Jack Thurston argues that removing protectionist barriers in agriculture could harm the developing countries it is meant to help.

"The WTO is not, above all, a philanthropic organization. It is a bargaining system. The philanthropy of the system stems from the fact that trade opening, with rules and the necessary conditions, is a win-win game." Thus Pascal Lamy, the EU's Trade Commissioner, earlier this year put his finger on the challenge for negotiators meeting next month at the Mexican beach resort of Cancún. Agriculture is by far the most heavily subsidised sector of the world economy and Europe and the US are rightly criticised for dumping surplus produce on developing country markets and maintaining high tariff walls against exports from developing world farmers. In theory, agricultural trade liberalisation offers many win-win opportunities but this is a dangerous simplification of the real world.

First, there is significant variation between developing countries in the impact of trade liberalisation, even on issues as apparently simple as dumping and market access. The immediate effect of reduced dumping will be to increase food prices at least until low cost producers are able to increase production volumes. This will have a negative impact on the 23 developing countries that are net importers of food (including Egypt, Pakistan, Kenya and Jamaica). It will also be bad for the urban poor who buy their food rather than growing it themselves. Desperately poor countries like Jamaica, Madagascar, Fiji and Guyana that currently enjoy preferential access to high price EU markets in sugar and bananas would lose out in a free market to lower cost producers like Brazil, South Africa, Ecuador and Costa Rica.

Second, the causal links between trade liberalisation and poverty reduction are difficult to pin down. The World Bank predicts that out of an increase of $335 billion in global income by 2015 as a result of trade liberalisation, developing countries will enjoy 50 percent of these gains. But according to the same analysis sub-Saharan African and South Asia would lose as much as they gain. True, all countries that have practiced isolationism have ended up falling behind economically but trade protection played an important role in the development of post-war South Korea and Taiwan as well as the United States and Britain during the nineteenth century. Trade liberalisation may be a necessary condition for development and poverty reduction but it is not a sufficient condition as the recent bad experiences of Peru, Mali and Nepal show.

It is a little known fact that most of the benefits of trade liberalisation for developing countries will come from increased volumes of trade within the South rather than an explosion of trade from the South to the North. The government estimates that South-South trade barriers cost between $140 and $390 billion a year. There is a peace dividend too as regional economic interdependence goes hand in hand with increased political stability. Unfortunately governments in developing countries are subject to just as much domestic special pleading to maintain protectionist policies as governments in the developed world. It is especially difficult for because tariffs are a significant source of public finance for developing countries. Analysts from Nottingham University estimate the contribution is rarely less than 15% of government income and in the case of sub-Saharan African countries it is often more than half.

Developing countries do not have the wealth to provide the aid packages and social safety nets that rich countries will offer their hard-hit farmers. There is also the thorny issue of how best to regulate inward investment to prevent the massive speculative flows of hot money that compounded the Asian financial crisis of the late-1990s. Capacity building, transition measures and traditional aid budgets will all be necessary if trade is to contribute towards poverty reduction.

Despite all the controversy of recent WTO summits there is now a broad agreement (including the late conversion of many development NGOs) that a multilateral, rules-based system for international trade policy is the only realistic alternative to the law of the jungle and that the WTO is the only show in town. The challenge for Cancún is not just how to get a deal on agricultural liberalisation but how to cope with the inevitable human costs of structural adjustment.

None of this should excuse the US and the EU for failing to reform their farm subsidy systems in time for Cancún or for leaving unresolved other key issues like pharmaceutical patents and trade in services. The back loading of negotiations to the final months risks a rushed agreement that falls far short of what is needed. Trade offers a way out of poverty for millions of people in the developing world but it is a journey that requires careful navigation.

Jack Thurston is a former political adviser at the Ministry of Agriculture. This is a shorter version of an essay published this month (September 2003) by the Foreign Policy Centre.

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