

II SUBSIDIES, TRADE AND THE WTO

A INTRODUCTION

Subsidies are one of many policy instruments subject to rules in the multilateral trading system, but they present more complex issues for policy-makers than many other instruments subject to GATT/WTO rules. One reason for this is that subsidies can be defined in different ways. Another is that they are used in pursuit of a wide array of objectives. Even where they are not aimed at trade, they can affect trade flows. The kinds of subsidies of primary concern to this Report are those that impart an advantage to some domestic producers and thereby affect trade. The challenging task of determining which sorts of subsidies are problematic from the perspective of the trading system, and what might be done about them, has occupied an important place on the agenda of the WTO/GATT system.

This Report aims to provide an overview of the use of subsidies in different regions of the world and according to different economic activities. In order to analyse existing data on subsidies it is necessary to understand the different definitions used for subsidies and their economic effects. This is why the Report starts with a discussion of the definition of subsidies and an examination of the most important economic concepts related to subsidies. The analysis also considers the main reasons why governments appear to use subsidies and what the trade and economic implications may be of such policies. The Report will examine the WTO rules on subsidies, their evolution over time, their content from an economic perspective, and how WTO disputes have helped to shape national policies in this area.

Data on the use of subsidies are scarce in general and difficult to compare across countries and sectors because of methodological differences and data gaps. Nevertheless, the limited evidence available indicates that subsidies may have a significant impact on trade flows. According to some estimates global subsidies may amount to more than a trillion dollars per year, or 4 per cent of world GDP. Other estimates indicate that subsidies represent on average around 6 per cent of expenditure by governments and 1 per cent of their GDP. These values vary significantly across countries and sectors. The economic inefficiencies created by subsidies are potentially significant. Both developed and developing countries could benefit from reducing those subsidies that are not necessary to correct for market failures or to pursue valid policy objectives.