WORLD TRADE ORGANIZATION (WTO) AND ITS ROLE IN INTERNATIONAL TRADE: WITH CASE THREE CASE STUDIES (PHILLIPINES, CHINA AND UNITED STATES OF AMERICA).

BY

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EXECUTIVE SUMMARY

This paper reviews the role of World Trade Organization (WTO) in international trade with a focus to Phillipines, China and United States case studies. Background information on the GATT and WTO, free trade and globalization, WTO agreements on agriculture and WTO issues and environment is discussed. The three case studies focuses on agreements on agriculture and how three countries have fulfilled in their obligations of WTO membership as well as how WTO has impacted their success or failures in international trade.

Agriculture contributes 20% of the Phillipines GDP. In addition, over 50% of the population is dependent on agriculture for their livelihood. The Philippines joined the WTO when the Philippine senate agreed to ratify GATT-Uruguay Round in December 1994. They also committed themselves to all other agreement embodied in the Uruguay round including Agreements on Agriculture (AOA). The Philippines joined the WTO with very ambitious promises such as creating 500,000 jobs annually; economic growth rate of 6% per year; and reduction of poverty after joining the WTO. In the year 2003, nine years after Philippine accession to the WTO, the country was reduced from the status of agricultural exporter to a net food importer. Before joining the WTO (1990-1994) the Philippines' trade in agriculture registered a surplus of $ 1.3 billion, while four years after joining the WTO (1995-1999) the Philippines had accumulated a trade deficit of $ 3.5 billion. Between the year 1995-2000 the average growth rate for the agriculture (gross value added) was 1.38% lower than 1.62% in the years 1991-1994.

China's corn export remained business as usual despite WTO agreements in December 2001. One of the major conditions upon entry into WTO agreements was for China to reduce its corn exports and increase its imports. Although China claimed to have eliminated direct export

subsidies in 2002, as a WTO member commitment, direct export subsidies were replaced by other local measures that were geared towards boosting corn sales. These included subsidies for sales of corn from state grain reserves, waiver of railroad tax on grain shipments, subsidies for port fees and a rebate of the value added tax (VAT) for exported corn, rice and wheat.

United States is the largest producer and exporter of corn, accounting for 41% of the global corn production in 2005/06 and 60% of all corn exports. US spends US$150 billion for a total agriculture production of US$ 128billion which makes subsidy represent 115. Critiques within US claims that the subsidies go to the top 10% of the large farms. Similarly there is also concern of these large farms using federal subsidies to buy smaller farms to consolidate agricultural industry. Other criticism argues that 90% of money goes to staple crop of corn and wheat while majority of other crops do not benefit.

Subsidized agriculture in the developed world is one of the greatest obstacles in economic growth. In 2002, developed countries spent US$300 on crop price support, production payments and other forms of programs. World markets are flooded with surplus crop that are sold below the cost of production. Developing countries are shut out of the world because they cannot afford to subsidize their farmers. Prosperous countries give US$50-550 billion annually to developing nations as a foreign aid. If developed nations would reduce subsidies and eliminate trade barriers such as import tariff trade would support domestic producers in developing countries. It is predicted that an end to rich country support in agriculture would generate an annual gain of $40 billion for developing countries due to increase in exports.

The paper concludes with critique of WTO in regards to agreement on agriculture based on the three case studies.

LITERATURE REVIEW

Since its adoption in 1947, the General Agreements on Tariffs and Trade (GATT) requires its members to give equal treatments to exports from all member countries and prohibit members from discriminating between locally produced and imported products (Safrin 2002 and Rose 2004). GATT/WTO provides an opportunity within which its member governments may negotiate over market access. GATT interprets market access as a competitive relationship between imported and domestic products (Devons 1961, Bagwell and Stainger 2001). This arrangement between two different countries involves reduction of import tariffs on a particular product hence altering the competitive relationship between imported and local products (Bagwell and Stainger 2001). Reduction of import tariffs provides a larger market access to foreign producers and provides an assurance of better market access through improved price competition (Fewsmith 2001). However, domestic market access could be altered by a foreign export subsidy or by changing market conditions at home or abroad (Gibb 2003).

The GATT conducted eight rounds of multilateral trade negotiations before it was succeeded by the World Trade Organization (WTO) in 1995. Geneva concluded in 1947, Annecy 1949, Torquay 1951, Geneva 1956, Dillon 1961, Kennedy 1967, Torkyo 1979 and Uruguay 1994 (Rose 2004). The Uruguay round agreement negotiation and signing happened when a group of seventy seven countries were in a state of confusion due to debt obligations and the changes of former Soviet Union as well as the end of cold war in world of politics.

Free Trade and Globalization Fallacies

According to Shafaeddin (2003) the philosophy behind universal trade liberalization suffers from two fallacies; universality and uniformity. Universality is a situation where free trade is supposed to benefit all countries regardless of their level of development, industrial capacity, technological capacity and other structural characteristics. On the other hand, Uniformity implies that for each country, all industries and products should be subjected to the same level of tariff. A good example of disagreements between the WTO member countries is the failure of Seattle meeting to arrive at a consensus. Dissatisfaction with trade liberalization and globalization was evident at the Seattle meeting which took place in the midst of street demonstrations by environmentalist, developing countries labor organizations, human rights activist and non governmental organizations (Bhagwati 2001).

Contradictions of GATT/WTO Rules in Agriculture

One of the major contradiction is that while the GATT/WTO rules require that the government intervention in trade be reduced and eventually eliminated (free from political power), there is no mention of eliminating or controlling the increasing monopoly or oligopoly power of firms involved in international trade (Pauwelyn 2001). In addition the capital is to be free to move freely across the boarders, labour and other factors of production do not enjoy the same benefit (Shafaeddin 2003). While international trade was to be free, free trade did not apply to agricultural goods because they were not covered by GATT agreement until the Uruguay Round. According to GATT rules, international trade in manufactured goods should be subjected to reduction of tariffs and other trade barriers. However, this does not apply for the labour-intensive products. Agricultural products and labour intensive goods were of major export interest by developing countries. Shafaeddin (2003) reported that textile and clothing

which falls into labour-intensive product category accounted for 60% of the total export of manufactured goods from developing countries in 1997. Agricultural sector regulation was raised at the Tokyo Round but it was strongly opposed by the European Community. Processed agricultural products had been the major subject of disagreement in GATT panel (Shafaeddin 2003). FAO had attempted to come up with regulations on disposal of surplus agricultural products by developing the concept of Usual Marketing Requirement (UMR).

The United States, European Economic Commission/ European Union and Japan have intensively intervened in production and trade in agricultural products through their support and stabilization programmes. United States in particular have programmes on wheat, corn, cotton, soy beans, rice, wool, barley, oats and sugar among other products. On the other hand, the EEC has intervened on trade of agricultural goods through Common Agricultural Policy (CAP) mostly inform of price support and subsidies (Shafaeddin 2003). United States and European farmers have continuously received subsidies payment through CAPs from their government. Similarly, tariffs and quantative restrictions applied to agricultural goods by many developed countries during the post war period have continued with no international trade regulation. Governments in most of the developed countries have protected agriculture through tariffs, quantative restrictions, prices and direct income support to producers and input subsidy. Developing countries have been under pressure through WTO rules, World Bank and bilateral financial arrangements to liberalize their industries on a time scale that critics called premature. Critics charge that this has resulted to destruction of their existing industries without any significant replacement. The long term implications include high rate of unemployment, lower income, social deprivation and marginalization (Cycon 1991). Most developing countries have

developed simple processing techniques for their primary products; however, developing countries have been locked in production and exports of primary products.

World Trade Organization Agreements on Agriculture (WTO-AOA)

The WTO agreements on agriculture have been a big debate that was started in the year 1986 and only finalized in 1994. The goal of inclusion of agriculture in Uruguay Round was to establish a fair and market oriented trading system in agriculture through elimination of trade barriers and trade distorting support in agriculture (Franscisco and Glipo 2002). The Uruguay Round culminated to the first multilateral agreement dedicated to agricultural sector (WTO 2007). The provision of WTO agreement on agriculture focuses on three major themes; market accessibility, domestic support and export subsidies as illustrated in Table 1

Market Accessibility: Requires WTO members to reduce tarrification of all non-tariff barriers and progressive reduction of tariffs over specified number of years categorized into developed and developing countries. Before the Uruguay Round was adopted, a few agricultural imports were restricted by quotas and other non Tariffs measures. Under WTO-AOA the quotas and other measures were converted to Tariffs and this process is called Tarrification (WTO, 2007).

Domestic support: WTO member states are required to reduce agricultural subsidies that distort trade as specified in Table 1. This applies to all subsidies and other programs including those that increase or guarantee farm gate prices and farmers incomes.

Export Subsidies: The agreements on agriculture require members to reduce export subsidies unless if the subsidies were specified in the members list of commitments. Developed countries agreed to cut their export subsidies by 36% over a period of six years between 1995-2001 while the developing countries were allowed a 24% within 10years (WTO 2007).

These agreements allow countries to support their rural economies through policies that do not cause any distortion to the trade. According to (Murphy 2001) the implementation of AOA has left the developing countries with decreased agricultural export revenues while the developed countries' market for agricultural and textile industry remained heavily protected. Franscisco and Glipo (2002) reported that 2/3 of the total 38% of the global imports in 1999, came from trade between European Union member states themselves. On the other hand the prices of the agricultural products in the world market have been decreasing.

Table 1: WTO-AOA

SPECIFIED RULES AND COMMITMENTS		
PROVISIONS	**DEVELOPED COUNTRIES**	**DEVELOPING COUNTRIES**
1. Market access 1.1. Tarrification of all non tariff barriers. Base reference period is 1986-1988	Tariffs will be reduced by an average of 36% over a period of six years (1994-2000), with each tariff line reduced by at least 15%.	Reduce tariffs by an average of 24% over 10 years (1994-2004), with a reduction by at least 10% for each of the tariff line.
1.2. Minimum Access Volumes (MAVs). Base reference period is 1996-1988.	Provision of minimum access opportunities for imported agricultural products at 3% of base year domestic consumption starting in 1995 and increasing to 5% by 2000. Tariffs will be reduced by an average of 24% over 10 years (1994-2004) with a reduction by at least 10% for each Tariff line.	Reduce tariffs by an average of 24% over 10 years (1994-2004), with a reduction by at least 10% for each of the tariff line.
Domestic Support	The aggregate Measure of Support. (AMS) to be reduced by 20% from average of base year (1986-1988) in equal installments over six years	(AMS) to be reduced by 13.3% from average of base year (1986-1988) in equal installments over ten years
Export subsidies	Reduction of export subsidies by 21% in volume and 36% in monetary terms over six years.	Reduction of export subsidies by 14% in volume and 24% in monetary terms over nine years.

Adapted from Franscisco and Glipo 2002

GATT/WTO and Environment

Environmental and labor groups argue that WTO and GATT single most mission is to Serve the interest of the exporters over labor and environmental policies (Bagwell and Stainger 2001). International economic integration may pose a threat to the government by failing to resist raising the labor and environmental standards that it would otherwise apply to the local producers in order to enhance the competitive position of the producers in the international market place. Bagwell and Staiger (2001) argue that the consumer gain that comes from free trade is not the liberalization force harnessed by GATT/WTO but instead the WTO is driven by exporters' interests. Bagwell and Staiger (1999) suggested that when a country is confronted from greater import competition because of adoption of a new domestic standard that is tougher than applies abroad, it should be allowed to raise its bound tariff as much as necessary to curtail that import surge. Rose (2004) study on the role of WTO on increasing trade, concluded that there is no empirical evidence to justify that GATT/WTO has played a vital role in encouraging trade. Bilateral trade cannot be reliably linked to membership of WTO or its predecessor the GATT. Rose (2004) study demonstrated that membership in the GATT/WTO is not associated with enhanced trade by illustrating that GATT/WTO members did not have significantly different trading patterns than non members.

According to Falkner (2002), any successful sustainable development strategy has to strike a balance between the interest of trade and concerns for the environment. The WTO has received several accusations of insensitivity to environmental problems (Charnovitiz 1994). The debatable nature of trade and environmental relationship is marked by the failure of WTO to introduce a formal environmental mandate into the international trade and the collapse of 1999 WTO ministerial meeting in Seattle (Falkner 2000).

WTO and GMO Issues

One of the most controversial environmental concerns is the emerging trading interests of states and corporations on Genetically Modified Organisms (GMOs) (Anderson and Nielson 2000). Resistance to release of GMOs particularly in Europe has led to accusations by the GMO- exporting countries of unfair trade restrictions particularly in United States, the World's largest exporter of products (Faukner 2000). On the other hand, farmers in North America and other large developing countries like Argentina and China have embraced GMO crops and are actively developing more technologies for adoption (Anderson and Nielson 2000). Cartagena Protocol on Biosafety was adopted to establish international rules for trade in genetically modified organisms and reinforce the rights of the importing nations to reject GMOs imports on environmental and health grounds (Safrin 2002 and Falkner 2000).

Marketing of GMOs in developing countries has been extensively done by the developed nations particularly United States. The justification for using GMO has a solution to food security has mainly been emphasizing that majority of the population living in rural areas in developing countries are food insecure. Most of these rural populations are dependent on agriculture as source of income and for subsistence farming and therefore anything that has a potential to increase food production and income is a priority (Anderson and Nielson 2000). Similarly, the urban poor communities in developing countries support anything that might lower the prices for the food products or increase their nutritional value.

Biosafety Protocol

Environment, food and ethical concerns with the production of GMOs led to adoption of Biosafety Protocol (UNEP 2000). International biosafety discussions started as a North-South issue, with emphasis on the need for developing countries to strengthen their regulatory powers with regard to trade in GMOs . Over 130 countries signed the Cartegena Protocol on biosafety to the convection of biological diversity on January 29, 2000 in Montreal (UNEP 2000). Biosafety protocol is a multilateral environmental agreement that resulted due to environmental concerns that transgenic plants are capable of transmitting their genes to other crops or wild crops through pollen dispersal or may develop into invasive species and threaten the native plants (Safrin 2002). The objective of biosafety protocol as described by Safrina (2002), "is to contribute to ensuring an adequate level of protection in the field of the safe transfer, handling and use of living modified organisms resulting due to modern biotechnology that may have adverse effects on the conservation and sustainable use of biological diversity, taking also into account risks to human health and specifically focusing on transboundary movements".

The biggest controversy of biosafety protocol is its relationship with other existing multinational agreements such as General Agreements on Tariffs and Trade (GATT) and other WTO agreements like Application of Sanitary and Phytosanitory measures and agreements to other technical barriers (Safrin 2002). The contradictory issue on the biosafety protocol is the continuous insistence by the European Union on precautionary approach towards the uncertain potential environmental threats posed by GMOs and the science based methods of risks assessment existing in the United States (Faukner 2000). In the United States, evaluation procedure has allowed industry to promote commercialization of biotechnological research. In addition the United States has continued to argue that the EU regulations are in violation with

the WTO agreements on Sanitary and Phytosanitary Measures (SPS) which governs aspects of human health and food safety.

Limitation of Biosafety Protocol.

The biosafety protocol fails to address living organisms produced through indigenous/traditional breeding methods example selective breeding (UNEP 2000). The protocol only addresses living modified organisms produced through modern biotechnology techniques. In addition, the inanimate products made from living modified organisms like corn cereal and soybean oil that are produced from corn and soy bean are not required to be labeled under Biosafety protocol (Safrin 2002). The protocol requires that GMOs intended for direct use as food or feed or for further processing, just require a label stating that the product may contain such organism (UNEP 2000). The protocol also excludes Living modified organisms that are Phamaceutical for humans that are addressed by other international agreements such as World Health Organisation (Safrin 2002 and Faulkner 2000). Faulkner (2000) pointed out that biosafety protocol represents an inconclusive compromise between GMO exporting companies and importers. The precautionary principle is unclear and inadequately defined, therefore the provisions on trade and environment is left open to various interpretations (Faukner 2000). Developing countries also supported the Cartegena protocol due to the fear that their regions could be used as testing grounds for GMO food production. The protocol specified that lack of scientific evidence regarding the potential adverse effects of GMO on biodiversity including the human health, need not stop a signatory from taking action to restrict import of such organisms in order to reduce perceived risks (UNEP 2000).

Political Controversy

Modern biotechnology has developed from scientific research and experimentation to worldwide commercialization from agricultural based, food, chemical and pharmaceutical industries (Faukner 2000). This rapid growth of the biotech industry has led to uncertainty on their safety and fears among public authorities, environmentalist and consumers (Faulkner 2000). Munson (1993) highlighted environmental and health risks associated with GMOs as the major reason that contributes to lack of popularity for Genetically Modified Organisms and products. Good examples of indicators of inadequate safety system that governing modern agriculture trade of the GMO related products include the health risks for Salmonella infected eggs, Bovine Spongiform Encephalopathy (BSE) , cow diseases and hormone treated beef (Faukner 2000). While the developed countries political systems have failed to address the issue of public safety of GMOs, the majority of the developing countries particularly Africa, Asia and Latin America lack adequate regulatory frameworks and scientific capacities in the field of biotechnology (Munson 1993). When GMOs are released to the environment, many are concerned they may reproduce, mutate, spread and transfer the manipulated genes to other organisms hence causing potential changes in ecosystems by destroying habitats or food supplies of other species (Munson 1993).

Basic Requirements procedures of the Biosafety Protocol

Advanced informed agreements procedure

The Advanced Informed Agreements (AIA) procedure reinforces nation with autonomy in environmental and health regulation against the erosive forces pf economic globalization. The protocol requires the importing party to identify and evaluate the potential adverse effects of living modified organisms on the conservation and sustainable use of biological diversity

including risks to human health (Safrin 2002). The importing nation has a right to refuse transboundary movement of regulated goods on basis of a system of risk assessment which takes into accounts threats to biodiversity and risks to human health (Falkner 2000).

Requirements for Commodities

The protocol requires parties to provide a biosafety clearing house with information regarding the final decision that they have made regarding the final use of the living modified organism that may be subject to transboundary movement for direct use as food or feed or for processing within fifteen days of making that decision (Falkner 2000).

Precaution

The protocol also include a precaution that applies to decisions by parties incases of scientific uncertainty for the imported GMOs (Falkner 2000).

Documentation

The protocol requires shipping documentation for different types of GMOs. This documentation is required to accompany the shipment that is intended for release into the environment such as seeds for planting.

CASE STUDIES

CHINA

Below are steps illustrating China's accession into WTO;

Chronology of China WTO negotiations

1986- People's Republic of China applied to join GATT

1989- Tiananmen square Incident derails trade negotiations

1994- China began a new push to join GATT

1997- China cut import duties on many goods, but maintained high tariffs on others

1999 April -China offered major concessions. The United States turned down the offer, but the two countries issued a statemencommiting to finish negotiations in 1999

November- US China negotiations agreed on bilateral agreement that allowed China to join the WTO.

2000- September US Senate passed legislation establishing permanent normal trade relations with China

2001 June- The United States and China reached an agreement on China's Farm subsidies at 8.5 percent of the total agricultural output value

2001 September- Multilateral negotiations on China's WTO accession concluded.

United States and China WTO Bilateral Agreement

Under bilateral agreement with the United States, China agreed to reduce tariffs in order to allow private enterprises to participate in trade activities and to eliminate non tariff barriers by 2004 leaving tariff as the only measure affecting imports (Tuan and Hsu 2001). Examples of non tariff measures that China needed to eliminate include sanitary inspection, testing and domestic taxes. Tariffs In all agricultural products were expected to drop from 22 percent to 17% by January 2004. In addition China agreed to establish a tariff –rate quotas for wheat, corn, rice, soybean oil and cotton (Tuan and Hsu 2001). Tariffs for US agricultural products such as animal products, fruits and dairy products were expected to drop to 14.5%. China also agreed to eliminate sanitary and phytosanitary barriers to agricultural imports that are not based on scientific evidence.

In the multilateral agreements China was reluctant to join WTO as a developed economy which would limit trade distorting farm subsidies to 5% of the value of agricultural output because the limit for developing economies is 10%. In the multilateral agreement, agricultural subsidies were the focal point of negotiations limiting China export subsidies to 8.5% of its value of agricultural output. However, in 2001 China reached a compromise and set its subsidy limit at 8.5% of the agricultural output value in the multilateral agreement (Tuan and Hsu 2001)

Corn Exports

China's corn export remained business as usual despite WTO agreements in December 2001 (USDA 2002). One of the major conditions upon entry into WTO agreements was for China to reduce its corn exports and increase its imports (USDA 2002). This was to be achieved by eliminating export subsidies for corn and opening a 5.85 Million- ton (mmt) quota for corn

imports at 1% tariff (USDA 2002). In 2002, though China's corn export was expected to be less competitive due to elimination of subsidies, the export continued at a faster rate than the previous years. According to USDA report (2002) China's corn export averaged, 840,000 tons per month from January to October 2002, 340,000 tons 2001 and 872,000 average for the year 2000. Although China's WTO commitment were expected to enhance Chinese customers to import corn, the country's corn import in the year 2002 remained negligible, thus making it become even a bigger net exporter of corn during the first year as a WTO member (USDA 2002).

Subsidies

Before the year 2002, China's corn export was directly subsidized by the central and provincial government with a subsidy rate of 378 Yuan ($46) per ton in 2001 while 1999 subsidy was 368 Yuan ($ 44). Although China claimed to have eliminated direct export subsidies in 2002, as a WTO member commitment, direct export subsidies were replaced by other local measures that were geared towards boosting corn sales (USDA 2002). These included subsidies for sales of corn from state grain reserves, waiver of railroad tax on grain shipments, subsidies for port fees and a rebate of the value added tax (VAT) for exported corn, rice and wheat. According to the Beijing Farmer's daily estimate as quoted by USDA (2002), the VAT rebate reduced the cost of exporting corn by 200 Yuan ($24) per ton. Similarly, the new measures were estimated to provide a subsidy which was equivalent to the previous export subsidy of 400 Yuan ($48) per ton. The rising world prices of corn in July and august 2002 due to deterioration of growing conditions in the US, boosted China's corn export. United States corn export to Asia was more expensive and this made Chinese corn more favorable due to its low prices. Half of China's corn is exported to South Korea. In the year 2002 prices of corn offered by Chinese

suppliers ranged between $115 or lower per ton while the US suppliers were offering their corn at $130- $140 per ton.

Minimal Corn Imports

Although China's agreement as a WTO member was to set a 5.85-mmt tariff- rate quota for import of corn in the year 2002, 68% was to be allocated to state trading enterprises while 32 % was to go to non state enterprises (USDA 2002). While, according to WTO standard the in-quota import tariff is only 1%, in 2002, the imported corn was assessed at a 13% VAT, this elevated the cost of import from the US above the cost of domestic corn making US prices more than $130 per ton, this eliminated any prospect for any corn import in the calendar year 2002 (USDA 2002).

Conclusion

WTO accession will not have dramatic impact on China's agricultural trade. China's policy makers continued corn subsidies to boost corn exports and used various strategies to block imports of corn despite their commitment as a WTO member.

PHILLIPINES

WTO and Philippines Agriculture

Agriculture contributes 20% of the Philippines GDP. In addition over 50% of the population is dependent on agriculture for their livelihood (Franscisco and Glipo 2002). Philippine joined WTO when the Philippine senate agreed to ratify GATT-Uruguay round in December 1994. They committed themselves to all other agreement embodied in Uruguay round including Agreements on Agriculture (AOA) which allowed them to an initial bound rate of 100% for sensitive products like corn, sugar, onions and garlic. However, these had to be reduced to 40%-50% in 2004. Philippine joined WTO with very ambitious promises like creating 500,000 jobs annually; economic growth rate of 6% per year; and reduction of poverty after joining WTO.

Decline in Agricultural Productivity in Phillipines

Philippines agricultural sector did not show any improvement under liberalized trading regime seven years after joining GATT/WTO (Franscisco and Glipo 2002, Glipo 2003). In the year 2003, nine years after Philippine accession to WTO, Philippines were reduced from the status of agricultural exporter to a net food import (Glipo 2003). Before joining WTO (1990-1994) trade in agriculture had registered a surplus of $ 1.3 Billion while four years after joining WTO (1995-1999) had accumulated a trade deficit of $ 3.5 Billion. Between the year 1995-2000 the average growth rate for the agriculture gross value added was 1.38% lower than 1.62% in the year 1991(Franscisco and Glipo 2002, Glipo 2003). Franscisco and Glipo (2002) and Glipo (2003) reported that Philippines membership in WTO resulted to decline of Phillipines food security, deteriorated livelihood of small farmers and agricultural workers and exacerbated long running social inequities. The decline in gross value added demonstrates declining output of the

agriculture and hence its capacity to supply the population with adequate food, ability to generate opportunities besides the capacity to compete in the world market. Franscisco and Glipo (2002), reported that Phillipines rice production suffered a significant decline between 1997 to 1988 with a negative 24.1% for the year 1988. Similarly, the same trend was noted in other crops like corn production with a negative growth rate in 1995, 1988 and the year 2000.

Franscisco and Glipo (2002) highlighted some of the causes for the falling agricultural prices as insufficient agricultural support and investment and decline in hectarage devoted to agriculture. The importation of cheaper agricultural products together with increased smuggled goods led to flooding of Philippine's market hence decreasing the prices of the domestic products specifically rice and corn. Contrary to Phillipines government expectation, agricultural export did not register a significant increase six years after joining the WTO as illustrated in Table 2. (Franscisco and Glipo (2002).

Table 2: Value of Agricultural exports, 1994-2000

Value of Agricultural Exports, 1994-2000	
Year	Exports in Million Dollars
1994	2,072.02
1995	2,499.63=4
1996	2,306.64
1997	2,337.51
1988	2224.67
1999	1,760.14
2000	1,982.73

The value of agricultural export declined by 25% between 1997 and 1999. The promise of increased market accessibility under WTO turned the country from a net exporter to net importer of agricultural commodities. Philippine's government did not meet the anticipated benefits under WTO membership. The WTO-AOA aim of reducing barriers in trade and elimination of trade distorting subsidies and support in agriculture did not make a significant impact on Philippines's agricultural trade. Instead the government agricultural support in the form of price support remained low, credit research and development and infrastructure development continued declining. Franscisco and Glipo (2002) argued that WTO-AOA worked against Philippines agriculture because the country was unable to compete with the highly

subsidized industrial agriculture of the world economic powers. Philippines agriculture is dominated by small scale agricultural production of traditional crops and cash crops like Rice, corn and coconut oil. Similarly, the level of technology is also very low as compared to other developed countries which can afford highly mechanized system. This leads to low efficiency and low productivity a typical problem in all other developing nations. Therefore, the issue of fair trade within Philippines's context does not make sense because the country is not in a position to engage in fair market competition. According to Franscisco and Glipo (2002), Philippines dependency on cheap and heavily subsidized imports has contributed to the country's inability to achieve food security. The increased level of imports posed a serious threat to the countries' food security situation. It led to accumulation of large trade deficits in Agriculture, In a period of six years following GATT ratification, the balance of trade in agriculture raised to US$ 1 Billion in 1999 as compared to consistent trade surplus in 1970's and 1980's. Table 2 shows the Phillipines balance of trade in agriculture from the 80's to 90's. It is apparent that Philippines was turned from a food exporter to a net food importer after its accession to WTO.

Table 3: Philippine's Balance of trade in Agric. 1980-2000 (FOB Value in Million US$)

Year	Exports	Imports	Bal. of Trade
1980	2166.91	823.44	1343.47
1981	1057.03	862.16	1194.87
1982	1743.72	960.71	783.01
1983	1559.14	818.60	740.54
1984	1663.59	655.44	1008.15
1985	1285.97	706.83	579.14
1986	1421.07	656.55	764.52
1987	1520.75	816.67	704.08
1988	1713.28	1,106.24	607.04
1989	1720.96	1317.21	403.75
1990	1701.13	1555.23	145.90
1991	1844.67	1259.17	585.50
1992	1866.49	1599.70	266.79
1993	1918.25	1626.20	292.05
1994	2072.02	2112.98	(40.96)
1995	2499.06	2648.65	(149.59)
1996	2306.64	3095.85	(764.28)
1997	2337.51	3101.79	(764.28)
1998	2224.67	2894.56	669.89)
1999	1760.14	2878.13	(1117.99)
2000	1982.73	2776.93	(794.20)

Source: Development Forum, No. 1 Series 2002

UNITED STATES OF AMERICA

Agricultural Subsidies

Agricultural assistance programs to American farmers began 1920's aimed at addressing the ramped- up growing patterns developed by farmers in support of First World War (Field 2004). After the war the farmers continued to grow crops at an escalating rate. This resulted to oversupply and hence lowering the market prices. The Agricultural credit of 1923 was unable to address the issue of increased production. This led to development of other programs that attempted to manage what or how much the American farmer was suppose to produce. Field (2004) reported that 1929, the American government started buying cotton and grains on the open market during times of high production with an aim stabilizing prices. Other techniques that were developed later included fixing quotas for certain farm products, reducing surplus products from the marketplace as well as paying farmers not to produce crops that were flooding the market.

An attempt to eliminate farm subsidies started in 1996 with Freedom to Farm Act which is contradicted by the fact that the farmers were given fixed amounts of money based on what they had grown the previous years. This formed the beginning of demand for subsides regardless of whether the farmers grew anything or not. Field argues farm subsidies transformed the commodity payments into commodities themselves that could be passed around, sold and traded. In the year 2000 the farm subsidies tripled to $22 billion compared to 1996. In addition the 2002 farm bill neglected the elimination of subsidies and reduction of farm payments. Instead the bill planned to distribute $190 billion by 2012 which was an increase of $72 billion compared the programs that the bill was replacing (Field 2004).

United States is the largest producer and exporter of corn, accounting for 41% of the

global corn production in 2005/06 and 60% of all corn exports. In the year 2005 and 2006, US corn subsidies averaged almost US$ 9billion per year. Since 1993, Canada has been a net importer of US corn. Wise (2004) reported that corn is one of the highly subsidized crops with a subsidy level of 47% of the farm income. Ritchie et al.(2003) noted that US has been consistently exporting corn and other key crops at prices below their actual cost of production. Critiques within US claims that the agricultural subsidies go to the top 10% of the large farms. There is also concern of these large farms using federal subsidies to buy smaller farms to consolidate agricultural industry. Other criticism argues that 90% of subsidy money goes to staple crop of corn, wheat and cotton while majority of other crops do not benefit (Babcock 2001). Babcock (2001) argues that US becomes a victim of critics because the subsidies are not equally distributed. According to Field (2004), American farmers have shifted their investment from fruits, vegetables and other grains to highly subsidized crops like corn, soybean and wheat. There has been public outcry on the side effects of highly subsidized crops like corn on American Obesity pandemic and other nutritional problems (Field 2004). The highly subsidized production have contributed to significant flooding of the market with cheap products particularly the sweeteners in the form of high fructose corn syrup, fats in form of hydrogenated fats processed from soy bean as well as animal feed for cattle and pig.

Majority of Americans farm leaders' rail against markets closed to US exports, while America has protectionist policies in her farm markets (Babcock 2001). Unilateral trade liberalization though good for US, has not been adopted because policy results in the form of political response to the constituents, which in most cases are those large enough to justify for lobbyists (Babcock 2001).

Critique

Through out this entire paper, the WTO has been criticized for failing to accomplish its intended goals. My critique will be based on the implications of WTO in Agriculture with particular reference to the case studies. WTO Agreement in Agriculture has been a victim of critique by many other authors (Wise 2004). The most popular evidence of WTO disagreements was during the WTO ministerial meeting on September 2003 at Cancun where agricultural trade liberalization was a major bond of contention. It has been argued that Northern countries are subsidizing their producers with over $ 300 Billion per year (Wise 2004). While this idea of giving subsidies has been reported to cause a significant amount of export dumping in the developing world the WTO has failed to coordinate the member countries to address this sensitive issue.

Wise (2004) argues that subsidized agriculture in the developed world is one of the greatest obstacles in economic growth in developing countries. In 2002, developed countries spent US$300 million on crop price support, production payments and other forms of programs. World markets are flooded with surplus crop that are sold below the cost of production. Developing countries are shut out of the world market because they cannot afford to subsidize their farmers while the developed countries' agricultural trade remain highly subsidized. Prosperous countries give US$50-550 billion annually to developing nations as a foreign aid. If developed nations would reduce subsidies and eliminate trade barriers such as import tariff trade would support domestic producers in developing countries.

From the literature review, it appears that the AOA are tailored in favor of developed countries. While the developing countries are given a longer period for implementation, the developed countries are given a better concessions through provision of blue and green boxes

which are both categories of exemption under the subsidy reduction regulation. Under the WTO-AOA rule these kind of subsidies are allowed if they are intended to meet environmental and social objectives. Developed countries have often used these boxes to replace the lost production support and export subsidies subjected to reduction under WTO rule as illustrated with the US case study. In general the implementation of the WTO at global level benefited only the developed countries as opposed to developing countries.

According to World Bank (2003) report, the projected potential benefits of agricultural trade liberalization before the Cancun meeting highlighted warfare gains and reduction of poverty as one of the priorities. If both developed countries and developing country agricultural tariffs were to be reduced to 10% and 15% respectively, the report projected an additional world income by over $500 billion by 2015 with a $350 Billion going to the developing countries (World Bank 2003) Similarly this report projected a reduction of people living under $2 dollar per day by 144 million. Philippines' case study reviews that this anticipated benefits of agricultural trade liberalization is not bound to benefit the developing countries. Philippine's government is unable to achieve its food security even after accession to WTO. This demonstrates that there is need for more localized actions at the country level. WTO should allow all countries to take protective measures to avoid agricultural exports dumping from other countries below the cost of production. To protect food security, countries should be able to protect any key food crops without having to prove that dumping is taking place.

Philippines' shift from a net exporter to a net importer is also another indication that the WTO promise of the countries increase in export volume and better prices is questionable. Philippines' government should conduct a review of WTO commitments in agriculture and revisit the country economic productivity to make the necessary policy changes. The

government should be able to resist the pressure applied by the world economic powers and give priority to recovering national food security situation.

Since agriculture is the backbone of the economy for most developing countries, the WTO regulations should allow countries to make their own decisions on protecting the overwhelmingly number of agricultural labor force who are mostly the peasant farmers. In Philippines' case, although agriculture contributes only 20%, agricultural sector employs over 50% of the labor force. Phillipines food security situation should be given a priority to achieve self sufficiency. Dependence on imports food and other imports is certainly very risky from a sustainable development perspective.

American Agricultural subsidies can be criticized in the sense that the subsidies goes to the richest farmers and to very few crops. This concentration of the subsidy on relatively few commodities is not good in liberalized trading system where only very few people are given the benefit of economics of scale.

On the flipside it has been argued that protection in agriculture can be environmentally damaging. Yu (1994) reported that the high food prices maintained by the European Community (EC) Common Agricultural policy (CAP) has distorted trade due to export subsidies and put many species in danger of extinction. The same report also not that the farmers have put environmentally valuable wetlands into production. The US the farm policy have had the same disastrous effect on wetlands and marginal areas. A good example is how the rise in sugar prices led to increase in sugar plantation in Florida. Trade liberalization in Agriculture has led to massive deforestation in developing countries in order to expand their agricultural export production. China's case study demonstrates that WTO does not have capacity to influence decision making for its members. China's policy makers continue to use several strategies to

continue corn exports and block imports. Although China as a member of WTO has a bound to fulfill her WTO obligation of reduction of import tariffs and increasing imports, there is no follow up mechanism set up by the WTO structure to ensure that each member implements its obligation. China's corn import remained minimum since its entry into WTO.

In conclusion the practice of export dumping has led to deterioration of the livelihood of small holder farmers in developed countries and directly threatening the food security situation of the developing nations. AOA has turned these countries into net food importers and further undermining their food security and sustainable rural development goals as illustrated in Phillipines case study.

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