aware of the limitations of this approach. Developing countries are therefore better advised to support the negotiating approach which would seek to use a single measure of support and to reduce it over time.

For food importing LDCs, whose balance of payments are already in a critical condition because of high debt repayments and low commodity prices, the prospect of higher world food prices cannot be viewed with equanimity. Within the Uruguay Round negotiations Jamaica has articulated the fears of this group without, however, making any specific proposals to alleviate any adverse consequences which such countries might face. Two possibilities might be considered. The existing IMF Compensatory Financing Facility is designed in part to assist food importing countries faced with an unexpected rise in cereal prices. Restrictive conditions of access to this Facility, together with inadequacies in the rules for calculating foreign exchange shortfalls, make it less useful than it could be for this purpose, and developing countries might seek the agreement of the industrial countries for reforms in this Facility within the context of a GATT agreement. Alternatively, provision could be made for a special fund which could be used to increase food aid shipments or to cap the rise in cereal prices over a specified period, at least for the least-developed developing countries.

While this paper has been largely concerned with trade liberalisation in temperate zone agricultural commodities, two other, more traditional, issues of interest to developing countries are also on the agenda. One is the phenomenon of 'tariff escalation', whereby duties on processed agricultural goods increase with the amount of processing involved. Even with low nominal tariff rates, this can give rise to high and significant effective protection for industrial country processing firms and undermines the ability of developing countries to move into value added activities. Tariff reductions on semi-processed foods are thus an important objective for LDCs in the negotiations.

The second issue concerns tropical products. Five African countries have introduced a proposal to harmonise tariffs on processed and semi-processed tropical products at the lowest rate existing in developed countries: to eliminate internal taxes and discretionary licences; and to ease sanitary and technical standards, while ensuring that the acquired advantages of the Lomé Convention countries will not be eroded. The EC has responded with an offer to reduce progressively or eliminate tariffs and quantitative restrictions on a broad range of tropical products, as well as to remove consumption taxes on tropical beverages. However, this proposal was made conditional on a fair degree of multilateral burden-sharing, a satisfactory level of reciprocity by the main beneficiaries, and the reduction of export restrictions by the dominant suppliers of tropical raw materials. The US, noting that a majority of tropical products are agricultural, has put forward a proposal based on its 'free trade' orientation for agricultural products. This is clearly an area where linkage and reciprocity are already a part of the negotiations. The question for developing countries is, are they ready to respond?

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