



Trade Facts

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OECD Study Highlights Importance of Agricultural Market Access to Doha Success and Economic Development

A June 2006 study by the Organization for Economic Co-operation and Development (OECD) examined the implications of broad agricultural trade policy reform and confirmed what economists - including those at the World Bank - have been saying all along. The most important thing developed countries can do to benefit developing countries is to make deep cuts in agricultural tariffs. According to the study, gains to developing countries from agricultural reform come “almost entirely” from tariff cuts rather than domestic support reforms.*

OECD

- A recent study by the OECD confirms the importance of reducing market access barriers in agriculture for the achievement of economic benefits for developed and developing countries alike.
 - **Of the total welfare gain generated from freer trade in all types of goods**, agricultural liberalization accounted for 59% of all gains on a global basis, generating 69% of gains to OECD countries and 28% of gains to non-OECD countries. (The OECD study looked at 50% cuts in tariffs, agricultural export subsidies, and OECD-member-country domestic agricultural supports. The comparable World Bank study, considering 100% cuts and utilizing alternate country groups, found that 63% of the gain for developing countries came from agriculture).
 - **Market Access:** Gains to developing countries from agricultural trade reform come almost entirely from tariff cuts, versus cuts in domestic support. Increased market access (*i.e.*, tariff cuts) accounts for the largest share - nearly 79% - of the global welfare gains from agricultural trade liberalization in the OECD study. The study does not provide a specific percentage for the share of non-OECD country agriculture gains coming from market access, but states that virtually all those gains arise from market access liberalization: “**A decomposition of this aggregated result by policy category (not shown) reveals that, with very few exceptions, the gains for individual non-OECD countries from OECD agricultural-only reforms derive almost entirely from reductions in OECD agricultural tariffs.**” (Pages 45-46, bolding added)
 - The OECD study also notes that the global welfare gain from goods trade liberalization splits 76% for OECD countries, 24% for non-OECD countries. However, relative to the size of their economies, non-OECD countries gain twice as much as OECD countries (0.2% of GDP versus 0.1% of GDP).

World Bank

- The OECD results are consistent with findings of the World Bank on the importance of addressing agricultural market access barriers, despite differences in the studies.

- **Of the total welfare gain generated from goods trade liberalization**, agricultural liberalization accounted for 63% globally, 63% for developed countries and 63% for developing countries.
- **Market Access:** Market access accounted for the largest share of the welfare gains from agricultural trade liberalization in the World Bank study: 93% globally. **For developing countries, nearly all of the benefit from agricultural liberalization came from market access.**
- Also of note, in the World Bank study the global welfare gain from goods trade liberalization splits 51% for developed countries and 49% for developing countries (as defined by the WTO) in the static model. In the dynamic model, however, the split is 44% for developed countries and 56% for developing countries.

Trade Versus Aid

- More broadly speaking, **trade and trade liberalization are likely to be more powerful tools than debt relief and foreign aid, making a sustained contribution to the economic development of poor countries.** According to the World Bank, the annual income gain to developing countries from the elimination of goods trade barriers alone (without consideration to services trade liberalization) is \$142 billion, conservatively measured (static, not dynamic, measurement). This amount exceeds the \$80 billion in foreign economic assistance by the G-7 countries in 2005 and the current proposal of \$42.5 billion for developing country debt relief, combined.

**The OECD study, Agriculture Policy and Trade Reform: Potential Effects at Global, National, and Household Levels (June 2006) was prepared by the OECD Joint Working Party on Agriculture and Trade. The full text of the study is available at:*

http://www.oecdwash.org/DOWNLOAD/agr_policy_tradereform_preliminary.pdf