

Distortions to Agricultural Incentives in Asia

By Kym Anderson, Will Martin

DISTORTIONS TO AGRICULTURAL INCENTIVES IN ASIA

Editors

Kym Anderson • Will Martin



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and Will Martin, Editors*



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FOREWORD

Three-quarters of the world's poorest households depend on farming for their livelihoods, and the majority live in Asia where 81 percent of the poor (more than 900 million people earn less than US\$1.25/day) are engaged directly or indirectly in agriculture. During the 1960s and 1970s, many developing countries had in place pro-urban and anti-agricultural policies, while many high-income countries restricted agricultural imports and subsidized their farmers. Although progress has been made over the past two decades to reduce those policy biases, particularly the anti-agricultural bias in Asia, the extent of reform has not been systematically quantified. Nor has it been clear how many trade- and welfare-reducing price distortions remain in Asian agriculture, both within and between countries, and whether later developing countries have followed Japan and the Republic of Korea in replacing past anti-agricultural policies with not a neutral regime but a pro-agricultural set of policies—which could be just as wasteful of national resources.

To help fill this lacuna, the World Bank launched a major research project in 2006 aimed at quantifying the changing extent of distortions to agricultural incentives over recent decades. This volume is one of a series of four regional books that summarizes the findings. By including all the large Asian economies as case studies, no less than 95 percent of Asian GDP and agricultural output is covered.

These estimates are used to help address questions such as the following: Where is there still a policy bias against agricultural production? To what extent has there been overshooting in the sense that some developing-country farmers are now being protected from import competition? What are the political and economic forces behind the more successful reformers, and how do these forces compare with those in less successful countries where major distortions in agricultural incentives remain? How important have domestic political forces been in

bringing about reform, compared with international forces? What explains the cross-commodity pattern of distortions within the agricultural sector of each country? What policy lessons and trade implications can be drawn from these differing experiences with a view to ensuring better growth-enhancing and poverty-reducing outcomes in other still-distorted developing countries during their reforms in the future?

In Asia more than anywhere else, the reforms have been truly transformational. The world's most populous nations, China and India, have been among the most ambitious in raising incentives for farmers, albeit from a very low base in each case. Vietnam also has undertaken major and rapid reforms, while in other South-east Asian economies the reforms have been more gradual (or nonexistent in the cases of Myanmar and the Democratic People's Republic of Korea, but they were not able to be included as case studies because of lack of access to data). Meanwhile, the Republic of Korea has moved from taxing agriculture relative to other tradable sectors in the 1950s to increasingly protecting it beginning in the 1970s. This development has raised concerns that other emerging economies may follow suit and pursue the same agricultural protection growth path of more-advanced economies.

The new empirical indicators summarized in these case studies provide a strong evidence-based foundation for assessing the successes and failures of policies of the past and for evaluating policy options for the years ahead. The analytical narratives reveal that the reforms to agricultural price and trade policies were sometimes undertaken unilaterally. In other cases, they were also partly in response to international pressures such as the Uruguay Round (for example, the Republic of Korea), commitments required for accession to the World Trade Organization (WTO) (for example, China), and structural adjustment loan conditionality by international financial institutions (for example, the Philippines in the 1980s).

The study is timely because the WTO is in the midst of the Doha round of multilateral trade negotiations, and agricultural policy reform is one of the most contentious issues in those talks. Hopefully China and South and Southeast Asian countries will not make use of the legal wiggle room they have allowed themselves in their WTO bindings and follow Japan and the Republic of Korea into high agricultural protection. It might be argued, on one hand, that a *laissez-faire* strategy could increase rural-urban inequality and poverty and thereby generate social unrest. On the other hand, policies that lead to high prices for staple foods, in particular, involve potentially serious risks for the urban and rural poor who are net buyers of food in developing countries. Available evidence suggests that problems of rural-urban poverty gaps have been alleviated in parts of Asia by some of the more-mobile members of farm households finding full- or part-time work off the

farm and repatriating part of their higher earnings back to those remaining in farm households. Efficient ways of assisting any left-behind groups of poor (non-farm as well as farm) households include public investment measures that have high social payoffs, such as in basic education and health and in rural infrastructure, as well as in agricultural research and development. As argued in the World Bank's *World Development Report 2008*, the latter also provide more sustainable and more equitable ways of securing domestic food supplies than artificially propping up prices.

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