AGRICULTURAL GLOBALIZATION: IS IT GOOD OR BAD FOR DEVELOPING ECONOMIES?: DISCUSSION PAPER

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Globalization is a buzzword that means different things to different people. To Diaz-Bonilla and Robinson (2001), for example, it signifies expanded and more intensive international economic, political, social and cultural linkages; a tendency to homogenize economic, institutional, legal, political, and cultural practices; and an emergence or exacerbation of international spillovers like global warming, cross-border crime, and internationally transmitted diseases. Although all these general notions have specific agricultural implications, the three papers in this session zero in on the commodity trade aspects of agriculture; a broad topic to be sure, but narrow by common conceptions of “globalization.”

At writing, the Doha round of global trade talks is on the precipice. Important parties are still too far from any agreement on the size of cuts in U.S. farm subsidies, the scope and magnitude of cuts in EU farm tariffs, and the magnitude of reductions in the industrial tariffs of large emerging economies to seal a deal. In addition, many developing countries seek special and differential treatment for key farm products that could also scuttle, or at least severely undermine, the talks. At this eleventh hour (made especially sensitive and complicated by the looming expiration of Presidential fast track authority in the United States and a pending U.S. Farm Bill), there is even a lack of agreement among the negotiating parties about the relative economic consequences of elements of the negotiations.

The epitome of a timely, topical and extensively disseminated study, Anderson and Martin’s paper summarizes a large body of work intended to inform directly the Doha deliberations. It succeeds admirably, pointing to trade reforms in agriculture vs. the non-agricultural merchandise sector as the dominant source of economic benefit (especially to developing countries), and attributing the lion’s share of the gains to lowering tariffs (market access) rather than eliminating production or export subsidies (domestic support). Moreover, the overall and developing country gains are severely curtailed if the extent of tariff reductions is scaled back either in size or scope, largely because of large gaps between so-called bound and actual rates of protection. The general equilibrium context in which these results are couched is important, not least as gains from agricultural reforms are likely to be realized in the context of tradeoffs made in the merchandise sectors. Anderson and Martin’s results suggest that the world (and, especially, developing countries as a group, but perhaps not certain developing countries within that group) would be better served by greater access to agriculture markets—particularly for rice, sugar, and meats, as these three commodities account for half the estimated costs of protection—even if these reforms came at the expense of increased access and subsidy reductions in the merchandise sectors.

Koo and Kennedy’s paper works its way through the tradeoffs from eliminating export vs. production subsidies, and reports empirical estimates of the local and rest-of-world consequences of removing domestic subsidies in the U.S. corn sector. Their multi-market, partial equilibrium model has the appeal of parsimony and transparency, but that comes at the expense of assessing the magnitude and nature of the cross-commodity and cross-sectoral tradeoffs that are integral to achieving multilateral agreement on trade reforms. Anderson and Martin point out the generally large gaps between existing subsidy commitments and the levels of protection in practice. The
United States has less wiggle room than most in this regard, so a multi-lateral deal that appeals to rest-of-world interests could well imply significant cuts in U.S. farm subsidies. However, estimating the size and distribution of the economic gains from shrinking farm subsidies requires knowledge about the degree to which farm programs affect (or are decoupled from) farm production. There is serious debate about the magnitude and even the direction of these effects. The production response to reforming subsidies appears to be driven as much by changes in program rules as by changes in the per unit or total size of the subsidy payment.

Carter and Gunning-Trant’s examination of nontariff barriers to trade, and specifically antidumping actions on the part of the U.S. International Trade Commission against Chinese agricultural exports to the United States, concluded that the disruptive effect of the import duties levied was short lived. In some cases the restrictions were relaxed, in others the Chinese began shipping “like” products or, perhaps, routing the same product via third parties, and in other cases the volume of Chinese exports to the United States recovered despite being subject to import duty. In all cases, the antidumping actions were triggered by a surge of imports from China to the United States, the frequency of which could well increase going forward. In 2004, China’s total agricultural output (valued at average world prices) was roughly double that of the United States. In two-thirds of the cases in a sample of 91 agricultural commodities, Chinese production exceeded U.S. output—in fact producing more than double the output in more than half the cases. In 1961, China produced more than the United States for half of the sample of 91 commodities. If growth in Chinese production continues to outpace U.S. agriculture, comparatively small proportional increases in Chinese output (be they weather induced or stemming from structural changes like technically induced productivity increases) correspond to increases in output and, perhaps, trade flows that are large, both absolutely and relative to U.S. production.

All three papers dealt with the effects of “one-shot” trade reforms or retaliatory responses. No mention is made of some important longer-term, structural shifts with potentially profound effects on the magnitude, pattern, and gains from trade (although the recursive dynamics of the LINKAGE model underlying Martin and Anderson’s results is intended to incorporate these effects). Continued population growth and, especially, sustained growth in per capita incomes via their domestic income elasticites of demand effects will dramatically alter food consumption patterns globally, which in turn have commodity mix, form (e.g., raw vs. processed vs. pre-prepared) and mode-of-delivery plus trade consequences. As one manifestation of these trends, the supermarket tsunami documented by Reardon et al. (2003) sweeping Asia and Latin America has regional and global implications for agriculture, not least as food wholesalers and retailers begin sourcing with assurance of delivery times and quality as well as cost in mind.

Classical Ricardian notions of comparative advantages rooted in relative differences in production technologies may also be changing as seismic shifts in the pattern of investments in agricultural R&D reveal themselves in a realignment of the technological capacities of countries. Pardey et al. (2006) see the world dividing into a small group of “scientific haves” and a large (and growing) group of “scientific have-nots.” If recent agricultural R&D trends continue unabated, the technological consequences for productivity, global trade, and economic development generally, plus the well being of poor people in poor countries in particular, will swamp the magnitude and distribution of the gains realized from the current round of trade reforms.

References

