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A Review by E. U. Ukeje

1. Introduction

The issue of agricultural tariffs and subsidies have become so topical and controversial in recent times and there are cases pending before the World Trade Organization for adjudication and resolution. The paper in an attempt to contribute to the on-going debate assessed the impact of agricultural subsidies and border protection in Organisation for Economic Cooperation and Development (OECD) countries on developing economies' exports, imports, and welfare. The outcome of the study was expected to assist developing economies determine which instruments of agricultural protection are most detrimental to their interests and, therefore, where to direct their negotiating efforts in Doha Round.

I. Highlights of the Paper

The paper was structured into six sections, excluding the introduction. Section 1 reviewed agricultural tariffs, domestic support and export subsidies. It highlighted the magnitude of domestic support given by regional groupings and countries. Section II contained the analytical framework, while the empirical methodology which outlined the 3-steps adopted in estimating the various variables were contained in section III. The results of the analysis were contained in section IV while section V concluded the paper.

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The authors adopted the use of a simple partial equilibrium model to estimate the impact of reduction in tariffs, domestic support, or export subsidies on exports, imports and welfare. To achieve this, a sample of agricultural commodities that benefited from domestic support or export subsidies in at least one WTO member country was obtained from 144 countries. In all it was observed that 158 commodities at the Harmonized System (HS) six-digit level benefited from direct domestic support in at least one WTO member country and a total support of about US$227 billion was reported on the average to WTO during the period 1995-1998.

The authors observed that domestic support used primarily by the OECD countries accounted for more than 88 percent of total domestic support payments notified to the WTO. Developing countries were found to use more of subsidies which accounted for 12 percent of total domestic support reported to the WTO during the same period. Least developing economies reported no direct domestic support. "Export subsidy commitments across WTO members totalled $18 billion in 1995-1998, representing about 10 percent of total direct domestic support. The OECD accounted for 83 percent of all export subsidy commitments made in the WTO. Developing countries accounted for the remainder with least developed economies not reporting any export subsidies".

To establish the interactions between the variables the authors adopted three steps in their empirical analysis. Import demand and export supply elasticities were first estimated with respect to prices and subsidies. The demand and supply parameters obtained were calibrated for each country and product at the HS six-digit level. The elasticities and calibrated parameters were then used to measure the change in world prices, welfare, export and import revenues, following a 50 percent reduction in agricultural tariffs, domestic support, or export subsidies in all countries. The domestic support and export subsidy elasticities were found not be statistically different across developed and developing countries, whereas price elasticities tended to be different.

The use of partial equilibrium model although enabled the authors to arrive at some results, but the full interactions between the variables may not be too obvious given the limitations of the model. Thus, the use of the outcome of the study for policy purposes would have to be handled with caution.

The authors observed that global pattern of protection of agriculture had differential impacts on countries, depending on whether they were net producers or consumers of the affected commodities. Goods that were subject to domestic support in at least one WTO member constituted 18 percent of their exports on average compared with 3-4 percent for other countries. Similarly, 17 percent of their exports were in categories that received export subsidies by at least one WTO member, compared with 4 percent for developed areas and 5 percent for other developing economies. A similar pattern was observed for imports about 9 13 percent of imports of least developed economies involved products that were subsidized, compared with 3 4 percent for other countries.

When the elasticities estimated for the whole sample were used, a 50 percent tariff cut resulted in a 20 percent smaller increase in exports for developing economies and a 15 percent smaller increase for least developed economies. A 50 percent cut in domestic support led to a 25 percent greater increase in exports for developing economies and a 20 percent smaller increase for developed economies. A 50 percent cut in export subsidies led to a 22 percent greater increase in exports for developing economics and 15 percent smaller increase for least developed economies.

The paper concluded that tariffs matter much more than subsidies for an impact on world prices. It also observed that developing economies generally have low levels of domestic and export subsidies, reflecting both budget constraints and a more neutral policy stance toward agriculture. The paper suggested that attention in the Doha Round should focus on reducing border protection in both OECD countries and developing economies. This does not mean that subsidies are unimportant. Tariffs are often the only instrument of intervention that developing economies have to respond to the effects of OECD subsidy policies.

I. Comments

The outcome of the study is a reconfirmation of earlier findings that the least developed economies have not benefited much from the various trade agreements beginning from the Uruguay Round to the current WTO. The impact of the reduction of both tariffs and domestic support for agricultural commodities showed very little welfare impact on the economies of least developing economies. This raises the issue of the need to open up the markets of the developed economies and to stop the unilateral liberalization of agricultural trade in some developing and least developed economics.

The study also highlighted the massive support given to the agricultural sector by the OECD in terms of domestic support and export subsidy compared to the nonchalant attitude of the least developed economies to the sector.

The authors noted that tariffs cut had much more impact on world prices than domestic supports the implication of this for developing economies is that lower tariff on agricultural products could destroy the domestic base given the poor infrastructure and high cost of production which make agricultural products highly uncompetitive.

An important dimension of agricultural support policies that was ignored in the analysis though recognized by the authors was the impact of price volatility on non-OECD member, because support policies shelter OECD farmers from the shock. This brings to the fore the implication of the current policy on trade liberalization in Nigeria where farmers are left to the vagaries of international market without any policy to absorb the shock. To ameliorate the negative impacts of trade liberalisation on developed, developing and least developed economies, the next round of trade negotiation under the Doha Round which is on going should ensure that adequate clauses are included to compensate for losses arising from liberalization and removal of domestic support.