The Impacts of Reform on Developing Countries

Less developed countries (LDC) are a diverse group. They include agricultural exporters and net food importers, countries with adequate or with limited natural and financial resources, and countries in which agriculture accounts for a large or small share of national economic activity. While the interests of an individual developing country are likely to reflect its own mix of characteristics, some developing countries have collaborated to present common positions at the WTO. Some resource-abundant, agricultural-exporting developing countries have joined the Cairns Group, including the MERCOSUR countries, Chile, and Thailand. The group of "like-minded countries" includes least-developed food-importing countries, such as Haiti and Cuba.

LDC's Affected by Both Their Own and Developed Country Reforms

Individually, developing countries are small, price-taking economies in world markets. The potential effects on developing countries from further global agricultural policy reforms can be decomposed into the impacts of reform by large, developed economies on world agricultural markets, and the effects of their own policy reforms (table 16). Unambiguously, further agricultural policy reforms by developed countries will lead to an increase in world agricultural prices relative to their trend levels, and greater market access and higher prices for developing country agricultural exports. If developed countries were to fully eliminate their own agricultural support policies, the value of agricultural exports by all developing countries would increase by about 24 percent. Rising world food prices due to reform in developed countries only would lead to a 2-percent decline in LDC agricultural imports.

Developing countries' reforms of their own policies will lead to increases in both agricultural exports and imports. If LDC's fully eliminate their own agricultural policy distortions, developing countries' agricultural exports will increase in value by 5.5 percent. Under the same scenario, agricultural imports will increase by 25 percent. The expected increase in imports is large because many LDC's have high import tariffs. (This level of import growth is likely overstated because the applied rates of developing countries are often lower than the bound rates used in this analysis.) Global policy reform will result in a 20-percent increase in the value of developing countries' agricultural imports and a 25-percent increase in the value of their exports, indicating the potential for a significant reallocation of production and expansion of trade in response to global reforms.

Developing countries that have the capacity to increase their agricultural export supply would account for much of the increase in exports, especially in products that compete with the temperate products of developed countries. Furthermore, some of the export growth can be expected to embody greater valued added. Many developed countries have escalating tariffs that impede the efforts of developing countries to capture more of the value added in their agricultural exports. Tariff reform or elimination by developed countries can help open up opportunities for agro-industrial development in LDC's that can help to offset the effects of long-term price declines for many primary commodities.

Table 16—Developed and developing country agricultural policy reforms: Effects on developing countries' agricultural trade

	Elimination of developed country agricultural policy distortions			Elimination of developing country agricultural policy distortions	Global elimination of agricultural policy distortions
	Percent change from base				
	Market access	Domestic support	Export subsidies	Market access	All policies
Imports					
Value	0.6	-1.5	-1.1	24.6	20.0
Volume	0.2	-4.7	-2.7	17.1	7.9
Exports					
Value	18.1	5.5	0.6	5.5	26.5
Volume	10.7	3.4	0.3	4.1	16.1

Source: Diao, Somwaru, and Roe (2001).

While lower tariffs in developed countries will benefit some LDC exporters, others will face an erosion of the margin of tariff preference enjoyed by their exports under special, concessional trade agreements. Preferential agreements, such as the Caribbean Basin Initiative between the United States and Caribbean countries, allow many products of least developed countries to enter duty free. The erosion of preferences due to multilateral tariff reductions is expected to have negative but modest effects on the agricultural export earnings of some developing countries. While loss of preferences may erode export earnings in the short term, it may benefit developing countries in the long run. These preferences have in some cases reinforced developing country dependence on the export of a small number of primary commodities, many characterized by long-term declines in price. Recent trends in export growth and commodity composition show that countries with a high dependence on primary commodity exports showed the lowest export growth, while countries that have been successful in diversifying their exports have had the highest export growth. Partner diversification also benefits developing countries.

Food Aid Needs Will Decline Slightly

We analyze the effects of global policy reform on the food aid needs of 67 low-income developing countries. These countries account for 40 percent of the global population. Almost all are food importers and have historically received food aid. The world price of food imports, the domestic supply response to higher world prices, and the availability of foreign exchange to pay for food imports jointly determine food aid requirements. On the import side, higher food import prices reduce the financial import capacity of these countries, but foreign exchange earnings from export growth increases it. On the production side, higher world prices are expected to outweigh the effects of low-income LDC's removal of their own tariffs, leading to a positive supply response. Food aid needs are projected by calculating the difference between per capita food supply (from domestic production and commercial imports) and projected per capita consumption (using either status quo or nutritional consumption targets).

The full global elimination of agricultural policy distortions is expected to reduce global food aid needs by 6 percent. In the absence of any global reforms, the food aid import needs of low-income developing countries (assuming status quo per capita consumption levels) are projected at 12.7 million tons of cereals by 2010 (table 17). If nutritional intake were to improve to recommended Food and Agriculture Organization (FAO) dietary levels, their food aid needs would be 21.9 million tons in 2010. Full global reform will reduce status quo and nutritional food aid needs to 12.0 and 20.5 million tons, respectively. Regionally, Sub-Saharan Africa will gain the most because of its low food import dependency and the high share of agriculture in total exports (fig. 4). The status quo food gap in Sub-Saharan Africa will decline 9 percent. There will be an increase in the food gap in North Africa.

Overall, several factors account for the relatively small impact of global policy reform on food security: In many low-income developing countries, food imports are a relatively small share of the food supply, agriculture's share in foreign exchange earnings is declining, and the food production response to change in world prices is low unless additional investments are made to improve agricultural productivity.

Developing Countries' Own Reforms Are Their Major Source of Gains from WTO

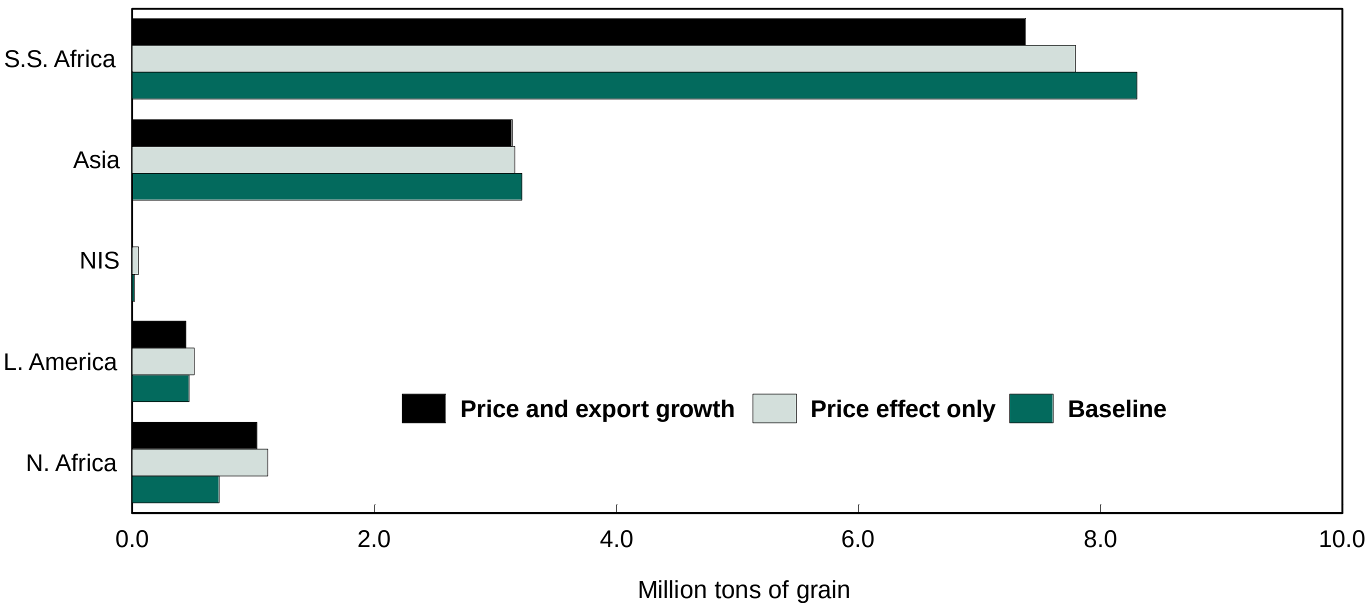
For LDC's, a key issue in the policy reform negotiations will be the flexibility the outcome will permit them in adjusting to more import competition. "Special and differential treatment" is a concept that provides for exemptions or special provisions in inter-

Table 17—Full agricultural trade liberalization: Effects on low-income developing countries' food aid needs in 2010

	Status quo nutritional intake	Adequate nutritional intake
Scenario	*Million tons of grain*	
Baseline	12.7	21.9
Global agricultural price increases	12.6	21.4
Developing country export growth plus price increases	12.0	20.5

Source: Shapouri and Trueblood (2001).

Figure 4
Effects of agricultural policy reform on food aid needs



Source: Shapouri and Trueblood (2001).

national trade rules in recognition of the different economic, financial, and technological characteristics and needs of developing countries. In the URAA, special and differential treatment allowed a longer implementation period for developing countries' reforms and fully exempted the least developed countries from disciplines. Developing countries' proposals in the new negotiations include measures to exempt themselves from domestic support disciplines, higher de minimus support levels, and the right to raise tariffs above Uruguay Round bindings if import competition becomes too disruptive.

Special and differential treatment can be used to facilitate the adjustment of developing countries to more open global markets, based on the recognition that adjustment can be costly, but particularly so for the most vulnerable segments of the world population. In the short run, the global community's role is to provide food aid targeted to the food insecure and technical assistance to facilitate the development of competitive agricultural sectors. In the longer run, improvements in the economic growth and welfare of developing countries will depend on whether these countries' consumers have access to low cost and secure supplies of food, produced at home or abroad under fair market conditions. The supply response of farmers in developing countries will depend on the effective transmission of market price signals. Although import growth may require a managed transition, it is only through a full participation in reform in the longterm that developing countries can fully achieve the potential dynamic gains from trade liberalization. The increased productivity and investment that have been shown to be linked with more open trade policies suggest the long-term benefits to developing countries from their own economic policy reforms can be significant.