





# **POLITICAL ECONOMY OF AGRICULTURAL MODERNIZATION AND TRADE**


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Course : EE 390 Economics of Agricultural and Rural Development


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- The General Agreement on Tariffs and Trade (GATT)
  - a multilateral agreement regulating international trade
  - purpose : the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis."
  - GATT was signed in 1947 and lasted until 1994, when it was replaced by the World Trade Organization in 1995

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- Within the GATT framework, negotiations consist of comprehensive trade rounds or legalistic dispute settlement procedures (DSP)
  - Outside of the GATT framework, other types of trade negotiations include loosely structured bilateral talks on either a single policy or a broad set of issues

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- Agricultural liberalization by wealthy countries would especially benefit many developing countries, which have been denied opportunities to export their goods
  - while at the same time being forced to compete in their local markets with subsidized agricultural products from developed countries

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- Even though tariffs on industrial goods have fallen during the postwar period to average from 5 to 10 percent, agricultural protection has remained high with tariffs averaging above 40 percent in 1998,
  - Agriculture stands out as a sector where countries stubbornly defend domestic programs.
  - The difficulty of balancing local interests with the pressures arising from participation in the global economy
    - ▣ Protests from farmer union around the world

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- High levels of agricultural protection have arisen because farm lobbies are an influential pressure group
  - The costs of the resulting agricultural protection include expenditures for higher prices and taxes.
  - Most inefficient programs reward higher levels of production rather than compensate for low income levels

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- The original GATT did apply to agricultural trade, but it contained loopholes. For example, it allowed countries to use some non-tariff measures such as import quotas, and to subsidize.
  - Agricultural trade became highly distorted, especially with the use of export subsidies which would not normally have been allowed for industrial products




□ **What is ‘distortion’?**


- Trade is distorted if prices are higher or lower than normal, and if quantities produced, bought, and sold are also higher or lower than normal — i.e. than the levels that would usually exist in a competitive market.




## □ What is ‘distortion’?


- For example, *import barriers* and *domestic subsidies* can make crops more expensive on a country’s internal market.
- The higher prices can encourage over-production.
- If the surplus is to be sold on world markets, where prices are lower, then export subsidies are needed.
- As a result, the subsidizing countries can be producing and exporting considerably more than they normally would.

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- Governments usually give three reasons for supporting and protecting their farmers, even if this distorts agricultural trade:
    - ▣ to make sure that enough food is produced to meet the country's needs
    - ▣ to shield farmers from the effects of the weather and swings in world prices
    - ▣ to preserve rural society.
  - But the policies have often been expensive, and they have created gluts leading to export subsidy wars.
  - Countries with less money for subsidies have suffered

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- The WTO's Agriculture Agreement was negotiated in the 1986–94 Uruguay Round
  - In December 1999 at the Seattle meeting of the WTO, when member states failed to agree on beginning a new trade round, agriculture formed one of the major lines of division.

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- In it, governments started to close agricultural loopholes in WTO agreements by binding and cutting tariffs, removing import bans or restrictions, and cutting subsidies that distort trade, both in domestic markets and on exports.
  - Poorer countries are allowed more flexible terms, and least developed countries have not made any reduction commitments.

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- The agreement does allow governments to support their rural economies, but preferably through policies that cause less distortion to trade
  - Developing countries do not have to cut their subsidies or lower their tariffs as much as developed countries, and they are given extra time to complete their obligations.
  - Least-developed countries don't have to do this at all.

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- By the end of 1993 both Japan and the EU had accepted the Uruguay Round Agreement requiring that Japan partially open its rice market and that Europe reduce its subsidies to farmers.
  - The Round came into effect in 1995 and has been implemented over the period to 2000 (2004 in the case of developing country contracting parties)
  - The agreement represented less liberalization than the United States and developing countries had wanted
  - It also represented more agricultural liberalization than in any previous negotiation and a major political concession by Japanese and European leaders for the cause of free trade

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- The objective of the **Agriculture Agreement** is to reform trade in the sector and to make policies more market-oriented
  - The new rules and commitments apply to:
    - **market access** — various trade restrictions confronting imports
    - **domestic support** — subsidies and other programmes, including those that raise or guarantee farmgate prices and farmers' incomes
    - **export subsidies** and other methods used to make exports artificially competitive



- **market access**

- It ensured that quantities imported before the agreement took effect could continue to be imported, and it guaranteed that some new quantities were charged duty rates that were not prohibitive



- **market access**

- “tariffs only!!”

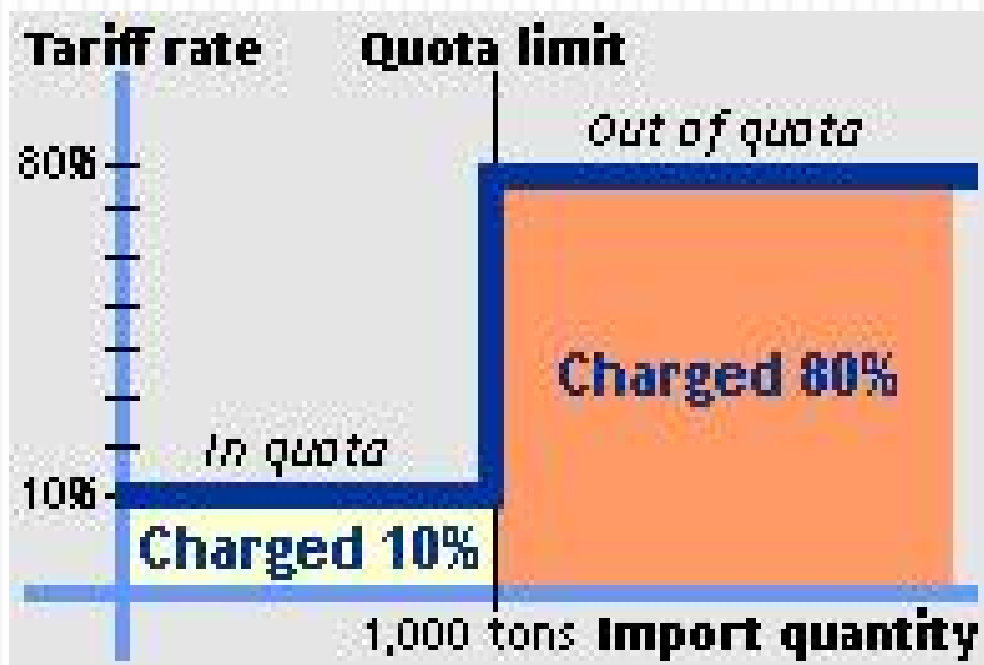
- Before the Uruguay Round, some agricultural imports were restricted by quotas and other non-tariff measures.

- “Tariffication” - converting the quotas and other types of measures to tariffs

- if the previous policy meant domestic prices were 75% higher than world prices, then the new tariff could be around 75%

## □ market access

### □ A 'tariff-quota system' (tariff-rate quota)



- Imports entering under the tariff-quota (up to 1,000 tons) are generally charged 10%.
- Imports entering outside the tariff-quota are charged 80%.



## □ **market access**

- Uruguay Round participants agreed that
  - Developed countries would cut the tariffs (the higher out-of-quota rates in the case of tariff-quotas) by an average of 36%, in equal steps over six years.
  - Developing countries would make 24% cuts over 10 years.
  - Least-developed countries do not have to cut their tariffs
- Covering all agricultural products, took effect in 1995



## □ **market access**

- Four countries used “special treatment” provisions to restrict imports of particularly sensitive products during the implementation period
  - Japan, Rep. of Korea, and the Philippines for rice; and Israel for sheepmeat, wholemilk powder and certain cheeses.
  - Japan and Israel have now given up this right, but Rep. of Korea and the Philippines have extended their special treatment for rice.
  - A new member, Chinese Taipei, gave special treatment to rice in its first year of membership, 2002.



## □ **Domestic support**

- encourage over-production
- This squeezes out imports or leads to export subsidies and low-priced dumping on world markets
- The Agriculture Agreement distinguishes between support programmes that stimulate production directly, and those that are considered to have no direct effect



## □ **Domestic support**

- **Direct supports (amber box):** using calculations known as “total aggregate measurement of support” or “Total AMS” in the base years of 1986-88
- Developed countries agreed to reduce these figures by 20% over six years starting in 1995.
- Developing countries agreed to make 13% cuts over 10 years.
- Least-developed countries do not need to make any cuts.



## □ **Domestic support**

### □ **Indirect supports (green box):**

- Measures with minimal impact on trade can be used freely
  - government services such as research, disease control, infrastructure and food security
  - payments made directly to farmers that do not stimulate production, such as certain forms of direct income support, assistance to help farmers restructure agriculture, and direct payments under environmental and regional assistance programmes



## □ **Domestic support**

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- Measures with minimal impact on trade can be used freely
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## □ **Domestic support**

### ▣ **Indirect supports (green box):**

- certain direct payments to farmers where the farmers are required to limit production (blue box) are also permitted
- certain government assistance programmes to encourage agricultural and rural development in developing countries, and other support on a small scale (“de minimis”) when compared with the total value of the product or products supported (5% or less in the case of developed countries and 10% or less for developing countries)



## □ **Export subsidy**

- The agreement requires WTO members to cut both the amount of money they spend on export subsidies and the quantities of exports that receive subsidies
- Taking averages for 1986-90 as the base level,
  - Developed countries agreed to cut the value of export subsidies by 36% over the six years starting in 1995 (24% over 10 years for developing countries).
  - Developed countries also agreed to reduce the quantities of subsidized exports by 21% over the six years (14% over 10 years for developing countries).
  - Least-developed countries do not need to make any cuts.



## Criticisms

- The Agriculture Agreement has been criticized by NGO's for categorizing subsidies into trade-distorting domestic subsidies (the amber box) which have to be reduced, and non-trade distorting subsidies (blue and green boxes) which escape disciplines and thus can be increased.
- As efficient agricultural exporters press WTO members to reduce their trade-distorting 'amber box' and 'blue box' support, developed countries' green box spending has increased



## Criticisms

- ❑ This reduced tariff protections for small farmers – a key source of income for developing countries
- ❑ while allowed the rich countries to maintain or raise their very high subsidies by switching from one kind of subsidy to another
- ❑ after the Uruguay Round the total amount of subsidies in OECD countries have gone up instead of going down, despite the apparent promise that Northern subsidies will be reduced



## □ **Doha Round**

- commenced in November 2001
- If all trade barriers in agriculture, services, and manufactures were reduced by 33% as a result of the Doha Development Agenda, there would be an increase in global welfare of \$574.0 billion
- A 2008 study by World Bank found that global income could increase by more than \$3000 billion per year, \$2500 billion of which would go to the developing world



## □ **Doha Round**

### ▣ Different environment,

- The most significant differences are between developed nations led by the EU, USA, and Japan and the major developing countries led and represented mainly by Brazil, China, India, South Korea, and South Africa



## □ **Doha Round**

- In 2008, the negotiations collapsed on 29 July over issues of agricultural trade
- The United States is being asked by the European Union (EU) and the developing countries, led by Brazil and India, to make a more generous offer for reducing trade-distorting domestic support for agriculture
- But the talks had been harmed by the “five-year program of agricultural subsidies” recently passed by the U.S. Congress which continues the US’ agricultural subsidy as well as pursuing areas such as energy, conservation, nutrition, and rural development



## □ **Doha Round**

- While India has insisted on a large number of ‘special products’ that would not be exposed to wider market opening
- Disagreement between India and the United States over the threshold of “special safeguard mechanism” (SSM), a measure designed to protect poor farmers by allowing countries to impose a special tariff on certain agricultural goods in the event of an “import surge” or price fall

# Agreement on Sanitary and Phytosanitary Measures

- Governments have the right to take food safety and animal and plant health regulations
- Should be applied only to the extent necessary to protect human, animal or plant life or health
- Should not arbitrarily or unjustifiably discriminate between Members where identical or similar conditions prevail

# Agreement on Sanitary and Phytosanitary (SPS) Measures

- Members are encouraged to base their measures on international standards, guidelines and recommendations where they exist
- Members may maintain or introduce measures which result in higher standards if there is scientific justification or as a consequence of consistent risk decisions based on an appropriate risk assessment

# Technical Barriers to Trade (TBT)

- Developing countries protest regularly against the increasing use of nontariff barriers (NTBs) by developed countries

# Trade and Sustainable Development?

## Shrimp-Turtle Case

- In 1994, the WTO intervened to address member concerns regarding the import of shrimp and its impact on turtles
- the WTO upheld the U.S. ban based on the process of production and not the product itself although the U.S. lost the proceedings and had the ban declared inconsistent with the GATT 1994 because the ban was discriminatory against other nations

# Trade and Sustainable Development?

## Tuna-Dolphin Case

- The US and the public later required the ban of tuna caught by ocean floor trawling.
- Tuna sold to the US markets had to be labelled "Dolphin Safe".
- The United States lost the Tuna-Dolphin Case, both times. The first was when Mexico opened a dispute. The second was the European Economic Community and The Netherlands
- "Process versus product" and "extraterritoriality"