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DEVELOPMENT NGOS AND THE LIBERALISATION OF EU AGRICULTURAL POLICIES

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It is far too easy to paint all developing countries with the same brush and thus assert that these economies will benefit from the liberalisation of EU and OECD agricultural policies. Lynne Carolan takes a closer look at the likely impact of this liberalisation on subdivisions of developing countries. She argues that while middle-income developing countries will gain, the more vulnerable less developed countries will lose out.

Introduction

"Agriculture is overwhelmingly important for the economies and livelihoods of developing countries. For millions of families in the developing world it is the sole available means of survival."

(Green and Griffith, 2002)

There is an ongoing debate in development economics as to whether the liberalisation of EU and OECD agricultural policies will actually benefit developing countries, with the majority of NGOs arguing that it will. Agriculture is central to developing countries' economies and their population, with three quarters of the world's 1.2 billion extremely poor people living and working in rural areas of developing countries (Green and Griffith, 2002). Developing countries are said to "have a comparative advantage in the production of agricultural [products, yet] they have made less progress in expanding their agricultural exports than hoped and have even lost market share in international agricultural trade" (Tangermann, 2005: 1). It is argued that the support and protection afforded by developed countries to their own farmers often imposes a heavy burden on many developing countries. For this reason further efforts to open up agricultural markets and improve upon world trade rules are seen as imperative by NGO's "in helping developing countries achieve food security and sustainable livelihoods for their farmers" (Oxfam, 2002:9).

However, much dispute remains as to the true consequences of the liberalisation of developed country agricultural policies for developing countries. Advocates of industrialised country trade liberalisation argue that the resulting rise in world prices for agricultural products will boost world incomes, thereby reducing poverty in the poorest countries (Hertel et. al, 2003). Conversely, more recent studies suggest that while trade liberalisation would indeed be beneficial to many middle-income developing countries who are net-exporters, the elimination of agricultural tariffs, domestic support and export subsidies would in fact be detrimental to net-importing LDCs (Less Developed Countries) because of terms of trade effects and the negative consequences that would potentially arise from the erosion of their preferential access to the EU and US market (Bureau et al, 2005).

For the purpose of this essay I will examine the contention of development NGOs that trade liberalisation would be of benefit to developing countries, firstly by outlining the net trade status of developing countries in agriculture and subsequently by examining the effect of liberalisation under the three pillars of trade liberalisation outlined in the Agreement on Agriculture of the Uruguay Round: Market Access, Domestic Support and Export Competition.

The Net -Trade Status

To begin with it is necessary to establish the five different groupings of developing countries. They include the major agricultural exporters, such as Brazil who belong to the Cairns group; large low-income countries close to self-sufficiency such as India; large and medium-sized net food-importing developing countries, such as Kenya; the small island states that are also net food-importers, including Jamaica; and the least-developed countries who additionally are net food-importers, including Sub-Saharan African countries. It is important to recognise that food exporters and importers are affected differently by food trade liberalisation and therefore are expected to pursue different agendas in the world trade negotiations (Matthews, 2001).

There is little disagreement "that overall the agricultural policies of developed countries' depress world market prices as they stimulate farm production, reduce consumption, and hence result in larger supply and lower demand on world markets" (Tangermann, 2005:3). Many NGO's view this as sufficient grounds for the liberalisation of agricultural policies. However, the manner in which the agricultural policies of developed countries affects the economic welfare of developing countries depends on whether they are net importers or net exporters of agricultural products. A common misconception is that developing countries are net exporters of agricultural products, and "therefore protection and subsidies by developed countries limit access of the LDCs thereby impacting adversely on the quantity and value of their exports" (Panagariya, 2004:11). However, studies by Valdes and McCalla have found that three fifths of all developing countries are net agricultural importers and Food and Agriculture Organisation (FAO) projections suggest that this movement towards increasing net imports of agricultural goods is expected to continue into the future. In fact, the FAO estimates that by 2030, developing countries will have a net food trade deficit in excess of USD50 billion (Tangermann, 2005).

Middle-income developing countries (such as members of the Cairns group) that are net exporters would gain from the removal of protection and subsidies by developed countries, through increased market access and an increase in world prices. Conversely, as net importers LDCs have access to current depressed prices and if the subsidies and protection were to be eliminated the world prices would rise and the losses to LDCs could be considerable. In addition, under the Everything But Arms initiative of the EU, LDCs already have quota and duty free access to the EU market (with the exception of bananas, rice and sugar), meaning that they can sell their exports at the internal EU price that is artificially high. Generally, the EU domestic price is far more profitable than the price that LDCs are likely to obtain following liberalisation of agricultural policies by developed countries (Panagariya, 2005). To make best use of the gains from trade reform, it is essential that the domestic economies of developing countries be well run. If factor mobilities are inflexible only a fraction of the potential gains from trade will be realised (Anderson, 2004). Many food-importing countries do not have the capacity to significantly increase their production should developed countries eliminate unfair tariffs and subsidies. The consequence is that trade liberalisation will simply increase their food import bill (Bouet et al, 2004).

Market Access

According to Anderson and Martin, agricultural protectionism by developed countries still significantly restricts exports from developing countries. They estimate that OECD agricultural protectionism costs developing countries in the region of $26 billion (Anderson and Martin, 2005). A study conducted by Hertel and Keeney using the GTAP-AGR model, shows that an improvement in market access would be the dominant source of gains as a result of agricultural trade liberalisation. Of the total $44 billion gain from freeing market access, about one-quarter accrues to the developing countries, which is well above those countries' one-sixth share of global gross domestic product in 2001 (Hertel and Keeney, 2006). However, the gains from a cut in agricultural tariffs would be limited if not negative for the developing countries that already benefit from reduced tariffs under preferential access schemes (Bureau et al, 2005). This is particularly the case for some small and highly specialised economies, which have developed specific agricultural sectors due to preferential access to the EU or US market (Bouet et al, 2004).

Preference Erosion

There are several types of preferential access schemes that have been designed to alleviate the effects of high tariffs on developing country exports to developed country economies. They range from very broad ones with minor tariff concessions, such as the Generalised System of Preferences (GSP), to market specific ones such as the EU's provision of duty free access for particular volumes of specified products form certain developing countries in Africa, the Caribbean and the Pacific (ACP), to the more recent Everything but Arms Initiative of the EU (Anderson, 2004). There has been much criticism of these preferential regimes. It is feared that they reduce quite substantially the capacity for developing countries as a group to push for more access to EU markets, by creating a group of developing countries supporting the EU's protectionist position (in order to receive the high internal prices in the EU market). Anderson argues that in ACP countries, preferences have resulted in the development of industries in which they have no comparative advantage and that as a whole may not have existed had the preference scheme not been introduced (Anderson, 2004). However, this drawback arose because under the ACP agreements preferences were granted for a limited number of products only. With the broader set of preferences offered by the Everything but Arms Agreement, this issue is less of a problem (Bureau et al, 2005).

A plausible argument put forward by Anderson is that since a developing country sells only part of its exports into a protected market to which it has preferential access, it receives a lower price for the remainder of its exports than would be the case under free trade (due to the price-depressing effect of developed country protection on the world market). It is therefore possible that the weighted average price that a developing country receives for its exports could in fact be lower than what it would be under free trade (Anderson, 2004). However, a recent study by Stevens and Keenan (2004) contradicts the theory that preferences are ineffective as development aid and finds that preferences in agriculture do in fact work on an international scale and that the problems are mainly caused by the limitations of these preferences e.g. technical standards imposed for tariff exemptions (Bureau et al, 2005). If these preferences had not been offered in the first place, perhaps developing countries would have lobbied more vigorously for lower tariffs on agricultural products into the EU. However, given that many developing countries have now invested heavily in certain industries in order to take advantage of these preference schemes they may face severe difficulties in reallocating part of their production factors to other sectors if EU tariffs were eliminated. These reallocation difficulties include obstacles to labor mobility, poor training facilities and the absence of safety nets (Bureau et al, 2005).

Technical Barriers and Supply Side Constraints

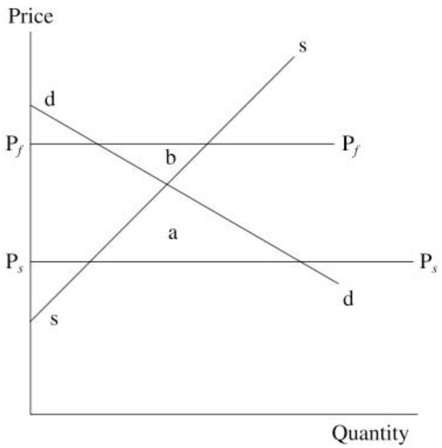
There is currently a fear that in anticipation of trade liberalisation under the Doha Round developed countries are now pushing import barriers up in the form of Sanitary and Technical standards. Due to the fact that LDCs have greater difficulties than the middle-income developing countries of the Cairns group and the developed countries in overcoming these technical barriers, they are in danger of losing some of their existing market access (Panagariya, 2005). Additionally there are supply side constraints such as poor infrastructure, lack of skilled labour and limited capital that may not be a problem for the more advanced developing countries but will curb many of the possible benefits of trade liberalisation for many LDCs (Bureau et al, 2005).

Agricultural Domestic Support

Reductions in domestic support have been seen as a particular concern of developing countries. Many developing countries are concerned about the ability of their producers to compete with producers of developed countries receiving large amounts of domestic support. However, evidence suggests that the benefits accruing to developing country as a result of the elimination or reform of domestic support may be considerably smaller than the potential gains from the removal of barriers to market access (Anderson et al, 2006). However, the removal of EU and US agricultural subsidies may for example have significant consequences on the world price of some commodities. This is the case of the subsidies on cotton, tobacco and soybeans (Bureau et al, 2005). Panagariya argues that because the vast majority of LDCs are net agricultural importers, an elimination of domestic subsidies would be of little benefit to them as their removal will raise the world prices of commodities and hurt the real incomes of the importing countries.

Figure 1:

A Developing Country Turning from a Net Importer to Exporter



Source: Panagariya, 2005

In the above figure ss and dd denote the supply and demand of a developing country that initially imports a commodity, with the triangular area ‘a’ representing net gains from trade. The world price of the commodity in the presence of a subsidy is P_s with the removal of the subsidy by the developed county raising the price to $P_{f.}$ As is evident from the above figure even if the developing country were to become a net exporter of a given commodity the gains from free trade would only outweigh the current benefit of lower commodity prices if world prices increased sufficiently to make the new gain from trade area ‘b’ larger than area ‘a’ (Panagariya, 2005).

Agricultural Export Competition

According to Hoekman and Messerlin (2006) farm export subsidies are inconsistent with the General Agreement on Tariffs and Trade and should therefore be eliminated (Anderson et al, 2006). At an economic level, export subsidies are very inefficient and face strong criticism from NGOs, as they deprive some developing countries with significant production potential of markets in nearby countries. However the removal of such subsidies will have a varying effect on developing countries and would in fact harm developing countries that are net agricultural importers in the short term as they benefit from more favorable terms of trade due to the lower prices that prevail as a result of export subsidies. (Bureau et al, 2005). In spite of this, Anderson et al (2006) contend that a gradual phasing out of export subsidies should be a feasible element of the Doha agreement and while their elimination in isolation could harm a few food-importing countries, the net buyers of food in these countries could be assisted in a far more efficient manner (Anderson et al, 2006).

Conclusion

Following an analysis of the probable effect of developed country trade liberalisation on developing countries through increased market access and the elimination of domestic support and export subsidies, it is clear that the impact on developing countries and indeed on economic agents within each developing country varies significantly. While NGOs are right in assuming that trade liberalisation will benefit some developing countries, research suggests that unfortunately this is not the case for many LDCs. Middle-income developing countries that are net exporters of agricultural products are likely to gain substantially from increased market access and an overall rise in the world prices of various commodities. However, the poorer and more vulnerable LDCs who are by and large net importers of agricultural products can be expected to suffer from the negative consequences of agricultural trade liberalisation. This negative impact is the result of preference erosion, a rise in world prices, technical barriers that have arisen in anticipation of trade reform under the Doha Round and supply side constraints. Farmers and members of rural communities are likely to suffer the most from this liberalisation in LDCs, while urban consumers may in fact benefit from the fall in food prices. For progress to be made in the reform of agricultural policies it is essential that we recognise the key distinction between net food importing developing countries and net food exporting developing countries.

It is the contention of this paper that the terms of trade losses that many LDCs may suffer as a result of trade liberalisation should not necessarily halt progress on agricultural trade reform. However, it is imperative that developed countries and institutions such as the World Bank and IMF compensate developing countries for terms of trade losses and assist in the setting up of the safety nets needed for developing countries to adjust to a more open trade regime. This way redistribution of income towards LDCs could be achieved without the inefficient misallocation of resources that accompanies current trade policies of developed countries. Finally, we must not forget that in order to take full advantage of a more open and competitive world trading system it may be necessary for developing countries to also open up their own markets rather than seek exemption from trade reform, thereby maximising potential economic efficiency gains.

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