

Some notes on trade liberalisation and agriculture in Asia

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Agricultural trade still accounts for a very significant proportion of exports of developing countries, and has been presented as an important avenue of development in recent years. This is different from the post-war tendency, which was for developing countries to try and break out of primary commodity export dependence and seek to diversify their economies in various ways, in order to avoid the problems of volatility, secular price declines and so on that were seen to be typical of primary commodity markets in world trade. In sharp contrast to this earlier widespread perception, the Uruguay Round GATT agreement was negotiated with the dominating perception of agricultural exports and textiles and garments exports as the principal means to increase incomes and employment in the developing world.

The renewed focus on agricultural exports by developing countries has also been linked to liberalisation of trade in agriculture, even though there is no clear economic mechanism that could require such a link. The WTO rules have imposed quite substantial agricultural trade liberalisation upon developing country members; even those Asian countries that were not members earlier have made major commitments towards trade liberalisation in this sector as part of WTO accession commitments. Almost all developing countries - including the Asian countries considered here - have made major moves towards eliminating quantitative restrictions, moving towards tariff-based protection with progressive reduction of tariffs, reducing or removing export subsidies directed towards crop exports. In addition, most of these countries have also undertaken measures towards deregulating imports and exports through decanalisation of external trade and reduction of the role of state trading and marketing corporations.

The relationships between trade liberalisation and agricultural growth and rural poverty are complex, multi-directional and not always easy to predict. They depend upon external factors emanating from international markets as well as on domestic supply capacities and the effects upon livelihood and income distribution within the sector. These variables in turn are affected by land relations and other government policies towards

agriculture and rural development, which determine the degree to which cultivators can take advantage of international markets and the extent to which they are threatened by them. The issues that are directly relevant from the perspective of poverty reduction are those relating to the possibilities for agricultural growth and the viability of cultivation; the effects on employment and livelihood; and the effects on food security.

World crop markets are notoriously volatile and subject to frequent and intense fluctuations in demand and price. Such volatility is not new, but is probably more evident in recent years because of the decline, since the late 1980s, of international interventions such as those designed to stabilise commodity prices through funds and price agreements. In addition, the monopsonistic nature of world trade in many commodities, with a few multinational companies emerging as the major trading agencies, has implications for the prices received by actual producers. The effect of continuing subsidies in the developed industrial countries, upon world trade prices of many crops, has tended to dominate the policy discussion in this area. But it is worth remembering that even if such subsidies were to be substantially reduced, the basic problems of volatility and long-term secular decline in output prices would still be very much in evidence for most developing countries. Historically, agricultural exports have served as a route to enrichment only for a very select handful of countries, and this route is likely to be even more limiting in the current international context. Most countries that rely on this means will remain relatively poor, and if they are unable to diversify their economies, will also experience continuing lack of development.

In 1990s, international price volatility was reflected in the initial rise and subsequent collapse of most crop prices in world trade. Subsidies and protection in the industrial countries were hardly brought down, as the fine print in the Uruguay Round Agreement on Agriculture allowed loopholes that effectively militated against the spirit of the agreement. In addition, the fallacy of composition became more acute, as more developing countries entered the market as suppliers, especially for tropical crops. From the point of view of crop exporters in developing countries, this is obviously very adverse.

But the implications for food security are more complicated. This tendency for falling international prices of basic food crops can have very different implications even within countries, for cultivators and those who are net purchasers of food, and the effect on poverty will also be correspondingly mixed. It is argued that this has actually been good not only for chronically food-deficit countries, but also for significant sections of the poor in developing countries, who are net purchasers of food. But this is not necessarily a valid conclusion, given the obvious fact that food purchases require money incomes, which may themselves be affected by trade patterns that reduce rural employment.

Thus, even when falling food prices positively affect the poor in particular years, the medium term implications of such exposure to volatile international prices may be negative for the poor. Sustainable food security for the poor in developing Asia requires a certain relatively stable relationship between purchasing power and food prices to be maintained, which in turn means that even in rural areas, it is not the absolute price of food which matters so much as the relation between such prices and wages and available employment. The basic fallacy made by most trade theories that assess gains from trade in terms of the consumption benefits is that this result is based in full employment. In the absence of full employment, it is impossible to think of consumers as independent entities with money incomes that arrive as manna from heaven. Instead, consumers require purchasing power, which means they require wage incomes and or access to other livelihood which will allow them to make purchases in the first place. This means that open trade that generates lower food prices is not always unambiguously beneficial for the poor. If the same open trade which is providing access to lower priced food is also generating unemployment and loss of livelihood in the rural areas, and therefore reducing the purchasing power of the poor, then obviously the effects of such trade on the poor may be perverse.

It is often argued, most recently by the World Bank (2004) that if only world trade in agriculture were actually to be made more "free", through reduced subsidies and more open markets in the developed countries, then there would be positive effects on employment generation and poverty reduction in developing countries. In other words, the assumption implicit in the Uruguay Round negotiations, that agricultural

trade can be a route to increased prosperity and development, is still valid. However, this assumption itself is problematic, such that even more genuinely "free" trade in terms of reduced government interventions in the North, need not have positive implications in the predicted way.

In most Asian developing countries, cultivation has been adversely affected by the combination of trade liberalisation, world trade patterns and changes in domestic policies towards the rural sector. The basic process has been similar in most of the countries: agriculturalists have placed greater reliance on monetised inputs and faced rising prices of such inputs as domestic explicit and implicit subsidies have been withdrawn; around the same time, various import controls on agricultural products have been withdrawn, so that the level of domestic output prices is increasingly determined by the threat of potential imports if not actual imports; export subsidies as well as export taxes have been reduced or done away with, so that local producers face international markets and volatile world prices in a rather unprotected manner. The consequence is that farmers in all of these countries have been caught in a pincer movement of rising input prices and falling or volatile output prices, which has rendered cultivation more risky and often financially unviable. These difficulties have been compounded by the reduction or withdrawal of various government support systems, ranging from output price support to input and credit provision.

Indonesia moved from being an agricultural success story in the late 1980s, with significant food surpluses and rice exports, to becoming a food importer with stagnant domestic production by the end of the 1990s. Low international prices of rice played a role in this deterioration, but this was exacerbated within Indonesia by the collapse of the rural credit system especially after the 1997 crisis, and the reduction of government expenditures in rural areas which had earlier supported agricultural development.

The Cambodian example suggests that even an apparently good performance in terms of agricultural exports (which are rising in Cambodia if both recorded and unrecorded illegal trade are taken into consideration) can be associated with the impoverishment of those cultivators who are excluded from the benefits of such trade. This can be expressed through regional differences or through differences among different categories of

cultivators. Thus, most of the exported rice comes from only one province, Battambang, while farmers from other provinces find their livelihoods threatened by legal and smuggled imports. Also, typically large holders have benefited more from the open trade regime, while small and marginal farmers are under threat of losing viability. It is not surprising therefore that in Cambodia, agricultural trade liberalisation has not been associated with rural poverty reduction.

Vietnam appears to be one of the few Asian countries where agriculture appeared to be relatively unaffected and indeed continued to exhibit strong performance, throughout the 1990s. Agriculture was of course the sector that benefited the most in the initial stages of the *Doi Moi* reforms from the 1980s. But the subsequent good performance was largely due to the continuation of controls and regulations upon trade that were used flexibly and at various points when required, such as the imposition of Quantitative Restrictions on rice exports in the mid-1990s, which were abolished in 2001. However, for Vietnam the external constraint is already looming large. The attempts to diversify primary exports into such products as fish have generated protectionism in developed country markets, as the recent dispute with the US regarding catfish export from Vietnam indicates.

In China, agriculture is widely recognised to be the sector that is most adversely affected by the terms of accession into the WTO, which have forced sweeping trade liberalisation particularly for some important domestic crops. The effect upon Chinese farmers is likely to be immense - some estimates suggest that as many as 100 million cultivators may be forced to leave agriculture and seek employment elsewhere in the economy.

In Bangladesh and Nepal, the issue of trade liberalisation is complicated by the fact of the long and porous border that both countries have with India, which makes the trade policies of India possibly just as significant for cultivators and other producers in these countries. In both of these countries, agricultural performance has been poor, and in addition to the reduced viability of cultivation the problem of very large underemployment in agriculture remains significant. It would be wrong to blame all this on trade liberalisation alone, since other domestic factors have also played a role. In Nepal, low investment, low technology use, landholding

patterns, low levels of commercialisation and civil strife have all been significant. In Bangladesh, the most serious problem is the lack of other productive employment opportunities outside agriculture, in addition to the rising costs faced by small cultivators who are being denied access to subsidised inputs such as power and water. However, in both of these countries, the lower prices of food may have been beneficial for landless poor who have to buy food, although that must be balanced by the reduced employment available.

The issue of open or porous borders affecting the possible implementation of trade policies is not unique to South Asia: similar issues arise between Cambodia, Vietnam and Thailand, for example. In Cambodia, there is evidence of substantial "illegal" export of fish to the Thai border in order to evade local taxes and other payments, as well as significant amounts of unrecorded imports of rice from Vietnam. Such possibilities imply that domestic policy makers need to be aware of the trade policies and prevailing prices of tradable in neighbouring countries, and that some regional policy co-ordination in trade policies is especially desirable in such cases.

It is evident that the most critical issues in all countries are those of the viability of cultivation and the livelihoods of cultivators. In these areas, the importance of supplementary and supportive policies for agriculture cannot be underestimated. The real problem for farmers has been not only that they are being forced to compete with highly subsidised farmers in the North, but also that Asian governments have reduced or withdrawn a range of other policies and measures that are crucial for agricultural development. These include public investment in rural infrastructure, ensuring adequate and timely institutional credit for cultivators, and provision of agricultural extension services that provide information about cropping practices and techniques as well as material inputs, and so on. While small and marginal farmers always received less of such assistance, they have also been the worst affected by the cutbacks in such state support, and this has direct implications for poverty.

The second direct effect upon poverty comes from the effect on employment in agriculture, for wage labourers. This has definitely been hit by the combination of factors described above, and even growing crop exports have not been enough to ensure higher levels of wage employment in

cultivation because of the shift across Asia to more capital-intensive techniques for a range of crops. The attempts to diversify into other primary exports (including horticulture and fishing which are seen as the "sunrise" primary exports at the moment) have mixed employment implications at best. The reduction of employment in primary production across all of these countries is an important source of greater poverty and directly impinges upon poverty reduction efforts.

The third critical area is that of food security. As noted above, this is a complex issue, because cheaper imports can certainly have the immediate effect of immediately improving food access for the poor who are net buyers of food, as long as they still have employment. However, even in the medium term, high levels of trade dependence, the shift to cash crop production and the exposure to international market volatility all have severely negative implications for food security. Indonesia is the starkest example of this process. The complete liberalisation of agricultural trade meant an erosion of the livelihood of cultivators, many of whom then left the land in search of alternative employment. The crisis of 1997 then meant a complete collapse in food access for much of the urban and rural poor. The current situation is still full of risk of a future such collapse, since the country has now become dependent upon rice imports once again. Once imports have eroded the viability of domestic production and forced small producers out, the economy can become subject to the vagaries of world prices. A rise in world rice prices (as is occurring now in 2004) can then have extremely adverse effects, since world trade in rice is so thin and constitutes such a small part of world production. If a country like Indonesia were to enter the world market as a buyer for rice, it would lead to an immediate and substantial rise in price. This would have obvious and immediate effects upon rice consumption among the poor. Needless to say, similar considerations are also valid for China and India within Asia.

Finally, the issue of the sustainability of cultivation patterns must be considered, since because of the impacts upon present and future rural poverty in a variety of ways. Excessive dependence upon certain crops or natural resources can lead to over-exploitation of these resources or unsustainable cropping practices. These are exacerbated when trade liberalisation erodes the ability of governments to control such patterns. The reduction or removal of export taxes on primary forest products

including logs, in countries like Indonesia and Cambodia, is a case in point. Unsustainable extraction patterns affect the rural poor more adversely than other groups over time, because they tend to rely more on common property resources in their overall consumption package.