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THE DOHA DEVELOPMENT AGENDA

MARKET ACCESS AND DOMESTIC SUPPORT MEASURES

LIONEL FONTAGNÉ*

Cancun has been a disaster and the developing countries, notwithstanding the emergence of the G90 and G22, could be at the end of the day badly hit by this collapse of the multilateral trade negotiations. The Round launched in Doha (November 2001) was after all aiming at opening markets in order to foster growth and alleviate poverty in the developing world.

Before Cancun, public opinion was focusing on the interpretation of the *TRIPs* agreement, concerning the enforcement of intellectual property rights for medicines. The possibility to take measures (compulsory licenses, production of generic drugs) to protect health in case of diseases such as AIDS had been reaffirmed in Doha, and the translation of this position in terms of specific policies independently from the outcome of Cancun has been a major achievement in economic terms (Bell et al., 2003) and from a moral point of view. But there are a series of other key issues incorporated in this agenda on which progress has been delayed as a follow up of Cancun.

First, implementation-related issues have been raised by the unbalanced deal concluded in Marrakech. The developing world considers that developed economies have not fulfilled their commitments concerning the pace of liberalisation in labour intensive industries (notably regarding the implementation of the Agreement on Textiles and Clothing – ATC), whereas their own commitments (especially concerning intellectual property) are disproportionate. The next item is agriculture. The famous ambiguous formulation regarding “reductions of, with a view to phasing out, all forms of

export subsidies” is only part of the story. Market access as well as distorting domestic policies are key issues. Then come the negotiations on services, on market access for non-agricultural products, and on the sensitive Singapore subjects. Interestingly, this Agenda ends by taking into consideration specific needs of the Least Developed Countries (LDCs). First, the objective of duty-free, quota-free market access for products originating from LDCs is endorsed by the declaration; second the importance of provisions regarding Special and Differential Treatment (SDT) for LDCs is reaffirmed.

Such an Agenda raises a lot of concerns, and the Cancun disaster might after all be the outcome of a lack of commitment of unconvinced stakeholders.

First, the relationship between market access and development, or more generally between growth and openness, is far from clear. The literature demonstrates that opening an economy is only a prerequisite of growth: capital accumulation, education, institutions are needed. Hence, liberalising imports in the South, or conceding free access to the markets in the North, is only a building block in a wider development policy.

Second, it is even less clear whether the various objectives contemplated in the DDA are mutually compatible. If market access is favourable to growth in the LDCs, then liberalising imports in the North on a multilateral basis will erode the margin of preference conceded to LDCs and will reduce their access to these markets. If less distorting farm support in the North increases world prices of food products, LDCs that are net importers of food will be adversely affected through negative terms-of-trade effects. In total, this agenda is an intricate menu of objectives and means that could lead to deceptive or undesired outcomes.

Against this background, this article aims at focusing on objectives and possible outcomes of the



The Doha Agenda: complex inter-relationships

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negotiations concerning market access and domestic support for agriculture and manufacturing.

MARKETS REMAIN PROTECTED

Improving market access is still an “unfinished business” (WTO, 2002). Despite low average levels of protection, agriculture and labour intensive industries carry a much higher level of protection than the average. The dispersion of tariffs within sectors can be very large too, due to tariff peaks on certain tariff lines. Distortions induced by such variance in tariffs are sizeable: a uniform duty equal to the mean tariff would be welfare-improving and less easy to capture by vested interests. Hence, both international trade theory and political economy point to an extraordinary loss of resources potentially associated with the intricate system of protection exporters face, notwithstanding administration costs of the various regimes or compliance of rules. On top of this, a variety of instruments are used to protect markets that make the measurement of protection levels more complex: how to tackle this complexity will be a key issue of the current Round.

There is no unified measure of protection

The (simple) average of bound tariffs¹ for industrial products in the Quad is 5.2 percent for Canada, 4.1 percent for the EU, 3.9 percent for the US and 3.5 percent for Japan (in 2000). In agriculture, the simple average of bound rates is more difficult to estimate: there are notably a series of instruments that must be converted into ad valorem equivalents. The tentative estimation by the OECD leads to 19.5 percent tariff for the EU, 11.7 percent for Japan, 5.5 percent for the US and 4.6 percent for Canada. The World Bank gets much higher results, respectively 20 percent, 29.7 percent, 9.0 percent and 8.8 percent.

Developing countries are even more protective of their markets. The (simple) average of bound tariffs for industrial products is, for instance, 17.6 percent for Cameroon and 31 percent for Argentina.² The estimated simple average of tariffs in agriculture is 88.3 percent for Colombia and 124.3 percent for India, according to the OECD. The World Bank

finds respectively 105.6 percent and 101 percent for the latter two countries.

MAcMaps, the new database on trade barriers recently developed by the ITC (UNCTAD-WTO) in collaboration with the CEPII (Bouët et al, 2001), points out a similarity of production levels between the EU and the US, on the basis of weighted averages (all products), namely 3.9 percent for the EU and 4.3 percent for the US in 2001. In contrast, Canada (6.7 percent) and Japan (10.7 percent) are much more protected.

A variety of instruments of protection are mobilised

The reason why such differences occur in the results is a rather technical matter, which could merit considerable development. To put it simply, at least four main elements have to be taken into account. First there is a difference between bound and applied (MFN³) tariffs. Second a series of preferential agreements have conceded preferential tariffs, below MFN levels. Third, not all tariffs are defined in ad valorem terms: in particular, numerous duties are defined in dollars (per unit, per ton, etc.) and tariff quotas are opened to exporters (lower tariff inside the quota). Lastly, the procedure chosen to average (and aggregate) tariffs tabulated at the detailed level matters (Bouët et al, 2003; Martin et al, 2003). All these elements raise challenging issues for negotiators. Hence the renewal of interest for the measurement of preferential access, meaning that tariff data must be compiled at the bilateral level, for each importer. At the same time, the calculation of ad valorem equivalents of specific tariffs emerges as a strategic issue for the negotiators that will have to choose reference unit values.⁴ Lastly, the calculation of averages matters too, in as far as the formula chosen to lower tariffs takes into account the average initial level of protection.

LDCs are specialised in products severely affected by current protection schemes

According to the WTO, there are 10.5 percent of Canadian tariff lines with applied MFN duties

Negotiators have to deal with measurement problems

¹ Bound tariffs refers to the upper limit for applied tariffs, on which the importing country has made a commitment.

² These figures refer to bound rates at the end of the implementation period, which is 2005 for developing countries instead of 2000.

³ Most Favoured Nation: the tariff that is conceded to any member of the WTO.

⁴ The Girard proposal, for instance, devotes a full appendix to such calculation methods.

above 15 percent, the threshold corresponding to the international definition of tariff peaks for industrial products. The ratio is 1.7 percent for the EU, 4.3 percent for the US and 3.3 percent for Japan respectively.

Given the concentration of such peaks in sugar, tobacco, cereals, fruit and vegetables, and fish products, as well as in footwear and clothing, LDCs are potentially⁵ severely affected. Hoekman et al. (2001) record more than 1,000 HS6 positions affected by tariff peaks in the Quad, concentrated in agriculture and in labour intensive manufactures of interest to developing countries. But the most potentially affected exporters are LDCs. Their share of potentially affected exports is much larger than the developing world average: 15 percent as opposed to 8 percent on the US market, 30 percent to 12 percent on the Canadian one.

In addition to tariffs, quotas have been steadily maintained under the ATC. Even if the calendar of trade liberalisation (meaning quota dismantling, since tariffs remain) has been respected, the actual amount of liberalised imports has been limited, importers having selected less sensitive products in the early phases of liberalisation.

This lack of market access might be one explanation of the poor performance of LDCs in world trade over the past three decades. While the share of developing economies as a whole in world exports rose from one quarter to one third, the share of LDCs declined from 1.9 percent to 0.5 percent (IMF-WB, 2001).

Recent initiatives conceding free access to LDCs, such as the Everything But Arms⁶ European initiative, the African Growth and Opportunity Act implemented by the United States, or the Japanese “99 percent initiative”, provide a targeted solution to this problem. For instance, an assessment of benefits for Sub-Saharan Africa (SSA) of fully and unrestricted access to the Quad countries has indicated this could lead to a 14 percent increase in their exports, associated with a 1 percent increase in GDP (Ianchovichina et al. 2001). This is a sizeable gain in comparison to the outcome of a complete round (see below).

Zero tariffs and zero quotas do not mean free access however. Measures at the border, based on environmental or technical considerations, are imposing requirements to be matched by exporters.

SPS and TBT adversely affect LDCs exports

The attempt of public policies to tackle biological and informational risks that are specific to international trade is lawful. The introduction of allogenic species, predators and diseases through international trade has been ascertained, whereas the opportunistic behaviour by exporters (in presence of information asymmetries and moral hazard) raises issues related to the quality/innocuousness of products.

The challenge is to implement “measures” at the border without raising barriers to trade. Accordingly, WTO Members must notify these measures. On the basis of such notifications, less than one quarter of the product categories identified at the HS6 level of the nomenclature are traded free of any barrier. Conversely the remaining products, accounting for 88 percent of world merchandise trade, do face at least one SPS or TBT justified on environmental grounds in one market, and 13 percent of world trade is effectively affected by such measures (Fontagné et al., 2001). Food products, such as meat, fish, and other animal products, plants, bulbs and cut flowers, which are products of interest to developing country exporters, are the most concerned. And while the share of LDC exports consisting of products potentially affected by such measures is below the world average, the share of directly affected exports (40 percent) is much higher than the average. In response to this exposure of the LDCs to such measures⁷, the World Bank has launched its “Africa Trade Standards Project” aiming at “Bridging the Standards Divide”.

Internal support and export subsidies distort world agricultural markets

A key achievement of the Uruguay Round has been to extend multilateral discipline to domestic

Sanitary measures (SPS) and technical barriers (TBT) affect the majority of world trade

⁵ Preferential schemes partially limit the negative impact of such tariff peaks on LDCs exports, but tariffs remained relatively high before the implementation of the AGOA and EBA initiatives.

⁶ This initiative offers zero tariff and zero quota access to all exports emanating from LDCs, with the exception of weapons. Calendars are phasing out protection for sugar, bananas and rice.

⁷ For instance, the European standard on aflatoxin has been estimated by the Bank to cost African exporters over \$670 million per year in lost agricultural exports (Otsuki et al., 2000).

support in the farming sector, as well as to export subsidies. Domestic support related measures have been classified according to the associated level of market distortions. The so-called “boxes” characterise what is prohibited, allowed, or to be phased out. Even if the amount of domestic support granted to farmers has hardly decreased in the OECD in the second half of the 1990s, a slight reduction in the market distortions is observed.⁸ All in all, agriculture has been reincorporated into the arena of multilateral negotiations, without imposing rules that are too tight: further reductions and commitments will be more sensitive (Tangermann, 2001).

The US\$ 300 billion spent by the industrialised countries on farm support are often compared to the amount of their aid to development (which represents only a sixth of this sum). The associated increase in agricultural output in the North, combined with reduced imports by rich countries, are estimated to flatten world prices at the expense of developing countries (Watkins, 2003). Even though some cases, such as the US\$ 3.6 billion subsidy granted to US cotton producers in 2001 – which led to accusations of US dumping⁹ – fit well in this analytical scheme, how developing countries are actually affected remains an open question.

Formulas
simplify the
negotiations

THE DDA SHOULD ADDRESS PREFERENTIAL ACCESS OR RISK MISSING THE TARGET

There are numerous proposals, more or less ambitious, more or less cautious, on the table. In particular, the (revised) Harbinson proposal for agriculture, and the Girard proposal on modalities for negotiations on non-agricultural products are key propositions.¹⁰ A glance at these proposals convincingly shows that making progress in the negotiations in the multilateral arena will necessitate the adoption of simple schemes of trade liberalisation. It will also impose the need for progress in the agricultural part of the Agenda. But if the DDA is to reach its target, benefiting the least advanced economies, pragmatism will be required.

⁸ The ratio of producer support for the OECD was 31 percent in 2000–2002 (compared to 36 percent in 1986–88). The coefficient of nominal protection was 31 percent in 2002 (compared to 57 percent in 1986–88). Of course there is a huge dispersion of coefficients across OECD member countries and across commodities: rice, sugar and milk remain the three most protected categories of products (OECD, 2003).

⁹ See IATP (2003).

¹⁰ Detailing the content of these proposals goes beyond this article. See the USDA, USTR, DG_trade and WTO web sites for details.

The rationale for a formula approach to market access

Concerning market access for products, there are 146 members negotiating on thousands of products. Under such circumstances, any means for simplifying negotiations will be preferred by negotiators. This is why a “formula approach”, consisting in the systematic compression of tariffs based on a simple arithmetic formula, could be chosen.

Of course the number of formulas that can be implemented is only bounded by the limits of the negotiators’ imagination. The reference is the so-called Swiss formula in which the target tariff, t_1 depends non-linearly on the initial tariff t_0 and a coefficient b :

$$t_1 = \frac{bt_0}{b + t_0},$$

where b is a coefficient corresponding to the upper limit of desired tariffs after the cut. Flexibility, needed to make such approach acceptable by all interested parties will lead to a slight departure from this crude arithmetic (Francois and Martin, 2003). However, any such formula, like the one contained in the Girard proposal¹¹, will raise all the issues referred to above: calculation of ad valorem equivalents, aggregation procedures to calculate averages, and last but not least massive preference erosion.

Differentiated impacts on developing countries

A formula approach apparently fits well the objectives of the DDA: by strongly reducing tariff peaks, it offers better access to LDC exports in labour intensive and agricultural goods; it largely opens other developing countries’ markets that remain currently highly protected and thus stimulates South-South trade; it allows a different b coefficient for developed and developing economies to be adopted, respecting the spirit of the SDT; lastly it allows a different coefficient for trade in manufactures and food products to be used, in order to match obvious political economy constraints.

This means, however, killing too many birds with one stone. The two latter supposed advantages contradict the objective of making agricultural mar-

¹¹ This proposal multiplies b by the average of the base rates.

kets more open, or of enhancing South-South trade. But the key issue here is the erosion of preferences, and here a break-down of developing economies into sub-groups is necessary.

It has been stressed above that tariff peaks potentially affect exports of LDCs which are nevertheless conceded preferential market access (ACP countries, the GSP scheme, AGOA, EBA, etc.). Hence, any (non-linear) formula approach will have two effects: first to eradicate the remaining peaks faced by LDCs exporters, and second to erode the margin of preference they had been conceded. The net effect can be negative. As far as their own market liberalisation is concerned, LDCs could be allowed to limit their own commitments, which will have an ambiguous effect on welfare too.

The remaining developing countries are in a different situation: they are not covered by recent initiatives in favour of poor countries, and they do not benefit from such preferential access, in particular for agricultural products. These countries should therefore strongly lobby in favour of a formula approach eradicating tariffs. However, in some cases this would put diversified and protected manufacturing industries at risk, and would more generally cut government revenue.

Formula approaches raise the risk of preference erosion

The expected impact of any deal concluding the round can hardly be assessed using a partial equilibrium framework: interactions between goods and factor markets, between sectors, between countries, make it necessary to rely on a general equilibrium approach. Results drawn by multi-country computable equilibrium (CGE) models have been at the centre of the debate surrounding the Uruguay round.¹²

As a follow up, methods have been considerably improved and have led to a rather consensual view¹³ concerning the benefits of trade liberalisation for developing countries. The larger benefits accrue from countries' own trade liberalisation and increase with the square of the level of protection; static gains to be expected are modest in relative terms (as a per-

cent of GDP), and concentrated in the agricultural sector; dynamic gains are much more associated with liberalisation of the manufacturing sector, in which economies of scale are prevalent. All in all, developed countries will record the largest absolute gains by liberalising their own agriculture, while developing countries will obtain large relative gains by opening their own economies and being conceded better market access for industrial products. Lastly, as a group, developing countries will extract limited gain from agricultural liberalisation in the Quad, since net food importers will be adversely affected by the rise in world prices of food products (Anderson et al., 2000).

In addition to these traditional results, recent developments have emphasised the impact of the choice of formulas, namely linear versus Swiss formulas. Fontagné et al. (2003) focus on market access and contemplate a menu of scenarios in which developing countries are conceded SDT. Bilateral tariffs at the product level¹⁴, derived from MACMaps, are cut according to a linear formula (where tariff peaks¹⁵ can be included or excluded from the liberalisation), versus a truncated Swiss formula¹⁶ (applied to all tariffs). Coefficients of reduction are those suggested by previous rounds¹⁷, and the SDT offered to developing countries is a lower coefficient of linear reduction and a larger b coefficient in the Swiss formula. Results reported in the Table highlight that benefits of increased market access at the world level are much higher with a Swiss formula and, in contrast, rather limited if one adopts a linear formula excluding peaks. Considering the Swiss formula combined with the SDT, the largest benefits accrue to Japan, where agriculture is highly protected. This is also why EU gains are much larger than US ones.¹⁸ Lastly, ACP countries record very limited gains, in particular in comparison to developing Asia which has in the past been conceded less preferences by industrialised importers.

A formula approach will, however, lead to a sizeable erosion of preferences conceded to the poor-

Different impacts with different formulas

¹² Goldin et al. (1993) and Francois et al (1993) are the key references for ex ante World Bank, OECD and GATT estimates. See Francois (2000) for a survey of the ex post literature.

¹³ This view is however challenged by Whalley (2000), who points out inconsistencies in the results obtained by the various models.

¹⁴ HS6 level.

¹⁵ Tariff peaks are defined in this exercise as those superior to 15 percent in manufacturing, energy and raw materials, and those above 85 percent in agriculture and agrofood.

¹⁶ In a truncated Swiss formula, the reduction is linear up to the threshold defined as a tariff peak, and non-linear thereafter.

¹⁷ 35 percent for the linear formula and a Swiss formula, and a coefficient b equal to 28 (manufactures) or 58 (food).

¹⁸ The same explanation pertains to the occurrence of more limited benefits to developing countries, when such special treatment is offered.

Long-run percentage welfare change

% Welfare	Linear formula	Linear formula excluding peaks	Swiss formula	Swiss formula + Special & Differential Treatment
EU-25	0.38	0.14	0.55	0.47
USA	0.18	0.09	0.24	0.12
Japan	0.86	0.29	1.45	1.29
Cairns	0.30	0.14	0.35	0.39
Developing Asia	0.80	0.28	1.07	0.91
ACP countries	0.43	0.26	0.41	0.29
Other countries	0.55	0.20	0.79	0.70
World	0.42	0.16	0.61	0.51

Source: Fontagné et al. (2002).

est developing countries so far, with the aim of favouring exports of small and insufficiently diversified economies. The more specialised the exporters, the larger the benefits extracted in the past from preferential access schemes and the stronger the adverse effects of market opening they will have to cope with.

Even tariff peaks favour LDC exporters to some extent: in 1999, ACP countries benefited from a preference for peak tariff products on the European market, reaching 28 percentage points, as compared with only 6 points for all products (Hoekman et al., 2002).

This is why a formula approach will put the benefits of past policies at risk. A limited number of products is affected by such issues (less than 15 percent of HS6 categories), and an even more limited number of importers having conceded sizeable preferences: among OECD countries, the EU15 is the most prominent concerned importer (Fontagné & Mimouni, 2002).

While free access for peak products limited to LDCs would lead to an 11 percent increase in their total exports, the extension of such free access to other developing countries would halve such benefit; and a further reduction of the MFN duty to 5 percent would result in such benefits to disappear for LDCs (Hoekman et al, 2002). SSA exports, initially boosted by free access conceded by Quad countries' initiatives (AGOA, etc.), would be slightly reduced if liberalisation by other developing markets compensated for the erosion of preferences on industrialised markets. But welfare gains would then be reduced, due to a deterioration in the terms-of-trade associated with a shift from high-priced industrialised markets to low-priced developing ones (Ianchovichina et al., 2001).

Puzzling impacts of a liberalisation in agriculture

A CGE framework can also be used to examine the decomposition of benefits among the various items of the DDA agenda. On the basis of a scenario for a linear reduction in tariffs of 50 percent for industrial and food products, in border measures for services, in export subsidies, and in domestic support¹⁹,

Francois et al (2003) find that liberalisation at the border in agriculture (27 percent of world gains) leads to larger gains than market access for non-agricultural products (respectively 16 percent). This is even less the case for services (11 percent). But the striking result is that the reduction in domestic support only secures 4 percent of the total gains²⁰, naturally accruing to countries reducing this distortion, namely the industrialised ones. Hence, contrary to a simplistic analysis of the associated distortions, there is not so much to be gained in this area, and the expected benefits to developing countries should be considered cautiously.

This confirms previous partial equilibrium estimates, which indicate that developing countries as a group would suffer a welfare loss in case of a 50 percent reduction in domestic support for agriculture in the developed countries (Hoekman et al, 2002).

In total, tariff reduction matters much more, for the developing world, than do the domestic policies in OECD countries. How can such puzzling effects be understood? In addition to issues referred to above (preferential access, tariff peaks in agriculture, domestic support), initial trade patterns and the associated terms-of-trade effects matter, in the face of any substantial increase in world agricultural prices consecutive to reduced distortions in world agricultural markets (FAPRI, 2002).

The (revised) Harbinson proposal, combining a progressive reduction of tariffs²¹, if not a Swiss formula, with a SDT (lower reduction in tariffs) and a reduction in domestic support and export subsidies, offers a stylised framework to address such issues (Bouët

¹⁹ The scenario also includes a reduction in trade costs, corresponding to a trade facilitation.

²⁰ The remaining elements are trade facilitation (34 percent) and the interaction term (8 percent).

²¹ Tariffs above 90 percent would be reduced by 60 percent.

Cutting agricultural support in the developed countries leads to a welfare loss of the developing countries

et al, 2003). Reductions in domestic support alone would induce a limited welfare gain at the world level, resulting in a welfare gain for the EU and Japan, and a loss elsewhere, in particular for the ACP countries. In contrast, a reduction in border protection alone would lead to larger gains at the world level, shared among all country groups, with the exception of the former Soviet Union. Lastly, the combination of all elements of the Harbinson proposal would mainly benefit the Cairns group, the EU and its periphery, Japan and South Korea, but would harm ACP countries, China, the former Soviet Union, and the rest of the world.

CONCLUSION

Considering the wide agenda drawn up in Doha, market access (compared to domestic support) remains a key item of the negotiations in order to reach the development target of the DDA (Hertel et al., 2002). Given the complexity of the negotiations and the number of parties involved, a formula approach is to be preferred. Any non-linear formula strongly eroding tariff peaks will boost welfare gains at the world level. However, the road to hell being paved with good intentions, this will be at the expense of preferences conceded to LDCs. This is why the erosion of preferences resulting from the round should be carefully assessed in order to avoid putting the benefits of past policies and recent initiatives such as EBA and AGOA at risk. Acting in favour of development is not such an easy task given the highly differentiated situation of developing countries.

There are limits to the arguments raised in this article. Preferential access is generally associated with the enforcement of rules of origin for exported products, hampering LDCs to take full advantage of the preferences they have been conceded (Brenton, 2002). Second, trade preferences without MFN access for the products of interest to other developing countries will not benefit the majority of the world's poor, since most of the world's poor live outside LDCs (Hoekman, 2003). Third, multilateral trade liberalisation, through its combined impacts on prices and incomes, does not systematically alleviate poverty in non-LDC developing countries (Hertel, Preckel et al., 2002).

Last but not least, raising fears about preference erosion does not provide an alternative to the

Agenda: reasoning in terms of country vulnerability is certainly more appropriate than favouring a second-best situation. Vulnerable countries should, for instance, be conceded no or very simple rules of origin, should receive assistance necessary to match SPS and TBTs. The scheduled phasing out of their preferential access should be compensated by commitments in terms of development aid, in order to build institutions or infrastructures making it possible to reap the benefits of a less distorted world market. Lastly, they should be secured free access not only to developed countries, but also to other developing economies.

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