



We're looking at trade in this issue of DACNews

What role does trade have in the development agenda? This is a crucial time for both trade talks and the aid agenda. So we've rounded up a selection of experts and leaders for not-to-be-missed insights.

Director-General of the World Trade Organisation, Pascal Lamy writes exclusively for DACNews on the eve of the continuing Doha negotiations in Hong Kong. His message to OECD country donors is clear: *"Aid-for-trade must be a complement to, not a substitute for, ambitious results from the Doha Development Agenda...and Aid-for-Trade must not have to compete for existing ODA flows with other development and poverty reduction priorities..."*

If more financing is required to build up trade infrastructure in developing countries, then those funds must be found, he argues.

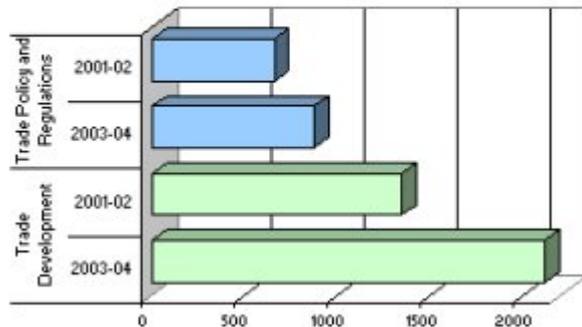
Why has aid become such an important part of the trade story, asks **OECD DAC chair, Richard Manning?** Perhaps because people now know that many of the costs borne by exporters in the poorest countries are nothing to do with tariffs, quotas or rules of origins and everything to do with the costs of setting up a business in a developing country. Richard Manning goes on to look at whether any new aid-for-trade deals will mean more aid is spent on trade than would otherwise have been the case, and whether more will be spent now.

African countries want to grow and enjoy the benefits of rising incomes, **says Chiedu Osakwe, Director of the Doha Development Agenda Special Duties Division in the WTO, writing exclusively for DACNews.** *"The challenge now is to stay the course and not bolt. In doing so, two things need to be borne in mind. First, the actual and potential development benefits from the Round. Second, to think the unthinkable, i.e. the cost of failure."* But he remains optimistic that members have already seen *"the light that will shine from a successfully completed Doha Round"*.

On the other side farmers and their political allies in OECD countries have nothing to fear from a deal in Doha, **says OECD Director for Food, Agriculture and Fisheries, Stefan Tangermann.** Under existing policies, it is the largest farms that get the most support, artificially high prices end up raising land prices making it difficult for young farmers to get a start, and barely 25 cents of each dollar spent on price support end up in the pockets of farmers.

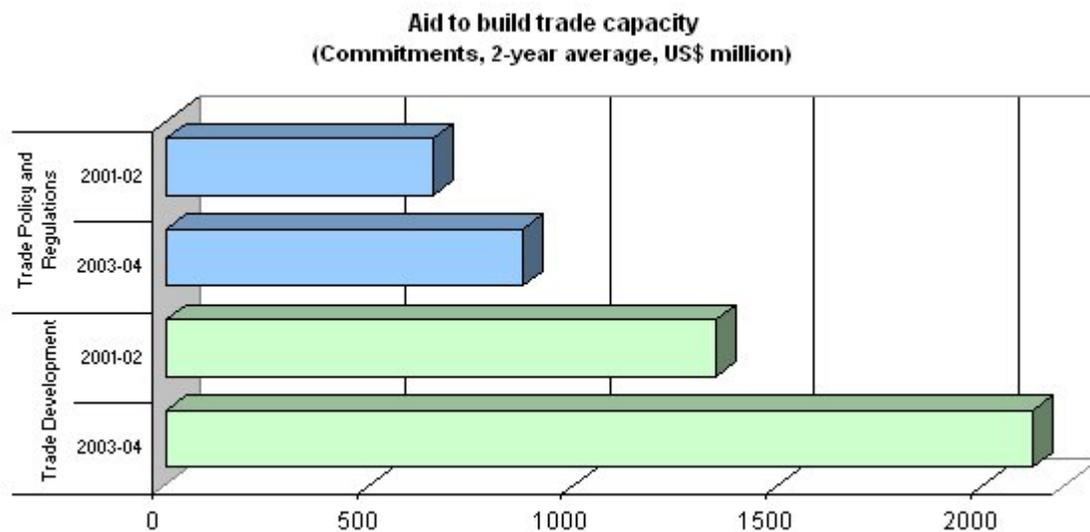
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Aid to build trade capacity
(Commitments, 2-year average, US\$ million)



Donor assistance to trade capacity in developing countries has increased by 50%.

Aid to build trade capacity (DACNews Nov-Dec 2005)



Donor assistance to trade capacity building in developing countries has increased by 50%.

Bilateral donors and multilateral agencies have become much more active in aid-for-trade activities over the last few years.

- Aid for trade policy and regulations — to help countries reform and prepare for closer integration in the multilateral trading system — rose from USD 0.65 billion in 2001-02 and to USD 0.85 billion in 2003-04
- Aid for trade development — to help enterprises to trade and create a favourable business climate — moved up from USD 1.3 billion to an average of USD 2.1 billion over the same period
- Within aid for trade development, support increased most significantly for e-commerce, trade finance and for market development in industry and agriculture sectors
- Least Developed Countries (LDCs) represented 16% of total commitments for support to trade policy and regulations and 20% for support to trade development
- Contributions to the international trade-related Trust Funds (e.g. Joint Integrated Technical Assistance Programme, Integrated Framework Trust Fund, the International Trade Centre and the WTO) increased from USD 26 million in 2001 to USD 45 million in 2003 and remained stable at that level in 2004
- In addition, donors committed US\$9.3 billion to support economic infrastructure - transport, energy and telecommunications - which is essential for international trade
- In 2003, the share of trade related technical assistance and capacity building accounted for 4.4% of total aid commitments, while infrastructure support represented 25% of total aid commitments.



Aid-for-Trade: helping developing countries benefit from new trading opportunities (DACNews Nov-Dec 2005)



Pascal Lamy, Director-general World Trade Organisation.

One of the aims of the World Trade Organisation (WTO) is to help developing countries, and in particular the poorest among them, expand their production and exports of goods and services. Some countries are succeeding well – but others are not, including a large number of Least Developed Countries where trade is failing to make the contribution that it should be to economic growth and poverty reduction.

The Doha Development Agenda, the WTO round of global trade negotiations launched in Doha in 2001, sets out to address part of this problem by aiming at reducing trade barriers that these countries face in their main developed country export markets and in South-South trade. Ambitious results there will go a long way towards fulfilling the development promise of the Doha Round.

Market access improvements are a necessary condition for increasing trade opportunities for developing countries, but on their own they may not be sufficient to lift everyone onto the path of sustained trade growth. An ambitious market access package will need to be accompanied by Aid-for-Trade to address another part of the problem that many countries confront. This is insufficient human, institutional and infrastructural capacity to participate effectively in international trade and expand the quantity and quality of goods and services that they can supply to world markets at competitive prices.

A comprehensive Aid-for-Trade initiative needs to respond to two sets of concerns. One is the assistance that some WTO Members will need to help them implement the results of the trade negotiations, and to cope with any economic adjustment costs that may be incurred. Effective implementation of commitments is in the interest of the WTO membership as a whole. WTO Members can reasonably expect dedicated and secure assistance, both technical and where necessary financial to meet their legitimate implementation needs. The Trade Facilitation negotiations, which are part of the Doha Development Agenda, are working explicitly towards that outcome. Next year we should carry similar exercises in the other areas of the negotiation to address supply-side constraints and build necessary capacity.

The second, broader set of concerns is about the insufficiency of trade-related capacity in many WTO Members to benefit from the opportunities the multilateral rules-based trading system creates to increase investment and expand the production of tradable goods and services. This covers a wide area – from setting up testing facilities in developing countries that will help ensure their products can meet technical regulations and sanitary standards in their main export markets, through to much larger-scale projects such as improving their transport infrastructure and trade logistics.

The WTO is not a fully-fledged financing agency, nor does it have any ambition to become one. But it has a specific know-how in the area of trade which makes it a valuable partner in collaborative efforts that are undertaken to meet trade-related capacity-building needs. These involve beneficiary countries and their development partners – the Bretton Woods institutions, regional development banks, bilateral donors and specialized agencies that have the necessary financing and technical expertise, such as the International Trade Centre. The WTO can also play a valuable advocacy role, and help clarify the importance of trade infrastructure as a component of the development and poverty reduction strategies of developing countries. At the end of the day Aid-for-Trade is a crucial complement to trade opening undertaken under the aegis of the

WTO.

Further work on Aid-for-Trade, in the WTO and elsewhere, needs to be inspired by three principles. First, Aid-for-Trade must be a complement to, not a substitute for, ambitious results from the Doha Development Agenda, particularly on market access. Increasing trade opportunities for developing countries and in particular the Least-Developed among them, remains far and away the most important contribution that the WTO can make to development. Second, Aid-for-Trade must not have to compete for existing ODA flows with other development and poverty reduction priorities; if more financing turns out to be needed to help build trade infrastructure in developing countries then additional financing will need to be found. Third, the case for attracting Aid-for-Trade, and for using it to implement WTO agreements to build trade-related capacity more broadly, must have the commitment of trade, development and finance ministers and the support of private business and civil society in developing countries if it is to live up to its promise of catalysing their trade-related investment and production

This is the challenge that the international Community needs to take to translate the potential benefits of the Doha Development Agenda into realities for the millions in developing countries. As a Director-General of the WTO I stand ready to take it.

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Aid, Trade and Additionality: some thoughts - from DAC Chair Richard Manning - ahead of Hong Kong (DACNews Nov-Dec 2005)



As we approach the Hong Kong Trade Ministerial, aid is getting a surprisingly high profile. What is going on?

In my opinion, four rather different stories underlie the interest in the role of aid.

The first is that developing countries need to be able to play a full part in the negotiation and in implementing the results. This takes resources. **Countries need access to good expertise and analysis.** Many issues in the negotiations are complex and technical. To take an active part in negotiations on trade facilitation, for example, or to assess the consequences of different choices on issues of market opening, developing countries may need external assistance to boost their capacity. As the figures in the [2005 joint WTO/OECD Report on Trade-Related Technical Assistance and Capacity Building](#) (report to be released on 14 December 2005) show, donors are rightly investing significant sums (over \$800 million in 2004) in the area of trade policy and regulation.

The second is that it is clear many of the costs borne by the exporters in developing countries are nothing to do with tariffs, quotas or rules of origin, important as all these issues are. **The costs start at home:** setting up a business, getting a reliable supply of electricity, moving goods over bad roads, getting through red tape and restrictive practices at ports, and so on. These combine to impose a heavy tax on the productive sector of most developing countries, and are particularly acute for landlocked countries or small remote countries away from main international transport arteries. I was just a few days ago in the Solomon Islands, for example, where, even on the same island as the country's capital, there are areas so remote that no-one knows when a boat may next arrive to collect copra.

There is reasonable concern that too little attention has been given by donors to helping developing countries tackle these "behind the border" costs. Poverty Reduction Strategies seem to have given them low priority. Aid for infrastructure has been falling for a decade. Now, a strong sense is developing that more investment in helping the productive sector work is necessary. The World Bank is building its infrastructure portfolio after years of decline. OECD DAC figures show an increase in aid for essential infrastructure of \$800 million in 2003, to a total of \$9.3 billion. The Commission for Africa gave the issue a lot of attention. And [OECD DAC's Poverty Network](#) is well advanced in setting out a positive agenda for donors which will also learn the lessons of failed investments in infrastructure in the past.

This needs to be matched by more attention to helping the development of competent institutions in developing countries – for example effective customs authorities, more accountable policing, more efficient port authorities. Success also depends on strong commitment by the countries themselves to tackle often difficult issues of vested interests and corruption. **What price a new highway if it is still full of unauthorised roadblocks?**

The third story is rather different. The world is coming to terms with the fact that the World Trade Organisation is a body which requires consensus and one where developing countries are much better organised than hitherto. There is concern that some developing countries – particularly those whose exports will not gain much improved access to other markets, or where the erosion of preferences may produce at least short-term costs – have little to gain from the Doha Round, and may therefore be reluctant to move to agreements. From this point of view a package of fresh aid, linked in some way to the Round, could seem a way of securing consensus in

an outcome that at world level may constitute a “global public good”.

The fourth story may at first sight look like the third, but is in fact different again. **What if a country is going to be severely disadvantaged by the results of trade concessions** (eg because it is one of the relatively few countries where the loss of existing preferential arrangements will imperil important sectors of the economy)? Surely, the development community has some obligation to help deal with the resulting loss of income.

The first story - boosting capacity - sees aid as facilitating trade negotiations; the second - the cost of setting up in business - as complementary to them; the third – a packet of fresh aid linked to the Round - risks appearing to be an alternative to them; the fourth - addressing the loss of income - sees it as a necessary response to them.

In my view, it is very important that the world stays focussed on the first, second and fourth stories and steers clear of the risks inherent in the third. Pascal Lamy’s article in this edition of DAC News makes the point eloquently.

The other issue that needs clarifying is the “additionality” of any aid offered in the context of trade negotiations. A British academic once wrote a seminal book called “Seven Types of Ambiguity”. Let me offer instead a mere “Two Types of Additionality”.

The first type (Type One) is additionality to what would otherwise have taken place, bearing in mind the current scenario for aid to rise significantly over the period to 2010 and beyond. The second type (Type Two) is additionality to what is currently being provided now in the area of aid-for-trade.

Each can be considered, at three levels: global, country and sector.

At global level, the first type of additionality is very unlikely. Most DAC members have already made commitments to levels of total aid to at least the year 2010, mostly linked to ODA/GNI targets. The United States is virtually the only DAC member without some form of medium-term ODA target. With the possible exception of the United States therefore, it is more or less excluded that any DAC member’s overall aid programme will rise beyond what is currently planned, at least to 2010, however large a commitment is made to aid-for-trade facilities (or indeed for any other new international initiative).

On the other hand, at global level the position is much more positive on the second type of additionality. **DAC projections** suggest that if all DAC members deliver on their promises, aid will rise by about 60% between 2004 and 2010, and by 100% for Africa. There is therefore plenty of scope for donors in aggregate to step up aid-for-trade.

If we turn now to the country level, it is in general hard to demonstrate Type One additionality (ie countries receiving more than they otherwise would), if only because few countries know what their future volume of aid receipts will be in much detail. On the other hand, the global picture shows that many developing countries are likely to benefit from Type Two additionality (ie rising aid receipts). A greater focus on aid-for-trade may objectively mean disproportionately large aid investments in countries with major behind-the-border costs, or, in particular, those where preference erosion is a genuine problem. Such countries might therefore receive additional aid- for-trade beyond the general rise in aid, and indeed there is a good argument that they should. So some at least may benefit from additionality in both senses.

Finally, at sector level within countries: will more be spent on trade-related items than would otherwise be the case (Type One) and will more be spent than now (Type Two)? This is where arguments for special funding arrangements come in. **Do we leave countries themselves to determine how much to spend on activities that promote the productive sector, or do we ring-fence funds, for example as donors have done for AIDS, TB and Malaria in the Global Fund?** There is concern expressed that Finance Ministries are too little willing to prioritise aid that promotes the productive sector, even though almost every sector in most developing countries would also like more resources.

In general, most donors tend to argue that special ring-fenced funds should be set up in very limited circumstances – but there are often political circumstances that favour such funds, which explains why so many exist. I have even heard it said that the absence of an aid-for-trade fund will guarantee that the sector will lose

out. [The Integrated Framework for Trade Related Technical Assistance to the Least Developed Countries](#) is itself a test of the logic of a ring-fenced fund, and has the advantage that it forces a degree of common analytical work, of the kind that the [Paris Declaration on Aid Effectiveness](#), agreed by very many donors and recipients at the High Level Forum last March calls for. Stepping this up looks to be sound policy, if governance issues can be addressed.

There is a strong case for some greater collaboration by donors to support the institutions that facilitate trade. It is disappointing that these institutions seem seldom to benefit from the kind of structured joint investments that donors have been making in support of recipients' strategies for education and health through sector-wide approaches and the like. The call in the Paris Declaration for coordinated capacity-building is highly relevant in this area.

The World Bank and the IMF have been mandated to consider also if regional investments need some particular support: if they conclude that this is the case, it will be a sorry comment on the lack of attention to regional issues in development planning. However, the case which is sometimes argued for ring-fencing major infrastructure investments is in my view very weak: these are typically major investment items whose capital and recurrent costs should be addressed through normal priority-setting arrangements.

It is clear to both the aid and the trade communities that a scaling up of aid by 2010 will have a limited effect if the capacity of developing countries to benefit from trade does not also 'scale up'. We can take some comfort in the [WTO/OECD survey on donor's trade related aid](#), which shows that government aid agencies have become more active in the last few years in the area of trade. I should like in particular to see more progress in coordinated donor support for those developing countries putting in place the often difficult policy and institutional arrangements that will give their productive sectors a better chance. With rising aid programmes, there is a real opportunity here.

Related documents: [DAC chair: Mr. Richard Manning - \(English\)](#)
[Special DAC Meeting on Aid for Trade, 27 October 2005 - \(English\)](#)
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Are WTO Members wrestling an octopus, did they set their sights too high? (DACNews Nov-Dec 2005)



Chiedu Osakwe, Director of the Doha Development Agenda, Special Duties Division.*

The Doha Development Agenda Trade Round was launched in November 2001 and was the first trade round explicitly dedicated to development. The entire global community bought into it. Today the Doha Work Programme exists as an item on the agenda of virtually every multilateral institution, and is discussed at nearly every international conference. This situation reflects both the success and the complexity of the agenda. It was, and remains, a bold initiative for trade liberalization to better address the problems of unemployment, poverty and development. Launching the Round was the right thing to do, even without the tragic stimulus of 9/11. It was an act of global leadership on the part of WTO Members. **The challenge now is to stay the course and not to bolt or lower ambitions.**

In doing so, two things need to be borne in mind. First, the actual and potential development benefits from the Round. Second, to think the unthinkable - the costs of failure. Recently in Arusha, at the African Union Trade Ministers meeting to prepare for the WTO Hong Kong Ministerial Meeting in December, African Ministers understood this point well. They have advised against delays in completing the Round. The "costs of further delay" equals and exceed the immediate "costs of protection".

The African Union Trade Ministers want development gains from the Doha Round. Like other Least-Developed Countries and low-income and vulnerable WTO Members, African countries want to address the challenge of poverty, they want to grow, and they want to enjoy the benefits of rising incomes.

However, the issues are difficult, the devil remains in the details, and the different interpretations and understanding about the "true meaning" of the Development Round. Some see it as exclusively about market access, others as the "flexibility to pursue industrial and development objectives". Some would like a more narrow focus to expand the universe of their preferential market access, others see it as "not undertaking any reduction commitments in the negotiations". Some want more "stable systemic rules", while others want the Round to address the deficits in their trade infrastructure (through the Aid-for-Trade Initiative). All these perspectives are legitimate. But they need to be set squarely within the fundamental framework of the rules-based, non-discriminatory multilateral trading system. Account needs to be taken of what the WTO can achieve within its competence, its resources, and its mandate, set out in the Marrakesh Agreement.

The true development gains from the Doha Round are not limited to any one sector or any one issue. They are horizontal and systemic to the entire negotiating areas of the Round. Nonetheless, it is a fact that agriculture is the motor, driving the negotiations. Most of the poor are employed or unemployed in the sector of agriculture. Within the agriculture negotiations, cotton is of special significance for poverty alleviation for farmers in West and Central Africa, for example. But it is also true that significant development yields in the Doha Round will emerge from ambitious liberalization in those sectors of export interests to developing countries in Non-Agricultural Market Access, and Services Trade – the most dynamic and fastest area of growth in the world economy. Trade Facilitation is the area of the negotiations that holds the promise of huge gains because it is the ramp, connecting multilateral trade liberalization to the less discussed, but no less important, piece of the puzzle – domestic economic reform.

Domestic reform is vital. Trade needs to be more effectively mainstreamed into strategies for poverty reduction

and plans for national economic development. This is the basis for growth. Stable macroeconomic policies are the essential starting point. Pro-competitive and market-based investment and other regulatory policies are fundamental requirements. Many countries now acknowledge the danger of corruption, and are dealing with it frontally. Corruption makes development impossible. The rule of law and domestic security are critical. Stable, clean and transparent governance makes the difference. Education and capacity building produce the expertise essential for first rank competition, both domestically and in the global economy. On top of that, developing countries, particularly the low-income ones, need to learn to make better use of multilateral institutions. **Apprehension and diffidence of the International Financial Institutions are unjustified.** Without these domestic reforms, even the maximum attainment of the objectives of the Doha Trade Round will deliver zero development gains for developing country and other Members.

The Aid-for-Trade Mechanism was the missing component from previous trade Rounds. When operational, it will enable WTO Members who will not immediately benefit from the opportunities of market opening, to address the challenges of trade infrastructure and other supply-side constraints. Some of the grievances arising from previous trade rounds for low-income Members were rooted in the disappointment that, **even with more open markets, they either had nothing to sell or nothing to sell competitively.** Frequently, there has been the confusion of "natural advantage" in a product with "comparative advantage" in the same product. A "natural advantage" in a product does not necessarily translate into "comparative advantage" in the same product in international trade. Beyond the supply-side, Aid-for-Trade should also assist WTO Members to cope with adjustment costs such as preference erosion, temporary labour dislocation from trade reform, tariff revenue losses, and balance of payment pressures that result from trade liberalization. On Aid-for-Trade, the leadership of the World Bank is crucial.

Unforeseen at the launch in Doha, the negotiations have triggered a dialogue on the broader issues of poverty reduction and development policy; what works, what doesn't. The objectives of the round are now linked to a host of related issues. **Did we over-reach at Doha? Did we set our sights too high?** Should we now "re-calibrate", lowering our sights and moderating our ambitions? Evidently not. To do so would be a monumental mistake. It would set the world back: global economic growth would falter; poverty would increase; the conflicts that inevitably arise in economies that do not grow, would escalate. Such an unfortunate turn would impact negatively on global growth, peace and security.

The negotiations are complex – the most complex ever, and certainly at a critical stage. Hope and optimism lie in considering the gains that have been made so far, and in the proposals (albeit conditional) that are now being made for the reduction of trade-distorting domestic support, significant tariff cuts, and the elimination of export subsidies in agriculture. **Is it conceivable that Members would decide to throw all the current gains away, because of continuing unresolved differences in several areas?** This is doubtful. The optimism for the Hong Kong Ministerial and a successful completion of the Doha Round is that Members will in the end make the right choices. Almost completely, Members have seen the light that will shine from a successfully completed Doha Round. Sometimes acceleration is required, if the road is straight and clear, but sometimes also a slow-down is required, if there are tight -bends in the road to be navigated. On the road to the Hong Kong Ministerial, progress may be best made in applying the principle embedded in the idiom: *piano piano, si va lontano* (it is slowly, slowly, that we make progress). But such progress requires strong political leadership.

WTO Director-General Pascal Lamy (one of the architects of the Round) has pointed to the development benefits that arise from trade opening. He has made the case that all leadership should make, namely that there are significant potential benefits from trade opening, but that there are also short-term adjustment costs that arise from the reallocation of resources from less competitive sectors to the more dynamic areas of growth in any process of long-term reform. This call should be picked up with greater conviction at national levels. Leaders need to present the facts and argue the case in ways that count. **Unfortunately, in many quarters the orientation remains mercantilist, protection is still an unchecked challenge,** and sight has been lost of the bigger picture. This is why the ongoing negotiations are vital. It is the compass that points in the right direction.

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WTO farm reform - Let's welcome it, not fear it! (DACNews Nov-Dec 2005)



Stefan Tangermann, OECD Director for Food, Agriculture and Fisheries.

As WTO negotiators rush from meeting to meeting, farmers and their political allies in OECD countries are fretting about the implications of a possible deal in Hong Kong. Should we heed them? Will a WTO deal on agriculture force governments to give up on policies for the environment and rural well-being? At the OECD, our analysis suggests quite the opposite. And what is more, reforming OECD area farm policies in the WTO context would be good news for farmers in developing countries.

The WTO negotiations on agriculture are about cutting tariffs, price support and trade distorting subsidies, mainly in the OECD countries. Such policies are designed to raise the prices that farmers receive for their products, thereby supporting farm incomes. But they have major negative side-effects, and they don't in reality do much to assist the people most in need of help.

Under existing policies in many OECD countries, it is the largest farms that get the most support – and they are not the ones where income problems are most severe. Meanwhile, artificially high prices for farm products end up raising land prices. Dynamic young farmers wanting to set up or expand a farm find it too costly to do so. Around half of all agricultural land in OECD countries is rented, so the beneficiaries are primarily landlords. As OECD work has shown, those actually working the land receive little benefit from price support and production subsidies. Barely 25 cents of each dollar spent on price support end up in the pockets of the farmer.

What about rural and environmental benefits and the need to a secure supply of sufficient food? On these counts, too, high farm prices don't serve the purpose intended. Paying farmers high prices for wheat or milk does not make them care for the environment. On the contrary, farmers are more likely to respond to price support by intensifying their production in order to sell more, with negative effects for the environment. Securing food supplies, meanwhile, can be done in many different ways. Price support mechanisms would typically play only a marginal role in a strategic plan for food security.

In sum, there is much scope for cutting these ineffective policies, as two thirds of all current farm support in OECD countries comes through such policies. That is why negotiators have good reasons to aim at what WTO Ministers at Doha agreed this round of farm talks should achieve - "fundamental reform". Reductions in support mechanisms would be spread over several years, leaving everyone time to adjust. There are many cases documented in OECD research that show how policy reforms have triggered adjustment processes resulting eventually in a healthy and more competitive farming community.

In any case, agreement in the WTO talks would not eliminate support for agriculture in the OECD countries altogether. Actual elimination is considered only for measures that distort export competition – and nobody argues that governments should be permanently allowed to support exports of products their farmers cannot produce competitively. Tariffs, price support and production subsidies would only be reduced.

Moreover, in the WTO framework for agriculture, what is called the 'green box' will continue to provide unlimited scope for support that does not distort production. As OECD work demonstrates, it is this form of farm policy that can be targeted directly to well specified objectives and beneficiaries, typically doing a much better job of ensuring food security, contributing to sustainable resource use and improving rural well-being.

The WTO negotiations are not about eliminating agricultural policies, and they will not spell disaster for farmers in the OECD countries. They are about reducing those types of policies that distort international trade while performing poorly at home. Such reform is in everybody's interest, both in developed nations and in poor countries where farmers currently find it difficult to sell into foreign markets because the farm policies of the rich countries get in their way. Development is about fairness, and fairer farm policies would be a major step towards that objective. Hence, the WTO negotiations should be seen as an opportunity to create a win-win situation: the OECD countries can improve the performance of their own policies, while at the same time allowing farmers in developing countries to make use of their productive potential.

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