

# GLOBAL AGRICULTURAL TRADE AND DEVELOPING COUNTRIES

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Editors

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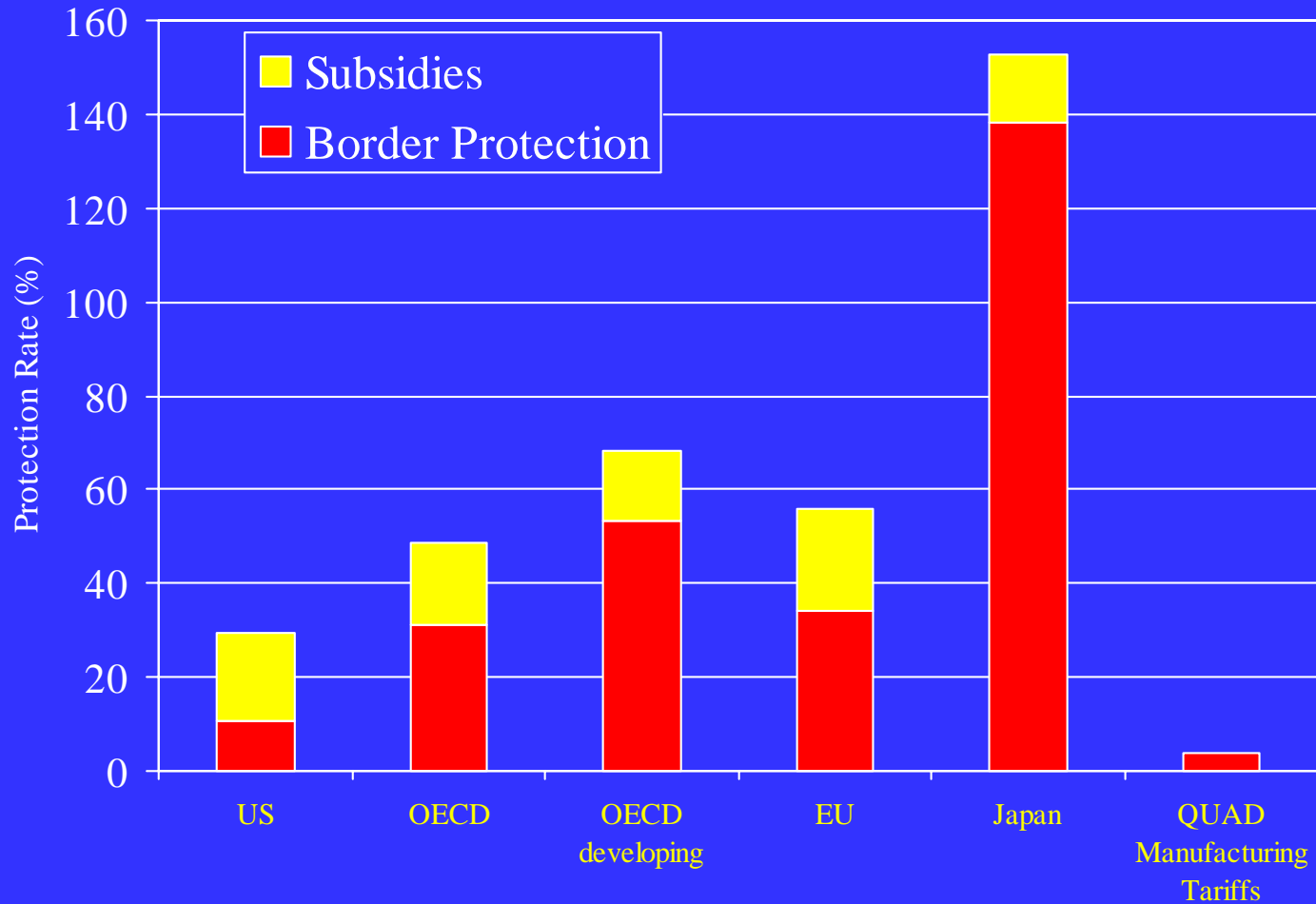


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# Key Messages

- **Ongoing reforms in most developing countries, little change in industrial and some developing countries**
- **Supply expansion without trade reforms will lead to further price declines and pressures for greater protection**
- **Full liberalization would generate large welfare gains and even larger changes in output, exports and imports**
- **Multilateral and multi-commodity solutions are the key**

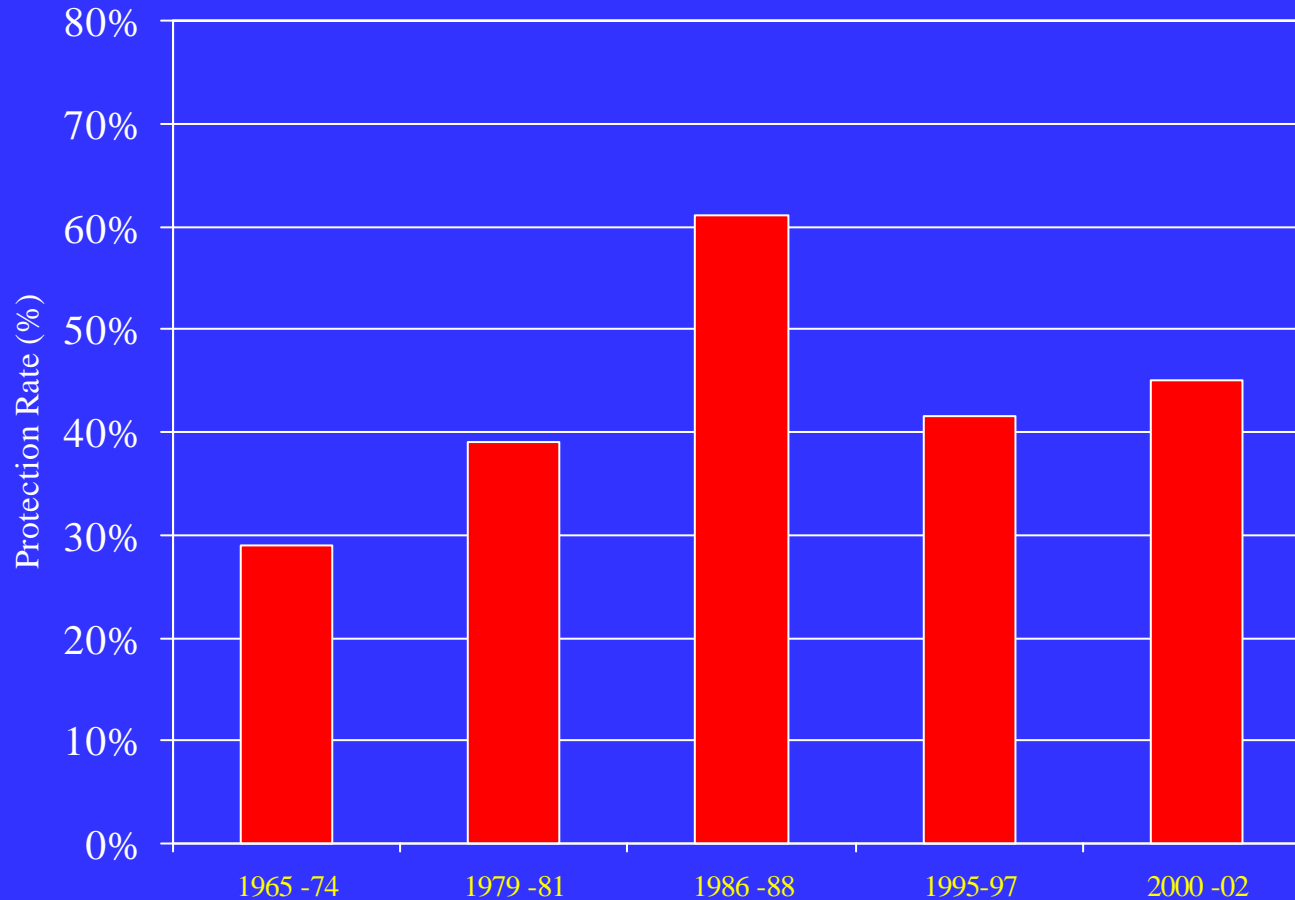
# Protection is Still High and Mostly at the Border



Source: OECD

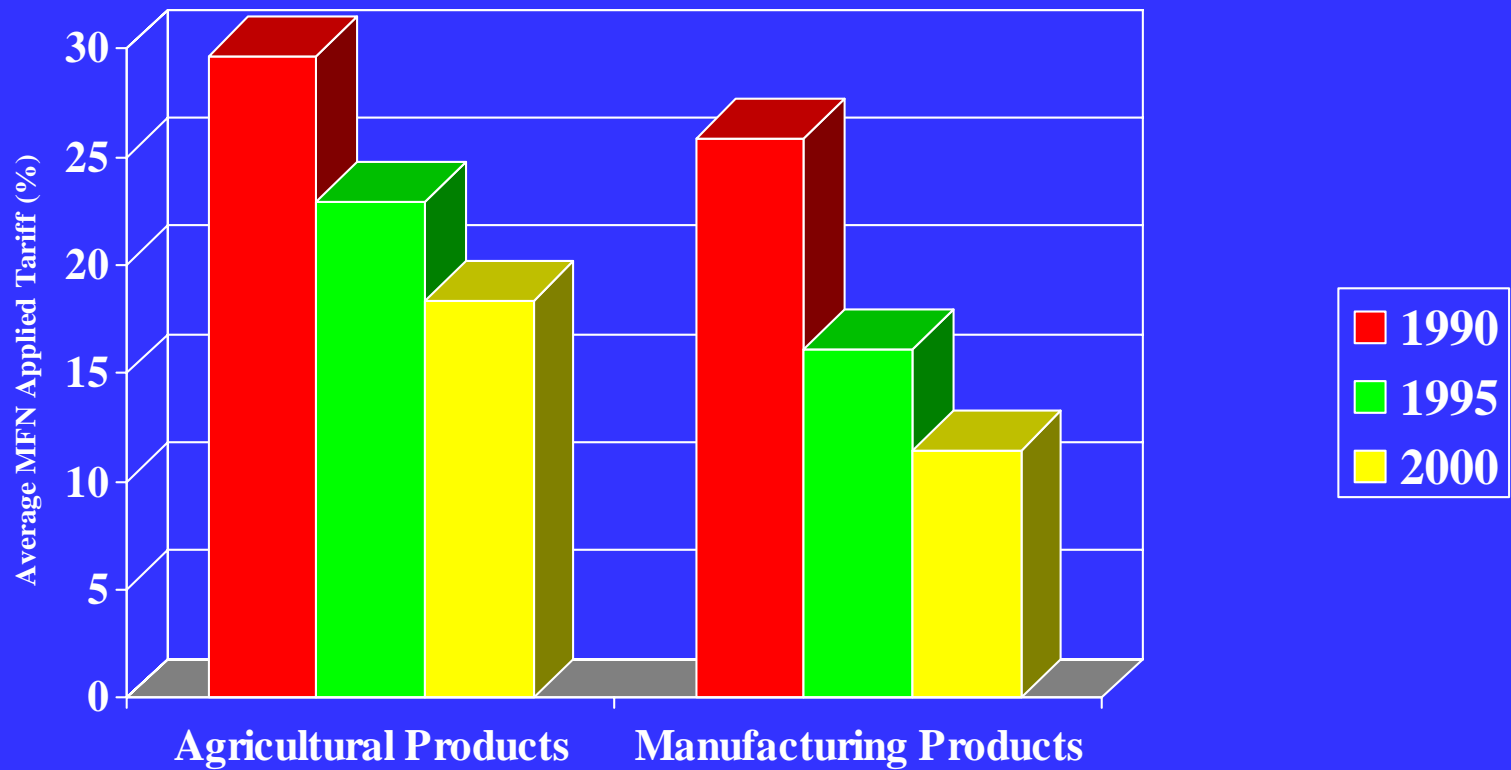
# OECD Protection has not decreased significantly

Estimated nominal rates of agricultural protection in OECD Countries (%)



Source: OECD protection estimates (except ABARE for 1965-1974, Author's calculation for 2000-2002).

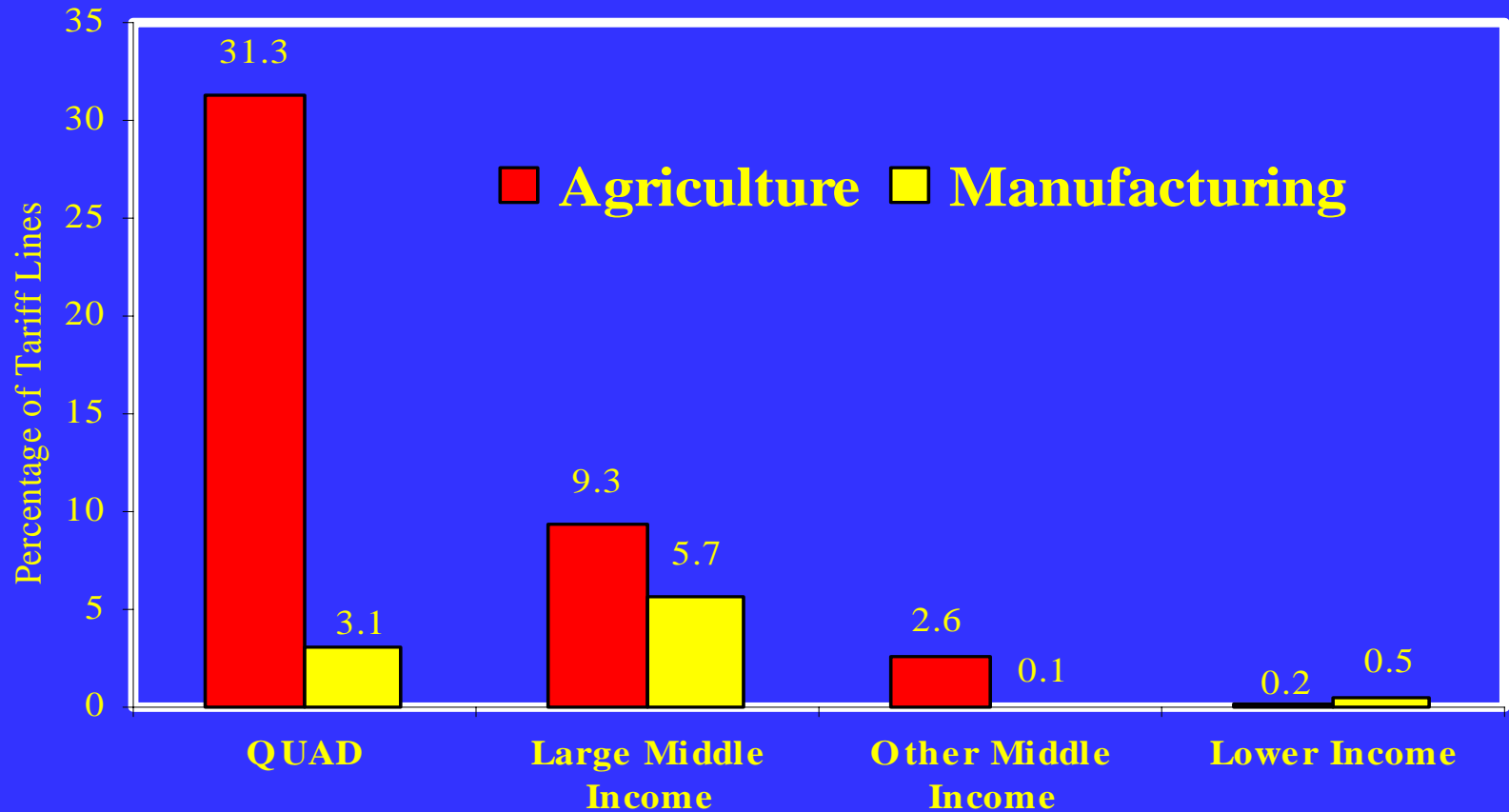
# Developing Countries' Tariffs Have Decreased



Source: TRAINS

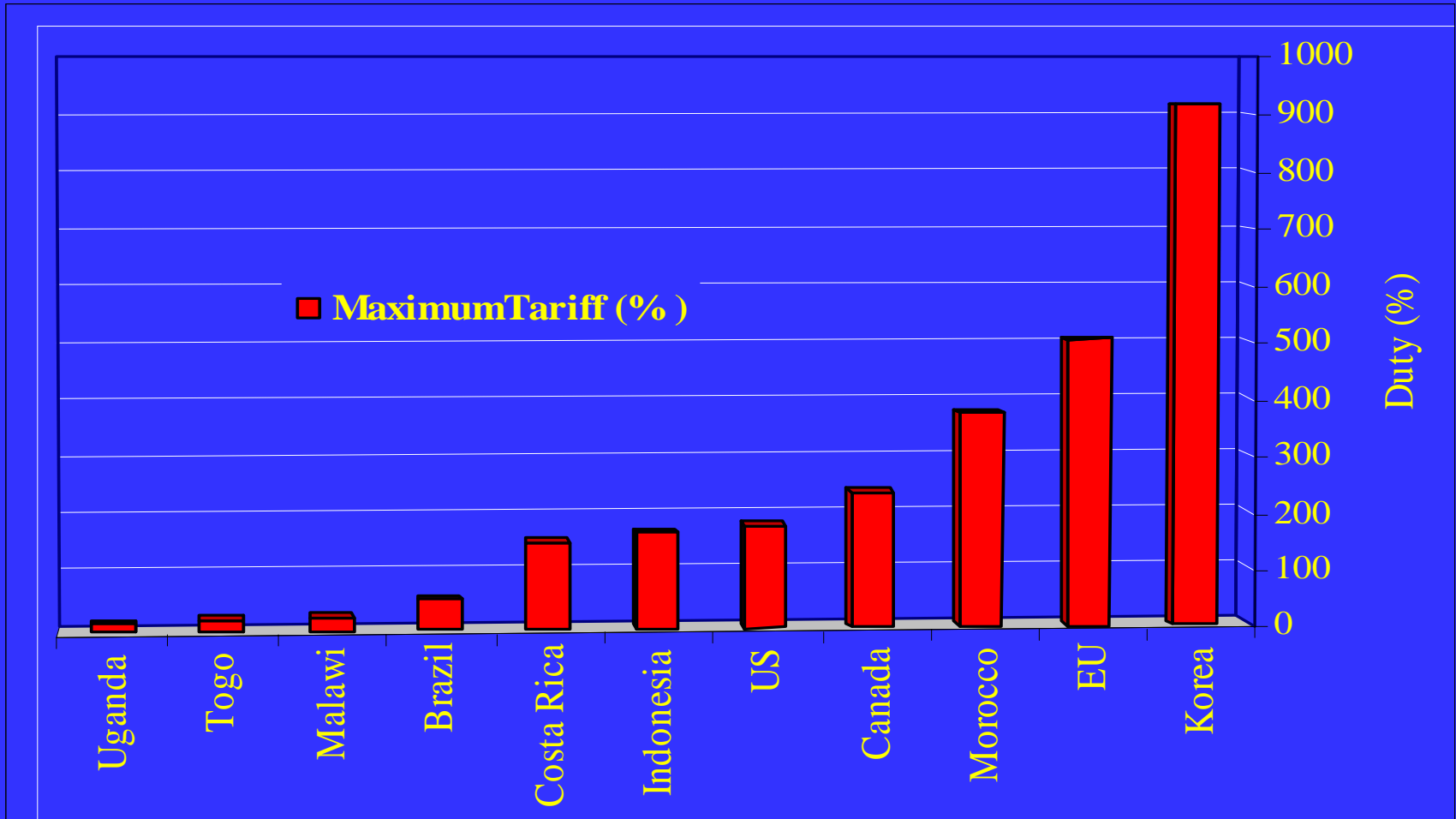
# Complicated Protection Due to Specific Duties

## Percentage of Tariff Lines Non Ad-Valorem



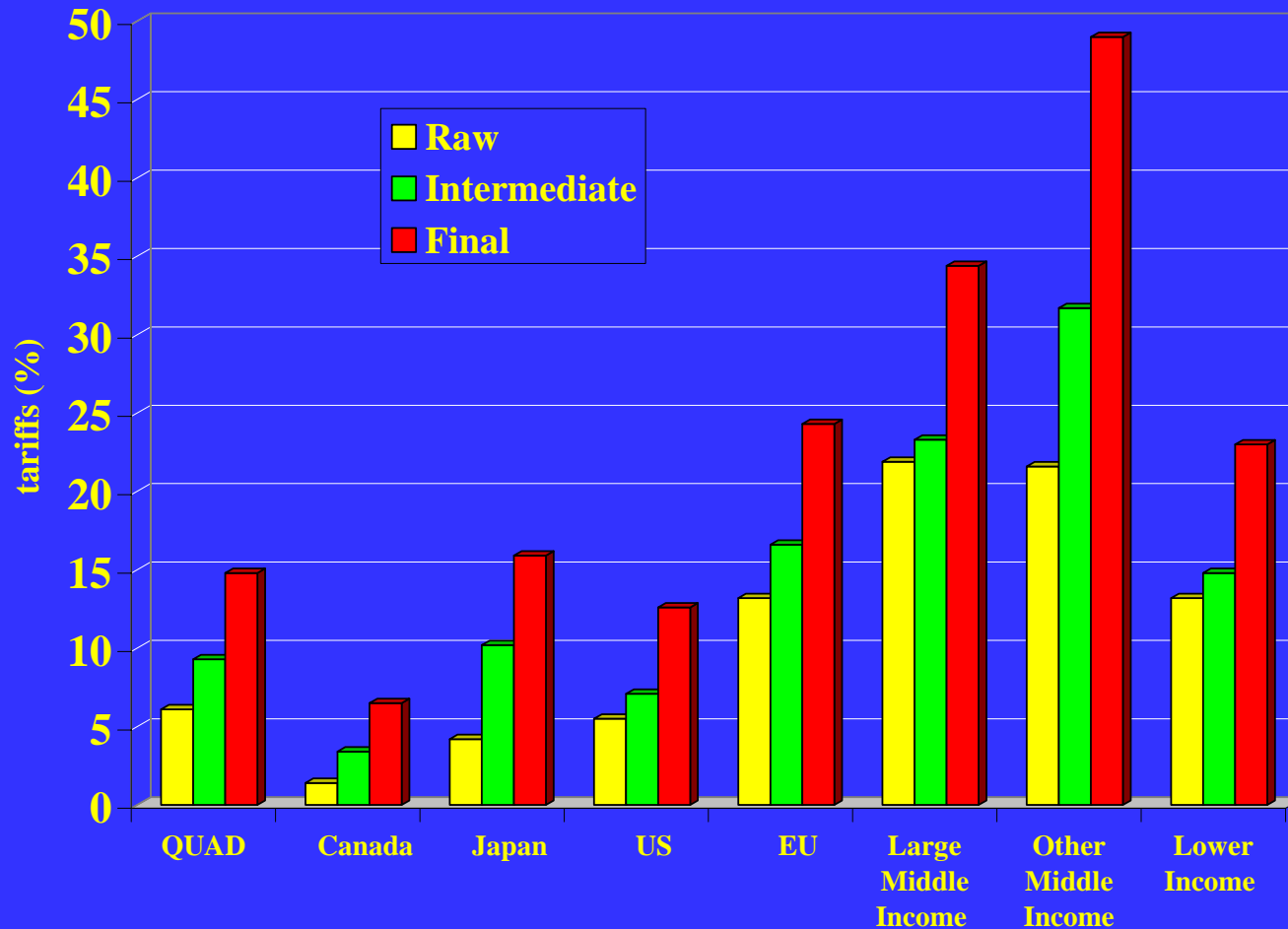
Source: WTO IDB (MFN Applied Duties)

# Tariff Peaks Are Very High



# Tariffs Escalate in Final Products

## Average MFN Applied Out-of-quota Duties (%)





# Protection

## Dairy

- **Highest OECD support (\$42.1 billion), with tariffs of 30% and higher worldwide**
- **Myriad of instruments used (tariff, TRQ, export subsidy, price discrimination)**
- **Dynamic market fueled by fast-growing trade in components and foreign direct investment**

# Protection

## Rice

- **Mature but important market**
- **World average tariffs of 43% (217% for short/medium grain rice). Total OECD support of \$24.3 billion**
- **Prohibitive tariffs in Japan, Korea, Taiwan, EU**
- **Tariff escalation by stage of milling in EU and LAC**
- **High tariffs in Indonesia, India, and many net importing countries outside Middle East**

# Protection

## Cotton

- Low tariffs, significant US and EU production subsidies of \$4.4 billion in \$20 billion

## Sugar

- World average tariff: 26.6 percent (sugar and confectionery); OECD support \$5.2 billion
- High domestic support and trade policies in EU, US, Japan, including TRQs, and export subsidies
- 80% of production & 60% of trade at prices higher than the world price

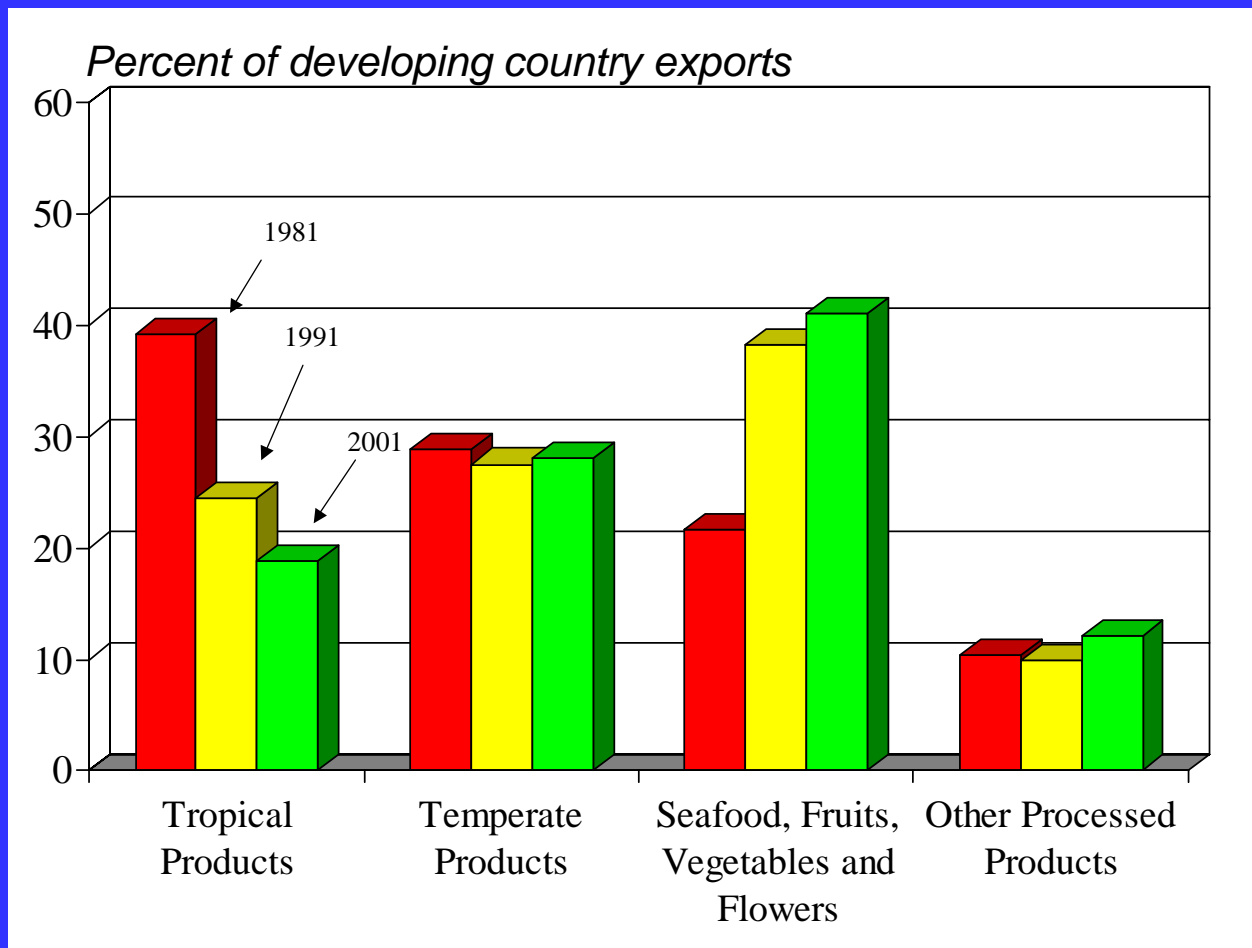
# Stagnating Trade Share of Developing Countries in Agriculture

(percent)

	Developing Countries			Industrialized countries		
	1980/81	90/91	00/01	80/81	90/91	00/01
<b>Agriculture</b>						
Total	37.8	33.0	36.1	62.2	67.0	63.9
To Developing	13.4	10.5	13.7	18.9	14.5	15.6
To Industrialized	24.3	22.4	22.4	43.4	52.5	48.3
<b>Manufacturing</b>						
Total	19.3	22.7	33.4	80.7	77.3	66.6
To Developing	6.6	7.5	12.3	21.7	15.2	19.0
To Industrialized	12.7	15.2	21.1	59.0	62.1	47.6

Source: COMTRADE

# Developing Country Exports have Surged in Non-Traditional Products with Low Protection



- Tropical Products include: Coffee, cocoa, tea, nuts, spices, textile fibers, sugar and confectionery;
- Temperate Products include: Meats, milk, dairy, grains, animal feed, edible oil and oil seeds
- Other Processed Products include: Tobacco and cigarettes, alcoholic and non-alcoholic beverages and other processed food

# **Reforms would deliver large welfare gains and structural changes**

- **Most global gains are due to agriculture and food processing**
- **Without reforms trade surpluses will increase for industrial countries**
- **Predicted changes in output, imports and exports are many times the welfare gains**
- **Results are robust to changes in key assumptions**

# Reform Effects

## Cotton

- Removing US and EU production subsidies is key for growth
- Eliminating distortions would increase world prices by 10-20%
- Expansion expected in West Africa, Central Asia, and Australia, contraction in EU, US

## Dairy

- Removing distortions would increase world prices by 20-40% and welfare by \$3.5 billion

# Reform Effects

## Sugar

- Removing all support would increase world prices by 20 to 40 percent, with aggregate welfare gains of \$4.7 billion and up
- **Gainers:** Producers in Brazil, Thailand, Latin America, Africa and Australia; consumers in US, Japan, EU, and beet producers
- **Adjusters:** Producers in US, EU, Japan, and all northern developing countries, and import quota license holders



# Decoupling Support

- **Move to reduce tariffs and replace production linked subsidies with decoupled support payments**
- **Little effect on output so far**
  - ◆ **Not all support replaced**
  - ◆ **No time limit and reversals**
  - ◆ **Require land to be in agricultural use**

# Preferences for Low Income Countries

- **Small number of products have large benefits (sugar, bananas)**
- **Products and rules by major industrial countries are very different**
- **No major diversification has taken place as a result of preferences**
- **In Caribbean the preferences have held back diversification**

# Agro-Food Standards

- **Proliferation and tightening of standards, both official and private sector**
- **New demands are manageable for middle-income countries and organized industries in poorer ones**
- **20 low and 28 lower middle countries export fish to EU with reduced inspections**

# Implications

- **Difficult to initiate reforms in developing countries without global reform**
- **The Uruguay Round, NAFTA, and EBA, are bringing some discipline, but much deeper multilateral reform needed**
- **Significant reduction of border protection is a crucial first step**
- **Border reforms alone are not sufficient. Real reductions of domestic support needed—not just the “color box” game**

[www.worldbank.org/prospects/globalag](http://www.worldbank.org/prospects/globalag)

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