



# **IMPLICATIONS OF LIBERALIZATION OF TRADE IN AGRICULTURE FOR ASIA AND THE PACIFIC**

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# 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 merchandise trade at 8.3% in 2007 compared to 25% in the 1960s.
- ❑ Of agricultural trade, food products account 80 per cent and raw materials 20 per cent; processed products more than 50%
- ❑ Globally agricultural exports have grown by annual average 3.5% during 1995-2000, 11 % during 2000-2007, 19% in 2007
- ❑ 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
- ❑ Almost 50% 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 7.4% of total merchandise imports in 2007
- ❑ 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 (2007):
  - Less than 10%: Japan (1.5%), Rep. of Korea (3.5%)
  - 10-20%: Bangladesh, China, Fiji, India, Indonesia, Malaysia, Philippines, Sri Lanka, Thailand
  - 21-29%: Bhutan, Pakistan, Viet Nam
  - 30-60%: Afghanistan, Cambodia, Myanmar, Nepal, Lao PDR

## Importance of agriculture in merchandize exports (%)

<b>Country</b>	<b>1990</b>	<b>2007</b>
<b>Bangladesh</b>	<b>19.7</b>	<b>5.7</b>
<b>China</b>	<b>16.2</b>	<b>3.2</b>
<b>India</b>	<b>19.5</b>	<b>11.0</b>
<b>Indonesia</b>	<b>16.2</b>	<b>19.9</b>
<b>Malaysia</b>	<b>25.4</b>	<b>11.6</b>
<b>Pakistan</b>	<b>19.2</b>	<b>13.0</b>
<b>Philippines</b>	<b>20.7</b>	<b>6.3</b>
<b>Sri Lanka</b>	<b>39.7</b>	<b>26.5</b>
<b>Thailand</b>	<b>33.8</b>	<b>16.3</b>
<b>Viet Nam</b>	<b>-</b>	<b>24.2</b>

# 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/prevent depopulation of  
rural areas
- Strong farmers lobby
- Environmental protection

## Modalities for protection

- ❑ **Tariffs, accounting for about 53% of agricultural price distortions but 90% of the costs of protection; high incidence of specific duties; problems of tariff peaks and tariff escalation.**
- ❑ **Domestic (market price) support, accounting for about 32% 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

- ❑ Simple average final bound agricultural tariff is 15% for EU; 5% for US; 22.7% for Japan' 114% for India)\*
- ❑ Support to agricultural producers in OECD countries averaged US\$368 billion per annum between 2005 and 2007 (Cairns group figures; OECD: \$268b in 2006)
- ❑ As a share of gross farm receipts, the estimated level of support in the OECD area declined from an average 38% of receipts in 1986-88 to 29% in 2004-06
- ❑ EU accounts for almost 90% of all export subsidies (US: 1.5%) but US accounts for almost 90% of all export credits (EU: 7%)
- ❑ The compliance cost with SPS-related obligations for some least developed countries can exceed total governmental development budgets
- ❑ More than two-thirds of SPS notifications are from OECD countries and more than half relate to food safety

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

## 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
- ❑ Multilateral agricultural trade liberalization is more effective than liberalization under RTAs and BTAs

## 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?

- Not all countries gain
- Within a country, not all sectors gain
- Within a country, not all households gain

## World Bank: Welfare benefits of agricultural trade liberalization (World Bank)

- ❑ By 2015 current subsidies and tariffs could have global welfare costs of \$100 billion to \$300 billion per year, with two-thirds of that associated with agricultural tariffs and subsidies
- ❑ Removal of all tariffs, domestic supports and export subsidies is estimated to increase real global prices for agricultural products on average by 5.5 percent and processed food by 1.3 percent. Developing countries' share of total world agricultural exports would increase from 54 percent to 65 percent
- ❑ Agricultural output growth in Asia-Pacific either zero or negative under full liberalization scenarios. In terms of income growth, Thailand and Viet Nam are biggest gainers
- ❑ Total elimination of AG policy distortions in Developing Countries will lead to a net gain of \$114 billion (2002)
- ❑ Tariff policy changes account for 90 percent of the potential economic benefit of agricultural policy reforms; bound tariff reductions must be larger than 50% to make a difference

## ESCAP welfare estimates of recent Doha proposals are more modest

- ❑ **ESCAP: estimates of the aggregate global welfare gains under current Doha proposals show modest annual gains of \$4.6 billion globally in the short turn, increasing to \$5.2 billion in the long run**
- ❑ **Two-thirds of the total gains would accrue to Asia, with Japan gaining the most. Developing countries in Asia would gain a modest \$365 million (8% of the total) in the short run, rising to \$640 million (12%) in the long run**
- ❑ **The Republic of Korea, Thailand and India appear to gain the most from agricultural trade liberalization under Doha, due mainly to gains in the terms of trade.**
- ❑ **Under more comprehensive agricultural trade reform, developing Asia-Pacific could gain \$3.3-3.5 billion in welfare gains**

## An observation

Since 1995, there has 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???**

## Other observations

- ❑ **Agricultural protectionism may benefit the agricultural sector in the protecting countries but harm the economy overall**
- ❑ **Agricultural trade liberalization contributes about 30%-50% of total gains from a broad multilateral reform (OECD)**
- ❑ **All studies indicate that a large share of the benefits would come from liberalization of markets of developing countries**

## 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

- ❑ Total food import bills rose by an estimated 25% for developing countries in 2007. Between the start of 2006 and 2008, the average world price for rice rose by 217%, wheat by 136%, maize by 125% and soybeans by 107%.
- ❑ Soaring agricultural commodity prices because of high demand (China!) but in future also climate change among other factors
- ❑ Falling food aid (depends on available budgets)
- ❑ 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. In the short run there will winners and losers**
- ❑ **Good governance and adoption of appropriate policies with focus on supply side capacity building in rural areas will minimize costs and maximize benefits.**
- ❑ **Within the right policy environment and political will, in the long run all countries stand to 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**
- ❑ **Legitimate national interests such as food security can be pursued with measures which are less or not trade distorting**



**THANK YOU !**  
**...QUESTIONS ?**