

IMPLICATIONS OF MULTILATERAL TRADE LIBERALIZATION OF AGRICULTURE FOR ASIA AND THE PACIFIC

By
Marc Proksch
Trade and Investment Division

Outline of presentation

- **Part 1**: An overview of agriculture in Asia and the Pacific
- **Part 2**: Implications of agricultural trade liberalization
- **Part 3**: Policy responses

Part 1

Agriculture in Asia and the Pacific: an overview

Importance of trade in agriculture

- ❑ Agricultural trade accounts for a declining share of total world merchandize trade at 8.4% in 2005 compared to 25% in the 1960s.
- ❑ Of agricultural trade, food products account 80 per cent and raw materials 20 per cent
- ❑ Globally agricultural exports have grown by annual average 3.5% during 1995-2000, 9 % during 2000-2005, 15% in 2004 and 8% in 2005
- ❑ Developing countries share of world agricultural exports has increased to about 44%. Most of their recent gains has come from expansion of exports to other developing countries
- ❑ More than 48% of world agricultural trade is accounted for by trade among industrial countries (the same as in 1980)
- ❑ While relatively small, agricultural trade in absolute terms has grown and remains an essential part of total trade for LDCs
- ❑ Asia is unique in two respects: (1) predominance of rice (97% of world rice is grown in Asia and 92% of world rice consumption is in Asia); (2) agriculture is carried out in small holdings

Importance of trade in agriculture, cont.

- ❑ In Asia, agricultural products accounted for 5.6% of total merchandise exports and 7.5% of total merchandise imports in 2005
- ❑ Exports to OECD countries have declined but trade among developing countries has increased
- ❑ Seafood, fruit and vegetables are emerging as leading growth sectors
- ❑ Contribution of agriculture to GDP (2005):
 - Less than 10%: Malaysia, Thailand, Rep. of Korea
 - 10-20%: China, Fiji, Indonesia, Philippines, Sri Lanka
 - 21-29%: India, Bangladesh, Pakistan, Viet Nam
 - 30-60%: Afghanistan, Cambodia, Myanmar, Nepal, Lao PDR

Importance of agriculture in merchandize exports (%)

Country	1990	2005
Bangladesh	19.7	9.2
China	16.2	3.8
India	19.5	10.1
Indonesia	16.2	16.7
Malaysia	25.4	9.5
Pakistan	19.2	13.5
Philippines	20.7	6.6
Sri Lanka	39.7	23.6
Thailand	33.8	16.2
Viet Nam	-	17.9

Problems in Agriculture

- ❑ Low level of commercialization and high transaction costs
- ❑ Low productivity and inefficient unsustainable production methods leading to soil erosion, desertification, waterlogging and salinity
- ❑ Low soil quality
- ❑ Inefficient irrigation and water supply
- ❑ Cultivation of unsuitable crops
- ❑ Unclear and concentrated land ownership (public land concessions) and insecurity of tenure
- ❑ Small and inefficient farms

Problems in agriculture, cont.

- Lack of finance, high interest rates, high debts
- Smuggling
- Weak market orientation
- Lack of infrastructure
- High incidence of land mines in some countries/lack of overall security and rule of law
- Weather and natural calamities (incidence of droughts and floods; severe winters; dust storms; forest fires; animal diseases)
- Falling commodity prices
- High levels of protection in export markets, including SPS standards

Why trade distortions in Agriculture?

- ❑ Political reasons/reconstruction of post-WW2
Europe/cold war
- ❑ Food security
- ❑ Protection of farmers from weather effects and world commodity price swings
- ❑ To preserve a way of rural life
- ❑ Strong farmers lobby
- ❑ Environmental protection

Modalities for protection

- ❑ Tariffs, accounting for about 52% of agricultural price distortions but 80-90% of total costs of distortions; high incidence of specific duties; problems of tariff peaks and tariff escalation.
- ❑ Domestic (market price) support, accounting for about 31% of agricultural price distortions
- ❑ Export subsidies, accounting for about 13% of agricultural price distortions
- ❑ Food safety standards, addressed by Agreement on SPS
- ❑ Other NTMs: CAP levies, licensing, anti-dumping, etc.

Some figures

- ❑ Average global bound agricultural tariff is 63% (US: 12%, EU: 23-30%; Japan: 50%; India: 114%); global average applied tariff: 19% *
- ❑ On average, domestic support to agricultural producers in OECD countries was \$273 billion per year during 2003-2005
- ❑ EU accounts for almost 90% of all export subsidies (US: 1.5%) but US accounts for almost 90% of all export credits (EU: 7%)
- ❑ An acre of cotton in the US attracts a subsidy of \$230 compared to US\$50 for an acre of cereals. The US cotton subsidies are more than 3 times the amount of USAID budget for Africa and annual outlays (about \$3.9 billion) are greater than the entire GDP of Burkina Faso, a major cotton producer in Africa

* note: average bound industrial tariffs are under 4% in Quad countries, 14% in other OECD countries and 39% in developing countries

Some facts: EU vs. US

- ❑ **US and EU bound rates equal applied rates**
- ❑ **US average rate for agriculture and processed food is among the lowest in the world, 2.5% in 2005 (vs. 14% for EU)**
- ❑ **EU 2003/2004 CAP reforms has shifted 90% of direct support from amber/blue box to green box**
- ❑ **Average EU farmer gets less than half the average US farmer gets in trade-distorting support**
- ❑ **EU is the largest importer of agricultural goods**
- ❑ **The US is the world's largest agricultural exporter. Compared to the general economy, U.S. agriculture is twice as reliant on overseas markets.**
- ❑ **US domestic support has increased in recent years**
- ❑ **US is the largest user of export credits and food aid in the world**
- ❑ **Share of export income derived from agriculture in the US and EU is less than 4%**

Also keep in mind...

- ❑ Trade protectionism is also very high in developing countries (sometimes higher than in developed countries)
- ❑ But: developed countries are responsible for around 80% of global agricultural price distortions (with EU contributing 38% and US around 16%; USDA)
- ❑ World Bank research: For most developing countries, preferences under GSP schemes have provided limited gains at best (most exports are tropical products which are already subject to zero duty)

What protectionism typically does:

- It raises domestic prices of agricultural products (in particular food)

- For large trading countries, it depresses world prices for agricultural products

Why liberalization of agriculture?

To stimulate investment, production and trade in agriculture by:

- making agricultural market access conditions more transparent, predictable and competitive;
- establishing or strengthening the link between national and international agricultural markets, and thus
- relying on the market for allocating scarce resources to most productive uses.

Agreement on Agriculture

- ❑ Due to limited liberalization under AoA and limited product coverage, prior liberalization under RTAs and WB/IMF programmes, impacts have been limited
- ❑ However, AoA has brought discipline to agricultural trade and enhanced transparency and predictability
- ❑ Multilateral trade liberalization in agriculture is a work in progress. DDA is addressing current issues in the ongoing reform programme

Part 2

IMPLICATIONS OF AGRICULTURAL TRADE LIBERALIZATION FOR DEVELOPING COUNTRIES

Implications: extent and nature

- ❑ **Short term**: potential net negative implications (may be small); adjustment costs, economic restructuring
- ❑ **Long-term**: potential net positive implications (may be large): trade liberalization would lead to more efficient allocation of scarce resources; production patterns more aligned towards comparative advantages

Welfare gains of agricultural liberalization

- ❑ Static gains (relatively low for developing countries, mostly for producers) vs. dynamic gains: (incl. investment and productivity: much higher for developing countries)
- ❑ Gains can only be realized through sustained investment in agriculture/land reform and other supply-side capacity building
- ❑ What about the distribution of gains?

Research has indicated that in case of full elimination of agricultural support policies by developed countries:

- ❑ The value of agricultural exports by all developing countries would increase by about 24 per cent (US Dep. of Agriculture 2001)
- ❑ Rising world food prices would lead to only a 2 per cent decline in LDC agricultural imports (DOA 2001)
- ❑ Net gain to developing countries would be an annual \$30 billion (World Bank 2002)
- ❑ Eliminating US cotton subsidies would lead to a rise in world prices of at least 25% (IMF/World Bank/Oxfam, 2002)

Total elimination of AG policy distortions in Developing Countries will lead to:

- ❑ Net gain of \$114 billion (World Bank 2002)
- ❑ Increase in exports of AG products from Developing Countries by 5 per cent (with higher value added)
- ❑ Increase in imports of agriculture to Developing Countries by maximum 25 per cent (good for consumers, potentially bad for domestic producers).

World Bank 2005

A 2005 World Bank study to measure the effects of a partial trade liberalization (using cuts to tariff and subsidy bounds similar to those contained in the G-20 proposal, but with no special treatment for “sensitive” or “special” products) found that such reform would produce annual welfare benefits to the world (in 2001 dollars) of \$74.5 billion once fully implemented. This compares with a potential annual benefit of \$182 billion under full trade liberalization and suggests both the potential economic importance of a successful Doha Round as well as the extent of remaining policy reform needed to achieve full liberalization.

World Bank 2005, cont.

However, the World Bank study also found that if developed countries are allowed to select 2% of their tariff lines (4% for developing countries) as sensitive products and provide them with special TRQ protection that includes very high above-quota tariffs, then annual economic benefits from trade liberalization would fall to \$17.7 billion. In other words, nearly 80% of the potential economic gains would be eliminated. The same study also found that a substantial portion of the potential economic benefits could be preserved, even with a 2% sensitive product threshold, if above-quota tariffs are capped at 200%. Under this scenario the annual economic benefits from trade liberalization are estimated at \$44.3 billion.

An observation

There is evidence that since the AoA there has indeed been a surge in imports in some countries but no increase in exports resulting in marginalization of small farmers and rural unemployment in some countries, e.g. meat and dairy in Pacific, edible oil seeds in India, onions and potatoes in Sri Lanka, rice in Malaysia, Philippines, traditional crops in Fiji, etc. (FAO)

But: is this a result of AoA or something else???

Another observation

Agricultural protectionism may benefit the agricultural sector in the protecting countries but harm the economy overall

Different implications for different countries

- ❑ Developed countries: distortions highest, higher implications
- ❑ Net agricultural exporters (Cairns group): major beneficiaries
- ❑ Small agricultural exporters, limited impacts though exports may grow
- ❑ Land-locked, pacific island economies (transportation concerns)
- ❑ Net-food importing countries: higher world food prices may stimulate domestic food production and economic restructuring but will raise food bill in the short run
- ❑ New WTO members (e.g. China, Cambodia, Nepal): more commitments, larger impacts
- ❑ For countries in accession: implications depend to a large extent on commitments during accession

Positive implications depend on:

- Natural and weather conditions
- International developments (e.g. global recessions, political conflict, etc.)
- Level of self-sufficiency in food production and level of exports
- National policies and developments: supply side capacities
- Producers vs. consumers
- Continued liberalization (particularly in developed countries)
- Domestic stability: peace and security!
- For LDCs: sustained ODA and efficient utilization of ODA

Who pays for the distortions?

❑ Consumers through tariffs

❑ Tax payers who pay for subsidies

- The costs to domestic consumers and tax payers alone are usually greater in dollar terms than the benefits to domestic producers
- Reduction in subsidies would lead to much higher benefits to consumers/tax payers than to costs to farmers (subsidies are an inefficient mode of support)

Two effects: conflicting or complementary?

- ❑ Liberalized domestic market - imports drive domestic price down, good for consumers, bad for producers (however, in many countries prices already very low; imports not attractive)

- ❑ Lower subsidies - higher world prices - rising competitiveness of domestic products, good for producers, bad for consumers (but better variety and quality of products; tariff reductions offset)

Other Considerations in Consumer Benefits:

- ❑ Maintenance of purchasing power
- ❑ TNCs tend to dominate food and agricultural input production and export markets
- ❑ Concentration of land-ownership for more efficient export production may leave some farmers landless and poor
- ❑ Principles of fair competition
- ❑ Not only price, but quality and safety of food, resource sustainability, environmental protection, cultural preferences are concerns
- ❑ Replacement of some commodities for other export commodities may lead to price increases of those commodities
- ❑ Increased role of middlemen (traders) replacing government may lead to price increases

Special and differential treatment

- ❑ Exempts developing countries from making deeper commitments than developed countries
- ❑ However, commitments lead to development not exemptions
- ❑ Studies have indicated that SDT is more costly to developing countries than to developed countries
- ❑ World Bank 2006: eliminating SDT from prototype scenario increases estimated benefits to high-income countries by 21%, to middle-income countries by 37% and to low-income countries by 64%

What about government revenue foregone?

- ❑ Reductions from bound levels leave applied levels untouched
- ❑ Lower tariffs mean higher volume of imports: hence, government revenue may not be significantly affected
- ❑ Liberalization leads to higher incomes, and hence higher income tax revenue
- ❑ Government revenue dependence on tariffs is not a sign of sound public financing: there is a need to broaden tax revenue and strengthen tax collection mechanisms (i.e. introduction of indirect taxes)

What about food security?

- ❑ Food aid: real aid or disguised form of dumping?
- ❑ Food aid: WTO or FAO issue?
- ❑ For food security: open markets guarantee food supplies, increase productivity and diversify the economy
- ❑ Green box measures exceptions
- ❑ Reduction of distorting food aid leads to higher prices and, hence higher domestic production
- ❑ For countries with high import/export ratios, food bill will increase and food aid may decrease (as surpluses fall)
- ❑ Subsistence farmers will gain little if anything: concern about distribution of gains
- ❑ Food security depends on many other factors; it is not simply a trade issue

Rising food prices main concern

- ❑ **FAO: the global value of imported foodstuffs in 2007 is expected to reach US\$745bn or 21% more than the previous year and the highest level on record**
- ❑ **Soaring agricultural commodity prices because of high demand (China!)**
- ❑ **Falling food aid**
- ❑ **No direct link between import structure and food security**

Some conclusions

- ❑ Implications of agricultural trade liberalization differ among countries: no single scenario and hence no common positions
- ❑ However, common view that MTS is the priority modality towards trade and economic growth
- ❑ Therefore, all countries need to submit proposals for further liberalization if DDA is to be successful, including LDCs
- ❑ S&D only for breathing space. While important, it should not be end in itself as it undermines the reasons for trade liberalization
- ❑ WTO accession commitments and negotiations: need to adopt long-term perspectives (long-term gains for short-term pains)

Some conclusions, cont.

- ❑ Progress in other DDA areas seems to be dependent on progress with agriculture; however, other sectors like NAMA, services etc. are also, and maybe even more important: Agriculture is part of **single undertaking**
- ❑ **Time is limited, urgency is required**
- ❑ Asian and Pacific countries, including LDCs have a strong influence on the outcome of Doha (14 of the world's LDCs are in Asia-Pacific); there is some rationale for them to work towards formulating common positions and proposals across all areas in the negotiations
- ❑ **Supply-side capacity building to raise productivity and competitiveness of agriculture and other sectors essential**
- ❑ UNESCAP helps through high-level policy dialogues and training

Part 3

Policy responses

Proper Response: National and Regional Policies

- ❑ Anticipate implications and act on them
- ❑ Improve security in country side
- ❑ Improve rural infrastructure
- ❑ Raise productivity, quality and international competitiveness through R & D and technology upgrading
- ❑ Add value to raw agricultural materials (problem of tariff escalation to be addressed in DDA)
- ❑ Develop national competitive economic sectors (other than agriculture)
- ❑ Improve financing for the farm sector
- ❑ Promote domestic and foreign investment in rural areas
- ❑ Reform land ownership
- ❑ Link agriculture to other economic sectors (i.e. rural industrialization)
- ❑ Provide enabling environment for private farming and private rural enterprises

Proper Response, cont.

- ❑ **Improve marketing, financial, and physical (i.e. transportation, storage) infrastructure in rural areas**
- ❑ **Improve efficiencies in agricultural production and utilization of by-products (i.e. animal waste can be used for energy generation)**
- ❑ **Promote regional cooperation, RTAs, FTAs, common markets, etc. which are in conformity with WTO commitments**
- ❑ **Improve negotiation position in DDA, form alliances, improve skills, etc.; push for transparency in TBT, SPS, safeguards and strive for elimination of subsidies**
- ❑ **Provide temporary safety nets for dislocated farmers**
- ❑ **Study best practices in other countries, i.e. China's rural development (TVE) schemes; Bangladesh rural credit schemes, etc.**

General Conclusion

- ❑ Liberalization of trade in agriculture will create challenges and opportunities. Good governance and adoption of appropriate policies, including regional cooperation and national dialogues, will minimize costs and maximize benefits.
- ❑ **Therefore: All countries will benefit from trade liberalization of agriculture as long as it is done in a fair and transparent manner with developed countries as the main “distorters” bearing the main responsibility**
- ❑ Nevertheless, developing countries also have a responsibility to reduce trade barriers among themselves and to realize that economic gains result from liberalization, not protection and S & D



THANK YOU !
...QUESTIONS ?