Trade and Agriculture

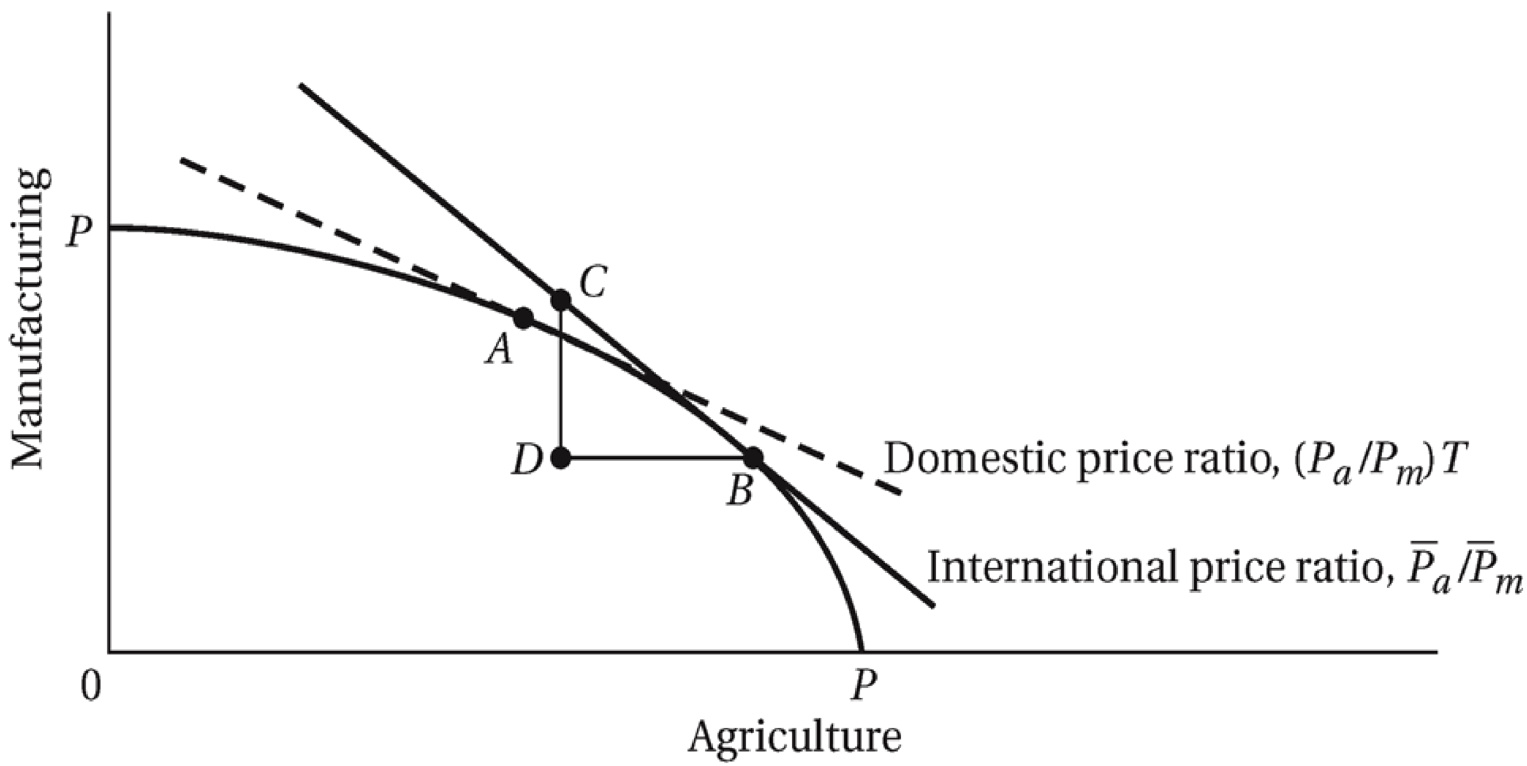
The Traditional Theory of International Trade

- The Traditional Arguments
  - Trade stimulates economic growth
  - Trade promotes international and domestic equality
  - Trade promotes and rewards sectors of comparative advantage
  - International prices and costs of production determine trading volumes
  - Outward-looking international policy is superior to isolation

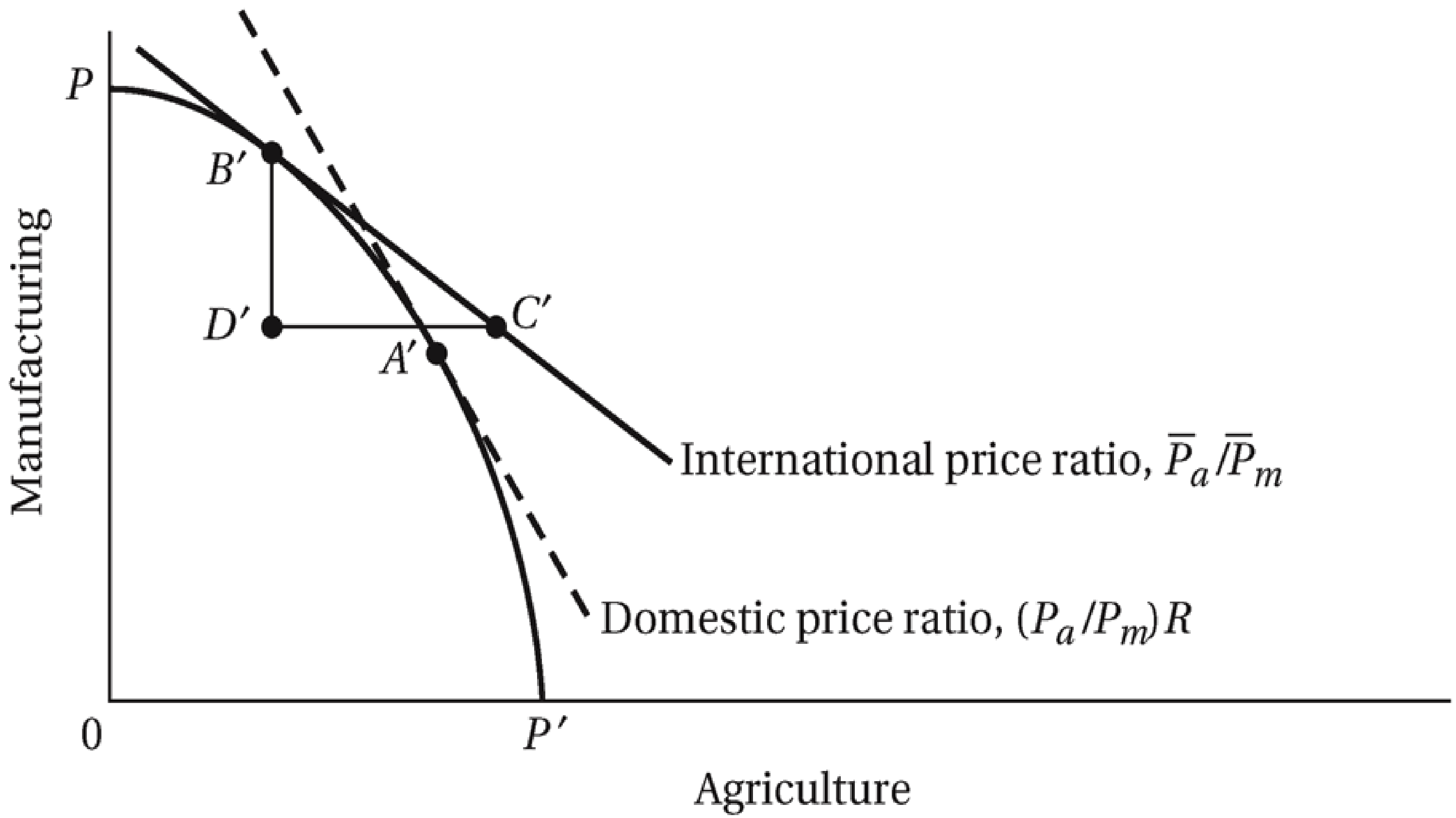
Why trade? : The Traditional Theory of International Trade

- Comparative advantage
  - specialization
- Relative factor endowments and international specialization: the Neoclassical model
  - Ricardo and Mill (static model)
  - Heckscher and Ohlin (factor endowment theory)
    - Countries have different endowments of factors of production
    - Different products require productive factors in different ratios

Trade with Variable Factor Proportions and Different Factor Endowments



(a) Developing World (without trade, production and consumption occur at *A*; with trade, production is at *B*, consumption is at *C*; exports = *BD*; imports = *DC*)



(b) Developed World (without trade, production and consumption occur at A'; with trade, production is at B', consumption is at C'; exports = $B'D'$; imports = $D'C'$)

Why trade? : Vent for surplus

- An explanation of why nations export goods, thereby creating international trade.
- Domestic economies often are too small to absorb all the output of their markets, thus generating a surplus and trade.
- Vent for surplus theory has been developed by Burmese-born British economist **HLA MYINT (1920-)** into a study of economic development.

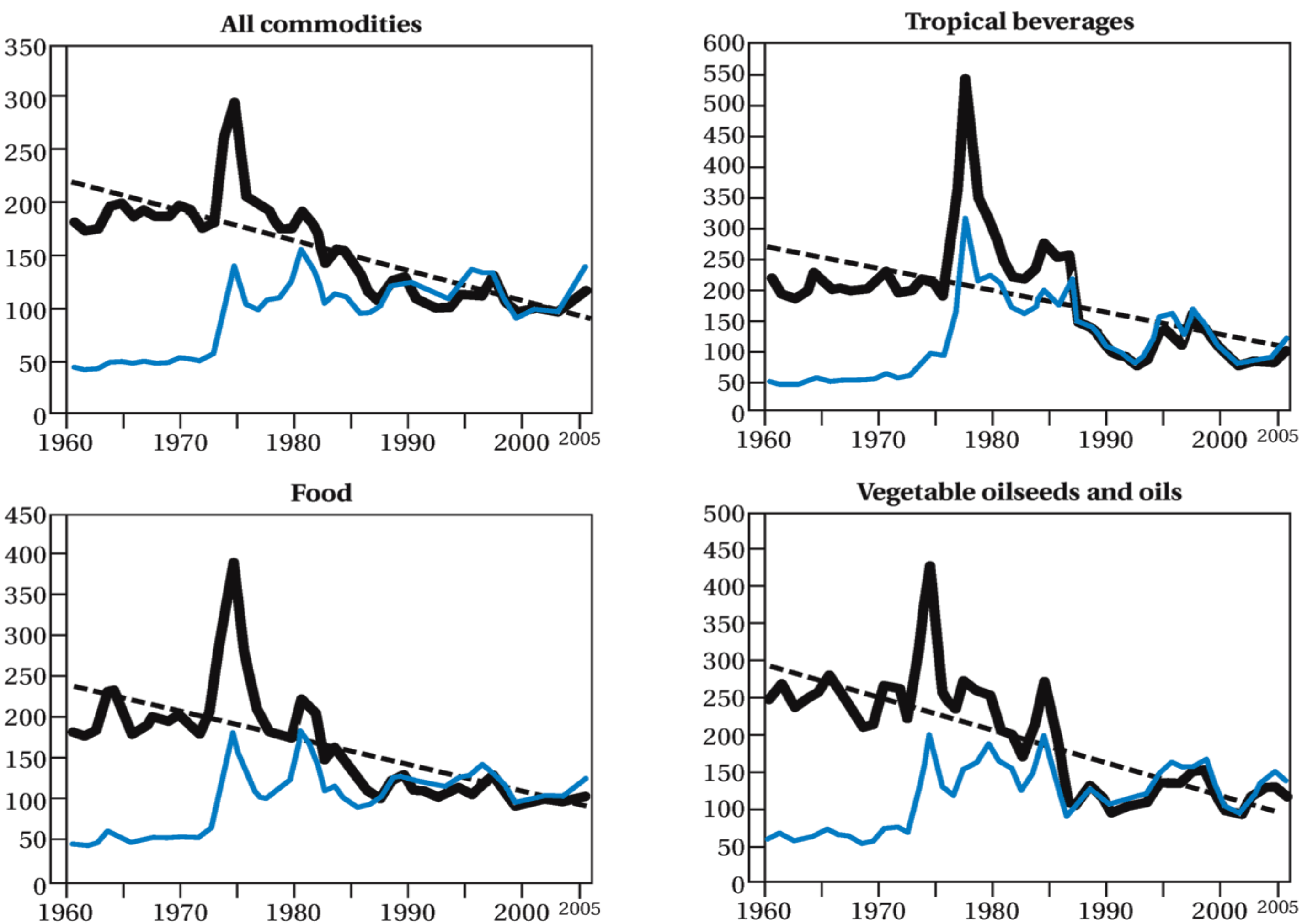
The impact of international trade

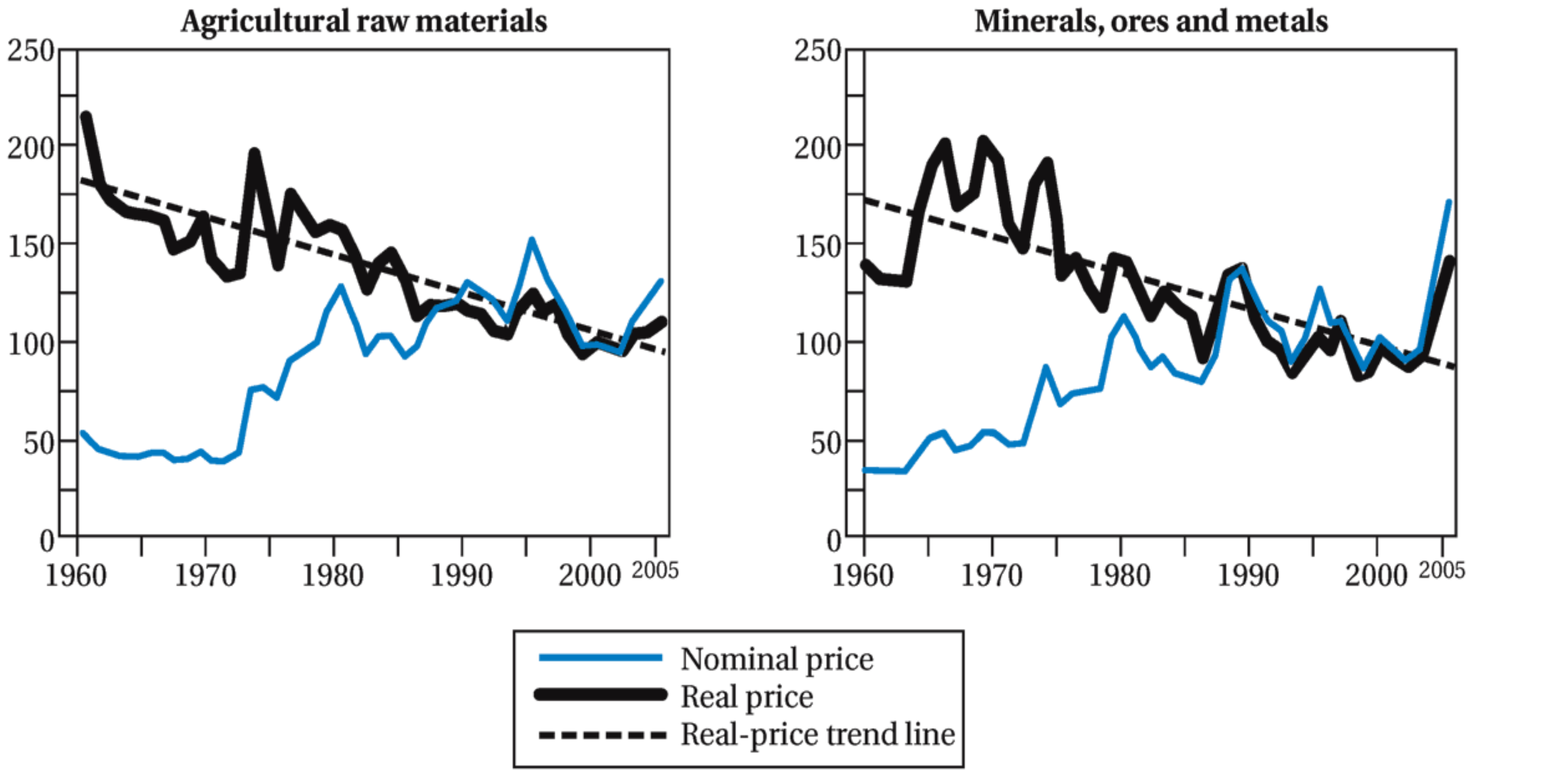
- Effects on growth, income distribution, poverty, and employment.
- Trade can be an important stimulus to rapid economic growth by promoting greater utilization of idle human and capital resources, increasing foreign exchange earnings, and expanding access to technological knowledge.
- At the same time, for a majority of developing countries, the principal benefits of world trade have accrued disproportionately to foreign residents and wealthy nationals (as well as to the developed countries).

International Trade: **Developing Countries**

- Many developing countries rely heavily on
  - exports of primary products with risks and uncertainty
  - imports typically of machinery, capital goods, intermediate producer goods, and consumer products
- suffer from chronic deficits on current and capital accounts which depletes their reserves, causes currency instability, and a slowdown in economic growth

Nonfuel Primary Commodity Prices, Nominal and Real, by Commodity Group, 1960-2005 (2000 index = 100)





Source: UNCTAD, *Trade and Development Report, 2006* (New York: United Nations, 2006), p. 20. Used by permission.
Note: Real prices are deflated by the export unit value of manufactured goods of developing countries

Export Earning Instability

- Exports of LDCs are much less diversified than those of developed countries
- Low income elasticity of demand for primary products
- Low price elasticity of demand and supply

Consequences from Trade

- Terms of trade moving against natural resources and agriculture
- Exporting environmental externalities to the poorer countries
- Externalities (from production for trade) can be easier to hide in poor countries
- Loss of crop varieties and biodiversity

The Terms of Trade and the Prebisch-Singer Thesis

- Total export earnings depend on:
  - Total volume of exports sold AND
  - Price paid for exports
- Prebisch and Singer argue that export prices fall over time, so LDCs lose revenue unless they can continually increase export volumes
- Prebisch and Singer think LDCs need to avoid a dependence on primary exports

Some Conclusions on Trade Theory and Economic Development Strategy

- Trade can lead to rapid economic growth under some circumstances
- Trade seems to reinforce existing income inequalities
- Trade can benefit LDCs if they can extract trade concessions from developed countries
- LDCs generally must trade
- Regional cooperation may help LDCs

Food Distribution

- Agriculture is a smaller proportion of GDP and of world trade, but trade has tended to become more important to agriculture (Wolfe 1998, p.5)
- Farm policy in all countries, industrial and developing, is made for domestic reasons → obstruct world trade and food distribution

Dr. Supachai Panichpakdi

Former Director General WTO

GATT and WTO

- **GATT 1947**

  (General Agreement on Tariff and Trade)
- **WTO 1995** (World Trade Organization)

→ To reduce trade restrictions

→ Agreement by consensus

GATT Principles

- **Non-discrimination**
  - → Most Favoured Nation Treatment
  - → National Treatment
- Most Favoured Nation Treatment (MFN)

US

Thailand II

Japan

- National Treatment

Thai nationality = US nationality

GATT & Agriculture

- No Specific agreement on agriculture
- Large countries often used GATT exemption for agriculture
- Reasons for exemption (Reasons for protection & support/subsidies)
  - Price and income instability
  - National Security
  - Preserving rural lifestyles and environment

The World's Average tariff rate

- Agriculture 40%
- Non-agriculture
  - Developed Countries < 5%
  - Developed Countries 15%

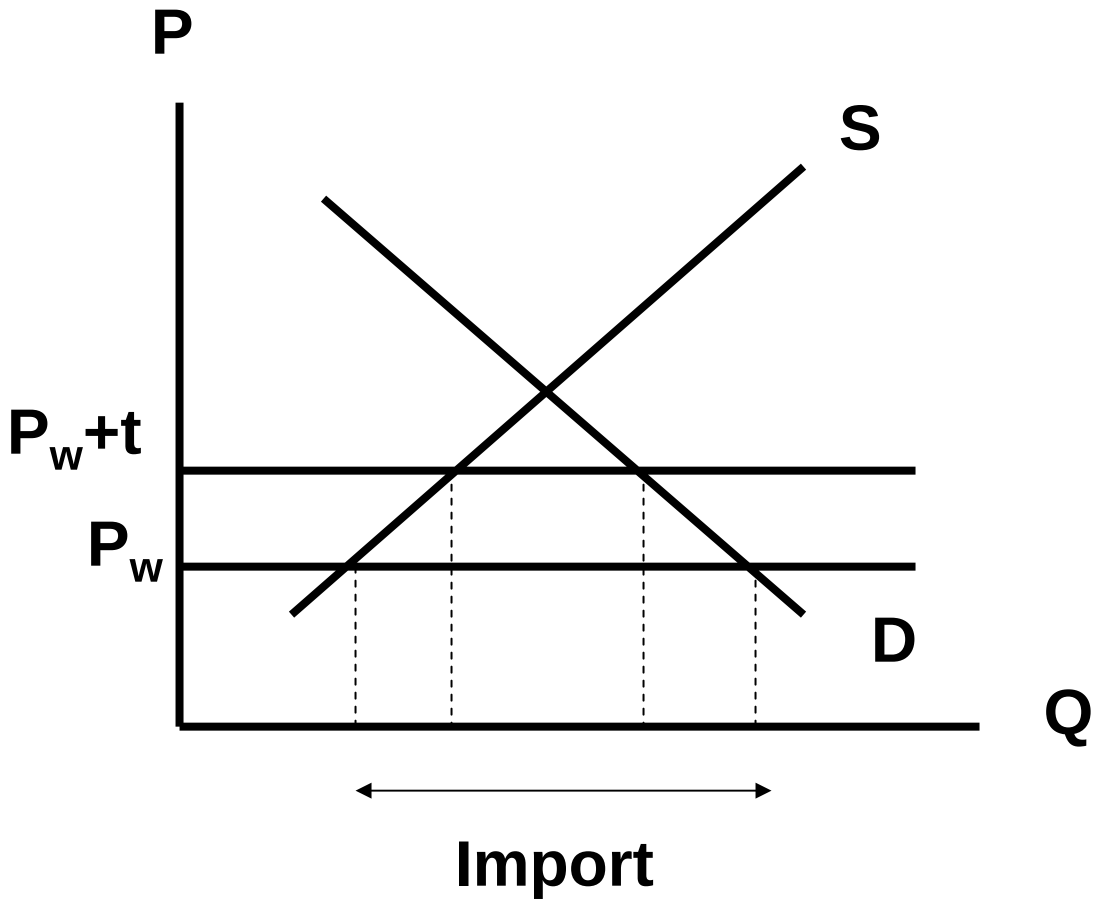
Protection

Tariff

- help producers
- tax consumers & users of domestic ag. products

Tariff and NTBs

- Barriers on ag. products exported from developing countries
- trade conflicts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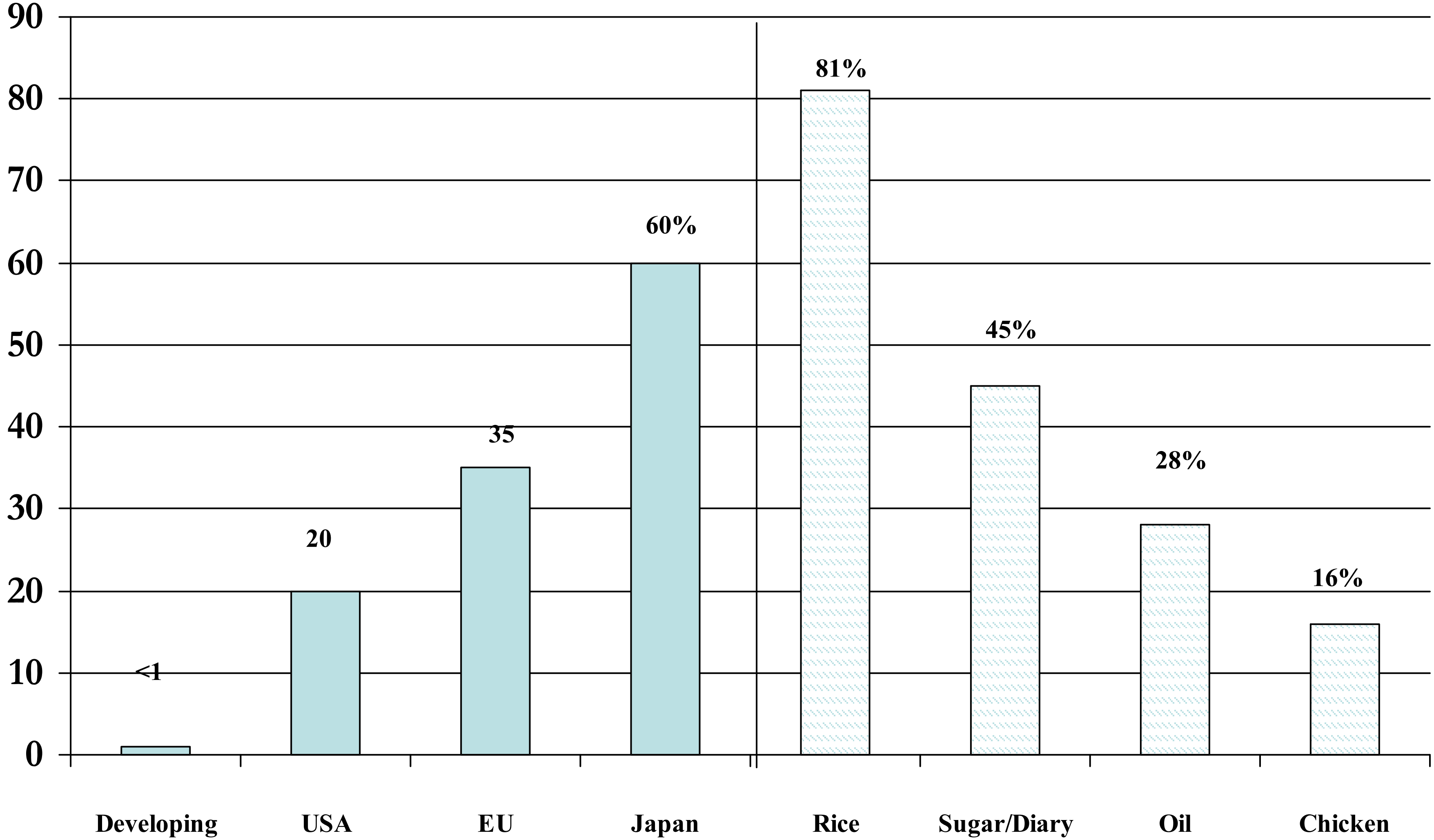
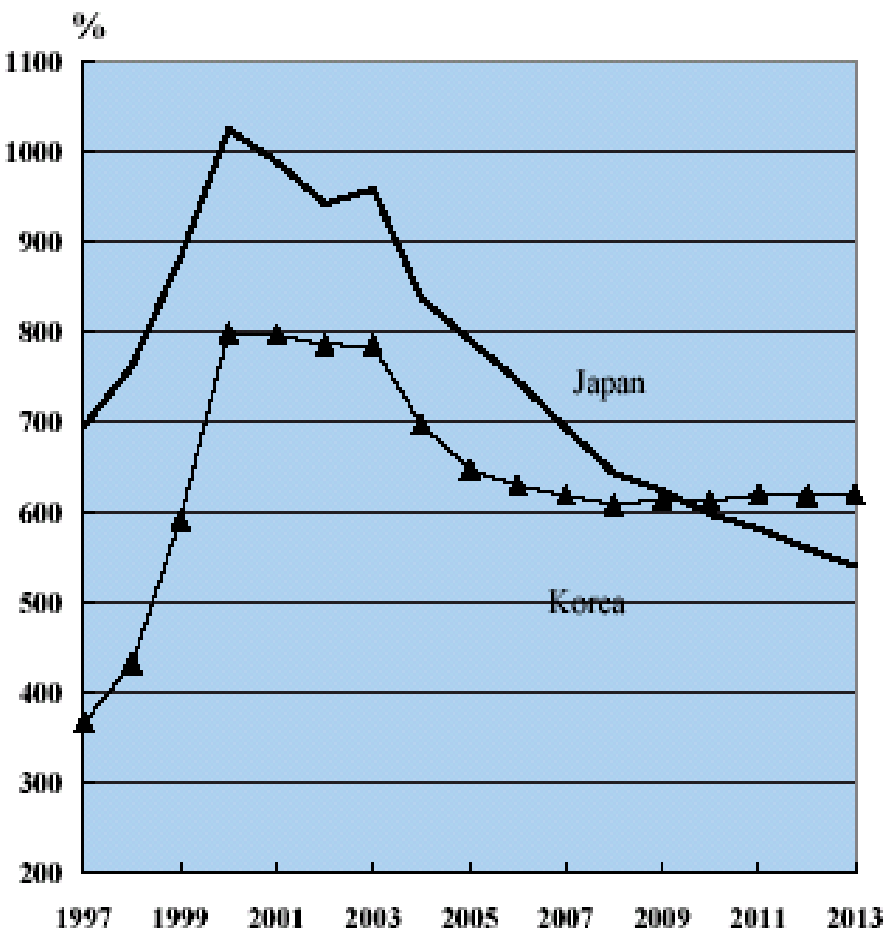
D
Q
Import

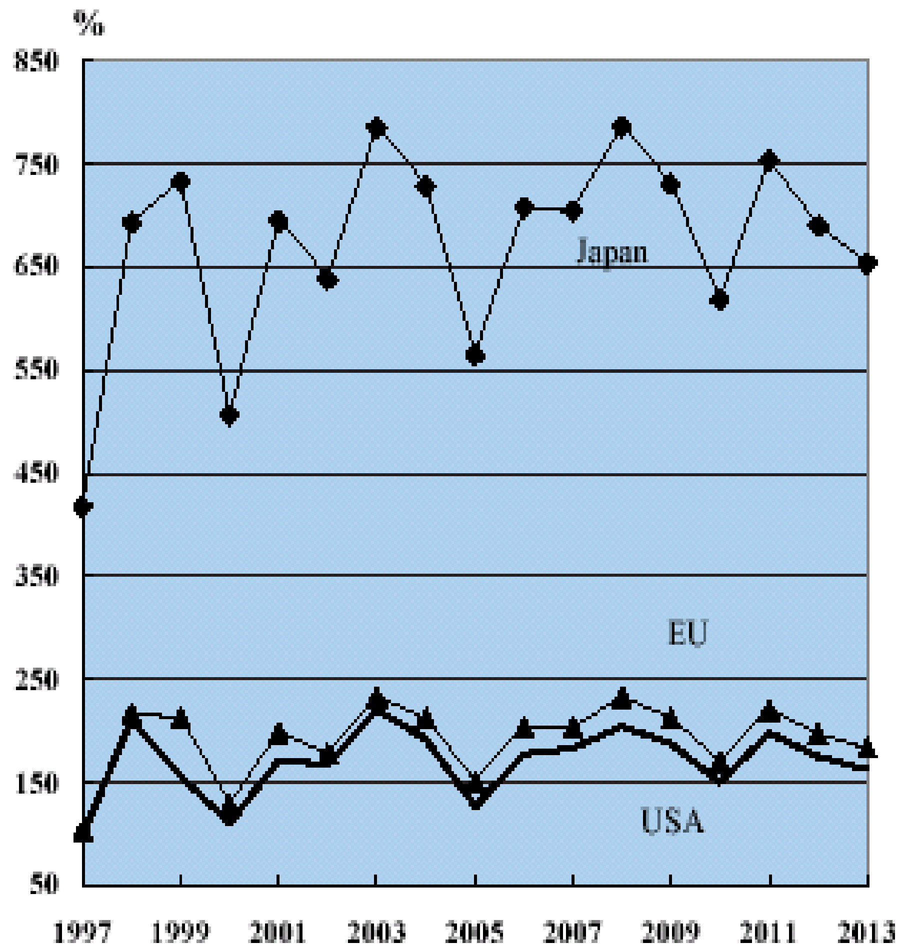
Ag. subsidy in OECD (% of farm income)



Ag. product price in OECD are higher than the world prices



Rice



Sugar

Consequences of ag. subsidy in OECD

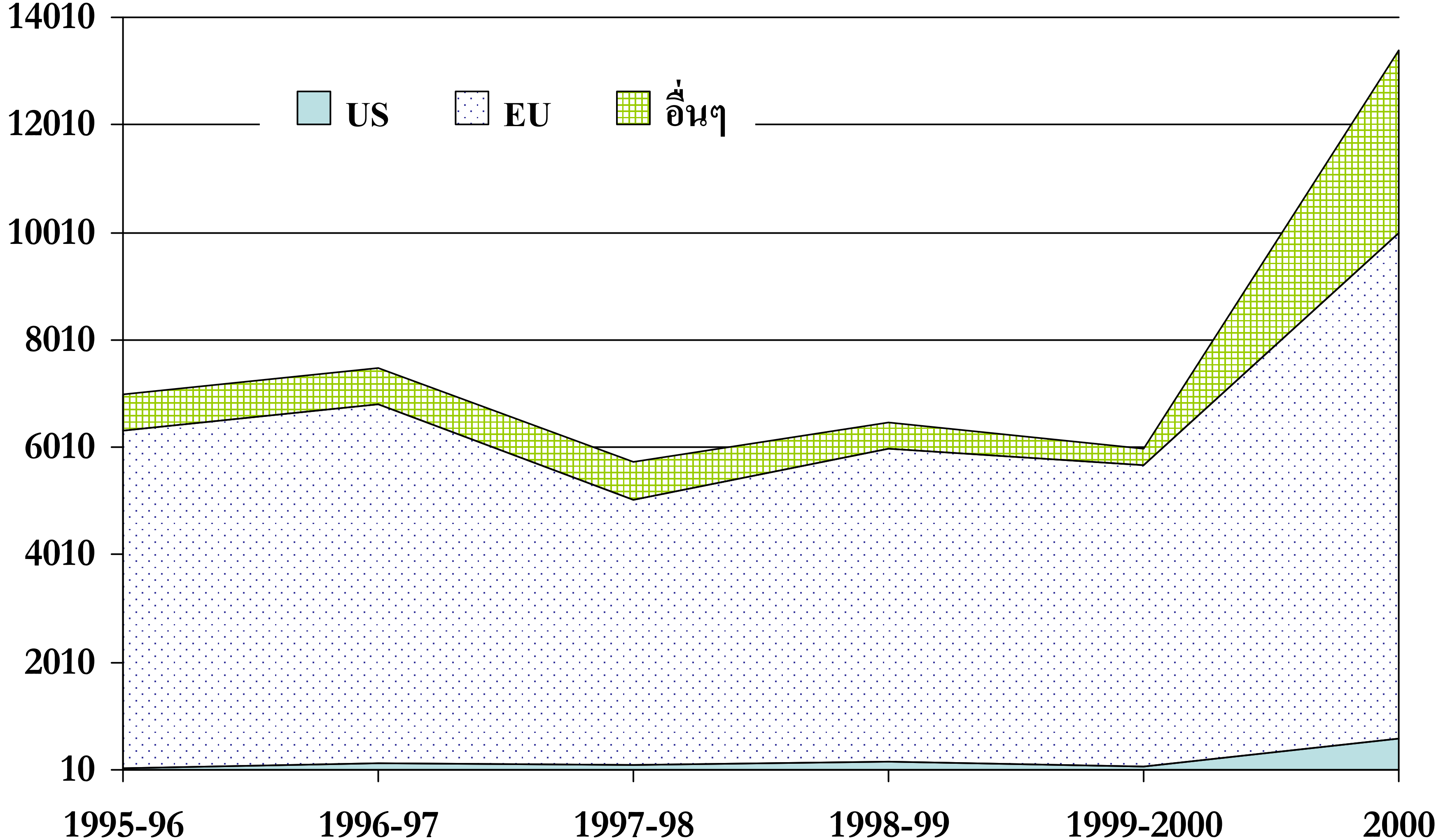
(1) World prices of agricultural products declined and highly fluctuated

(2) Developing countries could not exports much to OECD

(3) Subsidy required huge budget of OECD government

(4) Surplus is subsidized for export

Export subsidy: EU,USA



Expected Benefits from Trade Liberalization in Agriculture (1)

- Raise the world prices of ag. products,

  ordered from max->min.

  - Milks and products
  - sugar
  - wheat
  - rice
  - cereals
  - meat

- Change in real income
  - World +30 million US$/year
  - EU +14
  - US +9
  - Japan +6
  - Developing countries - 4

As consumers pay less

GATT: Tokyo Round

- 1973 – 1979
- Farm trade negotiation between US vs. EU at G7, then proposed to GATT

GATT: Uruguay Round

1986 - 1994

- tariff & non tariff
- agriculture, services, intellectual property rights
- dispute settlement

Outputs from Uruguay Round

- ***Agreement on Agriculture (AoA)***

  "To reform trade in the sector and to make policies more market-oriented. This would improve predictability and security for importing and exporting countries alike"

- Signed on April 1994
- Included in *Marrakesh Agreement* Establishing the *World Trade Organization*
- Implementation : from Jan 1, 1995 (WTO)

Agriculture Agreement (AoA)

- Three basic agreements on
  - Market access
  - Reduction of Domestic Support
  - Reduction of Export Subsidies
- **Market access**
  - Tariffication = converting the quotas and other types of measures to tariff
  - Then, reduce tariff

- **Domestic Support**
  - Amber box = “slow down” = reduce

    e.g. subsidy, price supports
  - Green box = “go” = can be used freely

    e.g. research, disease control, infrastructure, food security, payments to restructure agriculture, payments under environment and regional assistance programs
  - Blue box = direct payments to farmers to limit production, programs for ag. and rural development and other support on small scale when compared with the total value of production
    - not more than 5% for developed countries,
    - not more than 10% for developing countries

	Developed Countries 6 years: 1995-2000	Developing Countries 10 years: 1995-2004
Tariffs		
Average cut for all agriculture	-36%	-24%
Minimum cut per product	-15%	-10%
Domestic support		
Total AMS cuts for sectors (base period: 1986-88)	-20%	-13%
Exports		
Value of subsidies	-36%	-24%
Subsidized quantities (base period:1986-90)	-21%	-14%

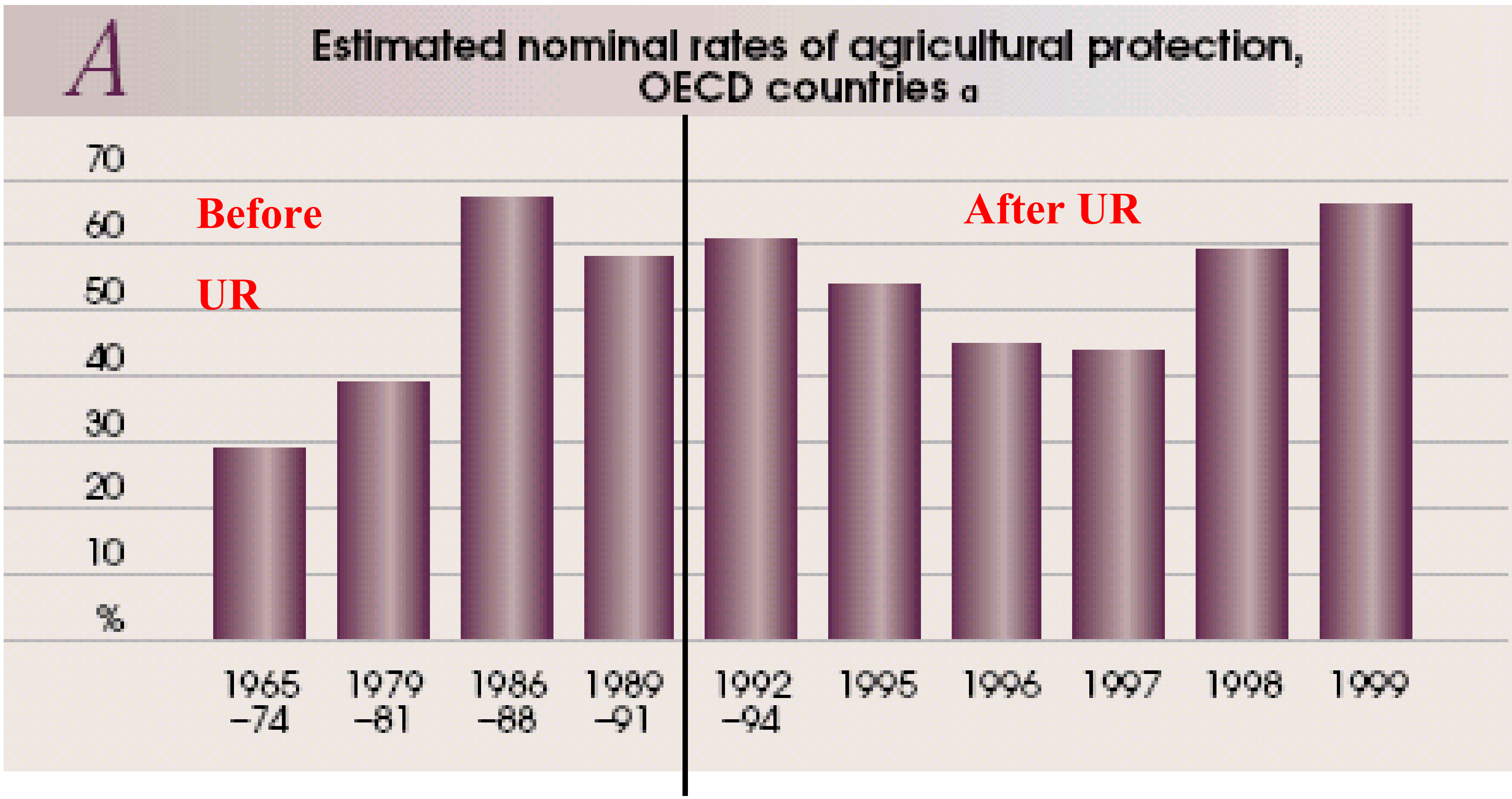
- AMS: aggregate measurement of support

Why success to launch AoA?

- Linked commitments on other topics
  - Intellectual property
  - Trade in non-agriculture (Schott, p.20)

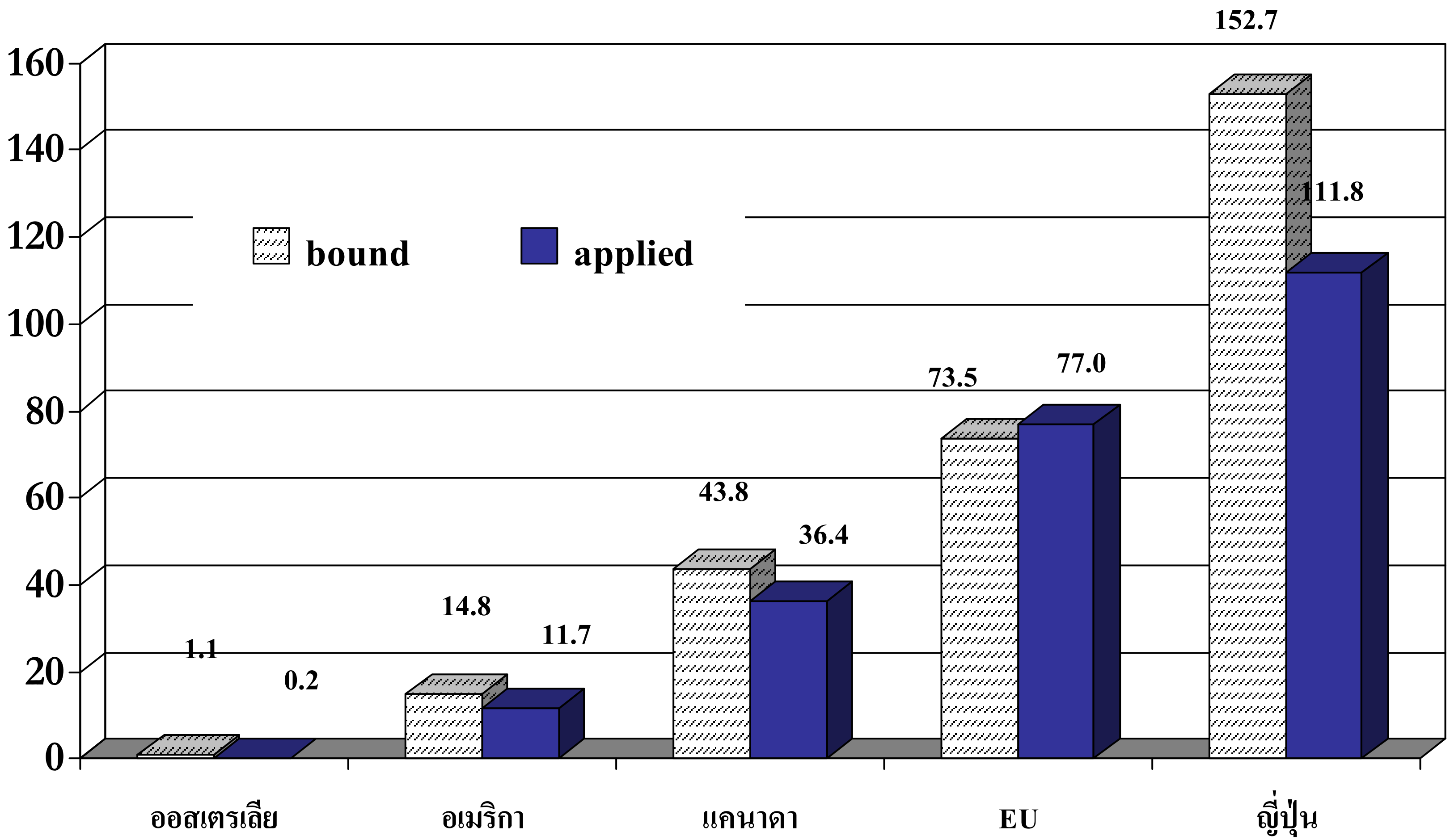
- AMS: aggregate measurement of support

– **URAA:** Loop holes and higher level of protection



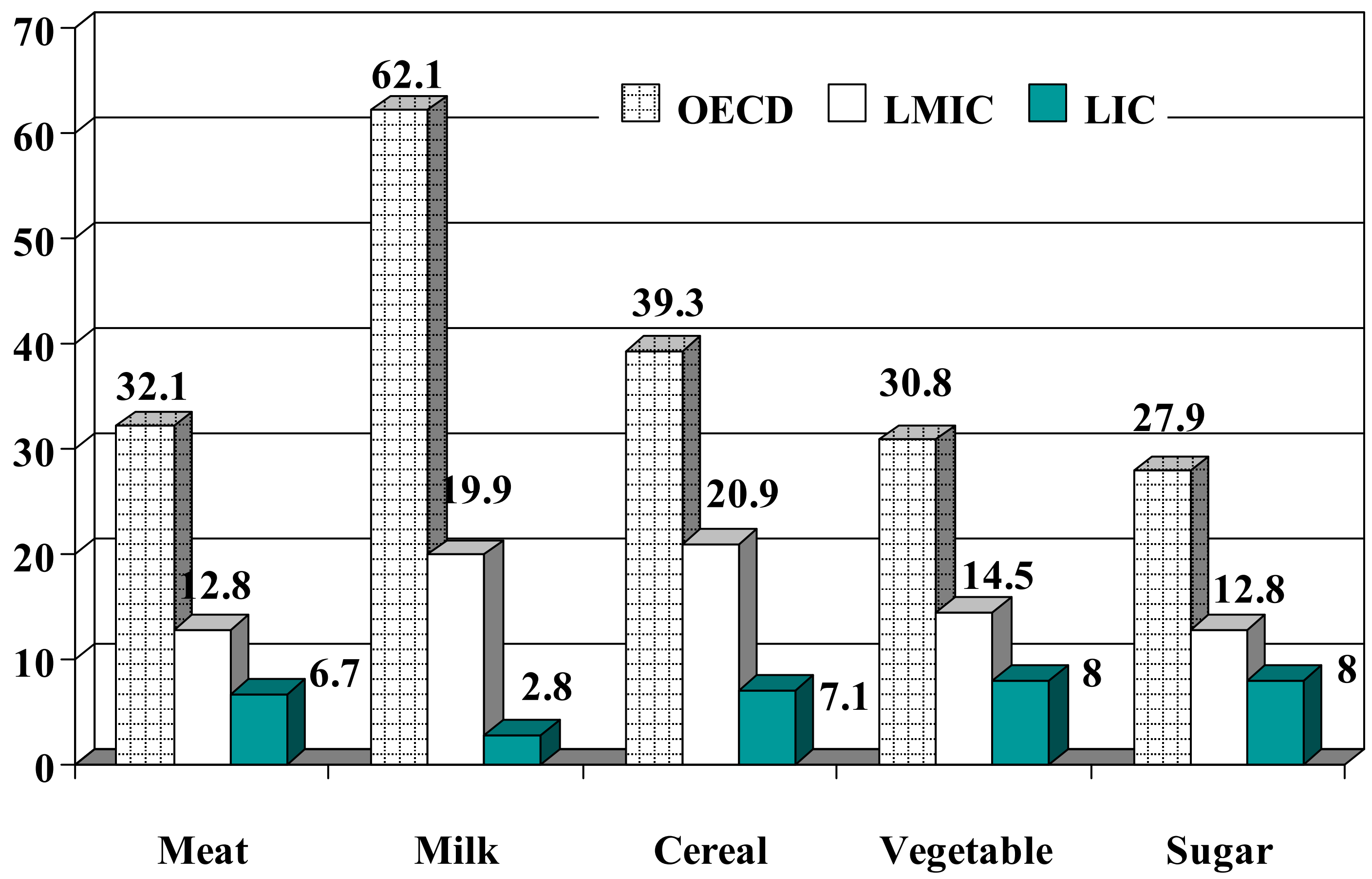
Credit: S. Khoman

• **High Tariff**



Credit: S. Khoman

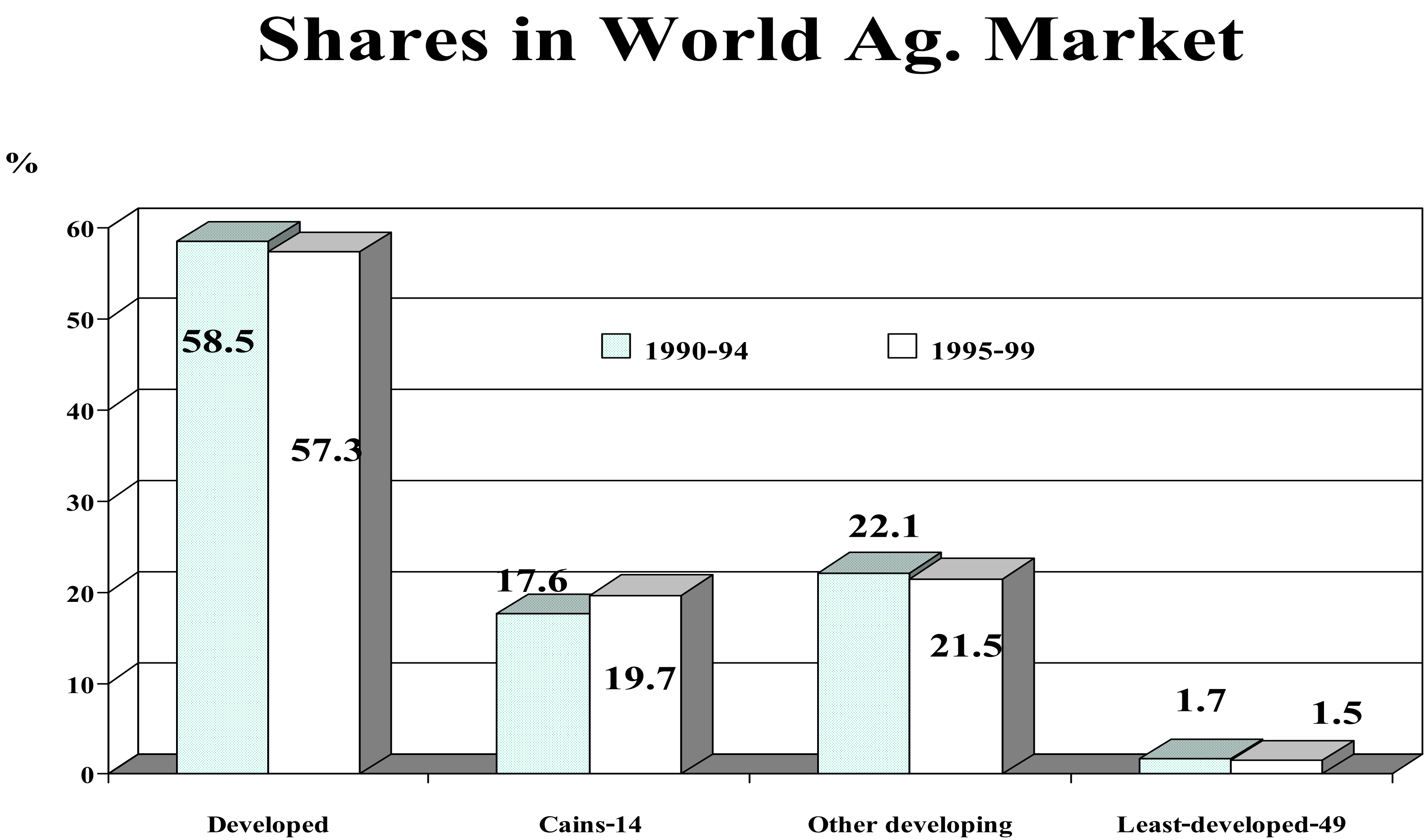
NTB (% of tariff items)



ที่มา : Ingco and Nash 2004,Table 1.5

Credit: S. Khoman

Who benefits?

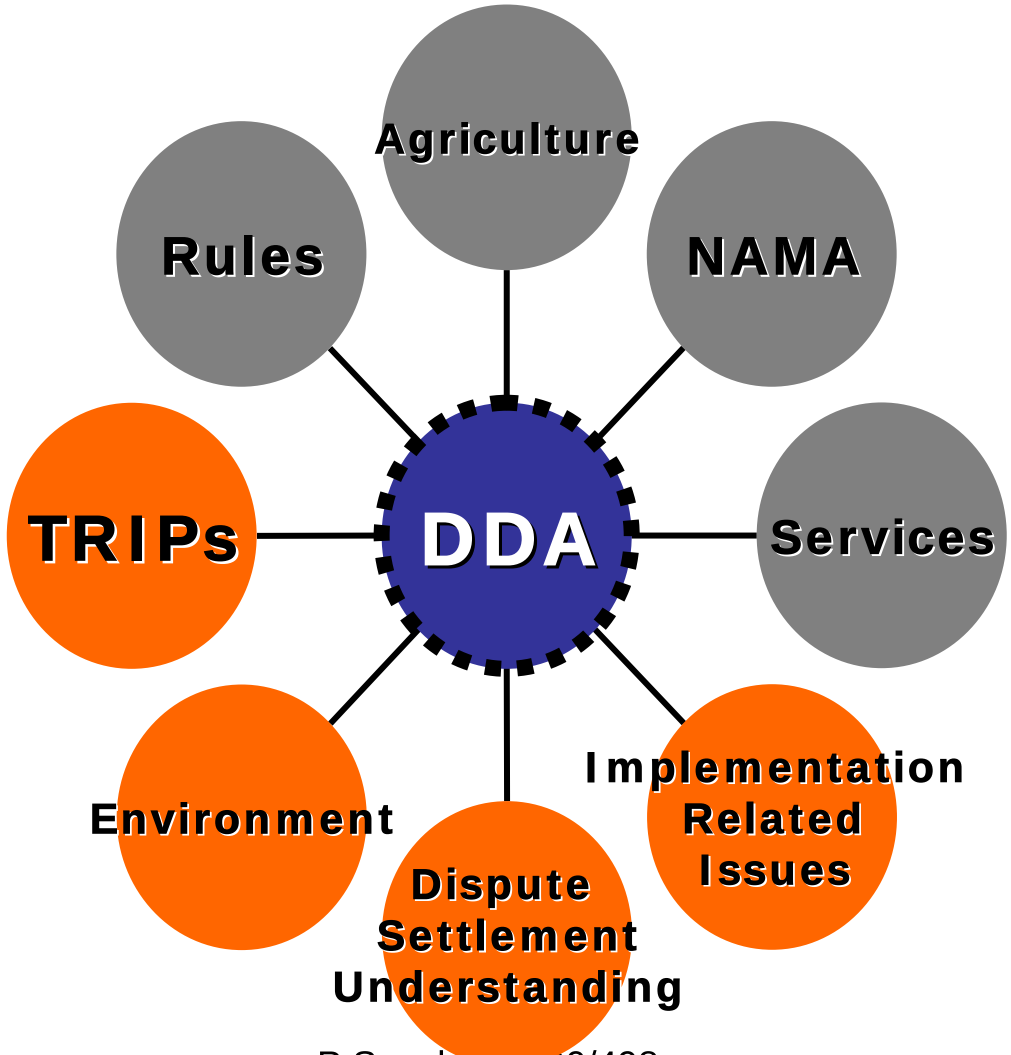


Credit: S. Khoman

Doha Round *(Development Round)*

- 2005--
- To follow up AOA (many problems)
- Non-tariff barriers (NTBs)
  - State trading enterprises
  - Food safety, GMOs
  - Animal welfare
- Multifunctionality (environment, culture, rural lifestyle)

Doha Development Agenda (DDA)



Credit: S. Khoman

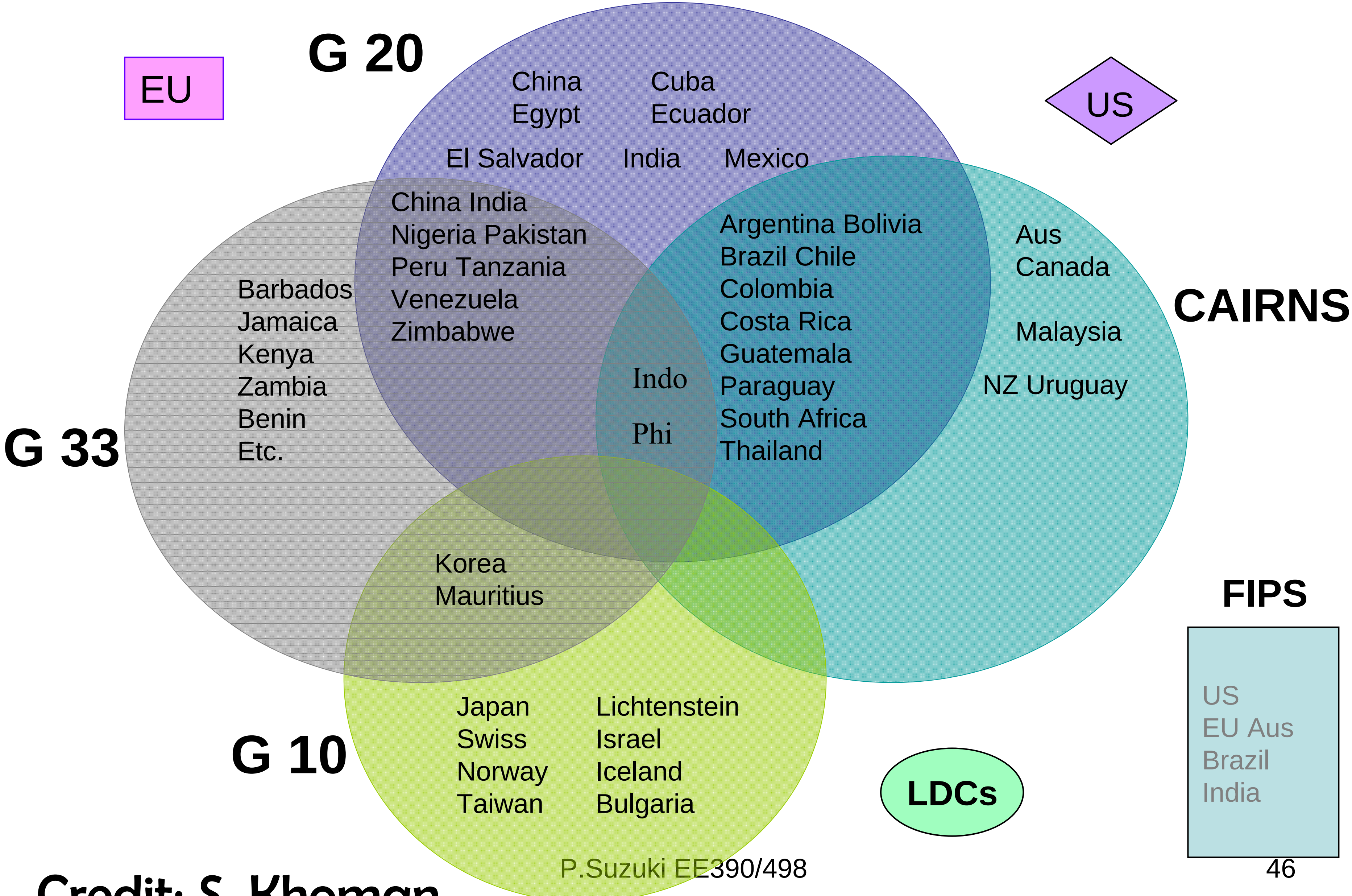
Difficulties

- The level of protection is much more apparent
- Increasing numbers of interest groups
- Different interpretation of agricultural supports and protection (i.e. water in tariff, box shifting
- Political context (domestic and international)
- Require tradeoffs between 3 sectors (Agriculture, Manufacture, Services)

Politics of Agricultural Trade

- Interest groups
  - US / Cairns Group
  - European Union / Japan G11
  - Other developing countries.. G22, G90
  - NGOs
- Why?
  - Globalization of the food system
  - Impacts on agricultural development

Strategic groups: Agriculture



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Globalization of the food system

- Broaden scopes of negotiation
  - Competition policy
  - Intellectual property
  - Investment rules
  - Food safety
  - Harmonization of standards
- attention of NGOs
  - Trade liberalization as agenda of MNCs
  - Issues of environment, social, political objectives

(Example) NTB

Health and environmental regulations

- **Sanitary and Phytosanitary Standards (SPS) Agreement**
  - Regulations to protect health of plants, animals, and people
  - requires risk assessments based on scientific evidences
- **Technical Barriers to Trade (TBT) Agreement**
  - Other types of regulations such as labeling, packaging

- Countries are encouraged to enact regulations as little as possible

Issue: GMOs

- Sanitary and Phytosanitary Standards (SPS)
  - Trade bans of GMOs
- Technical Barriers to Trade (TBT)
  - Labeling of GMOs

→ On what grounds one could challenge such a policy?

- MNCs → monopoly on seeds and inputs

UN vs. WTO

UN	WTO
• Precautionary approach	• Weigh benefits and risk
• Consider also social impacts and others	• Focus on economic impacts

การค้าไร้พรมแดน

- ไทยเป็นสมาชิกลำดับที่ 59 ของ GATT/WTO (ตั้งแต่ 1982)
- ASEAN Free Trade Area (AFTA) 1992
- Australian FTA 2003
- China สินค้าเกษตร 2003
- USA….

"Madness is running over our planet."

World Bank President James Wolfensohn told students at Stanford University, in California. March 2004

- World development help is running at about $56 billion a year, he said, while military expenditures are almost 20 times higher at more than $900 billion. Subsidies and tariff protections for world agriculture, including large commercial interests, reach about $350 billion a year.
- *"This is a huge frustration. ...... Money is not flowing to where it is needed,"*