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Robin Koshy: Fair trade: For better or worse?

Robin Koshy / New Delhi May 10, 2005

In 2003, the US exported 3.8 million tonnes of rice, making it the third largest exporter in the world after Thailand and Vietnam. This is despite the fact that it costs twice as much to grow rice in the US than it does in the other two countries.

Such sterling export performance has been aided by \$1.3 billion (72 per cent of the total cost) that the American rice farmers got as subsidies in 2003! (Oxfam Briefing Paper 72: Kicking Down the Door, 2005)

Not all countries can afford to bankroll their way to a comparative advantage in trade, especially when there is none. Certainly not the developing countries. The dictum of classical economic theory where trade specialisation takes place according to comparative advantages is out of operation in a trading architecture riddled by trade distorting domestic support and high tariff boundaries.

Will free trade that removes these distortions restore comparative advantages of developing countries in agricultural commodities, increase their export earnings, boost wages of their unskilled labour and stimulate economic growth in general?

Arvind Panagariya of Columbia University, thinks otherwise. His conclusions are born out of the fact that most least developed countries (LDCs) are net importers of agricultural commodities — 45 of 49 LDCs import more food than they export.

In his paper, Agricultural Liberalisation and the Developing Countries: Debunking the Fallacies (2004), Panagariya contends that if subsidies are removed, the net importers of food will end up paying more for food.

This loss will not be offset unless they can become sufficiently large net exporters. A cut in rich country subsidies will, therefore, benefit only big agricultural exporters such as Brazil and Argentina, while most LDCs will be worse off than they were.

Although his arguments are not backed by substantive empirical analyses, some other studies estimate that larger countries will benefit while smaller countries in the same regions will suffer. If poor countries emerge as net losers, it could stem their enthusiasm for the Doha Development Agenda and jeopardise liberalisation of trade in future.

Therefore, Panagariya argues that the poorest nations are better off with high domestic subsidies in developed countries so long as they get preferential access, while larger developing country exporters are kept out by high tariffs.

He cites the European Union's Everything But Arms (EBA) initiative (or more precisely, Everything but Arms, Bananas, Rice and Sugar initiative!), which gives duty- and quota-free access for LDCs to sell at the high prices prevalent in the EU markets.

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