Trade Impact of Foot and Mouth Disease Information

Umesh Bastola and Thomas L. Marsh
School of Economic Sciences
Washington State University
Pullman, WA 99164


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School of Economic Sciences, Washington State University, Pullman, WA

Introduction

- Foot and Mouth Disease (FMD) is one of the most serious concerns in the livestock industry worldwide, particularly in developing countries.
- Despite a good deal of literature on FMD, empirical evidence specific to trade impacts is severely limited.
- Economic impacts of FMD stem from multiple sources, including trade sanctions imposed by the importing countries on livestock products from infected countries.
- With increased openness in trade in the current context of globalization, trade impacts of invasive disease outbreak are thought to be substantial but this has not been demonstrated in any comprehensive econometric analysis.

Primary Objectives

- Estimate export demand of meat and live animals across 145 countries.
- Examine effects of different types of reported livestock disease information (i.e., FMD outbreaks) and trade agreements on exports of meat and live animals.

Methodology

- Demand in country \( j \) is driven by perceived quality of the good with lower quality (i.e., FMD tainted products) leading to lower consumption (Pigott and Marsh, 2004). On the supply side country \( i \) exports are contingent on disease incidence and OIE/WTO guidelines. Both countries \( i \) and \( j \) are bound by bilateral or regional trade agreements.
- A spatial econometric model of aggregate export demand is specified as:

\[
Q_{ijt} = \alpha_i + \beta_1 P_{ijt} + \beta_2 P_{ijt} + \beta_3 P_{ijt} + \gamma_1 W_{ijt} \ln GDP_i + \gamma_2 Ratio_i + \sum \beta_k FMD_{ijt} + \epsilon_{ijt}
\]

Here, \( t \) indexes year (\( t = 1, 2, \ldots, T \)). \( M \) indexes meat and \( L \) indexes live animals on \( Q \) representing demand for the quantity of meat and number of live exports.

- GDP is the Gross Domestic Product for each country. \( Ratio \) is the ratio of domestic production to domestic consumption, and \( FMD \) dummy variables represent different information reported by each country (discussed above).
- \( W \) is a block diagonal weighting matrix of dimension \( N \times N \) with each block of size \( N \times N \) identifying trade agreements between countries for each time period, \( t \).
- To account for zero trade with panel data, we specify a Tobit panel estimator. To account for the spatially lagged endogenous variable, we extend this to estimate a spatial model, for both \( Q_M \) and \( Q_L \).

\( P \) denotes export prices. Missing prices are discussed below.

To capture the effects of different degrees of reported disease outbreak information on exports, three disease dummies from OIE are incorporated in the model (the base case is no FMD; see Figure 1a below):
- No reported disease information (FMD_noid): Disease is known to be present but data is not available (non-reporting) (FMD_nodata); and
- Data on disease outbreak is available (FMD_out) and compared against no disease present (FMD_zero) as the base variable.

Data

- Annual observations from 1996 to 2009 for 145 countries are used.

Table 1. Source of data used in this analysis

<table>
<thead>
<tr>
<th>Data Source</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td>FMD outbreaks (4 levels of disease outbreak information) (Figure 1a)</td>
<td>World Organization for Animal Health</td>
</tr>
<tr>
<td>Quantity and value of livestock meat exports</td>
<td>Organization (FAO) meat products</td>
</tr>
<tr>
<td>Quantity (Head) and value of live animal exports</td>
<td>FAO All categories</td>
</tr>
<tr>
<td>Prices for each category of export</td>
<td>Calculated Value/Quantity</td>
</tr>
<tr>
<td>Data on bilateral and multilateral free trade agreements</td>
<td>WorldTradeLaw.net and Mercurio (2013) used to construct the weighting matrix, W.</td>
</tr>
<tr>
<td>Domestic production and domestic utilization of meat</td>
<td>The World Bank Constant 2005 USD Units</td>
</tr>
</tbody>
</table>

Results

<table>
<thead>
<tr>
<th>Variable</th>
<th>Meat Export Quantity</th>
<th>Live Animal Export Quantity</th>
</tr>
</thead>
<tbody>
<tr>
<td>W</td>
<td>0.010*** (0.002)</td>
<td>0.016*** (0.003)</td>
</tr>
<tr>
<td>P meat</td>
<td>515 (1168)</td>
<td>-5527 (7205)</td>
</tr>
<tr>
<td>P live</td>
<td>6138 (6961)</td>
<td>-713 (31270)</td>
</tr>
<tr>
<td>LnGDP</td>
<td>32763*** (6467)</td>
<td>114619*** (24780)</td>
</tr>
<tr>
<td>Ratio</td>
<td>113056*** (14874)</td>
<td>36606*** (60030)</td>
</tr>
<tr>
<td>FMD_nodata</td>
<td>-794 (13036)</td>
<td>-74678 (62758)</td>
</tr>
<tr>
<td>FMD_out</td>
<td>-3733*** (9835)</td>
<td>-36445 (64403)</td>
</tr>
<tr>
<td>Constant</td>
<td>-829745*** (156533)</td>
<td>-304266*** (600262)</td>
</tr>
</tbody>
</table>

*** Indicates statistically significant at the 1% level.

How Large is the Trade Effect?

- Compared to disease-free countries, FMD-infected countries exhibit about 34,000 tons of reduction in export of meat (about 1/3 the average export quantities).
- In 2009, the loss in trade revenue for an average country is estimated to be more than 116 million USD at the world price of 3.45 $/Kg of exportable meat. For Africa, this loss cumulates to about 3 billion USD in 2009.

Conclusion and Policy Implications

- Trade impacts of FMD outbreaks are statistically and economically significant. On average, countries that suffer FMD outbreaks realize a loss of more than a third of their meat export revenue.
- Investing on preventive and control measures for FMD is likely to benefit countries that have potential for meat exports.
- International cooperation and collaboration, especially supporting the developing countries, can help eradicate FMD globally.