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International Journal of Current Research
Vol. 6, Issue, 11, pp.10297-10306, November, 2014

INTERNATIONAL JOURNAL OF CURRENT RESEARCH

ISSN: 0975-833X

RESEARCH ARTICLE

WORLD TRADE ORGANIZATION AND ITS EFFECT ON THE AGRICULTURAL SECTOR OF DEVELOPING COUNTRIES: EXPLORING THE EXPERIENCES OF NEPAL AND UGANDA

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ARTICLE INFO

Article History:
Received 16th August, 2014
Received in revised form
04th September, 2014
Accepted 12th October, 2014
Published online 30th November, 2014

Key words:
WTO,
Agriculture Sector,
Developing Countries,
Nepal and Uganda

ABSTRACT

The World Trade Organization (WTO) has played a great role in the development of international trade in agriculture. Before its establishment, trade in agriculture has been distorted and not liberalized. Nonetheless, due to the effect of the Uruguay Round Agreement on Agriculture (AOA), trade in agriculture has been fully liberalized. However, despite its establishment, one could observe several drawbacks in fully realizing the benefits from being part of it. This is particularly seen with developing countries which have been caught between the need for developing their agricultural base on the one hand and unable to secure the benefits from their membership on the other hand. The main objective of this article is, therefore, to examine the implications of WTO for the agricultural sector of developing countries with reference to Nepal and Uganda. To reach the objective of this article, secondary data review has been carried out. The study has been analyzed based on the principles of agreement on agriculture under WTO such as market access, domestic support (subsidies) and export subsidies. When the WTO AOA was agreed by member states, it was widely assumed that trade liberalization in agriculture would contribute to growth, better income and economic development. However, the evidence from the experiences of Nepal and Uganda does not support this argument.

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INTRODUCTION

In today's globalized world, trade is a very crucial activity for country's overall development and it has become an important aspect of international relations. It is highly important for all countries regardless of their economic power: poor or rich. Since all countries are not endowed with everything they need, they have been engaging in a more intense trade relation than ever in the history of mankind. As a result, trade has expanded rapidly and the world has entered into an era of growing economic interdependence (Kegly and Wittkopt, 1989). To liberalize this interdependence and to avoid different trade related problems such as tariff and non- tariff barriers, countries established many international organizations. Among these, the World Trade Organization (WTO) which came to exist in 1995 is the most important one. The WTO is the first rule based organization with the aim of regulating trade between or among nations by removing artificial trade barriers that have practiced for many years by nations through negotiations (Melaku, 2002). Being membership in the WTO can serve as an engine for economic growth and development. WTO has expectations that the whole countries will be benefited from trade liberalization. The over arching assumption in the contribution of trade liberalization to agriculture sector within the WTO is premised on the improvement and productivity of the sector through export competition, market access and reduction in tariff. The WTO's AOA clearly indicates that liberalization of trade in agriculture will be realized through market opening, reduction of domestic support and export subsidy (Zenebe, 2008 and Glipo, 2003). It is also argued that membership to the WTO can create more access to foreign market and improved tariff reduction (ibid). It is under this expectation that many states including developing countries have already joined and applied for joining the WTO. Since the developing countries are isolated in the multilateral trading system, the assumption is their membership in the WTO will help the integration of these poor countries in the global economic system. Many developing countries have recognized the membership of WTO as one means of integration into the world economy (Mussie, 2005). According to Fikremarkos (2008), developing countries in the WTO and those in the process of accession see WTO membership as a means to achieve their developmental need. They also believe that membership in the WTO is a means to accelerate their economic development. Like other developing countries, both Nepal and Uganda have joined the WTO with

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the expectation that their membership would benefit their agriculture sector. These countries have also recognized the importance of being a member of WTO. Their membership was motivated by an aspiration to ensure predictable market access and become eligible for the special concessions available to developing countries under WTO rules (Hussein, NY). However, the multilateral agreements made by Nepal and Uganda in the context of the WTO have a significant impact for their agricultural sector (Malaker, 2008; FAO, 2003). Although such implications can be seen in all less developed member countries, this article focuses only on the experience of two selected member countries such as Nepal and Uganda.

MATERIALS AND METHODS

To explore the implications of WTO on the agricultural sectors of both countries of Uganda and Nepal, the study has employed qualitative approach. Qualitative approach is appropriate for researches that are explorative in nature. The approach is also best suited for detailed and complex analysis of a given issues as well as for problems that cannot easily be quantified (Cresswell, 2008). This study mainly used secondary sources of data. Data and factual information from various published materials, official documents such as the report of governments and various legal documents were referred. In addition, books, journals, working papers, magazines and newspapers were also important to conduct the study.

The WTO Agreement on Agriculture (AOA)

The AOA is one of the basic agreements within the WTO system. Its significance is reflected by its presence as the first agreement annexed to the Marrakesh agreement that established the WTO. The WTO document indicates that AOA is based on the rational of opening international trade in the agricultural sector (Demesse, 2005). According to Melaku (2002), AOA was set to establish a basis for initiating a process of liberalization of trade in agriculture. The Agreement on Agriculture is based on three main principles. These principles are also known as pillars of the AOA. These are: market access, domestic support (subsidies) and export subsidies (Glipo, 2003).

Market Access

Before the establishment of the WTO, market access was the main problem of international trade. Countries often erected various forms of barriers against the free movements of goods and services into their territories (Melaku, 2002). However, the AOA dismantled barriers erected by states. Under the AOA market access simply means “the right which exporters have to access a foreign market and ways in which protection can be implemented’’ (UNCTAD, 2003:6). Besides this, market access principle obliged member countries to eliminate all non- tariff and tariff barriers and open up their markets to imports (Glipo, 2003). The key elements of market access commitments for agricultural products are the establishment of tariffication, tariff reduction and the binding of all agricultural tariffs (Croome, 1999). According to Melaku (2002: 67), member countries obliged to change all non-tariff market protection measures into the tariff equivalent. They are also required to reduce and bind all their custom duties on agricultural products. Although market access commitment requires the reduction of tariff in both developed and developing counties, it does not require developing countries to make reduction. Because of their level of economic development, developing countries are exempted from tariff reduction. But developing countries are required to bind all agricultural tariffs. According to the market access principle of the AOA, developing countries should clearly indicate the amount of tariff that they applied in their agriculture sector and they cannot apply new tariff above the indicated level (UNCTAD, 2003).

Domestic Support

The AOA seeks to ensure that agricultural trade is not distorted through the use of subsidies (Fikremarkos, 2007). As Croome (1999:56) states, “The central thrust of the domestic support provision is to encourage a further shift towards measures and policies that distort production and trade as little as possible”. According to UNCTAD (2003:21),

The AOA provision on domestic support is also intended to discipline and reduce all subsidies, while at the same time leaving scope for governments to design effective agricultural policies. This means that although some limitation is put on domestic support, governments of member states are free to design domestic policies which can promote their agriculture products.

The basic consideration under domestic support is whether they are preferable or not. There are three types of domestic support. The first type is called ‘Green Box’. As the name implies, it is assumed not to have effects on production and considered as acceptable and has little or no distorting effect on trade (WTO, 2003). For example, agricultural research, disease control or training provided by the government is regarded as falling in the Green Box category (ibid). The second type of domestic support is the “Amber Box”. These are measures which are considered as trade distorting and therefore subjected to reduction. For example, market price support is counted as Amber Box. So the agreement forces WTO member countries to make reduction their Amber Box support (Glipo, 2003). The third type of domestic support is called “Blue Box”. These are measures such as direct payments to farmers who are intended to limit production. These are considered as acceptable and are not subject to reduction (WTO, 2003).

The commitment to reduce trade distorting domestic support is clearly stated in the Marrakesh protocol. According to this protocol, the developed countries are required to reduce their support by 20 percent over six years from 1995 whereas developing countries are required to reduce 13 percent over 10 years. But, like other commitments, Developing countries are not required to make any domestic support reduction (Glipo, 2003 and Croome, 1999).

Export Subsidies

Export subsidies are those special incentive provided by governments to encourage increased foreign-sales. These

subsidies may take the form of cash payments, marketing subsidies, transportation and freight subsidies (UNCTAD, 2003). Since States utilized these export subsidies for several decades, the AOA sets some commitments for member states. Before the coming into effect of the AOA, the General Agreement on Tariff and Trade (GATT) explicitly permitted such subsidies (Fikermarkos, 2007). However, the agreement which is a landmark in the history of agricultural trade regulation breaks with the past and bans their use. Following the AOA, new basic rules to govern export subsidies for agricultural products were established and special discipline for the reduction of export subsidies introduced (Melaku, 2002). According to the export subsidy commitment, developed countries have to reduce their subsidy by 36 percent in value and 21 percent in volume over 6 years (Glipo, 2003). However, for developing countries, the commitments are different. They are subject to lower reduction requirements and hence they are required to lower by 24 percent in value and 14 percent in volume (WTO, 2003). Furthermore, the implementation of these commitments is longer than that of developed countries. As far as export subsidy principle is concerned, like the other two principles of AOA, the Developing countries are not required to make reduction commitments (Ibid).

WTO and the Experience of Nepal and Uganda

Agriculture is the backbone of these countries economy. These countries are dependent on this sector for the livelihood of their population; growth of real out-put and export earnings. Due to this fact, the multilateral trade liberalization in agriculture is crucial for them. The following section, therefore, focuses on the WTO AOA and the experience of the two countries.

The AOA and the Experience of Nepalese Agriculture

When Nepal acceded to the WTO, the government was believed that WTO membership is essential for expanding trade opportunities and facilitating competition (Bhatt, 2006). However, Nepalese accession to the WTO brought about mixed consequences. ‘’While the benefits of membership are only potentialities in the long-run, many risks and costs associated with the new WTO were bitter realities that faced Nepal’’ (Bhatt and Bhattarai, 2006). According to Malaker (2008), agricultural liberalization in Nepal brought both benefits and cost where benefits are potential in the long-run but the costs are immediate. Bhatt and Bhattaria (2006) also argue that trade liberalization might help to expand trade but does not necessarily guarantee immediate or even long-term agricultural development. Sharma and Karkee (2004), on the other hand, argue that after Nepal became a member of WTO, the country has been facing many problems in the area of agriculture export and international competition.

Domestic Support Principle and Nepalese Agriculture

Given the importance of agricultural development for most developing countries, domestic subsidies measure area is the most important principle for them (Sharme and Karkee, 2004). These authors further state that the AOA does not place any limitation on the expenditure of any government on exempt cases. From the stand point of the AOA, the agreement by itself has no implication for Nepalese agriculture. But given the situation in Nepal and the subsidy applied by other member states, the principle seems not benefiting Nepalese agriculture (Sharme and Karkee, 2004). As the LDC, Nepal is exempted to reduce its domestic subsidies and allowed to provide measures that fall under the Green Box, Blue Box and development measure. Although the AOA does not restrict or limit government expenditure on those measures, due to scarcity of resource and reduction of agricultural expenditure, the support to Nepalese agriculture is very low relative to what the AOA permits (Ghimire, 2010; Jull, 2006). The AOA allows the use of exempt measures if the government wishes to implement such programme in the future. But, currently Nepal does not have any product specific support programs. Due to this, the country does not take the advantage of all of the exempt measures (ibid). Moreover, the policy of the funding institutions also affects the chance of the Nepalese government to support the sector. In this case the funding for such subsidy often originates from international institutions which have removed any subsidies in agriculture sector. This policy of the donor institutions in turn resulted in a reduction of the rate of subsidy (Young Cho, 2004).

In addition to the influence of donor institutions, Green Box and other exempt measures are not fully utilized by the government of Nepal due to its domestic policy. Since the implementation of economic reform programs in 1990’s, there has been the reduction and elimination of subsidies in various areas. Hence, the share of agriculture in total expenditure has fallen steadily from about 22 percent in 1994 to around 5% in 2009 (Kakra and Bhattacharjee, 2009). To large extent this may reflects the government decision to lower Nepalese agricultural funding and this has its own implication for the reduction of government expenditure on agriculture extension, research, irrigation and fertilizer. This further affects Nepalese agriculture products which are not only low but also declining in real term (Awasthi and Adhikary, 2006). Hence, from the above it is possible to see that public expenditure to agriculture in Nepal is not only low but also declining through time.

Furthermore, domestic support principle does not benefiting Nepalese agriculture due to the huge agricultural support in the developed countries. This practice has distorted trade in agricultural products in Nepal (The World Trade Review, 2005). The nature and level of subsidies of the trade partners of Nepal has a strong influence on its agricultural sector (Trade Promotion Center, NY; Sharma and Karkee, 2004). Awasthi and Adhikari (2006) argued that, because of the subsidy in developed countries, the product of Nepal is not in a position to compete with the developed countries products. For example, the large subsidies and price support programme in India provide important cost advantage to Indian farmers. This highly subsidized Indian agriculture makes Nepalese product expensive and results in high cost of production to Nepalese farmers. This leads to import surge in Nepal which results in the lowering of price in the domestic market of Nepal. And at the end this leads to the collapse of domestic products (Acharya, 2007). To sum up, although the AOA provide ample room for Nepal to support its agriculture, due to lack of

capital and policy change, the actual level of support in Nepalese agriculture is very low. Besides, there are also domestic subsidies in developed states. So, given the existence of budget constraint and trade distorting support by others, domestic support principle seems not highly benefiting Nepalese agriculture.

Market Access Principle and Nepalese Agriculture

Nepal joined the WTO under the expectation that its membership would result in predictable market access in other countries. However, its economic policy reform and the obligation of market access principle minimize the benefit of membership. Prior to its membership in the WTO, Nepal liberalized its tariff structure and this put the country as the most liberal state among south Asian nations (Trade Promotion Center, NY). Besides its policy change, Nepal further eliminated tariff and non-tariff barriers in the accession process. At the time of WTO accession, the country committed to bind all agricultural tariffs. As the obligation of market access, Nepal ended up binding its tariff rates at very low levels compared to developing countries at 26 percent (ibid). Since Nepal reduced its tariff due to its policy change and market access obligation, there are various products that are being dumped in Nepal from other countries (Federation of Nepalese Chamber of Commerce and Industry, 2007). According to Adhikari R. and Adhikari K. (2005), after its commitment to open its domestic market for foreign products, Nepalese farmers faced stiff competition from cheaper, better quality and higher value imports from industrialized countries and domestic production lose their share in domestic market. This, in turn, resulted in the reduction of revenue in Nepalese agriculture (Federation of Nepalese Chamber of Commerce and Industry, 2007).

In addition to market access obligation, due to the existence of tariff and non-tariff barriers in member states, market access principle doesn't seem to benefit Nepalese agriculture. This is because Nepal has been exporting its agricultural products to foreign markets where there are tariff and non-tariff barriers (ibid). In terms of tariff barriers, the exports of Nepal face tariff peaks in the neighboring and international market. Due to the fact that members have the right to raise their tariff to the bound level, if circumstance so dictate, the tariff barriers are very high with bound tariffs as high as 2000 percent maintained by neighboring countries (Adhikari R. and Adhikari K., 2005). For example, India which is the major trade partner of Nepal still applies high tariff rates on varies products, that is about 150 percent. This hinders the free entrance of Nepalese agricultural products in Indian market. This is also true in other trading partner of Nepal such as Japan, US and others (Acharya, 2007). Hence, Nepalese exports are facing tariff barriers while exporting its agricultural product to neighboring and international markets. Furthermore, the incidence of non-tariff measures is also high. In the non-tariff barriers, the application of sanitary and phyto-sanitary measures and quality standard in developed and other states hinder the free access of the Nepalese export (Baumuller, 2008). Under the AOA member states are authorized to apply sanitary and phyto-sanitary measure which is necessary to protect human, animal and plant life. Due to this authorization, developed countries imposed the measure on the export of Nepal. However, the lack of financial and technical resources to fulfill the criteria hinders the free access of Nepalese exports to their market (Adhikary R. and Adhikari K., 2005). Moreover, the rules of origin requirements, which Nepalese exporters have to fulfill in order to qualify for market access, are often inefficient and resource demanding. Safety and quality standards that are applied particularly in developed countries mark*et al*so poses significant challenge for Nepalese exporters (ibid). In terms of quality standard, Nepal reported that EU uses stringent criteria and standard which largely discourage its agricultural exports. Even the standard is far higher than those required by some standard setting institutions. For example, Nepalese coffee is below the standard quality specified by the developed countries. The qualities obligatory for agricultural products are very high that Nepal in many situations is not able to afford it. As a result of this, the export of Nepal is not able to enter into developed states markets without restrictions (Tiwari, 2010).

Besides the above mentioned problems of tariff and non-tariff barriers, internal problems in Nepal have added to complications. Nepalese bid for membership was motivated by a desire to ensure predictable market access and become eligible for the special concessions available to developing countries under WTO rules (Baumuller, 2008; Ghimire, 2010). However, the intended objective is not achieved since its agriculture is characterized by lack of diversification, supply side constraints, low productivity, low technology and low infrastructure. In the case of diversification, both Adhikari (2005) and Baumuller (2008) argue that market access is not the problem; rather the challenge is to increase Nepalese export type in the international markets by diversifying its exports profile. Nepal, like other developing countries, is depending on very few products, such as coffee, tobacco and tea, for export and on few destinations. For example, 90 percent of its exports go to India, Germany and U.S. and the production of the country is not diversified, with cereal crops accounting for more than 80 percent of gross cropped areas. As a result, this lack of diversification highly affects Nepalese market access opportunities and the country is not benefiting from the AOA principles (Acharya, 2007).

Since agricultural sector of Nepal is characterized by supply side constraint, trade liberalization alone brings little benefits to the country. In Nepal both trade liberalization and WTO membership occurred at a time when production in agriculture sector was not only low but also declining. This further undermined the potential gains from market access principle of the AOA (Baumuller, 2008). In Nepal farming mainly depends on subsistence and there is no commercialization of agriculture. Even land holding is small which is not productive. For example, 40 percent of small scale farmers operating less than 0.5 hectares of land. Due to this fact exporters ability to expand have limited thereby hindering the country to take full advantage of market access opportunities and ensure that trade effectively contribute to socio-economic development (Ghimire, 2010). In quality side, quality problem is also minimizing the benefit of market access principle. According to Tiwari (2010), due to lack of quality product the export of Nepal is not accepted and it faces international

competition in agricultural markets. Although Nepal produces few animal and agriculture related products, the quality is very poor and hence the country is unable to benefit from market access principle (Tiwari, 2010). Moreover, lack of technology is the other constraint to exploit market access opportunity. In Nepal most agricultural production is based on traditional methods and minimum use of improved technology. Agricultural practices are traditional labor intensive and not mechanized. This lacks of adequate technology leads to low level of production and quality which cannot be compete with other products in foreign markets (Thapa, 2004 and Tiwari, 2010). Generally, it can be seen from the above that the market access principle of the AOA is not benefiting the agriculture sector of Nepal. Although the principle is good by itself, due to internal and external factors, the country is not in a position to exploit the market access opportunity of its membership in the WTO.

Export Subsidy Principle and Nepalese Agriculture

Since the introduction of prohibition of new export subsidy, the system has in fact been advantageous to the developed countries as these were the only category of states to have significant export subsidies in place prior to the entry into force of the AOA (Deschutter, 2009). Export subsidies are the most harmful form of subsidies for developing countries. They lead to subsidizing products of developed countries arriving on domestic markets of developing countries and displacing local production which typically cannot benefit from level of support (Ibid). This is also true for Nepalese agriculture. Like other developing countries, Nepal did not make any commitments to bind export subsidies for its agriculture sector under the terms of its accession to the WTO. Nonetheless, the government asserted that at the time of accession it did not provide subsidies on agricultural exports (Jull, 2006). Common to all developing countries, Nepal does not subsidize its export. In fact at the time of WTO accession, it committed not to subsidize exports. In addition to this commitment, the economic reform of the government, which was implemented in the 1990's, also led to the reduction and elimination of subsidies in export sector (Awasthi and Adhikary, 2006).

After Nepal became a member of WTO, due to the existence of export subsidy in developed states the country is facing some difficulties in the area of agricultural export and international competition. Although the export subsidy principle obliged member countries to avoid subsidies which distort trade and promote export competition, still there is export subsidy in developed states which has some negative effective on Nepalese agriculture (Ghimire, 2010). Due to export subsidy, the export of developed countries gets supremacy and benefit from cheaper price. As a result, the agriculture sector of Nepal loses its share in the world market. Furthermore, because of export subsidies in developed countries, there are import surges in the internal market of Nepal which intern leads to the lowering of price and this put the Nepalese farmers disadvantageous (ibid). In addition to the issue of subsidy, there is internal factor that hinders the benefit of export subsidy. Although there are provisions in the WTO AOA that allow developing countries to assist export sector through various means, Nepal does not utilize this opportunity. This is due to the fact that there are no enough financial resources in the country to support its sector through exempt measures (Dawe, 2007). Because of its low level of economic development, there is no ample resource to allocate in Nepalese export sector and the country could not afford export subsidies. In the absence of capital to support the exporters, the country is unable to export competent products. Hence, this hinders benefiting of the exempt measures (Ghimire, 2010 and Sharme and Karkee, 2004). Generally, like other principle, the export subsidy principle of the AOA has not highly benefited the agriculture sector of Nepal. This is because there is no enough finance to support this sector of the country. In addition to this, the subsidy by developed states also makes it difficult for Nepalese export to compete in the world market.

The AOA and the Experience of Uganda's Agriculture

Uganda ratified the Marrakesh agreement and became original member of the WTO on September 1994. And thus it is bounded by all WTO multilateral agreements. In an effort to become WTO compliant, Uganda has undertaken steps towards economic development through the liberalization of its agricultural sector (Abdalla and Egesa, 2005). This process highly affects the agricultural sector of the country. Although the AOA raised the expectation that member countries would benefit from the agreement, Uganda's experience seems to contradict the central aim of agricultural liberalization (Bakunda, 2008). Although the AOA provides exempt measures and special and deferential treatments, the country seems not to have fully taken the advantage of this opportunity largely in view of the liberalization of world trade in agriculture is negatively affects prices of the product of Uganda's exports. Due to this fact, the country is experiencing negative balance of trade in its agricultural exports (Blake *et al*., 2002 and FAO, 2003). Therefore, the section below attempts to show the implication of the three principles of the AOA on Uganda's agriculture.

Domestic Support Principle and Uganda's Agriculture

Since Uganda is the original member of the WTO, it is obliged not to give any trade distorting subsidies to its agriculture sector. According to the AOA, Uganda cannot support the agricultural sector above the established level which is set by the Marrakesh agreement. Due to this, the country is scheduled to reduce its domestic support. But there is the chance to support its agriculture sector based on the exempt measure (FAO, 2003). Although Uganda is required to reduce trade distorting supports, there is exempt measure by which it can support its agricultural sector. When Uganda approved the Marrakesh agreement, the expectation was that the AOA will benefit the country through the use of exempt measures (ibid). It is true that under the Green Box, Blue Box and development measures, there is no restriction on expenditure on agriculture. Even though the AOA allows the use of exempt measures, Uganda doesn't seem to benefit from this principle. In the regional workshop on the WTO AOA which was held in Nairobi, Kenya in 1999, the delegates of Uganda stated that the main elements of the current agreement of the AOA are not very relevant to their economy. In this workshop Uganda

reported its experience of adverse effects from implementation of domestic support principle (Demesse, 2005). The government of Uganda also reported that the provisions of domestic support measures remain unbalanced and in favor of developed countries and did not help the growth of Uganda's agricultural sector (Abdalla and Egesa, 2005). One reason for the unfavorable nature of domestic support measure is due to lack of sufficient capital to support the agriculture sector of Uganda (FAO, 2003). Like other developing countries, Uganda is characterized by lack of sufficient capital and hence depends on the aid of international institutions for which certain pre-conditions are required to be fulfilled. Among the conditions, free trade or trade liberalization is the one which require the abolishment of domestic subsidies. Due to this donor states obligation, Uganda cannot utilize the exempt measures effectively (ibid). Therefore, similar to the case of Nepal, financial constraint is one internal factor which affects the capacity of Uganda's government to provide domestic support under the exempt measures.

The other factor which hinders the benefit of Uganda's agriculture from the AOA is the domestic support given by the developed states. The AOA clearly indicates the obligation of member states to lower and then eliminate their support. However, the support given by developed states have increased through time (Khor, 2005). In developed countries domestic support for their agriculture sector are not decreased; rather increased. Since the AOA allows some form of domestic support, developed countries, due to their financial capacity, use this measure effectively. For example, in 2002 the total support of the developed countries for their agriculture sector is 318 billon US dollars. Out of which about 90% is in the EU and U.S., which are the major trade partners of Uganda. This measure in effect destroys the market of the agricultural product of Uganda (Abdalla and Egesa, 2005). The effect of these agricultural subsidies in developed countries is that their farm production levels are kept high and they depose their surplus in other countries, by often dumping on world markets at less than production cost (Khor, 2005). According to Abdalla and Egesa (2005), high internal producers support measures in developed states results in surpluses which end up decreasing in world price. For example, there is domestic support for cotton producers in US, China and EU. This subsidies results in surplus cotton products which is sold in lower price. Since cotton is Uganda's third export earner, the surplus cotton products in the world market damages the cotton product of Uganda (Gillson *et al*., 2004).

Furthermore, the government of Uganda reported that food insecurity has been aggravated by the collapse of domestic agricultural production due to dumping of cheap food from subsidized agricultural products of developed country. Since the AOA discouraging subsidizing of farm inputs, this led to reduction of fertilizer use in Uganda due to high costs of inputs. This in turn results low level of productivity (Demesse, 2005). In addition, due to subsidies in developed states, farmers in Uganda lose their export opportunities in other countries. This is because subsidizing countries are exporting to the third countries at artificially low price. Hence, because of the inflow of artificial cheap subsidized imports, Uganda's farmers lose their market share in foreign and domestic markets and thereby lose their livelihoods (Khor, 2005). Since the domestic support is not tight and allow the use of exempt measures, the agricultural products of developed states become very cheap. And this also lowers the price of the same agricultural products. In the long run this results in import surges in internal markets of Uganda. Due to this the agriculture sector of the country gets badly affected (FAO, 2003). For example, the domestic support in developed countries affects coffee price in the world market. Because of domestic support measures in developed states, the price of coffee beans dropped sharply, and the share of the coffee market revenue accruing to producer countries has also decline sharply. The effect of the final coffee price has been very serious for many countries including Uganda where a quarter of the population depends on coffee production (Khor, 2005).

Market Access Principle and Uganda's Agriculture

Uganda implemented a liberalized agricultural trade regime in 1990s. This reduced and in many cases reduced tariffs and eliminated qualitative restrictions and removed import quotas as well as implementing the MFN and National treatment principles (www.wto.org). Following the implementation of this new trade policy, the government introduced a more rational tax and tariff system. The tariff structure was simplified through a reduction of the number of bounds from five to three and the maximum tax rates were reduced from 60% to 15% (Bakunda, 2008). In addition to the internal trade policy reform, the government further liberalized its agricultural sector as part of its commitment for the AOA. Since 1995 Uganda, as a founding member of the WTO, has implemented the requirements of the WTO AOA. As part of the commitment, it reduced the average tariffs on all import from around 250% in 1991 to an average of 90% in 2000/1. Moreover, the tariffs on agricultural imports reduced to an average of 11.2% in the same year (www.wto.org). Since the approval of the Marrakesh agreement, all of Uganda's agricultural products are bounded in tariff. The tariffs are at calling rates of 80% for most agricultural products, with rates varying between 40 to 70 percent. Because the AOA requires the abolishing of non-tariff barriers, the country has also avoided most non-tariff restrictions including qualitative restrictions (FAO, 2003).

Although the idea of market access principle is to benefit member states, Uganda's experience seems to contradict the central objective of the market access principle (Bakunda, 2008). Since market access encourages states to give priority for export crops than domestic consumption, there is high food import in Uganda. Due to market access commitment and government policy, there is a significant increase in agricultural imports from the EU. For example, more than 150 items are imported as compared to about 70 items in 1995. The total annual imports grew by an average growth rate of between 5% and 6% between 2000 and 2004, from the level of USD 22.6 million to the level of USD 24 million by 2004. This shows the steady growth of imports in Uganda (ibid). This in turn resulted the dumping of import goods which is cheaper than domestic price putting farmers in a position unable to compete with other cheap import agricultural goods and this make them out of business (Khor, 2005). In addition

to this commitment, there are also internal and external factors which affect Uganda's agriculture sector ability to benefit from this principle. Internally, one reason which minimizes the benefit of Uganda's agricultural trade liberalization under the AOA is lack of capacity to produce products in quality and quantity (Khor, 2005). Even if there is market access opportunity for Uganda, there is supply constraint and quality problem. Since Uganda's agricultural activity is based on traditional methods and subsistence farming, there are no enough products to supply in to foreign markets (Abdalla and Egesa, 2005). Besides its supply constraint, the sector also faces quality problem. As compared to the product of developed countries, the qualities of Uganda's agricultural products are below standard. All these problems prevent the country from being able to take advantage of market access principle and its products do not compete with others in foreign markets (Tumushabe *et al*., 2007 and Gollin and Rogerson, 2010).

The other factor which hinders market access opportunity is geographical condition. According to Gollin and Rogerson (2010), there is no adequate physical infrastructure in Uganda's agricultural sector (ibid). This weak infrastructure coupled with land locked status of the country has impaired the growth of its exports to foreign markets. Due to this geographical factor, there is a delay of deliveries to the export markets (Madeley, 2000). Furthermore, remoteness, land lockedness and poor communication infrastructure do not only isolate the country but also increase transport costs of doing export agricultural products to other states. As a result of this, the country is not benefiting from market access provisions (Gollin and Rogerson, 2010).

The third internal factor is weather problem. Although the AOA encourage the export of least developed countries, Uganda's farmers are not able to use this opportunity because of dependency in weather and poor harvest handling practice (Khor, 2005). In Uganda most of the agricultural activities depend on nature and the ecological integrity of the environment. Any change in climate and weather condition result in low level of productivity. Hence, Uganda's market supplies, especially to the export market, cannot be sustained over the entire year (Tumushabe *et al*., 2007). Finally, lack of appropriate farming technology is also another internal factor which hinders Uganda's agriculture to benefit from market access principle. As mentioned earlier, the majority of farmers depend on traditional unimproved method of farming. This activity results low level of production and quality which is not enough to export in to foreign markets (Tumushabe *et al*., 2007).

In the case of external factors, the existences of tariff and non-tariff barriers are the most important factors that hinder the free entrance of Uganda's export in foreign markets. Despite the establishment of the AOA, aimed at reducing tariff and eliminate non- tariff barriers, the developed countries have continued high protection of their agriculture sector. There are high tariffs on selected agricultural products of Uganda (Khor, 2005). After the implementation of the AOA, a number of problems arise related to tariff reduction. One concern is the issue of "dirty tariffication" arising from new significant tariff peaks in agriculture of developed countries as well as wider dispersion of tariff rates (Abadalla and Egesa, 2005:19). According to Abdalla and Egesa (2005), high tariff in general and tariff peaks and escalation in particular serve as major barriers to the exports of Uganda. Tariff quota system on the other hand provides limited opportunities for Uganda's export (Ibid). For example, FAO studies in 2003 have stated that high tariffs and tariff escalation are the major barriers to products of export interest to Uganda. This activity of the developed states highly affects the export revenue of the country (FAO, 2003). Since the developed countries still have high degree of tariff escalation for processed agricultural products Uganda has shifted its export from processed to unprocessed products (FAO, 2003). According to Bakunda (2008), there was a steady decline in the value of processed agricultural exports to the EU, decreasing by 25.2% from 2000 to 2004. This indicates that there is the decline in the value of processed agricultural exports where the value of unprocessed export is increasing. This suggests an increasing shift from exporting processed products to exporting unprocessed products. This substitution of processed to unprocessed agricultural exports further suggests that processed agricultural exports are less competitive and decline in terms of competitive conditions in the local markets (Bakunda, 2008).

In addition to tariff barriers, the agricultural exports from Uganda face non- tariff barriers in foreign markets. These barriers limit market access for the country's products. Among these non-tariff barriers the application of sanitary and phyto-sanitary standards are those that hinder the free entrance of Uganda's export in other states. The other barriers are technical barriers and anti-dumping measures which also utilized by developed states. As a result of these factors, Uganda's agriculture is not benefiting from market access principles (Nyangito, 2004). To sum up, market access principle is does not seems to benefit the agricultural sector of Uganda. This is due to the existence of internal and external factors which hinder the country to exploit the market access principle.

Export Subsidy Principle and Uganda's Agriculture

The central aim of the export subsidy principle of the AOA is to oblige member states to lower their export support measures. Within this principle there are exempt measures that allow developing countries to use them in their agriculture sector. However, Uganda does not offer any subsidies specifically that is designed to promote exports (FAO, 2003). Although Uganda as LDC is exempted from export subsidy reduction, the country does not use it effectively. According to FAO (2003), this is the outcome of low financial capability and the government policy to liberalize its export sector. Since there is no adequate financial resources to provide export subsidies, Uganda cannot use the export enhancing facilities even if it is allowed to do so (Ibid). In this regard, Abdalla and Egesa (2005), have stated that Uganda's exports are constrained by the lack of access to reasonably priced working and investment capital. This is partly due to the absence of export credit as well as the lack of sufficiently adequate financial resource in Uganda. Consequently, the market for credit to exporter was characterized by high lending rates and

therefore it undermines the competiveness of Uganda's exports (ibid). Although the AOA obliged member states to reduce export subsidies, there is an increase in subsidies in developed countries export sector. Due to this, there is an increase in the food imports in Uganda which is greater than increase in agricultural exports. According to Nyangito (2004), export subsidies that are dominantly used by developed countries make the products of sub-Saharan countries difficult to compete in the world market and also dampen domestic production when they are exported in sub-Saharan countries. For example, the EU accounts the majority subsidies granted by developed countries. This action allows the product of this region to undercut price for local agricultural products and this in turn affects the domestic market for small famer in Uganda (Wiggerthale, 2004).

Furthermore, Nyangito (2004) has stated that the export subsidies in developed countries hinder the efforts of Uganda to increase its agricultural exports. Due to this, the sub-Saharan countries, including Uganda, which are heavily dependent on a few primary commodities, suffered from both volatility and secular decline of export since the establishment of the WTO. Moreover, FAO indicated that exports subsidies, in many cases, have contributed to the displacement of products from Uganda within their domestic as well as regional markets. According to the study carried out by FAO in 2003, export subsidies in developed states damaged the production of small scale producers in Uganda (FAO, 2003). As far as export subsidies are concerned in developed countries, they are prevalent on commodities such as cereals, dairy and beef products in which Uganda is a net importer. However, these commodities are also important export for at least 50% of total exports of Uganda (Nyangiot, 2004). The fact that these commodities are subsidized makes it difficult for Uganda to compete with other developed states products in the world and domestic markets (Ibid). In sum, the export subsidies provision of the AOA and its exempt measure less benefit the agricultural sector of Uganda. This is because there is no enough amount of capital to support the sector. In addition, the subsidy by developed states hinders Uganda's ability to benefits from the provision.

Conclusions

When the WTO AOA was agreed by member states in 1995, the intention was to liberalize trade in agricultural products. During that time, it was widely assumed that trade liberalization in agriculture would contribute to growth, better income and economic development. Since trade in agriculture has been a problem of many states for decades, many developing countries believed that the agreement is the turning point as far as agriculture sector is concerned. However, the evidence from the experience of Nepal and Uganda does not support this argument. At the beginning, the two countries believed that there membership in the WTO would benefit their agriculture sector and then lead to economic development. But the reality is different. As far as domestic support commitment is concerned, both Nepal and Uganda have faced the same problem. Although the AOA provide some exempt measures for developing countries, due to lack of sufficient capital, the influence of donor institution and government expenditure policy, both Nepal and Uganda could not benefit from the exempt measure of domestic support. In addition to this, due to subsidies in developed states the AOA has not benefited the agricultural sector of these countries. With regard to market access principle, the two states face similar challenges.

Under this principle, both Nepal and Uganda reduced their tariff rates at lower level and changed their non-tariff barriers in to tariff equivalents. As indicated in the previous part, these countries reduced their tariff and abolished non-tariff due to their memberships. But this tariff reduction, together with other internal and external factors, affects their agricultural sector. Internally there are many problems in Nepalese and Uganda's agriculture. These countries are affected by many internal factors, such as supply side constraint, lack of diversification of exports, lack of quality products and low infrastructure. Due to this fact the countries are not highly benefiting from market access right. Apart from these internal challenges, there are also certain external factors that are limiting the opportunity of market access principle. In this regard, the existence of tariff and the existence of tariff and non-tariff barriers in their trading partner are minimizing their access to foreign markets. In the case of export subsidy, both Nepal and Uganda are facing similar challenges. In terms of export subsidy obligation, the countries did not face serious problem. Although this commitment by itself does not pose any challenges, the existence of export subsidy from their trading partners highly affecting their agricultural sector. Beside the subsidy of their trading partners, the exempt measure of export subsidy principle is not benefiting the two countries where there is no enough capital to subsidize over exempt cases.

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