Trade safeguards would hurt, not help, developing countries

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Allowing developing countries to increase import tariffs based on price and supply triggers under proposed World Trade Organization rules would actually harm those countries, according to a Purdue University economic analysis.

A major factor in the breakdown of the Doha Development Agenda, which aimed to set new rules for agricultural trade under the WTO, was disagreement over whether a special safeguard mechanism should be included to allow developing countries to increase tariffs if imports surged or world prices dropped past certain trigger points. Developing countries lobbied for those safeguards, believing the measures would protect producers from cheap commodities flooding their markets.

But Thomas Hertel, a Purdue distinguished professor of agricultural economics and executive director of the Global Trade Analysis Project, said those safeguards actually would increase price volatility with developing countries faring the worst.

"Rather than stabilizing domestic producers' incomes, it could destabilize them. It would also raise food prices faced by the poor," said Hertel, who ran an economic analysis on the effects of the proposed safeguards. "The analysis shows this is a really bad idea."

Hertel and his co-authors, Will Martin of the World Bank, and Amanda Leister, a USDA National Needs doctoral fellow in international trade in Purdue's agricultural economics department, used world import and export data in Purdue's GTAP model to evaluate the impacts the safeguards would have on developing countries using wheat as a model. The results were published in the current issue of the journal *World Bank Economic Review*.

If developing countries implement higher tariffs when domestic supplies fall and there is an import surge, prices in those countries would rise. That would raise food prices for the poor and, if many countries do so, it would destabilize prices globally.

Hertel said that developing country exporters are particularly vulnerable to the special safeguard price trigger. This is because their products are already priced below the world average, so a modest decline in world prices tends to trigger safeguards against their products.

"In general, this just isn't achieving the things the developing countries are trying to achieve," Hertel said.

Hertel said future work would evaluate long-term implications of the safeguard proposal on developing countries. The World Bank funded his research.

Provided by Purdue University