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WTO and Development: Agriculture and Development

By

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Agriculture and Development

(Allan McKinnon – DFAT)

Introduction

Agriculture trade reform is now under the international spotlight with agricultural negotiations under way within the World Trade Organisation or WTO. It is encouraging to see that, so far, the talks are proceeding in a relatively positive fashion, with a number of constructive negotiating proposals already on the table.

It is true that many WTO members had hoped that those negotiations would be taking place within the context of a broader negotiating round - a preferable environment for reaching agreement on the very difficult issues. The mis-step in Seattle has delayed that event. However, I believe that the work on agriculture can push ahead even in the absence of a broader round.

As the negotiations continue in Geneva, I would like to address the question: what can WTO agricultural negotiations offer developing countries, in their pursuit of sustained economic development? With developing countries now constituting about three-quarters of the membership, and likely to press for greater recognition of their interests in the WTO, this is certainly a topical question.

In the short time I have here, I am going to suggest that the negotiations can offer them a great deal. Essentially, I want to make three basic points:

- **the agricultural sector can play a fundamental role in development**

- **there are substantial distortions in international agricultural trade which are undermining the agricultural sector in developing countries**
- **the WTO agricultural negotiations offer an opportunity to accelerate development by providing the main forum for achieving major reforms in the international agricultural trading system.**

Let me say at the outset, that there are promising signs that developing countries are recognising these arguments. The Cairns Group, which contains fifteen developing countries from Africa, East Asia and Latin America, has taken a leadership role in pushing for agricultural reform. In addition, a group of eleven developing countries, from Latin America, South Asia and Africa, have also put ambitious proposals into the negotiations. Their proposals have many features in common with Cairns Group proposals, particularly in their calls for major reforms of agricultural policies in developed countries.

In the wider international context, developing countries have come out in force behind calls for the elimination of export subsidies, as reflected in statements by the G-77 and G-15, among others. Developing countries have also been vocal in demanding agricultural trade reform, in the UN, including in the Commission for Sustainable Development.

The message was also echoed by Dr Boutros-Ghali, the Trade Minister of Egypt, a leading developing country, at the recent Ministerial Meeting of the Cairns Group in Banff, Canada.

Agriculture's fundamental role in development

What is behind the increasing activity of developing countries in this area is, of course, the growing recognition of agriculture's role in development.

The agriculture sector is a relatively large sector in the majority of developing country economies. According to the UN's World Economic Survey 2000, in most developing countries, agriculture currently engages between 70 and 95 per cent of the labour force, accounts for 20-60 per cent of gross domestic product, and 10-90 per cent of merchandise exports. It is also the sector in which the majority of developing countries have a comparative advantage.

Despite this, historically, agriculture has often been given short shrift in development planning. In many development strategies, the interactions between agriculture and other sectors has been ignored, and little emphasis has been put on enhancing technological progress or investing in agriculture, or on exploring the possibility that agriculture could trigger development elsewhere. Policies have frequently taxed agriculture, imposed price controls on food, ignored the provision of rural infrastructure and social services and neglected agricultural research.

A number of assumptions underlay this policy orientation. The bias towards industry was partly based on the belief that agriculture was subject to low productivity and slow growth. It was also argued that agriculture did not generally use many inputs from other sectors or provide many inputs to other sectors, except in food processing and textiles, and these two sectors would decline relative to other sectors when a country developed. There was also the assumption that possibilities of economies of scale and specialisation were more prevalent in manufacturing, and that technical change originated from manufacturing industries.

During the last three decades, these assumptions have increasingly been challenged. One of the main factors driving the challenge to the gloomy expectations about agricultural productivity was the green revolution in the 1960s and 1970s.

Evidence of the contribution that agriculture could make to development has accumulated with a study by the World Bank showing that in the past 25 years, most developing countries with agricultural growth above 3 per cent a year had fast GDP growth. In contrast, most developing countries with agricultural growth of only 1 per cent or less had slow GDP growth.

A strong agricultural sector can promote economic development through several channels:

- it increases production of food and fibre and lowers their prices
 - this increases the purchasing power of developing country consumers who typically spend more than two thirds of their income on food
 - lower food prices improve nutrition, allowing an increase in labour productivity in every sector

- lower agricultural prices allow cost reductions to industries that use agricultural inputs
- it increases demand for the output of other sectors
 - demand for inputs to agricultural production such as fertiliser, transportation, commercial services, construction and technological inputs
 - and demand for consumer goods and services, as rural standards of living increase
- it generates employment
 - agriculture itself, and the construction of the infrastructure that agriculture needs, are very labour intensive - even more labour intensive than manufacturing industries such as textiles
 - in addition, the increase in rural demand is for relatively labour intensive consumer goods and services
- it provides a sustained flow of labour and capital for the development of other sectors
- it eases the foreign exchange constraint that many developing countries face
 - it is the key foreign exchange earner in two-thirds of developing countries
 - agricultural production also tends to be less import-intensive than manufacturing.

Self-sustaining development of the agriculture sector is especially fundamental during the early phases of development because of the size of the agricultural sector, the extent of rural poverty, and the primacy of food.

The current international environment for agricultural production and trade

The role of agriculture in sustained development appears to be a strong one. But the topology of the international landscape for agricultural trade is, at present, not conducive to this role.

Of course, an integrated package of reforms is needed for the sustained development of agriculture, as it is for other sectors. The development of a strong agricultural sector requires adequate property rights, macroeconomic stability, strong financial markets, adequate rural infrastructure, and domestic trade liberalisation.

Another necessary element is global agricultural trade reform. This element has taken on added urgency in light of the growing agricultural distortions in the international environment

- last year, total domestic support to agriculture in the OECD reached US\$360 billion, with production and trade distorting support to farmers reaching levels not seen since the mid-1980s
- agricultural tariffs remain on average, three times as high as in industrials' trade, with peaks of 800 per cent
- export subsidies in agriculture still exist while they are banned in every other area of trade.

The largest distortions in world markets for agricultural products arise from the policies of a handful of developed countries:

- the EC's Common Agricultural Policy, including sixty billion dollars in trade distorting subsidies and 85% of the world's agricultural export subsidies, is the largest distortion of world trade in any sector
 - the dilution of many aspects of the EC Commission's original reform proposals for Agenda 2000 means that the final reform package has fallen well short of its target

- Japan continues to have one of the most restrictive agricultural systems in the world with high barriers to other countries' products providing a chief means of maintaining this system
- the US introduced key policy reforms, which significantly decoupled production, under the 1996 Fair Act
 - but the succession of farm assistance packages over the last 18 months, which have served to insulate US farmers from international prices, are undermining these reforms.

These distortions substantially undermine the potential benefits of the hard won domestic agricultural reforms being made in developing countries.

As the OECD notes, the production and trade distorting policies of the majors have caused agricultural prices of many commodities to fall further in 1999, or remained depressed from 1998. This has, at best, reduced farm incomes in most other countries, and has in many cases, prevented the development of otherwise viable agricultural industries.

What the WTO agricultural negotiations can offer to developing countries

Now that I've set the scene, I would like to talk about the major reforms which are necessary in agricultural trade and which are only possible through negotiations in the WTO in agriculture.

These negotiations in the WTO are, of course, of major importance for small and middle-sized countries, including most developing country members. The WTO provides market-opening concessions on a most-favoured nation basis, and more broadly a rules-based multilateral trading system in which all members have rights and obligations. The alternative is bilateral commercial relations based on economic and political power. Differences in influence between individual countries remain, of course, but even the smallest WTO member has a wide range of rights enforceable under the WTO's impartial dispute settlement procedures.

In addition, the negotiations themselves can provide an opportunity for the wider group of WTO members gunning for reform to apply concerted pressure on a handful of agri-protectionist countries.

In view of the major distortions in agriculture, the Cairns Group, and other reform-minded countries, including the US, and some developing countries, are calling for major policy reforms. In particular, the Cairns Group's objectives are the elimination of export subsidies, a substantial reduction in trade-distorting domestic support, and a substantial expansion in market access opportunities.

Such reforms would have a number of key effects on developing countries as a group. Apart from greater market access for their products, there would be higher prices for the larger amounts they would export, less competition from subsidised products from developed countries, and less volatility in world markets.

In addition, although many developing countries have been undertaking agricultural reforms unilaterally, new WTO commitments may put pressure on some of them to undertake market-oriented reforms or at least not reverse reforms they have previously undertaken. As mentioned, this is an important part of the package for promoting sustained agricultural development.

International and domestic reforms would mean that overall, developing countries as a group, would produce and export more agricultural products. Their incomes would rise because they would realise their comparative advantage to a greater extent.

ABARE has estimated that the global gains from a 50 per cent reduction in agricultural support levels would amount to US\$53 billion increase in GDP in 2010.

Of this amount, the lion's share, nearly US\$40 billion would go to developed countries. This simply reflects that the highest levels of market distorting support are in those countries.

Developing countries would benefit by around US\$14 billion. You should note that these estimates are highly conservative; they do not take into account the dynamic gains from liberalisation that arise from greater competition, innovation, improved management and greater technological advances. These can be even greater than the estimated static gains for many countries.

Of course, developing countries constitute a wide and disparate group in terms of their agricultural resources, economic structures, stages of development and

levels of income. The impact of agricultural liberalisation will differ greatly between countries.

It is not surprising, then, that some developing countries have expressed concerns about the impact of international agricultural reform. They have two broad sets of concerns: those related to the impact of the reform of developed country policies, and more importantly, those related to their domestic liberalisation, which would be an inevitable requirement in a new Agricultural Agreement.

On the whole, developing countries see the benefits of reform of developed country policies. However, one issue sometimes raised is the possible negative impact on food security of the elimination of developed countries' export subsidies. However, it is hard to argue that export subsidies have, overall, contributed to greater food security

- heavy dependence on imports of subsidised food, can lead to serious financial difficulties, due to a more vulnerable balance-of-payments situation, regardless of the price of food
- efficient local production, which can make a major contribution to food security, requires the ability to participate in the international agricultural market on competitive terms, that is, without having to compete with imports that have benefited export subsidies.

From a wider perspective, as poverty is the root cause of food insecurity, the support and protection policies in developed countries worsen food security by holding back the growth of overall living standards. They also undermine sustained access to food supplies by reducing the global sources of efficient supply.

Developing countries also express concerns about adjustment costs of domestic liberalisation. While it needs to be reiterated that the costs of not liberalising are likely to be much greater than the potential costs of liberalising, these concerns are nonetheless legitimate and they underline the importance of ensuring that trade liberalisation does not take place in isolation. It should be part of a range of policy reforms that include the provision of social safety nets and education.

Moreover, the current Agricultural Agreement recognises the relatively larger adjustment costs of developing countries. One element is special and

differential treatment for developing countries involving weaker commitments and a longer timeframe for implementing them. Another element is the "Decision on Measures Concerning the Possible Negative Effects of the Reform Program on Least-Developed and Net Food Importing Countries". This includes provisions on food aid, technical and financial assistance, export credits, and access to the resources of international financial institutions.

The current WTO negotiations will need to further address these concerns. Certainly, the Cairns Group is very supportive of examining and, if necessary, enhancing, the provisions for developing countries in the WTO rules.

Concluding remarks

I have suggested that countries pursuing sustained economic development have much to gain from the WTO negotiations in agriculture.

In short, agriculture tends to play a fundamental role in economic development, but sadly, developing country producers must compete in the most highly distorted of international sectors. The current WTO negotiations provide them with perhaps the only opportunity to correct those distortions.

More opportunities in agricultural markets for developing countries can act as a springboard to their overall integration into a fast globalising world economy, ultimately allowing them to reap their fair share of its rapidly developing new opportunities in many sectors of production and trade.

Reform-minded countries, such as those in the Cairns Group, and others, are calling for a stronger Agricultural Agreement. Only with the support of the wider group of developing countries will the reform agenda be achieved.

It is important that developing countries understand the stakes they have in the WTO agricultural negotiations and contribute their voices to the campaign for reform.