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**Is the WTO Cancún  
a Lost Opportunity for “Free Trade”  
or  
a Chance for more “Fair Trade”  
in the Future?  
- An Agricultural Perspective -**

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## List of Abbreviations

ACP	African, Caribbean and Pacific group of countries
AMS	Aggregate Measure of Support
AoA	Agreement on Agriculture
CAP	Common Agricultural Policy
EFTA	European Free Trade Association
GATS	General Agreement on Trade in Services
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GM	Genetically Modified
IMF	International Monetary Fund
ITO	International Trade Organization
LDCs	Least Developed Countries
MFN	Most-Favored Nation
NTB	Non Tariff Barrier
OECD	Organization for Economic Cooperation and Development
QR	Quantitative Restriction
SPS	Sanitary and Phytosanitary
TBT	Technical Barriers to Trade
TRIPs	Trade-Related Intellectual Property Rights
TRQ	Tariff Rate Quota
URAA	Uruguay Round Agreement on Agriculture
WTO	World Trade Organization

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## **Abstract**

In September 2003, member states of the World Trade Organization (WTO) convened in Cancún, Mexico. In the end, the five-day Cancún Conference was considered a “failure” as it ended without consensus. The setback was that WTO members remained entrenched on core issues of the current WTO agenda. One of the main issues of conflict was agriculture. This paper analyzes the agricultural negotiations in Cancún. It clarifies the key question whether Cancún can only be seen as a lost opportunity for free trade, which would justify the “failure” point of view. However, the emergence of new coalitions amongst developing countries enabling them to be more articulate in the upcoming WTO negotiations indicates that the “failure” of Cancún could also be seen as a vantage point for more fair trade in the future.

## **1 Introduction: Why the WTO Cancún was Considered to be a Failure**

From 10-14 September 2003, member states of the World Trade Organization (WTO) convened in Cancún, Mexico for the Fifth Session of the WTO Ministerial Conference. Here, delegates had one primary objective: to assess the Doha Round of negotiations that were mandated at the Fourth Session of the WTO Ministerial Conference in Doha, Qatar in November 2001. Several areas of trade-related public policy have been under discussion since the launch of this last round of negotiations. These policy areas include agriculture, services and environment as well as special and differential treatment for developing countries.

The Fifth Ministerial Conference, however, also had the task of deciding whether or not to launch an additional set of negotiations on four specific trade-related subjects, collectively known as the “Singapore Issues.” These include investment, trade facilitation, competition policy and transparency in government procurement.

Regarding agriculture, delegates came to Cancún at odds on the question of agricultural reform. This was aggravated by a similar division over whether or not to include the Singapore Issues on the negotiating table. In the end the Cancún Conference was considered a “failure” (WTO – THE FIFTH MINISTERIAL CONFERENCE, 2003a).

This view is shared by certain WTO member countries mainly due to the fact that the developing countries, led by India, China and Brazil turned down proposals made by developed countries, namely by the EU and the US. The latter two called for more access to the markets of the developing countries in terms of the Singapore Issues, which have been taken up as the “new issues” in the WTO Cancún conference notably on agriculture (BBC News, 2003; FOEI, 2003). However, while the EU and the US called the negotiations a failure, other countries see a success “in the sense [that] it has helped developing countries forge a formidable alliance on the contentious Singapore and agriculture issues” (BUSINESS STANDARD, 2003). The fact that the developing nations were able to stand on firm ground and decisively oppose the industrialized countries shows that they “now have real power in the WTO”,

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mainly because the developed nations this time were unable to break the about 70-country coalition headed by India, China and Brazil through bilateral “side-agreements” (BBC NEWS, 2003; HINDUSTAN TIMES, 2003). As mentioned earlier, one of the main subjects of conflict was agriculture: The wealthy nations neither were willing to open their markets for products from developing countries, nor did they agree to reduce the large subsidies to their farmers. Finally, they disagreed to remove all export subsidies which make their goods cheaper on the world market (BBC NEWS, 2003). The developing nations on the other hand did not want to open their markets further to the rich countries and were not willing to comply until the wealthy nations would resolve aforesaid issues. Nevertheless, it is argued that Cancún leaves back winners and losers on both sides, in the rich and poor countries (BBC NEWS, 2003).

This paper analyzes the agricultural negotiations and outcomes of Cancún, especially since these played a crucial role as a “deal breaker”. The objective is to clarify the key question whether Cancún can only be seen as a lost opportunity for “free trade” – this would then justify the failure standpoint. However, the emergence of new alliances and coalitions amongst the developing countries might enable them to be more articulate in the upcoming WTO negotiations. Thus, the hypothesis of this paper is that the “failure” of Cancún could be seen as a vantage point for more fair trade in the future.

Chapter 2 will give short definitions of key terms used in the negotiations, especially with respect to agriculture. Chapter 3 will look into the important role of agriculture in world trade, its emergence into the WTO, as well as the aspects and issues dealt with in the “Agreement on Agriculture” (AoA). Furthermore, the crucial roles of the key interest groups prior to Cancún and afterwards will be examined. An example on how the WTO Agreement on Agriculture virtually affects developing countries, in this case India, is looked into at the end of chapter 3. Chapter 4 will discuss aspects of protectionism versus liberalism in the WTO system and deliberates about the different standpoints of ‘Collapse’ versus ‘Failure’ with respect to the recent negotiations. Finally, it highlights some of the positive outcomes from Cancún. The chapter on Future Outlook (chapter 5) will introduce three different potential scenarios possible after the recent talks. Finally, chapter 6 will sum up the present paper with some concluding remarks.

## 2 GATT, WTO, Free Trade and Globalization – Some Definitions

The General Agreement on Tariffs and Trade, also known as GATT, was established after the Second World War. It was designed to ensure trade reductions between countries (WTO - IN BRIEF, PART 1). Later it also dealt with issues such as anti-dumping<sup>1</sup> and non-tariff measures<sup>2</sup>. Article I of GATT lays the foundation for the WTO regulations, by stating that “the Most-Favoured Nation (MFN) clause embodied in Article I was the cornerstone of the GATT 1947 system, and is equally the cornerstone of the new WTO multilateral trading system. The commitment that ‘(...) any advantage, favour, privilege or immunity granted by any contracting party [now Member] to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties’ [Members] (Article I) is the starting-point of the WTO system of rights and obligations. It is fundamental to all the multilateral trade agreements annexed to the WTO Agreements” (WTO – MFN CLAUSE). It was the Uruguay Round which lasted from 1986-1994, that actually led to the creation of the WTO (TIETJE, 2003).

Free trade basically means to trade between countries without any government interference such as import quotas, export subsidies, protective tariffs etc. (SALVATORE, 1998). These are key issues at the WTO.

Globalization in this context refers to cross-border trade between different countries for trade and financial flows, as well as labor, knowledge and technology (IMF, 2000). As such, the term globalization is not new, but was practiced throughout history, as in the 16<sup>th</sup> century by “Portuguese, Spanish and Dutch due to advancement in maritime technology” (KÖHLER, 2003). In today’s context, globalization has become faster and easier due to technological advances in terms of telecommunications and the rise of the internet. Some countries though, seem to benefit more than others from globalization. This is why many anti-globalization groupings, such as attac,

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<sup>1</sup> Anti-dumping: “If a company exports a product at a price lower than the price it normally charges on its own home market, it is said to be “dumping” the product” (WTO – ANTI-DUMPING).

<sup>2</sup> Non-tariff measures: “Non-tariff measures include all measures, other than tariffs, used to protect domestic industry” (WTO – NON-TARIFF MEASURES).

environmental organizations like Friends of the Earth, Greenpeace and the international aid organization Oxfam argue against the WTO and the World Economic Forum. The latter two are seen as protagonists for a globalization which appears to favor wealthy nations. Besides the above mentioned anti-globalization groupings, the G77 which comprises of developing countries also speaks out against the unfair balance of trade.

## **2.1 The Organizational Structure of the WTO at a Glance**

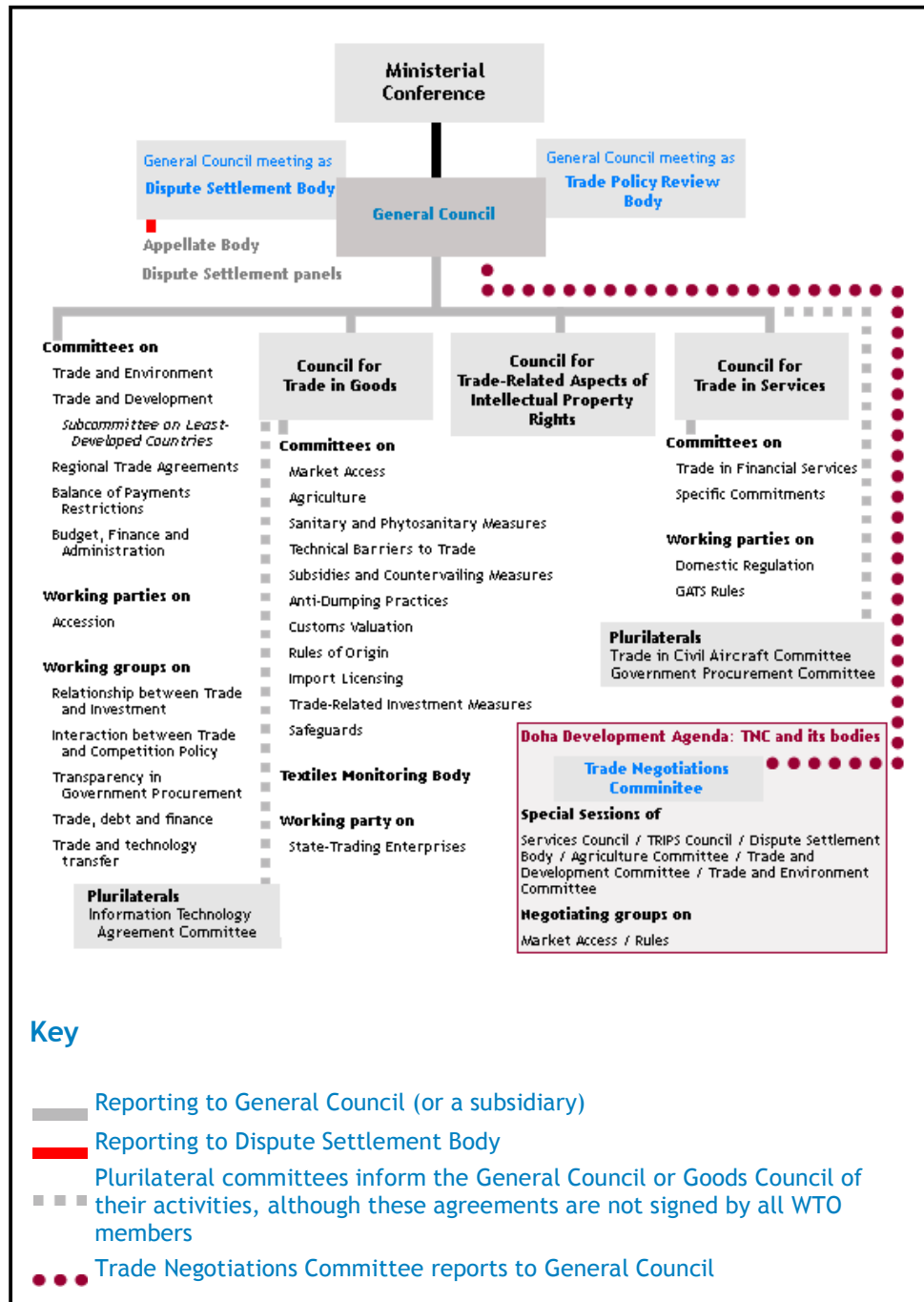
Basically, all member countries of the WTO make decisions at the Ministerial Level which is the highest authority in the organizational structure. These so-called Ministerial Conferences adjourn at least every two years. Besides these essential meetings, there are other gatherings which are equally important for decision-making, especially since the WTO structure decides by consensus and not by vote<sup>3</sup>. These meetings are held by the General Council on a day-to-day basis and the ambassadors as well as heads of delegations convene at the headquarters in Geneva, Switzerland (WTO – IN BRIEF, PART 2). Within the hierarchy, this council constitutes the top day-to-day decision making body (WTO – DECISION-MAKING). The General Council also holds meetings as the Trade Policy Review Body and the Dispute Settlement Body (WTO – IN BRIEF, PART 2). Although all WTO members can participate in the councils and committees, there are some exceptions, where not everyone can participate, for example in the Appellate Body, Dispute Settlement panels, Textiles Monitoring Body and plurilateral committees (WTO – DECISION-MAKING). The details of the organizational structure of the WTO can be viewed below in Figure 1. Since there are 148 member countries at present, it can sometimes become difficult to reach a consensus on discussed issues (WTO – THE FIFTH MINISTERIAL CONFERENCE, 2003b).

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<sup>3</sup> There are certain cases where voting is conducted. For details, see: [http://www.wto.org/english/thewto\\_e/whatis\\_e/tif\\_e/org1\\_e.htm#ministerial](http://www.wto.org/english/thewto_e/whatis_e/tif_e/org1_e.htm#ministerial)

Figure 1: WTO Organization Chart

(Source: WTO – ORGANIZATION CHART)



The General Council splits up into three main branches, notably the Trade-Related Aspects of Intellectual Property Rights (TRIPS), Council for Goods, and Services, which have to report to the General Council. Except for the TRIPS the other two Councils are subdivided into Committees or Working Parties dealing with the various issues, for example the Committee on Agriculture in the Trade Goods Council (see Figure 1). In general, the organization has several functions, such as (WTO – FACT FILE):

- Administering Trade WTO agreements
- Providing a forum for trade negotiations
- Handling trade disputes
- Monitoring national trade policies
- Technical assistance and training for developing countries
- Cooperation with other international organizations

After this brief overview on the organization and structure of the World Trade Organization, the next chapter will focus on Agriculture at the WTO, since it concerns most countries involved and is one of the most hard-fought issues in current WTO talks.

### 3 Agricultural Trade Negotiations up to Cancún

Agriculture is by nature a sensitive, volatile and fragile sector, since it highly depends on climate conditions that are not always predictable. Hence, agricultural trade policies may turn to be reactions to the short run changes or shocks occurring in the agricultural sector. For instance, crises of food shortage have led to governments' controls over food exports.

Referring to the relatively recent history, protectionist measures in agriculture of a permanent nature increased tremendously at the end of the nineteenth century. One reason for that was the remarkable expansion of American production and hence, the decrease in world prices. The world reactions differed from one country to the other. While some of them changed their incentives by specializing in particular agricultural goods, some others started to protect existing producers and subsidize exports in cases of excess domestic output.

The history of poor agrarian economies shows that taxing agriculture has always been greater relative to other tradable sectors. Although average tariffs on industrial goods fell from 40 percent to 4 percent from 1945 to 1995, agricultural tariffs still average 62 percent (THE INTERNATIONAL AGRICULTURAL TRADE RESEARCH CONSORTIUM, 2001). The richer the nations, the more policy regimes usually develop from taxing the farmers to assisting them compared to other producers of the economy. After the Second World War, enormous growth in agricultural protection occurred. This protection was also insulated in the advanced industrial economies and was spread over newly industrialized economies. Farmers and agricultural ministries in OECD countries went even further to exempt agriculture from key GATT disciplines. In fact, the USA paved the way by requesting for a waiver in 1955 (CHAHERLI & EL-SAID, 2000). By creating the European Commission (EC) and forming the Common Agricultural Policy (CAP) in 1957, European countries also insisted on special treatment for their agricultural sector (HOEKMAN et al., 2002).

Such a tendency was accelerated in the early 1980s to the extent that a number of protectionist countries went far beyond self-sufficiency and generated substantial surpluses. These could not be disposed of on world markets without the support of export subsidies.

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In all countries, whether developing or developed, agriculture-based or industrialized, agriculture is a basic and crucial sector, since it is mainly a source of food and has back- and forward linkages with every other sector. Hence, governments have always given a special treatment to it. The following are the main reasons why governments have always intervened in agriculture (FITCHETT, 1987; in: HOEKMAN & KOSTEKI, 2001):

1. To generate, stabilize and maximize farm incomes
2. To ensure food security
3. To improve the balance of payments by exporting excess output
4. To support other sectors of the economy by providing them with agricultural inputs
5. To increase agricultural output

After having established the importance of agriculture in the context of the WTO, the following chapter will explain the situation and emergence of agriculture from the time of GATT to the present day.

### **3.1 Agriculture: From GATT 1947 up to the Uruguay Round**

Generally speaking, the rules concerning agricultural trade under the GATT 1947 were weaker than those for manufactured goods. In many countries agriculture was regarded as a sector that needs special treatment. There are even many who believe that the GATT rules on agriculture were - to a certain extent - written in accordance with already applied US agricultural policies (RODRIK, 1992).

Regarding trade in agriculture, quotas were allowed for agricultural commodities under the condition that simultaneous measures were taken restricting domestic production and/or removing a temporary domestic surplus. Furthermore, export subsidies on primary products were allowed under the condition that this would not affect the existence of an 'equitable share' of world trade for the subsidizing country<sup>4</sup>. Later, special waivers allowed increasing flexibility in the use of quotas and other Non Tariff Barriers (NTBs) in the agricultural sector (DORNBUSCH, 1992).

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<sup>4</sup> In practice, the word 'equitable' has never been clear, and interpretation differences caused many GATT disputes (HOEKMAN & KOSTEKI, 2001).

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In the Kennedy (1964-1967) and Tokyo Rounds (1973-1979) within the GATT framework very little progress was made on agriculture. In both rounds, the CAP was non-negotiable for the European Union (BERNDT, 2000). However, the USA insisted on the need of enhancing trade in agriculture and setting an end for the special treatment of agriculture in the GATT (HOEKMAN & KOSTEKI, 2001).

During the Carter Administration in 1977, bilateral negotiations broke the deadlock on agricultural issues and particular tariffs were reduced. However, various quotas increased. Thus, these negotiations did little to achieve general US objectives (ZALLIO, 2000).

In the early 1980s there was a rising tendency in the EU that called for a reduction in agricultural support. The main reason for that was the fact that agricultural subsidies were a significant burden for many government treasuries (ROGOWSKI, 2001). In addition, important international incidences, such as the two successive oil shocks 1973/74 and 1978/79 causing huge fiscal deficits, increased the pressure on government finances. Hence, the task to move towards market-oriented systems, competition and de-regulation became easier.

These factors led to putting agriculture on the table of the Ministerial Meeting that launched the Uruguay Round (1986). For the first time there was an explicit reference to liberalization, where all policies related to agricultural trade - including domestic and export subsidies - were discussed. Nevertheless, as the negotiations started, it soon became clear that these would be dominated by the two largest agricultural traders, namely the USA and the EU (GALAL & LAWRENCE, 1998). But there were also other influential actors, including the countries of the European Free Trade Association (EFTA), Japan and a group of 15 traditional agricultural exporters that were calling for trade liberalization in this area (HOEKMAN & KOSTEKI, 2001). The latter group is called the "Cairns Group"<sup>5</sup>. Their main objectives were a gradual free trade in agricultural commodities and the elimination of production distortions (GALAL & HOEKMAN, 1997). The USA was initially seeking for a complete liberalization of trade in agriculture, since it was mostly concerned with the export subsidies and was calling for an immediate and unconditional elimination.

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<sup>5</sup> For details, see section 3.3.1

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The EU, however, requested that negotiations focus on emergency measures for certain sectors. The aim was to remove structural disequilibria on world markets as a first step, and liberalization of trade and a reduction of support policies as a second. The main argument of the EU was that free trade should not be the goal, but achieving stability and equilibrium in world agricultural markets (HOEKMAN & KOSTEKI, 2001).

Since it was very difficult to bridge the gap between the positions of both the EU and the US-Cairns, no agreement was achieved on agriculture at the Brussels Ministerial Meeting in December 1990. Originally, this meeting was supposed to conclude the round (KÖNDGEN, 1997).

Finally, in November 1992 an agreement between the EU and the US was eventually reached. This included dealing with market access and domestic support. Concerning market access it was agreed that NTBs would be immediately converted into tariffs and that industrial countries would reduce these tariffs by an average of 36 percent over six years (CHACHERLI & EL-SAID, 2000). The second major element of the Uruguay Round Agreement was a provision that domestic production support to agriculture, as measured by an Aggregate Measure of Support (AMS)<sup>6</sup> was to decline by 20 percent by the year 2000 (HOEKMAN et al., 2002). The benefits, however, that were achieved as a result of the reforms agreed to in the Uruguay Round, were only very modest. Relative to manufactures, agricultural protection and intervention in most high-income countries remained very high.

This chapter clearly showed the slow uptake of the agriculture issue into the WTO and the resistance it met on its way before being incorporated. In order to understand what issues are included in agriculture, the focus of the following chapter will be on these aspects.

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<sup>6</sup> “AMS is a term used to describe the money value of both direct and indirect government subsidies to their agricultural sector that are considered to be trade distorting” (BUCH-HANSEN, 2001).

### 3.2 Which Aspects of Agriculture are Incorporated into the WTO?

The Agreement on Agriculture came into effect on January 1<sup>st</sup>, 1995 after extensive negotiations in the Uruguay Round which realized a need to implement this issue. Although, according to HOEKMAN & KOSTEKI (2001), the AoA addresses four parts which deal with market access, domestic support, export competition and sanitary and phytosanitary measures<sup>7</sup> (SPS Measures), the latter will not be discussed in this paper. Therefore, the aspects included are (WTO – AGRICULTURE: OVERVIEWa):

- the establishment of a fair and market-oriented trading system
- the reduction of support and protection in the areas of domestic support, export subsidies and market access
- the establishment of strengthened and more operationally effective GATT rules and disciplines

Furthermore, aspects that are not trade related are equally included in the Agreement on Agriculture. These are (WTO – AGRICULTURE: OVERVIEWa):

- concerns for food security
- protection of the environment
- special and differential treatment for developing countries
- improvement in the opportunities and terms of access for agricultural products

The rules and commitments apply to the trade-related agricultural measures, mainly in “areas of border/import access measures, domestic support and export subsidies” (WTO – AGRICULTURE: OVERVIEWb). These are aimed at improving market access and diminishing subsidies that disrupt proper trade. As mentioned before, the Committee on Agriculture is incorporated into the WTO to offer consultation on any matters regarding the implementation of rules and regulations. Therefore, it is important for the Committee to meet regularly, which is four times a year; additional sessions can be held if necessary.

Although the aspects of agriculture have been explained, the products which are covered in the Agreement still have to be elaborated. They are basic

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<sup>7</sup> SPS Measures deal with food safety, animal and plant health measures (WTO – SPS MEASURE).

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agricultural products, such as milk, wheat, live animals; products derived thereof, such as butter, bread, meat and all processed foods, for example chocolate, sausages, wines, spirits, tobacco products, fibres (cotton, wool silk), and even raw animal skins used for leather production. The only products not included in the Agreement are forestry, fish and fish products (WTO – AGRICULTURE: OVERVIEW<sup>c</sup>). The Agreement on Agriculture that was discussed here is a major focal point of certain interest groups. These will be portrayed in the following chapter.

### **3.3 Key Interest Groups in Agricultural Trade Negotiations**

To analyze the interests of the major players in agricultural trade negotiations at the WTO level it is important to consider the two political dimensions of agriculture and agricultural trade within the member states. Agriculture is a key field of domestic politics as it is the case regarding foreign affairs.

Domestically, agricultural issues have always been able to mobilize a large voting public. These issues form stable domestic coalitions of different stakeholders which are more or less loosely interconnected with the agricultural sector. As it is clear that liberalizing agricultural trade would raise world prices for agricultural products, farm receipts in turn would decrease. The Organization for Economic Cooperation and Development (OECD) estimates that farm receipts in the EU are about 60 percent higher today as they would be at world prices. The same finding is true for the US: Here, farm receipts at present are 30 percent higher because of agricultural trade protection (OECD, 2001). It is unnecessary to mention that the prospect of agricultural free trade resulting in a decreasing income structure for farmers puts administrations under pressure at home and therefore determines their behavior on the international scene. This is even truer as “farm programs” create concentrated benefits for a few stakeholders but only diffuse costs almost unperceivable for the taxpayer. This is a situation that creates strong barriers to policy reforms.

With regard to foreign aspects of agricultural trade, it is important to note that agriculture accounts for a much larger share of economic output in developing countries than in developed countries. The comparison of the structure of output reveals that in the latter countries agriculture only accounts

for approximately 3 percent of the Gross Domestic Product (GDP) while it is about 30 percent in developing countries in general (THE WORLD BANK, 2003). In order to interpret these figures with respect to the diverse interests they may trigger, it is useful to differentiate the import and export structure of different countries.

During the Uruguay Round many net food importing countries were concerned regarding the impact of liberalization on food security as liberalization of agriculture would imply the elimination of export subsidies. This in turn could increase world prices of food products and hence have a negative impact on the economies of these countries<sup>8</sup>. On the other hand, there are countries where agriculture constitutes more than 80 percent of the exports. Clearly, these actors have different interests with regard to agricultural trade policies.

It would go beyond the scope of this paper to analyze in depth the different interest constellations of the key players at WTO talks. However, it is important to keep in mind some of the key findings mentioned if coalitions in agricultural trade negotiations are the subject of interest.

### **3.3.1 Coalitions Prior to Cancún**

With the GATT becoming the World Trade Organization in 1994, countries basically agreed to apply to agriculture and agricultural products the same type of trade disciplines as for international commerce manufactured goods. Since then, four major negotiating parties or coalitions have been characteristic for the agricultural talks: The United States, the European Union, the so-called Cairns Group, a mixed group of developed and developing countries who share the common interests of net agricultural exporters and a more or less loose cooperating block of developing countries.

The United States - being the largest agricultural exporting country in the world - argued from the beginning strongly for market liberalization. As mentioned above, the goal of increased market access worldwide has always

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<sup>8</sup> However, economic research suggested that agricultural intervention was still not the best solution for food security (SAFADI & TOGAN, 2000). The most important thing is to have the foreign exchange (and access to credit) to be able to buy food at any time. Thus, having the domestic ability to produce food should not be the main aim. This implies that countries should only specialize in agricultural food production if they have a comparative advantage.

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been supported by the members of the Cairns Group. BEIERLE (2003) describes the aims of these two groups as similar enough to be seen as a loose coalition. However, they are operating independently and have only certain interests in common (see Table 1). In this context it is important to note that the Cairns Group has taken a more pro-developing countries attitude on some of the discussed issues.

The third major player is a coalition headed by the European Union. It can be characterized by a more moderate attitude towards further liberalization. Moderate in the sense, that the coalition of the EU, Japan, Switzerland, Norway and Korea has always been favoring the so-called “multifunctionality” aspect of agriculture. This approach emphasizes the role of agricultural support policies to preserve rural communities and support sustainable agriculture.

The fourth coalition is that of developing countries. Interestingly enough, BEIERLE (2003) states that “they really can’t be regarded as a coalition” in the post-Uruguay Round negotiations. His analysis comes to the conclusion that developing countries “have historically failed to organize and coordinate effectively in agricultural trade talks, partly because there are so many competing interests” (BEIERLE, 2003). As mentioned earlier, the different positioning of these players is strongly correlated to their food ex- or importing interests. Net food exporting countries have joined the Cairns Group to push for greater liberalization while net food importers are afraid of increasing global prices and therefore are much more reluctant.

However, common concerns about food security and the importance of agriculture in the overall economic development formed a common negotiating basis for these countries prior to Cancún. A first sign of the ability of developing countries to form more and more powerful coalitions has been the release of a set of joint demands prior to the Doha Ministerial (November 2001), substantially calling for fundamental reforms to agricultural subsidy programs in developed countries (INSIDE U.S. TRADE, 2001).

**Table 1: Summary of Negotiating Positions on Prominent Issues**

(Source: BEIERLE, 2003)

	Market Access	Export Support	Domestic Support	Special and Differential Treatment
United States	<ul style="list-style-type: none"> <li>• Reduce applied rather than bound tariffs</li> <li>• Eliminate special agricultural safeguard</li> <li>• Tariff Rate Quota (TRQ) reform</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce and eventually phase out export subsidies</li> <li>• No new WTO disciplines on export credits or food aid</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce amber box support to fixed percentage of total agricultural output</li> <li>• Reduce and eliminate blue box</li> <li>• Retain green box</li> </ul>	<ul style="list-style-type: none"> <li>• Different targets, timetables and exemptions consistently applied to developing countries, as in Uruguay Round Agreement on Agriculture (URAA)</li> </ul>
Cairns Group	<ul style="list-style-type: none"> <li>• “Deep cuts” in tariffs, tariff peaks, and all other market access barriers with large immediate “down payment”</li> <li>• Eliminate special agricultural safeguard</li> <li>• TRQ reform</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce export subsidies by 50% immediately and phase out in three years</li> <li>• Retain state trading enterprises</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce and eliminate amber box payments</li> <li>• Reduce and eliminate blue box</li> </ul>	<ul style="list-style-type: none"> <li>• Different targets, timetables and exemptions consistently applied to developing countries, as in URAA</li> </ul>
European Union	<ul style="list-style-type: none"> <li>• Percentage reductions in unweighted average, bound tariffs from specified baseline, as in URAA</li> <li>• Retain special agricultural safeguard</li> <li>• TRQ reform</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce export subsidies if other forms of export support are disciplined (e.g., export credits, food aid, and state trading enterprises)</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce amber box payments as percentage of baseline, as in URAA</li> <li>• Support for amber box reductions conditioned on continuation of blue box</li> <li>• Retain green box</li> </ul>	<ul style="list-style-type: none"> <li>• Different targets, timetables and exemptions consistently applied to developing countries, as in URAA</li> </ul>
Developing Countries	<ul style="list-style-type: none"> <li>• Large reductions in developed country tariffs, disaggregated by product (to target tariff peaks and tariff escalation)</li> <li>• Eliminate special agricultural safeguard</li> <li>• Some countries with preferential arrangements oppose TRQ reform</li> </ul>	<ul style="list-style-type: none"> <li>• Eliminate developed country export subsidies</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce and eliminate developed countries’ amber box payments, preferably on product-by-product basis</li> <li>• Reduce and eliminate blue box</li> <li>• Cap or reduce green box</li> </ul>	<ul style="list-style-type: none"> <li>• “Development” or “food security” box allowing developing countries more country-by-country tailoring, such as retaining high tariffs on some products, creating new special safeguard, and exempting some trade distorting subsidies</li> </ul>

### 3.3.2 New Coalitions in Cancún

The starting point for the formation of new coalitions in Cancún must be seen in an EU/US-proposal<sup>9</sup> dated August 13<sup>th</sup>. Herein, the EU and the USA suggest to officially introduce a new country category for “net food-exporting developing countries“. According to this idea, developing countries that fall under this category - like Brazil and Argentina - would not be allowed to get any preferential treatments in regard to international trade regulations. In addition Mr. Harbinson, the Chairman of the Special Session of the WTO Committee on Agriculture and leader of the negotiations in Cancún, decided to table the above mentioned EU/US-proposal as the official negotiating basis. This unusual step initiated and provoked the submission of counterproposals by many other countries and especially by the countries to which that proposal was indirectly referring to.

In that, a crucial event of the Cancún Summit was the emergence of the “G20+” group of developing countries headed by Brazil, India, China, Pakistan and South Africa<sup>10</sup>. Representing 30 percent of world trade and well over half the world's population, this group coalesced exactly around a counter-proposal to the EU-US position on agricultural trade. This, more than anything, gave Cancún its character of a North-South confrontation.

The fundamental conflict between the G20+ and the EU/US in Cancún is based upon the fact that the countries of the North not only refused to make significant cuts in agricultural subsidies and other forms of protectionism, but they also suggested to open the earlier mentioned Singapore Issues, another set of negotiations, which have been pending since the 2<sup>nd</sup> WTO Ministerial Conference in 1996.

These issues, of particular interest to the industrialized North, are protection for foreign investment, competition policies, transparency in government procurement and facilitation of trade through simpler customs rules. But the G20+ was and still is reluctant to expanding the trade negotiating agenda until

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<sup>9</sup> Official WTO document signature: JOB(03)/157

<sup>10</sup> The bloc originally started out with 20 members, expanded to 23, and then lost one by the ministerial conference in Cancún, where it began to be referred to as the G22. But Colombia and Peru have dropped out recently.

The current group is made up of Argentina, Bolivia, Brazil, Chile, China, Costa Rica, Cuba, Ecuador, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, the Philippines, South Africa, Thailand and Venezuela.

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progress is made in reducing agricultural protectionism on the part of the developed countries, which involves a combined total of US\$ 300 billion a year (BRAUN, 2003).

Finally, the so called “Group of 90”, an alliance of the African Union, the Least Developed Countries (LDC's) and the African, Caribbean and Pacific (ACP) group of countries formed in the heat of Cancún itself, brought together many of the smallest and poorest developing countries, who saw themselves as marginalized and threatened by the confrontation between the G20+ and the developed countries. Four African countries whose economies depend on cotton exports had proposed that the US and the EU either reduce the subsidies to their own cotton producers, or pay compensation to the African producers for their lost revenue. The case of cotton – and particularly the impact of US cotton subsidies – is one of the most demonstrative examples of the conflict that dominates the trade liberalization debate. Positive movement on this matter would have constituted a very constructive symbolic recognition of the development concerns of the poorest countries. Thus, within their own eyes little to gain, the Group of 90 saw no reason to be flexible in their opposition. Finally the determination of the African Union duly played a part in the deadlock on the Singapore Issues.

For the African countries Cancún has given the certainty that the Uruguay Round has left them increasingly marginalized, and that the prospect of further liberalization without adequate attention to their development needs will leave them even worse off. “If the process is going in the wrong direction, it makes sense to derail it rather than simply to slow its progress” (HALLE, 2003).

After this overview of the key interest groups and coalitions, the following example will underline the impact of the agricultural agreement on a developing country.

### 3.4 How does the Agreement on Agriculture Affect Developing Countries like India?

India, being largely an agrarian country, fears for its food security<sup>11</sup> and self-sufficiency if it opens up its markets further in terms of globalization under the WTO Agreement on Agriculture (AoA). Since India signed the AoA in 1994, it is bound to comply with the regulations on market access, domestic support and export subsidies<sup>12</sup> (NABARD, 2003). This means that the latter two have to be reduced over a 10 year period, whereas the market has to be opened for agricultural products and services of other countries (HONG, 2000). Practically this means that India has to reduce all kinds of import barriers for approximately 27 000 products, out of which 800 are of agricultural nature. These agricultural products include milk, milk products, wheat, rice, pulses, livestock, agricultural chemicals, tea, rubber and others (HONG, 2000). By March of 2001, India had already removed Quantitative Restrictions (QR) for more than 1400 items (NABARD, 2003).

But whom does this agreement really benefit and what are its socio-economic implications? Indian farmers claim that it only helps the rich nations to bring into the country their heavily subsidized - and therefore cheap - agricultural products, such as palm oil, rubber, sugar, coffee, paddy and wheat: thus, primarily harming the small-scale farmers (BRAUN, 2003; FRANCIS, 2001). Additionally, the EU has been able to flood the Indian market with subsidized milk products, which in turn is destroying the domestic dairy farmers (BUCH-HANSEN, 2001). The implications of this form of globalization are harsh and have dire consequences on the local and household level: The small-scale farmers are forced to leave their marginal land which is their main source of income to take up unskilled jobs such as "low productivity agricultural worker or migrant worker in urban areas" (BUCH-HANSEN, 2001). What is more, these farmers not only lose a way of life dating back to generations<sup>13</sup> but also their right to food self-sufficiency, a prime structure of their farming (SHARMA, 2003). Food scarcity, especially in rural areas, leads to an impact on human health

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<sup>11</sup> The World Bank defines food security as "access by all people at all times to enough food for an active and healthy life" (THE WORLD BANK 1986; in: FRANCIS, 2001).

<sup>12</sup> Domestic support: support by governments to domestic producers; export subsidies: support by governments to exports (HONG, 2000).

<sup>13</sup> In Europe for example agriculture is rather considered as a commodity producing activity for profit maximization (BUCH-HANSEN, 2001).

through malnutrition, and women are unable to raise healthy children. The latter would be needed to help out on the family farms (PINSTRUP-ANDERSON, 2002). If the self-sufficiency of the farmers declines further then one day the government has to help out and feed the farmers, as is the case at present in the state of Tamil Nadu in India (SHARMA, 2003). Every year several hundred heavily indebted farmers even commit suicide due to economic distress, not only caused by the Indian national policy on agriculture but in this case also caused by globalization and economic liberalization (BAKSHI, 2001).<sup>14</sup>

Another side-effect of the AoA is noticeable in India: Large-scale foreign agribusiness companies promote their fast food, to a clientele that can afford it, since minimum access quotas allow them to enter the market. Consequently, the healthy staple food such as rice, wheat and pulses makes way for unhealthy diets in terms of “equalizing global food habits”. This leads to a widespread obesity mainly among the younger generations of middle and upper income families (BUCH-HANSEN, 2001; HONG, 2000).

Furthermore, the developed nations themselves continue to use high tariffs against any agricultural imports to protect their domestic producers (BRAUN, 2003). The two key players, namely the EU and the US have simply exempted their most sensitive issues from reductions into the so-called “green and blue box”. This creates a sense of mistrust from the developing countries, including India, towards the North, who feel that they are being colonized again only in a more civilized manner through the Agreement on Agriculture (BUCH-HANSEN, 2001). Therefore, the developing countries have launched a “Development Box”<sup>15</sup>, to bring their issues into the negotiations but without success. BRAUN et al. (2002) even suggest that these countries could initiate a “Food Security Box” as a sub-set of the Development Box in order to address their crucial issues more precisely.

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<sup>14</sup> The figure tolls around 10 000 farmer suicides since 1987 in the states of Tamil Nadu, Andhra Pradesh, Karnataka, Kerala, Maharashtra, Madhya Pradesh, Gujarat, Rajasthan, Orissa, West Bengal, Uttar Pradesh and even in the frontline agricultural state of Punjab (SHARMA, 2003).

<sup>15</sup> “Many developing countries, therefore, have tried to launch a “development box” that would take care of the needs of developing countries in the same way as the blue and green boxes were established primarily to protect the US and EU farmers” (BUCH-HANSEN, 2001).

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Unfortunately, the so-called “single undertaking” aspect within the WTO framework forces, especially Third World countries, to take either all conditions of the latter or to be completely left out of the WTO. This means an opting out of any WTO discipline is not possible if they want to become a member (BUCH-HANSEN, 2001). Since the International Monetary Fund (IMF) and the World Bank made this a pre-condition for any financial aid, these countries have no other choice but to accept. Unfortunately, their decision to join and comply has resulted in such heavy impacts on their agricultural sector that it leads to the question whether these forms of globalization, free trade and economic liberalization really are worthwhile and sustainable. Since food security is a matter of national sovereignty from the time of India’s Independence in economic and political terms, this country needs to decide soon which course it wants to take in the near future to uphold its fundamental right to agriculture: India has availed the chance to bring its important issues into the WTO Cancún negotiations by allying itself with Brazil and China. These “heavyweights” are able to use their newly established negotiating position within the WTO to become front-runners for other developing countries that up till now had hardly any negotiating power. India has a crucial role which it needs to use wisely for any current and future issues, especially on agriculture (BUSINESS STANDARD, 2003).

## 4 Discussion

Although the Cancún conference “failed” officially, it succeeded in building new issue-based alliances of the poor and developing member-countries of the WTO. This new-found South-South solidarity is a positive development. No denying that these issue-based alliances represent diverse interests on several trade issues, yet they could be an indication of a new beginning in the multilateral trade negotiations. If coalitions like the G20+ or the G90 remain unbroken in the coming years, they could counterbalance the economic and political supremacy of the US and the EU within the WTO. This could not only steer fundamental changes in the global trade rules but also contribute in changing existing unequal power relations in other international economic and political arenas. It could fundamentally restructure the present-day global governance regime, where a few developed countries set the agenda.

If sustained with vigor, this South-South solidarity could be a sign of a paradigm shift in international relations based on more democracy and equality. Particularly, in the present context with the US challenging the international laws and institutions, the significance of South-South solidarity cannot be underestimated. Nevertheless, this is not going to be an easy task given the fact that most of these member-countries are heavily dependent on the developed countries for external aid, finance and trade flows. Moreover, the dependence between domestic and international economic policies of the different member-countries, as indicated in section 3.3, implies that the “struggle” for policy reforms needs to be extended to the WTO member-countries’ domestic political arena. But before doing so, the outcomes of the Cancún Ministerial Meeting have to be thoroughly analyzed.

### ‘Protectionism’ versus ‘Liberalism’

One of the main stumbling blocks in the Doha Round was agricultural liberalization. Developing countries were expecting that this Round would lead to three major outcomes: the elimination of export subsidies, a significant reduction in other forms of government subsidies to farmers of developed countries and to much improved access to the markets of these countries. There was, however, no clear agreement on making significant progress on this

front. Thus, most developing countries accepted moving into a new round, hoping to address the long standing issues of interest to them, most importantly the rich countries' massive agricultural protectionism. This protectionism has a negative impact on agricultural production and employment in developing countries where 60 percent of the population still lives in rural areas. Moreover, these areas accommodate 75 percent of the 1.2 billion people living in extreme poverty in the world (EVENETT, 2003). Hence, it seems that the agricultural and trade policies of industrialized countries have to a certain extent contributed to the poverty in developing countries.

Still, in Cancún, voices calling for protectionism were much louder than those supporting liberalism. Politicians were simply not able to highlight the beneficial outcomes of trade liberalization. They generally talked of potential gains of access to other countries' markets. Nevertheless, they missed the chance to underline the fact that multilateral trade liberalization could help achieve a more ambitious and optimal end, which is increasing global welfare of citizens and consumers globally. Cancún was supposed to be a mid-term meeting that complements what has been agreed upon in the Doha meeting of 2001, moving towards a completion of the Doha Development Agenda, set for 2005. Now, after the collapse, it is almost impossible to meet this deadline. In order to complete the Doha mandate, the negotiations have to be put back on track first.

#### 'Collapse' versus 'Failure'

The collapse of Cancún may not be considered as a mere breakdown of trade negotiations. It is rather a breakdown in relationships, trust, legitimacy and credibility. Some consider the damage caused by the Cancún collapse an 'end of free trade'. However, others think that the consequences of the meeting could be regenerative (GHONEIM, 2003). In other words, Cancún could be regarded as a wake-up call. Hence, it is a collapse but not a complete failure. In that context, the following positive outcomes from Cancún could be highlighted:

1. Agriculture can no longer be left behind. It has turned out to be a burning issue that will stay on the agenda. Furthermore, agriculture has proven to be of fundamental importance, since a vast majority of people depend on agriculture as a commodity.

2. Traditional inward-looking protectionist countries such as Brazil, India and China have become more and more active export-oriented players in global markets. In the past, developing countries believed that their national interest was in general better served if they get as many concessions as possible without further openness and integration into international markets. They were rather focused on fighting for exemption from WTO obligations than for securing freer access to the world markets. Now after Cancún, the market access of developing countries into developed countries has been given greater weight.

3. Up until Cancún, industrialized countries were pure 'establishers' of the international rules in agricultural trade and developing countries mere 'adopters'. This is because their domestic policies would cause conflict if debated on international level. Take for example the EU after having reformed its Common Agricultural Policy (CAP) in the spring of the year 2003. It was not willing to accept further reforms in September in Cancún, which would have benefited developing nations (EVENETT, 2003).

4. After Cancún, trade can no longer be regarded separately from the broader context of development. Therefore, trade is not an aim in itself, but a means to shared growth and prosperity (RADWAN, 2003).

## 5 Future Outlook

The current round of WTO negotiations is not only about trade but about the deeper concern of a “fair” implementation of globalization, in order to achieve a peaceful cooperation between developing and developed countries. In that sense, it was not only astonishing what happened in Cancún, but what did not happen: Silence and passiveness of political leaders who failed to make any commitments seemed to be the rule. The lack of courage and vision could negatively affect the open trade and investment agenda as well as the whole multilateral system (EVIAN GROUP COMMUNIQUÉ, 2003).

In Cancún the “agenda setting” policy of the EU and the US failed and one could have the impression that the former “leaders” of the WTO talks are not well prepared enough for the emergence of a new international situation that is determined by new alliances and coalitions: There is no longer just the Washington-Brussels-Tokyo axis that sets the pace in the WTO negotiations. There is a new axis formed by Beijing-Delhi-Brasilia with several other important members and the civil society represented by eloquent NGOs that is becoming stronger.

After the collapse of the Cancún Ministerial there are at least three different scenarios on the horizon: the first and not very encouraging one would be “business as usual”. The different negotiating parties resume the talks step by step and convene for a negotiating round that would lag far behind the perspectives of the current round - initiated in spring 2000 - leading to Doha in 2001. There are legitimate doubts about the outcome of such a scenario and, even worse, the frustration of the developing countries is thought to increase (BRAUN, 2003).

The second scenario with regard to a peaceful and cooperative globalization is maybe even less promising: On December 31<sup>st</sup>, 2003 the so-called “peace clause” is going to expire. For a decade this clause prohibited claims on farm subsidies for production and exports from being filed against each other in the WTO Dispute Settlement Body. Once this clause expires, every negotiating party could literally try to “elbow-fight” against each other. In this case the developing and least developed countries could step out of the WTO and form their own free trade organization based on fair trade, food

security and food self-sufficiency. The downside for them would be the risk of losing out on preferential trading arrangements, food aid, development assistance or other types of political/security support (KWA, 2001c; in: BUCH-HANSEN, 2001)

The third scenario is based on the above mentioned new axis: The new alliance of significant and weighty developing countries - in terms of trade and development potential - that is headed by China, India and Brazil together with other partners takes the initiative to commence a sincere "development round". This time this would mean an agenda setting process that the EU and the US would have to accommodate to. The WTO is an international institution that, in contrast to the less structured GATT Secretariat, allows communication, analytical work and even very low-key negotiations to continue beyond the Ministerial Meetings. This would clearly be a good starting point for a "round table" to convene representatives of the old and the new axis together with leaders from the ACP as well as from the LDCs representing the Group of 90.

Soon the WTO member countries will have the opportunity to initiate such a "round table" and thereby put future negotiations on the right track during the upcoming meeting of the General Council in December 2003 in Geneva. Clearly, the most important pre-requisite are "committed players, in developing and developed countries that understand the importance of strengthening a rule-based trade system that considers the needs of the poor and vulnerable" (DÍAZ-BONILLA et al., 2003).

Although agriculture is not a priority for the vast majority of enterprises in industrialized countries, there is no doubt that there will continue to be much focus on agriculture in future negotiations. Successful talks on agriculture in the WTO framework would enhance trust and confidence for negotiations on other issues, such as non-agricultural market access and trade in services. Furthermore, agricultural liberalization could lead to a boost in economic development in countries where the agricultural sector has a great weight in GDP. This would in turn expand global demand in all sectors.

Agricultural trade per se cannot automatically alleviate poverty but has huge inherent developmental chances. Protectionism prevents a fair globalization and undermines every attempt for countries to get along peacefully with each other.

## 6 Summary & Conclusion

This paper analyzed the situation that emerged after the WTO Fifth Ministerial Meeting in Cancún, Mexico officially failed in September 2003. The research focused on the aspect of agriculture, since it is most vital for the developing and developed countries involved. It was shown, that on the one hand dominant players like the US and the EU still try to block attempts to enter their markets or alter their agricultural policies. Therefore, on the other hand, developing countries like India, China and Brazil finally stood up against the key negotiators in order to prevent a further opening of their developing markets which are being strongly impacted by the WTO Agreement on Agriculture.

The role of agriculture and its importance for governments as well as its final uptake into the Uruguay Round was described. Furthermore, the Agreement on Agriculture, its policies and issues were discussed. The major players dominating the WTO scene prior to and after Cancún were analyzed. The case study on India, a developing and largely agrarian country, was seen in context with regard to the Agreement on Agriculture's impacts on a local level. The discussion and future outlook show, that the new alliances only have a fair possibility of trade if they are accepted as equal partners in the further development of the WTO. Only a free and fair dialogue from both sides will make any negotiations in the future worthwhile and successful in the long run. The shortcomings and misgivings from the previous rounds of negotiations need to be thoroughly analyzed and translated into a fruitful process. This would enable all players to achieve a fair outcome on conflicting issues such as agriculture at present. Therefore, the WTO Cancún cannot merely be regarded as a lost opportunity for free trade but as a chance for more fair-trade in the future: based upon trust, credibility and compromise for all partners involved.

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