WORKING PAPER - I

How Long Can The G20 Hold Itself Together?

A Power Analysis

Centad
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Foreword

The Group of 20 (G20), a coalition of twenty major developing countries, has emerged as a very formidable negotiating bloc in the ongoing negotiations in the World Trade Organisation (WTO) especially on agriculture. It has successfully resisted the onslaught of the US and the EU in the negotiations on agriculture and has also made important submissions reflecting the concerns of developing countries. The existence and sustenance of the G20 is extremely crucial to make the present round of negotiations pro-development and hence the need to analyse the G20 in a more elaborate manner.

This paper acknowledges the strength and the unique characteristics of the G20, which enable it to stand out from other such coalitions. However, it also lifts the veil and looks at the fault lines that exist within the G20 due to its varied and diverse composition. The paper explores four possible scenarios where there are possibilities of the existing fault lines within the G20 deepening. The first three scenarios look at the internal contradictions within the G20. These internal contradictions are mainly on account of market access issues. The fourth scenario looks at the external factor due to which frictions within the G20 could deepen. The paper argues that the possibility of fault lines deepening within the G20 may not be ruled out as the negotiations move ahead. The real litmus test for the sustainability of the G20 would lie in the ability and willingness of individual member countries to harmonise their conflicting policy positions.

This paper is the first in the series of working papers of the Centre for Trade and Development (Centad) that will analyse and debate, issues pertaining to international trade and its relevance to development, from a South Asian perspective. Such research papers, besides attempting to add value to the existing literature will seek to be of practical relevance to researchers, civil society practitioners and the policy-makers. Your feedback on enhancing the quality of these papers would be welcome.

Samar Verma
Regional Policy Advisor, Oxfam GB

Abbreviations

ACP	:	African, Caribbean and Pacific
ATR	:	Applied Tariff Rate
BTR	:	Bound Tariff Rate
EU	:	European Union
FIP	:	Five Interested Parties
IATP	:	Institute of Agriculture and Trade Policy
IBSA	:	India, Brazil and South Africa
LDCs	:	Least Developed Countries
LMG	:	Like Minded Group
MFN	:	Most Favoured Nation
NAMA	:	Non Agricultural Market Access
SACU	:	South African Customs Union
SAFTA	:	South Asian Free Trade Agreement
SVE	:	Small and Vulnerable Economies
UR	:	Uruguay Round
US	:	United States
WTO	:	World Trade Organisation

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Executive Summary

The formation of the Group of 20 (G20) during the preparatory stages of the Cancun Ministerial in September 2003 was yet another collective effort by developing countries to resist the unfair agricultural trade agenda of the European Union (EU) and the United States (US). The G20 successfully resisted the EU-US onslaught on agriculture just before the Cancun Ministerial and has since then taken up strong positions on agriculture reflecting the interests of developing countries in the ongoing negotiations. The G20 comprises of countries such as Brazil, Argentina, India, China, and Pakistan to name a few. These countries have diametrically different interests on trade in agriculture. Brazil and Argentina, which are also the members of the Cairns Group advocate for liberalising agriculture trade whereas countries such as India and Pakistan have a defensive agenda on agriculture. In spite of these differences, G20 has been able to hold itself together and is doing exceedingly well in terms of reflecting the concerns of developing countries. Following features set the G20 aside from other such coalitions.

Subtle Characteristics:

- The G20 comprises of major developing countries and hence represents 57 percent of the world's total population and 70 percent of the total farmers. It also has a share of 26 percent in the total exports of agriculture. These numbers have colossal significance for the world trade.

- The G20 came into existence to counter the EU-US text on agriculture just before the Cancun Ministerial. Agriculture is a very sensitive issue for all the member countries of the G20. The present agricultural trade rules hamper the interests of developing countries and hence they need to be reformed. Therefore, there is a very strong reason backing the existence of the G20.

- An important reason why G20 has been able to sustain itself is the fact that the member countries within the G20 were able to engineer deals amongst themselves. This was reflected in the collective submission on agriculture that the G20 made in the Cancun Ministerial.

Notwithstanding these subtle and unique characteristics, there are natural fault lines within the G20 just as in any other coalition. These natural fault lines exist mainly on account of diametrically different interests of member countries of the G20 on trade in agriculture. As the negotiations on agriculture move ahead and countries and groups are required to make more specific proposals there is a possibility of these fault lines deepening. There are **four scenarios** under which these fault lines could deepen.

The Scenarios are:

- Differences in positions of individual members of the G20 – There are differences between countries like Brazil and Argentina on the one hand, and India and Pakistan on the other, on issues such as tariff reduction. These differences could widen if the developed countries especially EU actually goes on to reduce its export subsidies. In such a scenario it would ask for its pound of flesh by asking countries like India to cut their high bound tariff rates, which India may find difficult to do. Brazil and Argentina stand to gain if EU cuts its export subsidies and hence might put pressure on India and Pakistan to cut their high bound tariff rates. India and Pakistan reducing bound tariff rates would also be good for Brazil and Argentina because of better prospects of South-South trade.

- Difference in the position of an individual member country and the position of the G20 – An important issue that needs to be explored is the possibility of an individual country having a position different from the position of the Group. For instance, India supports the G33 proposal of availability of safeguard mechanism for all products. This position is different from the position of the G20, which only states that a special safeguard mechanism should be established for all developing countries. It is silent on whether it should be available for all products or not.

- Difference due to overlapping membership – G20 has countries that are also members of other groups and these groups have completely different positions on many issues in agriculture. For instance, Brazil and Argentina are also members of the Cairns group, which advocates for agricultural liberalisation based on tariff liberalisation. This group advocates for a much radical approach for tariff reduction as compared to the G20 proposal. As the time to draw actual modalities comes close, differences on account of overlapping membership may become acute.

- Attempts to break G20 by developed countries – An important threat that G20 might have to counter is the attempt by developed countries to break the group. Developed countries employ many methods to break coalitions of developing countries like offering sops, or even arm-twisting.

Conclusion

The unity and sustainability of the G20 is very important for developing countries. Hence G20 should endeavour to resolve all the conflicting issues between them.

1. Introduction

Collective bargaining is often considered the key to succeed in multilateral trade negotiations. If changes have to be made in the rules of the World Trade Organisation (WTO), then, different movements in different countries have to put up a joint and a united front to advocate for these changes. Developing and Least Developed Countries (LDCs) have realised that one of the ways to advocate for change in the WTO and to offer a stiff resistance to the juggernaut of developed countries is to bargain collectively at the multilateral level.

One such collective bargaining endeavour is G20 – a collective effort of 20 major developing countries[1] established on 20 August 2003 in the final stages of the preparation of the Cancun Ministerial. This group was formed to prevent any predetermined outcome of the Cancun Ministerial and to create a space in agricultural negotiations. In fact, one of the major objectives of the group was to advocate for an outcome on agriculture, which reflected the interests of developing countries in agriculture.[2] Agriculture is the focus area of this group. Although attempts are now on to broaden its agenda and include issues like Non Agricultural Market Access (NAMA), Services and Trade Facilitation. However, this paper would look at G20 only in context of its position and stand on agriculture.

Since its formation, G20 has become a force to reckon with in the multilateral trade negotiations. When G20 was formed not many people gave it a chance. This was primarily because of the fate of earlier such coalitions and conflicting interests that the members of the group had. G20, on the one hand, has members from the Cairns Group,[3] who have always advocated for agricultural liberalisation and on the other hand, has members like India and Pakistan, which traditionally have maintained a defensive agenda on agriculture.

It is interesting to note that initiatives like G20 are not new in multilateral trade negotiations. Attempts have been made in the past as well to form such coalitions with the intention of challenging the hegemony of developed countries in the multilateral trade negotiations. However, many such coalitions were not powerful in themselves to take on the European Union (EU) and United States (US).[4] Hence, it becomes imperative to understand the G20 phenomenon in greater detail by looking at characteristics that separate it from earlier such coalitions. At the same time it is also important to look at the internal contradictions or fault lines in the G20, if any, and analyse the situations where such fault lines could deepen in the future. This analysis assumes importance in light of the approaching Hong Kong Ministerial and the critical role that G20 has played in the ongoing multilateral trade negotiations.

When coalitions and country alliances are analysed the political equations between the members of the coalition also assume importance. Political factors play a major role in all coalitions.

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1 The countries in this group are Argentina, Bolivia, Brazil, Chile, China, Cuba, Egypt, Guatemala, India, Indonesia, Mexico, Nigeria, Pakistan, Paraguay, Philippines, South Africa, Tanzania, Thailand, Venezuela, and Zimbabwe.

2 G20 – History, http://www.g-20.mre.gov.br/history.asp (visited on 5 January 2005).

3 Cairns group is a coalition of 17 agricultural exporting countries who account for one-third of the world's agricultural exports, http://www.cairnsgroup.org (Visited on 5 January 2005).

4 Some of the prominent coalitions have been the Group of Least Developed Countries (LDC), the Small and Vulnerable Economies, (SVE) and the Like Minded Group (LMG).

Since India, Brazil and South Africa are also members of the G20, the political equations between these three countries would certainly have an impact on G20.

One important factor that may have an impact on the future of G20 is the trilateral IBSA initiative. The Foreign Ministers of India, Brazil and South Africa, in June 2003, launched a new initiative called the IBSA Trilateral Forum. IBSA aims at promoting trade and investment between the three countries and their regions (Mercosur, SACU, SAFTA).

The IBSA initiative is strengthening political ties between the countries involved. Since India, Brazil and South Africa are also members of the G20, the political equations between these three countries would certainly have an impact on G20. Some have argued that the political equation between Brazil and United States would critically determine the future of G20. This paper does not explore the political dynamics of G20 but looks at it purely from a trading perspective.

2. Subtle Characteristics

Notwithstanding the differences in the interests of the members of the group, G20 has been able to sustain itself as a coalition. Therefore it would be interesting to understand the factors behind G20 remaining a cohesive unit in the multilateral trade negotiations.

G20 has stood out as a sustainable coalition in the multilateral negotiations because of the following reasons:

1. G20 comprises of major developing countries like India, South Africa, Brazil, China, Indonesia, Thailand and Pakistan. This group represents almost 57 percent of the world population, 70 percent of the total farmers of the world and 26 percent of the total exports in agriculture (See Tables 1 and 2). These numbers signify a lot to the world trading system and therefore the trading community cannot ignore this group.

2. The sustainability of a group or a coalition, to a great extent, depends on the reasons behind the formation of the group. The relevancy of the reasons in general and their relevancy to all the coalition partners in particular is extremely important for the coalition or the group to be sustainable. The formation of G20 was triggered by the joint EU-US text on agriculture that was released just before the Cancun Ministerial.[5] This text

Table 1: **Economic indicators of all G20 countries taken together, 2001**

Total GDP (US $ billion)	Agricultural GDP (US $ billion)	Total Population (million)	Agricultural Population (million)	Agricultural Exports (US $ million)	Agricultural Imports (US $ million)	Agricultural Balance (US $ million)
3,937	507	3,484	1,802	78,426	57,973	20,453

NB: The figures for agricultural exports, agricultural imports and agricultural balance do not include intra agriculture trade of the European Union.

Source: G20 - Statistics, http://www.g-20.mre.gov.br/conteudo/statistics_01.pdf *(visited on 20 January 2005).*

[5] This text was released on 13 August 2003.

Table 2: **Combined share of G20 countries in world total in percentage, 2001**

Total GDP	Agricultural GDP	Total Population	Agriculture Population	Agriculture Exports	Agriculture Imports
12.6	20.9	56.8	70.0	26.2	18.2

NB: The figures for agricultural exports, agricultural imports and agricultural balance do not include intra agriculture trade of the European Union.

Source: G 20 – Statistics, http://www.g-20.mre.gov.br/conteudo/statistics_01.pdf (visited on 20 January 2005).

was seen as an attempt to consolidate the existing rigged agricultural rules to support US and EU with very modest gains to developing and least developed countries. Not launching a protest to a proposal like this would have meant postponing the process of reforming agricultural trade for another 18–20 years. Many have argued that the formation of G20 was not a result of any meticulous or detailed planning by countries like India and Brazil who spearheaded its formation. Its formation was a necessity that arose after the joint EU-US text on agriculture was released as none of the developing countries could individually tackle the joint might of EU and US. Agriculture is a very sensitive issue in all developing countries; it is directly linked to livelihood. Therefore, there is a very strong reasoning backing the G20 and a very compelling reason for all the coalition members of G20 to stick together.

3. All coalitions suffer from the risk of fragmentation. In other words, coalitions are not able to sustain because the members forming the coalitions are not able to reconcile their conflicting interests. Alliances or coalitions can be built around specific issues like agriculture, but there are many intra disciplinary issues within a broad issue. The challenge for every coalition is to be able to reconcile and harmonise these conflicting intra-disciplinary issues. Some have argued that an important reason for G20 to be able to sustain itself was the fact that the members of the coalition were able to engineer deals amongst themselves.[6] An instance of a successful deal was the combined submission on agriculture that the G20 made in the Cancun Ministerial.[7] On market access this submission proposed a blended formula, which clearly revealed the compromise between the countries of G20 who are also members of the Cairns Group and other countries of the group, which have a defensive interest in agriculture like India. Cairns Group has always advocated for Swiss formula for tariff reductions.

Notwithstanding, these noteworthy features of the G20, it would be naïve to conclude that G20 is without internal contradictions and there is absolute harmony between all its members. There are natural fault-lines in the composition

The formation of G20 was a necessity that arose after the joint EU-US text on agriculture was released as none of the developing countries could individually tackle the joint might of EU and US.

6 Amrita Narlikar and Diana Tussie, 'The G20 at the Cancun Ministerial: Developing Countries and their Evolving Coalitions', 27 (7). The World Economy 947-966, (2004).

7 Agriculture - Framework Proposal, 'Joint Proposal by Argentina, Bolivia, Brazil, Chile, China, Colombia, Costa Rica, Cuba, Ecuador, El Salvador, Guatemala, India, Mexico, Pakistan, Paraguay, Peru, Philippines, South Africa, Thailand and Venezuela', WT/MIN (03)/W/6, http://docsonline.wto.org (visited 15 January 2005).

of G20 and the possibility of these fault-lines deepening in future cannot be ignored. In fact every coalition has its fault-lines and there is no such thing as a perfect coalition.

The most important reason for the existence of these fault lines is the difference in agriculture as a sector in many developing countries that are members of this group. For instance, countries like Brazil and Argentina have always argued for liberalisation of agricultural trade and countries like India and Pakistan have advocated for a defensive mechanism for agricultural trade. Till now countries in the G20 have been able to reconcile their differences on such contentious issues. But what remains to be seen is whether this reconciliation can be sustained or not.

This paper looks at four possible scenarios where friction and differences might deepen amongst the members of the G20 or where G20 could get split.

1. Difference in positions of individual members of the G20.

2. Difference in the position of an individual member country and the position of G20.

3. Difference due to overlapping membership.

4. Attempts to break G20 by developed countries.

It is important to understand the above-mentioned scenarios separately.

3. Scenario I: Difference in Positions of Individual Members of the G20

As discussed above, G20 has successfully sustained itself by harmonising the differences between different countries at least to some extent. However, since the formation of G20 many developments have taken place and the context in which G20 is operating has certainly undergone a change. One major development has been the July package.[8] It is important to understand how the context has changed for G20. At the time of G20's formation opposing EU-US text on agriculture was the main priority.

This is not to suggest that G20 had or has an obstructive agenda. G20 has made proposals to make the negotiations move forward and was also in the forefront of the negotiations leading to the July package. India and Brazil along with US, EU and Australia played an important role in negotiating and agreeing to the July text.[9] However, the important point to be understood is that when negotiations start moving forward they tend to make progress towards specificities from generalities. This is the time when real differences within a coalition start cropping up. Coalition members are always comfortable in projecting a united front as far as general issues are concerned.

However, since the formation of G20 many developments have taken place and one major development has been the July package.

[8] The General Council of the WTO in August 2004 reaffirmed its commitment to the Ministerial Declarations and decision adopted at Doha. It also adopted the framework for establishing the modalities for negotiations on many issues like agriculture, non-agricultural market access, services and trade facilitation. 'Decision adopted by the General Council on 1 August 2004', WT/L/579, http://www.wto.org/english/tratop_e/dda_e/draft_text_gc_dg_31july04_e.htm (visited on 10 January 2005).

[9] These five countries came to be known as the Five Interested Parties (FIPs).

Notwithstanding the vagueness and other drawbacks of the July package, it is the first major multilateral agreement after the collapse of the Cancun Ministerial. This package saw commitments being made to cut trade-distorting subsidies, both domestic and export. Though the detailed modalities in this regard have not been decided, a broad framework has been adopted to undertake subsidy reduction.

The July package is a step towards specificities of agricultural negotiations. There is a change in context because now all the countries, coalitions and alliances in the multilateral negotiations have to take steps towards specificities from broader generalities. One such specificity could be to come out with a specific tariff cutting formula rather than suggesting the broader elements of it. Therefore, there is a need to look at G20 in these changed circumstances.

In order to understand the changed context in which G20 is operating or would operate let us take a leaf out of the July package and assume a hypothetical situation, where EU and US cut down export subsidies drastically.[10] This would increase the prices of their agricultural commodities in the international market. In such a case developing countries like Brazil and Argentina stand to gain, as they are big agricultural exporters and with prices of agricultural commodities in EU, US and rest of the world rising (because of withdrawal of export subsidies), they would be competing on fairer terms in the international market.

However, if EU and US cut export subsidies, they would certainly like to see as a *quid pro quo* the huge tariff rates by developing countries to be cut as well.[11] In such a hypothetical situation there would be enormous pressure on countries and groups like G20 to reduce their tariff rates. It would be interesting to see how G20 would react to such a situation.

Since countries like Brazil and Argentina stand to gain if developed countries cut export subsidies they would certainly like to capitalise on such a situation. These countries may put pressure on countries like India and Pakistan to cut down their tariff levels. However, countries like India and Pakistan may not be too keen to cut their tariff levels drastically. This is true regardless of which tariff reduction formula is used for cutting

Table 3: **Agricultural exports of select G20 countries, 2002**

Country (1)	Total Exports (2) (MLN $ US)	Agricultural Exports (3) (MLN $ US)	Agricultural Exports as percentage of Total Exports (4)[12]
Argentina	25,709.4	11,022.3	42.8
Brazil	60,362	16,725	27.7
China	657,818	18,036	2.7
India	49,291	5,521	11.2
Pakistan	9,913	989	9.9
South Africa	29,723	2,394	8.0

Source: Compendium of food and agricultural indicators–2004 at http://www.fao.org/es/ess/compendium_2004/list.asp (Visited on 20 January 2005).

10 The reason why export subsidies has been taken in this hypothetical example is the fact that it is the only issue in the July package on which there is more or less a complete agreement for its elimination. The only moot issue is when will it be implemented.

11 This is not to say that huge tariff rates are maintained only by developing countries. Developed countries also have huge tariff rates. This also does not mean that tariff reduction would have to be undertaken only by developing countries. But if developed countries cut export subsidies they would certainly look for something in return and this something has to be tariff reduction by developing countries. Trade is all about give and take.

12 The percentage figures have been computed from the figures given in columns (2) and (3).

Box 1: **Different tariff reduction formulae for agricultural market access**

Name of the Formula	Formula
Uruguay Round Formula or Simple Linear Reduction Formula	T1 = T0*(1-A/100), A = 36, if average 36 percent reduction on tariffs is to take place and A = 15, if minimum 15 percent reduction on tariffs is to take place
Swiss Formula	T1 = B*T0/B+T0
Banded Formula or Multi Slab Linear Reduction Formula	T1 = T0*(1-A/100), Where A=60 if T0>90 (average reduction of 60 percent with a minimum of 45 percent), A=50 if 15<T0≤90 (average reduction of 50 percent with a minimum of 35 percent), A=40 if T0≤ 15 (average reduction of 40 percent with a minimum of 25 percent).

Where,

T1 = Proposed rate in post millennium round negotiations

T0 = Base rate of negotiation i.e. Uruguay round final bound rate

A = A coefficient representing percentage linear cuts

B = A constant value, commonly known as Swiss coefficient

Uruguay Round (UR) formula: This formula is also known as the Linear Reduction Formula. It implies an average overall reduction with a minimum cut per tariff line. For instance, during the UR negotiations the average and overall minimum cut per tariff line was 36 percent and 15 percent respectively.

Swiss formula: This formula was used for industrial products during the Tokyo Round. This formula aims at harmonisation of tariffs between members by cutting higher tariffs more than lower tariffs.

Banded formula: This formula is also known as the Multi Slab Linear Reduction Formula. It talks of dividing all tariff lines into three categories or bands and then apply UR formula within each band. The three bands are to be classified as high band (comprising the top tariff lines), medium band and low bands.

Blended formula: This formula talks of cutting tariff rates by subjecting one portion of tariff lines to pure Swiss formula, one part to pure UR or linear reduction formula and the remaining portion of tariff lines would have to be reduced to zero (or between 0 to 5 percent for developing countries).

tariff rates. (For different tariff reduction formulae see Box 1 and 2).

It is evident that G20 is still struggling to build a consensus on the specificities of how tariff reduction would take place. In a proposal on market access submitted by the G20 before the July agreement it has proposed a framework for establishing modalities in agriculture.

This proposal does not propose any tariff reduction formula unlike the proposal made during the Cancun Ministerial. It only states that the tariff reduction formula should guarantee flexibility by recognising the special nature of some products and the interest of developing and least developed countries.

The reason for the difference in the position of these countries is the role and importance of agriculture in international trade in these countries. Countries like Argentina[13] and Brazil are big agricultural exporters. In fact agricultural exports form a major chunk of their total exports (See Table 3).

On the other hand, countries like India, Pakistan and China have a small share of agricultural exports in their total share of exports. Even in terms of agricultural population there are wide divergences between G20 countries (See Table 4). The impact of any development in agriculture would be felt more in countries like India, Pakistan and Zimbabwe as compared to countries like Brazil and Argentina.

Therefore in a scenario like the one discussed above countries like Brazil and Argentina would certainly gain and they may be willing to go a yard extra from their stated positions.

If we take the specific case of India, which maintains high bound rates, the possibility of fault lines deepening within the G20 would get more evident. A closer study of bound tariff rates on Indian agricultural products reveals that majority of products enjoy huge tariff protection.

Out of 82 diverse agricultural items ranging from cereals and pulses, cereal products, dairy products, plantation crops, to meat and poultry, sugar, horticulture, edible oils (both crude and refined), India maintains a bound tariff rate equal to 100 percent or more on 62 such items.[15] In other words, more than 75 percent of agricultural items in India have a bound tariff rate of 100 percent or more.

Table 4: **Agricultural population as a percentage of total population in select G20 countries, 2001**

Country (1)	Total Population (million) (2)	Agricultural Population (million) (3)	Percentage of Agricultural Population to Total Population (4)[14]
Argentina	37	4	10.8
Brazil	173	27	15.6
Chile	15	2	13.3
India	1,025	545	53.1
Indonesia	215	93	43.2
Pakistan	145	73	50.3
Zimbabwe	13	8	61.5

Source: G20 – Statistics, http://www.g-20.mre.gov.br/conteudo/statistics_01.pdf (visited on 20 January 2005).

13 A major part of Argentina's agricultural export comprises of soyabean and soya related products.

14 The percentage figures have been calculated from the figures given in (2) and (3).

15 Source: Ministry of Finance, Department of Revenue, New Delhi. The bound figures are based on figures available as on 1 January 2004.

Box 2: **Different tariff reduction modality proposed by different texts before and during the Cancun Ministerial**

- Derbez Draft Text tabled by the Cancun Conference Chair, Luis Ernesto Derbez on 13 September 2003 proposed a blended formula for both developed and developing countries.
- Castillo Draft Text circulated by the General Council Chair, Carlos Perez del Castillo before the Cancun Ministerial proposed a blended formula for developed countries and a multi slab linear reduction formula for developing countries.
- G20 framework text circulated by a group of 20 developing countries just before the start of the Cancun Ministerial proposed a blended formula for developed countries and a simple linear reduction formula for developing countries.
- EU-US Joint Framework Text is the joint text on agriculture that was laid down by EU and US before the Cancun Ministerial. It proposed a blended formula for both developed and developing counties.

Out of these 62 agricultural items a bound tariff rate as high as 300 percent is maintained on 14 items.[16] These figures are a clear pointer to the fact that Indian agriculture is heavily protected. Lowering of guard could lead to a surge in imports. The surge in import of oil seeds (soyabean + palm oil + other oilseed products) in the post WTO period in India is a case in point. The import of edible oil in India during the period 1994–95 to 2001–02 increased by about 1114 percent.[17]

If we look at independent applied and bound tariff rates for some of the major G20 countries we find that Brazil and Argentina have lower applied and bound tariff rates. Even countries

Table 5: **Average MFN applied and bound tariff rates (ATR), (BTR) for agricultural products in select G20 countries of select agricultural products in percentage**

Country	Fruits and Vegetables		Coffee, Tea, Mate, Cocoa and Preparations		Spices, Cereal and other Food Preparations		Grains		Oilseeds, Fats and Oils and their Products	
	ATR	BTR	ATR	BTR	ATR	BTR	ATR	BTR	ATR	BTR
Argentina	10.4	34.2	13.8	34.2	12.6	33.8	5.7	31.1	7.8	34.6
Brazil	12.2	34.3	14.8	34.1	14.0	40.5	7.0	48.3	9.2	34.6
India	32.0	105.4	56.3	133.1	34.6	126.5	49.4	86.3	52.5	168.9
South Africa	10.3	30.1	9.2	68.9	10.6	41.2	2.5	30.8	7.7	47.3
China	18.3	16.1	19.5	14.9	23.3	20.4	33.7	27.1	16.6	11.6
Indonesia	5.0	47.0	4.9	45.3	5.2	39.9	2.6	68.4	3.8	39.9
Pakistan	19.5	100.3	21.4	108.3	20.4	100.0	10.6	112.5	14.9	100.0

Source: The World Trade Report 2004, World Trade Organisation

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16 Ibid

17 Ramesh Chand, Dayanatha Jha and Saurabh Mittal , "WTO and Oilseeds Sector", Economic and Political Weekly, 533 – 537 (2004) http://www.epw.org.in/showArticles.php?root=2004&leaf=02&filename=6800&filetype=pdf (visited on 22 January 2005).

like Indonesia, which propagate defensive interest in agricultural negotiations, also have lower bound rates. Brazil and Argentina's bound tariff rates on majority of agricultural products do not exceed more than 40 percent (See table 5).

For these countries tariff reduction will not be an issue as important as for, say, India and Pakistan. Thus, whatever tariff reduction formula is used the reduction would be minimal. On the other hand, India has high bound tariff rates and thus tariff reduction would certainly lead to drastic reduction of tariffs. Applying the same formula on the bound tariff rates of same agricultural products on Brazil, India and Pakistan would lead to drastic cuts in the bound tariff rates of the latter and minimal or manageable tariff cuts for the former (See Table 6). For India and Pakistan the bound tariff rates would come down drastically whereas for Brazil the bound tariff rates even after reduction would be manageable.

However, a counter argument that is often made is that applied tariff in India on agricultural products is much lower than the bound tariff and therefore the argument of excessive protectionism of Indian agriculture does not stand. Some also argue that since reduction of tariff rates would be made from bound rates, India should not worry about the tariff rates coming down, as the applied rates are already low. Out of the 82 agricultural items, 47 agricultural items have an applied tariff rate of 50 percent or less.[18] In other words, more than half of agricultural items have an applied tariff rate of 50 percent or less.

Such an argument often ignores the rationale behind high bound rates. Countries maintain high bound rates in order to retain the flexibility of increasing tariffs if the situation may so demand. High bound rates enable countries to raise the guard in case of depressing agricultural prices in world markets. Such price depressions, in the past, have taken place because of excessive subsidisation leading to dumping of agricultural products by developed countries.[19]

Table 6: **Impact of different tariff reduction formulae on the bound tariff rates of four categories of agricultural products for Brazil,[20] India and Pakistan in percentage**

Categories of Agricultural Crops	MFN-BTR as on 26/03/2004			BTR after applying Simple Linear Reduction Formula[21]			BTR after applying Swiss Formula[22]		
	Brazil	India	Pakistan	Brazil	India	Pakistan	Brazil	India	Pakistan
Grains	31.1	86.3	112.5	15.5	43.1	56.2	13.8	19.3	20.4
Oilseeds, Fats and Oils and their Products	34.6	168.9	100.0	17.3	84.4	50.0	14.5	21.7	20.0
Coffee, Tea, Mate, Cocoa and Preparations	34.2	133.1	108.3	17.1	66.6	54.1	14.4	21	20.3
Spices, Cereal and other Food Preparations	40.5	126.5	100.0	20.2	63.2	50.0	15.4	20.8	20.0

Source: Author's calculation on the basis of bound tariff rate data given for different agricultural products for Brazil, India and Pakistan in Table 5.

18 Above n 15. This applied rate is based on the applied tariff figures as available on 1 March 2004.

19 According to the Institute of Agriculture and Trade Policy (IATP), in the year 2002 US exported wheat at an average price of 43 percent below cost of production and cotton at an average price of 61 percent below cost of production.

20 This table is just indicative of how bound tariff rates of Brazil, India and Pakistan for certain products would get affected under different scenarios. This is not to suggest that tariff reduction would/should take place using these formulae.

21 The Simple Linear Reduction formula that has been used here is T1 = T0 (1-A/100), where T1 is the final bound rate, T0 is the present bound rate and A is a coefficient representing percent linear cuts (here A = 50)

22 The Swiss formula that has been used here is T1 = B*T0/B+T0, where T1 is the final bound rate, T0 is the present bound rate and B is a constant value known as Swiss coefficient (here B = 25).

The argument that since applied tariff rates on agricultural items in India is low and therefore reduction of tariffs from bound rates will not be of much consequence holds true in scenarios where no agricultural price depression takes place. However, this is a utopian dream. Even if export subsidies are substantially reduced, price depression cannot be ruled out because of other distortions prevalent in the world market.

Moreover, developed countries would continue to provide gigantic support to their farmers under various provisions in the green box and blue box. These so called 'non trade distorting' subsidies have played and are playing a major role in depressing world prices.

How tariff reduction would take place is still a moot issue.[23] The July framework calls for a single approach for tariff reduction through a tiered formula. The July framework also states that progressivity in tariff reductions will be achieved through deeper cuts in higher tariffs.[24] In the context of India this means deep tariff cuts taking place on majority of agricultural items. There are studies to show that even the modest of formulae for developing countries would result in bound tariff rates coming down from 300 percent to 100 percent.

Though remedial measures would continue to exist in the form of sensitive products but again the debatable issue is how many products can be branded as "sensitive". Similarly, for how many agricultural commodities can safeguard provisions be applied? Thus, notwithstanding these safeguards and the formula that is used for tariff reduction, India may have to undertake deep tariff cuts on many of its products. This may not be an easy decision for Indian policy-makers given the political vulnerability attached to agriculture in India.[25]

Hence, as multilateral negotiations progress, countries like India could be confronted with two conflicting pressures. First, could be an external pressure from its G20 partners like Brazil and Argentina to cut tariff rates if that is the price to be paid for the reduction of export subsidies by developed countries. Second, could be an internal pressure from farming communities and other political quarters to maintain the *status quo*.

Here it is important to note that India has always spoken in general terms on issues like market access in agriculture. India's submission to the WTO (before the formation of the G20) on market access proposes that developed countries should undertake substantial reduction in all tariff levels. For developing countries the proposal says that as a special and differential measure developing countries should be allowed to maintain an appropriate level of tariff. What this appropriate level of tariff should be has not been elucidated.[26] In other words, India has not proposed a specific tariff reduction formula. This was a clever tactic because India has shielded its agriculture by maintaining high tariff rates and therefore has avoided the question of how it proposes to cut down its tariff rates.

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23 'Decision Adopted by the General Council on 1 August 2004', WT/L/59, paragraph 28. Tiered formula means that all tariffs are classified into different bands and then reductions are made from bound rates for each of these bands separately.

24 'Decision Adopted by the General Council on 1 August 2004', WT/L/59, paragraph 29.

25 This is not to suggest that India should be afraid of undertaking tariff reduction or as soon as tariff rates come down there would be a flood of agricultural imports. However, the important point is that undertaking tariff reduction in agriculture is politically difficult. Moreover, the possibility of surge in imports in cases of price depression also cannot be completely ruled out.

26 Negotiations on WTO Agreement on Agriculture, Proposals by India in the areas of (i) food security, (ii) market access (iii) domestic support and (iv) export competition, G/AG/NG/W/102, http://docsonline.wto.org (visited on 1 February 2005).

If a situation of the type mentioned above emerges, then it could pose a challenge to the unity of G20.

Reduction of tariff rates in developing countries like India would also benefit big agricultural exporting countries like Brazil and Argentina because of improving South-South trade prospects. For instance, in the year 2003, China took about 70 percent of Argentina's total soyabean shipments and accounted for a huge proportion of its exports. In other words, there are countries in the G20, which stand to gain if countries like India and Pakistan reduce their tariff rates. Brazil and Argentina would certainly strive hard to explore the possibility of South-South trade.

Agricultural exporting countries like Brazil and Argentina would not just gain from the elimination of export subsidies by developed countries but also by their reduction of tariffs. Developed countries would reduce their tariff rates if developing countries do so.[27]

Hence, if reduction in export subsidies by developed countries triggers a reduction in tariff rates by all the countries it would be a win-win situation for all major agricultural exporting developing countries.

Another instance of potential conflict between countries like India, Indonesia, Zimbabwe on the one hand, and Brazil and Argentina on the other is the difference on special safeguard mechanism. Many members of the G20 like Indonesia, Zimbabwe, and Nigeria are also members of the G33. G33 recently submitted a very detailed paper on the special safeguard mechanism.[28] This paper lays down certain parameters to guide the negotiation of modalities on special safeguard mechanism.

Agricultural exporting countries like Brazil and Argentina would not just gain from the elimination of export subsidies by developed countries but also by their reduction of tariffs.

The broad parameters that have been laid down are automatic triggering of safeguard measures, availability of safeguard measures to all agricultural products, safeguards to address situations of both import surges and price depression. This proposal of the G33 got support from countries like India and China. The potential point of disagreement may be the number of agricultural commodities that should enjoy the special safeguard protection. Brazil and Argentina do not advocate for special safeguard protection for all the agricultural products. On the other hand, countries like Indonesia, Zimbabwe and India advocate for special safeguard protection for all the agricultural products.[29]

Thus, one big challenge in front of G20 is to maintain the internal harmony between the camp advocating agricultural liberalisation and the camp that has a more protective and defensive interest on agriculture. For how long can Brazil and India stand on the same side on agriculture?

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[27] Some may argue that it is not necessary that developed countries would cut tariffs if developing countries do so. Nevertheless, here we assume that developed countries would follow the principle of good faith and cut tariff rates. Moreover, if a particular tariff reduction formula is accepted for cutting tariff rates for a certain category of tariff lines, then, it would be binding on all the countries including developed countries.

[28] This paper was presented on 13 December 2004, during the last 'agricultural week' of 2004 in Geneva.

[29] Notwithstanding these differences some observers have argued that the possibility of Brazil and Argentina taking up India and Indonesia on special safeguards is minimal. There is a much greater possibility of US and Australia opposing the coverage of special safeguards to all agricultural products.

4. Scenario II: Difference in the Position of an Individual Member Country and the Position of G20

Another important issue that needs to be understood is the position of individual countries vis-à-vis the position of the group of which it is a member. An individual country may have different policy positions on particular issues, which at times may not be compatible with the group position. As a tactical move countries may pose as if their individual positions and group positions are in harmony. However, there may be differences that lie beneath and are not apparent. Hence, it would be interesting to see how, say, India's stand on special safeguards for agricultural goods fits in the G20's position on special safeguards. Is there compatibility or divergence and if there is divergence, then, how strong is it?

For instance, India supports the G33 proposal on special safeguard mechanism. In other words, India supports the availability of the special safeguard mechanism to all agricultural products. However, this position is different from the position of G20. The G20 proposal only states that special safeguard mechanism shall be established for developing countries. It is not clear from the G20 proposal whether it advocates or supports the availability of special safeguard mechanism to all the agricultural products.

Similarly, G20 advocates for progressivity in tariff reductions with deeper cuts in higher tariff. As discussed above, in a submission made by India before the formation of the G20, it proposed for a formula-based approach for substantial tariff reduction by developed countries and asked for a special and differential treatment for agricultural products of developing countries by allowing them to maintain appropriate level of tariffs. It makes tariff reduction *per se* for developing countries subject to the special and differential rule.

Although, India has not made any new submission after the formation of G20, there are ample reasons to believe that it still maintains this position on tariff reduction. On the other hand, the G20 proposes a tariff cutting formula for all the members of the WTO though it also states that special and differential treatment for developing countries shall be a part of all market access commitments.

At present, these fault-lines are hidden to a great extent. However, as the negotiations move forward (if at all they move forward) and as and when the time comes for countries to translate their words in actions by establishing modalities, these fault lines may deepen and become apparent. Hence, another important challenge before G20 is to reconcile its policy positions with that of individual member countries. Critics of this argument would point out that individual G20 members have already done this.

However, the important point to be understood is that the real test for G20 would come only when agricultural negotiations move to the next phase. When the time of drawing actual modalities comes closer, G20 would have to impart specific shape to its somewhat general proposals. This would be the time to judge whether individual countries of G20 like India have been able to synchronise their individual positions with the positions of the group or not.

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Table 7: **Overlapping membership of G20 members**

G20	G20/Cairns Group[30]	G20/G33 [31]	G20/Mercosur [32]
Argentina	Argentina	China	Argentina
Bolivia	Bolivia	India	Brazil
Brazil	Brazil	Indonesia	Paraguay
Chile	Chile	Nigeria	
China	Guatemala	Pakistan	
Cuba	Indonesia	Zimbabwe	
Egypt	Paraguay		
Guatemala	Philippines		
India	South Africa		
Indonesia	Thailand		
Mexico			
Nigeria			
Pakistan			
Paraguay			
Philippines			
South Africa			
Tanzania			
Thailand			
Venezuela			
Zimbabwe			

5. Scenario III: Difference due to Overlapping Membership

It is important to recall that G20 is not the only coalition of developing or least developed countries. There are many coalitions of developing countries that are active. Many of these coalitions have overlapping membership (See Table 7). They also have diametrically opposite views on many issues. Therefore, it would be interesting to see how individual countries position themselves in different groups. The challenge before a particular country is to reconcile its individual position with the position of the groups of which it is a member.

For instance, if a particular country is a member of two important groups, then that particular country should be seen to be in harmony with the respective positions of both the groups. For instance, Brazil is a member of both G20 and the Cairns Group. Both these groups have divergent views on issues like tariff cutting formula, special safeguard mechanism, and special and differential treatment. This divergence becomes a concern for G20 because there are many member countries of G20 that are also members of the Cairns Group.

The Cairns Group has always stood for agricultural liberalisation entailing tariff liberalisation. Their proposal on tariff reduction is quite radical. It advocates for deep cut in all tariffs using the

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30 G20 member countries, which are also members of the Cairns Group. 10 G20 member countries are also members of the Cairns Group.

31 G20 member countries that are also members of the G33.

32 G20 members which are also members of the Mercosur.

The Cairns Group proposal on tariff reduction advocates for deep cut in all tariffs using the formula approach and greater cuts in high tariffs, tariff peaks and tariff escalation.

formula approach and greater cuts in high tariffs, tariff peaks and tariff escalation. This proposal for tariff reduction is more radical as compared to the proposal made by G20 on tariff reduction.

Similarly, the nature of Cairns Group proposal on special and differential treatment is quite different from the proposal made by G20. Special and differential treatment for developing and least developed countries in agricultural negotiations entails two elements. First, special and differential treatment in achieving better market access to the markets of developed world. Second, special and differential treatment in protecting their own markets from cheap imports.

The proposal made by Cairns Group focuses only on the former. It only talks of developed countries making faster and deeper cuts in their tariff rates so as to provide better market access to the products of developing and least developed countries.[33] On the other hand, the proposal of G20 on special and differential treatment comprises of both the elements. It advocates for not just better market access for the products of developing countries but also for having safeguard mechanisms to protect developing country markets from surging imports.

Similarly, countries like Australia and New Zealand, key members of the Cairns Group have not supported the G33 proposal on special safeguard mechanism being available to all agricultural products.

In other words, there is a possibility that differences may emerge between those members of G20 that are also members of Cairns Group and other members of G20. Though these differences may not be a major risk factor,[34] the possibility of them impacting the cohesion of G20, once the time to draw actual modalities comes close, cannot be completely ruled out.

6. Scenario IV: Attempts to Break G20 by Developed Countries

The three scenarios that have been discussed above look at the possible internal contradictions within the G20. However, there are external factors as well that may affect the cohesion of G20. This particular scenario would briefly look at one such external factor.

Developed countries have often made attempts at dividing and splitting the coalitions and alliances of developing and least developed countries. These attempts have been in the form of arm twisting, offering sops to some or even ignoring those that take tough stand. At Doha, EU managed to buy the support of the African, Caribbean and Pacific (ACP) countries by providing them preferential market access to launch a new round of trade negotiations.

Developed countries have also made attempts to break the G20. This was evident just after the Cancun Ministerial when many small Latin American countries deserted the G20. Countries like

33 Cairns Group Negotiating Proposal on Market Access, G/AG/NG/W/54, http://www.cairnsgroup.org/proposals/54.html (visited on 1 February 2005).

34 Many have argued that Brazil took the initiative in forming the G20 because it did not consider Cairns Group adequate to deal with the threat posed by EU – US proposal on agriculture. Hence differences between countries because of overlapping groupings are not a major risk factor for a coalition like G20.

Guatemala, Peru, Ecuador, Colombia, and Costa Rica left the G20 in the weeks following the Cancun Ministerial. The exit of these countries from the G20 was in response to threats that their continued membership with the G20 would jeopardise their trading arrangements with US. Another attempt to break the G20 was made in early 2004 when EU made an offer on agriculture to the Mercosur countries with which it is negotiating a free trade agreement. This offer was mainly targeted to tempt Brazil to break away from the G20.[35]

These attempts will continue and may get more intensified as the negotiations move ahead and as the Hong Kong Ministerial comes closer. Hence, the G20 members have to be careful and not succumb to the pressure of developed countries.

7. Conclusion

Fault-lines exist in the composition of G20, just like they exist in any other coalition. Successful coalitions are those, which do not succumb to these fault-lines. Till now, G20 has been able to hold itself together amidst these fault lines. This paper has analysed three internal and one external scenario under which the existing fault lines could deepen. All the possible internal scenarios talk about deepening of the fault lines on the issue of market access. Thus, whether G20 would be able to hold itself together or not would depend, to a large extent, on how the group is able to reconcile the conflicting views of different countries on different facets of market access. One of the reasons that makes one optimistic about G20 is that it has successfully been able to take on the joint might of both EU and US. All major developing countries are realising that G20 is a powerful coalition to put pressure on developed nations for reforms in agricultural trade. Thus, it is expected that in the larger interest of the developing world the members of G20 would resolve all their differences.

G20 may have passed many tests but its real test lies ahead. It is important to emphasise that a stronger and a united G20 can play a very crucial role in the agricultural negotiations in the WTO. From the perspective of developing countries the role of G20 is very important to make the trade negotiations pro development. If the members of G20 can continue to hold themselves together by harmonising their policy positions, then developing countries will certainly benefit. Therefore, it is in the interest of developing countries that the G20 members should settle the differences between themselves at the earliest, and not postpone them to a later date.

35 Pranav Kumar, 'Will they divide the G-20 too?', Business line, 30 April 2004.

The Centre for Trade and Development (Centad) was established by Oxfam GB in 2004, as a not-for-profit organisation, to carry out policy research and advocacy on issues around trade and development, with a principal focus on South Asia.

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