

The Way Forward for WTO Reform: Agricultural Subsidies and Special and Differential Treatments

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I. Introduction

The rule-based multilateral trading system has reached a critical juncture in its history. Negotiations and dispute settlements, which are the two most important functions of the WTO, are at risk of collapsing. The Doha round that started in 2001 was stalled for a long time. The multilateral trade talks have been wasting a lot of breath, time, energy and air miles without any substantial progress. The dispute settlement system of the WTO has broken down. The Appellate Body (AB) that deals with WTO member's appeals will be left with no judge from December 2020.

Behind the crisis of the WTO, there exists an increasing hegemonic race between two big trading powers, the United States and China. The future of the WTO depends on how the two countries politically manage a number of ongoing formal trade disputes, particularly technology disputes. The problem is the fact that it is very difficult for Washington and Bei-

jing to reach a mutually satisfactory compromise in the disputes because key issues of the disputes are directly connected to the state capitalism of China, which is a core of the Chinese economic development model. The U.S.-China trade and technology conflicts escalate into a “decoupling” of both economies and increase economic uncertainty, leading to lasting global recession and new geopolitical confrontation.

To navigate this crisis, we first check recent situations of major WTO members' agricultural subsidies and the possibility of differentiation of developing country members. Resolving the WTO Appellate Body crisis is definitely the most urgent task for rebuilding the WTO. The AB issue will, however, be skipped here and dealt with in detail next time because the root of the crisis of the AB goes deeper and beyond the appellate system itself.

II. Agricultural subsidies: From a North-South battle to a bi- lateral conflict between the U.S. and China

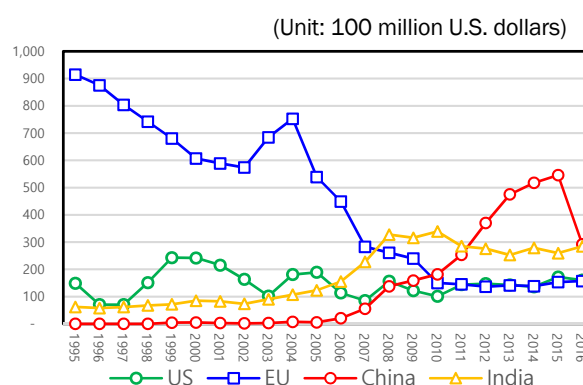
Domestic support has been one of the hottest issues in the farm negotiations of the WTO. In general, developing countries strongly emphasize on a substantial reduction of agricultural subsidies of developed countries. Effective reductions in developed countries' subsidies and stricter disciplines to prevent developed countries from circumventing commitments were the most important domestic support issue for developing countries. On the contrary, developed countries negotiated from a defensive position on domestic supports. They have put a lot of efforts into maintaining their agricultural supports through generous AMS levels, unlimited Blue Box, as well as unbound Green Box measures. This led to substantial reduction commitments on the trade distorting support (TDS) which included all subsidies except Green Box subsidies (AMS + Blue Box + *de minimis*).

However, there has been a radical change in the level of agricultural subsidies since mid-2008. Historically, rich countries like the U.S., EU, and Japan were the primary providers of agricultural subsidies. But as China and India have grown economically, their subsidy levels have also increased dramatically. Both China and India are now estimated as the world's two largest trade-distorting subsidizers of agriculture: Beijing provided an estimated \$29.2 billion of trade-distorting farm subsidies in 2016, significantly more than the EU (\$15.7 billion)

and the U.S. (\$16.0 billion). The trade-distorting agricultural subsidies of India have substantially increased to \$28.4 billion in 2016 from \$6.2 billion in 1995 (see Figure 1).

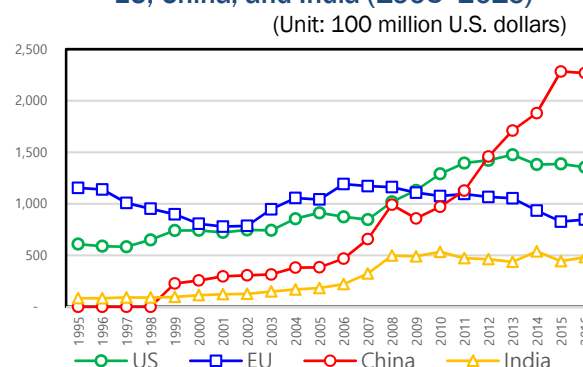
The situation is likely to become even worse if we consider total agricultural subsidies, including Green Box subsidies which are exempt from the reduction commitments. China's level of total agricultural subsidies (\$227 billion) exceeds that of the U.S. (\$135.5 billion) and the EU (\$84.7 billion) combined (see Figure 2).

Figure 1. Trade-distorting subsidies of the U.S., EU, China, and India (1995–2016)



Note: Trade distorting subsidies include all subsidies except green box subsidies.
Source: Author's calculation based on WTO Notifications data of each county.

Figure 2. Total agricultural subsidies of the U.S., EU, China, and India (1995–2016)



Note: Total agricultural subsidies cover all kinds of farm subsidies including green box subsidies.
Source: Author's calculation based on WTO Notifications data of each county.

China has emerged as the world's largest subsidizer, profoundly transforming the global politics of agricultural subsidies. From a North-South battle, WTO negotiations on farm subsidies are now primarily centered on a conflict between the U.S. and China. The U.S. has consistently refused to cut its overall trade-distorting subsidies unless China does the same, but China has refused. In contrast, China has insisted that it should not be forced to cut its subsidies as a developing country.¹ While China is unwilling to accept any commitments on its domestic supports, the U.S. is equally obstinate – refusing to consider any solution that does not include a contribution from China. This fundamental conflict between the U.S. and China has barred any progress on disciplining agricultural subsidies

Reducing trade-distorting agricultural subsidies would have a significant impact on the livelihoods and welfare of poor farmers around the world. However, despite its importance to developing countries, the U.S.-China impasse has blocked efforts at the WTO to reform global agricultural subsidies. Caught in a battle between these two big giants, WTO members including Korea clearly put their maximum efforts to deliver a new and strengthened set of disciplines on agricultural subsidies. Agricultural subsidies are a critical test of the legitimacy of the multilateral trading system.

¹ In the 2005 Hong Kong Ministerial Conference, it had been agreed that “developing country members with no AMS commitments will be exempt

III. Special and Differential Treatments (S&DT): How do we address a wide range of heterogeneity among developing members?

Given the divergent growth performance of developing countries since the establishment of the WTO, there is a growing debate on whether these can still be collectively categorized as “developing,” and whether those that have enjoyed sustained growth over the past quarter century should continue to receive special treatment in the context of trade, and by implication other international negotiations.

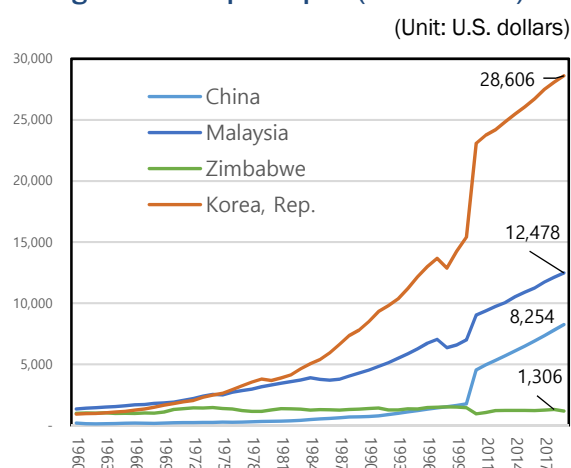
Recently the U.S. submitted a proposal that would limit certain WTO members from being eligible for S&DT in future arrangement. According to the U.S. proposal, WTO members not eligible for S&DT would include those that are currently members of the OECD or trying to join; are part of the G20 coalition of advanced and emerging economies; are considered by the World Bank to be “high income” countries; or make up at least 0.5 percent of global merchandise trade. This would cover most emerging and large developing countries such as Brazil, Argentina, China, India, Indonesia, and Korea with different national and regional characteristics.

It is true that that the current distinction between developed and developing countries within the WTO no longer reflects the reality of

from reductions in *de minimis* and the overall cut in trade-distorting domestic support.”

the rapid economic growth in some developing countries. Clearly, there is a wide range of heterogeneity among developing countries. This lack of nuance, and its consequences with regard to the S&DT question, has been a major source of tensions in the WTO and an obstacle to the progress of negotiations.

Figure 3. GDP per capita (1960–2019)



Source: World Bank.

Developing countries, of course, should be allowed the assistance and flexibilities that they need to meet their development goals. However, change is also needed in terms of ensuring that flexibilities are made available to those countries who actually need them. Graduation mechanisms with proper grace periods and assistance measures could be a reasonable solution to this S&DT issue. In this perspective, we try to differentiate current WTO developing member countries into several groups by using data associated with development status.

² The cluster analysis is a technique that is used to classify objects or cases into relative groups called clusters. In cluster analysis, there is no prior information about the group or cluster membership

Based on availability of data on Human Development Index (HDI), GNI per capita, a share in global merchandise trade (%), the share of agriculture, forestry, and fishing in GDP (%), and share of under or malnutrition people, we tried to divide WTO developing members into two groups – advanced developing countries and general developing countries – by using a simple cluster analysis.² Most developing countries which have accomplished rapid economic growth since 2000 are categorized into a group of advanced developing countries as we expected (see Table 1).

Table 1. Two-grouping of developing country members

	Countries
Group 1: Advanced Developing Countries (27 members)	Argentina, Brazil, Brunei, Chile, China, Costa Rica, Hong Kong, Israel, Kazakhstan, Korea, Kuwait, Malaysia, Mauritius, Mexico, Montenegro, Oman, Panama, Saudi Arabia, Turkey, UAE, Uruguay
Group 2: General Developing Countries (41 members)	Albania, Armenia, Belize, Bolivia, Botswana, Cabo Verde, Cameroon, Colombia, Congo Rep, Cote d'Ivoire, Dominican Rep, Ecuador, Egypt, El Salvador, Eswatini, Georgia, Ghana, Guatemala, Honduras, Indonesia, India, Gambia, Jordan, Kenya, Kyrgyz Rep, Mongolia, Morocco, Namibia, Nicaragua, Nigeria, North Macedonia, Pakistan, Paraguay, Peru, Philippines, South Africa, Sri Lanka, Thailand, Ukraine, Vietnam, Zimbabwe

Source: Jin Kyo Suh et al.(2019).

for any of the objects. The cluster analysis has limits but could be a useful stepping-stone to identify possible ways forward in the negotiations.

There are no WTO definitions of “developed” and “developing” countries. Members announce for themselves whether they are developed or developing countries. Lacking formal guideposts, any WTO member can “self-declare” itself as a developing country and thereby assert its right to benefit from S&DT. Developed countries increasingly asserted that they would not grant the same S&DT concessions to all developing countries, regardless of their economic size and diversity. They claimed that the “one size” of WTO rules “does not fit all” the diverse developing countries.

IV. Conclusion

The multilateral trading system has been in crisis. The world economy has changed significantly since the WTO replaced the previous GATT system and new challenges are quickly piling on top of the old ones. The rising emerging countries and the relative decline of traditional economic members, together with the need to deal with complex new issues such as climate change and e-commerce and digital trade, are shaking the foundations on which the WTO was built some 25 years ago. At the same time, there is growing momentum among many WTO members to “modernize” the WTO, including the Appellate Body, although the details and feasibility of reform are unclear at this stage. In this perspective, we suggest some ideas on both trade-distorting farm subsidies and S&DT, which are the two important issues in the WTO negotiations.

Strengthening the multilateral trading system is especially important from a sustainable development perspective for both developed and developing member countries. Over the past six decades, the GATT/WTO system has provided an unprecedented level of stability and predictability in the way that WTO members conduct their trade operations. It has also provided a credible and solid mechanism to adjudicate trade disputes, one that is guided by law rather than power. However, a revival of the WTO will not happen automatically. Willing stakeholders must actively pursue it and the mid-size economies such as Australia, Brazil, Mexico, Korea should do for the job because they have been the greatest beneficiaries of globalization. **KIEP**

Reference

Jin Kyo Suh, Ji Hyun Park, and Min-Sung Kim 2019. “The Way Forward for WTO Reform: Agricultural Subsidies and Differentiation of Developing Countries.” *KIEP Long-term Trade Strategies Study Series 19-01* (in Korean).