

Trade Liberalisation Policies, Intra-regional Trade and Opportunities for Sustainable Agricultural Development

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1. INTRODUCTION

Many of the Near East (NE) countries are currently opening their agricultural markets at three distinct but interacting levels: unilateral liberalisation, regional integration schemes and multilateral trade liberalisation. These changes hold important implications for intra- and extra-regional trade, use of agricultural resources and sustainability of agricultural development in the NE countries.

Unilaterally, and since the late 1980s, most countries of the region have liberalised their agriculture sectors by eliminating or reducing input subsidies, removing or reducing guaranteed producer prices, reducing the number of subsidised commodities and liberalising the exchange rate and the trade regime. Most of the implicit and explicit subsidies for agricultural inputs and outputs were withdrawn. However, some of the NE countries were able to continue supporting agriculture mainly for food security reasons. Experiences showed that domestic reform is necessary but not sufficient condition for economic growth.

Agricultural trade liberalisation is also taking place in the context of several Regional Trading Agreements (RTAs) most important among which are the Arab Free Trade Area (AFTA), the Gulf Co-operation Council (GCC), the Arab Maghreb Union (AMU) and the EU-Mediterranean Agreements (Table 1). Despite lack of clear and significant success, regional integration continues to be an issue of great concern in the Near East and promotion of intra-regional agricultural trade remains key objective in all RTAs in the region. The current developments in the international economic environment including the new rules of international trading system set by the Uruguay Round Agreement (UR), the EU-Mediterranean Agreements (EMA), and the proliferation of regionalism world-wide bring regional co-operation in the Near East again to the forefront.

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The most remarkable development in the agricultural trade liberalisation process is the accession of many NE countries to the WTO and the commitments they made under its various agreements, particularly the Agreement on Agriculture (AoA) and the Agreement on the Application of Sanitary and Phyto-sanitary Measures (SPS). Although the commitments made by the NE countries in these agreements are less binding than those made in unilateral reforms and regional trading agreements, they are more binding and long-lasting.

The Uruguay Round was a turning point in the evolution of agricultural policy. For the first time, a large majority of countries agreed a set of principles and disciplines to reduce the trade distortions caused by agricultural policies. Several WTO Agreements are directly related to the agricultural sector. Despite progress achieved in the implementation of these agreements, the international trading system remains unbalanced. Moreover the complexity of import regimes and of accessing tariff rate quotas as well as the costs of complying with SPS and TBT agreements continue to create obstacles to market expansion which may be insurmountable especially for small economies.

The negotiations for continuing the reform process were launched in February 2000 and are now well advanced. The vast majority of developing countries entered the Uruguay Round with under-developed agricultural sectors and insufficient resources to raise productivity and output in line with their food needs and production potential. Their farmers were forced to compete with the treasuries of the world's richest countries in export markets and in their home markets. While consumers in developing countries could be said to "benefit" from the availability of subsidised supplies, the situation was unstable and unsustainable.

There is growing concern that liberalisation of agricultural trade will have a wide ranging impact on the environment. Trade liberalisation will affect production and consumption patterns with associated environmental issue. Liberalised agricultural trade and the corresponding new rules will increase volume of international trade and create a paradigm shift in regional production patterns. This will in turn affect the environmental quality with attendant impacts (both positive and perhaps more negative) on NE countries which are already confronting environmental issues. The interrelationship and interdependence of trade liberalisation and environment is a widely debated issue in the NE countries.

This document intends to discuss the trade liberalisation policies and their implication for intra-regional trade and sustainable agricultural development in NE countries and to recommend practical actions for the Governments and FAO.

2. SUSTAINABLE AGRICULTURAL DEVELOPMENT AND INTER-RELATED ENVIRONMENTAL AND TRADE ISSUES

The World including the NE Region is witnessing climatic changes. The last 150 years were characterised by the improvements of modern irrigation. This seems to be

winding down. The cultural, economic and political forces that shaped this era are being realigned. On the economic front, irrigation expansion in many areas has reached the point of diminishing returns. The NE countries are no exceptions and are more vulnerable to such global climatic and trade changes because of their ecology and narrow resource base. There is a long list of issues confronting the NE agrarian and production base. The most striking challenges are water scarcity, environmental degradation, production instability and food insecurity, and trade related issues.

2.1. Environmental Degradation and Water Scarcity

Water scarcity for irrigation is becoming a factor in sustainable production for many of the important food-producing countries in the Near Region (Egypt, Pakistan, Iran, and Morocco). In many NE countries (Yemen, Syria, Saudi Arabia) farmers are pumping ground water faster than nature is replenishing it, causing a steady drop in water table. Groundwater over-pumping may be the single biggest threat to NE agriculture. Over-tapped rivers are noticed and the consequences are fairly visible. Ground water overdraft is even more serious problem. Global warming will further exacerbate the issue of water insecurity in NE countries. The pace of dam building is slowing down because of the resource constraints, environmental concerns and regional conflicts (Kala Bagh dam in Pakistan). The surface waters though deficit, if managed properly, could only ensure the sustainability of agriculture. Thus water productivity, getting more crops per drop, seems to be the agricultural frontier for NE countries in the 21st century. The options for improving irrigation water productivity involve technical, managerial, institutional, and agronomic aspects.

Of all the environmental degradation, the most threatening is the scourge of salt, where Southern Iraq is a clear example. The share of salt affected area in the total irrigated area is 26 percent, 30 percent, and 33 percent in Pakistan, Iran and Egypt respectively. The problem is also noticed in the Gulf countries. Pakistan and the Aral Sea basin countries have two of the world's most intractable salt problems. This twined with water logging is threatening the very natural resource base of many NE countries. The situation is further aggravated with the excessive use of fertiliser and pesticide use as result of crop intensification. The use of fertiliser and pesticide has recently declined. Yet there is need to encourage more bio-fertilisers and bio-pesticides use in order to control environmental damage.

The production instability and food security are inter-related. Most of the rain-fed agriculture is experiencing erratic cereal production. The production instability index (coefficient of variation) is 29 percent for all NE countries. The highest variation is in UAE (85 percent) and Morocco is 55 percent. Major variation is attributed to yields of crops. By and large all NE countries are food deficit and fulfil their food requirements from imports. Neither the UR AoA nor the definition makes any reference to income levels, poverty, or employment generated by agriculture in these countries. Given the centrality of agriculture to the livelihoods of the world's poor, this is a serious omission.

In the light of this, and international community's undertaking at the World Food Summit, food security should have figured far more explicitly and prominently in UR AoA. At present most of the NE countries, having per capita water available below 1700 M³ are net food importers (Table 2). Water long left of the food security equation, may now be driving it. As domestic competition for water spills into international competition for grain, it will be the poor, of these food deficit nations that lose out. Thus irrigation water has to play a key role in meeting this challenge in all NE countries.

2.2. High Commodity Concentration of Agricultural Trade

Agricultural trade in the Near East is characterised by high commodity concentration: high dependence on food imports and dominance of fruit and vegetables in the regions agricultural exports. Both characteristics have direct bearing for the use of the limited agricultural resources in the region.

High Dependency on Food Imports. For the region as a whole, imports of cereals as a proportion of the total annual consumption, expanded from 15 percent in 1970–75 to 33 percent in 1980–85 and slowed only slightly to 30 percent in 1990–96 and again slightly increase to 33 percent in the year 1997–99. The import dependence vary considerably among the countries. In 1997–99, for instance, Egypt, Algeria, Yemen and the Gulf states imported over 50 percent of their requirements of wheat and wheat flour, the staple food in these countries. High dependence on food imports means that countries are exposed to some risks. Ability to import is, therefore, an essential component of a sustainable food security in the region. The LIFDCs in the region in particular are facing difficulties in developing adequate foreign exchange earnings to finance food imports.

Multilateral reforms are also expected to leave a negative impact on food aid and subsidised food exports to the region. By virtue of the high import dependence access to concessional food imports is extremely important for many Near East countries to supplement their domestic supplies. In the past, countries in the region benefited from low world prices and the subsidised exports associated with food and the export subsidy and credit programmes of the EU and the US. During the early 1990s, a large part of US wheat exports to the Middle East and North Africa countries was covered under the Export Enhancement Programme (EEP). Since 1995, however, the volume of subsidised exports declined sharply.

The multilateral liberalisation of agriculture therefore carries the risk of increasing food import bills, but for several reasons, the feared changes in international food prices as a result of the Uruguay Round have not really materialised so far. The sharp increase in cereal prices during 1995-96, however, was related partly to the Uruguay Round. The experience of the NE countries with this price hike, though, demonstrates the kind of economic and political risks associated with high import dependence in the region. Some countries managed to cope with the increase while

others were forced to cut down their import volumes. Attempts by some countries to adjust to the increase in world cereal prices have resulted in public unrest.

Dominance of Fruit and Vegetables in the Regions' Agricultural Exports.

Live animals, cotton lint, pulses and cereals are principal agricultural exports for few countries in the Near East, while exports of fruit and vegetables are important for almost all the countries in the region. On average, exports of fruit and vegetables constituted about 40 percent of the region's total value of agricultural exports during 1992-96. This share exceeded 50 percent in Algeria, Lebanon, Morocco, and Islamic Republic of Iran. These shares are expected to increase further in the future as the growing scarcity of water may drive many countries to shift further to the production of fruit and vegetables, which have a relatively high returns to water use.

The main external market for fruit and vegetables is the EU. Tariffs on fruit and vegetables in the EU vary by product, season and country of origin, with higher tariffs being imposed during the periods when imports compete with domestic production. Many countries from the region claimed that the implementation of the Uruguay Round did not result in tangible improvements in market access for their fruit and vegetables. Most of the fruit and vegetables in the EU are protected by the 'entry price' system, which appears, in most of the cases, to provide protection of the same magnitude as that provided by the 'reference price' system under old CAP.

Fruit and vegetables exports, however, should benefit from the implementation of the SPS Agreement, since these have been subjected to the greatest uncertainty in the past in terms of phyto-sanitary standards. But no clear improvement in this respect has been felt so far.

3. INTRA-REGIONAL TRADE

Intra-regional trade in the NE was seen as a vehicle for improving national and regional food security and for enhancing utilisation of region-wide agricultural resources. Several arguments have been advanced in support of promoting regional co-operation in agriculture in the Near East. First, given their small economic size – all countries in the Near East together account for less than 4 percent of world agricultural trade-enhancing trade among themselves would expand trade with third countries and would eventually increase their share of global trade. Thus, greater co-operation among Near East countries should be recognised as a prerequisite to the integration with the global economy. Second, there is some good potential for regional exchange on agriculture products that has not been exploited so far. Countries of the region need to broaden their production base on a complementary rather than competitive basis, improve their resource use efficiency and exploit economies of scale.

There are a number of other cogent factors that would augur well for greater co-operation among Near East countries in agricultural trade matters. These include: (a) the ongoing unilateral policy reforms in the region will provide a new impetus to trade, production and investment along each country comparative advantage and thereby promote an efficient division of labour both at the regional and international levels; (b) regional co-operation is seen as an appropriate instrument for bargaining more effectively within the World Trade Organisation (WTO) and in bilateral negotiations with larger and more developed countries; and (c) with the accession of 16 countries from the region to the WTO all existing RTAs not concurring with the WTO rules would need to be adjusted, which, in almost all the cases, necessitates further liberalisation of regional markets.

The major RTAs (Table 1) in the Near East include the Greater Arab Free Trade Area, the Agreement for Facilitation and Promotion of Intra-Arab Trade, the

Table 1

*Regional Trade Agreements and Organisations for Economic Cooperation
and Trade in the Near East Countries*

Organisation/Agreement	Member Countries	Year	Status
Greater Arab Free Trade Area	Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, Egypt, Iraq, Jordan, and Yemen	1997	Active
The convention for Facilitating Trade and Regulating Transit Trade Among Arab League Members	Egypt, Iraq, Jordan, Saudi Arabia and Syria	1953	Inactive
The Agreement for Facilitation and Promotion of Intra-Arab Trade	All Members of Arab League ¹	1981	Active
Council of Arab Economic Unity (CAEU)	Egypt, Iraq, Jordan, Somalia ² , Kuwait, Libya Arab Jamahiriya, Mauritania ² , Sudan ² , Syria, UAE, Yemen	1957	Inactive
Arab Common Market (ACM)	Egypt, Iraq, Jordan, Libya Arab Jamahiriya, Syria and Yemen	1964	Reactivated and functioning since 1998
Economic Co-operation Organisation (ECO)	Afghanistan, Islamic Republic of Iran, Kazakhstan, Kyrgyzstan, Pakistan, ³ Turkey, Tajikistan and Turkmenistan	1985	Active
The Gulf Co-operation Council (GCC)	Bahrain, Kuwait, Qatar, Saudi Arabia, UAE	1981	Active
Arab Maghreb Union (AMU)	Algeria, Libya Arab Jamahiriya, Mauritana, Morocco, Tunisia	1989	Active
The Arab Co-operation Council (ACC)	Egypt, Iraq, Jordan, Yemen	1989	Frozen

¹Members of the Arab League include Algeria, Bahrain, Djibouti, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libyan Arab Jamahiriya, Mauritania, Morocco, Oman, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, United Arab Emirates and Yemen.

²Also member of the Common Market for Eastern and Southern Africa (COMESA).

³Also member of the South Asian Association for Regional Cooperation (SAARC).

Council for Arab Economic Unity (CAEU), the Economic Co-operation Organisation (ECO) the Gulf Co-operation Council (GCC) and the Arab Maghreb Union (AMU). The EU agreements with some countries from the region are of two types. First, interim agreements leading to the formation of customs unions and at a final stage to full accession into the EU. Countries having such agreements are Cyprus, Malta and Turkey. Second, limited free trade area agreements (Euro-Mediterranean Free Trade Area) are based on non-reciprocity, but also include some elements of preferential treatment particularly in agricultural products. Agreements under the Euro-Mediterranean Free Trade Area have been concluded with Egypt, Jordan, Morocco and Tunisia and are currently being negotiated with Algeria, Lebanon and Syria.

Despite all these regional and sub-regional integration agreements, the performance of intra-regional trade including agricultural trade, remained low and stagnant due to the following constraints: (a) low share of intra-regional trade in total trade; (b) high geographical concentration; and (c) high commodity concentration with limited exchange of cereals. In the 1980s, live animals, meat, fish and fish products were predominantly directed to regional markets, while vegetables, fruits and agricultural raw materials such as cotton reveal a clear extra-regional orientation. Pakistan and Turkey supplied not less than 50 percent of the intra-regional exports of cereals, which, in the case of Pakistan, is mainly rice. Somalia and Sudan are the major suppliers of live animals, while meat is supplied mostly by Turkey and Syria.

The impact of RTAs on intra-regional trade, despite the many provisions offered for the removal of trade barriers among member countries of the above trade-related co-operation agreements, was limited and marginal. The share of the Middle Eastern countries (8-9 percent) is among the lowest in the intra-regional trade (export plus import) in the total trade. The present regional economic co-operation mechanisms might be necessary but are not sufficient devices for the expansion of intra-regional trade. Therefore, any liberalisation efforts would have little effect on intra-regional trade. It is important to investigate whether or not poor intra-regional agricultural trade is an inevitable consequence of the prevailing economic characteristics of countries in the region and whether greater gains can be reaped from more appropriate forms of integration based on more conducive economic policies and enabling trade environment.

There seems to be a *greater scope for intra-regional trade in rice, live animals, fruit, vegetables and pulses*. Historically, agricultural export flows from the Near East consisted primarily of vegetables, fruits, rice, live animals and meat products and cotton. For wheat, vegetable oils and sugar, however, the region remains dependent on the outside world, and chances for intra-regional trade in these commodities are very limited. The main intra-regional trade products are meat, vegetables, fruit, pulses and to

some extent rice. The potential trade in cereals, however, is rather limited. It is estimated that even if exports of wheat and sugar of all countries in the region were to be directed only to regional markets they will not meet more than 16 percent and 9 percent of the region's requirements for two commodities respectively.

The diversity in natural endowments among countries within most of the existing sub-regional groupings limits the *scope for exchange between existing sub-regional grouping*. Complementarity of resources and contrast in comparative advantage are clearer between than within these sub-regional groupings. Available data on production and trade suggest that ECO has a clear comparative advantage in the production of cereals (especially rice), AMU and ACC in fruit, vegetables and pulses, GCC in poultry and East African countries (Somalia, Sudan) in meat and live animals.

Estimates of *import instability* indices in Table 3 indicate that cereal imports instability is relatively low at the regional level compared with that of individual countries. In order to stabilise short-run fluctuations in exports and imports, future markets could be used at the regional level by establishing, for instance, a marketing unit that carries out transactions on future markets.

Estimates of *production stability* for cereals have shown that production levels at the regional/sub-regional levels were much more stable than those at the individual country levels (Table 3). Almost all countries in the region recorded instability indices greater than 15 percent, with about two thirds of these countries recording instability indices greater than 25 percent, while for the region as a whole, the instability index is only 10 percent, suggesting that regional co-operation could reduce production fluctuations significantly and all countries will gain as a result. Establishing an early-warning system and exchanging information on food production prospects could be viable options to deal with production instability.

Despite the relatively good potential for economic co-operation in agriculture, and the several RTAs implemented over the last 2-3 decades, the potential benefits remained untapped, with intra-regional trade performed poorly. All forms of integration efforts have been faced with complicated structural and policy obstacles. The existing active sub-regional arrangements have yet to demonstrate their vitality in agriculture. The major constraints and challenges facing intra-regional agricultural trade in the Near East are: (a) little diversity in agricultural products; (b) the choice of integration approach; (c) non-tariff barriers; (d) insufficient trade supporting services; and (e) divergent political and economic interests [Hag Elamin (1998)].¹

It seems imperative for the NE countries to develop and take a position in wide range of agricultural trade issues concerning their negotiations with the rest of the world. The common regional stand will carry a weight in global trade negotiations. The existing regional and sub-regional groupings can play a vital role for developing a common agenda and strategy in the international trade milieu. The

¹Hag Elamin N. (1998) The Impact of Uruguay Round Agreements on Intra-regional Agricultural Trade in the Near East. A paper presented at the FAO Expert Meeting on ... Rabat, Morocco.

Table 2

Cereal Import Dependence of NE Countries and Per Capita Availability of Water

Countries	Per Capita Water 1998	Agriculture (Irrigated) 1998 (%)	Cereal Import as Percent of Consumption 1998
Arab Countries			
Algeria	460	60	62
Bahrain			
Djibouti			88
Egypt	930	86	55
Iraq	1,615	92	30
Jordan	114	75	229
Kuwait	11	60	280
Lebanon	1,315	68	195
Libya	100	87	161
Mauritania	163	92	67
Morocco	1,071	92	41
Oman	393	94	
Palestine (O)			
Qatar			
Saudi Arabia	119	90	194
Somalia	563	97	34
Sudan	1,227	94	9
Syria	456	94	12
Tunisia	371	89	62
United Arab Emirates	64	92	463
Yemen	243	92	78
Sub-total	542	86	121
Non Arab Countries			
Afghanistan	2,354	99	6
Cyprus			702
Iran	1,755	92	53
Kazakhstan	4,484	81	12
Kyrgyzstan	10,394	94	20
Malta			0
Pakistan	1,678	97	10
Tajikistan	11,171	92	25
Turkey	3,074	72	25
Turkmenistan	232	98	55
Sub-total	4,393	91	114
Grand-total	2,467	88	127

Source: World Resources (1998-1999) "A Guide to the Global Environment". Environmental Change and Human Health. World Resources Institute.

1. Annual Internal Renewable Water Resources; 2. Annual River Flow.

Table 3

Instability Indices of Agricultural Production and Trade in the Near East, 1985-98

	Production			Trade		
	Area Harvested	Yield	Production	Import Quantity	Import Value	Export Quantity
Near East Region	4.6	5.8	10.1	12.1	18.5	12.4
ACC	14.5	11.2	20.5			
Egypt	13.4	12.2	24.0	12.4	20.5	72.5
Iraq	24.7	12.4	20.9	51.3	47.2	208.1
Jordan	22.2	28.5	26.2	30.7	35.5	103.9
Yemen	9.7	18.7	18.8	30.2	36.4	95.4
AMU	13.9	13.0	33.8			
Algeria	31.8	22.3	50.3	22.6	30.7	158.3
Libyan Arab Jamahiriya	27.0	9.0	23.5	25.6	27.3	na
Mauritania	29.7	13.3	28.1	56.3	56.6	154.4
Morocco	10.5	37.1	43.1	33.7	45.5	212.7
Tunisia	37.5	29.3	55.7	36.5	45.4	97.0
ECO	9.2	7.2	9.2			
Afghanistan	7.7	5.0	11.5	35.7	47.2	na
Azerbaijan	5.8	11.7	13.3	38.0	33.1	98.7
Iran, Islamic Republic of	4.8	19.0	17.9	28.8	41.4	249.2
Kazakhstan	23.0	34.5	52.4	188.3	88.5	18.1
Kyrgyzstan	6.3	16.0	19.4	106.7	80.6	102.7
Pakistan	3.9	9.1	12.8	43.2	45.1	31.0
Tajikistan	13.1	31.3	38.2	61.7	41.4	na
Turkey	1.4	7.7	8.3	66.1	72.0	79.2
Turkmenistan	26.6	35.2	28.0	57.7	37.7	na
GCC	25.5	6.3	32.2			
Bahrain				31.4	27.6	250.5
Kuwait	43.7	15.7	43.1	33.9	37.9	143.9
Oman	17.8	14.9	25.9	29.9	23.9	80.5
Qatar	32.3	5.7	34.2	19.9	18.0	117.0
Saudi Arabia	25.6	8.4	32.3	21.4	23.3	76.5
UAE	41.0	31.0	65.0	46.2	47.1	49.1
Others						
Cyprus	13.2	28.6	38.8	26.9	34.4	45.2
Djibouti	24.4	6.3	25.2	15.7	22.7	204.5
Lebanon	11.5	17.8	23.5	18.1	29.6	156.6
Malta	12.3	12.6	13.7	10.6	35.9	90.8
Somalia	28.6	28.7	44.0	39.7	34.5	na
Sudan	25.2	19.6	36.3	42.7	32.8	133.6
Syrian Arab Republic	14.2	35.4	36.1	42.4	39.9	120.9

Source: Computation are based on data obtained from FAOSTAT (2000).

promotion of intra regional trade will also serve as a vehicle for food security in the NE countries. There is a demonstrated need to develop integrated regional approach for agricultural trade to hedge against rising food prices and associated risk and uncertainties confronting the NE countries.

4. EXPERIENCE WITH IMPLEMENTING WTO AGREEMENT ON AGRICULTURE

All countries in the Near East region, being members of the WTO or not, are concerned about the multilateral negotiations on agriculture. However, the agricultural and economic systems of the Near East countries vary widely, since their interest and concerns about the multilateral negotiations on agriculture are hardly similar. Some are exporters of temperate products, some export tropical products while others have virtually no agricultural exports. Many trade liberalisation experiences and policy options could be drawn based on the implementation of the AoA in the NE.

Of the 31 NE countries, only 16 are members of the WTO and 6 are observers, of which 4 have applied for accession. Four of the observers have applied to join the WTO and most of the remaining are seriously considering of applying for membership. Kazakhstan is at an early stage of negotiations to WTO. In general, NE countries have not been faced with undue difficulties in meeting their AoA commitments during the period 1995–2000. On domestic support, the overwhelming majority of developing countries have reported zero or less than *de minimis* total base AMS levels (Table 4). Most of these countries have no reduction commitments on domestic support but they do not have WTO “rights” to use “amber box” support in excess of the *de minimis* level in future. On market access, most of the NE countries secured high tariff bindings for most of their agricultural products, though some of them bound at low levels.

5. OPPORTUNITIES AND CHALLENGES FOR SUSTAINABLE DEVELOPMENT IN THE CONTEXT OF THE NEW NEGOTIATIONS ON AGRICULTURE

Opportunities and challenges facing agriculture in the NE in the context of the WTO negotiations on agriculture have been expressed widely in several proposals submitted to the new negotiations on agriculture. Egypt, Jordan, Morocco, Pakistan and Turkey have submitted comprehensive proposals covering many aspects of the AoA, while some others (besides Egypt and Morocco, Djibouti, Mauritania and Tunisia) have done so through the WTO African Group. These proposals have articulated clearly the issues and concerns facing them and contain specific proposals for negotiations. Issues arising from the implementation of the UR agreements, as well as those emerging for the forthcoming negotiations on agriculture, are outlined

Table 4

*Domestic Support Categories, Export Subsidies and Export Credits
(1995-99—US \$ Million)*

Country	Year	Domestic Support	Green Box	S&D Box	Blue Box	De-minimis	AMS	Export Subsidies	Export Credits
Bahrain	1995	3.1	0.5	2.5	0	0	na	0	..
Cyprus	1995	213.7	129.6	3.3	0	0	80.7	3.4	..
	1996	216.1	128.4	3.3	0	8.3	76.1	3	..
	1997	187.6	130.5	3.8	0	3.6	49.7	1.9	..
Egypt	1998	194.7	138.5	7.7	0	6.3	42.2	3.5	..
	1995	75.4	68.3	7.1	0	0	na	0	..
	1996	78.2	75.8	2.4	0	0	na	0	..
	1997	41.2	38.8	2.4	0	0	na	0	..
Kyrgyz Republic	1998	3.7	1.3	2.4	0	0	na	0	..
	1998	2.7	2.7	0	0	0	na	0	..
Malta	1995	0.5	0.5	0	0	0	na	0	..
	1996	0.7	0.7	0	0	0	na	0	..
	1997	1	1	0	0	0	na	0	..
Morocco	1998	0.6	0.6	0	0	0	na	0	..
	1995	315.7	157	147	0	0	11	0.6	..
	1996	552.1	378.2	145.3	0	0	28.7	-	..
	1997	482	317.7	154.7	0	0	9.6	0.8	..
Pakistan	1998	446.5	283.7	149.6	0	0	13.1	0.5	..
	1995	451.7	439.9	1	0	10.8	na	0	..
	1996	407.9	392.4	0	0	15.5	na	1.7	..
	1997	335	312.5	0	0	22.5	na	2.3	..
Qatar	1998	-	-	-	-	-	-	2.8	..
	1995	-	-	-	-	-	-	-	..
	1996	-	-	-	-	-	-	0	..
	1997	-	-	-	-	-	-	0	..
Tunisia	1998	-	-	-	-	-	-	0	..
	1995	122	29.5	30.6	0	0	62	0	..
	1996	123.7	38.9	32.4	0	0	52.4	1.8	..
	1997	128.3	43.1	29.7	0	7.2	48.2	5.4	..
Turkey	1998	160.5	54.8	45.8	0	6.3	53.7	6	..
	1995	41.8	0	0	0	41.8	na	29.9	..
	1996	972.6	0	678.9	0	293.7	na	17.2	..
	1997	470.3	0	0	0	470.3	na	38.7	..
	1998	594.2	0	0	0	594.2	na	29.1	..
UAE	1999	401.3	0	0	0	401.3	na	-	..
	1996	0	0	0	0	0	na	0	..
	1997	0	0	0	0	0	na	0	..
	1998	0	0	0	0	0	na	0	..
	1999	0	0	0	0	0	na	0	..

Source: WTO Website 2000.

AMS: Total Aggregate Measure Support.

“..”: No notification received.

na: Not available.

below from the perspective of the ability of the NE countries to join WTO in more favourable terms, enhancing sustainable use of water resources in the region, developing domestic capacities in agriculture, improving access to foreign markets and enhance the domestic food security.

5.1. Accession to the WTO

The overwhelming concern for the non-WTO members has been the terms of accession to the WTO. Five Near East countries (Algeria, Lebanon, Kazakhstan, Oman, Saudi Arabia and Sudan) have applied to join the WTO, and are facing some institutional challenges in their accession process. Non-WTO member countries of the region are also concerned about the setting of the terms of accession post-Uruguay Round treating countries on the basis of the most recent three years for which data were available and hard negotiations on the tariff ceiling bindings were seen as being tighter conditions than previous negotiations. For instance, Saudi Arabia has faced the possibility of not being treated as a developing country, which if applied would deprive Saudi Arabia from all the privileges offered to developing countries in the context of the special and differential treatment. A country like Kazakhstan faces a special problem, given the transitional nature of its economy.

5.2. Sustainable use of Water Resources

Water use issues increasingly require integration into analysis of agriculture and trade. This is particularly true in the Near East countries, where agricultural production rests on a relatively scarce water resources. The water issue relates to the multilateral trade reforms in three important aspects. First, scarcity of water means increasing dependence on the international market for supply of basic food and other agricultural commodities. Therefore, increases in world market prices for agriculture products, as a result of multilateral trade liberalisation or otherwise, may imply increased drain on water resources. Trade liberalisation in the context of the WTO, therefore, needs to be taken in tandem with a reform of water and other environmental resource prices. What is required is a judicious mix of reforms to prices of agricultural commodities, water and land. Second, most countries in the region provide heavy subsidies, both operational and investment, to irrigation water. Under the existing AoA requirements, almost all subsidies to capital investment in irrigation could be exempted from the reduction commitment under Article 6.2 of the UR AoA. Any further reforms within the WTO on allowance for such type of support will have far reaching implications for agriculture in the NE. Third, given the high dependency on rainfed agriculture with high variability in rainfall, countries of the Near East experience heavy fluctuations in food production. Cereal production, in particular, remains highly variable in the region. In Sudan, Morocco and Syria, for example, food production falls below the annual average by more than 30 percent every three to four years as a result of weather variations.

5.3. Developing Domestic Capacities in Agriculture

Enhancing the domestic capacities of the sector is crucial for the socio-economic development of the NE countries. While the AoA acknowledges the need for special and differential treatment (SDT) for developing countries and has a number of provisions on the subject, these provisions have been seen by many developing countries as falling short of what is necessary and as failing to provide the requisite policy flexibility. This section addresses some of the issues at stake regarding domestic policy flexibility to develop the agricultural potential of NE countries.

Border Protection. It is sometimes necessary to maintain a degree of border protection in order to implement a domestic support policy by supporting producer prices may still be supported through tariffs. In general, the bound tariffs in most of the NE countries are sufficiently high to allow for a considerable degree of protection at the border.² However, there are issues in this area that need to be noted.

First, most NE countries chose to offer a uniform, single rate of binding for all agricultural products. With the tariffs now bound and facing further reductions in the new round of negotiations on agriculture, some of these countries might need to approach tariff reductions carefully. Second, some countries have bound their tariffs at very low levels and consequently now have little room for manoeuvre in the use of the tariff as a contingency measure against price fluctuations on world markets.

Domestic Support. Although many of these countries are not currently constrained by the domestic support provisions of the AoA, they may find their policy options limited in the future. As mentioned earlier, most of the countries in the region have claimed zero Base Total AMS (Table 4). This may limit options for these countries to use direct price support measures in the future. Besides, all countries have submitted their AMS in domestic currency terms. The major problem of this relates to inflation and depreciation of domestic currency that would tend to inflate Current AMS relative to AMS commitment levels. Some of the NE countries have been faced with difficulties in their domestic support submissions to the WTO because of problems relating to inflation and currency depreciation.

Like many other developing countries, NE countries claim that in order for them to develop fully their agricultural potential, the main requirement would be a reform of policies in developed countries that distort world agricultural markets as there is a substantial imbalance in the levels of domestic support and export subsidies allowed to developed countries, on the one hand, and developing countries, on the other, under the AoA.

The major markets for the agricultural exports of the NE countries are in the developed world, mainly Europe. For several reasons, the implementation of the

²Nevertheless, for several temperate-zone products, tariffs are much higher in developed countries.

AoA commitments in the developed countries does not seem to have created greater access opportunities for agricultural exports from the Near East. The choice of the base year 1986-88, a period of particularly low world price levels, has locked-in high tariff rates period. In addition, the simple average formula adopted in the Uruguay Round allowed developed countries to make smaller cuts on commodities that were most directly in competition with their own domestic production. Among these commodities are fruit and vegetables, olive oil and pulses, which are also major exports of the Near East region. Another significant constraint for countries of the region is the special provision for the EU to adopt the 'entry price' system in fruit and vegetables, such important export commodities for the region, has limited scope for the Near East exports to the EU. In some cases such as cucumber and tomatoes, market access declined following the adoption of the entry price system. In addition, the Special Safeguards (SSG) for products of fruit and vegetables, both a price-triggered and a quantity-triggered versions, have been used.

The minimum and current access commitments made by the developed countries also do not favour major export crops of the region. In the EU, the biggest market for the Near East, minimum and current access commitments were set for cuts of 'high quality' beef, pig meat, poultry meat, eggs, butter, specified cheese and 'quality' wheat, products which are generally not exported by countries of the region. In its minimum access commitments the EU has aggregated all vegetables into one category and all fruit into another. As a result of this aggregation, the quantities of imports of the EU from each of the two categories during 1986-88 was more than 5 percent of its base year internal consumption and as such the minimum access commitment was not applicable. The situation could have been different if a product by product approach had been followed.

Erosion of the value of trade preferences constitutes another problem for the region. To the extent that tariffs reduction in the developed countries were effective they will erode the countries' margins of preference and cause their competitive position to deteriorate *vis-à-vis* other suppliers. Tariff escalation also remained a barrier to the processed food exports of the region. Many countries such as Cyprus, Turkey, Lebanon, Egypt and the Maghreb countries have good export potential for processed food products, but they are still constrained by high trade barriers in many OECD countries. Although tariff escalation in the fruit and vegetables sector is reduced in the EU post-Uruguay Round, it still remains considerable (Table 5). In addition, difficulties and high costs in complying with SPS standards in the EU markets remain a barrier to exports from the Near East. The above mentioned problem areas are of particular concern to the Near East countries, for they directly affect the translation of the AoA commitments into real trading opportunities, and most of them have already been tabled for negotiations in the new negotiations on agriculture.

Table 5

Uruguay Round Tariff Commitments, Select Near Eastern Countries

	Bahrain ¹	Cyprus	Egypt	Oman	Pakistan ²	Turkey	Morocco	Tunisia	Kuwait	Malta
Wheat	35	25	5	5	100	180	170	100	100	40
Rice	35	25	20	15	100	45	177	75	100	24
Barley	35	170	10	5	100	180	113	60	100	26
Beef	35	25	10	5	100	225	239	120	100	40
Live Sheep and Goats	35	75	10	5	100	20	289	180	100	30
Meat of Sheep and Goat	35	25	5	5	100	225	289	120	100	40
Poultry Meat	35	30	60	15	100	90	101	75	100	36
Tomatoes	35	50	20	–	100	49	34	150	100	36
Potatoes	35	53	10	10	100	19	34	150	100	42
Citrus Fruit (Orange)	35	75	60	15	100	54	34	200	100	40
Olive Oil	35	245	20	15	100	31	34	120	100	0.0
Other Vegetable Oils	35	58	20	15	100	31		17	100	20
Milk	35	25	30	75	100	180	87	180	100	32
Sugar (Cane)	35	25	20	5	100	135	168	100	100	240

Source: WTO (1995) Uruguay Round Country Schedule.

¹Bahrain maintains a bound rate of 200 percent on beer, wine and other fermented beverages, 100 percent on tobacco and 35 percent on the rest of the agricultural products.

²Pakistan has bound all its tariff rates at 100 percent.

5.4. Securing Adequate Supplies and Stable Prices for Food Products

Access to the Special Agricultural Safeguards (SSGs). World agricultural market instability remains a major problem for NE countries because of their high dependence on imports and the weakness of their agricultural sectors. Thus, access of these countries to WTO-compatible safeguard measures remains an issue of great concern to them. However, all countries of the region, apart from Morocco and Tunisia, do not have access to SSGs, which is simpler to use. Several NE countries have clearly indicated in their proposal for the new negotiations on agriculture the importance of allowing them to use SSGs in order for them to safeguard their domestic food producers and consumers.

Operationalising the Marrakesh Decision on LDCs NFIDCs. Of the current WTO Members from the region, two (Djibouti and Mauritania) are among the LDCs while four others (Egypt, Morocco, Pakistan and Tunisia) are NFIDCs, and therefore, they are eligible to receive such financial, technical and food assistance as envisaged in the Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on LDCs NFIDCs. This Decision has yet to be implemented. Despite the sharp increase in cereal prices in 1995-96, which was partly due to the Uruguay Round, it had been difficult to make use of this Decision because there was no agreement that the rise was related to the Uruguay Round. At the same time, LDCs and NFIDCs of the region did not seem to have benefited from the IMF Contingency and Compensatory Financing Facility (CCFF) during 1995-96.

5.5. Promotion of Intra-regional Agricultural Trade

Changes in the policy environment in the region following the UR AoA are expected to have pronounced effects on both the magnitude and direction of intra-regional trade. First, the main effect of the UR AoA on intra-regional trade will emanate from the tariffication process, as non-tariff protection in most of the countries in the region discriminates against agricultural products that could be competitively supplied from other countries within the region. Hence, a tariffication on MFN basis ensures positive effects on intra-regional trade. Benefits of tariffication will go beyond improvement in the magnitude of intra-trade as it may serve to improve its stability as well. Second, reduction in import tariffs should generally encourage a region-wide exchange of products on MFN basis, though it may have a negative impact on the exchange within the existing economic groupings in the region (e.g. GCC, ECO and AMU) due to the erosion of the margins of preferences within these groupings. This current large gap between bound and applied tariffs in many NE countries could be exploited by RTAs in the region.

Other WTO agreements such as the SPS, TBT, and TRIPS offer great opportunity for the Near East countries to harmonise their standards and regulations, which would provide an environment conducive to the promotion of intra-regional

trade. Indeed the most significant effect of the UR would emerge from its rules of conduct and the general improvement in policy discipline.

The broad scene seems to suggest that the WTO agreements, on balance, would create limited but positive improvement in intra-regional agricultural trade. The magnitude of the increased benefits depends a great deal on the way each country implemented its UR commitments and on the level of co-ordination within and between existing sub-regional groupings.

5.6. Institutional Set-up to Address Trade- and Environment-related Issues

Many NE countries have no formal institutional capacity to address the trade and environmental issues and are unable to prepare necessary documentation under the UR AoA. Given the sizable number of NE countries for which detailed supporting tables are not available, and the analysis based on scanty data, underestimates the prevalence of Green Box compatible environmental programmes. Therefore, this disparity lends support to the apprehension by many NE countries that environmental exception to Article 6 mainly favours the developed countries. The participatory determination, design, and implementation of product standards, production methods, packaging and labeling requirements, are lacking in many respects. There is lack of coordination and institutional back up among the relevant ministries to address WTO/AoA issues. Even at the WTO headquarters, representation of the NE countries is at a junior level; often the officers are ignorant about rules and regulation of the WTO. Thus institutional support both at home and abroad is weak. NE countries should seriously consider strengthening the institutional set up and representation at WTO should be at the Ambassador level coupled with well-trained analytical team.

Legal and institutional capacities for planning and implementing trade policies in the countries of the region are generally weak. In order to be able to take advantage of and defend their rights, as well as meet their obligations under the WTO, these countries must develop their capacity to participate effectively in the WTO system. They should take full advantage of the opportunities that accession to the WTO offers, and try to focus on this issue in their future negotiations. Since the process of proving injury and developing cases for settlement at the Dispute Settlement bodies at the WTO is a very demanding and expensive task for a single country to sustain, a collective action could be the best approach.

6. SUMMARY AND RECOMMENDATIONS

Many of the Near East (NE) countries are currently opening their agricultural markets at three distinct but interacting levels: unilateral liberalisation, regional integration schemes and multilateral trade liberalisation. These changes hold important implications for intra- and extra-regional trade, use of agricultural resources and sustainability of agricultural development in the NE countries.

Since the late 1980s, most countries of the region have liberalised their agriculture sectors by eliminating or reducing input subsidies, removing or reducing guaranteed producer prices, reducing the number of subsidised commodities and liberalising the exchange rate and the trade regime. Most of the implicit and explicit subsidies for agricultural inputs and outputs were withdrawn. However, some of the NE countries were able to continue supporting agriculture mainly for food security reasons. Experiences showed that domestic reform is necessary but not sufficient condition for economic growth.

Agricultural imports out weigh export in the region and most countries are net food importers. During 1990–1999, agricultural imports increased by 17 percent while agricultural export increased by 30 percent. The NE countries seem to have good export potential in high value crops (fruits and vegetables) and fish.

The total intra-regional agricultural export for the Near East reaches about 9 to 10 percent of the total agricultural export. The commodity pattern of intra-regional trade is centered on few items like live animals and fish that are also concentrated among few partners. Most of the trading agreements in the region are effective in promoting intra-trade relationship. Major constraints and challenges facing intra-regional trade are: lack of diversity in agricultural products, non-tariff barriers, the choice of integration approach, failure of outward-orientation, lack of trading support services and divergent political and economic interests.

Of the 31 countries of the NE Region, 16 are members and 6 are observers of WTO. The accession to WTO is gaining ground and most of the remaining countries are applying for membership. Those who are members have already reduced tariff substantially (due to Structural Adjustment Programme) and thus fulfill reduction commitments. The level of Aggregate Measures of Support (AMS) for agriculture is either negative or very low. The information on Sanitary and Phyto-Sanitary Measures (SPS) in NE countries is scanty and often not available. The NE countries have not yet developed or enacted laws governing Trade-Related Aspects of Intellectual Property Rights (TRIPS). The institutional support to address WTO issues is weak or perhaps non-existent in all NE countries.

The experience of implementing the AoA has shown a number of basic shortcomings in the provisions that the NE countries should consider in the on-going negotiations: (a) inequity in the way the AoA was designed and applied; (b) lack of recognition of the pressing need to increase food production in NE countries; (c) no exemptions to meet food security objectives; (d) impossibility of correcting anomalies in the tariff structure, especially for sensitive staple crops; (e) lack of recognition of the social impact of import increase; and f) non-implementation of the Marrakech Decision. Therefore, it seems exigent to bring about changes in UR AoA to provide enhanced Special and Differential Treatment (S&D) measures in the Agreement. This will enable NE countries to address their food security and developmental concerns in a better way.

NE Countries are encouraged to request that Domestic Support measures should include support to low income resource poor farmers; measures to increase domestic production; transport spending for food deficit areas; and higher level of *de minimis* level with low or zero AMS. Market Access should include: exemption of food security crops from reduction commitments; renegotiations of low tariff bindings related to food security crops; availability of revised SSG to all developing countries as part of AoA. It is recommended that NE non-member countries must apply for accession to WTO in order to be part of the global village. They should develop strong institutional support to prepare for WTO negotiations and promote intra-regional trade in order to mitigate negative effects of trade liberalisation.

The NE countries must develop their agricultural strategies based on comparative advantage and improved resource use efficiency especially irrigation water. They should develop TRIPS and SPS rules and regulations to address WTO issues. FAO could continue providing technical support for developing sustainable agricultural development strategies with environmental and trade orientation, continue enhancing the analytical capacity of the member countries in the trade related policy areas, support the development of food control and safety, and continue its support in developing regional food security programmes.

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Comments

I must thank the Pakistan Society of Development Economist's management who honoured me by asking me to comment on the paper; and also the authors who put a lot of efforts to write this paper. It is a relevant and timely presentation on a hot topic, of trade liberalisation and related policies.

Let me highlight the strengths of the paper:

- The scope of the paper is very large. It covers 21 Arab and 10 non-Arab near Eastern Countries, which may also be classified into oil-rich vs. non-oil rich countries.
- Spearheading the major concerns of WTO regime especially, in respect of Agreement on Agriculture (AoA) with the focus of food security issues of poor and marginal families.
- A detailed and an exhaustive write up prepared either consulting literature or making use of personnel experiences by the learned authors.

The following is my feedback to refine the final paper:

- The title of the paper needs revision to cover the entire scope of both inter- and intra-regional trade implications as discussed in the contents of the paper.
- Some of the abbreviations used in the paper are presented without explanations (for example in pages 2, 3 and others i.e., S & D, LIFDCs MICs and DEC, etc).
- A lot of repetition of concepts in respect of AoA, SPS, TRIPS and TBT presented for interpreting agricultural and environmental implications. The consolidation and synthesis may be done to reduce the volume of paper, which is already 46 pages and does not meet the requirements of the Pakistan Society of Development Economist's seminar proceedings. However, presently it is not reader friendly.
- As the authors clearly reiterated the importance of comparative advantage towards the analysis of trade liberalisation policies. In the present paper, this analysis is missing from many countries in respect of crop, livestock and horticulture sub-sectors of the agricultural economy to adjudicate the capacity and structure of the corresponding countries as well as across the desired regions and sub-regions as per classification of trade purposes. This is one of the major limitations of this paper that invites the arrays of criticism.
- For example, many data tables are borrowed from secondary source and were not adjusted as per requisite analyses under the norms of time series data for the perspective of policy analysis of trade liberalisation regime.
- The classification of Near Eastern countries is not justified according to the workable requisite regional, socio-economic and cultural norms, ecology and trade boundaries. It should be matching with the resource endowments and

comparative advantage of the respective countries to fetch real benefits from the available and potential crop, livestock and high value crops in terms of market access.

- The authors specially made a note of data limitations to conduct policy analysis in some countries concerning to environmental indicators. A good pesticide policy paper is recently documented by the team of PARC/NARC scientists including social and biological with the funding assistance from UNDP/FAO entitled “Policies and Strategy for Regional Use of Pesticides in Pakistan (2001)”. It may be a good reference for the support of policy analysis desired in this paper. Moreover, this paper contains good information on:
 - Pesticide regulatory policies;
 - pesticide use externalities and the cost associated towards society analysis; and
 - an availability of information suits to determine standards of SPS measures for the reference of WTO regime implications.
- One more recent reference pertaining to LDCs could be useful to update the knowledge base of trade liberalisation policy analysis: “Globalisation and the South: Some Critical Issues” by Martin Khor, Third World Network Publication. This book discusses and could guide reasonably to learn about an adequate range of options of when, how and to what extent, a country should open her economy.
- The authors in the paper highlighted a proposal of institutional capacity building but proper guidelines were lacking. As this paper explains mostly about what is there but where, who, and how is needed to be elaborated for meeting the real purpose of the paper.
- The emphasis on research and development (R&D) modalities need to be worked out carefully for assuring sustainable:
 - knowledge generation;
 - dissemination; and
 - participatory monitoring of adoption trends, etc.
- The tables presented at the end of the paper need to be checked for showing discrepancy free presentation in terms of measure of units and proper analysis.

Thanks for patience and attention to my comments please.

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