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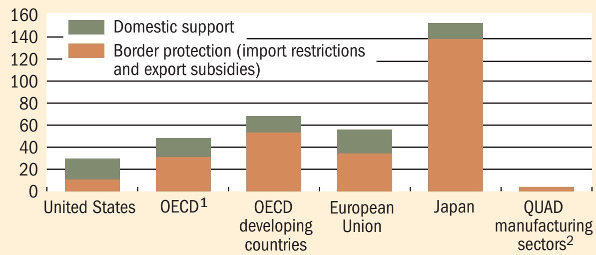
Agricultural Trade: Reaping a Rich Harvest from Doha

AGRICULTURE is the driving force of many developing country economies, especially the least developed ones. World Trade Organization (WTO) statistics show that agriculture accounts for over one-third of export earnings for almost 50 developing countries, and, for about 40 of them, this sector accounts for over half of these earnings. But trade barriers to agricultural products coupled with enormous subsidies, particularly in the richest countries, prevent the poorer ones from maximizing the gains they could reap from agricultural trade. As negotiators in the Doha Development Round try to bring the three-year-old global trade talks to a successful conclusion, agriculture—especially market access, domestic support, and export competition—continues to take center stage.

Agricultural protection is still high, especially because of import restrictions and export subsidies.

(protection rate: how much higher domestic prices are relative to world prices)

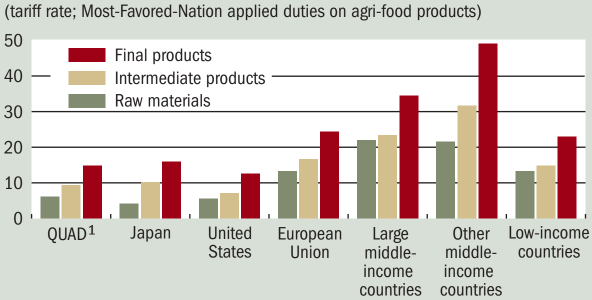


Source: OECD, Agriculture Market Access Database.
[1]OECD=Organization for Economic Cooperation and Development.
[2]QUAD=Canada, European Union, Japan, and the United States.

Market access. One of the hottest issues is import barriers, such as high tariff peaks (often in the hundreds of percent) on key developing country products (such as sugar, livestock products, and rice). Another is escalating tariff structures (tariffs rising with the degree of processing of imports), which help keep poorer countries trapped in low value-added primary commodity production. A third issue is tariff-rate quotas, under which imports up to a certain quota level enter at a lower rate of duty and over-quota imports enter at a higher rate, creating high, non-transparent barriers to imports.

Tariffs on finished products are higher than on raw materials.

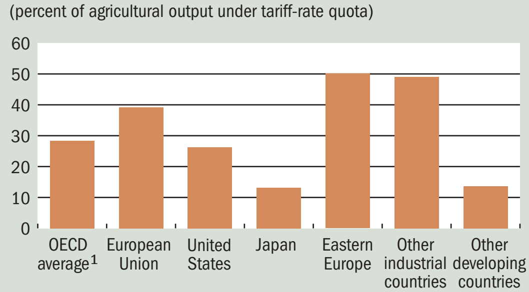
(tariff rate; Most-Favored-Nation applied duties on agri-food products)



Source: World Trade Organization Integrated Database.
[1]QUAD=Canada, European Union, Japan, and the United States.

Many products continue to be protected by tariff-rate quotas.

(percent of agricultural output under tariff-rate quota)



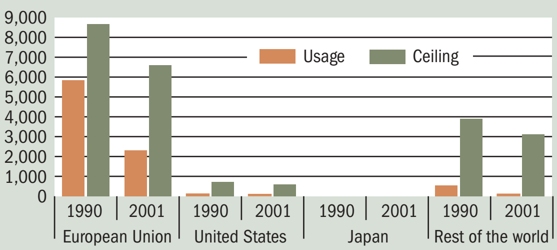
Source: OECD, Agriculture Market Access Database.
[1]OECD=Organization for Economic Cooperation and Development.

Domestic support. Direct payments from taxpayers and consumers to farmers remain high, hitting about $235 billion in industrialized countries in 2003. These payments, which are meant to protect small farmers, end up primarily benefiting the larger ones since the payments are based on production levels, the use of inputs, or land area, and small farmers tend to make much of their income from off-farm employment. Because the current ceilings are much higher than actual usage, the 20 percent up-front cuts envisioned in the August 1, 2004, Doha Round Framework Agreement would have little impact. Thus, future commitments on reducing these subsidies must be very deep and front-loaded to make a difference.

Export competition. *Direct export subsidies,* like import barriers, have a double-barrel effect on trade since they both reduce demand and increase supply in the subsidizing country. As with domestic support, current ceilings are far above levels actually being paid, but usage rates have been very volatile, rising greatly in times of low world prices. The European Union is by far the biggest user of explicit export subsidies. Other countries rely on *subsidies in disguise*, such as export credits on non-commercial terms, purchases by state trading enterprises, and food aid—which has been used by rich countries to dispose of surplus bumper crops. The August framework agreement calls for the complete phaseout of export subsidies, but no timetable has been set. The phaseout of all subsidies must be done swiftly, with the biggest cuts front-loaded.

Export subsidy ceilings exceed usage, so only steep reductions will have an impact.

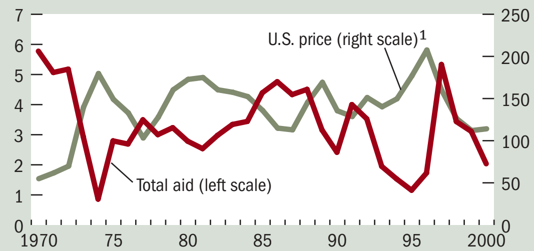
(million dollars)



Source: World Trade Organization, *Members' Usage of Domestic Support Categories, Export Subsidies and Export Credits,* March 3, 2002.

U.S. wheat food aid is high in years of low world prices, when it is least needed.

(million tons) (dollars a ton)

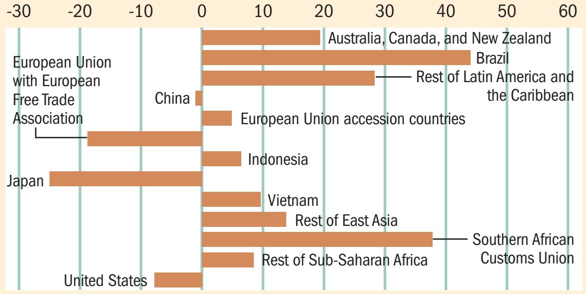


Sources: United States Department of Agriculture and World Bank.
[1]Price for freight on board.

Possible income gains. The gains from a successful Doha Round would be enormous for the world at large, including developing countries. The latter would benefit not only from better market access to the rich countries of the North but also—in fact, even more so—from the gains that accrue to each country from reducing its own barriers and from greater South-South trade. A successful outcome would help raise incomes in rural areas, where 73 percent of the poor live in developing countries, the majority of them in countries that do not enjoy preferential access to industrialized country markets. Higher rural incomes are essential for meeting the Millennium Development Goal of sharply reducing poverty.

In almost all developing countries, rural incomes would benefit from trade liberalization.

(change in rural income in 2015 relative to a scenario without global trade liberalization; percent)

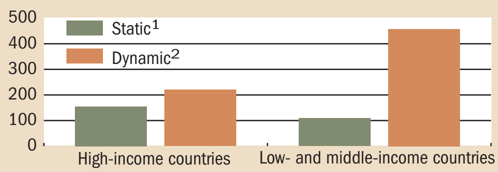


Source: World Bank simulation with the Linkage Model and Global Trade Analysis Project.

Win-win over time? Of course, not everyone will gain from the Doha Round. Net food consumers (individuals and countries) will lose from higher food prices, but many will gain from greater opportunities in other areas. In any case, the losses (and gains) will occur over a number of years as the agreement is implemented, allowing time for adjustment. Assistance from the international community will be needed not only to help countries adjust but also to enable them to undertake the critical measures required to take maximum advantage of new opportunities.

Gains from a sweeping liberalization would be enormous compared to official development assistance of around $50 billion a year.

(change in real income in 2015 relative to a scenario without global trade liberalization; billion dollars)



Source: World Bank simulations with the Linkage Model and Global Trade Analysis Project.
[1]*Static* refers to the global merchandise trade reform scenario with fixed productivity.
[2]*Dynamic* gains refer to global merchandise trade reform where productivity is linked to a measure of openness (the sectoral export to output ratio; see *Global Economic Prospects 2002).*

Based on work prepared by World Bank staff.
See http://lnweb18.worldbank.org/ESSD/ardext.nsf/11ByDocName/TopicsAgriculturalTrade for more information.