



United Nations Ministerial Conference
of the Least Developed Countries

Making Globalization Work for the LDCs
Istanbul ■ 9-11 July 2007

Globalization, Agriculture and the Least Developed Countries

Issues Paper



come up against structural and policy obstacles as explained earlier. Moreover, the absence or inadequacy of a system for standardized packing and grading and quality control systems at the regional level continues to frustrate efforts to expand trade and establish transparent information systems. For instance, supply side constraints and the procurement structure imposed by foreign supermarket chains leave out the large sector of small farmers in LDCs. The key to effective LDC participation in the new production and supply chains will depend on their being able to meet product standards required by these chains. This remains a challenge. Improvement and harmonization of inspection and certification systems are among the missing ingredients for promotion of intra and extra-regional trade. Inadequate financing and guaranteeing of regional exports/imports has also been a factor.

The WTO agreements are likely to both expand opportunities and amplify the costs of the LDCs inherent structural weaknesses

Of the 50 LDCs, 32 are at present WTO members. Ten more are in the throes of accession or have observer status. The Agreement on Agriculture (AoA) that emerged from the Uruguay Round began a process of bringing the trade-distorting agricultural policies of developed countries under multilateral rules and disciplines¹⁰.

The major external challenge facing the LDCs is their ability to exercise their rights and meet their obligations under the new multilateral trading system. Given their high dependency on agriculture for jobs, food, national income and export earnings, they have a large stake in the current and future trade negotiations in agriculture. Multilateral reforms undertaken in the WTO context is likely to both expand their opportunities and amplify the costs of their inherent structural weaknesses and policy failures.

In respect of WTO induced policy changes, the LDCs, along with all other WTO members, have had to remove non-tariff measures and bind all agricultural tariff lines, but they were exempt from tariff reductions. Most LDCs generally bound their tariffs at levels above the applied rates. All have declared that they have not provided any support to agriculture that is subject to the reduction commitment. In fact, many do not subsidize agriculture at all but tax the sector explicitly, by taxing production and exports of many commodities, or implicitly, by giving higher protection to industry. Overall, the scope for LDCs to support agriculture through measures exempt from the reduction commitment (including green box measures and the *de minimis* provision) is considerable; however, such measures require financial outlays which most LDCs cannot afford¹¹.

A potentially beneficial effect of the WTO Agreements for the development of value-added industries in the LDCs is the reduction in tariff escalation. Tariffs have generally been higher on processed agricultural products than on primary commodities. While LDCs do export a range of processed products, such as coffee extracts, cocoa pastes, crude vegetable oils and leather, the current tariff rates on these products are relatively low and the reduction of tariff escalation will consequently not provide many additional export opportunities. On the other hand, tariff escalation has been substantially reduced for many important processed commodities that LDCs do not export at present but could well do so in the post-Doha situation. Examples of such products include fruit juices, canned fruits and vegetables, roasted coffee and nuts. Importantly, sanitary and phytosanitary standards play an increasingly prominent role in trade of processed products, especially foodstuffs, and this is an area where LDCs will need to do much more if they are to exploit the new opportunities.

LDC products also compete with production and export support given to producers in rich countries. While it is recognized that LDC products compete with production and export support given to producers in rich countries and that such subsidies provide a disincentive for LDCs to invest in food production, which could reduce their import dependency in the medium to long term, most LDCs are net food importers and thus may

¹⁰ Other Agreements which bear on agriculture include: the Agreement on the Application of Sanitary and Phytosanitary Measures (SPS), the Agreement on Technical Barriers to Trade (TBT); the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPs), and the Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed Countries and Net Food-Importing Developing Countries.

¹¹ FAO, 2000.

not gain from further agricultural trade liberalisation in OECD countries in the short-term because the removal of such subsidies would lead to higher world prices of basic foodstuffs which could negatively impact them.

Many other issues have arisen from the implementation of the WTO Agreements, as well in the on-going Doha Round of negotiations on agriculture, that are of particular concern to LDCs in respect of improving their market access and developing domestic export capacities, some of which are summarized below.

- **Improving market access for agricultural exports:** Many LDCs indicated that the AoA has not brought about any real improvement in market access for their agricultural exports, mainly because of the erosion of their tariff preferences, the persistence of tariff peaks and tariff escalation in some sectors of particular interest to them and the high SPS standards imposed in the importing countries. In the ongoing Doha Round of trade negotiations on agriculture they look to ensure that there really will be an improvement in market access, especially for those products with a high growth potential and high value. Thus, they have an interest in reducing border protection and tariff escalation in the developed and developing countries and in ensuring that the beneficiaries of preferential arrangements are compensated for the loss or erosion of such preferences and assisted in adjusting to a more competitive environment. The Aid-for-Trade initiative will likely address some of these concerns.
- **Special and differential treatment:** Under the WTO agreements, LDCs have received special consideration in respect of market access, implementation of their various commitments and technical and financial support. The WTO Hong Kong Ministerial Declaration calls for developed countries and developing countries in a position to do so: to “provide duty-free and quota-free market access on a lasting basis, for all products originating from all LDCs by 2008 or no later than the start of the implementation period in a manner that ensures stability, security and predictability”¹². However, the LDCs have been disappointed with the limited implementation of the special and differential treatment (SDT) provisions of the agreements, particularly as regards financial and technical assistance. This is particularly the case with respect to the SPS and TBT Agreements. Because SDT provisions were often expressed as “best endeavour” obligations, many LDCs have suggested that these should be included as binding commitments in the ongoing Doha Development Round.
- **Special Products:** Special Products (SPs) are a category of products that will be exempted from the general disciplines agreed to (as SDT provision) under the market access pillar of the ongoing Doha Round of trade negotiations. They will be products that are relevant for developing country concerns with overall development through enhancements in their specific national food security, livelihood security and rural development goals. Developing countries will be permitted to self-designate SPs. However, although it is not necessary for LDCs to designate SPs for them to benefit from the provision as they are not required to reduce tariffs, LDCs are encouraged to designate such products for the following reasons¹³: (i) possibility of graduation from their LDCs status; (ii) as the current policy thrust of some developing countries that are party to regional trade agreements is to designate SPs at the regional level, it is advisable for LDCs amongst them to designate SPs so that due consideration is given to their specific products when designating regional SPs; (iii) designation of SPs by LDCs will assist them in prioritizing the development of their product specific sub-sectors.

¹² WTO Hong Kong Ministerial Declaration, Annex F, December 2005.

¹³ Paragraph 45 of the WTO July Framework Agreement guarantees that “Least-Developed Countries, which will have full access to all special and differential treatment provisions above...”. These SDT measures include the SPs and a Special Safeguard Mechanism (SSM) that will be established. See WTO, 2004.

- **Food safety and quality standards:** Another major challenge faced by the LDCs is raising the SPS/TBT standards of their exports to at least internationally recognized levels. Because of their poor capacities in scientific research, testing, conformity and equivalence, they face difficulties in meeting international safety and quality standards. The task is even more daunting when the developed countries, on risk assessment grounds, adopt higher standards than those currently recognized by international standard-setting bodies. Moreover, rising consumer concerns in the affluent countries over food safety and quality compound the difficulty of the LDCs in meeting ever higher standards. Fulfilment of the promises of financial and technical assistance to LDCs, and other developing countries, in respect of SPS/TBT standards is thus important to them.
- **Capacity building for trade:** LDCs have neither the institutional capacity nor the human resources to face all the challenges or take full advantage of the opportunities flowing from the multilateral trading system, and to participate fully as equal partners in new WTO negotiations on agriculture.

Technical and financial assistance to build capacity is therefore essential, especially in the following areas: (i) developing and strengthening institutional capacity to meet international standards, e.g. in food safety and quality; (ii) strengthening the capacity in multilateral negotiations, in particular assisting them to deal with problems confronted in honouring their WTO commitments, including follow-up of decisions in their favour, and to take advantage of trading opportunities; (iii) strengthening their capacity to analyze trade issues in the context of the continuation of the reform process; (iv) assisting non-members of WTO to achieve accession on terms consistent with their development and food security needs; and (v) implementing the Integrated Framework for Trade-Related Technical Assistance to LDCs (IF) as recognized in the WTO Plan of Action for the LDCs adopted in 1996 at the first WTO Ministerial Conference.

☞ **Conclusions: The LDCs agricultural development in a globalized world**

The situation facing the LDCs and their farmers today may be more difficult than that of developing countries that achieved sustained agricultural growth in the last three decades. The new and emerging challenges confronting them can be identified under three broad headings: overcoming their marginalization resulting from integration of markets due to Globalization and liberalisation; adapting to technological change; and coping with the new institutional environment.

Globalization of markets: The economies of the LDCs now have to compete in a more fiercely competitive world market. The gradual removal of trade barriers, rising demand for higher quality products and higher standards, the continuous erosion of trade preferences and the costly compliance with the new trade rules are particular problems that hamper the competitiveness of producers in LDCs in both world and domestic markets. Because of Globalization and liberalisation, LDCs are also becoming more vulnerable to changes in world market conditions, on account of their small economic size and their increasing reliance on imports for food supplies. The decline in the commodity terms of trade has reduced both the incentives to engage in the production of tradable and the gains and economic stimulus from such production. The emerging threats by climate change, if real, will further serve to worsen their situation.

Technological challenges: Keeping pace with the increasing domestic demand for food, meeting requirements for enhancing competitiveness and ultimately raising rural incomes, necessitate raising agricultural productivity. Most LDCs are at an early stage of agricultural technology and the potential to increase productivity is enormous. However, sustained agricultural growth in most cases requires more than the ingredients of the 'green revolution'. In particular, it calls for substantial investment in irrigation and rural infrastructure, human development and institutions. New developments in biotechnology and bio-energy production may pose further threats to export-based growth in the LDCs if the new technologies associated with them result in a sharp increase in productivity in more advanced economies, thereby increasing production, pushing down prices in products competing with those of the LDCs.

The institutional environment: The institutional environment (both nationally and internationally) is also very different from the past. International trade is subject to WTO disciplines and takes place in a globalized context. The roles and modus operandi of donor institutions have also changed, associated with liberalisation and structural adjustment programmes in member countries. Perhaps the most important consequence has been the sweeping away of much of the public sectors' involvement in agricultural research and extension and in commodity and financial markets. Inefficient and ineffective as it often was, the role of state interventions in supporting agricultural growth in earlier success stories is now clearly recognized, and has resulted, for example, in arguments being put forward for a reassessment of the performance of state marketing boards in Africa¹⁴. However, current attitudes among donors and within the LDCs do not favour efforts to involve the state in the search for innovative solutions to some of the institutional problems that it has successfully addressed in the past.

Finally, against all these difficulties, there are also some new opportunities for agriculture in the LDCs. New technologies are bringing down the cost of communications dramatically, which should benefit remote, more sparsely populated areas with poor roads. Biotechnology (with appropriate safeguards) offers opportunities for more rapid technological advances if there is sufficient investment in their application to the crops and problems in the LDCs. In addition, globalized markets and the implementation of trade agreements should bring benefits for the LDCs exporters if they can be assisted in overcoming their supply and competitiveness constraints. Policy makers may be swinging back to a more balanced and nuanced understanding of the importance of agriculture and of the potential roles (and pitfalls) of state support.

¹⁴ See, for example, Dorward, Kydd and Poulton, 1998; Barrett, Kelly and Savadogo, 1999.



United Nations Development Programme
One United Nations Plaza
New York, NY 10017

www.undp.org