Agriculture: The Key to Success of the Doha Round

5

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Agriculture accounts for almost two-thirds of the economic gains that could be obtained by dismantling the present global system of merchandise trade barriers and farm subsidies. This truth holds for the world as a whole and for developing countries as a group. Developing countries are therefore right to focus on agriculture in the Doha Round negotiations.[1]

To date, the agricultural policies of developed countries have captured most of the attention. That is understandable, as many developing countries believe that they were shortchanged in the Uruguay Round and are determined to obtain greater concessions from developed countries before liberalizing their own markets. However, our modeling suggests that over half of the gains to developing countries from global agricultural reforms would come from liberalization by developing countries themselves (table 1). This is true for two reasons: first, because agricultural tariffs are slightly higher in developing than developed countries (18 percent compared with 16 percent on average in 2001) and, second, because a growing share of developing country trade is now with other developing countries.

The three pillars

Developing countries—among them the G-20—are emphasizing the need for cuts to agricultural subsidies in the developed world, partly because they think that is the main distortion[2] but also because they do not want to lower their own food import restrictions. But the focus on subsidies alone is misplaced. Our modeling results indicate that 93 percent of the welfare gains from removing global distortions to agricultural incentives would come from reducing import tariffs. Just 2 percent of distortion is due to export subsidies and 5 percent to domestic support measures (table 2). It is certainly important to discipline domestic subsidies and to phase out export subsidies, both to prevent redirection of assistance from tariffs toward domestic subsidies and to bring agriculture into line with non-farm trade in not using export subsidies. But to ignore market access in the Doha Round would be to forgo most of the potential gains from trade reform.

The current Doha Round has the advantage of beginning from the framework of rules and disciplines agreed in the Uruguay Round Agreement on Agriculture, in particular, the three clearly identified "pillars" of market access, export subsidies, and domestic support. True, negotiators took more than three years to agree on a framework for the current talks, reached at the end of July 2004, but that agreement now is likely to guide the negotiations for some time. It therefore provides a strong

Table 1. Effects on developing country economic welfare of full trade liberalization by groups of countries and products, 2015 (percent)

	From full liberalization of:			
	Agriculture and food	**Textiles and clothing**	**Other manufactures**	**All goods**
Percentage due to:				
Developed country policies	30	17	3	50
Developing countries' policies	33	10	7	50
All countries' policies	63	27	10	100

Note: Developed countries include the transition economies that joined the European Union in April 2004. The definition of developing countries used here is that adopted by the WTO. Thus it includes the four East Asian tigers: Hong Kong (China), Korea, Rep., Singapore, and Taiwan (China).
Source: Anderson and Martin (2005, Table 4).

basis for undertaking *ex ante* analysis of various options potentially available to WTO members during the Doha negotiations.

Pondering what might be achievable under a Doha partial reform package, it is clear that the devil will be in the details. For example, commitments on domestic support for farmers are currently so much higher than actual support levels that the 20 percent cut in the total bound aggregate measure of support (AMS), promised in the July 2004 Framework Agreement will require no actual reductions in support by any World Trade Organization (WTO) member. A cut of 75 percent in bound AMS levels would be needed to get some action from those countries that provide the most domestic support; and even such a cut would produce reductions in 2001 levels of domestic support by only four WTO actors: the United States (28 percent), European Union (18 percent), Norway (16 percent), and Australia (10 percent). Because the European Union and Australia have already introduced reforms, they might not need to make further reductions even with a 75 percent cut in bound levels.

Large cuts in bound rates also are needed to erase substantial binding overhang in agricultural tariffs. The average bound rate in developed countries is almost twice as high as the average applied rate, and in developing countries the ratio is even greater (table 3). Thus large reductions in bound rates are needed before it is possible to bring about *any* improvements in market access. To bring down the average actual agricultural tariff by one-third, bound rates would have to be reduced for developed countries by at least 45 percent, and by up to 75 percent for the highest tariffs, under a tiered formula.

Even large cuts in bound tariffs do little if “sensitive products” are exempted. If members succumb to the political temptation to put limits on tariff cuts for the most sensitive farm products, much of the prospective gain from Doha could evaporate. Even if only 2 percent of agricultural tariff lines (in the 6-digit harmonized

classification, HS6, with around 800 lines for agriculture and food) in developed countries are classified as sensitive (and 4 percent in developing countries, to incorporate their “special products” demand), and are thereby subject to just a 15 percent tariff cut (as a substitute for the tariff rate quota (TRQ) expansion mentioned in the Framework Agreement), the welfare gains from global agricultural reform would shrink by three-quarters. If at the same time bound tariffs in excess of 200 percent had to be reduced to that cap rate of 200 percent, welfare gains would shrink by one-third.

Given the high binding overhang of developing countries, relatively few countries would have to cut their actual tariffs and subsidies at all, even if tiered formulae were used to make the greatest cuts in the highest bindings. That is even more true if “special products” are subjected to smaller cuts. Politically binding overhang makes it easier for developing and least developed countries to offer big cuts on bound rates.

Combining agricultural and nonagricultural market access

Expanding nonagricultural market access would add substantially to the gains from agricultural reform. Adding a 50 percent cut to nonagricultural tariffs by developed countries (and 33 percent by developing countries and zero by least developed countries (LDCs)) to the tiered formula cut in agricultural tariffs would double the gains from Doha for developing countries. That would bring the global gains to $96 billion from Doha merchandise liberalization, roughly one-third of the potential welfare gains from full liberalization ($287 billion).

These absolute numbers undoubtedly underestimate the actual magnitudes of prospective benefits. First, merchandise trade liberalization opens domestic markets to new competition and improved technology. This, together with scale effects

Table 2. Distribution of global welfare effects of removing all agricultural tariffs and subsidies, 2001 (percent)

Agricultural liberalization component	Beneficiary region: High-income[a] countries	Developing countries	World
Import market access	66	27	93
Export subsidies	5	–3	2
Domestic support	4	1	5
All measures	75	25	100

[a] High-income countries include the newly industrialized East Asian economies of Hong Kong (China), Korea, Rep., Singapore, and Taiwan (China) as well as the transition economies that joined the European Union in April 2004.
Source: Anderson and Martin (2005, Table 5); Anderson, Martin and Valenzuela (2005).

Table 3. Agricultural weighted average import tariffs, by region, 2001 (percent, ad valorem equivalent, weights based on imports)

	Bound tariff	Applied tariff [a]
Developed countries [b]	27	14
Developing countries	48	21
of which: LDCs	78	13
World	37	17

a. Includes preferences and in-quota Trade Rate Quota (TRQ) rates where relevant, as well as the ad valorem equivalent of specific tariffs.
b. Developed countries include the transition economies that joined the European Union in May 2004. The definition of developing countries used here is that adopted by the WTO. Thus it includes the four East Asian tigers: Hong Kong (China), Korea, Rep., Singapore, and Taiwan (China).
Source: Anderson and Martin (2005, Table 2).

from specialization, tends to increase productivity. These dynamic productivity effects can multiply the gains several times. Second, our calculations assume that preferences in regional and other preferential trading arrangements are fully utilized, and that developing countries have access at the listed rates. Detailed analysis shows that this is rarely the case. Brenton (2003), for example, found that much eligible trade does not take advantage of preferential access, probably because of onerous rules of origin obligations or quantitative limits built into the schemes. Because our modeling cannot take this underutilization into account, it overstates the degree of liberalization in the base year and thus understates the effects of further most-favored-nation (MFN) liberalization. Third, the analysis here considers only merchandise trade effects and does not incorporate effects of distortions in services trade. With services negotiations proceeding fitfully, the amount of new liberalization may prove to be minimal. Nonetheless, services liberalization has a powerful growth effect (Mattoo and others 2001), which is not included in our calculations. Working in the opposite direction is the fact that benefits are not as automatic as the models assume because real-world constraints on supply response may impede exporters in developing countries from taking advantage of new opportunities. Nonetheless, the weight of the foregoing considerations, taken together, suggests that the absolute benefit of Doha merchandise liberalization is likely to be larger than the $96 billion in our calculations.

Tracing the gains

Within the developing world, most of the gains from the comprehensive Doha scenario go to large countries, notably Argentina, Brazil, others in Latin America, India, Thailand, South Africa, and others in southern Africa. The rest of Sub-Saharan Africa gains when nonagricultural market access is expanded—especially when

developing countries participate as full partners in the negotiations and offer substantial reductions in their own rates of protection. An important part of this result stems from increases in market access—on a nondiscriminatory basis—by other developing countries.

Some least developed countries in Sub-Saharan Africa and elsewhere may be slight losers in our static Doha simulations when developed countries cut their tariffs and those LDCs choose not to reform. Their losses result from deterioration in their terms of trade because of erosion of tariff preferences affecting their exports or, if they are net food importers, because they would face higher prices on imports of temperate foods. Our simulations overstate the benefits of tariff preferences for LDCs, however, since they ignore the trade-dampening effect of complex rules of origin and the grabbing of much of the rents from preferences by developed country importers. But even if they continued to be losers after correcting for those realities, it remains true that preference-receiving countries could be compensated for preference erosion through increased aid at relatively small cost to current preference providers. In the process, other developing countries currently hurt by LDC preferences would enjoy greater access to the markets of reforming developed countries.

What is to be done?

Several clear implications for the Doha Round follow from this analysis. First, in addition to outlawing agricultural export subsidies, domestic support bindings must be cut very substantially to reduce binding overhang. In so doing, the countries with the highest subsidies, namely the European Union and the United States, need to reduce their support, not just for the sake of their own economies but also to encourage developing countries to reciprocate by opening their markets as a *quid pro quo*. An initial cut of 20 percent would be nothing more than a start in eliminating the overhang.

Second, agricultural tariff bindings must be cut very deeply to allow some genuine market opening to occur. Getting rid of the tariff binding overhang that resulted from the "dirty tariffication" of the Uruguay Round should be the first priority, but more than that is needed if market access is to expand. Exempting even just a few "sensitive" and "special" products is undesirable, as it would greatly reduce the gains from reform and tend to divert resources into, instead of away from, enterprises in which countries have their least comparative advantage. If it turns out to be politically impossible not to designate some products as sensitive or special, it would be crucial to impose a cap such that for any product with a bound tariff in excess of, say, 100 percent, that tariff would have to be reduced to the cap rate.

Third, it is essential to expand nonagricultural market access while reforming agriculture. A balanced exchange of concessions is impossible without adding other sectors. With other merchandise included, moreover, trade expansion would

be four times greater for both rich and poor countries—and poverty in low-income countries would be reduced considerably.

And fourth, *developing countries have to contribute to the round*, particularly through South–South "concessions." Since developing countries are trading so much more with each other now, they are the major beneficiaries of reforms within their own regions. Upper-middle-income countries might consider giving least developed countries duty-free access to their markets (mirroring the recent initiatives of developed countries) or, even better, making MFN tariff reductions. Even least developed countries should consider reducing their tariff binding overhang, since doing so gives them more scope to demand "concessions" (or compensation for preference erosion and other factors affecting their terms of trade) from richer countries, without requiring them to cut their own applied tariffs very much.

Conclusion

The good news is that there is a great deal to be gained from liberalizing merchandise trade—especially agricultural trade—under Doha, with a disproportionately high share of that potential gain (relative to their share of the global economy) available to developing countries. To realize that gain, significant reform in agriculture is required. However, the political sensitivity of farm support programs, coupled with the complexities of the measures introduced in the Uruguay Round Agreement on Agriculture and of the modalities set out in the Doha Framework Agreement of July 2004, ensure that the details of the final Doha agreement will be important and hotly contested. To realize more of their potential gains from trade, developing and least developed countries will need to participate fully in trade reforms, as well as adopt complementary domestic reforms and invest more in trade facilitation. High-income countries could encourage them to take the necessary steps by opening up their own markets to developing country exports and by providing more targeted aid.

To that end, The World Bank and IMF have advanced a new proposal to reward developing country commitments to trade reform by expanding trade-facilitating aid through the Integrated Framework, now operated by a consortium of international agencies for least developed countries (see chapter on Aid for Trade in this volume). This proposal, which was endorsed at the IMF and World Bank Annual Meeting in late September 2005 may provide an attractive path for developing countries seeking to trade their way out of poverty, not least because it would dampen the tendency of expanded aid to provoke a rise in the real exchange rate. It also offers a far more efficient way for developed countries to assist low-income countries than the current systems of tariff preferences.

Notes

1. This note is based on the authors' article in the September 2005 issue of *The World Economy* and on *Agricultural Trade and the Doha Development Agenda*, edited by the authors, published by Palgrave Macmillan and the World Bank in November 2005. It was prepared by Lead Economists, Kym Anderson and Will Martin in the Development Research Group of the World Bank. The authors are grateful for the collaboration of numerous colleagues, especially Dominique van der Mensbrugghe and Tom Hertel, and for research funding from the UK Department for International Development.
2. For an explanation of why there is so much confusion over the importance of subsidies versus barriers to imports, see Anderson, Martin and Valenzuela (2005).

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Further Reading

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