Key issues for freer agricultural trade from the perspective of developing countries

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**Key to symbols used in tables**

- n.a. not applicable
- .. not available
- - zero
- . insignificant

**Abbreviations**

- GATT General Agreement on Tariffs and Trade
- GMO genetically modified organism
- OECD Organisation for Economic Cooperation and Development
- SPS sanitary and phytosanitary
- SSG Special Safeguard
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Almost eight years have passed since the Uruguay Round of multilateral negotiations were conducted under GATT, but developing countries are yet to see or benefit from the freer agricultural trade projected by most studies during the negotiations. Because most developing economies depend heavily on agricultural production and trade, the world agricultural market has a significant impact on their growth, as well as on their attitude towards the next round of negotiations.

It was predicted that, following the completion of the Uruguay Round of negotiations and the establishment of the World Trade Organization (WTO), the prices of most farm products in the world market would greatly increase because of cuts in domestic price support and export subsidies in developed countries. As a result, developing countries—with the exception of the poorest and most food-deficient ones—would benefit significantly from freer trade in agriculture and see their GDP growth accelerate.

In reality, however, this has not been the case. World prices for major farm products remain low, while trade volumes remain the same. The reason for this is not new: the developed countries have kept their domestic price support and export subsidies at the same high levels, though some have changed their forms. In addition, new barriers to agricultural trade have emerged in the form of ‘green’ criteria and other non-tariff measures, and the technological advances in genetically modified organisms (GMOs) and other biotech products may actually put developing countries in unfavorable positions in both production and trade. At the same time, developing countries have not seen any improvements in market access for the products of their labour-intensive manufacturing sectors, and they have not been able to increase the competitiveness of their agriculture by absorbing labourers from manufacturing.

Since the agricultural sector plays such an important role in developing countries’ economies, the current situation raises the question of how developing countries can really benefit from the world trading system under the WTO. The low prices in the world market and the new barriers set up by developed countries have effectively thwarted developing countries’ efforts in economic growth, especially in the case of developing countries whose economies depend on exports of farm products. Meanwhile, importing countries find their agricultural sectors and the basic living conditions of a large portion of their populations threatened, though certain consumers may benefit. It is likely that issues such as these will be discussed in the next round of negotiations.

Subsidy and domestic support in developed countries

According to the Uruguay Round Agreement on Agriculture, developed countries’ average tariff for all agricultural products should be cut by 36 per cent, while domestic support should be cut by 20 per cent and export subsidies should be cut by 36 per cent in value and 21 per cent in volume terms. It was estimated, for example, that the elimination of distorting policies would cause world agricultural prices to increase by 11.6 per cent, and that removal of domestic subsidies in OECD member countries alone would cause world
wheat prices to increase by 12 per cent (Diao et al. 2001). In fact, however, world agricultural prices have continued to decline since the completion of the Uruguay Round, largely because of domestic support in developed countries. Such support raises the realised revenue per unit of farm products to higher than market price levels and encourages farmers to produce more than otherwise, resulting in even lower market prices, especially in the world market.

Westcott and Price (2001) estimate that the United States Commodity Loan Program with Marketing Loan Provisions pushed most agricultural prices not only above the market level, but also above the loan rates. For example, the realised per unit average revenue in 1999 was 12.8 per cent higher than the average market price and 7.4 per cent above the loan rate for corn, 16 per cent and 12.4 per cent higher for wheat, 18.3 per cent and 4.6 per cent higher for soybeans, and 29.5 per cent and 21.5 per cent higher for rice. Since the United States is a major exporter of these commodities, the elimination of its domestic support will cause a significant increase in world prices. Obviously, if other OECD countries such as the EU members eliminate domestic support at the same time, world prices for these commodities may increase by 10 per cent or even more.

During the period 1997–99, total marketing loan benefits in the United States rose from US$200 million to about US$8 billion, and it is likely that they will remain at this high level for the next few years. It is said that the marketing loan provision has shifted the function of the Commodity Loan Program from supporting price to supporting income. But because the marketing loan facilitates the increase of the realised per unit revenue to higher than the loan rate, it raises farmers’ expectations of the following year’s per unit revenues, and builds into acreage response and results in increased aggregated production. At the same time, because it does not directly impact on market price, such provision may indirectly depress market price through increased production. Thus, not only the magnitude but also the form of domestic support in developed countries may have a significant impact on world market prices and trade, and hence on the welfare of farmers in developing countries.

Developing countries suffer from domestic support in developed countries and low prices in the world market in different ways, depending on their position in trade. Exporting countries may face shrinking market shares and diminishing revenue from exports, while importing countries may face greater challenges in domestic production. In both situations, farmers in developing countries will lose out, the cost of restructuring the agricultural sector and the whole economy will be very high, and pressures on social stability and security will be great.

The role of income support must also be considered. It has generally been assumed that income-support measures are less distorting in production and trade and thus preferable to price-support measures. The above analysis, however, suggests that the opposite is the case. Any support measures that raise farmers’ expectations for realised revenue encourage expansion of production and depress prices. This is even in the case of those not involved in the production of any specific commodity.
‘Green’ and other non-tariff barriers
While domestic support in developed countries affects the trade of bulk crop commodities, developing countries also face ‘green’ and other non-tariff barriers to their agricultural imports.

Sanitary and phytosanitary (SPS) measures are necessary to protect humans as well as plants and animals, but they can easily be turned into barriers to trade. Related disputes have not always been settled purely scientific bases, and will no doubt continue to do so in the future. Meanwhile, a new trend has emerged in the form of ‘clean production’, which may prove even more disadvantageous to developing countries.

Unlike past SPS measures that examined final products, ‘clean production’ requires that standards be applied during the production process. Such requirements are usually consistent with the current practices and resource endowments of developed countries. If production of a commodity is organised in the ‘clean’ way everywhere, then only those countries whose resource endowments give it comparative advantage will be able to profit from production of the commodity. But if a commodity is allowed to produced in developing countries in the traditional way, then these countries might be able to successfully compete in the world market. Because developing countries have to adopt technology developed by developed countries on the basis of their own resource endowments, the developing countries are put at a disadvantage.

This discussion of ‘clean production’ raises several questions. Is the ‘clean production’ requirement scientifically sound? Are controls on the production process really necessary, considering the traditional PSP measures imposed on final products? How can we distinguish ‘green’ barriers from true protection for people, plants and animals?

Special Safeguard (SSG) measures may come to constitute a significant barrier to some developing countries’ exports. The SSG provisions give importing countries the right to protect domestic production if the quantity of imports of a product goes beyond a certain limit, usually stipulated as a percentage of domestic consumption or previous import levels, regardless of the product’s share of total agricultural GDP.

Generally speaking, bulk commodities like grain, cotton and oilseeds are land-intensive products in which many developing countries do not have comparative advantage. In contrast, most developing countries do have comparative advantage in the production of labour-intensive products such as vegetables, fruits, and some animal and aquatic products. In most cases, land-intensive products account for a very large share of total agricultural production, while labour-intensive products account for only a small share. Thus, when exports of land-intensive products from developed countries force farmers in developing countries to produce and export more labour-intensive products, the developed countries may apply SSG measures.

Because of the great difference in relative shares, even a substantial increase in imports of land-intensive products may not reach the limit in percentage terms for those goods. The resultant adjustment in developing countries, however, may cause exports of some labour-intensive products to exceed the limits, in percentage terms, set by developed countries, justifying implementation of SSG measures. An example of this can be taken from the dispute between Japan and China over three Chinese exports to Japan. Though
the products exported accounted for only a very small percentage of the trade between the countries, nonetheless their trade had a significant impact on the respective markets and moved the Japanese government to apply SSG measures. This dispute has already been settled, but it is likely to continue to arise in the future, and SSG measures might be used tactically in this regard.

Given the differences in resource endowment and relative shares of various products in agriculture between developed and developing countries, disputes like the one described above are likely to arise frequently in the future. The current rules clearly put developing countries in disadvantageous position.

Bio-technology
Labeling of GMO products has become an issue of contention between the United States on one side and the European Union and Japan on the other. In this respect, developing countries may find themselves caught in the middle, between aggressive multinational giants and importing countries with restrictive regulations.

As Justin Lin has pointed out (Lin 2000), developments in modern biotechnology, especially GMO products, largely benefit developers and big producers, not the majority of small producers in developing countries. The basic reason for this is the necessarily large scale of related production, in terms of land, capital and other modern inputs. Most small producers in developing countries can not meet this requirement. The distribution effect may thus outweigh income in less-developed areas, and farmers in these areas may be harmed by the new technology supposed to bring a bright future to the poor in developing countries.

Food shortage is a chronic problem in developing countries as a whole, both because they are less developed and because of distributional factors. GMO and other modern biotechnology may boost food production and provide possible solutions to food security issues worldwide, especially in developing countries. But potential benefits may not be evenly distributed among countries. In those developing countries where the above-mentioned requirement of large-scale production can be met, farmers may face non-tariff barriers such as labeling regulations set by importing countries. In other countries where farmers are unable to adopt the new technology and food supply is usually inadequate, producers may suffer from increases in imports of commodities produced using the new technology, because they are not protected by labeling regulations at home.

It is likely that GMO and other biotech issues may cause developing countries to split, depending on domestic demand and supply conditions and on their positions in the world market. Thus, their positions in this area may differ in the next round multilateral negotiations.

Market access for textile and other labour-intensive products
Economic growth and technology development have dramatically changed the structure of developed countries’ economies. In most developed countries, after two centuries of industrialisation, the proportion of the labour force employed in the agricultural sector has fallen to 5 per cent of the national total or even less. Developing countries have followed this path in economic development by establishing modern industries and gradually
moving rural labourers to other sectors. If both internal and external conditions are favourable, proponents of development say, most developing countries will be able to realise their development goals within several decades.

But, in reality, this might be impossible. The first sectors to develop are labour-intensive ones that may absorb large numbers of outgoing rural labourers and generate increasing income to finance capital investment for further development. The expansion of these sectors needs ever-expanding markets for their labour-intensive products, and such markets can only be found in developed countries. The problem is, however, that while developed countries enjoy comparative advantage in high-tech products and in some service sectors, their domestic markets for labour-intensive products remain highly protective, like their agricultural markets. When developing countries are forced to speed up the re-allocation of their labourers, they find it difficult to provide new employment to labourers released from agriculture.

There is no doubt that the agricultural sector in developing countries has to be restructured in accordance with modern technology, causing its shares in employment and GDP to decline. But if this process is to be accelerated by squeezing the agricultural sector with imports, alternative employment must be provided outside the sector. Developed countries should open their domestic markets for textile and other labour-intensive products more quickly, otherwise developing countries may not be able to open their agricultural markets to the extent required by developed countries. Furthermore, without an increase in exports of labour-intensive products, developing countries may encounter serious problems in their economic growth, as well as in the welfare of a large part of their populations.

Textiles are directly related to agriculture, while other labour-intensive industries may not relate to agriculture so closely. Because, however, of their crucial role in shifting rural labour, negotiations on freer agricultural trade should be linked directly with those in labour-intensive sectors.

**Major issues for the next round of negotiations**

According to the above analysis, during the next round of multilateral negotiations on agriculture, developing countries may hold the same position on some issues and be split on others, depending on their economic structures and their positions in agricultural trade.

The most important common interest among developing countries is to the cutting of domestic support in developed countries. This will reduce the pressure on farmers and the agricultural sectors of importing countries, and also provide more export opportunities for exporting countries. The issues relating to ‘green’ and other non-tariff barriers are of importance to exporting countries, especially to producers of the affected commodities. GMO and other biotechnology might be a big issue for exporting countries facing restrictive regulations set by importing countries, and also, to a lesser extent, to other developing countries, since small producers may actually suffer from the distributional effects of the new technology.
Since the fundamental problem in developing countries’ agricultural sectors is excess labour, freer trade in textiles and other labour-intensive products may come to provide crucial support to rural economies in developing countries, and it therefore must receive top priority in future negotiations. After all, when will free access to labour markets finally be put on the table?

References

