Lessons from fifty years of distortions in world food markets

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The issue

- Developing country (DC) growth over the past half-century has been held back by severe distortions to agricultural incentives:
  - anti-agric and anti-trade policies of DCs themselves
    - agric export taxes, manuf protection, overvalued exchange rates
  - pro-agric policies of high-income countries (HICs)
    - food import restrictions, domestic and export subsidies for agric
  - tendency for both sets of countries to insulate their domestic food markets, which exacerbates international food price volatility

The good news of the past 2 decades

- Many developing countries have undertaken major economic reforms
  - phased out their agric export taxes, reduced manuf protection, and allowed markets to determine the value of their currency
- Some HICs also have begun to reduce trade-distorting supports for their farmers
  - partly through policy re-instrumentation

Remaining concerns, new concerns

- **Dispersion** of distortion rates across industries *within* the agric sector continues to be large
  - and welfare costs increases with dispersion
- **Insulation** of domestic food markets from international volatility has hardly changed
  - so the latter continues to be exacerbated by the former, as int'l food markets remain 'thin'

The main 'new' concern

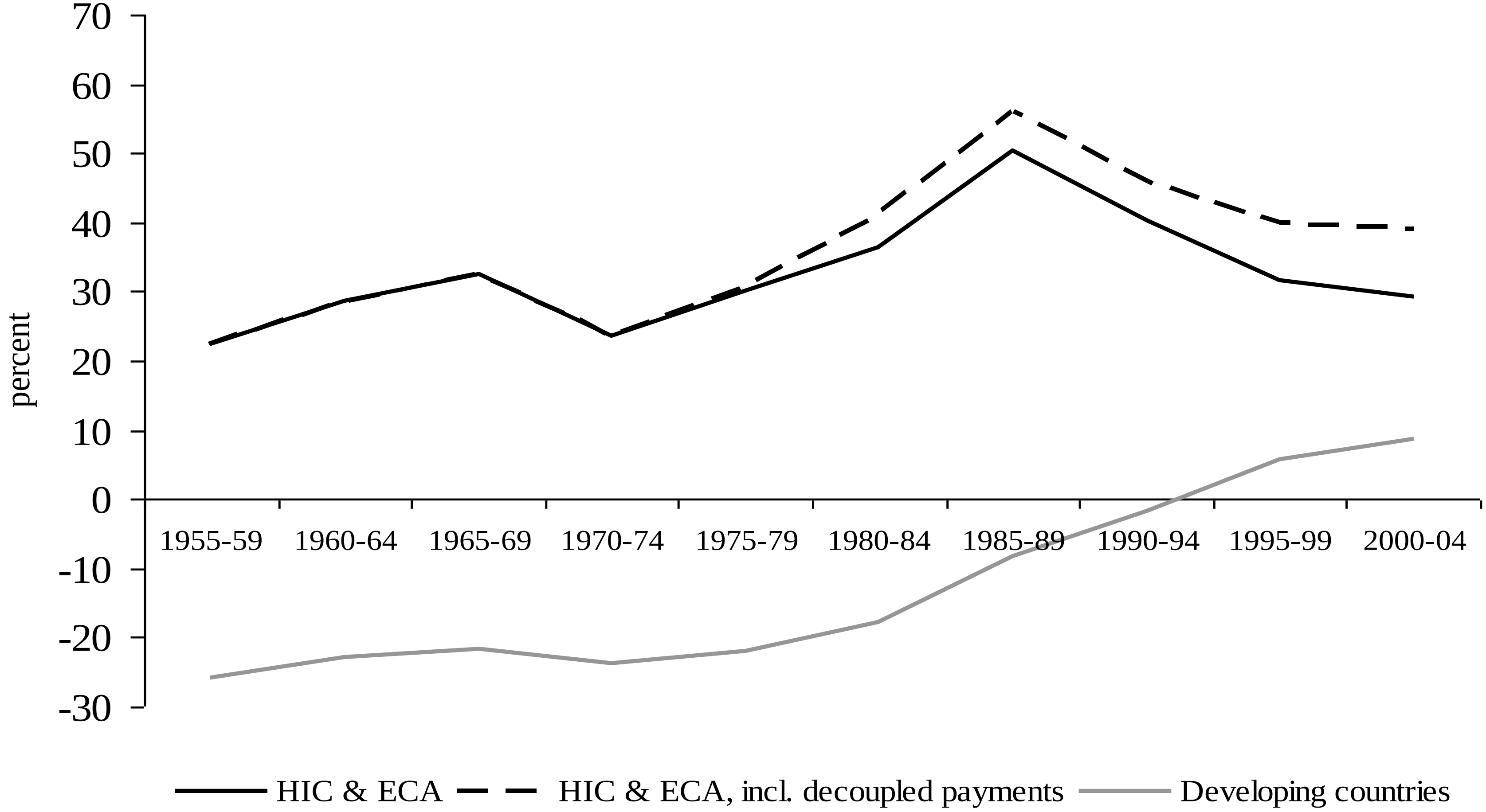
- Developing countries, while cutting agric export taxes, are also raising agric import restrictions
  - some of them have already moved from taxing to assisting farmers relative to producers of other tradable goods
- Not really a 'new' concern, as the 1958 Haberler Report on *Trends in International Trade* warned GATT members of the threat of **agric protection growth as economies grow more affluent**
- But what is new is that we now have a much bigger sample of evidence, covering 55 emerging economies

The World Bank's agricultural distortions research project

- Stage 1 undertaken by 90 consultants, covering 75 countries (>90% of world agriculture)
- Results are in 4 regional books and a global overview book
  - Latin America and Eastern Europe/Central Asia both now published
  - Africa and Asia volumes due next March
  - Global book is with publisher, due for release mid-2009
- Working paper versions of all country case studies, and e-books, freely available at **www.worldbank.org/agdistortions**
- Global database also freely available at that site from next month
- Starts by measuring Nominal Rate of Assistance for farmers (NRA)
  - the percentage by which domestic prices for farm products exceed those in international markets

NRAagric: HICs and DCs, 1955-2004

(%, weighted averages)

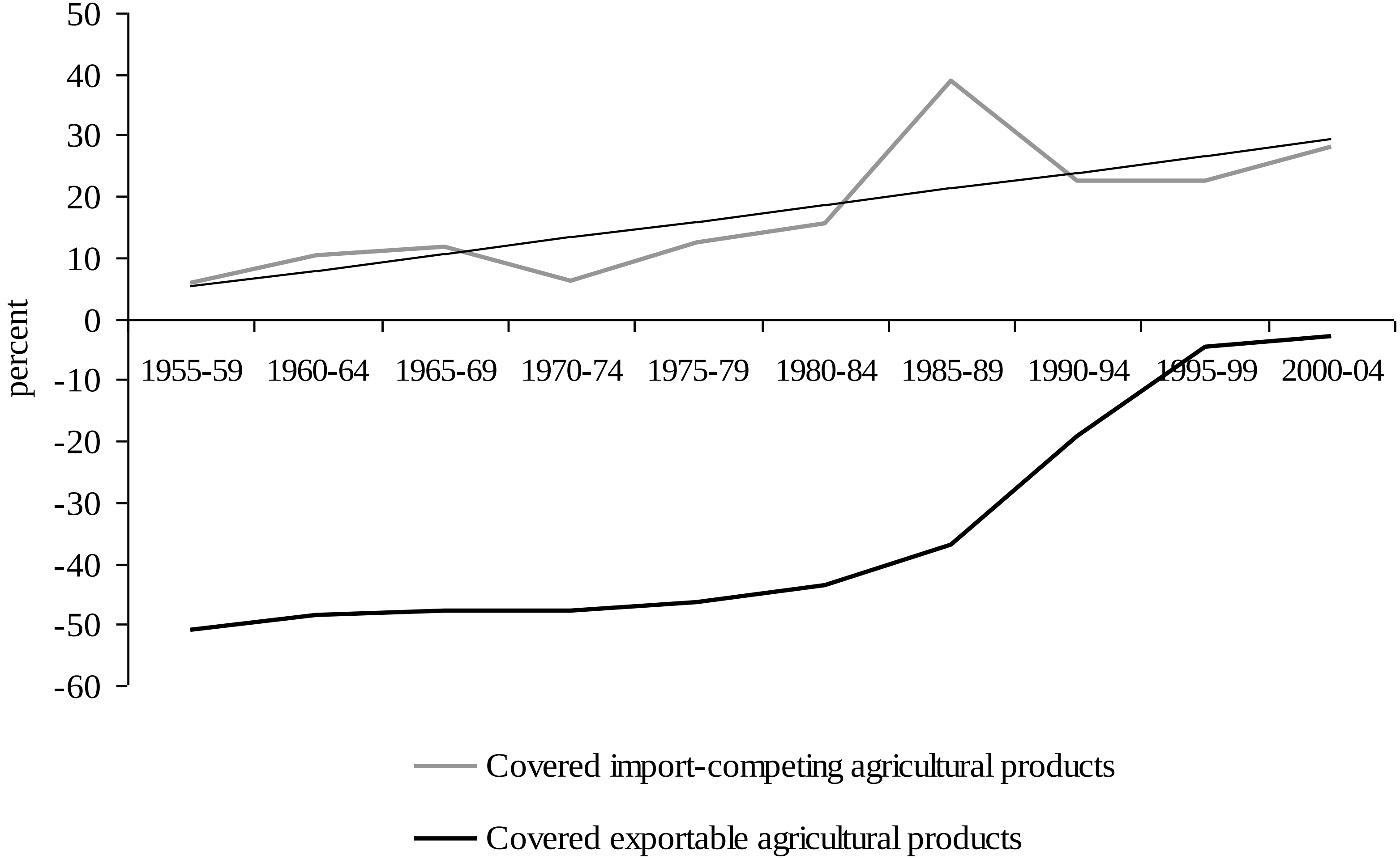


Gross subsidy equiv. per farmer

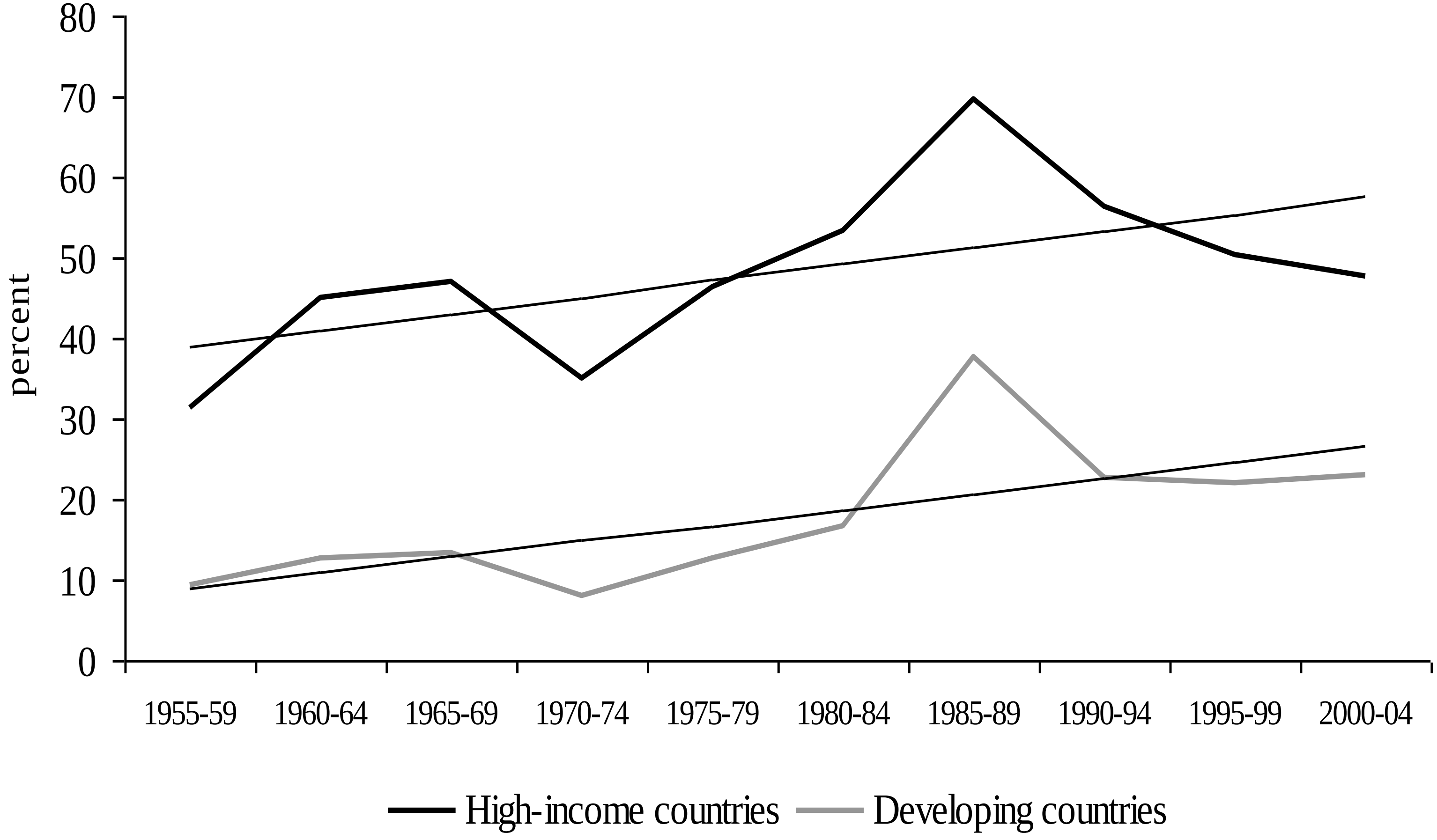
(constant (2000) US$ per year)

	1980-84	*2000-04*
DCs	-140	50
HICs	8,200	9,900
HICs (incl. decoupled)	9,100	13,500

In DCs: NRA ag export taxation disappearing, but NRA ag import-competing is >0 & growing



Long-run trend in NRA ag import-competing: growing as fast in DCs as in HICs (hence the need for market access disciplines via Doha commitments)

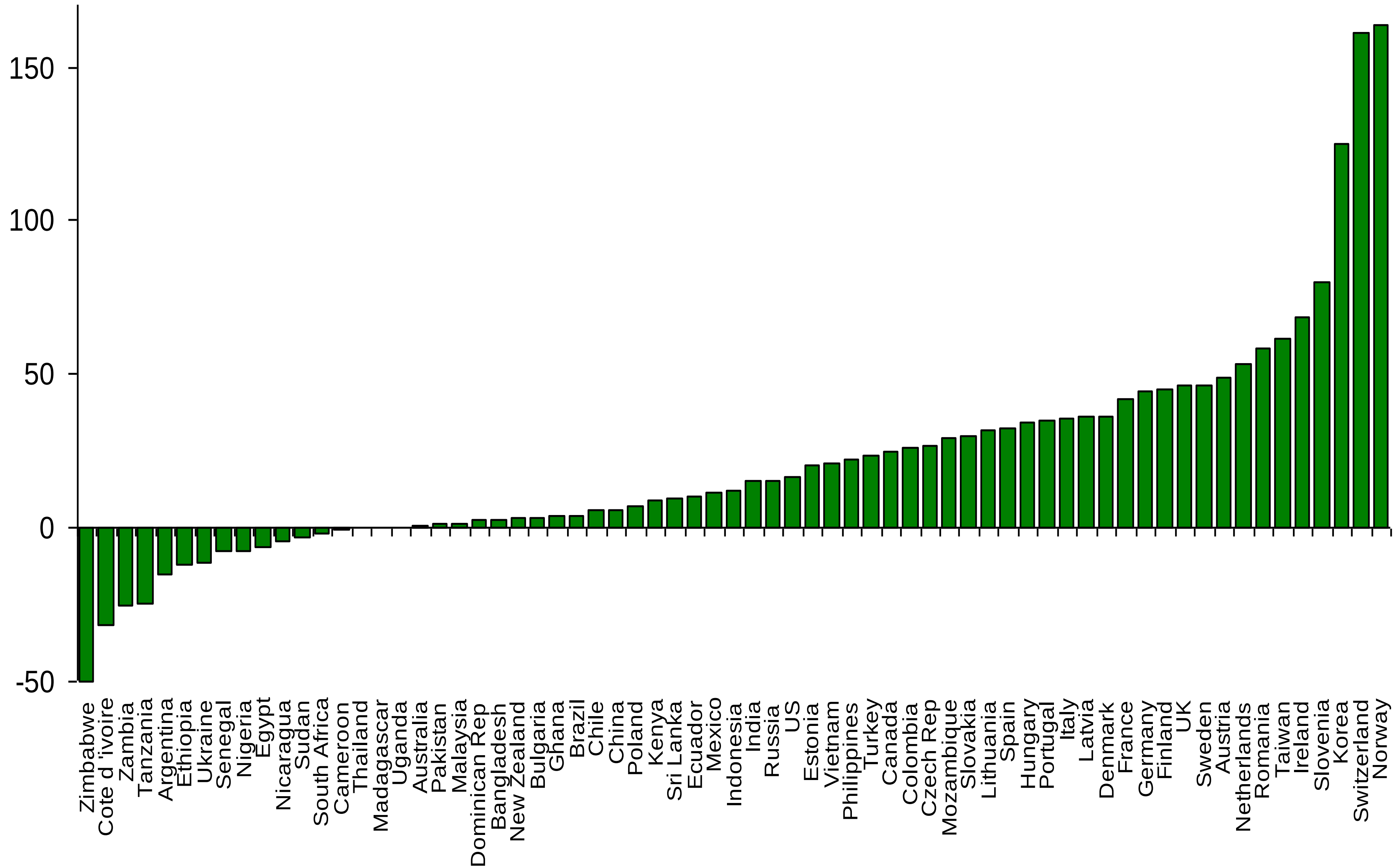


Also, dispersion *in NRAs (in addition to that due to anti-trade bias) is still high*

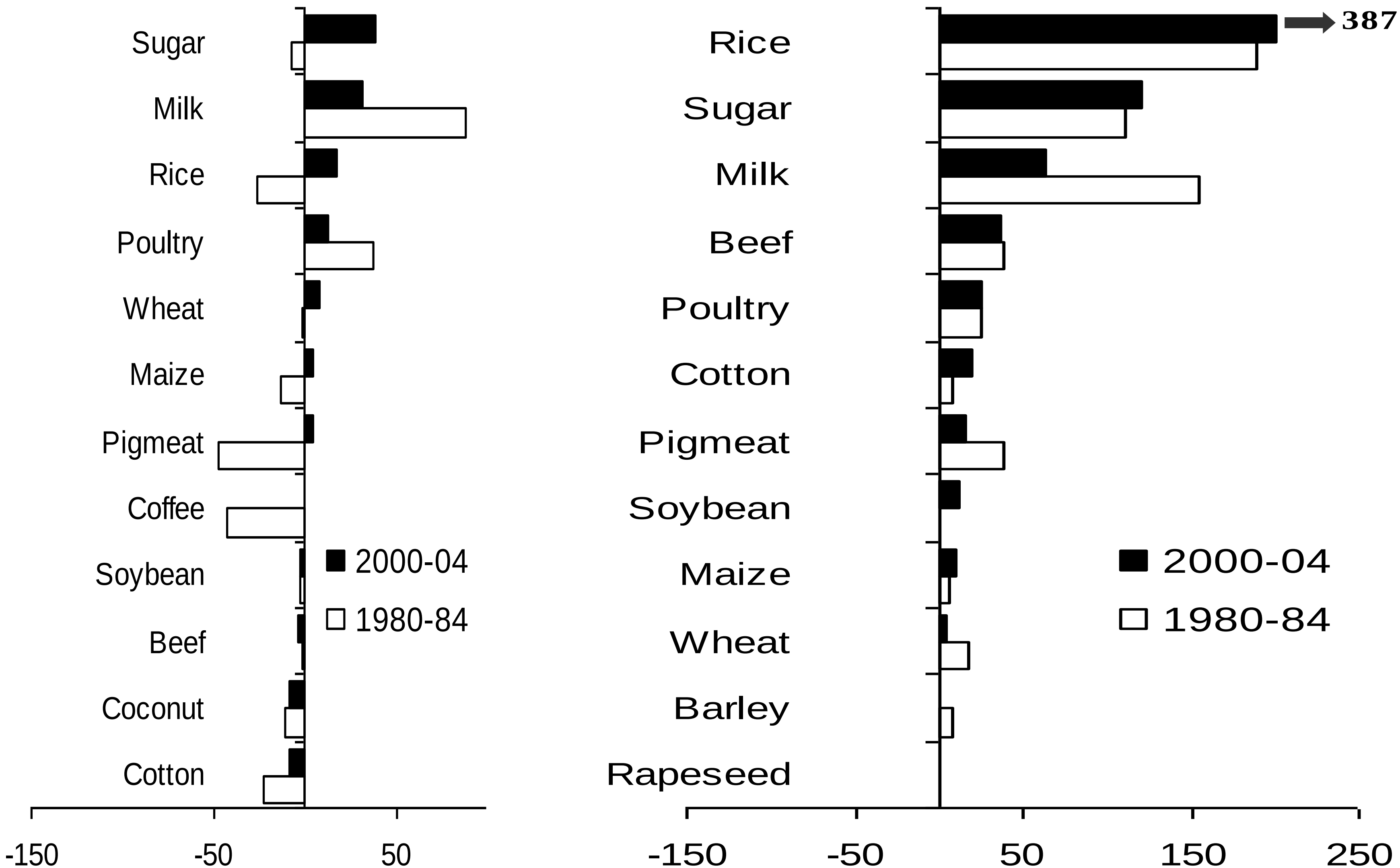
- Across countries
- Across commodities within each country

=> resources in agric continue to be inefficiently allocated both between, and within, countries

Cross-country dispersion in NRAagric, 2000-04



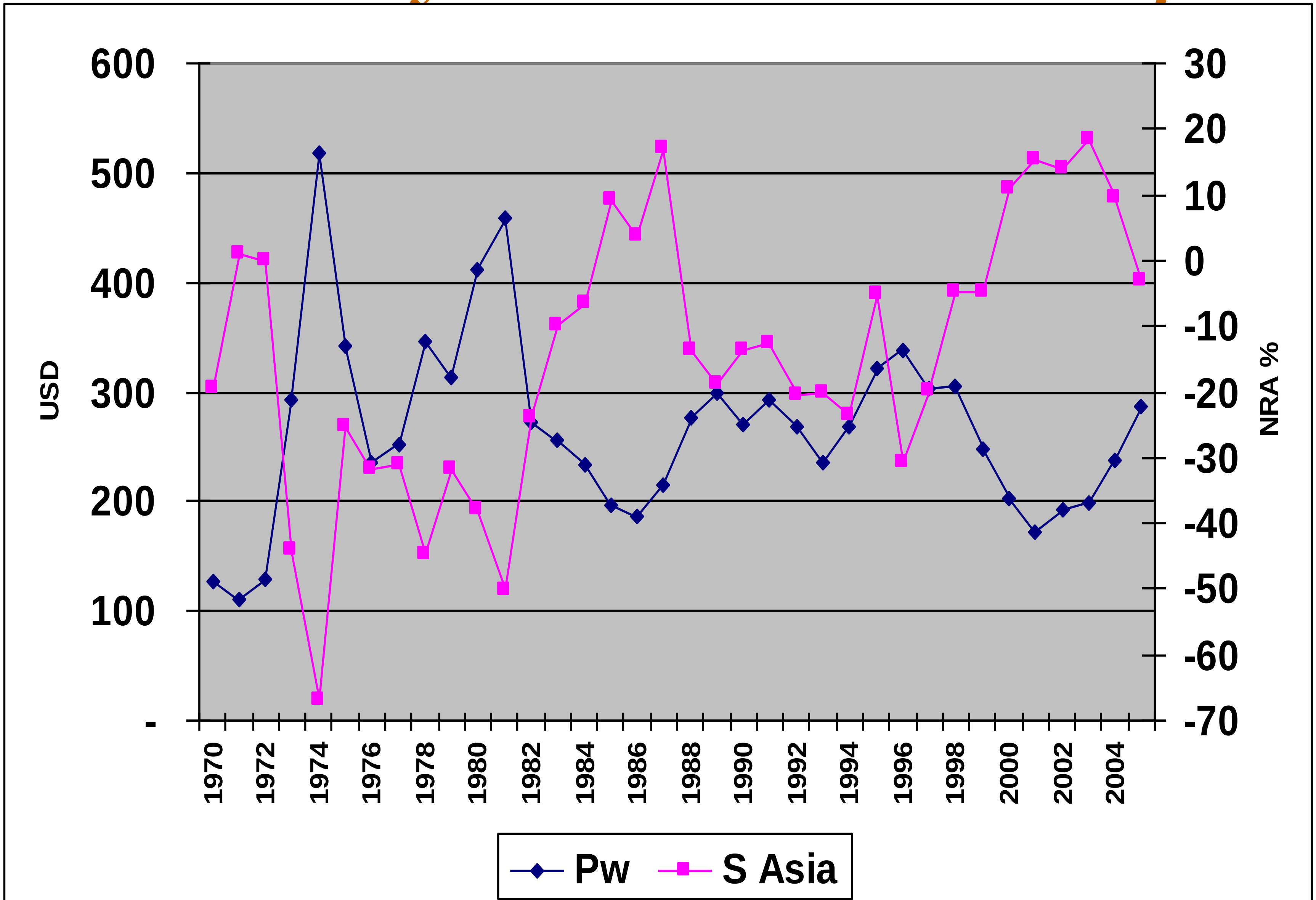
NRAs by product: DCs versus HICs



Insulation ***of food markets persists too, so volatility of int'l food prices continues***

- **Fluctuations around trend NRAag** from year to year remain common, esp. for staples
- This beggar-thy-neighbour reluctance to import instability from int'l food market imposes an international public 'bad' on the rest of the world
  - requires more WTO discipline, including on use of export policies?

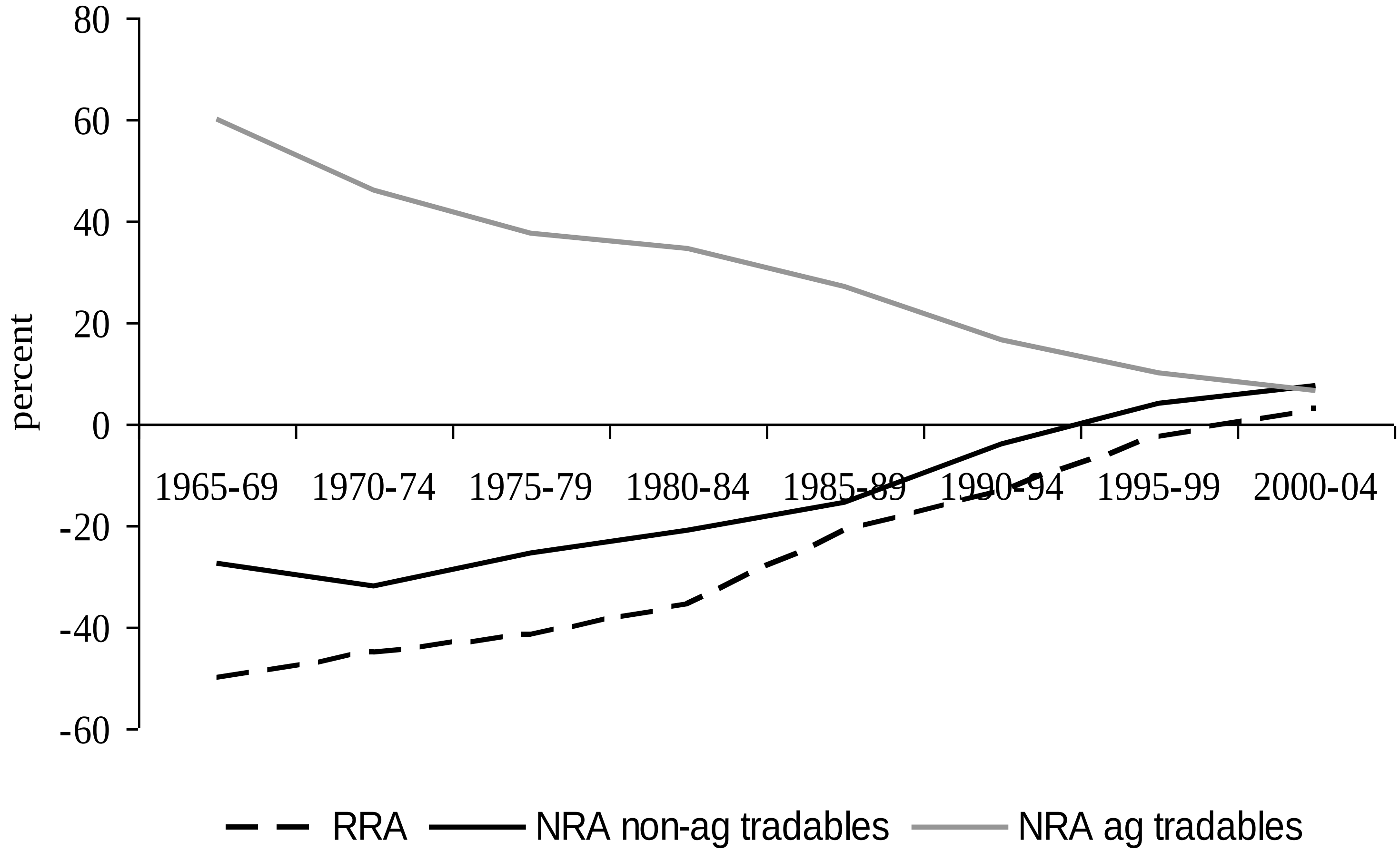
Rice NRA for South Asia is inversely correlated with int'l price



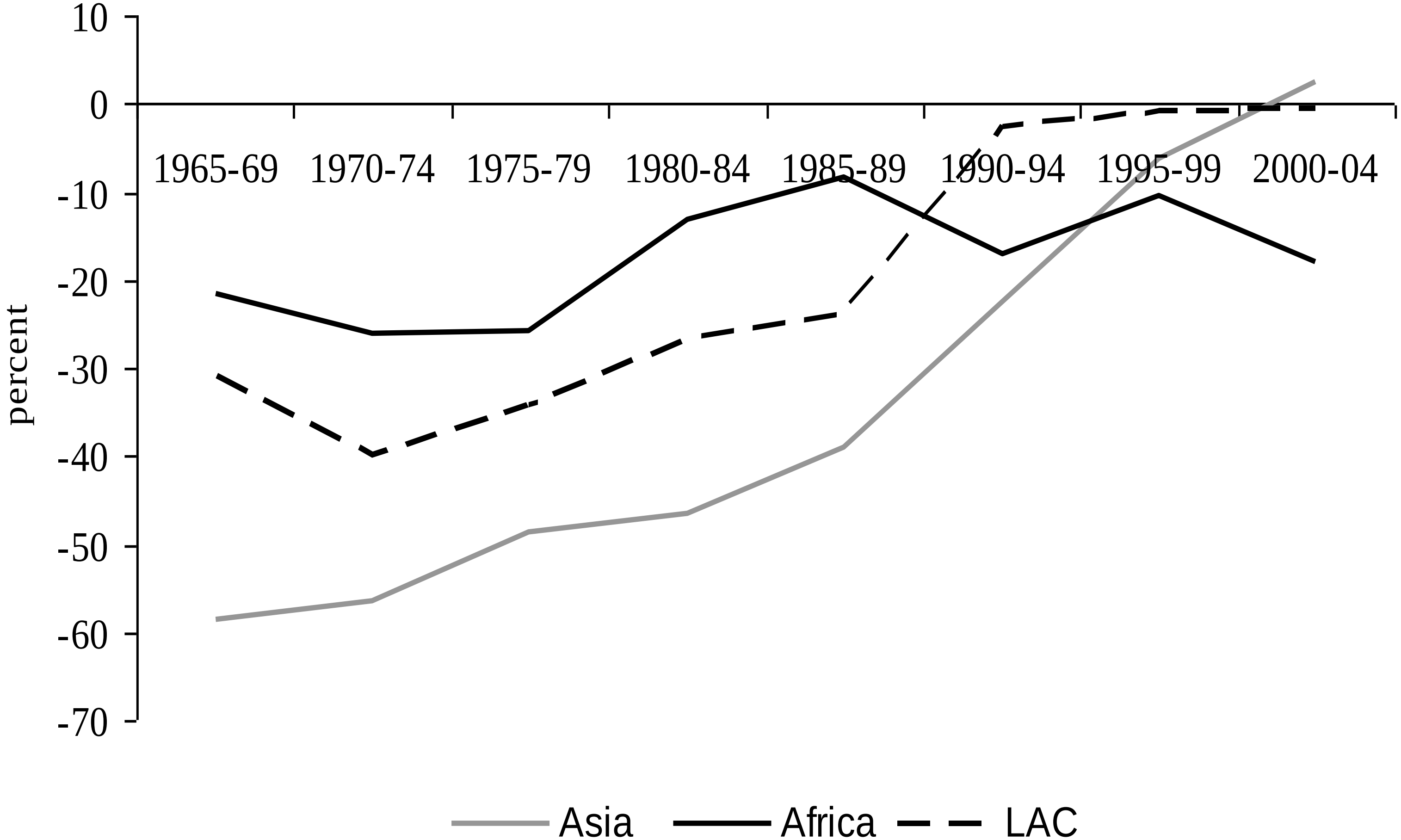
Reform picture is even stronger if we look at **relative** *rates of assistance*

- Assistance to non-ag tradable sectors ($NRAnonag^t$) can be as important for farmers as direct agric policies, in terms of encouraging (or discouraging) resource use in agric
- Simple criterion for **agricultural bias** in policy: a relative rate of assistance (RRA):
  - the percentage by which domestic *farm relative to nonfarm producer prices* exceed that price ratio in international markets

Evolution from negative to positive average relative rate of assistance (RRA) for DCs …



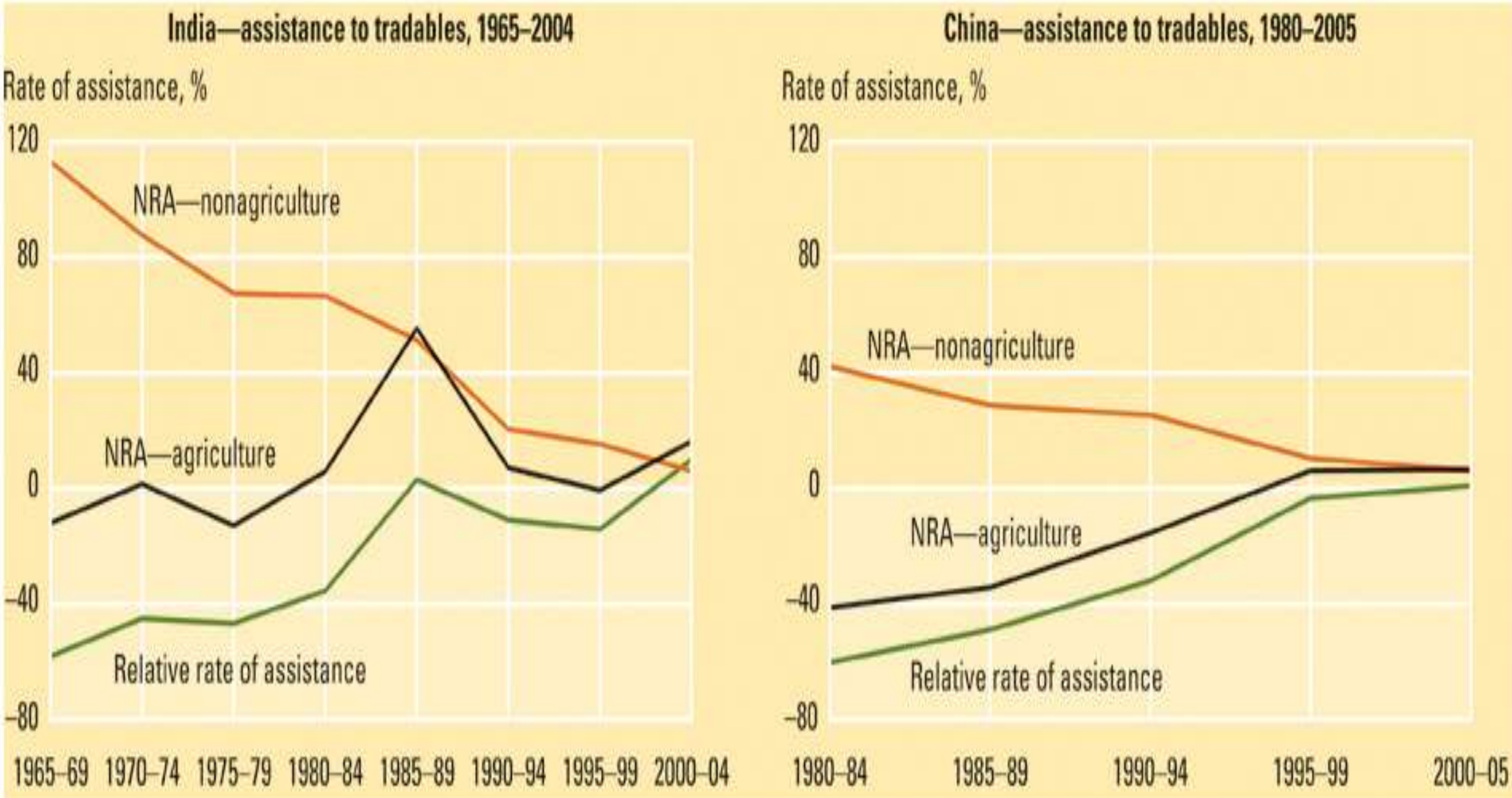
RRA rise is least for Africa, greatest for Asia



…especially in China & India: >half the rise in RRA is due to cuts in non-ag protection

INDIA

CHINA



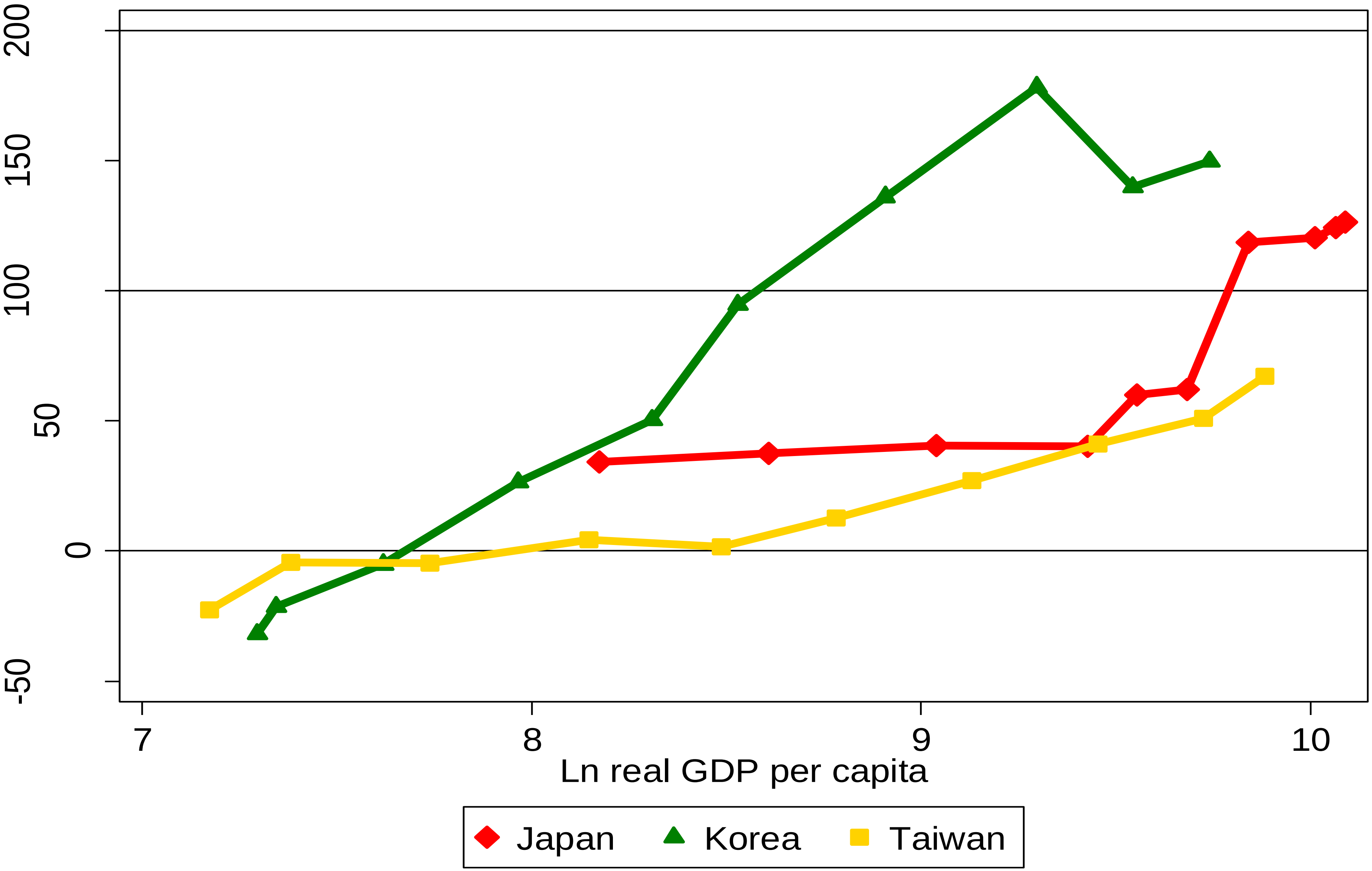
How far have policy reforms reduced the disarray in world agricultural markets?

- New global, economy-wide modeling results on *effects* of distortions suggest that, since the early 1980s, the world has gone about ***half way*** towards fully liberalizing goods markets (in terms of welfare & trade effects of policies)
- But agric now account for 60% of the global welfare cost of goods-trade-distorting policies

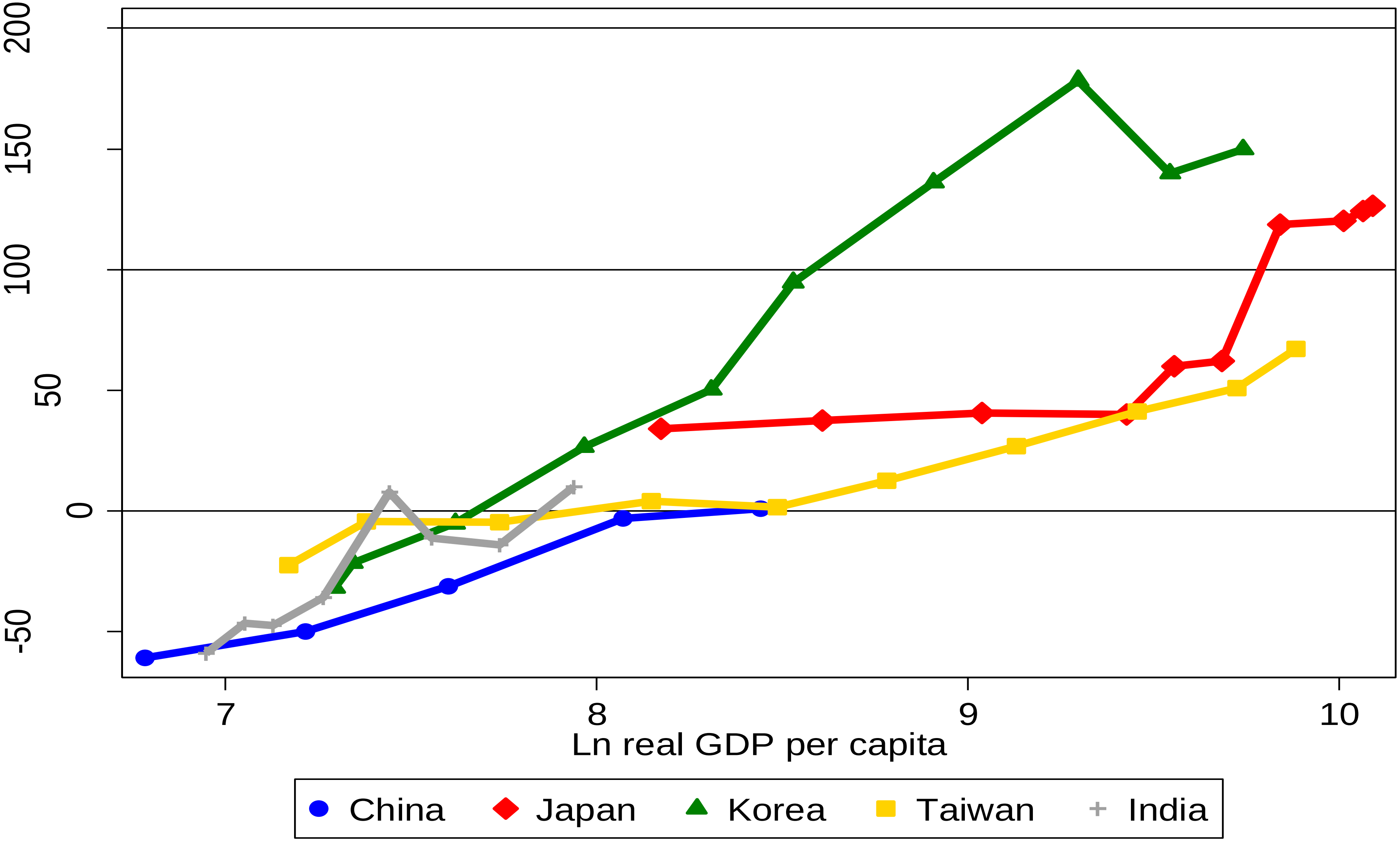
Will growth in emerging economies push up international food prices?

- China's impact so far has been much less on int'l prices for food than for minerals and energy
  - Partly **because of rising RRA** over the past 3 decades
- True also of India, where Green Revolution also contributed to food self sufficiency
- Now with China's and India's RAAs close to zero, future agric import growth could accelerate if they chose to not raise RRA any more
- **But what if China and India (and other DCs) choose to follow Korea and Taiwan with agric protection growth?**
  - Which their WTO commitments would allow for some time yet, especially if Doha does not dramatically reduce tariff binding overhangs

Korea and Taiwan followed Japan …



… so will China and India too, to avoid social unrest from widening urban-rural income gap?



Implications for WTO negotiations

- Need large cuts to bound tariffs and subsidies so as to **reduce prospect of**:
  - **agric protection growth** in DCs as their incomes rise
  - continuing **fluctuations around trend** via variable trade barriers
- Need to not only ban agric export subsidies but also **discipline agric export restrictions at WTO?**
- Proposed 'Special Products' and 'Special Safeguard Mechanism' will **add to** agric protection growth, to dispersion of NRAs, and to int'l food price volatility
  - Instead, encourage DC governments to pour more of their support into ag R&D, rural education and infrastructure (via aid-for-trade)?

Thanks!

- For all Agric Distortions Research Project working papers and (by end-October) the global agric distortions database, see **www.worldbank.org/agdistortions**

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Sources of cost of policies to the global economy *(%, 2004)*

Due to policies in:	Agric & food policies	Other merch. tariffs	ALL GOODS SECTORS
High-income countries	36	6	42
Developing countries	24	34	58
WORLD	**60**	**40**	**100**

Reform effects retrospectively since 1980-84, and prospectively as of 2004: we're half way there

	Reform from 1980-84 to 2004	Move to free trade as of 2004
Global econ welfare, $b (%)	$233 (0.8%)	$168b (0.6%)
DCs' econ welfare, $b (%)	$73b (1.0%)	$65b (0.9%)
% global ag output exported	9%→ 8%	8%→ 13%
% rise in int'l ag &food prices	13%	<1%

Reform effects: retrospectively since 1980-84, and prospectively as of 2004

	Reform from 1980-84 to 2004	Move to free trade as of 2004
DC share of global ag output	58%→ 62%	62%→ 65%
DC share of global ag exports	43%→ 55%	55%→ 64%
% rise in DC ag (nonag) VA	**4.9%(0.4%)**	**5.6%(1.9%)**

Even China's WTO commitments allow scope for agric protection growth

- Out-of-quota bound tariffs are high (currently prohibitive):
  - 65% for grains
  - 50% for sugar
  - 40% for cotton
- Allowed up to 8.5% product-specific domestic support, plus another 8.5% non-product-specific assistance (or more if 'decoupled' somewhat from production)
  - Currently applying very little of that 17% binding