



Short Article

Special Products (SP) and Special Safeguard Mechanisms (SSM): Pro-Poor Modalities under the WTO

A common argument for the proposition that free trade benefits least developed and developing countries alike is that lower trade barriers enable the countries to penetrate the world market, in particular those countries with high purchasing power such as OECD countries. While this might be true for some non-agricultural products, it is not completely correct for agricultural products, notably those that are related closely to food security and the livelihood of the rural farmers. Data indicates that since the 1995 Uruguay Round many agricultural products have experienced a steady decline in production and cultivated area, depressed prices, declining exports as well as rising imports. Some were originally net export crops but have now become net import crops. This beckons the question: What went wrong?

Each good traded in the world is assigned a Harmonious System code (HS code). Maize for example is HS number 1005, which means that one commodity with this number is considered the same wherever it is produced and marketed. However, this boils down to saying that subsistence maize farmers in developing countries are the same as farmers in developed countries. This implies that the state-of-the-art technology used to produce maize in developed countries is considered the same as traditional farming in developing countries. Production management is considered the same in both types of country, more specifically; agribusiness operations vs. a peasant approach. However, this is far from reality, especially if we consider that some of these commodities produced by developing countries are not tradable or at the most are sold to adjoining districts. Notwithstanding, world trade is more of a political economy than pure economics, as it frequently the case in the WTO. Logically, what is traded are not the goods themselves but the complete process of making the goods and the services. Therefore, what solution is available given that different HS numbering for the same commodity with different process of production, hence different treatment and modalities, is not possible?

G-33, a group of forty-five developing countries (originally thirty-three) of the WTO member countries proposed provision of the so called Special Products (SP) and Special Safeguard Mechanism (SSM) during the ongoing Doha Development Agenda (DDA) round of negotiation. SP and SSM are operational translations of the DDA results during the 2001 Ministerial meeting in Doha, notably the suggestion that Special and Differential Treatment (S&DT) should be an integral part of all modalities. SP and SSM have become WTO modalities as they are explicitly stated in para 41 (for SP) and para 42 (for SSM) of the 2004 July framework and this was further reiterated in the 2005 Hongkong Ministerial meeting.

SP, according to the July framework, consists of a number of products or tariff lines that can be flexibly designated by developing countries guided by food security, livelihood security and rural development indicators. G-33 proposes that SP products: (1) should be excluded from tariff reduction formulae (stand alone provision); (2) should not be subjected to expansion of minimum market access (Tariff Rate Quota [TRQ]) or new TRQ; and (3) should have automatic access to SSM.

Under the Agreement on Agriculture (AoA) and the general agreement, member countries are allowed to invoke Safe Guard (SG) provision to protect countries against import surges triggered both by price and volume. However, many developing countries do not have the luxury to invoke the instrument due to a lack of data and resources, as the mechanism and procedures are complex and consume substantial resources and time. Often the impact of the surges has been spread and devastating before measures can be imposed.

What G-33 is proposing is the provision of SSM for developing countries, special compared to SG, since SSM can be invoked automatically in the case of import surges triggered by both volume and price hikes without resorting to complicated procedures requiring resources that developing countries often lack the luxury of processing. In other words, the mechanism should be simple and effective. Secondly, it is proposed that all agricultural products should be eligible for SSM with two stipulations, namely, additional duty and quantitative restriction.

At the outset, SP and SSM provision might be seemingly against Heckscher-Ohlin Theorem of comparative advantage. However, in a far from perfect world, and in fact as several Nobel laureate economists have said, because many of the SP products are non-tradable, some proper measures are required by developing countries until, some day, such products can be placed on a level playing field with the same products produced by developed countries.

To conclude, if any country or any product requires support, through protection measures, subsidies or any other trade support, it is the developing countries or developing countries' products, not the developed countries. Hence, I argue, SP and SSM are pro-poor WTO modalities that should be supported by developing countries and developed countries alike ■

Written by Togar A. Napitupulu, Senior Economist at UNESCAP-CAPSA, Bogor, Indonesia.

Flash **BREAKING****ASEAN-China to Become Largest Potential Market**

The realization of the plan to develop ASEAN-China into a free trade area through economic integration will make the region the largest potential market in the world. The population of the two economically integrated regions could reach 2.0 billion; 4.5 times the size of the population of the North American Free Trade Area (NAFTA) and 5.4 times that of the European Union market. China's economy has shown very significant progress, as reflected by China's soaring economic growth rate to 8.3 per cent for the 1992-2004 period. China is able to offer export products that are competitive in price and quality.

People's Daily Online, 2006. ASEAN-China to Become Largest Potential Market, <http://english.peopledaily.com.cn/>, (8 July 2006).

Landlessness and Poverty Go Hand in Hand

The population of Bangladesh is urbanizing and its economy is diversifying in the wake of industrialization and the growth of services. Nonetheless, agriculture continues to be the largest sector of the economy and in one form or another, it affects the livelihoods of the majority of people, who are mainly rural inhabitants. Land ownership in rural areas continues to play a vital role in determining whether one is above the poverty line or not. Usually, income in rural areas is derived from the land and those who own enough land are better off in terms of income and living standards. Landless people are found to be at the margin of existence, living a life of poverty or extreme poverty.

The Financial Express, 2006. Landlessness and Poverty Go Together, <http://www.financialexpress-bd.com/>, (26 June 2006).

Indonesian Government Prepares Subsidies for Farmers

The government will allocate a total of US\$182 million this year to cover subsidies for farmers engaged in planting palm oil, cacao, rubber and corn to boost the country's plantation output and create jobs. The subsidies will be provided each year until 2009 and are expected to help the government meet its target of expanding plantations by 500,000 hectares annually. Indonesia's agricultural sector had previously lagged behind other countries in Asia, however, currently, the nation's agricultural growth stands at an average of 3.5 per cent per annum.

The Jakarta Post, 2006. Government Prepares Subsidy for Farmers, <http://www.thejakartapost.com/>, (23 June 2006).

Growth in Unemployment for Asia as Exports Surge

Asia's economic boom may have generated formidable wealth in the region's most robust economies in recent years, but the surge in exports has resulted in a rise in inequality, higher unemployment, and persistent food insecurity. Trade liberalization has resulted in more widespread unemployment in some areas, particularly in east Asia, and has had a severe impact on agriculture. Young people still face chronic unemployment. In high-trade countries such as China and Singapore, unemployment rates have increased substantially due to the shift from low-tech, labour-intensive industries, such as garments and leather, to hi-tech and more capital-intensive ones, such as electronics.

Rahman, Maseeh, 2006. Growth in Jobless a Problem for Asia as Exports Surge. Guardian Unlimited, Special Report, <http://www.guardian.co.uk/india/>, (29 June 2006).

Can South Asia Reduce Poverty by Two-Thirds in a Decade?

South Asia can dramatically reduce poverty by embracing policies aimed at increasing investment and productivity, and improving the quality of labour, while addressing pervasive income inequalities as well as poor service delivery. The number of people living in poverty could fall by two-thirds in less than ten years if economic growth accelerates to 10 per cent per year until 2015. In the last decade, poverty in Sri Lanka, Bangladesh, India, and Nepal fell by 6, 9, 10 and 11 per cent respectively. In Pakistan, the latest survey shows that with economic recovery, poverty is now declining rapidly. Much remains to be done, however, to achieve the accelerated growth rates to raise economic prosperity across the board. First, economic growth in the past decade has resulted in widening income inequality, which may act as a constraint to higher growth in the future. Second, while conflicts, corruption and high fiscal deficits may not have constrained growth in the past, their persistence may become binding in the future. Faster growth must also be more equitably shared. With nearly 400 million poor people, poverty in South Asia is not just endemic, but increasingly concentrated in lagging regions. Not only are these regions poorer, but their growth rates are substantially slower than the better-off regions. Also key to reaching higher growth will be addressing rural and urban infrastructure deficits. To realize the acceleration of poverty reduction, South Asian economies must increase their efficiency of investment and ensure that higher economic growth drives faster poverty reduction ■

Based on World Bank, 2006. South Asia Can Reduce Poverty by Two-Thirds in a Decade, <http://web.worldbank.org/>, (25 June 2006).

Helping Developing Countries Utilize Biotechnological Tools

Developing countries should be enabled to fully exploit biotechnological tools, when appropriate, in order to abate the decline of agricultural biodiversity and use their wealth of genetic resources in a sustainable way. Many of these agricultural genetic resources are endangered for reasons such as overexploitation, replacement of local crops and livestock with foreign species or breeds as well as habitat change and destruction. Crop, forest, animal and fish genetic resources represent an insurance against future changes in production and climatic conditions or in market demand. Numerous new and old biotechnologies provide a broad collection of tools that can be applied to a range of different purposes (genetic improvement; disease diagnosis and vaccine development, among others). Characterization of genetic resources goes hand in hand with their conservation since it is fundamental both for understanding what is being conserved and for choosing the genetic resources that should be conserved. The ability to apply these biotechnologies in developing countries is currently limited by the lack of sufficient funds, human capacity and adequate infrastructure. However, it can be strengthened through greater collaboration among research institutions in different developing countries and also between industrialized and developing countries ■

Based on FAO, 2006. Helping Developing Countries Make Better Use of Biotechnology Tools, <http://www.fao.org/newsroom/en/news/2006/>, (3 July 2006).

World Bank Outlines Constraints Faced by Small Businesses

Small enterprises could become important engines of pro-poor economic growth and help reduce poverty. Indonesia's 15.7 million small enterprises make up 90 per cent of the country's businesses and provide employment for 60 per cent of the workforce. Micro and small enterprises tend to employ poorer people, so stimulating growth in such firms tends to boost the incomes of the poor directly. They are also dispersed throughout the country, so promoting the growth of these firms can also help to reduce inequality between regions. Poor infrastructure, a lack of access to formal credit and unfavourable policies on the movement of goods and labour are among the main problems small businesses in rural areas face. To address the nation's poor infrastructure, the government is suggested to provide incentives for the better construction and maintenance of local roads. The government should also restructure its blanket subsidies for electricity and telecommunications, by targeting areas without coverage instead of covering all users. Regarding policies on credit and market access, the government is suggested to provide incentives for extending credits to non-bankable small enterprises, instead of subsidizing the credits themselves ■

Based on Hudiono, Urip, 2006. WB Underlines Obstacles Faced by Small Businesses. The Jakarta Post, <http://www.thejakartapost.com/>, (29 June 2006).

Developing Countries Shaping Future of World Agriculture Trade

Production and consumption of farm products are expanding faster in developing countries than in developed economies. A joint report by the Organization for Economic Co-operation and Development (OECD) and FAO says productivity growth in the poorest nations is not keeping pace with the food requirements of their rising populations. Because of this, the poorest developing countries will be increasingly dependent on world markets for their food security and, therefore, more vulnerable to international price volatility. To improve domestic production capacity in these countries, greater investment in education, training and infrastructure development is needed. In developing countries as a whole, rising incomes and increasing urbanization are changing people's diets. This leads to greater demand and imports for meat and processed foods particularly, but also as derived demand for the animal feed needed for their production. Expanding market opportunities in certain developing countries have been coupled with a shift in production and exports of farm commodities away from OECD countries towards other developing economies. This is expected to increase over the next 10 years and, as a result, global competition among exporters will get tighter. Continued productivity growth and increased competition in international trade are expected to offset rising demand. World agricultural commodity prices, adjusted for inflation, are mostly expected to continue albeit slowly along their long-term decline towards 2015 ■

Based on OECD, 2006. Developing Countries Shaping Future of World Agriculture Trade, Says Joint OECD-FAO Report, <http://www.oecd.org/>, (4 July 2006).

Flash EVENTS



Crises in Agriculture and Resource Sectors: Analysis of Policy Responses

15 - 17 October, 2006
Coast Plaza Hotel, Calgary, Alberta, Canada

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9 - 11 November, 2006
New Delhi, India

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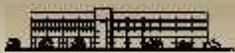
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Book Review

Rapid Growth of Selected Asian Economies: Lessons and Implications for Agriculture and Food Security

Synthesis Report. RAP Publication 2006/4; Policy Assistance series 1/1, FAO Regional Office for Asia and the Pacific, Bangkok, Thailand, 2006. ISBN 92-5-1055076

This report summarizes the findings of a diagnostic study on the implications of rapid economic growth for agriculture and food security in Asia and Pacific rim countries conducted by the Regional Office for Asia and the Pacific and the Policy Assistance Division of FAO. The study was conducted in five Asian countries, namely China, India, The Republic of Korea, Thailand and Viet Nam. China and India were chosen because of their phenomenal growth and the implication of the agricultural sector, meanwhile the study of other countries draws attention to the lessons from experience of policies, institutional reforms, and programmes implemented in the selected countries. Furthermore, there are two other volumes, the first volume presents the Chinese and Indian case studies and the other volume describes the experiences and lessons learned from The Republic of Korea, Thailand and Viet Nam.

In the introduction the author highlights that the Asia-Pacific region is the most economically vibrant region in the world today, having achieved and maintained accelerated economic growth in recent decades. As a result, within one generation, many people in the region have freed themselves from the poverty trap. Despite still having the largest number of food-insecure people, the current trends of economic growth and agriculture performance indicate that the region has a good opportunity to achieve the first MDG (MDG1). However, achieving the World Food Summit Goal of halving the number of undernourished people in the next ten years requires significant hunger reduction efforts. Achievement of MDG1 and WFS goals could be accelerated if other countries in the region utilize the positive impacts of rapid growth in their economies.

Following a brief introduction, the report highlights the phenomenal growth of China and India. From many success stories, these two countries stand out and are emerging as economic giants. It is obvious that the transformation will have profoundly wide reaching effects. Such effects are stated as a combination of new market opportunities arising from enhanced purchasing power and greater competitiveness. The report points out that economic growth in China and India is different. Economic growth in China began with a sharp rise in agricultural GDP in the early reform period. Agriculture grew at a phenomenal rate of 7 per cent following the adoption of the Household Responsibility System (HRS), which gave rights to individual farmers to control land and income from agriculture. In contrast, the sweeping

economic reforms in the 1990s in India were not directed at agriculture and much of the economic growth has centered on the services sector. In terms of poverty reduction, these two countries have shown promising results. Hence, they are facing a widening rural-urban income gap that requires immediate attention.

The explanation of other rapidly growing Asian economies, as the second part of the report, is much more brief. The Republic of Korea achieved rapid economic growth beginning in the 1960s and now is among the high-income countries. Korean growth was marked by the ability of the economy to absorb surplus agricultural labour, increase the productivity of farm labour, and avoid a serious discrepancy between rural and urban incomes. Thailand has had export-led growth with innovative marketing, product diversification, agribusiness, and value-added generation. Recent experiences in Viet Nam offer evidence that increasing agriculture exports and integration into international markets can contribute both to economic growth and poverty reduction.

The final part of the report includes the lessons learned from the five case studies. The authors emphasize that economic growth begins with agricultural development. It is imperative that least developed countries with a large share of the population in the agricultural sector support agricultural growth and rural development. These efforts are needed to address poverty reduction and hunger as well as create a sustainable basis for rapid economic growth. The five studies also highlighted four policy recommendations associated with growth in agriculture and development, which are: (1) a favourable macroeconomic policy environment; (2) clear and transparent property rights; (3) technology; and (4) market access and price policy.

In general, the report outlines the rapid growth in the selected five Asian countries. It also documents interesting scenarios of future prospects and challenges, as well as agricultural development implications in Asia and the Pacific. Furthermore, the report has succeeded in elaborating precious information for readers to follow in their footsteps and also learn from the mistakes made by these countries. Combining narrations with graphs and tables in addition to having a more concise and brief conclusion, however could enhance the attractiveness of this report ■

Reviewed by Dian Kusumaningrum, Research Assistant-CIRAD, Bogor, Indonesia.