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Globalization Commentaries

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Will the WTO fast-track trade at the expense of food security?

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The General Council of the World Trade Organization (WTO) begins a two-day meeting in Geneva on July 24, with India and other developing countries threatening to block implementation of an agreement on trade facilitation. They would be justified in doing so.

The potential gains from that agreement, reached last December in Bali, Indonesia, are vastly overstated, and they flow primarily to rich countries and private sector traders. Meanwhile, the United States and other developed countries have made little effort to resolve the legitimate demands that developing country food security programmes be exempted from archaic stipulations of the WTO's Agreement on Agriculture (AoA).

India has threatened to withhold its support for trade facilitation, which would effectively scuttle the deal in the WTO's consensus-based process. The Indian government charges that there has been no serious movement on a retabled proposal from the so-called G-33 group of developing countries (which now includes 46 nations) to renegotiate parts of the WTO's agreement on agriculture so that government efforts to buy and distribute food to the poor are not treated as illegal agricultural subsidies.

This was the issue that almost derailed the WTO negotiations in Bali. The so-called Bali Package, which included trade facilitation, food security, and policies to favour least developed countries (LDCs), was saved when India accepted a "Peace Clause" granting such "public stockholding" programmes a four-year hiatus on any disciplinary action from WTO members while negotiators work out a permanent solution to the dispute over the legitimate uses of food reserves for food security.

The hypocrisy of agricultural dumpers

The issue sounds complicated, but it is in some ways quite simple. The United States and others argued that India's recent expansion of its National Food Security Programme constitutes a trade-distorting agricultural subsidy because the government buys Indian farmers' rice and wheat at "administered prices", which are generally above market prices.

The logic of such programmes is easy to understand. Put more money in the hands of poor farmers by buying their crops at a stable and higher price, and use those government purchases to feed the hungry - many of them those same farm families - with free or subsidised food distributions. The United States used similar policies in its early farm programmes.

What's the issue? Under the WTO's Agreement on Agriculture, the difference between the administered price and the market price is considered a subsidy, and there is a limit on how much is permitted. The

United States argued that India's expanded programme exceeds its limit and constitutes a trade-distorting subsidy since the government could then dump its surpluses on international markets.

The **hypocrisy** of longtime US agricultural dumpers accusing developing countries of dumping is bad enough. But this particular US complaint is even more cynical. India's support prices are only slightly higher than current market prices, but they appear much higher because of the AoA stipulation that administered prices be compared not to current prices but to the average international prices in 1986-88. Those are roughly one-sixth of current market prices, so any price the government pays today would look like a huge subsidy.

But it's not, and the G-33 has been asking the WTO since 2006 to reopen the AoA to at least update that reference price to account for inflation. The US and others have refused, and now, even after the commitment in Bali to resolve the issue, India and the G-33 have seen no movement on the food security issue while trade facilitation has sped towards implementation.

The single undertaking

The stakes are higher than just the Bali Package. They go to the heart of the WTO's so-called Doha Development Agenda (DDA) and the principle of the "single undertaking" under which an agreement is valid only if agreements are reached in every area of negotiation.

When the Bali Package was agreed in December 2013, some warned that the concept of the single undertaking was being undermined because trade facilitation, which was seen to favour exporters, had a quick implementation deadline while the other two parts of the package, food security and policies to support least developed countries, had only vague commitments and distant deadlines.

For many developing countries, the hope was that the Bali Package would jump start the stalled Doha process. But the fear was that by advancing agreement on only some parts of that broader development agenda, and by fast-tracking an issue of most interest to developed countries - trade facilitation - the logic of the single undertaking would dissolve and they would see no movement on the issues that matter to them most, agriculture and food security.

Those fears have been realised. The United States and other exporting countries have pushed hard for firm commitments from developing countries on trade facilitation, without even keeping the promises to finance the high costs of upgrading port facilities and procedures. Meanwhile, they have offered no reciprocal commitment to negotiate in good faith on the flaws in the existing WTO Agreement on Agriculture, or on the specific Bali issue of public food reserves for food security.

It requires countries to make substantial investments to reduce the costs of international trade, including large infrastructure, such as port and transportation hubs, as well as changes in custom procedures and personnel.

The problem with this is **two-fold**. On the one hand, the potential gains are vastly overstated, estimated by some at the absurd level of $1 trillion. Those predicted gains evaporate when one looks at the assumptions behind them, such as the assumption that all countries in the world would gain the same amount of income from a given increase in exports.

On the other hand, trade facilitation surely has a wide array of costs, which are surprisingly ignored. These include up-front disbursements for the initial investments and consultancy fees, but also delayed costs, such as loss of employment, adverse effects on trade and higher inequality. At least for some developing countries, the balance may well be negative.

India, its G-33 allies, and other developing countries are right to insist that food security and assistance to LDCs must advance in tandem with trade facilitation. They are also justified in demanding that the Bali agreement jump-start the stalled Doha Round, restoring the original commitment to correct the biases against developing countries in the WTO's Agreement on Agriculture and other chapters. They are right to resist the abandonment of the single undertaking and the advancement only of exporters' economic interests.

If that means the trade facilitation agreement needs to be held up or made "provisional" subject to progress on other Bali issues, as India, South Africa and others have argued, so be it.

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