Lessons from fifty years of distortions in world food markets

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2008 Borlaug Dialogue, Des Moines, 17 October 2008

Financial assistance from the World Bank Trust Funds, particularly from DFID, BNPP and the Rockefeller Foundation’s Bellagio Center are gratefully acknowledged, as are the contributions of the country case study authors and the Washington- and Adelaide-based teams. Views expressed are the authors’ alone and not necessarily those of the World Bank or its Executive Directors. Research project details are at www.worldbank.org/agdistortions
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)

<table>
<thead>
<tr>
<th></th>
<th>1980-84</th>
<th>2000-04</th>
</tr>
</thead>
<tbody>
<tr>
<td>DCs</td>
<td>-140</td>
<td>50</td>
</tr>
<tr>
<td>HICs</td>
<td>8,200</td>
<td>9,900</td>
</tr>
<tr>
<td>HICs (incl. decoupled)</td>
<td>9,100</td>
<td>13,500</td>
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</tbody>
</table>
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 and across commodities within each country. Consequently, resources in agric continue to be inefficiently allocated both between and within countries.
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 (NRA
  nonag) 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
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)?
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)

<table>
<thead>
<tr>
<th>Due to policies in:</th>
<th>Agric &amp; food policies</th>
<th>Other merch. tariffs</th>
<th>ALL GOODS SECTORS</th>
</tr>
</thead>
<tbody>
<tr>
<td>High-income countries</td>
<td>36</td>
<td>6</td>
<td>42</td>
</tr>
<tr>
<td>Developing countries</td>
<td>24</td>
<td>34</td>
<td>58</td>
</tr>
<tr>
<td><strong>WORLD</strong></td>
<td><strong>60</strong></td>
<td><strong>40</strong></td>
<td><strong>100</strong></td>
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Reform effects retrospectively since 1980-84, and prospectively as of 2004: we’re half way there

<table>
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<th>Reform from 1980-84 to 2004</th>
<th>Move to free trade as of 2004</th>
</tr>
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<tbody>
<tr>
<td>Global econ welfare, $b (%)</td>
<td>$233 (0.8%)</td>
<td>$168b (0.6%)</td>
</tr>
<tr>
<td>DCs’ econ welfare, $b (%)</td>
<td>$73b (1.0%)</td>
<td>$65b (0.9%)</td>
</tr>
<tr>
<td>% global ag output exported</td>
<td>9% → 8%</td>
<td>8% → 13%</td>
</tr>
<tr>
<td>% rise in int’l ag &amp; food prices</td>
<td>13%</td>
<td>&lt;1%</td>
</tr>
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Reform effects: retrospectively since 1980-84, and prospectively as of 2004

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<tr>
<td>DC share of global ag output</td>
<td>58%→ 62%</td>
<td>62%→ 65%</td>
</tr>
<tr>
<td>DC share of global ag exports</td>
<td>43%→ 55%</td>
<td>55%→ 64%</td>
</tr>
<tr>
<td>% rise in DC ag (nonag) VA</td>
<td>4.9%(0.4%)</td>
<td>5.6%(1.9%)</td>
</tr>
</tbody>
</table>
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