

Ministry of Agriculture and Agrarian Reform

NAPC

National Agricultural Policy Center

PROCEEDINGS No. 6

of the

Agricultural Policy Forum

on

***Agricultural Globalization in Developing Countries: Rules,
Rationales, and Results***

held in Damascus on November 9th, 2002

With the support of

Project GCP/SYR/006/ITA – Phase II



I. Introduction

A seminar on “Agricultural Globalization in Developing Countries: Rules, Rationales, and Results” was held in Damascus on November 9th, 2002 as part of the Agricultural Policy Forum set up by the National Agricultural Policy Centre (NAPC) with the support of the Project GCP/SYR/006/ITA-Phase II. The Agricultural Policy Forum aims at promoting the debate on agricultural policy issues among national and international experts, stakeholders and policy makers in order to provide technical background for the policy making process, and to obtain suggestions for NAPC research and policy advice activities.

The Seminar which was preceded by five Policy Forums in the year 2002, was introduced by Mrs. Husni, deputy director of the NAPC, who welcomed the guests and thanked them for their participation, especially Dr. Mahmoud Taher, FAO representative in Syria. Thus, Mrs. Husni introduced the lecturer, Professor J. Mohan Rao from the University of Massachusetts at Amherst, and FAO International Consultant, and emphasized the importance of the seminar in presenting new approaches to the reform of agricultural policies and institutions in Syria.

II. Synthesis of the presentation

Professor Mohan Rao opened his presentation expressing his pleasure for having the opportunity to share his thoughts on a very important and sensitive subject. His lecture provided a descriptive and analytical account of the extent to which agriculture in the developing economies has become integrated with external markets. In descriptive terms, he underlined the necessity to discern patterns in trade flows and price changes that may signify globalization.

He also provided hints on collateral changes in the growth of value added, productivity and labor absorption with a focus on agriculture. Analytically, he showed the connections between these patterns and the above-noted regime shifts, and to see whether these connections are better rationalized, if at all, in terms of neo-liberal or structuralism understanding of the mechanisms involved.

In identifying trends toward policies of opening up and any consequent increases in external trade integration, Prof. Rao set a “before/after” periodization of the data with 1980 taken to be the dividing date across the overall period 1961-1997. Each half of this periodization was further divided into two sub-periods. At least in most Developing Economies (DEs), the 1980s were a time of crisis when liberal reforms

were also initiated. By the end of the 1990s, a good deal of the reform initiatives had had a decade-long run to permit an assessment of their consequences. The period “before” was also similarly divided into the 1960s and the 1970s. This division rests on the consideration that the 1970s witnessed the oil shocks and the relatively easy availability of external finance for the DEs while most Advanced Economies (AEs) had taken significant steps toward external liberalization.

The analytic focus was on discernible average (or aggregate) differences in the experience of developed and developing countries, setting aside, for the most part, what variance there may be within these groups. Of course, the analysis of world trade relations in a “North/South” framework has respectable antecedents and retains considerable relevance. Disaggregated analyses of cross-regional and cross-national evidence were also mentioned.

Prof Rao highlighted the evidence on trade flows which indicates increased agricultural globalization in DEs coinciding with the regime shifts. However, increased trade flows have not been accompanied by relative price convergence as between the DEs and the AEs suggesting either that the policy shifts have been asymmetric and/or that significant parts of agricultural trade between North and South remain complementary rather than, as is often assumed, competitive. Moreover, the “fallacy of composition”, implicit in any global imposition of trade liberalization and not confined to primary products as such, also seems to have been at work for most of the period. At the same time, the threat of higher consumer prices (especially for the poor and vulnerable in both importing and exporting DEs) looms large. Its impact will be felt as and when production and export subsidies in the AEs are dismantled. Meanwhile, the regime shifts seem to have induced, on the one hand, excessive faith in the efficacy of agricultural prices to produce agricultural supply response and, on the other, reduced fiscal and organizational capacities to provide public agricultural inputs and services. Each of these conclusions seems broadly consonant with a structuralism understanding of global trade and production possibilities that DEs confront.

Prof. Rao concluded by mentioning that distributional consequences arise, both between DEs and AEs and within the DEs, from both the demand and supply sides, both within agriculture and at the economy-wide level. Admittedly, there are also important divisions of interest within the DE and AE groupings. With regard to the political economy of agricultural globalization, the lecturer mentioned the link between distributional consequences of regime shifts. He stated that the regime shifts themselves are often ascribable to interest conflicts implicit in national and international economic structures.

III. Summary of the debate

Following the lecture, the feedback of the participants took the form of a floor debate. Prof. Rao reacted to each question or comment, focusing on the importance of a gradual and measured integration of Syria and other DEs into the world market.

One of the participants raised the issue of price divergence and the lecturer in turn answered that it occurred only in the 90s. Predicting the future is not sensible as it would mean building a model which also takes into consideration the course of future policies. But in the event that the liberalization regime continues, price divergence can be expected to continue in the future. Actually convergence in prices happened during the period between 1960 and 1980 and we can name this period as a pre-globalization period. But price divergence certainly held after 1990 can be named the globalization period.

Afterwards, Prof. Rao was asked if there was any possibility of reverting the globalization process. He underlined that returning to the past or predicting the future is not feasible. When we think about the present, it should be remembered that we should not be against trade but against free trade and there is a big difference between the two.

In response to a question dealing with the process of globalization of the Syrian economy and, consequently, with the danger of rising consumer prices of food due to the GATT Agreement on Agriculture, the lecturer pointed out that Syria compares very favorably when compared to many other countries. Achieving self sufficiency and a relative abundance of food is not an easy task. However, there remain the issues of a rather heavy-handed centralization in administration of the agricultural economy. Perhaps, it is better to decentralize more and to rely on the industrial and services sectors to deliver economic development. Integrating with the world remains very important but it has to be done thoughtfully and in a critical way. At any rate, he highlighted that his lecture was focusing not only on individual countries and what they can do but on the whole world picture and what should be done globally.

He also took into consideration many future uncertainties, including the possibility that, for example, if genetically modified organisms rapidly grew in importance, perhaps we could see food prices decline even as WTO came into full force.

Therefore, replying to a question concerning the main consequences for Syria if it entered the WTO agreement, particularly with regard to the institutional consequences increasing the costs of liberalization for handicapped agents, prof. Rao explained how globalization's impacts are reflected more on distribution in society than on growth. This is especially the case when the impacts are measured via changes in agriculture and food prices. Incidentally, international comparisons find that relative food prices are much lower in rich countries while relative services prices are much lower in poor countries. As a consequence, it is better to be poor in a rich country than in a poor country, and better to be rich in a poor than in a rich country. Trying to achieve border price convergence will only worsen this structural situation.

As for the question of Syria joining the WTO, this is a matter of global politics and not only economics. But apart from this, in terms of economics, the order of preferences runs as follows: it is better to join the WTO than not to, since there are definite benefits from MFN (Most Favored Nation) and other clauses. At the same time, it is better to have a more equitable WTO than what we have today. But the WTO is over-committed to unvarnished free trade and this is not the route to either global equity or development in developing countries. A proof of it is the position of

the previously poorer EU (European Union) member countries, as Portugal or Ireland. The EU is not just about free trade but of systematically raising the levels of the poorer members. Hence, to be a member of WTO or not is largely a rhetorical question. May be it is better to join in order not to be isolated from the world, whether politically or economically. But this says nothing about how the WTO's principles themselves should be structured.

At this point, one of the participants commented on financial crises, emphasizing how they hit soft currencies and thereby undermine the long-term bases of agricultural growth in developing countries. Fluctuating exchange rates also work in the same direction. By contrast, rich countries (with stable financial systems and strong exchange rates) can withstand financial fluctuations. Weak currencies lead to resource misallocation (from tradable to non-tradable goods including agricultural commodities) and this will also hurt growth. At the global level there are incentives in agriculture for using resources to produce tradable instead of non-tradable or to switch from staple crops to cash crops and this fact hurts consumer security. Global mantra means depreciation of exchange rate and prices. Secondly, relying on trade opportunities in presence of steady currency depreciation explains decrease in self-sufficiency. Yet, poor people need to buy food, becoming net food importers. Thus, the global mantra or the Washington Consensus, stating that one size fits all, is a global recipe that does not work at all. There is a need for good governors who take appropriate actions.

Prof. Rao approved this comment and observed that globalization has many dimensions. In particular, he took into consideration financial globalization mentioning the Asian crisis which has produced an enduring loss of growth momentum and rise in inequality. Open capital account and domestic financial liberalization led to large inflows in the 1990s and made the economy vulnerable. When the Asian contagion hit, there was huge currency depreciation, 100% inflation, and a quick increase in the rate of poverty from 20% to 50% mainly due to a large rise in the price of food. In general, the potential harm of financial globalization to economic development has been greatly neglected by proponents of globalization. The related point is that in one sense it is not possible to be against globalization just as one cannot be against motherhood. The real issue is identifying what sort of global economy we want. If capital should be free to move across countries, even labor should be similarly free. As regards governance, this is not just an issue at the national level but also at the global level. A fundamental problem with globalization today is that while it is making national-level governance increasingly difficult by undermining national autonomy, it is also creating a growing swell of global problems that require global governance.

Then, a participant cited the case of Egypt with regard to its orientation towards open economy and towards trade union, and observed that Syria has achieved strong stabilization while in other places of the world many international companies play the role of globalization. Hence he asked the lecturer if it is better in any place for labor to move to capital or better for capital to move to labor.

Prof. Rao replied that it is certainly reasonable to suppose that a country cannot grow if does not have a stable economy. The problem today is that the policy of unrestricted openness is threatening both economic stability and economic development as in Argentina, Turkey, Indonesia and Russia. The real issue that the world has failed to

carefully examine concerns how much and what sorts of openness. About multinational capital and whether labor should move to capital or vice versa the lecturer affirmed that, even if it is true that capital can easily move from country to country, this is not necessarily beneficial. In the 19th century, labor mobility was the major engine of globalization and led to convergence of living standards in the participating countries. However, today capital mobility faces far fewer obstacles than labor mobility and constitutes the major part of globalization. At the least, it is necessary to take strong steps to govern capital. He continued that the power of multinational capital has increased enormously and is used to threaten labor everywhere. While labor unions have to become stronger to curb the power of capital, government action is also important to check the reckless mobility of capital.

At this point Prof. Rao was asked whether he expects all developing countries to move rapidly towards privatization and what the distributional effects of that might be.

The answer was that privatization in many countries has produced more flexibility and important benefits. Experience shows that governments should not get involved in everything. At the same time, privatization is not nirvana because private ownership without control can lead to corruption and lack of accountability: as we have recently witnessed in the debacles of Enron, WorldCom and other US companies. It is not only the public sector that can be corrupted and suffer from inefficiency and low quality. Corruption, inefficiency and low quality in the public sector are more visible and, at least in a democracy, the public sector often comes under intense public scrutiny. But the same phenomena in the private sector often go unnoticed because they are underwritten by the market prices we pay and we are taught never to question the market. In truth, however, markets can be rigged just as regulators can be captured. Just because there is a market and private enterprises in it, one should not assume that the market is self-regulating or that it will necessarily discipline the enterprises. The solution for both is constant and critical public vigilance. Most of us will agree that crucial areas such as health, education and defense cannot be left to the market. Beyond some such minimal statements, actually, we do not have blue-prints or ready answers on questions of organization and ownership. But one important conclusion can be underlined: the market must be our instrument and not our goal. The market can be a good servant but a very bad master. Finally, in order to offer a starting point for further reflections prof. Rao questioned: “When the market becomes our master, then, who are we?”

In the end, Mrs. Husni thanked Prof. Rao for his very interesting presentation and the audience for its active participation.

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Annex 1: List of Participants

Food and Agriculture Organization

De Benedictis, Michele, FAO consultant, Member of NAPC Scientific Committee
De Filippis, Fabrizio, FAO consultant
Romano, Donato, FAO training consultant
Lai, KC, FAO training consultant

Ministry of Agriculture and Agrarian Reform

Al Amatory, Muieen, Head of Planning Section, Livestock Research Dept.
Albhra, Mohammed Ehsan, Depuey Director, Ali Al Ali Project
Al Ghadban, Ali, General Establishment for Poultry
Assaf, Saed, Ali Al Ali Project
Faris, Waleed, Deputy Director, Pasture and Al Badia Dept.
Hameed, Tammer, Director, Al Badia Department
Ishak, Yusra, Agricultural Affairs Dept.
Izzo Adnan Director Ali Al Ali Project
Khouri, Sahar, Ali Al Ali Project
Mahfood, Mohamad, Mamdoh, Section Head, Rain Invoking Project
Malab, Karoleen, Journalist
Masseur, Anton, Ali Al Ali Project
Masseur, Faiez, General Commission for Agricultural Scientific Research
Nasmeh, Abdulrahman, Al Badia Development Project
Samara, Musa, Director, Al Bees Development Project

State Planning Commission

Zuhaili, Muneer, Director, Agriculture and Irrigation Planning Dept.

General Laborers Federation

Habbab, Ahmed, Chief, Vocational Union

Syrian Agency for News (SANA)

Hammadieh, Mhd. Hassan, Journalist

Syrian Times Daily

Fateh, Tamadur, Journalist

Al Thawra Daily

Deeb, Hana', Journalist

Ministry of Environment

Bukdash, Rafik, *Natural Resources Dept.*

University of Damascus, Faculty of Agriculture

Salhab, Suleiman, Dean
Al Azmeh, Fawaz, Secretary of Scientific Affairs
Kawwas, Huda, Associate Professor

The seminar was also attended by 20 of the NAPC trainees

Annex 2

Agricultural Globalization in Developing Countries: Rules, Rationales, and Results

By
Prof. Mohan RAO
University of Massachusetts at Amherst
FAO International Consultant



Introduction

Objectives

- Descriptive account of external integration (price and quantity) of DE AG
- Description of associated changes in growth, productivity & employment
- Analysis of changes in relation to policy shifts, both national and international
- Rationalizations from neo-liberal vs structuralism viewpoints

Method

- "Before/After" Periodization with 1980 as divider
- Periodization by decades: average changes and trends
- Analysis in implicit "North/South" framework
- Disaggregated analyses remains to be done

Main Conclusions

- AG Trade/GDP increased for both DEs and AEs
- Rate of increase in external integration highest in 1990s
- But declining AG trade balance of DE: import ratio rising and export ratio falling
- Fall in AG growth and productivity growth rate (for both DE and AE)
- DE absolute productivities diverging from AE levels
- DE comparative productivity lower in AG and declining

- No evidence of price convergence between DE and AE

- either policy shifts have been asymmetric or
- much North/South agricultural trade is complementary
- "*Fallacy of Composition*": DE ToT losses significant but not just agricultural
- Demand side: threat of higher food prices for LDCs
- Supply side: reduced fiscal & organizational means to provide agricultural inputs

National and Global Rules

- SAPs and the AA have effected a double transition, national and global
- **National (Structural) Adjustment Before the UR-AA**
- Policy convergence through SAPs even prior to UR-AA
- SAPs aimed to reduce anti-AG bias (due to ISI) and urban bias (political regimes)
- Direct and indirect taxation of AG estimated at an average of 46 % of GDP

- SAPs made institutional, fiscal & trade policy changes strongly affecting AG
- Reduction or abolition of export taxes and quotas
- Reduction or elimination of controls on international agricultural trade (including state boards)
- Reduced import tariffs, and elimination of import licensing, quotas or prohibitions
- Elimination of internal regulations and restrictions on private sector marketing
- Decline in public production-and-infrastructure-services (research, inputs, credit)

- **Neglected (Unintended?) Consequences of SAPs**
- While tradable-output relative prices rose, non-tradable relative prices fell
- Major reductions in private input subsidies (both explicit-via-the-budget and implicit-via-the market) e.g., fertilizers, credit
- Substantial cuts in public-goods expenditure and services provision critical for AG growth e.g. public agricultural research
- **Three Groupings of Countries**
 1. SAP ECONOMIES: Convergence to liberalized agricultural policies
 2. SEMI-INDUSTRIAL ASIAN ECONOMIES: retained earlier agricultural policies geared to home, not global, markets
 3. ADVANCED ECONOMIES: retained agricultural mercantilism

The Agreement on Agriculture (i) Tariffs and Quotas

- Quotas and other QRs to be converted to tariff equivalents
- AE tariff cuts: average 36%, minimum of 15% on each product (1999)
- DE tariff cuts: average 15%, minimum of 10% on each product (2004)
- Dirty tariffication through inflated base tariffs: EU (61%), US (44%) so that there is an actual increase in the final bound tariff
- “Market Access” provisions for both DE and AE
- In AEs, post-UR AG tariffs remain 6 times IND tariffs
- AEs retain “special safeguard” measures

(ii) Export Subsidies

- Fiscal subsidy expenditure to be cut: 36% in AEs and 24% in DEs
- Volume of subsidized exports to be cut: 21% in AEs and 14% in DEs (2004)
- *Most subsidies are in AEs, not DEs: so future DE subsidies are preempted

(iii) Aggregate Measure of (Domestic) Support

- AMS reductions: 20% over 6 years (AEs), 13% over 10 years (DEs)
- 88 *DEs reported below-constraint AMS
- *De minimis* exclusions of 5% and 10%
- AE Exclusions: EU and US deficiency payments
- DE Exclusions
 - (i): DE input subsidies for poor producers
 - (ii): Non-trade distorting “Green Box” measures (research, environment, crop insurance)

(iv) TRIPS-Agriculture

- Patents or sui generis IPR for plant varieties and microorganisms

The Rationale for Globalizing Agriculture

Basic feature of DE AG Low productivity in DE

- AG explains both low AG supply and low AG demand. The AG price is critical for the poor and also for macroeconomic performance
- FAO report argues that policy bias against agriculture within DEs plus AE protection and subsidization of AG are the key causes of AG underdevelopment
- As a result, AE output is higher and DE output lower. But on balance, these policy regimes lowered world prices.
- Hence, trade expansion from liberalization will raise world prices but raise DE supplies. AG producers everywhere in the DE, mostly poor, will benefit

The Gains from Trade: How important?

- For typical parameters, allocative gains from free trade are only 3% of GDP
- Consumers lose 13%, producers gain 21%, government revenue declines 5%
- But these redistributions may be inequitable, raise poverty and reduce food security. Though AG is labor-intensive, real wages may fall as food prices rise

Structural Constraints and Uneven Development

Q Might free trade openness work against dynamic growth in agriculture?

1. DEs with a higher share of primary exports grow more slowly because
 - due to low income elasticities, primary terms of trade (TOT) tend to decline
 - world price instability means payments instability causing stop-go growth
 - prior industrial base helps secure increasing returns and external economies
2. Past policies reduced DE AG import prices and raised export prices: a favorable impact on DE AG TOT. So reversal of policies will mean DE AG TOT loss

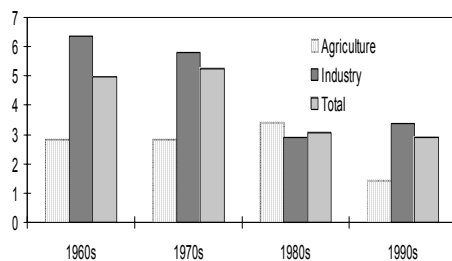
4 Domestic shelters against volatile world prices can be a good bargain (insurance) even if average prices are lower. So free trade pricing may hurt farmers

5. Liberalization will also reduce the indirect fiscal take from AG and thus reduce government ability to invest in agricultural supply shifters
6. Internal AG/IND TOT influences distribution and effective demand. Trade opening, by raising AG prices, reduces effective demand, output and budget, and so growth

Trends and Patterns Production, Prices, Terms of Trade

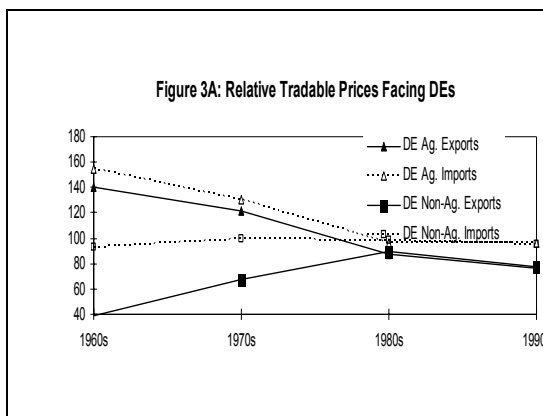
- **PRODUCTION** - DE AG (GDP) growth rate under import substitution was high and stable [Figure 1B]. It rose during the 1980s but has fallen by 60% in the 1990s
- Growth of per caput AG income negative for the first time in 4 decades (-0.3 %).
- AE AG growth also fell during the 1990s (to 0 %)
- **PRICES** Growth in the price of world-wide AG exports relative to all exports was negative in the 1960s-1970s and 0 in the 1980s but rose to 1.6 % pa in 1990s
 - Due to liberalization pressure on AE subsidies & on DE AG public investment.

Figure1A: GDP Growth Rates (DEs)



■ **TERMS OF TRADE** DE AG export prices fell in every period [Figure 3A] and so did DE AG import prices except that they did not fall in the 1990s.

- DE Non-AG export prices also declined in 1990s (contrast preceding decades) while Non-AG import prices showed no trend
- Overall: 10 % decline in the DE TOT. The implied 0.8 % GDP loss pa for DEs is about equal to their projected gain from all the “reforms” of the post-UR regime



External Market Integration

- **QUANTITIES** AG.Trade/GDP increased for both DEs and AEs [Figure 4A]
- But AEs (130.7%) far more integrated than DEs (31.9%)
- DE integration grew from 22.2% in 1960s to 31.9% - mostly in 1980s, 1990s
- But declining DE AG trade balance [Figure 3B]. DE share of world AG exports fell from 38.8 % to 28.3 % and of imports rose from 16.5 % to 25.3 [Table 2]
 - So increased globalization due to import increases and despite export decreases
 - Since this occurred with liberalization, DE AG comparative advantage in doubt

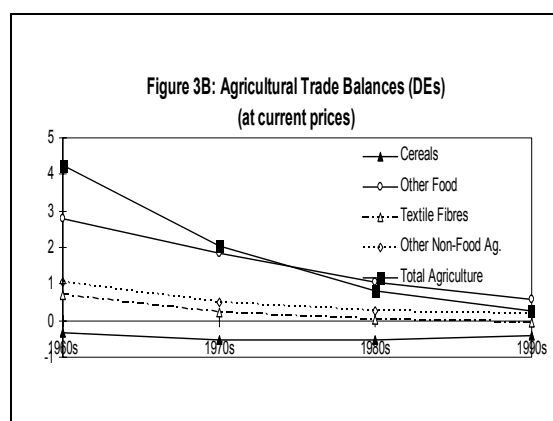
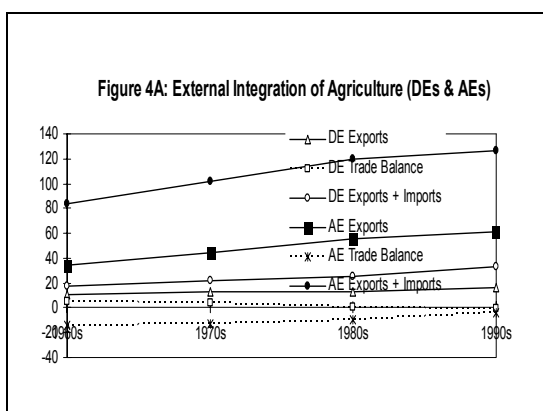
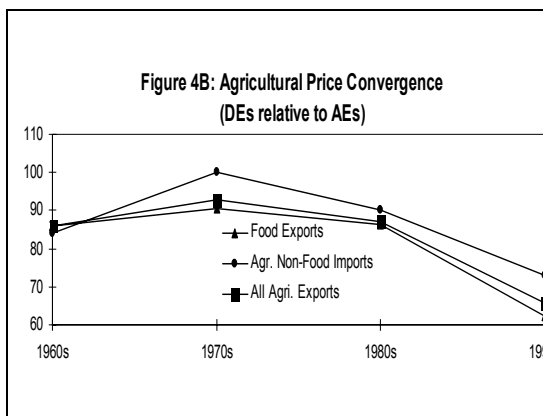


Table 2: World Trade: Growth and Structural Change 1960s 1970s 1980s 1990s

Share of Agric. in Total Trade (at current prices)		19.0	13.9	10.8
Trend Growth Rates in Trade (volume)				
Agric. Impor	DE	3.7	8.0	2.9
Agric. Expor	DE	2.6	3.5	3.7
Agric. Impor	AE	4.1	4.1	1.7
Agric. Expor	AE	4.6	5.9	1.5
Total Import:	DE	0.0	12.3	4.2
Total Export	DE	7.7	3.9	5.2
Total Import:	AE	9.6	5.0	5.4
Total Export	AE	9.4	6.3	4.1
Total Export	World	8.8	5.5	4.4
DE Shares in World Trade (at current prices)				
Agric. Imports		16.5	18.9	23.4
Agric. Exports		38.8	33.6	31.0
Exp. less Imp.		22.3	14.7	7.6
NonAg. Imports		20.7	22.9	23.9
NonAg. Exports		15.4	23.3	23.8
Exp. less Imp.		-5.4	0.4	-0.1
Total Imports		20.0	22.3	23.9
Total Exports		19.8	24.7	24.6
Exp. less Imp.		-0.1	2.4	0.7

PRICES DE-AE export price ratios, for food and non-food, tended to converge in 1960s-70 but have diverged since [Figure 4B].

- Price divergence during the period of liberalization suggests:
- EITHER policy shifts have been asymmetric (not plausible)
- OR much North/South agricultural trade is complementary



Understanding Agricultural Globalization

- **RICARDIAN ADVANTAGE** AEs have an “absolute productivity growth advantage” in all sectors [Table 5] but “comparative advantage” in AG while DEs seem to have a comparative advantage in both industry and services.
- Also, there is productivity “divergence” in all sectors over time, more so for AG. Thus, DEs’ comparative disadvantage in AG is rising over time.
- Perhaps, this accounts for their declining self-sufficiency. It implies that further liberalization will hurt DE AG.

Table 5: Labour Productivity Trends and Relatives

	1960s	1970s	1980s	1990s
Trend Growth Rates				
DEs				
Agriculture	1.2	1.0	1.8	0.4
Industry	2.3	1.5	-0.8	0.0
Services	0.0	1.4	-0.9	0.0
Total	2.7	2.7	0.7	0.9
Non-agricult	1.6	1.4	-0.9	0.0
AEs				
Agriculture	6.2	5.4	3.7	3.3
Industry	3.5	2.4	0.8	2.8
Services	3.3	1.1	2.6	0.0
Total	4.4	2.2	2.3	1.2
Non-agricult	3.3	1.6	1.9	0.9
Average Labour Productivity Levels (US\$, 1980 prices)				
DEs				
Agriculture	431	473	553	610
Industry	4,583	5,537	5,264	5,049
Services	2,898	3,379	3,484	3,325
Total	1,280	1,643	1,876	2,013
Non-agricult	3,637	4,322	4,256	4,061
AEs				
Agriculture	1,842	3,060	4,283	5,797
Industry	11,913	14,462	16,641	18,806
Services	11,227	13,052	14,832	17,058
Total	9,499	11,898	14,113	16,488
Non-agricult	11,501	13,568	15,440	17,578

- **HEKSCHER-OHLIN ADVANTAGE** Traditionally, DEs are supposed to have comparative advantage in labor-intensive AG. So in HO view, declining DE self-sufficiency is due to AE trade promotion.
- And AG liberalization will raise DE incomes & AG output, and lower poverty.
- **IMPLICATION** Opening up DE AG with only partial dismantling of the protective-promotional regime in AE can hurt DEs, majority of whom are not net exporters of food
- Prospects for raising AE food supply and demand depends on growth of domestic AG
- **LABOR ABSORPTION** AG GDP growth is negatively correlated with elasticity of AG labor absorption [Figure 5]. Managed globalization poses a potentially serious threat by forcing AG to shed labor faster than it can be absorbed elsewhere

