

The WTO Doha Negotiations: Fallacies and Priorities

Allan Rae & Shamim Shakur
Massey University

Agricultural Trade Negotiations

- Current negotiations began in March 2000
- Part of Doha Development Agenda from November 2001
- Most recent comprehensive document was July 2004 Framework Package
 - Agreed elimination of export subsidies & a 'downpayment' on domestic subsidies
 - Supported 'tiered formulae' to reduce trade-distorting domestic support & achieve substantial increases in market access, but no specifics agreed yet
 - Maintains SDT for developing countries

- NGOs (such as Oxfam), World Bank and the media have been promoting the view that agricultural subsidies in the rich countries are the principal reason for keeping developing countries poor
- An implication is that their removal ought to be the top priority of the WTO agricultural negotiations.
- Some rich countries may find it convenient to go along if it diverts attention from market access issues
- Bhagwati (2005) suggests that large exporters like Argentina & NZ find it politically convenient to support this view, as they stand to gain from subsidy elimination

Is this view a fallacy??

- “Developed-country agricultural subsidies hurt the poorest countries the most” (Panagariya 2005 shows this to be wrong)
- “Agricultural subsidies in the rich countries are keeping the developing world poor” (Bhagwati 2005 says this is “dangerous nonsense”)
- Sharma (2005) describes positions like those of Panagariya and Bhagwati as “economic lunacy”.

...and our own previous work suggests support for debunking this ‘fallacy’ and suggests different priorities

- “tightening domestic support constraints...provides little gain to developing countries” (Rae & Strutt 2003)
- “yet the G20 group of developing countries...continues to emphasise...that the real problem...is trade-distorting domestic support in developed countries (Rae & Strutt 2004)

We use a global trade simulation in an attempt to explore some of the issues

- Use GTAP model & version 6 (base 2002) data
- We design a comprehensive reform scenario based on the July 2004 Package
- Eliminates agricultural export subsidies
- Specifies tariff bands & makes deeper cuts to higher tariffs for agr/food commodities
- Smaller tariff cuts for developing countries
- Reduces farm domestic support by 50% from bound rates – but applied cuts are smaller
- Also cut industrial tariffs with Swiss formula
- No commitments for LDCs

Changes in Welfare (EV, US\$m) and decomposition by policy reform

Regions	Industrial reform	Agricultural reform		Total	
	<i>Tariffs</i>	<i>Tariffs</i>	<i>Export subsidies</i>		<i>Domestic subsidies</i>
Developed	5,965	16,160	1,513	1,728	25,367
Developing	10,284	5,691	-1,464	-130	14,381
LDC_Asia/Pacific	309	154	-38	0	425
LDC_Africa	-20	42	-232	2	-209
TOTAL	16,537	22,048	-220	1,600	39,965

- Tariff reform contributes 96% of global gains
 - Especially agricultural tariffs
- Our reduction in farm subsidies contributes only 4% of that gain – but note high binding overhang
- Removal of export subsidies shown to slightly reduce global welfare – a ‘second best’ story
- Now focus on how subsidy reform might impact on the developing world.

Impacts of domestic & export subsidy reform on world export price indices

Commodity	% change	Contribution to the change of reforms to:	
		<i>Export subsidies</i>	<i>Domestic subsidies</i>
Rice	4.23	0.21	1.08
grain_oilseed	3.25	0.78	1.88
horticulture	0.72	0.29	0.05
crop_fibre	1.62	0.27	1
oth_crops	0.77	0.13	0.24
meat	2.01	1.22	0.77
dairy	4.02	3.79	0.34
sugar	1.56	1.03	0.22

..and these commodities receive most of global export subsidy support

Commodity	Global export subsidy spending by commodity as % total (1999-2001)
Dairy	36.4
Meats	17.7
Grains	14.3
Processed foods	14.1
Sugar	11.1
TOTAL	93.6%

Source: ERS/WTO

Expect rising world prices to benefit exporters but make food deficit countries worse off – but any region may be exporter of some commodities and importer of others

Status of developing regions	Contribution to EV of reforms to:	
	<i>Export subsidies</i>	<i>Domestic subsidies</i>
Net agr/food exporters		
ASEAN5	-73	-3
India_SL	1	8
Sth_America	46	229
SACU	-5	12
LDC_Africa	-232	2
<i>Total</i>	<i>-263</i>	<i>248</i>
Net agr/food importers		
China	-91	-117
NE Asia	-145	-84
Rest Europe	-492	-12
Mid_East/Nth_Africa	-705	-163
LDC_Asia/Pacific	-38	0
<i>Total</i>	<i>-1470</i>	<i>-376</i>

For LDC_Africa, largest price increases are for foods for which it is a net importer

Commodity	Pre & post simulation trade status	% change in LDC_Africa's:	
		<i>export price</i>	<i>import price</i>
grain_oilseed	deficit		4.13
hort	surplus	0.57	
crop_fibre	surplus	0.68	
oth_crops	surplus	0.39	
meat	deficit		6.94
dairy	deficit		15.37
sugar	surplus	0.28	
oth_procfood	deficit		1.04

Might developing country exporters suffer from preference erosion?

- Majority of developing countries are net food importers, but...
- As rich countries reduce tariffs, preference margins shrink for the net food exporters – e.g. EBA and AGOA agreements
- Recent research (Alexandraki 2005; Subramanian 2003) reveals such erosion significant for only a small number of countries – small island economies
- ...that rely heavily on a narrow set of products – sugar, bananas, fish, cocoa.

- We conclude that the reduction or elimination of agricultural export & farm subsidies could be welfare-reducing in many food-deficit developing countries, over the medium term.
- However, we should not conclude that such distortions be maintained – there could exist more efficient means of assistance
- Also, some net food exporting DCs may be hurt by loss of tariff preferences
- How to counter ‘negative fallout’ from liberalisation & achieve a meaningful development round?
- Consider:
 - Can developing countries help themselves?
 - Is there a case for compensation – of what kind?

Special and Differential Treatment for Developing Countries

- This has two main components in the negotiations:
 - Lower cuts in tariffs and subsidies
 - Longer phase-in periods
- Given the adjustments likely to be required following trade reform, and their capacity to manage them, longer phase-ins could make sense for many DCs
- But what if DCs agreed the same tariff reduction modalities as developed countries?
 - We still assume no reform in the least-developed.

What happens to welfare gains when DCs make similar tariff cuts as we assume in the rich countries?

Regions	With SDT for tariff reform			Without SDT		
	<i>Due to agr. tariff cuts</i>	<i>Due to cuts in industrial tariffs</i>	<i>Total change in EV</i>	<i>Due to agr. tariff cuts</i>	<i>Due to cuts in industrial tariffs</i>	<i>Total change in EV</i>
Developed	16,160	5,965	25,367	16744	9415	29442
Developing	5,691	10,284	14,381	13931	11834	24193
LDC_Asia/Pacific	154	309	425	239	360	561
LDC_Africa	42	-20	-209	151	-14	-93
TOTAL	22,048	16,537	39,965	31065	21594	54104

Contributions of subsidy reforms similar in both cases and omitted from table.

- Note the increase in the welfare gains of the developing countries, and the contribution of deeper cuts in agricultural tariffs of those countries.
- All our developing regions benefit, but mainly NE Asia

- Global welfare gains improve by a further \$14 billion
- Of this:
 - 69% are extra gains to developing countries themselves
 - (mainly due to further agricultural tariff cuts that encourage increased South-South trade and more efficient resource allocations within developing world)
 - 29% are extra gains to developed countries
 - (mainly due to further industrial tariff cuts by DCs)
- Conceding S&D treatment to developing countries doesn't protect them from losses due to subsidy cuts

Could compensation schemes make liberalisation attractive to all?

- It is mainly the developed world that benefits from reductions in farm / export subsidies
- Targeted financial & technical assistance to DCs & LDCs, funded by the rich nations?
- Funds could come from savings in export & domestic subsidy spending, conversion of preferences to grant aid
- Thus redistributing some of the gains from liberalisation
- Even richest countries see the need to provide compensation for trade reforms (e.g. European integration, the US Trade Adjustment Act)

Is such an international fund possible?

- Topic is under discussion (e.g. Hoekman 2005). Build on existing?
- UR included a Decision to provide financial & other assistance to least-developed & net food importing countries (never implemented)
- Integrated Framework for Trade-Related Technical Assistance to LDCs (WTO 1996 ministerial) – trade-related technical assistance
- IMF's Trade Integration Mechanism (2004) for developing countries facing BoP problems due to liberalisation including loss of preferences.
- How to achieve effective coordination between WTO & development/aid agencies?
- Require agreement during DDA to encourage liberalisation offers of DCs?

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