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Agricultural Trade, WTO and Developing Countries

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BACKGROUND

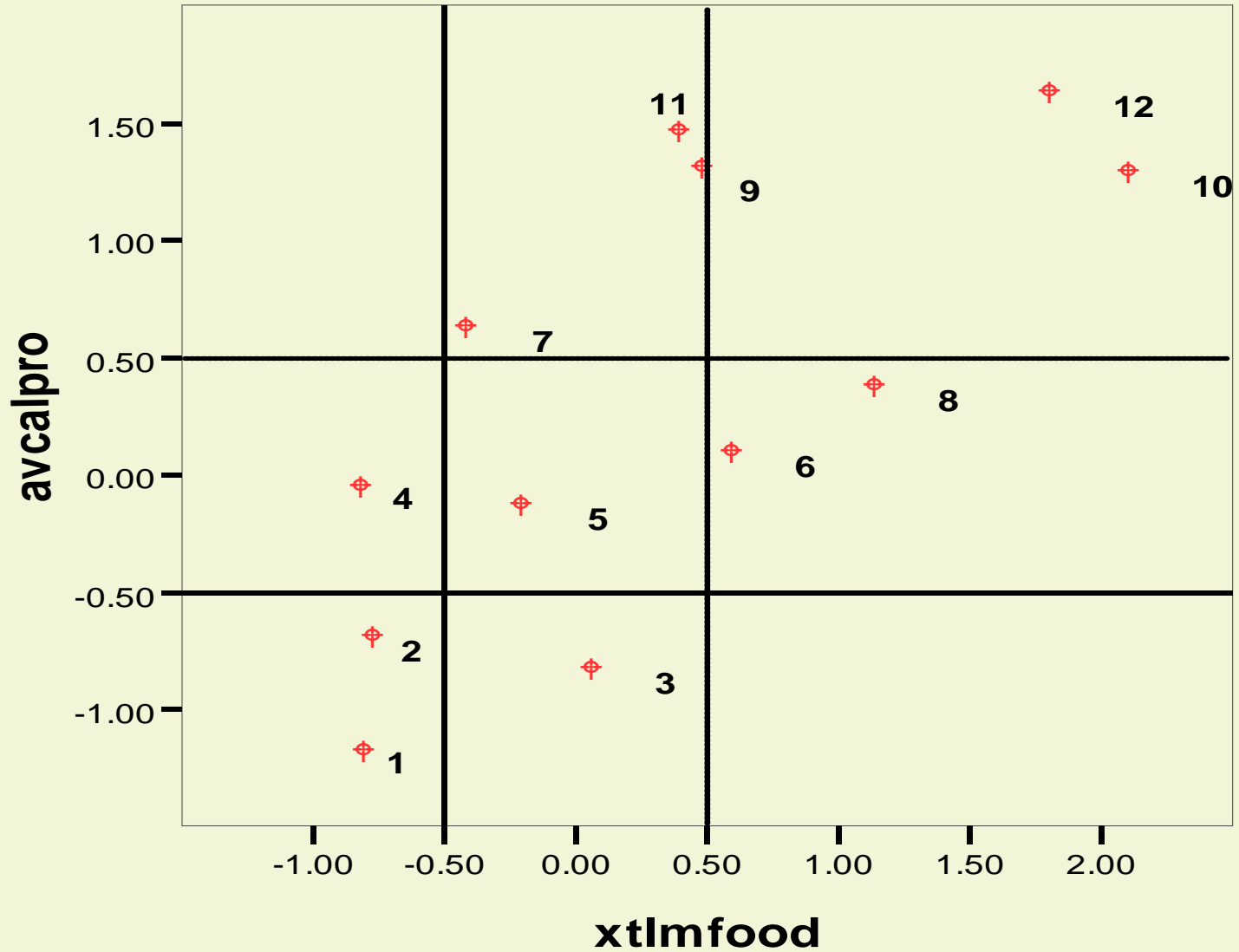
- **A dynamic agricultural sector crucial for economic growth, poverty alleviation, and food security.**
 - **Policies in developing countries:**
 - **Price bias against agriculture? Mix of taxation and protection, with differences across products and regions**
 - **Investment, public services, legal, and security biases**
 - **Policies in developed countries**
 - **Agriculture and trade policies**
 - **Macroeconomic policies and other**
 - **Implications for developing countries in WTO negotiations: offense and defense**
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Table 1. Structural Characteristics	All Developing Countries	Least developed countries
Agriculture, value added (% of GDP)	13.2	36.7
Rural population (% of total population)	60.6	76.4
Agricultural exports (% merchandise trade)	15.3	35.3

About $\frac{3}{4}$ of the 1.5 billion people living on less than 1 dollar/day live and work in rural areas in developing countries

Heterogeneity

- **Food Security: 12 clusters**
 - (Diaz-Bonilla, Thomas, Robinson and Cattaneo, 2000)
 - **Net Trade Position**
 - **NFIM 105, NFEX 43; NAIM 85, NAEX 63**
 - (Valdes and McCalla, 1999)
 - **Direction of trade**
 - Africa to EU
 - LAC, USA, and EU
 - Asia to Asia
 - **Structure and Evolution of Production**
 - **Fruits and Vegetables, Oilseeds shares up**
 - **Coffee, cocoa, sugar, fibers shares down**
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Protectionism in Industrial Countries

- **Displacement of agricultural production in developing countries.**
- **Elimination of subsidies and protection leads to about 40 billion of additional net trade per year and about 24 billion of agricultural and agroindustrial incomes in developing countries.**
- **Model specification:**
 - **Unemployment. Small technological effect**
 - **K and Land fixed at national level**
 - **Fruits and Vegetables not disaggregated**
 - **EU intra-trade is excluded**

Tell me where it hurts, an' I'll tell who to call

Developing Country Net Agricultural Trade (Exports Minus Imports, Billion Dollars)					
Developing Country Regions	Agricultural Trade Liberalization of				
	Base Net Trade	US	EU	Japan, Korea	All Industrialize d Countries
Sub-Saharan Africa	\$7.4	\$8.1	\$9.6	\$7.6	\$10.7
Asia	\$12.3	\$15.6	\$15.6	\$15.7	\$22.8
Latin America and Caribbean	\$31.7	\$37.1	\$39.3	\$32.5	\$46.4
Other Developing Countries	\$31.0	\$29.4	\$21.9	\$30.1	\$19.1
All Developing Countries	\$20.4	\$31.4	\$42.6	\$25.7	\$60.8

Still Hurting...

- **Large losses for China, Brazil, Argentina, Thailand, India (between 1.1 to 2.3 billion of value added in agriculture and agroindustrial goods)**
- **More important in percentage terms for smaller countries in SSA and Central America and the Caribbean (10-15% of agricultural value added)**

WTO Implications

- **Multifunctionality**
 - **Whose one is being supported and whose one is being hurt?**
- **Asymmetry**
 - **SDT for rich countries in agriculture and textiles, while instruments for industrial development are disciplined.**
- **Solution is not “I protect and subsidize so you can do the same” for agriculture. Neither reintroduction of distorting instruments in industry. But elimination of SDT for rich countries in agriculture and textiles.**

Problems in Eliminating Protectionism in Rich Countries

- **Existing preferential arrangements have differentiated impacts on developing countries.**
 - Increase the percentage of the quota rent that goes to developing countries.
 - Transform value of trade preferences to aid in cash.
 - **Net food importers**
 - Financial facilities
 - Food aid in cash, counter-cyclical, targeted
 - **Effect on vulnerable populations?**
 - Safety nets
 - Other distortions (e.g. legal rights of women)
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Thinking Inside the Boxes

- **Some developing countries and NGOs want a Development Box: additional instruments of protection to shield poor, uncompetitive farmers, and/or because developed countries maintain subsidies.**
 - **World trade model to evaluate impact of higher protection versus some Green Box measures.**
 - **Scenario 1. Increase protection by 50% on cereals in countries/regions supporting DB. Calculate total tax on consumption.**
 - **Scenario 2. Impose an explicit tax for the same amount (balanced budget). Utilize the funds to expand investments in agricultural technology.**
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Results

- **Decline in GDP and employment (but small as percentage) as result of protection.**
- **Decline in consumption/utilization of goods protected (because of price increases and reduction in imports). Food security affected.**
- **Agricultural trade among developing countries, including those applying the higher levels of protection, declines by about 300 million dollars, and overall agricultural trade by some 880 million dollars.**
- **Investment leads to welfare, production, employment, and food consumption gains**

Better Think Twice....

- **Protection costs money. Regressive private tax on food. Better to invest in real sources of productivity.**
 - **There is still a need for instruments to protect from import surges and unfair trade practices.**
 - **Avoidance of drastic shocks that affect survival strategies of the poor.**
 - **Careful work on new SSG is needed**
 - **Peace Clause?**
 - **Possibility of lose-lose outcome: developed countries maintain distortions while developing countries increase theirs as “defense”**
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Conclusions

- **Play offense. Developing countries should ask industrialized countries to make an important down-payment in market access and subsidy removal**
 - **Playing defense? Main issue is less a legal one than the need to increase financial and institutional resources for rural development, poverty alleviation, food security, and nutrition and health**
 - **Neutral trade regime with declining protection, and adequate macroeconomic policies.**
 - **Good governance and rule of law.**
 - **Peace and security in country side**
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South



North

**Several groups
of developing
countries**

EU, Japan,
Korea,
Switzerland,
Norway

**“Farmers Not
Competitive”**

**Agriculture is
special**



USA

**“Farmers
Competitive”**

**Cairns Group
3 developed
14 developing**

**Agriculture
treated as other
sectors**

Conclusion

- **Industrialized countries:**
 - **Need for deep reform, including substantial market access.**
 - **Additional resources to finance rural development, poverty alleviation, and nutrition and health interventions**

 - **Developing countries**
 - **Use transition times to invest in agricultural infrastructure, technology, human capital, small farmers organizations, land tenure, natural resources, and women advancement.**
 - **Neutral trade regime with declining protection, and adequate macroeconomic policies.**
 - **Good governance and rule of law.**
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- **Peace and security in country side**

Price and Income Indices

