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Evolution of the international trading system and of international trade from a development perspective

Note by the UNCTAD secretariat

Executive summary

Trade remains an important engine of growth and development. The international trading system (ITS) has become complex, with the rise of emerging developing countries. The World Trade Organization's (WTO's) Doha Round of multilateral trade negotiations is in a stalemate. Agriculture continues to be a central pillar of its development dimension, and will be a major development challenge in developing countries in the coming decades. Agricultural development facilitates economic take-offs, promotes higher value addition and provides export-led growth opportunities while generating positive externalities for society, such as on poverty reduction, employment and food security. Agricultural trade and trade policies, and the ITS, are important in expanding agricultural exports and building agricultural productive capacities. Enhanced policy space is key to agriculture-based development. The Doha Round should strive for the full integration of agriculture in the ITS to support development.

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Introduction

1. International trade remains an engine of growth and development, and the enabling ITS is an essential instrument for realizing such potential. The multilateral trading system (MTS) faces the biggest challenge in its history. The objective of concluding the Doha Round by the end of 2011 is unlikely to be met, and WTO members now aim at a package of limited issues by December, particularly for the least developed countries (LDCs). Agriculture, a major source of income and jobs, particularly for LDCs, has been at the heart of its development dimension. While the Round provides an opportunity to set the rules of a new paradigm for the next decades, uncertainty prevails over its prospect.

2. Agriculture is no less important today than it was in 2001. Recurrent food crises and food security concerns, volatility and unpredictability, and new factors – such as demographic change, evolving nutritional patterns and consumer preferences, new technologies and developing countries' access, trends towards higher commodity prices, energy security concern, scarcer land and water, and climate change – are all calling for new policy responses. In a search for a post-crisis development path, many countries have refocused attention to agriculture as a cornerstone of their strategies for growth, food security, poverty alleviation and employment creation. They do so by combining, variously, agricultural sector development with industrialization-cum-export-led growth models. Trade plays an important role in such strategies, and the ITS can make a substantial contribution if adequately designed and managed. This note revisits agriculture and examines agricultural trade and development in the context of the ITS.

I. Developments in international trade and the ITS

A. Economic recovery

3. After a fragile and uneven recovery in 2010, growth of the world economy is headed towards deceleration this year. The world economy grew 3.9 per cent in 2010 after a contraction of 2.1 per cent in 2009, and is estimated to decelerate this year to 3.3 per cent. Developing countries continued to fuel the global recovery in 2010 with their collective growth reaching 7.4 per cent, three times faster than that of developed countries (2.5 per cent).[1] Growth in all developing regions outpaced world growth, and ranged from 4.4 per cent in Africa to 8.7 per cent in East and South Asia. Persistently high unemployment, rising and volatile commodity prices, ongoing fiscal consolidation and sovereign debt crises, particularly in Europe, decelerating growth and rising inflationary pressures, continue to challenge the sustainability of recovery.

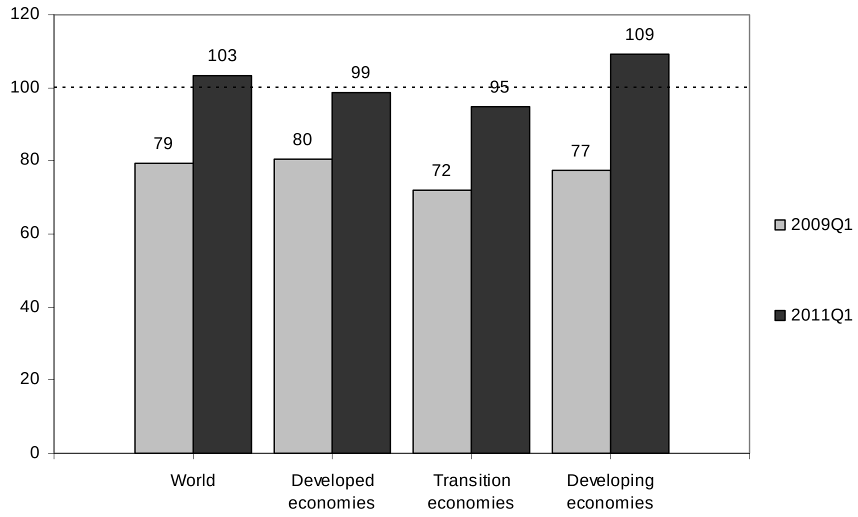
4. Dynamic resurgence in world trade in 2010 contributed to the global output recovery. The value of world merchandise exports expanded by 22 per cent in 2010, the largest yearly expansion ever recorded. With the deceleration of output growth, it is expected to recede this year. In the first quarter of 2011, the volume of world merchandise exports grew 9 per cent from a year earlier, bringing the world export volume to 3 per cent above the pre-crisis level (figure 1). The upturn in exports is notable particularly for developing economies, with all developing regions estimated to have already surpassed their pre-crisis levels. The surge in exports in Asia suggests a robust import demand spread

[1] United Nations. *World Economic Situation and Prospects*. Update as of mid-2011.

to many countries in the region through production networks. Upturns in commodity prices since late 2010 have helped commodity exporters.

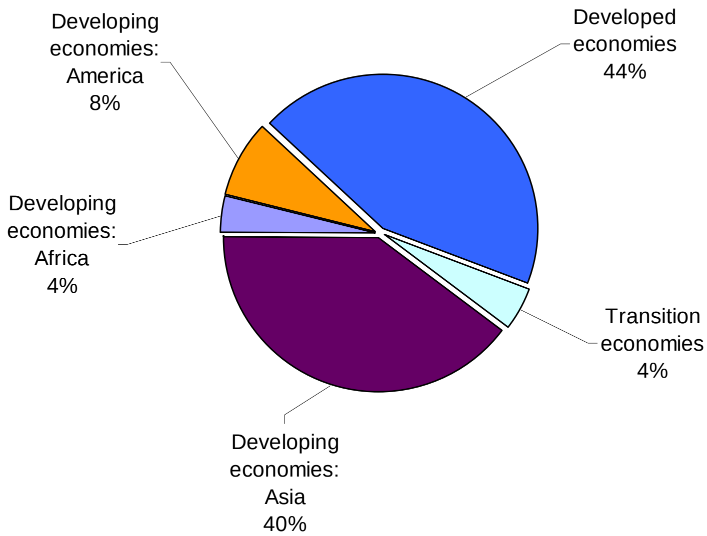
5. Vibrant import demand of developing countries sustained trade recovery, which supported rapid expansion of South–South trade over the past decade, which now represents over half of total developing countries' exports (54 per cent). In 2010, 56 per cent of annual growth in world merchandise imports was attributable to developing and transition economies (figure 2). Organization for Economic Cooperation and Development (OECD) import data confirms a contrasting sluggish recovery of import demand in developed countries. Agricultural imports (food, beverages and tobacco) showed the smallest volatility. Large volume exports in machinery and chemical products largely determined the overall trade trajectory.

Figure 1
Indices of merchandise export volume (2008 Q3=100)



Source: UNCTADstat.

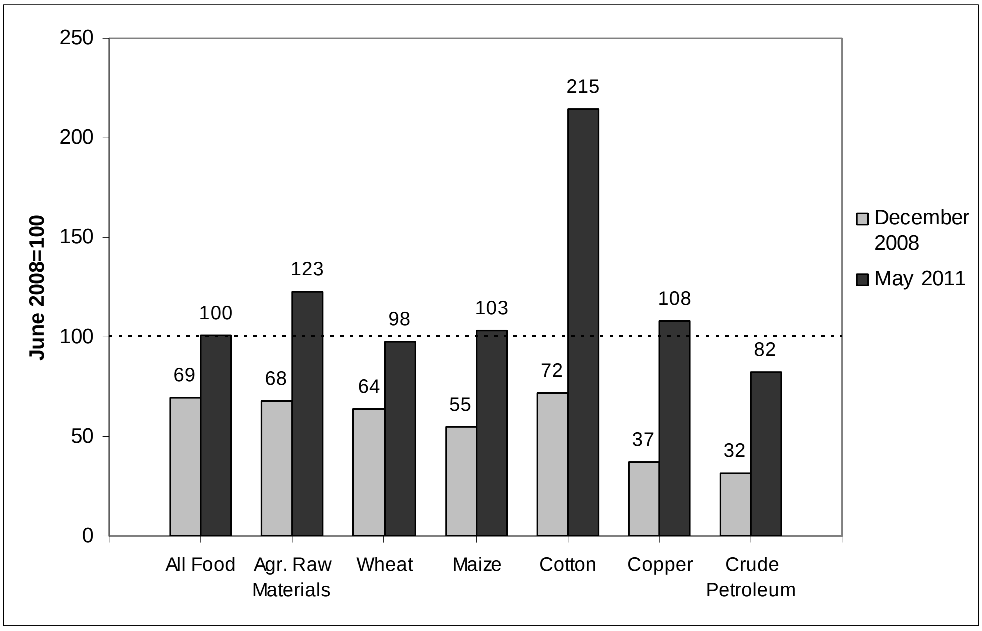
Figure 2
Distribution of sources of 2010 world merchandise import growth



Source: UNCTADstat.

6. By May 2011, many commodity prices, particularly wheat and maize, surpassed their pre-crisis peaks, raising food security concerns (figure 3). Negative supply shocks contributed to a 2.7 per cent decline in global grain production for 2010–11. Modest improvement in supply conditions is expected and upside risks in food prices still persist in 2011. Recent high oil prices, accelerated by instabilities in some oil exporters, have raised costs of production, such as for energy, transportation and agriculture. Higher prices provide for net commodity exporters terms of trade gains, while increasing import bills for net importers. Since most poor are net-buyer of food, higher prices will aggravate poverty. The current price levels are expected to push another 64 million people into poverty in Asia alone.

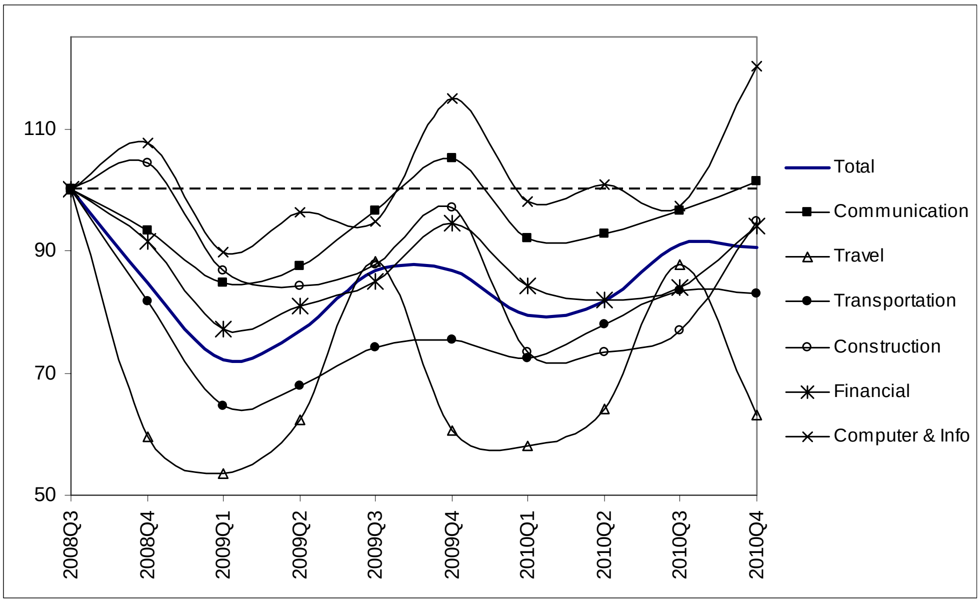
Figure 3
Selected commodity price indices (June 2008=100)



Source: UNCTADstat.

7. Services are a major source of growth and job creation. Modern exportable business services exhibit strong economy of scale and externalities, and require highly skilled labour, thus providing a realistic opportunity for structural transformation, including for countries without comparative advantage in agriculture or manufacturing. In 2010, world commercial services exports expanded 8.3 per cent, and their value was still 5 per cent below the 2008 level. Export performance varied significantly across sectors. Technology-related communications and computer and information sectors outperformed others by growing 7.9 per cent and 6.7 per cent, respectively. Other sectors (construction, travel, transport, financial sectors) directly hit by the crisis registered a larger export contraction during the crisis (figure 4).

Figure 4
Indices of services exports by sector (2008Q3=100)



Source: UNCTAD, based on IMF.

8. In 2011, some developing countries' currencies (e.g. Brazil, South Africa and Indonesia) continue to appreciate in real terms. Recent currency misalignment, including an appreciation of national currencies in many developing countries, has adversely affected their trade competitiveness. There is concern that currency depreciation has the effect of export subsidies. Increased capital inflows have prompted several countries to resort to capital controls, which are increasingly seen as a legitimate policy instrument.

9. Persistent and pervasive unemployment – totalling 205 million in 2010 worldwide – will continue to limit domestic demand growth prospects. The unemployment rate reached 8.3 per cent for developed countries in 2010. Buoyant economic recovery has kept unemployment relatively low in developing countries, although several suffered from pervasive unemployment and increasing informal economy (60 per cent for their economy). In 2010, unemployment in developing countries fell to its pre-crisis level of 5.9 per cent,[2] as countries in Asia and some in Latin America were particularly successful in creating jobs.[3] Agricultural employment contributed significantly to job creation in sub-Saharan Africa (2.7 per cent) and South Asia (2.2 per cent). Active labour market policies helped containing job losses and policies facilitating labour market adjustment are becoming more important.

B. Developments in the ITS

10. The ITS has become multi-polar, multi-speed and more fragmented. Economic opportunities are increasingly shifting to developing countries, which affect multilateral,

[2] IMF. *World Economic Outlook*, April 2011.
[3] ILO. *Global Employment Trends*, 2011.

regional and unilateral trading regimes.[4] The Doha Round started in 2001 and was originally to be concluded by the end of 2004. Efforts intensified in 2011 to conclude the Doha Round by the end of the year, by reaching an agreement by July on negotiated texts on the entire Doha package. One of the key issues that has led to the stalemate is the participation of larger developing countries in sectoral liberalization in non-agriculture market access negotiations (NAMA) and possible "exchange rate of concessions" in other areas. While the participation in sectorals, i.e. deep cuts across entire sectors, was deemed "on a voluntary basis", some developed countries sought to secure the participation of larger developing countries in two of the three key sectors – chemicals, industrial machinery and electronics. Deeper sectoral liberalization, particularly chemicals, was sensitive to some developing countries with resulting job losses expected to be significant.

11. The three-speed approach suggested by the Director-General of WTO in May 2011 as a way forward consisted of seeking partial agreement, while preserving a single undertaking principle, according to "fast, medium and slow lanes". LDC issues – full implementation of duty-free and quota-free (DFQF) market access, associated rules of origin, a most favoured nation (MFN) waiver to cover possible preferential services market access for LDCs, and "a step forward" on cotton – would be targeted for early harvest by the Eighth Ministerial Conference in December. A few additional "LDC-plus" issues will be agreed under "medium track", with trade facilitation, agricultural export competition, special and differential treatment (SDT) monitoring mechanism, fisheries subsidies, and environmental goods and services, proposed in this category to strike overall balance and address some major trading partners concern. Agriculture, NAMA and services, as well as TRIPS issues, will be subject to continued negotiations.

12. Although various factors contributed to the stalemate, most recently the global crisis has overtaken policymakers' attention, and accentuated the political "cost" of concessions. Changing economic thinking now emphasizes stronger regulations of markets, with a proactive and pragmatic States' role supporting domestic production and employment. The crisis was also an occasion to reaffirm the robustness of the rule-based MTS in containing intensifying protectionism, along with cooperative efforts, monitoring and strong self-restraints shown by developing countries. WTO reports some recent sign of increasing post-crisis protectionism.

13. The LDC package will be particularly important for the international community to start a new decade to implement the Istanbul Programme of Action adopted at the Fourth United Nations Conference on the Least Developed Countries (LDC-IV) in May 2011, which set the target of enabling, by 2020, half the number of LDCs to meet the criteria for graduation and to double the share of LDCs in world exports.[5] The effective delivery of an early harvest in December 2011 is considered critical for paving the way for advancing negotiations on agriculture, NAMA and services market access agendas in 2012. There is growing concern that prolonged negotiations affect the credibility of the MTS. Many stress the need to deliver on original Doha development agenda, an outstanding item since the 1990s. Others argue for addressing such topics as investment, competition policy, government procurement, export taxes or climate change. There is a need to move on expeditiously to address new "twenty-first century" issues to preserve the MTS' relevance to economic realities such as ensuring that trade contributes to employment creation.

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[4] See also UNCTAD. Assessing the evolution of the international trading system and enhancing its contribution to development and economic recovery. TD/B/C.I/15; United Nations, "International trade and development" (A/65/211).

[5] UNCTAD (2010). *Least Developed Countries Report* 2010. United Nations publication. Sales No. E.10.II.D.5. New York and Geneva.

14. The drive towards regional trade agreements (RTAs) is likely to accelerate further. The Report of a High-Level Trade-Experts Group (co-chaired by Jagdish Bhagwati and Peter Sutherland) identified preferential liberalization as a major challenge confronting the MTS. Recent RTAs involve a greater number of large and dynamically growing markets, resource-rich countries and developed countries. Such trends are observable in recent European Union (EU) move towards “competitiveness-oriented” RTAs, and the United States’ engagement in a Trans-Pacific Partnership Agreement. By inducing deeper liberalization and regulation of behind-the-border measures, and covering an increasing share of world trade, they could further reduce incentives for multilateralism. Non-reciprocal preferences are also likely to see some important changes. The reform of the United States Generalized System of Preferences (GSP) scheme to expand its product coverage to apparels is seen as necessary to meet the 97 per cent product converge for the DFQF market access for LDCs which was originally targeted to be met by 2008. After simplifying its GSP rules of origin in favour of LDCs, the EU in its proposal, yet to be adopted and to be implemented in 2014, now seeks to overhaul its GSP scheme to limit its benefits essentially to those most in need, i.e. LDCs and other low- and lower-middle income countries (beneficiaries would be reduced from 176 to some 80 countries by removing high and upper-middle income economies, countries that are benefiting from RTAs with the EU, and Oversee Countries and Territories). EU GSP covered imports worth some 60 billion euros in 2009. The approach may further accentuate differentiation of developing countries, impact predictability and create an incentive for those excluded to form an RTA with the EU.[6] The LDCs and low- and lower-middle income countries with productive and trade capacities would benefit. The development impact of these trends needs to be further assessed.

15. South–South trade cooperation is becoming an essential instrument of development.[7] The conclusion of the São Paulo Round of the Global System of Trade Preferences among Developing Countries (GSTP) negotiations in 2010 was emblematic of such transformation. Its welfare gains, estimated at $2.5 billion among 11 countries signing the São Paulo Round Protocol, could be further increased to $5.8 billion if all 22 participants in the Round join the Protocol (table 1). Expanding liberalization, improving rules of origin, strengthening cooperation on trade facilitation and trade finance, and addressing non-tariff barriers and eventually services trade, could significantly enhance the GSTP potential.

Table 1
Potential welfare effect of the GSTP São Paulo Round ($ million)

	Agriculture	Agriculture and Industrial goods
11 countries signing the São Paulo Protocol	1,278	2,498
22 São Paulo Round participants	2,185	5,825
43 GSTP participants	2,434	6,776

Source: UNCTAD (GTAP-8); Signatories: Cuba, Egypt, India, Indonesia, Republic of Korea, Malaysia, MERCOSUR and Morocco.

6 Stevens (2011), *Key Features of the Proposed new GSP*.
7 UNCTAD (2010). *Economic Development in Africa Report 2010*. United Nations publication. Sales No. E.10.II.D.13. New York and Geneva.

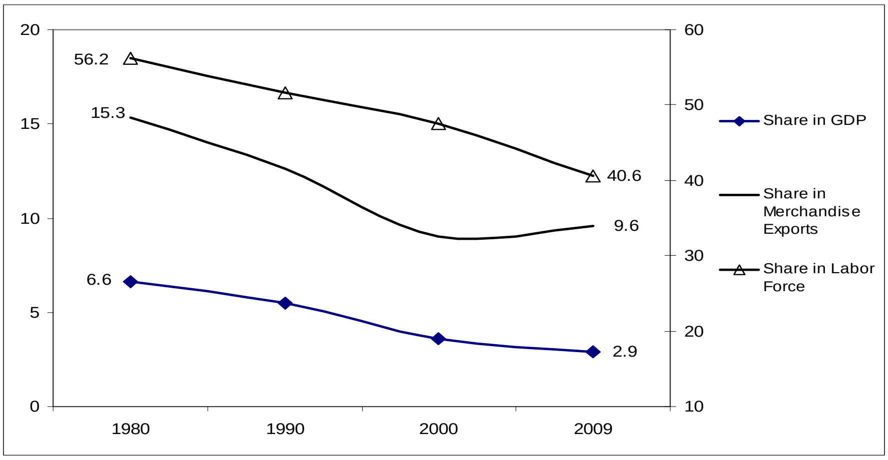
II. Agriculture-based development

16. Agriculture will be among the biggest developmental challenges in the coming years. Global targets to reduce hunger by half in 2015 (Millennium Development Goal (MDG)1) appear beyond reach, with about 1 billion people suffering from chronic hunger. Global population is estimated to grow by 50 per cent by 2050. The Food and Agriculture Organization of the United Nations (FAO) estimates that agricultural production has to increase by 70 per cent. These trends have contributed to increasing food prices since 2002, representing opportunities for producers and challenges for net buyers. In low-income countries, food represents 40–80 per cent of household expenses, and three fourth of the poor are net food buyers (2.1 billion living on less than $2 a day). The majority of the poor live in rural areas, and 1.5 billion people are in smallholder households where poverty is prevalent.[8] In LDCs, agriculture absorbs two thirds of the labour force. Thus, efforts to achieve MDG1 need to address agriculture. Growth in agriculture has a higher poverty reducing effect than growth in other sectors.

A. Agriculture in the development process

17. It is widely recognized that development requires structural transformation and economic diversification. It has been argued that countries can accumulate the necessary capabilities to catch up only through industrialization. Indeed, in recent decades the contribution of agriculture to global growth has been small. Despite the importance of agriculture in the labour force, labour productivity growth is low, compared with manufactures and services, contributing only weakly to real GDP growth (table 2). LDCs in particular have lagged behind; their productivity is just 46 per cent of other developing countries' and below 1 per cent of developed countries. There is a progressive shift in resource allocation from agriculture to manufactures and services in most regions. From 1980 to 2008, the importance of agriculture diminished in terms of value-added, merchandise trade and workforce (figure 5).

Figure 5
Share of agriculture in world output, labour force and merchandise exports (1980-2009, %)



Sources: UNCTADStat, WTO, World Bank.

[8] World Bank. World Development Report 2008.

18. Declining share of agriculture in GDP and employment partly reflects policy neglect, including due to structural adjustment programmes. Policy bias resulted in declining, insufficient investment and dismantlement of states' support systems.[9] Low productivity in agriculture also resulted from declining share of agriculture in official development assistance (ODA) from 13 per cent in 1985 to below 4 per cent in 2002–2007 and lack of access to and development of appropriate technology.[10] For instance, only 4 per cent of arable land in Africa is irrigated. Declining commodity prices up to 2002 also discouraged investments, so did the policies favouring industrialization and urbanization, as well as distortive agricultural subsidies.

B. Case for agriculture-based development

19. However, agriculture has recently received increased policy attention. Countries are in search of new growth and pro-poor policies, and recent food crises have emphasized the imperative of developing food security strategies. For instance, with its Seoul Development Consensus for Shared Growth, the G-20 Seoul Summit in 2010 identified food security as a priority area and called for measures to increase agricultural productivity and food availability. Indeed, agriculture-based growth strategies that are compatible with structural change make sense for several reasons.

20. First, agriculture remains predominant in many developing countries, and there remain untapped areas of production and trade opportunities. Agriculture still represents 12–25 per cent of GDP in LDCs, sub-Saharan Africa and East Asia and the Pacific. The sector's contribution to economic growth recently became higher than the sector's share in GDP, indicating the sectors' changing importance in growth, particularly in Africa and some agricultural exporters (table 2). Most developing countries could increase production. Africa has 60 per cent of the world's uncultivated arable land. Production per hectare varies greatly reflecting conditions and technologies. White maize production, for example, varies from only 0.5 tons per hectare in Angola and Mozambique to 6 tons in North Africa and the United States.

Table 2
Contribution of agriculture to real GDP growth (1971-2009, %)

	1971-1979	**1980-1989**	**1990-1999**	**2000-2009**
World	2.3	3.6	2.8	4.0
Developed economies	0.8	1.1	0.9	0.9
Transition economies	10.3	5.8	6.4	4.9
Developing economies	6.0	12.8	7.3	6.6
Africa	6.5	18.3	17.7	16.5
Americas	3.6	6.0	5.0	4.7
Asia	7.7	14.2	7.1	5.9
Selected agricultural exporters*	12.7	140.2	13.4	11.4

Source: UNCTADstat.
* As defined in the *Trade and Development Report* series.

21. Second, agriculture productivity growth preceded economic development in the past. In industrialized countries, and more recently in China and Viet Nam, rapid agricultural growth was the precursor to industrialization. Productivity gains in agriculture freed labour

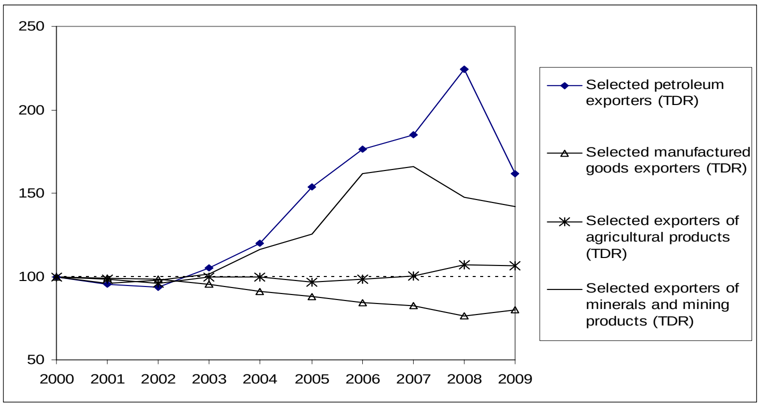
[9] UNCTAD (2009). *World Investment Report* 2009. United Nations publication. Sales No. E.09.II.D.15. New York and Geneva.
[10] UNCTAD (2011). Recent developments in key commodity markets. TD/B/C.I/MEM.2/13. 21 January.

for other expanding sectors like manufacturing, thereby laying the ground for structural change. Furthermore, higher investments in agriculture results in higher demand for machineries and other inputs as well as supporting services, which promote the development of productive capabilities.

22. Third, today's "industrialization" should be understood to include modern agriculture and agro-business and related services activities. Certain high-value and processed agricultural products – horticulture (fresh and processed fruits and vegetables, flowers), for international markets, meat, aquaculture, organic products – require strengthening primary agricultural activities, as well as enhancing upstream inputs markets (seeds, fertilizer) and downstream activities (processing, marketing, quality standards). Exploiting high value added, technology-intensive processing and integration into value chains provides opportunities for diversification and value-addition.

23. Fourth, agriculture-based development can exploit new opportunities created by recent changes in terms of trade, and avoid development pitfalls associated with specialization in low-end manufactures.[11] Rapidly growing demand led to increasing agricultural and mineral commodity prices while increasing supply of manufactures, mainly from an increasing number of developing countries at low costs, resulted in falling relative prices of manufactures (figure 6). Higher prices, demand for food in regional markets and fast-growing dynamic demand for high value products provide impetus for agricultural production as farmers find it lucrative to invest.

Figure 6
Terms of trade of selected groups of countries, 2000=100 (2000-2009)



Source: UNCTADstat.

24. Fifth, agricultural sector development will generate a range of positive externalities, contributing to sustaining rural employment, poverty reduction and food and livelihood security. This argues for policy intervention in support of agricultural development and trade. Conversely, if poorly implemented, the sector can also generate negative externalities, including soil and water degradation and greenhouse gas emissions, which need to be addressed with targeted measures.

[11] UNCTAD (2009). *Trade and Development Report 2009*. United Nations publication. Sales No. E.09.II.D.16. New York and Geneva.

1. Agricultural trade and food security

25. Food security is still a major problem for many developing countries. There are 925 million undernourished people, most of whom are found in Asia and the Pacific (62 per cent) and sub-Saharan Africa (26 per cent). Achieving food security requires addressing both the supply and demand side. The degree of reliance to be placed on trade is a key element in food security strategies. Food imbalance can be met with food imports, and food security is not as such dependent on a country's balanced food trade.

26. However, strong reliance on imports can also represent risks. Local production of essential staple food is important, especially when the product is thinly traded (e.g. cassava in Africa) and when physical access to food is difficult, including in regions poorly connected to markets. For instance, marketing costs in sub-Saharan Africa can represent 70 per cent of retail values due to poor connections. Higher international prices and price volatility also provide a case for higher self-sufficiency. Export restrictions imposed by some major producers also raised concerns over the reliability of external food supplies.

2. Environmental and social benefits

27. Furthermore, agriculture serves various economic, social and environmental purposes, including preventing rural–urban migration, rural employment, gender empowerment, or conserving biodiversity and tradition. Such external effects justify targeted subsidies and taxes in agriculture as economically efficient policies for developing countries. Positive external effects may be amplified through sustainable agriculture.[12]

Box 1.

Sustainable agriculture is an opportunity for small scale farmers to increase their profitability. It relies on techniques including crop rotation, compost and biological pest control to increase soil productivity and needs less expensive inputs (GMO seeds, agro-chemicals). Production is more labour-intensive, having a positive impact on employment and poverty reduction. A study confirms that this is an economically meaningful approach, with the positive effects on food security, environment and employment, for small farmers to escape the dependency on rising input prices (UNCTAD/UNEP, *Organic Agriculture and Food Security in Africa*, 2008).

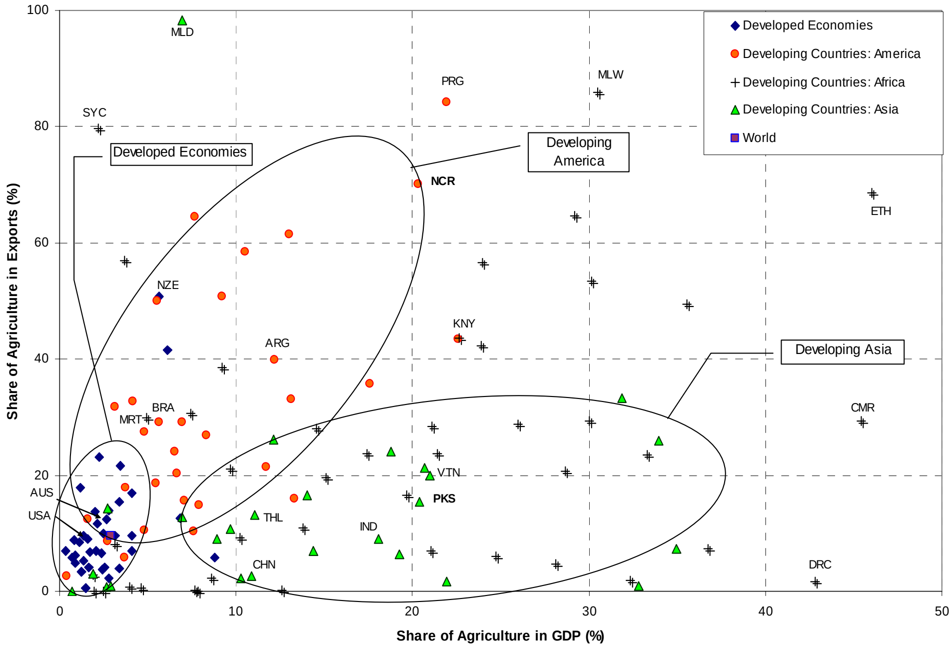
C. Towards new agriculture-supported development strategies

28. Significant potential for agricultural development, and promising opportunities arising from recent economic developments, call for coherent agricultural trade and development strategies. Such strategies would vary across countries according to their endowment and characteristics of agricultural activities.

[12] Hoffmann (2011). *Assuring Food Security in Developing Countries under the Challenges of Climate Change.*

Figure 7

Share of agriculture in GDP and merchandise exports (2007-2009 average, %)



Sources: UNCTAD based on UNCTADstat, World Bank WDI.

29. Figure 7 plots countries according to their share of agriculture in GDP and in merchandise exports. Most developed countries are clustered at the bottom left corner. Latin American and Asian countries form clusters with the former exhibiting greater specialization in agriculture exports and the latter a higher contribution to GDP. African countries show no discernible pattern.

Table 3

Typology of agricultural exporters

		Share of agriculture in GDP	
		Low	**High**
Share of agriculture in export	**High**	(a) Diversified agricultural exporter	(c) Agrarian agricultural exporters
	Low	(b) Diversified non-agricultural exporters	(d) Agrarian non-agricultural exporters

30. A broad typology of countries is useful in gauging the differing role to be played by agriculture in trade and development (table 3).

(a) "Diversified agricultural exporters" are competitive agricultural exporters that often compete with developed country exporters in world market (e.g. Latin America), especially on food items (cereals, meat), some tropical cash crops (coffee, sugar, banana, cut flowers), and some processed products. They tend to be net-food exporters and seek to capitalize on competitive agriculture to promote productivity growth;

(b) "Diversified non-agricultural exporters" often achieved diversified production structures, with exports concentrating in manufactured goods (e.g. East and South-east Asia). A major policy concern is to ensure stable access to food and agricultural raw materials for processing. Agriculture may still absorb a large proportion of labour, and income disparity between urban and rural areas may be high;

(c) “Agrarian agricultural exporters” tend to be low-income, agriculture-based economies, exporting traditional cash crops (e.g. coffee, tea and cocoa), often under preferential schemes, while a large population is engaged in smallholder farming of less-traded food. They are often net-food importers and food insecure. A major concern lies in building competitiveness and promoting downstream processing, while addressing food security concerns. Agricultural productivity is often low;

(d) “Agrarian non-agricultural exporters” are low-income countries specialized often in exports of minerals or light manufactures. While the majority of the labour force is engaged in agriculture, they are often net-food importers. Diversification occupies a central place in national development goals. Raising agricultural productive capacity and rural employment is key to food security, subsistence and livelihood security.

31. While individual country needs vary, some general thrusts of agriculture-based development strategies can be identified. Trade plays an essential role. Ensuring market access is necessary for agricultural export-led growth. Reliable food imports and opportunities to encourage production are equally important. Enhancing productivity in agriculture is instrumental for structural transformation. Scaling up investment (ODA, FDI, domestic resource mobilization), and government support (extension services, access to inputs and infrastructures) matters. Enhancing smallholders’ and subsistence farmers’ production and competitiveness has beneficial effect on poverty reduction and food security. Supporting production of locally consumed food and linking smallholders to regional markets reduce dependence on food imports while providing employment. Exploring sustainable production may increase productivity.

III. Agricultural trade and policies

A. Trade in agriculture

32. Trade is important in agriculture as the sector is relatively trade-intensive. Over half of global production is exported (52 per cent, compared with 28 per cent in goods and services), ranging from only 7 per cent of global production for rice to 80 per cent for green coffee. In 2009, the value of agricultural trade reached $1.2 trillion, or 9.6 per cent of world merchandise trade. For developing countries, agriculture represents a smaller share (8 per cent) of their total merchandise exports as they expand more rapidly in exports of industrial goods, with the notable exception of Latin America. Developing countries’ share in world agricultural exports increased from 31 per cent in 2000 to 36 per cent in 2009, driven by increased exports from Latin America. Brazil, China and Argentina figure among the leading exporters. As a source of export revenue agriculture is important particularly for many Latin American and sub-Saharan African countries (e.g. Paraguay 89 per cent, and Ethiopia 84 per cent).

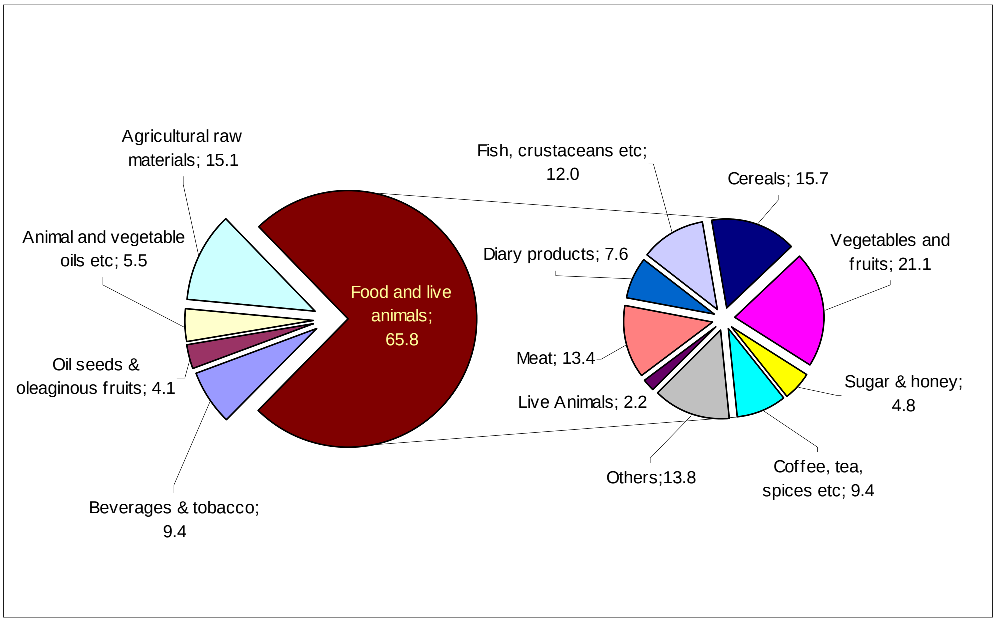
Table 4
Major traders of agricultural products (share in world trade, 2009, %)

Exports		Imports	
United States	15.2	EU*	17.9
EU*	14.1	United States	12.8
Brazil	7.4	China	9.8
Canada	5.6	Japan	8.6
China	5.2	Russian Federation	3.7
Argentina	3.6	Canada	3.6
Thailand	3.6	Korea, Republic of	2.7
Indonesia	3.2	Mexico	2.6
World total*			$784 billion

Source: UNCTAD based on WTO.
*Excludes intra-EU trade.

33. Agriculture includes food and non-food products, raw and processed products, beverages and fibres. Food is the largest item in agriculture, representing 66 per cent of world agricultural exports, with vegetables and fruits, cereals and meat being major sub-categories (figure 8).

Figure 8
Composition of world agricultural exports, 2009 (%)



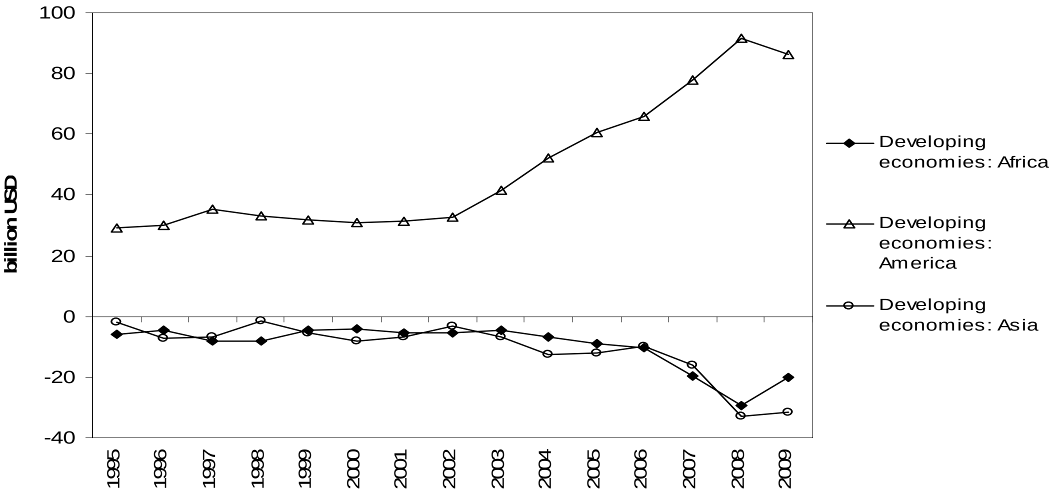
Source: UNCTADstat.

34. Trade varies significantly across products. Staple food crops (rice, wheat and maize) are produced mainly to meet domestic consumption. Food export commodities (coffee, tea, cocoa, bananas and certain horticultural products) and non-food commodities (rubber, cotton and biofuel crops) are largely grown as cash crops for export revenue.

35. The pattern of agricultural specialization is increasingly diverging (figure 9). Net agricultural exports of Latin America have increased remarkably since 1980, while Asia and Africa have seen gradual reduction in their net export positions. Latin America has increasingly specialized in agriculture since 2000 and Asia in manufacturing. This also

implies increasing contribution of net agricultural exports to growth for the former and increasing reliance on imports for food consumption for the latter. A review of the net trade position of selected food subcategories by region reveals that most developing countries (except in South America, South and South-east Asia) import cereals to meet their food consumption, often with earnings from tropical cash crops and horticultural products (table 5).

Figure 9
Trade balance in agricultural products of developing countries by region, $ billion (1995–2009)



Source: UNCTADstat.

Table 5
Trade balance in selected agricultural products as a share of total exports by region (2009, %)

	Cash Crops	**Cereals**	**Horticulture**
Developed Countries	0.7	1.0	0.7
Developing Countries	1.5	-1.4	1.3
Developing Countries: Africa	4.5	-9.4	1.8
Developing Countries: America	9.4	-1.2	5.8
Developing Countries: Asia	-0.2	-0.6	0.5

Source: UNCTADstat.

36. Some agricultural products exhibit strong export dynamism. Exports of high-value and processed products – horticulture, meat, tropical beverages, speciality crops, fish and oil seeds – have outpaced many other agricultural products, owing to rising incomes in emerging markets, changing life-style and demand for biofuel (table 6). For instance, cut flowers' exports from developing countries increased 10-fold from 2000 to 2009. Processed food has been particularly dynamic, driven by processed fish and preserved fruit, produced in value chains often led by transnational corporations (TNCs). Evidence points to the increasing participation of mainly middle-income countries (e.g. Argentina, Brazil and Malaysia) in such exports. Since final stages of food processing tend to be labour-intensive

and spill-over effects appear superior to traditional manufacturing, food processing provides a development opportunity that may facilitate production of even more sophisticated products. Such labour intensive sectors are often subject to high protection in developed country markets.

Table 6
Best performed agricultural product categories for developing countries (1995-2009 average percentage growth rate, %)

Meat, edible meat offal, salted, dried;	20.7
Cheese and curd	17.0
Oil seeds	13.6
Meat of bovine animals, fresh, chilled, frozen	12.3
Maize	11.8

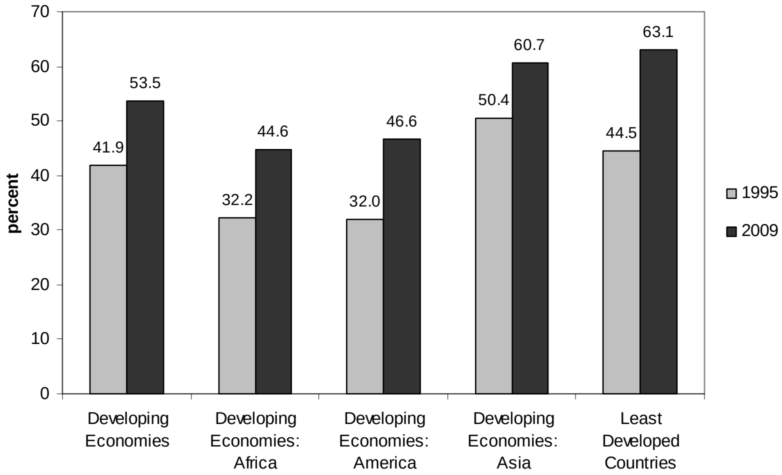
Source: UNCTADstat.

37. Market structure, including competition, is an important factor affecting the extent of benefits developing country producers could derive from their participation in international value chains. While traditional smallholder farming is the predominant form of production in most developing countries, they face increased concentration in upstream and downstream markets in the value chain. On the downstream, supermarkets, as well as wholesalers and agro-processors, have become dominant buyers of their outputs. Supermarkets now represent 60 per cent of all retail sales in some Latin American countries. On the upstream, the market for seeds and fertilizers is also dominated by a few TNCs. For example, the top five seed producers control 57 per cent of the global market. This has contributed to a large difference between global and domestic prices. Coffee producers, for example, receive 10 per cent of the retail price, a share falling from one third in 1990s. Consequently, developing countries' claims on value addition fell from around 60 per cent in the 1970s to less than 30 per cent in 1998–2000.[13]

38. Fast-growing South–South trade provides a viable avenue for increasing agricultural export earnings. Agricultural South–South trade exceeds South–North exports by $45 billion and has been growing dynamically, from 42 to 54 per cent between 1995 and 2009 (figure 10). Developing countries' aggregate agricultural import demand increased by 145 per cent, largely outpacing developed countries' demand growth (69 per cent).

[13] World Bank (2007).

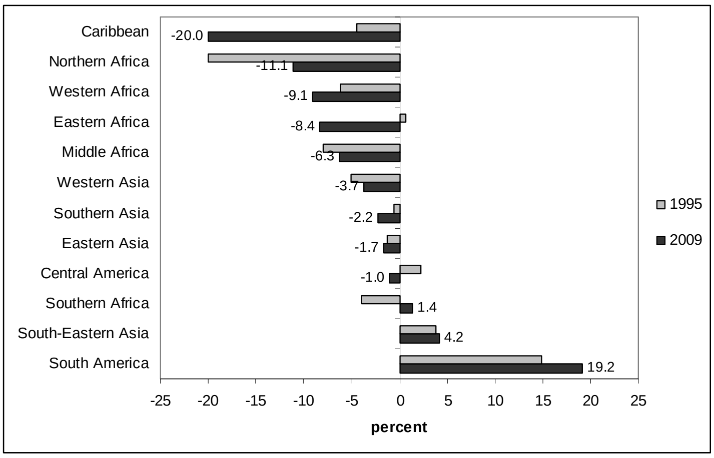
Figure 10
South–South trade in agriculture by region



Source: UNCTADstat.

39. Despite the well-recognized importance of trade to meet domestic food demand, high import dependence remains a concern for many developing countries. Globalization and liberalization of agriculture have led many developing countries to increasingly specialize in export crops (table 5). Only 3 of the 12 developing country regions in figure 11 have a positive net balance in basic food trade. All subregions in Africa have strong dependence on imports ranging between 6 and 9 per cent of total merchandise exports with exception of Southern Africa (figure 11), which improved its surplus to 19 per cent.

Figure 11
Ratio of net basic food exports to total exports (1995 and 2009, %)



Source: UNCTADstat.

B. Policies affecting agricultural trade

40. Agriculture remains among the most distorted economic sectors, with a considerable degree of protection (table 7), especially compared with tariffs on non-agricultural products. Both developed and developing countries apply relatively high tariffs on grains, crops, and meat and livestock, in part to protect their local production (table 8). Such concern is particularly acute in developed countries for meat and dairy products. Relatively low protection is applicable to fruits and vegetables in developed countries, given that many of such products are not produced locally. Developing countries tend to protect more intensively processed food, as well as fishery products, in part, to support intra-agriculture value-addition, and to capitalize on fast-growing fishery sectors.

Table 7
Bound and applied tariffs

		Bound	Applied
Agriculture	Developed countries	38	34
	Developing countries	61	25
Non-Agriculture	Developed countries	4	3
	Developing countries	20	13

Source: UNCTAD-TRAINS.

Table 8
Applied tariffs on developing country exports by product group

Importers	Developed	Developing
Grains and Crops	12.27	12.3
Meat and livestock	27.41	12.55
Fruits and vegetables	7.97	15.01
Processed food	9.76	16.65
Fish	2.08	10.12

Source: GTAP 8 (2010).

41. Average tariffs hide tariff peaks and tariff escalation, which are particularly trade-distorting. Tariffs can be very high (e.g. above 500 per cent) for some major food products such as meat, sugar, dairy, cereal and tobacco, and tend to be higher for processed products than for unprocessed products. This discourages exports of processed products, thus higher value added activities, and affects product chains such as coffee, cocoa, oilseeds, vegetables and fruits. For instance, tariffs on coffee-derived products in the EU and United States increase with the degree of processing – duty-free on coffee beans as against positive rate of 10–20 per cent on processed coffee. Tariff escalation partly explains export concentration of some developing countries on primary products in a value chain. Non-tariff measures (NTMs), most significantly sanitary and phytosanitary (SPS) and technical barriers-to-trade (TBT) measures, often act as barriers to agricultural trade.

42. Various subsidies granted to agriculture have significantly distorted agricultural markets. Such distortion mostly affects dairy, meat, sugar and cereals on which developed countries' support measures concentrate. Ninety-seven per cent of the final AMS commitment levels accrue to OECD countries. "Total Support to Agriculture" measured by

OECD continues to indicate high aggregate support level of $384 billion in 2009, against total agricultural production of $992 billion. Export subsidies were prevalent until 2000 but decreased since then. The recent high agricultural commodity prices have significantly reduced actual spending.

IV. Contribution of the ITS to agriculture-based development

43. The Doha Round continues the reform process in agricultural trade which started with the Uruguay Round. Since various distortions and imbalances were left unaddressed, a built-in agenda for continued negotiations was agreed to begin in 2000. The Doha Round was thus conceived above all to redress imbalances, including implementation difficulties, and advance agricultural reform process and services' progressive liberalization (agriculture modalities were to be established, and initial offers in services submitted, by 31 March 2003). The broad-based agenda set for the Round, including NAMA and "Singapore issues", has however diluted the priority assigned to agriculture. Unresolved issues in the negotiations such as cotton subsidies are indicative of development challenges arising from agricultural reform process. Meanwhile, accelerating drive towards RTAs suggest their increased relevance to the regulation of agricultural trade.

44. The latest UNCTAD analysis estimates the potential global welfare gains of the Round in agriculture to be around $28 billion, unevenly distributed among countries (table 9). The results are corroborated with other recent studies. These gains are much smaller than previously estimated, and reflect ongoing liberalization, and more realistic scenarios concerning the degree of liberalization. The bulk of global welfare gains would accrue to highly protected developed countries such as in the EU and Japan, where consumers would benefit. Many low-income countries, especially sub-Saharan African countries and LDCs, are estimated to experience negative effects, owing to higher world market prices for temperate imported products and preference erosion of their exported products. Liberalization increases exports to match the increase in imports, and most of the additional agricultural exports are expected to come from some developing countries.

Table 9
Potential welfare effects of the Doha Round in agriculture for selected countries ($ million)

Economy	Welfare
Argentina	734
Brazil	197
India	675
Indonesia	-177
Sub-Saharan Africa	-960
European Union	10,853
Japan	6,908
United States	1,141
Developing countries	4,977
LDCs	-916
Developed countries	23,704

Source: UNCTAD.

A. Enhanced market access to expand exports, production and employment

1. Tariffs

45. Developing countries not benefiting from preferences seek to improve market access conditions to increase exports and benefit from higher prices. The current tariff-cutting formula – “tiered formula” based on percentage cuts (table 10) – is expected to increase export revenues for major exporters from Argentina, Brazil and South Africa by 10–21 per cent. Competitive exporters, such as the Cairns Group, have favoured a more ambitious approach. Exceptions embedded in the tiered formula cuts – “sensitive products” that allow more lenient tariff cuts for a limited number of products – represent an important drawback from the exporters’ perspective. Products that may be chosen as “sensitive products” in developed countries correspond with those of export interest to developing countries, such as rice, meat, sugar, certain fruits and oils, and tend to attract high tariffs. Such exceptions are estimated to subtract some 10 per cent of potential market access gains from developing country exporters.[14] Relatively weak provisions on tariff escalation are yet another limitation: i.e. they might preserve existing tariff escalation, albeit to a reduced extent.

Table 10
Simulation of agricultural tariff reductions, %

	Bound	New bound	Average cut
EU	21.6	11.7	51.6
United States	6.2	3.9	48.6
Japan	31.3	17.5	51.8
Brazil	35.4	23.0	34.4
China	15.7	11.9	20.9
India	114.6	66.2	39.8
Costa Rica	42.8	27.6	34.4
Côte d'Ivoire	14.9	11.6	21.9
Kenya	100.0	70.5	29.5
Moldova, Republic of	12.5	12.5	0.0
South Africa	41.2	25.5	34.3

Source: UNCTAD; no minimal and maximal average cuts.

46. Limiting loss of market share resulting from MFN tariff reductions is the key concern of many exporters trading traditional tropical cash crops under unilateral preferential schemes. Lower preference margins could even oust some countries from the market, as they may not be competitive enough (e.g., sugar from Mauritius). Possible losses of preferences for ACP States from a 50 per cent MFN tariff cut are estimated to be around $1 billion annually. ACP countries requested longer implementation for certain products while other developing countries exporting similar products to same developed countries under MFN regime (Latin American countries) have sought to ensure deeper tariff cuts on selected tropical and diversification products. Both submitted lists of products with a high

[14] Vanzetti and Peters (forthcoming). *Do Sensitive Products Undermine Ambition?* UNCTAD.

overlap (e.g. bananas, tobacco, cut flowers, rice, cane sugar). The way this issue is reconciled would have important implications for both groups of countries.

47. LDCs aim to capitalize on the leverage provided by the DFQF initiative to secure improved market access under preferential schemes. Since the 2005 Hong Kong (China) Decision, significant improvements have been made. The remaining tariff lines excluded in agriculture are 15 per cent in the United States (excluded products include live animals, dairy, meat and cocoa), and 2 per cent in Japan and Canada. Extending the DFQF treatment to 100 per cent is estimated to increase agricultural export earnings in particular for tobacco and rice exporters.

48. Fish products are among the major fast-growing sectors, including for less diversified small islands and coastal countries. Tariff reductions on fish as pursued in NAMA would mainly improve access into the lucrative EU and Japanese markets. Since many countries benefit from existing preferences, deeper sectoral liberalization on fish would reduce their preference margin. Proposed disciplines on fishery subsidies would contribute to preventing overfishing and illegal, unreported and unregulated fishing, and to levelling the playing field in fishery trade and sustainable fishing.

49. Another avenue for export opportunities is increasingly offered under North–South RTAs, particularly for those countries not benefiting from unilateral preferences. RTAs induce tariff elimination. High protection often persists on “sensitive” products under RTAs. A review of 10 RTAs by the EU and United States with middle-income countries finds that products excluded or subject to longer implementation periods in the United States/EU markets are mainly dairy, meat, sugar, cereals, tobacco, prepared vegetables and fruits. Some RTAs have addressed such barriers through various approaches, such as built-in agenda for renegotiations, preferential tariff rate quota, reduction/elimination of seasonal/complex tariffs, and financial compensation. For instance, Peru and Morocco obtained from the United States duty-free access under tariff rate quota, annual quota expansion, and eventual elimination of out-of-quota tariffs, for products such as cheese, milk, butter, sugar, beef, peanuts, tobacco and cotton. Since tariffs applied in South–South trade remain sizable in agriculture (table 8), regional integration could help develop viable regional agricultural markets and enhance food security.

2. NTMs

50. The incidence of NTMs is higher for agriculture than for manufactures, and their magnitude significantly larger than tariffs. Costs to comply with NTMs in agriculture are thus higher than in non-agriculture, especially for small suppliers. Agricultural exports to the EU, for example, face an estimated overall NTM-inclusive restriction of 56 per cent, whereas the tariff restriction is 22 per cent. Increased prevalence of value chains affecting certain agriculture products has led to the higher incidence of market entry barriers arising from private standards and anti-competitive practices. Private standards increasingly include process standards in addition to product standards, such as sanitary procedures for the harvesting process. Research shows that private standards can be more trade-inhibiting than internationally harmonized standards.

51. The Doha Round does not address specifically SPS issues. Mutual recognition in a regional context would be instrumental for eliminating unjustifiable regulatory barriers. The provisions of North–South RTAs do not envisage immediately mutual recognition, reflecting different levels of regulatory capacity among the parties. Development cooperation can usefully facilitate developing countries’ compliance with developed countries’ higher standards. High domestic standards in developing countries can provide a competitive edge for exporting to high-standard developed countries, as was the case with Thailand’s food exports to the EU.

52. Geographical indications can serve as an important marketing instrument. Many developing countries see in the TRIPS agenda of extending stronger Geographical Indication (GI) protection to products other than wines and spirits an opportunity to using GI's to promote sales, while others are opposed. Some RTAs have adopted an innovative approach to mutually recognize exclusive marketing rights for specific GIs.

B. Preempting the adverse effects of liberalization on food security and poverty

1. Import measures

53. Ensuring an adequate content, pace and level of own liberalization is a key concern of developing countries. In the Doha Round, different levels of SDT are available for developing countries in the form of lesser tariff cuts. LDCs are exempt from reduction commitments while small and vulnerable economies are subject to more lenient tariff cuts. "Special products" – that allow developing countries to exclude some products from full formula cut – can be valued positively in strengthening policy space to support local production of staple food and rural development in net-food importing countries. A potential drawback is the limitation they could pose on other agricultural exporters. Research finds that 6 of 10 products that are likely to be selected as special products, including rice, maize and sugar, are among the major products traded in a South–South context.

54. Since the effect of reciprocal tariff elimination would be greater for developing countries, adequate scope and pace of liberalization is even more important in the regional context. Under NAFTA, for instance, Mexico's food imports quadrupled from the 1994 level while the United States subsidies on corn, soybeans, wheat, cotton and rice are estimated to cost Mexican producers about $1.4 billion annually.[15] The ability of developing countries to undertake lesser and slower liberalization is, however, constrained by the "substantially all trade" requirement of GATT Article XXIV, often understood as requiring liberalization of 90 per cent of trade over 10 years. Some developing countries have proposed in the WTO to incorporate SDT in that article to allow less-than-full reciprocity in the regional context. Agricultural products are major products excluded from liberalization, such as up to 40 per cent of all excluded products in Interim EPAs.[16] Many recent RTAs involving middle-income countries have opted for full liberalization covering (almost) all products. RTAs have also incorporated a mechanism to automatically extend deeper liberalization that may be undertaken by a RTA party under future RTAs to the other party, such as "third-party MFN" clauses under ACP-EU EPAs, and similar provisions applied to selected agricultural products under United States RTAs (e.g. rice, barley, beef and poultry).

2. Export measures

55. Recent food crises have highlighted the role of export restrictions by exporters to mitigate domestic food shortages while importers sought to secure stable access to food. Export restrictions are traditionally used for various policy purposes, including for enhancing food security, promoting downstream processing and raising government revenue. Specifically, export taxes were used as an industry policy instrument in developing countries, and as a countermeasure to tariff escalation in some markets, and often applied predominantly to agricultural commodities. For instance, Indonesia imposed

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15 Wise (2009). *Agricultural dumping under NAFTA,* GDAE Working Paper No. 09-08.

16 UNCTAD (2010). *Economic Partnership Agreements*.

an export tax on cocoa beans to support its cocoa processing industry. WTO rules allow export restriction to address critical food shortage and provide no disciplines on export taxes. By contrast, recent North–South RTAs have limited countries' space to use such measures. Export taxes are prohibited in recent RTAs with existing measures subject to time-bound elimination (e.g. cane sugar under Cariforum–EU EPA) or standstill. Some countries were successful in preserving existing export taxes (e.g. Costa Rica on banana, coffee and meat under CAFTA-Dominican Republic).

C. Addressing unforeseen import surge to protect food security

56. The special agricultural safeguard mechanism for developing countries (SSM) is conceived as an instrument to mitigate adverse effects of imports on domestic production and food security. It allows developing countries to temporarily raise tariffs above bound rates in response to import surge or import price depression. UNCTAD and FAO analysis finds that import surges and price suppression are frequent. Large import surges (exceeding 40 per cent of base levels) were observed in 34 per cent of the cases reviewed, and small price depression (by 10 per cent) in 12 per cent of the cases. The details of the instrument matter for its effectiveness. The limitation on the level of remedial tariffs could weaken countries' ability to offset import surges if current bound and applied rates are close and the import surge is high. Agricultural exporters have argued that the overly flexible instrument could undo previous liberalization.

57. RTAs also provide for safeguard measures, be they specific to agriculture and automatic as to its activation, or generally applicable to all sectors. Automatic agricultural safeguards are found in recent United States FTAs that are applicable to selected products only, such as beef, chicken, dairy and rice, and available for all parties. Safeguards may be price- or quantity-triggered, and remedy is limited essentially to raising tariffs up to MFN rates. Some RTAs prohibit the application of WTO-compatible agricultural safeguards, and possibly future SSM, to intra-RTA trade. If applied to future SSM, such disciplines could significantly limit developing countries' ability to counter import surges.

D. Eliminating unfair competitive edge in export and domestic markets

58. As WTO is the only place where agricultural subsidies can be negotiated, effective disciplining of agricultural subsidies is one area where the Doha Round can make a clear contribution. Reduction of subsidy is expected to increase world prices and increase non-subsidizing countries' exports. However, the effect of the Round on cuts in domestic support and elimination of export subsides is expected to be minimal owing to low actual spending levels. For instance, the United States entitlement to $14.5 billion expected after the reduction is still higher than its current spending. This is because subsidizing countries have undertaken reform to "de-couple" payments from production, so that the support is classified as non-trade distorting "green box" support. Research shows that green box support could have trade distorting effect by creating incentives to maintain land for agricultural production.[17]

59. A case in point is cotton subsidies. Many developing countries, especially 20 LDCs in Africa, have a high concentration of exports in cotton. Due to the unfavourable world cotton market environment, the share of Africa's cotton production has decreased from 8.8 per cent in 2002/03 to 5.6 per cent in 2007/08.[18] In Cotton-4 countries, production

[17] UNCTAD (2007). "Green Box Subsidies: A Theoretical and Empirical Assessment."
[18] UNCTAD (2011). Concept Note, Pan-Africa Cotton Meeting.

decreased by 50 per cent. Effective cuts in cotton subsidies, combined with recent high cotton price, could increase export revenues by 20 per cent for Africa's cotton sector. Strengthening productive capacities including through improved infrastructure and technologies would further raise export revenues.

60. When a negotiated solution was not forthcoming immediately, dispute settlement seems to have provided an alternative avenue to address adverse effect of agricultural subsidies. For instance, the United States cotton subsidies were successfully challenged by Brazil in 2003, where a WTO panel found that United States support caused serious prejudice by unfairly depressing world cotton prices. EU export subsidies on sugar were challenged by Australia, Brazil and Thailand, and found as exceeding its annual commitment levels.

61. Given limited reduction in subsidies by developed countries, existing imbalance in agricultural support will be largely preserved. Most developing countries have *de facto* zero entitlements for AMS support, unlike most developed countries. While developing countries have flexibility to provide certain support measures, they often lack resources to effectively utilize such allowance (table 11). There is a need to level the playing field. Policy space is important as increased attention is being given to policies to encourage domestic production.

Table 11
WTO-compatible agricultural policy instruments for developing countries

Instrument	Basis
Price support, input subsidies	*De minimis* support (10% of production value)
Investment and input subsidies for low-income, resource-poor farmers	AoA 6.2
Marketing costs (processing for upgrading) and internal transport and freight	AoA 9.4
General services (e.g. research, training, infrastructure, marketing, extension)	Green box
Income insurance, domestic food aid, stockholding, structural adjustment, regional assistance	
Direct, decoupled income support	

62. The imbalance inherent in RTAs between deeper liberalization required of border measures and the absence of subsidies disciplines makes agriculture a particularly difficult topic in RTAs. Recent RTAs, e.g. Cariforum-EU EPA, have included some disciplines on export subsidies, including a commitment to eliminating export subsidies for exports destined to other RTA parties, including subject to partners' tariff elimination on products concerned.

V. Conclusion

63. Agriculture-based development strategies are an important component of structural transformation, food security and poverty reduction. Trade in agriculture plays a critical role in enhancing productivity and food security. Addressing smallholders and subsistence farming needs amplify beneficial effects on food security, employment and poverty reduction. Governments can play an important role in redirecting attention and mobilizing

resources to agriculture. There is need for each country to ascertain the extent to which they pursue specialization and encourage local production to derive benefits from trade while enhancing food security. The ITS needs to devote greater attention to increasing market access and entry for developing country exporters and reducing distortions created by subsidies. It should provide space for countries in need to enhance local production. The Doha Round should effectively deliver on agriculture as a central pillar of its development dimension.