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Why market access reforms matter

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Why market access reforms matter

1 Elimating tariffs offers much **bigger gains** than eliminating subsidies.

2 Access reforms help to **sustain gains** from eliminating subsidies.

3 Access reforms **prevent damaging growth** in domestic supports

Market access delivers, world-wide

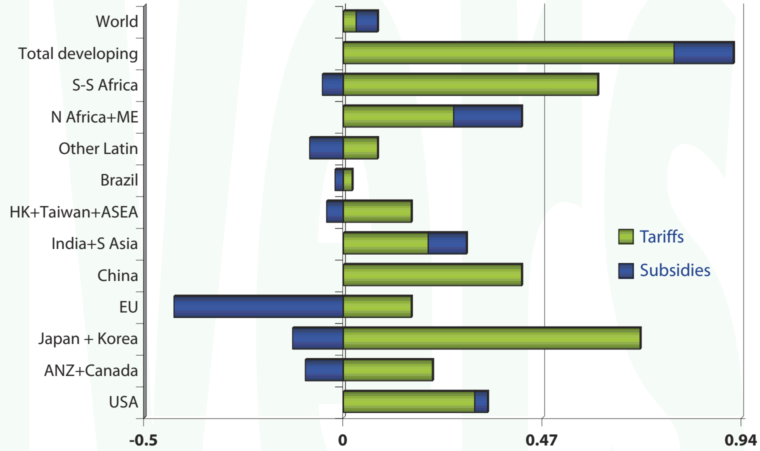
Several models of world agricultural trade liberalization have shown that the **biggest impact of trade reform** comes from the market access component.

In many regions, as the figure shows, there is a mix of results from cutting tariffs and subsidies. Net gains are positive. However, the world-wide gains are due **overwhelmingly** to the cuts in tariffs.

Tariffs depress world prices of food commodities that developing countries export so cutting tariffs benefits food exporters in developing countries. Cutting subsidies also benefits these exporters but reduces the welfare of food importers because it leads, at least at first, to a rise in import prices.

Effects of liberalization

Changes in welfare (%GDP) from elimination of tariffs and subsidies by industrial countries

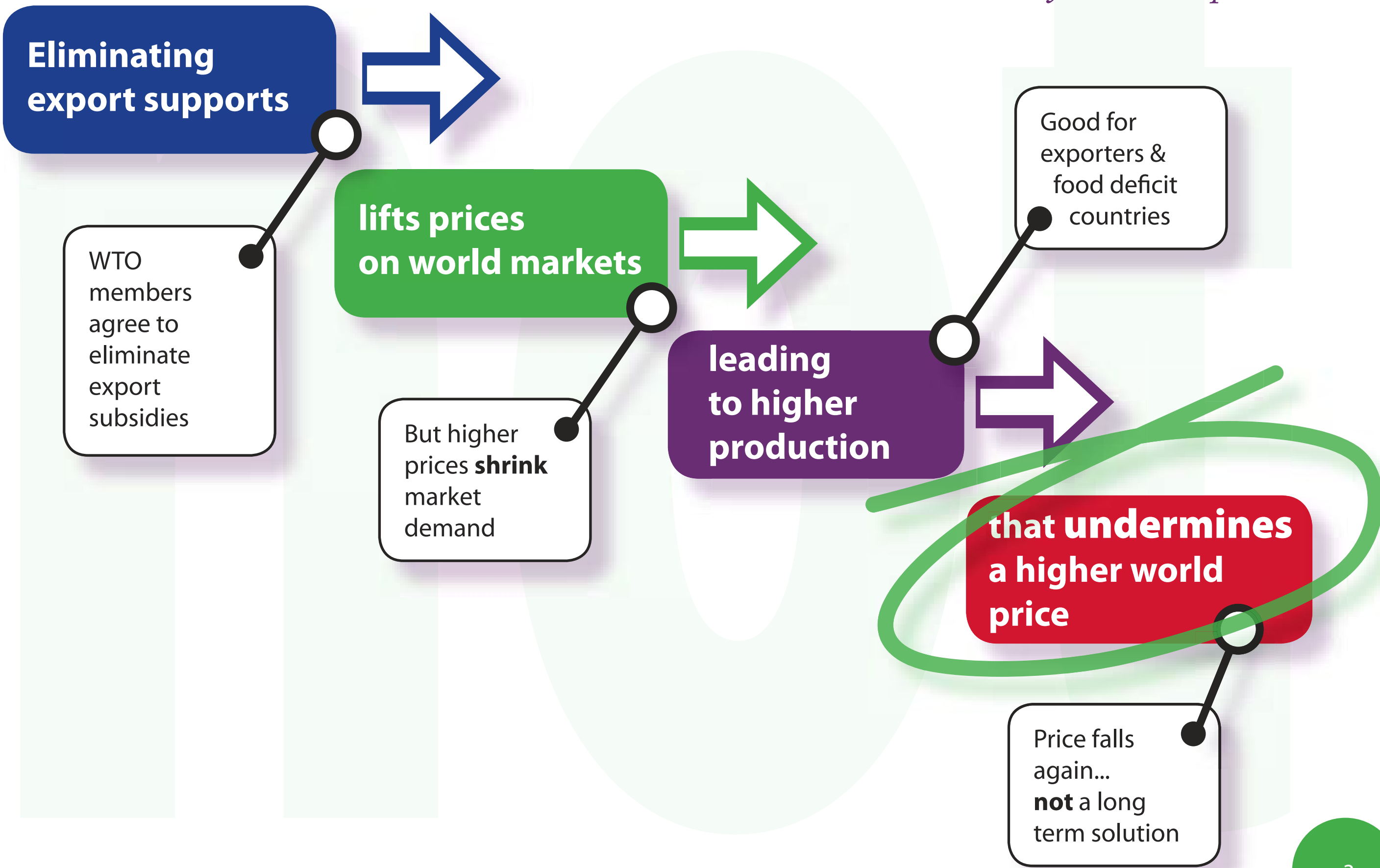


	Tariff removal		Subsidy removal	
	change in		*change in*	
	$USbn	Welfare % GDP	$USbn	Welfare % GDP
World	91.1	0.31	9.4	0.03

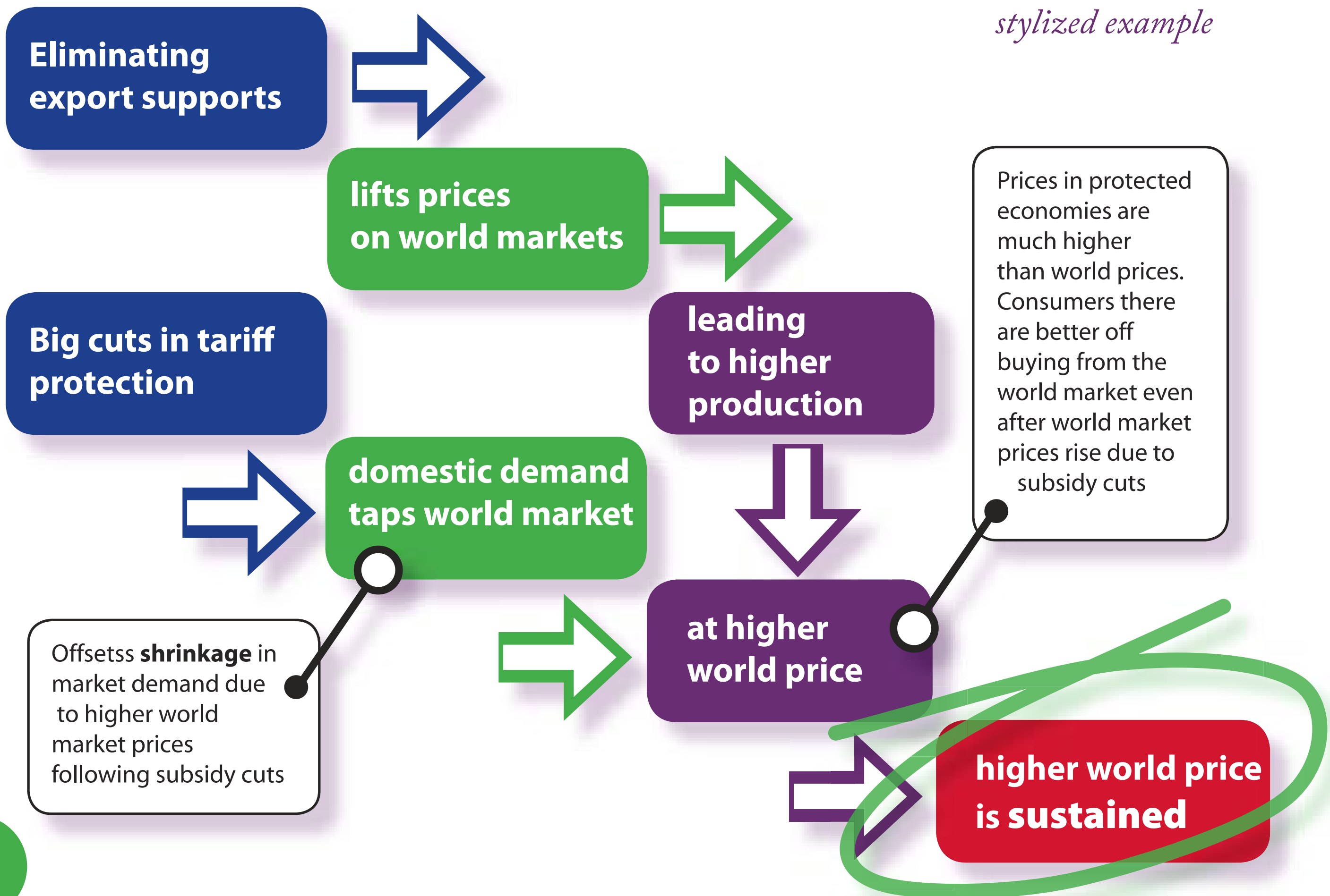
Source: IMF, World Economic Outlook (2002) fig. 2.9 and table 2.5

Export subsidies: not a long-term solution

stylized example



Access and subsidy cuts work together



Access **limits** use of 'amber-box' support

Market access reforms provide an **'automatic' limit** on the expansion of trade-distorting domestic support.

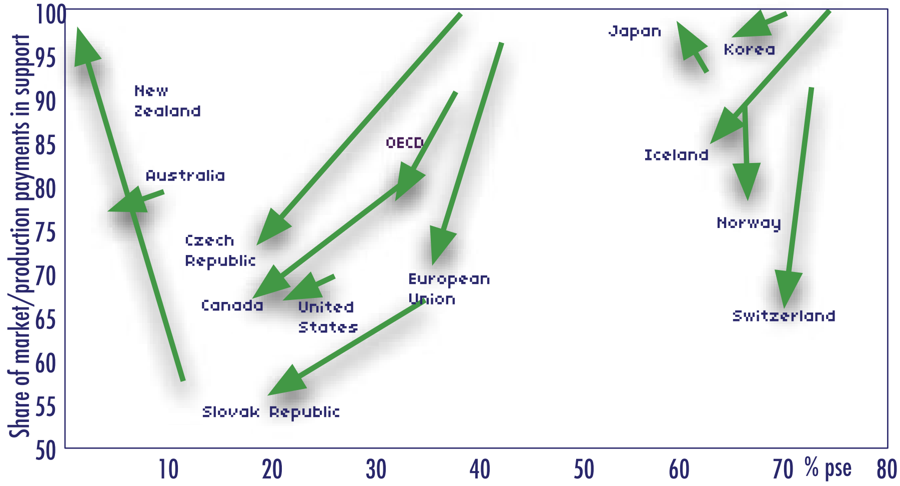
High levels of domestic support linked to production or price distort trade and world prices in sugar, cotton, oilseeds, grains etc.

But the **most distorting supports must be surrounded by high tariff walls** or the benefits of the support will leak to imports that reach the domestic market.

WTO has implemented complex rules and obligations on the use of certain supports. But the **level of support is falling slowly**.

The most effective discipline on governments' use of the most distorting supports — those linked to price and production — is to **bring down the walls of protection** around them.

Market-based support behind high protective barriers falls slowly



Source: Agricultural Policies in OECD Countries, Monitoring and Evaluation Report (2002), OECD, Graph 1.8

*OECD economies that in 1986/88 offered support that mostly affected prices or output saw only small reductions in the level of support during the period to 1999/2001. These countries **also had some of the highest levels of border protection** against agricultural imports.*

How **big** must the tariff cuts be?

To **sustain the gains** from the elimination of all forms of export supports, particularly in temperate food commodities that are the targets of most export supports, new outlets for exports have to be found in major consumer markets.

Because the tariffs in these markets tend to be very high with a lot of excess protection ("water in the tariff") very large cuts in tariffs or very substantial additions to tariff quotas would be needed before there will be *any* new trade flows.

A 'harmonizing' tariff cut such as a 'Swiss' formula or an initial cut across tariff peaks can achieve this level of cut.

Minimum cuts to tariffs

before any additional trade takes place

Commodity	EU %	USA %
Wheat	77	ne
Barley	97	ne
Beef	45	77
Sugar	24	38
Butter	30	19

ne: not estimated

Source: ABARE, Australian Commodities Volume 10, No. 4, Table 1

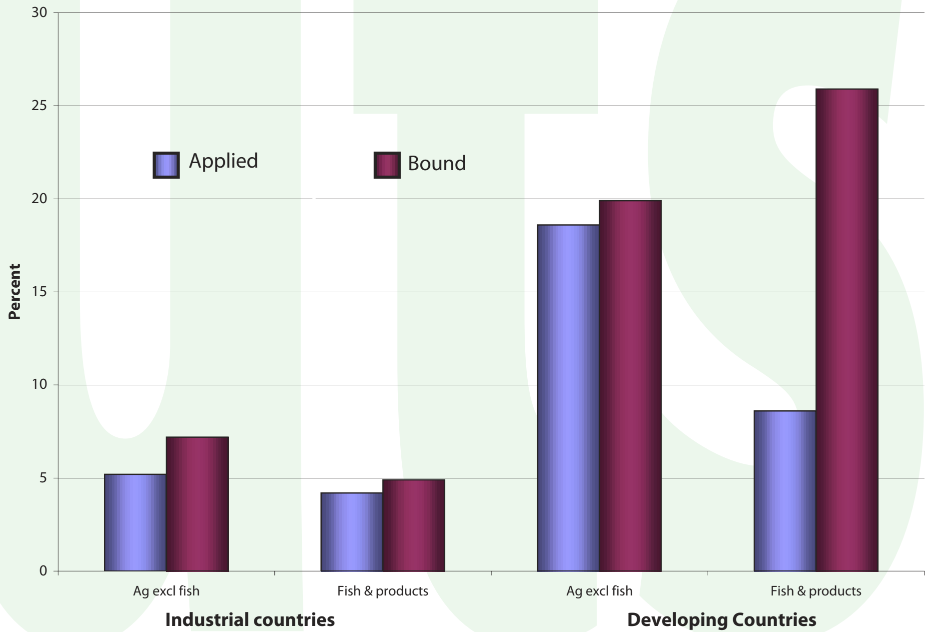
Tariff cuts needed in developing markets

Developing country markets for agricultural products, **on average, are more highly protected than industrial country markets**, despite the very high 'peak' tariff rates that exist in some large industrial countries for products such as sugar, dairy, cotton, and peanuts.

Developing countries should be pressing for **protection levels to be cut on a *global* basis**, including in developing country markets.

Post Uruguay Round Applied and Bound Tariffs

Weighted averages excluding regional agreements



Source: Finger, Ingco and Reincke 1996

Developing countries' best markets

	World Export Growth Rates, percent		Developing Countries' Export Growth Rates, percent					
			Total		Developing to Developing		Developing to industrial	
	'80– 90	'90– 00	'80– 90	'90– 00	'80– 90	'90–'00	'80– 90	'90–'00
Agriculture	**4.5**	**3.6**	**3.5**	**4.8**	**3.8**	**7.9**	**3.4**	**3.4**
Manufacturing	**5.9**	**4.8**	**7.6**	**8.9**	**7.3**	**10**	**7.8**	**8.3**

Agricultural exports slowed in the last decade compared to the 1980's from rates of 4.5% to 3.6%

BUT...

Developing country export sales in other developing country markets grew much at **more than twice the world average rate**

Source: "Agriculture and the WTO Creating a Trading System for Development", World Bank (2003), table 1.6

UR deal did not solve access problems

Tariffication in industrialized countries led to the creation of very high Most Favored Nation (MFN) tariff rates that greatly exceed levels necessary to protect domestic production in some product categories, including a large number of 'peak' tariff rates.

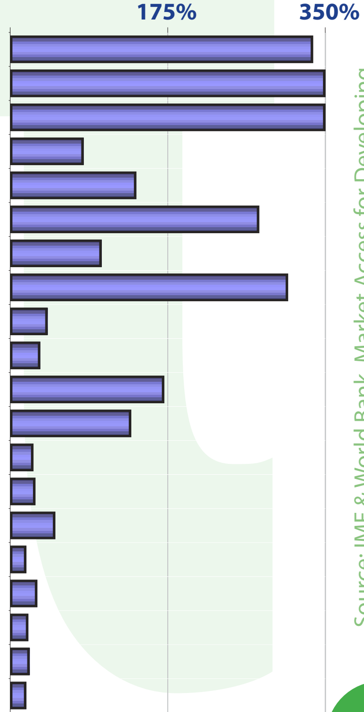
This excessive protection — often called 'water in the tariff' — poses problems for the design of an effective and equitable tariff cutting formula for the Doha negotiations.

In developing countries, too, the combination of tariffication and 'ceiling bindings' made in place of tariff cuts resulted in schedules where bound tariff rates 'overhang' much lower applied rates of tariff.

Tariff Peaks in Developed Country Markets

on Agricultural Imports from Developing Countries, 1998–99 (In percent)

Product	Average MFN tariff *	Max MFN tariff
Butter	250	336.3
Other tobacco	168.6	350
Tobacco	44.9	350
Wheat	39.5	81.5
Milk	22.7	140
Chocolate	22.7	276.5
Barley	22.1	101.5
Milk concentrates	19.6	308.5
Beef	12.9	41.5
Other tropical fruits	10.7	33.3
Oil seeds	9.6	171
Poultry	8.2	134.3
Citrus fruits	4.6	25.7
Banana	4.3	27.9
Maize	4	50
Tea	3.8	17.8
Cigarettes	2.7	30
Vegetable oils	1.4	20
Sheep meat	0.8	21.5
Non-tropical fruits	0.8	17.8



** Average weighted by market*

Source: IMF & World Bank, Market Access for Developing Country Exports—Selected Issues (2002), Table 4

Agricultural protection remains high

Developing countries cut their agricultural protection in the 1990s, but not by as much as they cut their tariffs on manufactures.

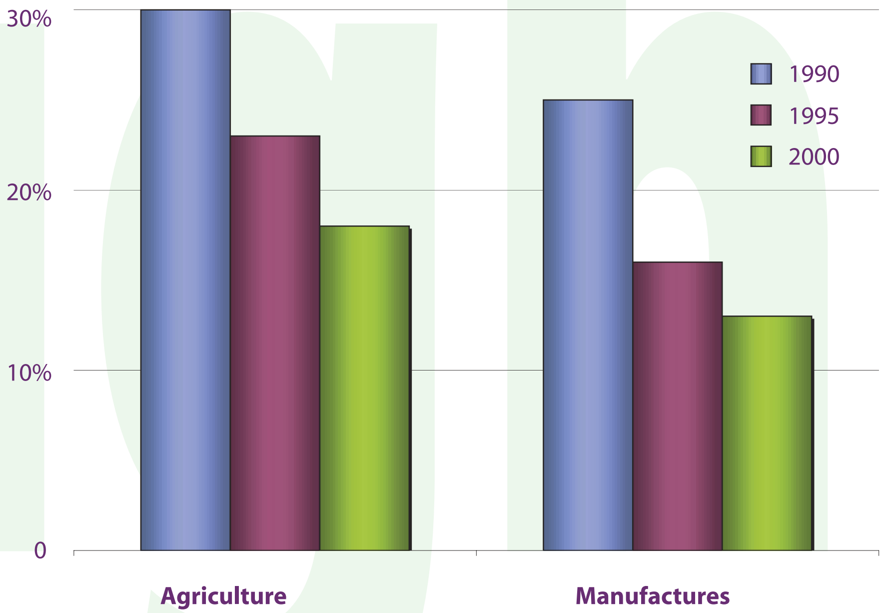
The average agricultural tariff declined from almost 30 percent in 1990 to about 18 percent in 2000, a decline of 35 percent.

Those reductions were complemented by the elimination of most export taxes as well as import licensing and many other quantitative restrictions.

But protection for manufactures fell even further, on average, by more than 45 percent.

Agricultural tariff cuts smaller

than cuts in manufactures tariffs — developing countries



The rates shown are simple averages of the average tariffs of about 50 developing countries

Source: World Bank, Global Economic Prospects 2004, p. 119

Tariff escalation occurs in DCs, too

In high-income countries, tariffs escalate especially quickly on agricultural products.

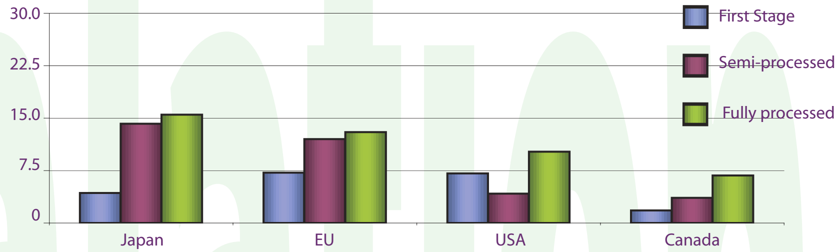
In developing countries, too, the average tariff for fully processed agricultural products and manufactures is higher than on unprocessed products.

The **reduction of tariff peaks** and eliminating "water in the tariff" would reduce escalation. In the EU and Japan, for example, tariff peaks are more widespread on imports of processed food than on primary food imports.

Cutting these peak tariffs would open up markets where processed exports from developing countries have good prospects.

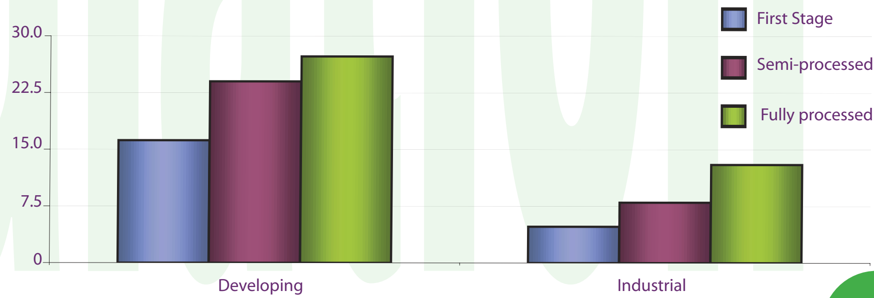
Tariff escalation in 'Quad' countries

Average unweighted tariffs in percent



Tariff escalation in developing countries

Average unweighted tariffs in percent



Source: Global Economic Prospects 2002, World Bank (2002), figure 2.5

Should Developing Countries cut tariffs?

As experience has repeatedly shown, both high-income and low-income country groups benefit most from **liberalization of their own markets for agriculture**.

Developing countries gain *almost four times as much* ($US114 bn *versus* $US31 bn) from the liberalization of agricultural markets in low and middle income countries — where their exports are increasingly directed — as they gain from the liberalization of high income markets.

Although the Doha ministerial declaration provides for *less reciprocity* from developing countries, ***less liberalization* will hurt developing countries the most.**

Distribution of gains

from removing all barriers to agricultural trade

Liberalization by **high** income countries

High income	73
Low income	31

Liberalization by **low** and **middle** income countries

High income	23
Low income	114

Liberalization by **all** countries

High income	106
Low income	142

Billions of 1997 $US

Source: Global Economic Prospects 2002, World Bank (2002), table 6.1

Tariffs on manufactures hurt farm output

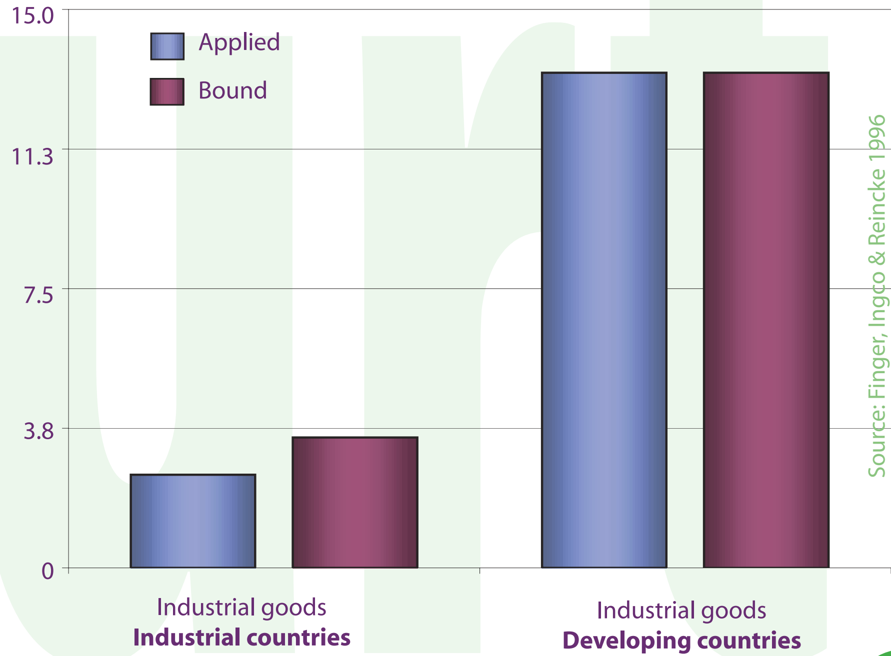
High levels of protection for domestic manufacturing tax the farm sector by **pushing up the costs of agricultural inputs** such as land, labor and capital.

This is a significant problem in some developing countries where the effective protection for manufacturing is increased by tariff exemptions on manufacturing inputs, direct and indirect tax remissions or preferential tax rates. Some governments also impose price or supply controls on food and fiber industries that supply domestic manufacturers.

Market access reforms in the non-agricultural market access negotiations can therefore also **contribute to greater productivity** in the agriculture sector.

Post Uruguay Round Applied and Bound Tariffs

Weighted averages excluding regional agreements



DCs can afford to cut tariffs

What about the impact of reform on tax revenues?

Many developing country governments rely to some extent on the customs tariff to supplement their revenues. They would be reluctant to lose the funds as a result of tariff reductions. But it is important to put the problem in perspective.

1. The reduction of a tariff does not necessarily reduce the revenue collected at the lower duty rate: the outcome depends on the responsiveness of import demand to changes in price due to the tariff cut.
2. Cutting a bound rate with substantial 'overhang' (such as a 'ceiling' rate that is well in excess of the applied tariff) will have little or no effect on revenue.
3. The dependence of governments on import duties is not uniformly as high as it may seem: a recent close study of 13 Sub-Saharan African countries* found that duties actually collected contributed only 16% of revenues on average (within a range of 3% to 32%). Replacing some of this revenue from other sources should be feasible over a decade-long period of implementation of a tariff cut.
4. In some developing countries where a high proportion of goods is exempt from tariffs for policy purposes, revenue collections could be improved by reducing the number of exemptions

**Source: Hinkel et al. 2003*

Isn't protection needed for 'infant industries'?

It's sometimes argued that developing country agricultural industries are 'at risk' from import competition and need import protection while they establish and grow to a size where they will be better able to respond to import competition. The justification for this 'infant industry' protection, however, needs **careful evaluation.**

1. Will cost reductions over time when the infant 'finds its feet' fully compensate consumers for the higher costs imposed on them during the period of assistance?
2. Should *all* firms in an industry be granted 'infant' industry protection? Or should the assistance be linked to performance by the recipient (for example, increased efficiency or cost reductions).
3. When should the 'infant' be considered sufficiently independent to no longer need assistance? Should this be left to political discretion or should assistance be subject to a 'sunset' provision?
4. Given the costs imposed on consumers by a tariff and on taxpayers by subsidies linked to output, are there better ways to favor the expansion of a domestic industry? In competitive markets, subsidies related to production processes, skills, or innovations can offer positive returns to society by prompting a 'virtuous cycle' of quality and cost improvements.

Tariff preferences are not a strategic choice

Don't tariff preferences offer a better option for developing countries than reciprocal tariff cuts?

Preferences are valuable, but they can never offer the same benefits as reciprocal market access reforms and they don't offer secure, long-term market advantage.

1. For some developing countries, such as the Least Developed countries (LDCs), preferences offer a very good 'deal' with few strings attached — at least on the export side of the market-access ledger.
2. But export access delivers only a small part of the gains from market access reforms. It's more important to work out how to maximize the benefits of domestic reforms, including the potential benefits from reciprocal opening of foreign markets.
3. Most unilateral preferences including the preferences for the LDCs are restricted by rules of origin, some product exceptions and the possibility of removal on a 'competitive need' basis.
4. Also, preferences are not durable. Even if preference margins are maintained when MFN tariffs are cut, the price difference between duty-paid MFN entries and entries under preference inevitably erodes.
5. Finally, preferences have limited coverage across developing countries. The majority of the world's poorest people do not live in countries that benefit from the most generous non-reciprocal preference schemes.

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