

The great Doha trade divide

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OTTAWA — Trade talks in Geneva could collapse as soon as today in large part because rich countries are unable or unwilling to see fundamental differences that separate them from countries in the developing world. These differences are most apparent in two areas that have emerged as major stumbling blocks: farm trade and tariffs.

On the surface, the debate between rich and poor going on in Geneva at the offices of the World Trade Organization seem simple enough.

Rich countries, led by the United States and the European Union, are pressing poorer countries to reduce the taxes they levy on imports, especially those on manufactured goods such as cars. The argument is that freer trade not only benefits manufacturers in rich countries, but also consumers in the developing world, who would have access to cheaper goods.

Poorer countries, led by Brazil and India, say they won't even contemplate tariff reductions until wealthy countries significantly reduce barriers to freer farm trade, including the hefty subsidies paid to farmers. These subsidies make it difficult if not impossible for farmers in developing countries to compete.

Commentators watching the talks suggest the solution is both obvious and achievable: Get rich countries to lower farm subsidies enough to satisfy the governments of developing countries, who will then chop their import tariffs.

This solution, however, is based on the assumption that poor countries are essentially the same as rich countries, except that they have less money. They are not. They are much more reliant on both agriculture and on revenue from import tariffs. Any workable solution would have to be heavily slanted in favour of developing countries to account for these differences.

Agriculture means more to developing countries

The \$258-billion (U.S.) that rich countries spent propping up their farmers last year, according to the Organization for Economic Co-operation and Development, disguises the fact that agriculture is an increasingly minor part of their economies. It accounts for only 2.1 per cent of the economy in Canada, 2 per cent in the European Union, and a tiny 0.9 per cent in the United States. (All figures are taken from the most recent CIA World Factbook.) The picture is starkly different in the developing world. Although the emerging economies of Brazil, Russia, India and China have reduced their dependence on agriculture, it still forms a significant part of their economies. It accounts for 5.5 per cent of economic output in Brazil, 4.7 per cent in Russia, 11.3 per cent in China, and 17.6 per cent in India.

In Africa, even oil producers such as Nigeria, Angola and Sudan have much larger farm sectors than any rich country. Farm output in Nigeria accounts for 17.6 per cent of the economy, while in Sudan the relevant figure is 31.8 per cent.

What this means is that the benefits of freer farm trade would be felt most strongly in the developing world, where agriculture employs more people and where economies are more dependent on the farm sector, than in the developed world. This would seem to be a good reason for the governments of rich countries, which pay a great deal of lip service to helping the poor, to slash their expensive farm protection. But altruism is the rarest of commodities in trade negotiations.

Tariffs a key source of government income

Rich countries want a quid pro quo in the form of a large cut in the import tariffs imposed by the governments of developing countries. They argue that everyone would benefit from the result. But this calculus is based on the faulty assumption that tariff revenues have the same level of importance in the developing world as they do in the developed world. They do not.

Much like agriculture, tariff revenues are more important to governments in developing countries than they are to their richer counterparts. The reason is straightforward: it is easier to collect tariffs than it is to collect personal or corporate income taxes.

In countries where the tax system is weak or rudimentary, where corruption allows the elite to shield their wealth from the taxman, and where many workers are in the so-called informal economy, tariffs are the most reliable source of government revenue. Taxes on trade, which is what tariffs are, account for between 10 per cent and 20 per cent of government revenue in developing countries. In contrast, they account for less than half of one per cent in the developed world.

When rich countries cut their tariffs, they can at least hope to recoup the money through higher income tax collections (assuming that freer trade does indeed lead to higher economic growth and thus higher income). No such trade-off is open to governments of developing countries where income tax collection is a work in progress.

For poorer countries, tariff reductions often represent an absolute loss of revenue. This is why they are resisting the tariff cuts demanded by rich countries. Indeed, an analysis by the International Development Research Centre here in Ottawa said that reducing tariff income without reforming public finance systems in poorer countries would be "an invitation to fiscal calamity."

The solution is a deal that favours poorer countries

The solution to the impasse in Geneva is not to give each side a little of what it wants, but to work out a deal that favours poorer countries and takes into account their differences. That is, after all, what they were promised after the last round of trade talks favoured richer countries. It is not, however, the most likely outcome.

Negotiators answer to politicians who answer to their most powerful constituencies. There has been little sign from the farm sector, which remains a strong force in the developed world, that its members are willing to give up any government support. Barring a sudden change of heart, developing countries will gain little or nothing in Geneva.

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