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Latin America's «New Open Regionalism» and WTO Negotiations: The Case of Agriculture

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ABSTRACT: This article analyses past trade trends and agricultural protectionism in Latin American agriculture, by examining observed changes in Latin American agriculture and trade policies over the last 20 years that have led to what the authors call the«New Open Regionalism». It also discussed the conflicting interests and various trading positions taken up by Latin American countries in multilateral trade talks, as a result of the strong heterogeneity between net agricultural exporters and importers. The authors show that the repeated failure of the Doha round of trade talks opens the door for bilateral or sub-regional free trade agreements, concluding with the prediction that regional integration in Latin America will come about as a result of agreements between various sub-regional trade blocs. The weakness of internal demand makes the development of the region's agri-food sector highly dependent on exports, the growth of which is one of the main economic drivers in these countries, particularly net exporters. In addressing the issue of the distribution of profits from trade liberalization, the authors propose a variety of schemes that have already proved their effectiveness in countries such as Mexico, Turkey, Brazil, Colombia, Nicaragua and Honduras.

KEY WORDS: Free Trade Agreements, New Open Regionalism and Agriculture.

JEL classification: Q17.

Nuevos acuerdos regionales de comercio en Latinoamérica y disposición a negociar: el caso de la agricultura

RESUMEN: Este artículo analiza las tendencias del comercio agrario y el proteccionismo de la agricultura en Latinoamérica, examinando los cambios observados en la agricultura y la política comercial en

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los últimos 20 años, denominados por los autores como«nuevos acuerdos regionales de comercio». También se discuten el conflicto de intereses y las variadas posiciones comerciales desarrolladas por los distintos países de América Latina, como resultado de una fuerte heterogeneidad entre los exportadores y los importadores agrarios netos. Los autores muestran que los reiterados fallos de las negociaciones comerciales de la ronda Doha abrieron las puertas para acuerdos comerciales libres bilaterales o sub-regionales, concluyendo con la predicción de que la integración regional traerá como resultado un acuerdo entre varios bloques de comercio sub-regionales. La debilidad de la demanda interna hace que el desarrollo del sector agroalimentario dependa fuertemente de las exportaciones, especialmente de los exportadores netos. En la dirección de los resultados de la distribución de beneficios de los acuerdos de liberalización, los autores proponen una variedad de esquemas que han tenido su efectividad en países como México, Turquía, Brasil, Colombia, Nicaragua y Honduras.

PALABRAS CLAVE: Acuerdos libre de comercio, Nuevos acuerdos regionales de comercio y agricultura.

Clasificación JEL: Q17.

1. Introduction

During the period of structural reforms in many Latin American countries in the late 1980s and early 1990s a new regional approach to trade and economic integration began to take shape. Although at first the evolution of this«new regionalism» was an unplanned consequence of the unilateral decisions by various governments, it«emerged as an integral component of the structural reform process… complementing and reinforcing the modernization policies… and adopted as part of the region's participation in the multilateral liberalization emerging from the Uruguay Round»[1]. Given a common cultural identity and language, and the advantage of lower transport costs due to proximity, the two essential elements of the process of individual country policy reforms that promoted greater regional integration were a turn toward liberalized domestic markets and *apertura* –the opening first to trade and then capital flows. Both encouraged investment, from domestic and international sources, and an increase in trade –and so created an environment in which policy makers recognized the importance of the design of the rules of regional commerce. Advancing regional integration in turn supported continued liberalization of domestic markets and further openness to trade.

The new approach to enhancing regional integration was part of a broad shift in structural policy toward more-open-market economies, in marked contrast to the prior efforts at integration burdened by the strategy of import substitution based on high levels of protection (except for limited preferential market access). There had been a previous effort at regional integration in the 1960s and 1970s, but the results were disappointing, integration having progressed very little by way of maintaining reduced border protection and cross-border capital flows. Trade was limited in an environment of import substitution, enforced through high tariffs, quantitative restric-

[1] Inter-American Development Bank, 2002, *Beyond Borders – The New Regionalism in Latin America*.

tions, and trade was restricted to goods not domestically produced. Tariffs were not the main trade instrument, quantitative restrictions and state trading served to limit imports. In addition, in part to fight inflation, there were export controls (licenses, taxes, quotas) and internal price controls.

Unilateral liberalization of domestic and border policies during the late 1980s and early 1990s sparked a chain reaction: increased trade and investment demonstrated the development potential of foreign capital, export diversification and taking advantage of foreign markets for scale economies. But these benefits required the coordination –through bilateral or multilateral agreements– of internal market, trade and investment policies. The goal of trade agreements was to guarantee credible, longer-term institutions that would both guard against future protectionist tendencies and allow the resolution of disputes arising in domestic markets and at the border. The type of Latin American regionalism that has resulted is part of broad range of international agreements, multilateral and bilateral, reaching across and beyond the region itself, termed«open regionalism».

Regional integration can range in depth from the straightforward free trade in goods, to the free flow of both goods and services, to customs unions, to common markets, to monetary unions. At present liberalized tariff regimes and tariff preference have substantially enhanced the flow of goods within Latin America, and, while lagging, there is continued progress with respect to services and labor. Bilateral and multilateral agreements have promoted the flow of goods and services –through a«spaghetti bowl» of confusing and roundabout links– between Central America, NAFTA, the Andean Group, MERCOSUR, and many pairs of trading partners, and stretching out to OECD, Pacific Rim and European economies. MERCOSUR is an imperfectly functioning customs union, which beyond common tariffs for members extends to tariff preferences to associates and trade agreements with countries outside of the region. Trade in goods has been facilitated by the developments in foreign investment in domestic infrastructure and services, and regional cooperation related to infrastructure –transport, energy, and telecommunications.

Another positive result of the gains in regional market and policy integration via unilateral and bilateral agreements and has been a loose form of Latin American geopolitical coherence that presents both a more credible commitment to a regional market attractive to investors, and a shared economic and political stance in international negotiations. The recent evolution of Latin America's new regionalism, although complementary to unilateral integration in world market and serving as a laboratory for advances in multilateral negotiations, is not considered a substitute for improvements in the multilateral system. This is particularly the case with respect to agriculture, a major contributor to exports from Latin America to the rest of the world. There is great interest in seeking access for agricultural products –raw and processed– to OECD countries and developing countries in other regions. And successful WTO negotiations are perceived as a way of pushing individual countries to continue reforms in domestic agricultural policy that have proven resistant to negotiate at the bilateral and regional level. The WTO is where countries manage contingency measures (safeguards, anti-dumping, countervailing duties), and where there is a credible system dispute resolution, a topic left out of Latin American regional agreements.

Why might agricultural trade expansion, spurred by successful WTO negotiations, be of importance for Latin America? One reason is that basic and processed agricultural trade can stimulate economic growth and create employment opportunities, with a resulting increase in the incomes of workers and the poor, especially in rural areas. This, after all, was the initial theme of the Doha Round. Indeed, Latin America has been a leader in trade liberalization in comparison to other regions, several individual countries unilaterally beginning reforms and liberalization during the 1980s and 1990s and predating the Uruguay Round Agreement. Moreover countries in the region have also been active in trade negotiations under past and current rounds of WTO negotiations. For example, there is the G20 led by Brazil, and the participation of Brazil, Chile and Argentina in other groups, such as the Cairns group.

In this paper we address three general issues with respect to agricultural trade concerns in Latin America in the light of the new regionalism and in context of on-going WTO negotiations. First, what are the general trade policy questions currently under debate in the region? Second, what are some of conflicts of interest with respect to trade between countries and within countries, and how have these conflicts have been impacted by national policy reforms, intra-regional agreements, and agreements with countries outside the region? Finally, what can be said about the region's positions with respect to the formulation of rules within ongoing WTO negotiations in light of current outstanding trade policy questions and conflicts of interest?

With respect to the trade policy questions and conflicts of interest, the second section reviews the importance and structure of agricultural trade to the economies in the region. The wide diversity of trading patterns across countries in the region has implications with regards to negotiating positions. The third section turns to how recent developments in LAC countries' domestic and trade policies have responded to these questions and conflicts. The fourth section addresses likely trends in (a) negotiating positions, (b) the emphasis on agro-food standards in developing country markets, and (c) in the development of domestic compensation and safety/net schemes. The fifth section discusses a source of political divergence, limiting the incentive to form a common WTO negotiating position for the region: the significance of the diversity of agricultural production and exports in setting priorities for trade negotiations. Finally, drawing on lessons from past trade reforms and current trends relevant to the Latin American agricultural sector and trade, we conclude with some reflections on what might be priorities for domestic policies and trade negotiations that could aid in the transition to freer trade and continue toward greater regional integration.

2. The importance of agricultural trade in Latin America and the Caribbean

This section discusses the significance of agriculture to trade in the region. One question to address is the contribution to total national exports and imports of crop, livestock, and forestry products. Another issue is the distinction between the net overall agricultural trade position and the net food trade position, the latter being important for understanding domestic agricultural policy debates, especially with regard to the question of national food security and food import dependence. Agricultural trade should be examined not only with respect to primary agriculture –the size of which is reflected in sectoral GDPs– but also with respect to the agro-processing sector (not included in agricultural GDP). The agro-processing industry has grown significantly in terms of exports from the Latin American and Caribbean (LAC) region and largely depends on the performance of primary agriculture. A focus on processed agricultural exports is motivated by the growing importance of non-farm employment and income in rural areas. And because much of agro-processing is not accounted for in agricultural GDP, the downstream links of the primary agricultural sector to the national economy should not be overlooked. This is especially important in a region that is relatively land abundant and where the growth of agriculture is constrained by domestic demand, leaving export markets as an avenue both for sectoral growth and, more generally, for growth in the rural economy.

A. *Agro-forestry exports and imports*

Table 1 reports the shares in total exports and imports of agricultural goods for 22 countries in the region. Agricultural exports represent more than 25% of total export revenue for nine countries, reaching as high as 40% for Argentina, Cuba, Guatemala, Honduras, Paraguay and Uruguay. Countries for which the share is relatively small are the oil-exporting countries of Mexico, Trinidad and Tobago, and Venezuela, and the Caribbean. On the import side, the shares of agricultural and forestry products are generally smaller, ranging between 8 to 20%. The only country with a share greater than 20% is Haiti (34%). Twelve of the twenty-two countries are net exporters of agro-forestry products, the net importers being the oil exporters, Mexico, Trinidad and Tobago, and Venezuela; the Caribbean countries; and El Salvador, Peru, Panama. In volume and total value, the region as a whole is clearly a net exporter of agricultural and forestry products, but in terms of number of countries, the region is almost evenly divided between net exporters and importers.

Crop and livestock products clearly predominate. In terms of totals for crop, livestock and forestry, export products deriving from crops and livestock average more than 75% of total agro-forestry exports. Chile is notable for the size of share of exports due to forestry products (35%). The share of crop and livestock products averages around 80% for agro-forestry imports for the three sub regions. Unlike exports, forestry's share of imports is high for many countries. The highest shares for forestry imports are found in Argentina (40%), Costa Rica (33%), Ecuador (20%), the Dominican Republic (23%), and Trinidad and Tobago (22%).

TABLE 1

Export and import shares and trade balance for agriculture and forestry in LAC, 1999-2001 averages

	Exports	Imports	Balance	
	Ag/TOT (%)	Ag/TOT (%)	EX_{Ag}/IM_{Ag}	
South America				
Argentina	40.4	7.8	7.73	NEX
Bolivia	31.9	14.7	1.57	NEX
Brazil	31.0	7.9	4.08	NEX
Chile	26.1	7.8	3.51	NEX
Colombia	23.1	14.9	1.56	NEX
Ecuador	32.2	10.8	2.79	NEX
Paraguay	45.2	12.5	1.59	NEX
Peru	10.9	16.2	0.66	NIM
Uruguay	50.2	16.0	2.31	NEX
Venezuela	1.3	14.2	0.18	NIM
Central America and Mexico				
Costa Rica	30.6	11.4	2.21	NEX
Guatemala	56.2	16.8	1.50	NEX
Honduras	47.9	18.2	1.21	NEX
Mexico	9.4	11.7	0.62	NIM
Nicaragua	45.7	15.4	1.34	NEX
Panama	35.1	14.9	0.66	NIM
El Salvador	17.9	18.5	0.56	NIM
Caribbean				
Cuba	47.9	17.9	0.90	NIM
Dominican Republic	10.1	13.7	0.66	NIM
Haiti	7.6	33.7	0.06	NIM
Jamaica	17.1	13.3	0.52	NIM
Trinidad & Tobago	5.8	12.0	0.57	NIM

Source: Authors' calculations from FAOSTAT.
Note: NEX represents a net exporting country, NIM a net importing country.

B. *Net trade positions in food and agricultural products*

Table 2 presents trade in agricultural products, distinguishing between the net overall agricultural trade position and the net *food* trade position. The broad agricultural group covers the products discussed above in reference to Table 1. The food group includes cereals, dairy products, eggs, vegetable oils, meats, and sugar. The concept of *food* here is broader than that used by some international agencies, such as FAO, which often excludes sugar and vegetable oils, based on a definition of«essential foods.» One notable result of Table 2 is that only five of the 22 countries considered are net exporters of food, and all are in MERCOSUR or are associated members[2].

[2] Two countries, Bolivia and Guatemala are borderline cases of net food importation. Bolivia particularly in the Santa Cruz area produces soybeans, rice and other grains.

At odds with the common perception of Latin America as an agricultural continent, 16 of the 22 countries are net *food* importers, nine of which are also net importers of all agricultural products. But in contrast to food products only, for all agricultural products there are ten net importers and twelve net agricultural exporters compared to five net food exporters. Notably, there are seven countries that are both

TABLE 2

Net trade position in food and agricultural products (excluding forestry and fisheries), averages 2000-2002, in millions of U.S. dollars

	Food exports and imports				All agricultural exports and imports			
	Exports	Imports	Net Balance EX-IM	Net Balance EX/IM	Exports	Imports	Net Balance EX-IM	Net Balance EX/IM
South America								
Argentina	5,437.4	224.7	5,212.7	24.2	10,900.0	872.9	10,027.1	12.5
Bolivia	124.8	113.4	11.3	1.1	403.3	232.0	171.3	1.7
Brazil	5,769.0	2,076.9	3,692.1	2.8	16,000.0	3,768.2	12,231.8	4.2
Chile	359.0	577.3	–218.3	0.6	3,351.4	1,228.4	2,123.0	2.7
Colombia	388.8	724.8	–336.0	0.5	2,925.6	1,577.5	1,348.1	1.9
Ecuador	71.9	189.8	–117.9	0.4	1,592.1	475.2	1,116.9	3.4
Paraguay	131.5	58.7	72.9	2.2	519.3	310.1	209.3	1.7
Peru	54.5	616.1	–561.5	0.1	739.4	1,052.8	–313.3	0.7
Uruguay	733.5	112.2	621.2	6.5	998.0	387.3	610.6	2.6
Venezuela	64.1	858.0	–793.9	0.1	329.6	1,813.5	–1,483.9	0.2
Total South America	**13,300.0**	**5,643.2**	**7,656.8**	**2.4**	**38,000.0**	**11,900.0**	**26,100.0**	**3.2**
Central America and Mexico								
Costa Rica	178.8	205.4	–26.6	0.9	1,698.2	518.5	1,179.6	3.3
El Salvador	136.9	374.2	–237.3	0.4	539.3	822.0	–282.7	0.7
Guatemala	346.2	384.5	–38.3	0.9	1,434.7	793.0	641.7	1.8
Honduras	51.4	216.6	–165.3	0.2	630.8	491.1	139.7	1.3
Mexico	811.0	5,385.2	–4,574.2	0.2	8,191.1	11,200.0	–3,008.9	0.7
Nicaragua	152.0	146.9	5.1	1.0	404.4	294.2	110.2	1.4
Panama	51.5	180.8	–129.4	0.3	313.0	417.3	–104.3	0.8
Total Central America and Mexico	**1,763.1**	**6,922.8**	**–5,159.6**	**0.3**	**13,300.0**	**14,700.0**	–1,400.0	0.9
Caribbean								
Cuba	504.1	598.7	–94.5	0.8	812.8	848.2	–35.3	1.0
Dominican Republic	97.3	325.0	–227.7	0.3	595.0	691.9	–96.9	0.9
Haiti	0.0	259.3	–259.3	0.0	23.2	362.0	–338.8	0.1
Jamaica	96.1	283.3	–187.1	0.3	260.2	404.8	–144.6	0.6
Trinidad and Tobago	82.6	163.5	–80.9	0.5	248.8	344.5	–95.7	0.7
Total Caribbean	**847.0**	**2,125.6**	**–1,278.6**	**0.4**	**2,310.2**	**3,746.4**	**–1,436.2**	**0.6**
Latin America and Caribbean	**15,900.0**	**14,700.0**	**1,200.0**	**1.1**	**53,600.0**	**30,300.0**	**23,300.0**	**1.8**

+ Data for exports and imports are in millions of US dollars deflated by the World Bank's manufactures index (1990=100).

++ Fisheries are for 2000-2001. Agricultural exports (crops and animals) here comprise all primary and processed products.

Source: authors' calculations from FAOSTAT.

net agricultural exporters and net food importers: Chile, Colombia, Ecuador, Costa Rica, Guatemala, Honduras, and Nicaragua.

These results are relevant for agricultural trade negotiations. The common perception is that there exists a high cost of agricultural protection in OECD countries for Latin America, based on the presumption that most countries in the region are net exporters. Only five countries are net food exporters, and they are losers with current OECD protectionism –and subsidy-induced lower world prices. The increase in world prices due to a reduction in the protection and subsidies in the OECD would be beneficial for nonfood agricultural exports, affecting many more countries (12). While it is clear why most LAC countries –seeking to expand their exports– would be enthusiastic for trade liberalization and subsidy reduction in the OECD, the case of net-food and net-agriculture importers is ambiguous. It is, however, important to note that there is hypothetical possibility that today's net food import position in some products could decline due to trade reversals arising from higher world prices that would result from trade liberalization in the OECD.

Industrial country trade liberalization would increase world prices, and thus would increase the food import bill and have a negative effect on terms of trade. It is also often claimed that multilateral liberalization would raise the domestic prices of food. But considering that OECD trade liberalization would require at least some degree of reciprocal liberalization in developing countries, reduced tariffs and greater market access in LAC countries would have a mitigating effect on domestic prices. The final result on domestic prices would be uncertain, and depend on the magnitude of world price changes relative to the degree of reduced border protection in LAC countries. This helps to anticipate where OECD reforms would have significant impacts, and where they would not. It is difficult to discuss price effects in the aggregate, but for a particular country and a particular product, one could simulate a potential price and find to what degree a country might have flexibility via its own tariffs to mitigate price increases on sensitive products.

What are the lessons from the importance of agricultural trade in the region? First, the primary sector contributes significantly to overall national trade: more than a third of export revenues in recent years are in agro-forestry exports, although this share has been declining. There is considerable interest in obtaining market access in world markets to expand these agro-forestry exports. But the share of agro-forestry export trade to total trade is quite heterogeneous across LAC countries. Second, this high degree of heterogeneity carries over to countries' net trade positions in both food and all agro-forestry products. In terms of the number of countries, there is a high degree of food import dependence, relevant for future WTO negotiations.

3. Toward an«Open New Regionalism»: Trade policy developments in Latin America

A. *Past unilateral domestic and trade policy reforms*

Prior to the Uruguay Round, most Latin American countries implemented economy-wide policy reforms, including trade liberalization, deregulation, privatization and a redefinition of the role of the state. Reforms were introduced in conjunction with macroeconomic stabilization. Trade reforms implemented during the late 1980s and early 1990s were initially unilateral, and subsequently incorporated into bilateral and sub-regional agreements (MERCOSUR, NAFTA, the Andean Group, and CAFTA). These reforms were also entirely consistent with the later adoption of the results of the Uruguay Round, leaving LAC with few mandated policy changes. The unilateral approach was also consistent with what we know today from global simulation modeling about the expected gains of agricultural trade liberalization: the principal beneficiaries of trade reforms are the trade liberalizers themselves.

One of the primary goals of trade reforms during the 1980s and 1990s was to reverse the strong bias that had existed previously in favor of manufacturing and urban sectors and against export agriculture. With reforms, domestic terms of trade between agriculture and the rest of the economy were expected to change to the benefit of the farm sector, especially in the case of exportable goods. But in several cases, prior expectations with regard to relative prices at the farm level were not realized, due most notably to currency appreciations and to a fall in border prices. By focusing only on sectoral trade policy reforms, it was natural to conclude that agricultural producers should have experienced a significant increase in relative prices. But, the data show that real domestic prices of farm tradables fell after the initiation of reforms in several countries, primarily as result of a currency appreciation (reinforced by occasional declines in world prices). In terms of prices, the main forces behind the changes in agricultural incentives were beyond the control of sectoral policies: exchange rates, border prices and real interest rates (Valdés, 1996). Although the real price of tradables in several cases had episodes of decline, the relative price of exportables to importables and to home goods increased.

Given the above, there was a notably rapid overall expansion in agriculture-related exports in the 1990s, during the time of unilateral economic reforms, as shown in Table 3. The expansion of exports of primary agricultural averaged around 5% per annum, but with a wide range from a high positive growth (Peru 10%, Brazil 9%, Mexico and Chile 7.5%) to a high negative growth (Bolivia, Colombia, the Caribbean in general, and Venezuela). Notable also are the growth rates in the exports of processed products, which are higher in most countries than the growth rates for primary products. This is especially true for Central America, Bolivia, Chile, and Mexico. The growth in forestry products is high in some countries, although one should remember that, beyond a few countries, the reference base is small. As an overall conclusion, in the LAC region generally the export agro-forestry sector has been dynamic over the past decade.

The growth in agro-processed products points to the importance of confronting the tariff escalation issue, both in FTAs with the US and in WTO negotiations. At least in terms of bilateralism with the US, reductions in tariffs on processed and storage able commodities were left behind, with an eight to twelve year period before tariff reductions. Moreover, such products remain vulnerable to the application by the US of special safeguards. This was clearly the case of the US-Chile agreement, used as a template for CAFTA. What is remarkable from looking at Tables 3 and 4, there has been a fast growth in processed products despite high tariff escalation on the part of developed countries. This suggests that exports of this sector could expand even faster.

As a general rule for the LAC region, export agriculture did expand in spite of the unexpected and unfavorable changes in domestic terms of trade. Moreover, exports expanded faster for countries that had early and sustained reforms. The bias against export agriculture did indeed decline: not only were export taxes eliminated and protection to importables reduced, but also trade reforms were accompanied by other policy changes, such as deregulation and privatization, which reduced significantly the transactions costs of agricultural and agro-processing activities. That is, the opening of trade was a leading element of economic policy reorientation, but it was only part of the story. Trade reforms were made in the context of economy-wide structural re-

TABLE 3

Annual (compounded) rate of change in exports 1990/1992 to 2000/2002, primary and processed agricultural products, forestry and fisheries

Country	Primary agriculture	Processed agricultural products	Forestry products	Fisheries	Agriculture, forestry and fisheries
Argentina	4.10	6.58	7.12	8.49	5.59
Brazil	8.92	4.72	6.06	6.80	6.59
Bolivia	-6.14	17.05	–5.16	–21.62	8.21
Chile	7.45	12.05	7.36	7.32	8.07
Colombia	-1.98	9.52	15.03	3.86	2.25
Costa Rica	4.40	13.09	6.65	10.30	6.77
Cuba	–11.41	–12.07	-18.55	–2.62	–11.46
Dominican Republic	1.50	7.60	4.72	9.98	5.49
Ecuador	3.92	13.97	9.03	2.16	4.75
Guatemala	5.47	7.66	3.69	3.83	6.13
Haiti	-1.37	-1.08	22.66	8.97	-0.37
Honduras	-0.01	13.21	8.35	5.98	1.86
Jamaica	0.65	1.45	-39.12	4.15	1.20
Mexico	7.39	16.25	3.02	8.30	10.17
Nicaragua	5.25	12.19	22.03	20.17	8.65
Panama	–0.09	3.64	9.27	13.74	4.20
Paraguay	–2.96	3.97	1.85	5.42	–1.66
Peru	10.27	9.26	33.38	11.05	10.30
El Salvador	0.39	15.97	11.73	6.66	6.12
Trinidad and Tabago	5.47	8.67	5.59	15.86	8.64
Uruguay	2.59	5.04	16.42	1.95	4.20
Venezuela	-6.33	5.33	9.25	6.76	3.43
South America	5.09	6.47	6.90	7.05	5.95
Central America	5.31	13.94	4.65	9.65	8.12
Caribbean	–5.29	-5.93	3.45	1.11	–5.37
LAC Region	4.88	5.80	6.73	7.25	5.56

Source: Authors' estimates based on FAOSTAT. Annual rates of change based on averages for the years from 1990 to 1992 and from 2000 to 2002. Fisheries based on 2000 to 2001. Nominal values in dollars deflated by the Manufacturers Unit Value index of the World Bank. Primary and processed agricultural products based on FAO definitions.

forms, macroeconomic adjustments, deregulation and privatization. Modernization of ports, the privatization of telecommunications, airline and shipping deregulation, cheaper equipment, machinery, and raw materials due to tariff reductions, greater flexibility in the foreign exchange regime and financial sector, and other changes, were influential in determining response of agriculture.

One should recognize the difficulty of isolating the partial effects of trade liberalization from the myriad impacts that resulted from general economic reforms. Nevertheless, it is possible to discern a pattern from recent analyses. First, in most cases trade reforms did have a positive impact on agriculture, particularly exportables. Without trade reforms, other reforms probably would have had a limited impact on the sector. That is, the sequencing of reforms, and especially trade liberalization early on and the removal of distorted domestic prices, was very important, although many tend to ignore the importance of initial and credible changes in incentives. Second, the breadth of the reform program matters: there are complementarities between trade reforms and other economic policy changes. The positive impacts of trade liberalization on the performance of the agricultural sector –in terms of changes in product mix, investments, resource mobility and greater flexibility to adjust to changing conditions– were enhanced by improving infrastructure, deregulation and privatization, and more generally reorienting the economy toward markets.

There has been over the last several years little consensus across the region with respect to the social impact of the reforms. This is in part due to the difficulty in isolating the effects of reforms from mismanagement and exogenous shocks. In any event, the emphasis of the policy debate over structural and sectoral reforms has shifted: from the productive and export potential of agriculture, to the difficulties posed by a liberalized economy for import-competing farmers; and from the impact on farmers and urban consumers (who are now nearly forgotten), to the rural poor and the small farm sector presumed excluded from the benefits of more open trade.

Did the benefits of reforms not reach some sectors? Yes, part of the small farm sector was excluded. This subset includes those who farm in relatively low-productivity areas, but also, more generally, part of the small farm sector faces difficulties in adjusting to several changes in the economic environment: an open trade regime (higher price risk), the increasing demands of buyers for higher volumes and standards (associated with the increasing concentration of agribusiness and the development of supermarkets), the general trend toward greater capital intensity, and the overall reduction in subsidies to agriculture. But with respect to rural poverty, we conclude that, overall, reforms did not contribute to poverty, and in some cases contributed to the reduction of poverty[3].

[3] A recent book on lessons from NAFTA by Lederman, Maloney and Serven (2005) discusses the impacts on labor employment and poverty in rural Mexico. The authors show that subsistence farmers were substantially less affected by NAFTA than many analysts had expected. Based on E. Taylor's work (2001), they conclude that rural campesino communities are much more diversified than what was once thought and farmers face high transmission costs getting their crops to markets, implying local rather than international price determination. The relative isolation from international competition also kept those farmers among the poorest Mexicans and prevented them from taking advantage new opportunities offered by NAFTTA (pp. 224-225).

TABLE 4

Tariff escalation: average MFN applied out-of-quota duties (%)

Product		EU	US	Japan
Tropical	**Coffee**			
	Raw	7.3	0.1	6.0
	Final	12.1	10.1	18.8
	Cocoa			
	Raw	0.5	0.0	0.0
	Intermediate	9.7	0.2	7.0
	Final	30.6	15.3	21.7
Fast growing products	**Fruits**			
	Raw	9.2	4.6	8.7
	Intermediate	13.3	5.5	13.2
	Final	22.5	10.2	16.7
	Vegetables			
	Raw	9.9	4.6	8.7
	Intermediate	13.3	5.5	13.2
	Final	22.5	10.2	16.7
	Seafood			
	Raw	11.5	0.6	4.9
	Intermediate	5.1	3.2	4.3
	Final	16.2	3.5	9.1

Source: Aksoy and Beghin (2004), based on WTO IDB data.

Economic reforms toward open trade do not guarantee benefits for all agricultural sub sectors. The objective of such reforms should be to improve the use of resources generally, to permit all economic agents –and the agriculture sector specifically– to discover their comparative advantages. With the experience of the LAC region, one can draw a few lessons. First, that no country's farm sector as a whole was worse off as a result of the reforms. Second, for the countries that stayed on course with a coherent policy strategy, agriculture showed significant positive outcomes, primarily in the export-oriented sector. Third, a subset of farmers suffered as producers in import-competing activities, although not as consumers. Fourth, if there is fiscal flexibility, a government might well look both at targeted compensation schemes, and at exit strategies for uncompetitive sectors.

Beyond world commodity market trends, there have been recent policy developments that present special opportunities and challenges to the region's agricultural sector. The most directly important (although perhaps not the most long-term significant) development has been the several bilateral and sub regional trade agreements. Following the earlier NAFTA, MERCOSUR, the Andean Group, and the Central American and Caribbean agreements, the most notable new initiatives have been with U.S. participation: ratified agreements with CAFTA (including the Dominican Republic) and Chile. Chile already have agreements signed with China, the EU, Mexico, Canada, South Korea, Singapore, New Zealand, and Japan. Mexico has agreements with the EU and Japan. Some countries are negotiating with China and India, and MERCOSUR is negotiating with the EU –although at a snail's pace. Brazil (and to some extent Argentina) presents a special case: too large a potential source of agricultural exports to be easily accommodated by EU countries. But for the rest of Latin America, these concluded and future agreements are part of the«open new regionalism» and will increase pressures on the competitiveness of national agricultural sectors and induce adjustments.

This trend toward regional integration has been an ongoing interest of the United States particularly. For example, the Caribbean Basin Initiative was configured to facilitate trade between the US and 24 countries in the Caribbean and Central America. It started in 1983 as the Caribbean Basin Economic Recovery Act (CBERA) and it was renewed in year 2000 under the denomination of Caribbean Basin Trade Partnership Act (CBTPA), which, will expire in September 2008. The agreement provides free duty treatment for member countries and quota free benefits in some cases. The beneficiaries are Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, British Virgin Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, and Trinidad and Tobago. Recently, the United States administration has also signed agreements with Colombia and Peru in December of 2005, to promote a comprehensive opening. These last two are awaiting ratification by the US Congress, and talks with Ecuador have been suspended.

In 1991, the US Andean Trade Preference Act (ATPA) was enacted to promote the eradication of drug production and trafficking in Colombia, Ecuador, Peru and Bolivia. It expired on December 2001 but ATPA was renewed in 2002 under the name of Andean Trade Promotion and Drug Eradication Act (ATPDEA) which, will expire on December 31, 2006. The preference benefits around 5,600 products to enter the American market with duty free access.

It should be stressed that today, unlike the situation a decade ago, most countries in the LAC region appear to be putting more emphasis on trade agreements with the North and with large economies in Asia (notwithstanding Venezuela's recent campaign for a South American agreement excluding the United States). This is due in part to the expected gains from access to large and more stable economies in the developed world and Asia, the low expectations about major reductions in agricultural support in the OECD under the Doha Round, and also to the perceived poor performance of sub-regional agreements[4].

[4] Of course, Venezuela is currently in a distinct position, incorporating itself into MERCOSUR and searching for alliances in South America in opposition to the FTAA led by the United Status. There is here perhaps less than meets the eye. And in any event likely will not much influence agricultural trade. But it may have some impact on the supply of gas and oil. The present opposition to the FTAA by Argentina and Brazil does have some relation to the reluctance of the United States to discuss agricultural subsidies outside of the WTO.

MERCOSUR is a notable example of an imperfect customs union[5], with its members prone to economic crises in the recent past and large fluctuations in their currencies' exchange rates. MERCOSUR has a«common» external tariff with 800 exceptions, domestic policies are misaligned with members' stated common trade objectives, and countries maintain their individual systems of trade and investment incentives. Although MERCOSUR's objectives go beyond trade in goods (e.g., one aim is infrastructure integration), after ten years the four core members of the block have reduced their participation in world trade by a third. In this light of what can reasonably be expected from a sub-regional agreement, it is worth noting that Central America has already signed CAFTA and the Andean Group is in negotiations with the United States.

What can one say about this regional emphasis in trade agreements in regard to its compatibility with the multilateral framework of the WTO. Recently the Inter-American Development Bank (IADB, 2002) surveyed the New Regionalism in Latin America and concluded five points with respect to regionalism and the multilateral system:

1. Although there might be a conflict between preferential trade agreements and the multilateral system under some circumstances, in the case of LAC the two approaches appear complementary. The multilateral system treats a«hypermarket», establishing orderly world trade rules by consensus. Regionalism treats a neighborhood where possible trade liberalizations beyond those feasible at the world level can be negotiated, and where extra-commercial policy considerations can be incorporated.
2. Regional integration is sometimes a worthy second best option, especially given the speed of the multilateral system's ability to advance and to respond to the asymmetries in countries' capacity to participate, negotiate and implement new rules.
3. LAC countries apparently do not view regionalism as a substitute for multilateral negotiations, and many LAC countries have been very active in the Doha Round and past multilateral negotiating rounds.
4. The negotiations that have led to the present new regionalism have served as a testing and training ground for introducing new rules into the multilateral system. NAFTA served as such a laboratory for the Uruguay Round. And, perhaps ironically, the very preferences that might arise from bilateral or regionalist agreements can serve as incentives from third parties to push multilateral negotiations in order to erode these preferences.
5. Finally, while bilateral and regional agreements tend to treat non-systemic trade issues alone (where direct effects on third parties are not an issue), the WTO is considered the necessary vehicle for reducing domestic supports and systemic questions related to third parties that cannot be dealt with at the bilateral level. As Jank and de Queiroz Monteiro Jales point out, «Subsidies are best addressed through multilateral negotiations, such as the WTO negotiations, and by contrast market access is best addressed in a bilateral or regional framework» (p. 13).

[5] There are four core members and six associates, the latter group is not subject to the common external tariff and not limited to trade negotiations within MERCOSUR as a unit. They also do not participate in the highest decision making bodies of the customs union.

B. *What is the state of agricultural protection levels in Latin America and Caribbean today? Is there a trade policy bias for or against agricultural activities?*

In the past, the policies of many developing countries, including a number in the LAC region, discriminated against their own agriculture. This was typically done by taxing agriculture directly (for example, controlled food prices and export taxes), but also and more importantly indirectly through industrial protection and macroeconomic policies. These implicit taxes (or indirect effects) on agriculture derived from overvalued exchange rates and policies protecting industrial sectors, which turned domestic terms of trade against the farm sector and raised input prices[6]. In 2004, almost certainly the bias is considerably below what it was when measured for the 1970s and 1980s, although, unfortunately, a serious comparative analysis for the last decade and covering a number of countries has yet to be done to update the estimates of direct effect (since 1995) and of indirect effects (since 1985)[7]. During the 1990s, many of these interventions were indeed eliminated or reduced in scope. According to a study by the World Bank[8], tariffs on industrial products have been lowered more than those on agricultural products, and exchange rate overvaluation is less prevalent. Nevertheless, the broad perception remains that many developing countries still retain a policy bias against agriculture.

One measure of protection is found in the tariff schedules that countries report to the WTO. Tables 5 and 6 present a summary of regional MFN tariffs corresponding to the year 2000, and their tariff peaks (tariffs greater than 15%)[9]. Table 7 shows estimates of regional agricultural tariffs between 2000 and 2002. Contrary to the widespread image of an unprotected, competitive, export-oriented agriculture in Latin America, one notes from the tariff schedules that MFN tariffs on the imports of agricultural and food products are relatively high for many countries. Across the countries presented, the average level of tariffs for livestock is 17%, for crops 12%, and for textiles 18%. Mexico has the highest MFN tariffs for agriculture and food products (categories I, II, and IV), followed by Peru. Chile has the lowest tariffs, and in

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6 See for example the study by Krueger, Schiff, and Valdes (1988).

7 The last mayor comparative study on the direct effects of agricultural was published by the World Bank for 1985-1995 covering eight countries (see Valdes, 1996). Ideally it is the relative effective rate of protection between tradable in RNR and tradables in non-RNR activities that would measure policy induced effects. These are rarely available. See Schiff and Valdes (2002) for a discussion of the various trade and exchange rate policy-induce effects on RNR incentive.

8 World Bank,«Reaching the Rural Poor: Strategy and Business Plan,» chapter 4, 2003.

9 Tariff schedule would only represent a part of total protection. Three additional adjustments would have to be included for a complete picture: tariff preferences, the effects of nontariff barriers (particularly important in the case of sanitary and phytosanitary regulations), and special surcharges (such as price bands in Colombia, Venezuela, Ecuador, Peru and Chile). MFN rates would understate the true levels of protection, due both to surcharges and to quantitative restrictions. Estimates of tariff equivalents in the past for Latin America have shown that MFN rates were considerably below true price wedge between border and domestic prices (Valdes, 1996). A tariff equivalent is the ad valorem equivalent of tariff and nontariff barriers as measured by direct price comparisons between border and domestic farm prices adjusted for quality differences, transport costs and other costs of marketing.

TABLE 5

Average MFN tariff rates by product category, 2000

Categories	I	II	IV	X	XI	XXI.I	XXV	
Countries	**Animals**	**Crops**	**Foodstuffs, Beverages and Tobacco**	**Wood Pulp, Paper**	**Textile**	**Machinery, Electrical Equipment**	**Miscellaneous Manufac-tured Articles**	**Total lines across categories**
Argentina	17.0	10.2	18.5	15.8	21.0	17.2	21.8	1,449
Bolivia	9.4	10.0	10.0	10.0	10.0	8.7	9.9	1,554
Brazil	16.7	10.6	18.5	15.1	20.6	18.6	21.6	1,417
Chile	9.0	9.0	9.0	9.0	9.0	9.0	9.0	1,658
Colombia	19.5	12.7	19.0	14.0	18.6	11.0	17.8	1,586
Guatemala	15.5	10.6	12.9	4.8	18.8	4.0	11.4	1,628
Honduras	15.5	11.4	15.4	5.6	17.1	4.9	12.8	1,574
Mexico	27.1	19.7	23.1	13.2	24.8	16.7	24.1	1,750
Peru	24.5	17.2	21.7	12.0	18.0	12.0	12.0	1,462
Paraguay	15.8	10.4	17.8	15.2	20.9	13.1	19.0	1,536
Uruguay	14.7	9.8	17.8	14.1	20.1	15.3	19.9	1,494
Venezuela	19.5	12.8	19.1	13.9	18.8	11.8	18.3	1,586
Average tariff	17.0	12.0	16.9	11.9	18.1	11.9	16.5	
Average number of tariff lines	34	66	64	100	519	658	117	658

Source: Authors' calculations based on WTO.

2004 the uniform MFN is even lower at 6%. Overall, crops and the wood products sectors are protected comparably less than livestock. Processed food products also receive higher protection, demonstrating the widespread phenomenon in industrial and developing countries of tariff escalation. Of the various sectors, textiles are generally most protected, and industrial protection is similar to livestock and processed foods, but higher than crops[10].

Tariff averages by broad categories of products reflect the situation of many activities, some very small, and hide the protection to a few sensitive and generally larger subsectors. More relevant for understanding protection profiles is to examine tariff peaks. A tariff peak is defined as a high tariff value exceeding some threshold. In the context of *industrial* countries' tariff profiles, the commodities on which most tariff peaks apply are generally those of relatively greater importance for *developing* coun-

[10] A recent World Bank study (Anderson and Valdés, 2006) which included eight countries in Latin America, concludes that the nominal rates of protection are still negative for agricultural exportables but of lower absolute value than prior to reforms. The rates on agricultural importables while remaining positive are also less. The total rate of protection for agricultural tradables has changed very little.

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tries as exporters[11], accounting for large share of total developing country exports. From a political economy point of view this is where the«action» is, and in post-Cancun WTO discussions the question of tariff peaks is being explicitly addressed. Table 6 presents the proportions of tariff lines in LAC countries, by product category, that have tariff values exceeding 15%.

TABLE 6

Proportion of tariffs line by product category that have tariff values exceeding 15%

Categories	**I**	**II**	**IV**	**X**	**XI**	**XXI.I**	**XXV**	**XXI.II**
Countries	**Livestock**	**Crops**	**Foodstuffs, Beverages and Tobacco**	**Wood Pulp, Paper**	**Textile**	**Machinery, Electrical Equipment**	**Miscellaneous Manufactured Articles**	**Machinery and mechanical appliances**
Argentina	0.53	0.00	1.00	0.85	0.97	0.69	1.00	0.16
Bolivia	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Brazil	0.55	0.00	1.00	0.80	0.94	0.86	1.00	0.81
Chile	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Colombia	1.00	0.61	0.95	0.74	0.95	0.37	0.92	0.03
Guatemala	0.71	0.47	0.72	0.15	0.77	0.14	0.54	0.00
Honduras	0.75	0.46	0.74	0.15	0.78	0.15	0.55	0.04
Mexico	0.66	0.65	0.75	0.16	0.94	0.69	0.97	0.34
Peru	0.85	0.44	0.78	0.00	0.76	0.00	0.00	0.07
Paraguay	0.61	0.01	0.91	0.81	0.93	0.46	0.85	0.07
Uruguay	0.43	0.00	0.97	0.72	0.91	0.65	0.92	0.14
Venezuela	1.00	0.64	0.94	0.71	0.97	0.45	0.94	0.04

Source: Authors' calculations based on WTO.

Except for Bolivia and Chile, where uniform (and low) tariffs are the rule, one notes that there are surprisingly high proportions of tariff peaks in all product categories, in many cases, more than 70% of all category lines. The highest proportion of tariff peaks is found in Brazil, Argentina, Venezuela, and Colombia. As in the case of average tariffs by product category, livestock and food products generally have a greater number of peaks as a proportion of tariff lines than do crops. Nevertheless, the proportion of tariff peaks for crops is noticeably high for Colombia, Guatemala, Honduras, Mexico, Peru, and Venezuela. Conspicuously, the six MERCOSUR countries (including associated members) have no tariff peaks for crops, although for forestry, livestock and processed food the incidence of tariff peaks are very high for this group of countries (excepting Bolivia and Chile). Although MERCOSUR has uniformly low protection for crops, in the other half of the countries, crops are protected by tariffs that exceed 15% in 45% or more of tariff lines in that category.

[11] See Hoekman, Ng, and Olarreaga (2001).

TABLE 7

Average Agricultural Tariffs in LAC: 2000-2002

	Simple average	Coefficient of variation	Weighted average
South America			
Argentina	12.1	41.3	13.7
Bolivia	10.0	8.0	9.9
Brazil	12.2	42.6	11.5
Chile	7.9	3.8	8.0
Colombia	14.8	35.1	14.6
Ecuador	14.6	36.3	14.3
Paraguay	11.6	39.7	16.2
Peru	17.2	38.4	16.5
Uruguay	12.3	39.8	13.9
Venezuela	14.8	35.1	16.2
Central America and Mexico			
Costa Rica	11.8	120.3	10.8
Guatemala	9.9	74.7	10.9
Honduras	10.2	72.5	10.6
Mexico	20.9	123.4	28.2
Nicaragua	8.1	87.7	11.1
Panama	12.8	103.1	11.7
El Salvador	10.8	83.3	12.5
Caribbean			
Cuba	9.8	77.6	10
Dominican Republic	15.7	61.1	12.5
Jamaica	15.5	109.0	16.4
Trinidad & Tobago	14.5	109.7	13.9

Source: FAO, 2005.

What emerges from these tariff data is that, contrary to a general bias in trade policies against agriculture, there appears to be a bias in favor of at least livestock and processed foods across most countries. And in the case of crops, the evidence is heterogeneous, depending on the particular country. What is clear is that there is scope for tariff reductions that might counteract the negative effects on consumers of world price increases due to global trade liberalization. Given that there is room for tariff reductions on importables –and in the context of ongoing negotiations that will put further pressure on lower trade barriers– one can anticipate a strong political interest in possible compensation programs to cushion the transition of those producers and consumers who are adversely affected by a freer trade regime. (Below we discuss possible types of compensation schemes that might provide such a cushion.)

4. Trends in Latin American and Caribbean agricultural and trade policy

A. *Negotiating positions: Geneva, before and after Cancun, Mar del Plata and Hong Kong*

The trend toward bilateral agreements, especially with the US, EU and large Asian economies has been discussed above. Latin American countries have mainly followed the guidelines established by the WTO. Five years ago, Valdés (2000) noted that one could distinguish between three negotiating sub-groups in the LAC region. The South America block was represented in the Cairns Group. Caribbean countries held an opposing position favoring a slower pace of trade liberalization. Central America and Mexico held an intermediate position, although closer to the Cairns Group. These three positions reflected to some extent the net trade situation of individual countries, which has been discussed above in section I.B. The net-importers tended to favor the slower approach, the major exporters in the southern cone of South American tended to adopt the fast-track approach. The most sensitive political issue surrounding trade policy was, and continues to be, the question of import-competing agricultural sub sectors. And the concern over import-competing sub sectors is still reflected in the tariff structure in LAC, which was seen in section II.B.

Today, the negotiating coalitions are more numerous. There does not exist a simple set of negotiating positions by which one can characterize LAC countries. Across the world there are now several coalitions, referred to as G-10 (net food importers), G-20 (seeking improved developed country market access), G-33 (another group of developing countries concerned about special concessions), and the FIP (five interested parties – Australia, Brazil, the EU, India and the US). We are not in a position to assess whether or not these present coalitions would increase the probability of the completion of a successful Doha Round, especially with respect to individual LAC country interests.

Cancun 2003 was the fifth summit meeting supported by the World Trade Organization, which offered an opportunity to renew the initial proposals established within the Doha Round. The proposed agenda emphasized non-agricultural market access and, more significantly, the liberalization of agriculture. With regards to the latter, discussions –which did not reach an a consensus– centered on market access, primarily the elimination or reduction of tariffs, but also the reduction of domestic supports and subsidies of various kinds, and the reduction of export enhancements, including subsidies and credits for exports. Issues regarding special and differential treatments and also special safeguard mechanisms were part of the items to be discussed. Developing countries strengthened their demands by creating blocks, such as the G20 and G33 on agriculture and also the G90, representing the developing world[12]. The Cancun Ministerial conference ended in disappointment and agriculture remained as one of the unsettled issues.

[12] For further information, see Oxfam International (2005).

In August 2004, WTO members renewed negotiations in Geneva in order to address appropriate formulas to reduce import barriers and export subsidies. Discussions centered on state trading, special agricultural safeguards and, subsidies. Nevertheless, an official schedule for abolition of all forms of agricultural subsidies still was not established.

Within the last years, several attempts have been made to promote the agenda on trade liberalization in the Americas. In early November of 2005 the summit of the Americas took place in Mar del Plata, Argentina, with the general theme of«creating jobs to fight poverty and strengthen democratic governance.» The participating countries, however, made explicit the relevance of trade negotiations, and stressed their concerns regarding market access, agricultural subsidies and trade-distorting domestic practices of their trading partners (which in this context means essentially the United States). Although the summit did not represent an official attempt at a trade agreement, it revealed a strong polarization and the discontent of the largest nations in South America: Argentina and Brazil[13]. The position of Argentina, Brazil, Uruguay (and their new ally, Venezuela) was to decline negotiations on FTAA with the United States without including discussions on US agricultural subsidy reductions. Brazil is also reluctant to radically liberalize services and manufacturing. On the other side were Mexico, the CAFTA countries, Chile, and other countries in negotiations with the US (Peru, Colombia and Ecuador), all of which pursue deepening their commercial relations with the US through bilateral FTAs

Negotiations took place in the Sixth Ministerial Conference in Honk Kong, to continue with the Doha Development Agenda, which deadlines at the end of 2006. Once again, the most critical issue is the definition of a scale of reductions in industrial tariffs and farm subsidies. The final Hong Kong draft promised the reduction of agricultural tariffs by the year 2013 from countries in the European Union, as well as reductions in the levels of direct subsidies in OECD, although this latter is still to be determined in a last set of negotiations in 2006. This most recent Ministerial Conference was not an obvious success, but at least some form of consensus is taking shaped, and it did not end in failure as some previous Doha round meetings.

Turning from the external environment to internal politics, recently, some countries in LAC have taken what might be termed an anti-globalization turn. Venezuela has left the Andean Group, accepting to join MERCOSUR, the government saying in part because Andean group countries were negotiating FTAs with the United States. (Venezuela, Cuba and Bolivia are at least gesturing toward a Bolivarian association of LAC states.) Internal politics has also complicated trade negotiations for Ecuador. Despite Peru's previous apparent willingness to come to an agreement with the United States, the recent presidential election raised doubts. One of the final candidates was strongly opposed to the FTA, and the winning candidate was in favor of the agreement but has indicated a desire to reexamine the terms. In broad terms, the current situation in the region is one of much bilateral FTA activity and ongoing negotiations, Mercosur despite its shortcomings continues (with a strong political impulse), and the larger scheme of a hemispheric agreement lies dormant.

[13] See *Fourth Summit of the Americas*, 2005.

B. *The trend toward the emphasis on agro-food standards*

Once trade agreements, such with the US, are signed (and with the EU), the scope for direct trade interventions is far more limited, which emphasizes trade aspects beyond border measures. There is less flexibility –perhaps none– for quantitative restrictions, and there are bilateral commitments for tariff reductions. The new agenda that appears emerging for agricultural trade includes (a) the management of preferential quotas for exports (very important for Central America today in CAFTA), (b) the situation of agro-process products in terms of tariff escalation (section II.A.), and (c) the proliferation and tightening of agro-food standards.

With respect to the latter item on the new agenda, the increase in perishable exports –fresh fruits, vegetables and meats– and processed foods has increased the importance of compliance with the both developed country sanitary and phyto-sanitary (SPS) rules and with the demands of private sector importers and retailers in OECD countries (which are often more stringent than official standards). This move toward new and processed products is generally overlooked in modeling efforts and further highlights the heterogeneity of LAC countries' agricultural sectors. In this context, there is little hope that health agencies and private sector actors will grant developing countries will«special and differential treatment» or that there will be a slowing of the trend toward higher standards. The strengths and the weaknesses of the links in the agro-food supply chains in LAC become more prominent as countries become more export oriented in non-commodity products. There are high costs of compliance with tighter standards, which will burden poorer countries and those with weaker institutional capability for SPS and other agro-food standards. Signaling credibility to importers is now more a question of international and third-party accreditation, which adds significant fixed costs to doing business. One bad apple can ruin millions of dollars worth of lost export opportunities. Complicating this issue is the highly complex challenge of maintaining credible government certification and regulatory agencies for tracing SPS, disease and pest controls for animal products and the traceability for meats, and rules of origin. Especially worrisome is maintaining credibility in the face of risk of corruption whether the stakes are so high and public institutions maybe weak.

Developed world standards regarding good agricultural practices –hygiene, waste management, safe water, records and traceability– are becoming part of the trade agenda for many LAC products. Of course, this is less the case of commodities such as wheat, soybeans and corn. But in the products for which the trend toward stronger standard compliance is relevant, the requirements are influenced to large extent by buyer demands in OECD countries, and compliance is relatively easier for commercial farmers and less so for smaller producers.

Turning to the issue of genetically modified crops (GMOs), in addition to financial and legal issues (such as intellectual property right enforcement), the international debate regarding potential health hazards of GM is also relevant when considering market access and biotechnology policies for some LAC exporters. This has been prominent in the case of soybeans. According to a recent assessment by the FAO, there is a consensus among scientists that biotech products currently on the market are safe to consume, although new and complex products may require additional safety procedures. But an extensive global survey by Environics International found that nearly 50% of respondents in some European countries felt that the potential benefits of GM crops do not outweigh the risks of the technology[14]. Furthermore, there is no consensus regarding the environmental dangers posed by GM crops (FAO 2004). The outcomes of the current debates regarding GM crop safety among scientists and policymakers will have a large impact on the future policy priorities and export potential. These issues go well beyond agricultural trade negotiations, and are the subject of a range of negotiating areas, although they will be highly important for LAC exports of primary and processed agricultural products.

C. *The trend toward compensation and social safety nets*[15]

Both direct income supports and conditional cash transfer are recognized as a form of compensation to farmers and other groups for their losses due to ending or reducing border protection and production subsidies with associated with trade agreements and other reforms.. Replacing dubious rural poverty alleviation schemes focused on agricultural protection, direct payments can be targeted to the poor as well as to the farmer of whatever income level. For farmers specifically, such income supports can ease the transition to a more efficient agricultural sector. Decoupled income support programs (DIS programs) and Conditional Cash Transfer (CCT) programs have already been used successfully in OECD and LAC countries to compensate farmers for the reduction in protection, to smooth consumption during economic downturns, and to alleviate poverty directly in rural areas[16].

Decoupled payments: direct income supports for farmers

Permissible supports should be funded directly by the taxpayers (not indirectly by consumers), and they should leave producer prices unsupported[17]. In principle, such direct income supports could serve as compensation to ease the political resistance to reducing trade distortions. In the 1990s, OECD countries, particularly the EU and the US introduced decoupled payments explicitly to protect producers from the reduction

[14] *The State of Food and Agriculture 2003-2004: Agricultural Biotechnology: Meeting the needs of the poor?* Rome: Food and Agriculture Organization of the United Nations. Chapter 6.

[15] Much of this section has been drawn from T. Castañeda (2004).

[16] Of course, the adoption of income supports as compensation for once-protected farmers might even be unnecessary, if the reduction in protection is gradual, taking place over a large number of years (say, 10 to 20 years, as has been in the case of some products under bilateral and regional agreements in LAC). And it is possible that the introduction of these support programs might be unwise in any case, if the institutional capacity of a government is too weak and open to corruption to implement such programs. Prior to adopting any income support program, considerable attention ought to be paid to identifying the circumstances where those policies would in fact act to alleviate the poverty of rural household or to compensate farmers for real harm due to the reduction in price protection, and where successful implementation would be in fact possible. Moreover, although compensation should be temporary, experience has shown that transfer policies are usually difficult to terminate.

of tariffs and other protections. The 1993 CAP and the US 1996 FAIR Act introduced direct income supports, although decoupled payments still are less than half of total support (30 to 40%). DIS programs have been used in Mexico (when joining NAFTA in 1994), and in Turkey in 2001 as compensation for price support and input subsidy elimination, and tariff reductions.

OECD and developing countries' programs have similar broad designs and implementation, but significant differences in payment basis, record keeping, and monitoring[18]. Furthermore, OECD countries have had a long history of domestic support programs, in addition to tariff and nontariff protection[19].

Poverty-focused payments: conditional cash transfers

Conditional cash transfers (CCT) in LAC have shown success as rural poverty safety-net programs, sometimes offering significant cash support to poor families. As a condition for payments, families send their children to school and for regular health check-ups and vaccinations (for children under five years of age)[20]. Apparently a key to the success of these programs is a simultaneous investment in social infrastructure (better schools and health services).

CCT programs provide *income-based* rather than *farm-related* support for rural families, but they may be also programs for compensating rural farmers and landless workers for loss of employment or income due to lower sectoral protection. CCT programs can be properly targeted to areas either producing certain import-competing crops that are more affected by tariff reductions, or where landless workers are more prevalent and there are few alternatives to work outside farming[21]. By 2002 CCT programs in Mexico, Brazil, Colombia, Nicaragua, and Honduras aided more than 10.5 million poor families, mostly rural. Fiscal costs totaled US$3.2 billion (about 0.2% of

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[17] For example, by the use of fixed yields and land area as basis of payment.

[18] Information availability and payment details vary widely across countries. For a discussion of the criteria for payments under decoupled schemes, see Baffes and de Gorter (2003).

[19] Decoupled programs that provide transfers to farmers do not have as a primary objective the alleviation of poverty in rural areas. In OECD countries farmers are not the poor and are often better off than urban residents. Although in developing countries, many of the poor have benefited from decoupled payment programs, the lion's share of program expenditures have gone to large farmers. Payments are based on past production levels and areas planted, favoring large commercial farmers producing for the market. Most decoupled programs have ignored landless workers who may also suffer from the reductions in agricultural production and in employment opportunity that result from the elimination of domestic price supports.

[20] The rationale is that poor rural families often do not have the resources to pay for the direct costs of school or going to health centers, and have high opportunity costs of sending children to school.

[21] CCT programs have been recently introduced in a number of LAC countries including Brazil, Colombia, Honduras, Nicaragua, Jamaica, and in other countries such as Turkey. Most programs share a similar design, drawing on cross-country experiences and evaluations. They have three common features: (1) Implementation is focused on poor rural areas, producing basic foods for consumption or for the market in small plots. (2) Payments are based on the number of children in a household, which provides larger subsidies to poorer, typically larger families and establishes a basis of exit from the program as children grow older and lose eligibility. And (3) they have the goal that any continuation of the program should be contingent on its impact on the economic and human capital development of the poor.

the countries' combined GDPs). Most programs were introduced in 2000-2001 (PROGRESA in 1997) after a major, region-wide crisis.

5. Conflicts of interest: the diversity across Latin America in trade composition implies diverse negotiation priorities

A. *The heterogeneity of the effects of trade agreements on welfare in Latin America*

Beyond the effect on world prices, much of the discussion of the potential benefits of trade reform centers on the impact of liberalization on increases in the value of exports. Most simulations of global trade liberalization project large increases in exports from Latin America. Similarly, the elimination of all tariffs (including tariff equivalents) in the Western Hemisphere due to the FTAA is estimated to lead to an increase in the exports of Latin American agricultural products by 14%[22]. The outcomes of such tariff reductions would differ of course, by product and country. The IDB estimates that exports would rise by over 10% for all subgroups of countries in hemisphere, except Mexico and Canada. Exports from the Andean group rise about 12%, exports from Argentina and the Central American and Caribbean group rise by 15%, and from Brazil and Chile about 27%.

From a body of studies on global liberalization one can make three broad generalizations pertinent to the LAC region: (1) that agricultural prices will increase due to multilateral trade agreements by 10% or less, which is relatively small compared to the inherent volatility of world prices; (2) that exports will increase significantly; and (3) in absolute dollar terms the global welfare gains are large and captured primary by trade liberalizing countries. But the results for welfare gains, while positive in the aggregate, are typically small for individual countries relative to national GDP, especially for large economies. For example, welfare gains are estimated to be between zero and 1.2% of GDP for countries like Argentina and Brazil, which are examples of countries that would be expected to benefit the most from global trade liberalization (Bianchi, Rozada and Sanguinetti, 2004).

In addition, within each country, it is more difficult to say what would be the direction of the impact of more open agricultural trade for low-income, net-food-buying consumers in the region, living in both urban and rural areas. In terms of low-income households, the presumption is, as for example tentatively concluded by Anderson (2004), that a more liberal world trade regime would have the effects in developing countries of directly alleviating poverty by boosting the demand for unskilled labor and the exports of poor countries. Nevertheless, there is a concern that the recent trend toward trade liberalization in Latin America might have negative effects on the demand for unskilled labor, which would be translated into lower wages, unemployment, and poverty.

[22] See IDB's«Beyond Borders: The New Regionalism in Latin America» (2002), Appendix 3.2.

A recent study (Gasparini, Gutierrez, and Porto, 2005) investigated the potential links between trade and labor outcomes in LAC rural areas by estimating cross household regression models with micro-data from 60 LAC household surveys and country aggregate data[23]. The study finds a significant association between individual labor outcomes and some measures of trade, in particular exports, trade as a share of GDP, and the price of exports. The main result is that international trade has been associated with higher wages and labor income in rural areas. The benefits of trade in terms of labor income do not differ by groups of formal education. Instead, those workers located in the bottom quantiles of the conditional wage distribution appear to benefit more from increased trade openness. Higher export prices are also associated with higher wages, employment, and labor income; all individuals in rural areas benefit about the same due to higher export prices[24]. This study support the view that a higher exposure to trade may bring about an expansion of the agricultural sector and benefits to those factors intensively utilized in rural areas, including labor, consistent with comparative advantages[25]. Under this interpretation, the results are consistent with models of trade and convergence, whereby economic activity relocate from large urban centers to smaller cities.

B. *The heterogeneity of the effects of future reforms*

Given their differing trade structure, one expects a variation across LAC countries of the impacts of global agricultural trade reform. Multilateral liberalization will most likely harm – in the short term – large groups of people in the 17 net food importing countries. This is not to deny that from a longer-term perspective trade liberalization across all economic sectors would expand growth, and ultimately serve to raise incomes and reduce poverty. Several studies have shown that more openness to all trade is correlated with faster national growth, but in the short and medium term there will be some losers. One way of anticipating the possible net effect of agricultural trade liberalization is to assess the net trade positions of LAC countries in relation to the various degrees of protection of farm products in the OECD.

A recent World Bank study (de Ferranti *et al.*, 2005) presents net trade balances by individual countries according to subsets of products receiving three distinct levels of protection and support (available data 1999-2001[26]) in the OECD using ave-

[23] The study merges data for more than 4 million individuals surveyed in 17 Latin American and Caribbean (LAC) countries between 1989 and 2002 with measures and indicators of international trade, mostly drawn from the SIMA database at the World Bank.

[24] Interestingly, the results for urban areas are rarely statistically significant: total labor income in urban areas is not affected by trade as measured either by volumes or prices. Urban hourly wages do not seem to be affected by measures of trade, and employment appears to increase with trade (although this effect is sometimes only marginally significant).

[25] It should be noted that the LAC household surveys are not designed to capture the agricultural sector specifically, and that areas identified as rural may be small semi-urban centers connected to the rural economy, including agriculture.

[26] OECD (2002b),«Agricultural policies in OECD countries: Monitoring and evaluation 2002, Highlights.»

rage exports and imports during the period from 2000 to 2002. Protection is typically concentrated in a subset of products (for example, the coverage of the CAP in the EU), and so the higher is the level of protection and support (defined by the Nominal Protection Coefficient, NPC, and the Producer Subsidy Equivalent, PSE), the lower is the number of products covered (and included in calculating the net trade balances in Table 2).

For example, in the case of Argentina, only \$125.5 million of its average annual agricultural exports for 2000-2002 were in the subset of agricultural goods that were very highly protected in the OECD (Group 1: NPCs > 1.85 and PSEs > 50%), namely, sugar and rice. These exports represented only slightly more than 1% of its total agricultural exports. Argentina imported annually on average US\$3.6 million of those very highly protected products, giving a net trade balance ratio of exports to imports for this subset of agricultural goods of 34.5. Expanding the subset to include dairy and other products at the second level of support (Group 2: NPCs > 1.20, PSEs > 40%), Argentina's exports increased to \$429 million, but proportionally less than the increase in imports to \$27.3 million (exports to imports, X/M = 15.7). By expanding the subset of products still further to include those that were at least moderately protected by the OECD (Group 3: NPC > 1.15, PSEs > 28%), Argentina's exports rose dramatically to \$4,337.3 million. Its imports increased to \$112.1 million, giving it a net export trade balance of 38.7 for products that were at least moderately protected. It is worth noting that Argentina's *total* agricultural exports averaged \$10.9 *billion* during 2000-2002, which implies that the country's exports were heavily oriented toward products with relatively lower levels of protection in the OCED.

What emerges from these indicators is that by far most LAC countries (15 of 22 studied) were net importers of products that are more highly protected in the OECD.» Moreover, these moderate-to-highly protected products represented a significant share of total imports of agricultural goods, averaging 36% for the region. The notable net-exporters of these products are Argentina, Paraguay, and Uruguay and to a lesser extent Brazil, Nicaragua, Guatemala and Cuba. Due to the importance of sugar for several Central American and Caribbean countries, it is in the category of products with the *highest* levels of protection that one finds that most countries were net exporters: 16 of the 22 countries. Considering both the level and composition of exports, some countries could potentially capture relatively greater returns to the reduction of the highest levels of OECD protection (sugar and rice), especially in the Caribbean and in Guatemala.

Looking at the absolute levels and their share in total exports, Argentina, Brazil, Paraguay and Nicaragua are clear cases where the largest gains would arise in reduction of protection for products that are moderately protected in the OECD. Nevertheless, approximately 60% of their agricultural exports face even lower levels of protection by OECD countries (that is, either NPC < 1.15 or PSEs < 28%). By contrast, for Cuba the bulk of benefits would come from the most highly protected group of products (namely, sugar), which accounts for nearly 60% of its exports of agricultural products.

Some countries that are notable net exporters of agricultural products are also net importers of products that receive moderate to very high protection in the OECD. For example, Colombia and Chile exported on average $2.9 and $3.3 billion annually in all agricultural products for the period 2000-2002. For the subset of products«at least moderately protected» in the OECD, Colombia and Chile were net importers, only exporting $269 and $125 million annually, representing 9% and 4% of their total agriculture-related exports. By contrast, these moderate-to-highly protected products represent approximately 40% of both countries' total agriculture-related *imports*. For these two countries, a reduction in protection (and an increase in world price) of products with lower levels of OECD support would have greater impact in expanding exports than the reduction in supports for moderate to high protection.

One implication of the percentages of trade by protection category is that reducing the highest protection levels would be perceived to be of obvious benefit to a number of countries in the region from the point of view of their current agricultural trade patterns: Brazil (12%), Uruguay (16%), Guatemala (15%), and Cuba (59%). Considering a wider group of protected products (product Groups 1 to 3), the majority of LAC countries are net food importers, whose exports are oriented to products with relatively lower protection rates. In the long run, without such protection in the OECD, LAC countries would increase their exports in some of these moderate-to-highly protected products, and perhaps some countries which are now net importers would become net exporters. But in the near term, tariff and subsidy reductions for products with moderate levels of protection (which would lead to higher world prices of those products) would be felt negatively by most (15 of 22) LAC countries, which are net importers of those goods. A strategic question for a country's trade negotiation position is how to assess the possibilities for trade reversals, which is task primarily for the private sector.

From the perspective of present trade balance patterns, most of LAC countries would recognize greater *export-related* benefits from a broad reduction in OECD protection on products with relatively low OECD support that affect the bulk of their agricultural exports. But one should keep in mind that protection as defined here considers *both* tariffs and subsidies in terms of NPRs and PSEs. There are, however, likely some products for which tariffs are relatively high but other government support is low or zero, such as in the case of tariff escalation for semi-processed and processed agricultural goods. These products are typically dealt with by governments beyond the scope of agricultural policy, and are perhaps outside of the focus of trade negotiations on«agriculture.» For this reason, simply because a country's exports are oriented to products with relatively low OECD«protection» does not mean that it would not benefit from a reduction in high tariffs, although negotiations over such a reduction would be done in a non-agriculture forum.

C. *What is more important for agricultural trade, tariffs or subsidies in rich countries?*

A recent study using a gravity model of bilateral trade in agricultural products between the United States and LAC countries (Bianchi, Rozada, and Sanguinetti, 2004) found that the point estimate of the elasticity of US imports with respect to a tariff reduction is six times that of the elasticity with respect to the tariff-equivalent of«subsidies.» In the study,«subsidies» represent the wedge between domestic and world price attributable to non-tariff border measures and subsidies. This is consistent with other studies (e.g, Hoekman, Ng, and Olarreaga, 2002 and Tokarick, 2003, using a global modeling approach) that emphasize the importance of tariffs versus subsidies in determining import demand of agricultural goods. A decline in subsidies would reduce the incentives for US production (the reduction depending on the degree of decoupling of subsidies), but without a change in tariffs consumers would face the same price. Imports perhaps would increase as domestic production fell, but the total quantity bought by consumers would remain constant. A decline in tariffs, however, would increase the total quantity demanded. The empirical evidence shows the significance of the displacement effect on agricultural imports from non-tariff supports maintaining domestic producer prices above world prices, but the negative effect of higher tariffs on import demand is much greater[27].

This has implications for countries in the LAC region for both WTO and FTAs with the United States and Europe. In terms of market access, LAC countries would have greater returns to negotiating the reduction of tariffs and the expansion of import quotas relative to what certainly would be difficult and lengthy negotiations over total subsidy reduction. The current attention of LAC countries might be misdirected toward the appalling level of total expenditures of rich countries on their agricultural sectors. The evidence shows that focusing on the reduction of border protections (tariffs and quotas) in rich countries would yield significant gains in trade volume. Of course, for many countries, rich and not-so-rich, a tariff is a means of maintaining producer income that does not require government payments, yields revenues, and passes the costs of protection to consumers. Reducing tariffs may be all the more difficult if, in political terms, it would require an increase in government's outlays aimed at farmers in the context of a cap on fiscal expenditures.

6. Conclusions

In the Latin America of 2006 the new force in agricultural trade policy is found in bilateral agreements, many north-south. Unilateral reforms have been implemented to various degrees, some leading to very open agricultural markets (e.g., Argentina, Brazil, Chile) and others still leaving protected markets (e.g., Colombia, Ecuador). Sub-regional agreements have established blocks of countries, and future action toward integration will be via associations between blocks (e.g., the Andean Group and MERCOSUR). The ongoing WTO negotiations will continue, but at the moment appear unpromising with regard to substantial agricultural trade liberalization.

In the Latin American region, the share of agriculture in total national exports is high, especially when considering the sector's low participation in national GDP. And when analyzing agricultural trade, one should include not only primary agriculture

[27] The analysis for«bilateral» trade between the EU as a single entity and other countries is much less clear as to the relative effects on import demand of tariffs versus subsidies. The weaker results might be explained by the treatment of Europe as an aggregate.

but also agro-processed products, which have grown in significance and contribute to non-farm rural income. Evidence from several countries in the region shows that the share in total rural household income of non-farm employment is large and growing. Being a land abundant region, with relatively low population densities, and where the growth of agriculture is constrained by domestic demand, the growth of the agro-food sector in LAC is highly dependent on exports.

Growth in primary agriculture and growth in the agro-industrial sector (dependent on the health of the primary sector) have been and likely will continue to be for most countries in the region engines to national and rural economic development. There is evidence also suggests that the agro-food sector's growth contribute to the alleviation of poverty, certainly rural poverty and even national poverty in some countries.

Although it is difficult to make broad characterizations about the region, given both the diversity of trade patterns and the diversity of the impacts of future WTO results on individual countries, it is worth highlighting three findings directly relevant for the WTO negotiating positions. First, border protection versus domestic subsidies: LAC countries would have greater returns to negotiating the reduction of tariffs and the expansion of import quotas compared to the reduction in total OECD domestic subsidies. Second, most LAC countries would recognize greater *export-related* benefits from a broad reduction in OECD protection on products with relatively low OECD support compared to focusing on higher protected products. Third, although the region is, taken as one unit, very agro-export oriented, there are 16 (of 22) countries that are net-food importers and 10 (of 22) are net agro-forestry product importers.

This last finding complicates the question of trade negotiations by introducing the issue of the distribution of the benefits of freer trade, and complicates the formation of effective coalitions. Net food importers benefit from the lower world prices induced by protectionism and subsidies on agriculture in OECD countries. Moreover, for many LAC countries the domestic policy debate is centered on the concerns of the import-competing sub-sectors. And in fact, contrary to the image of unprotected, competitive, export-oriented agricultural policies in LAC, the observed MFN tariff profiles on imports of agricultural and food products are relatively high.

Countries in the region implemented economy-wide and trade reforms before the Uruguay Round. Such reforms, entirely consistent with later WTO agreements, were initially unilateral and later incorporated into bilateral and sub-regional trade agreements. Without a base of unilateral reforms, particularly on trade, it is unlikely that bilateral and sub-regional agreements would have been effective in terms of developing the new regionalism observed since the 1990s. With early reforms, agro-food exports and imports expanded significantly, although exports of all agricultural products grew faster.

Recently there has been a trend toward bilateral agreements, with several bilaterals and sub-regionals having been signed by LAC countries during the last few years. Today, unlike the situation a decade ago, most LAC countries emphasize agreements with the North and with large economies in Asia, due in part to the expected gains from access to these countries, the low expectations about major reductions in OECD support under the Doha Round, and to the perceived poor performance of sub-regional agreements, such as MERCOSUR. Brazil and Argentina, however, given their resistance to the FTAA and the difficulties with negotiations with the EU, still have much to gain from strong participation in the current WTO round. While negotiations are still being held within the WTO framework, the subsidies from OECD countries continue. At least, the Hong Kong summit confirmed the year 2013 as a deadline for the European Union to decrease its agricultural tariffs.

With respect to the proliferation and tightening of agro-food standards, the increase in perishable exports and processed foods has increased the importance of compliance with the both developed country sanitary and phyto-sanitary (SPS) rules and with the demands of private sector importers and retailers in OECD countries. Health agencies and private sector actors in the developed world will grant no«special and differential treatment,» the trend toward higher standards will continue. The strengths and the weaknesses of the links in the agro-food supply chains in LAC become more prominent as countries become more export oriented in non-commodity products. There are high costs of compliance with tighter standards, and will burden poorer countries, and those with weaker institutional capability for implementation of standards. Standards in the developed world regarding good agricultural practices are becoming part of the trade agenda for many LAC products. This has been less the case for commodities, where the GMO issue has been the main non-trade-policy concern. With respect to GMOs, the dilemma for LAC comes from the tension between the productivity enhancement potential and the demand for GMO-free products in some countries.

The increasing importance of the agro-processing industry in expanding exports also highlights the need to confront the tariff escalation issue, both in the general context of the WTO, and in FTAs with the US and other developed countries. We should emphasize that there is a move toward new and processed products. This trend is generally overlooked in modeling efforts and one would hope that the FAO and organization would expand its attention to the diversity of agricultural sectors in the LAC. For example, in the Chile-US agreement reductions in tariffs on processed and storageable commodities were left behind, with an 8 to 12 year period before tariff reductions, and these products remain vulnerable to the application by the US of special safeguards. The fast growth in processed product exports from the LAC, despite high tariff escalation on the part of developed importers suggests that exports of this sector could expand even faster with further WTO reforms.

This is more of a WTO legal question, but one more thing that could be of special importance to LAC, and that might influence the impacts of the Doha Round, is the issue of WTO challenges to the price depressing effects of subsidies. Following to the WTO ruling against US cotton subsidies (that exceeded the committed cap on amber box distorting measures), the door is open for legal action against other commodity subsidies. As a recent Financial Times article notes,«the same rules apply to all agricultural products» (Beattie, November 30, 2005). Potential cases against the United States could involve maize, rice, sorghum, and potatoes. (Even now, Uruguay is contemplating action on rice.) And the EU might not be immune in the cases of tomatoes, canned vegetables (tomatoes and peas), citrus fruit juices, tobacco, butter, skimmed milk, and wine and spirits. Further, some LAC exports such as wine, fruit and vegetables (the faster growing subsector in agricultural trade) are«leftovers» for reform, and some subsidies (such as those attached to the requirement that processors use European-grown farm produce) may be targets for WTO legal actions. The ramifications of the cotton case could be, even under existing rules, significant for a wide variety of LAC countries, not simply the large commodity producers usually considered the big winners of OECD trade and subsidy reforms.

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