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## CHAPTER III

# **ENSURANCE OF SUSTAINABLE RURAL DEVELOPMENT THROUGH LIBERALIZATION OF TRADE WITH AGRICULTURAL COMMODITIES AND CAP REFORMS**

Vasily EROKHIN, Anna IVOLGA

### **ABSTRACT**

The chapter aims at overview of the main approaches to agricultural policies in developed and developing countries and investigation of perspective ways for ensurance of sustainable rural development in the conditions of liberalization of trade with agricultural commodities and food. The current state of agricultural policies and trade with agricultural commodities is analyzed on the example of EU-27, USA and Japan. The experiences of developing countries are summarized on the examples of Russia and CIS countries. The issues of sustainable rural development and main influences of trade liberalization are considered in the light of food security, where situation in Russia is compared to the developed countries. The chapter results in the conclusion, that developing countries would be able to ensure the sustainable rural development by evolution of state support in rural territories, import substitution, provision of environmental safety of domestic agricultural commodities, development of rural tourism and other income opportunities for rural people. In relation to long-term food security in the conditions of trade liberalization, the development of polycentricism of global agricultural market is considered as the key factor.

**KEY WORDS:** sustainability, rural development, international trade, food security, agricultural policies

### **INTRODUCTION**

The importance of ensurance of sustainable rural development cannot be overstated. In the contemporary conditions of liberalization of trade with agricultural commodities and food rural development is influenced by trade regimes, changing import tariffs, national agricultural policies and state support of agricultural producers. Developed countries, primarily USA and EU, lay emphasis on implementation of a wide range of tools that affect competitiveness of domestic farmers and character of rural development directly and indirectly. Such policies support effective elimination of prices disparity and increase of farmers' incomes. Obviously, developing countries fail to ensure their sustainable rural development proportionally with USA, EU and other developed states. Volumes of domestic support gained by farmers and rural people in developing countries are

tenfold lower than in developed states. Moreover, affiliation with World Trade Organization (WTO) limits the capabilities of developing countries to regulate their foreign trade activities; particularly binding of import custom tariffs restricts flexibility of state administration of custom tariff measures.

The main issues of sustainable rural development through trade liberalization and state support of domestic farmers were researched by a number of authors. Particularly, Josling T.<sup>46</sup> focused on agricultural policy and food policy in developed countries, international trade in agricultural and food products. He also investigated the development of the multilateral trade regime and reform of the agricultural trading system in the World Trade Organization.

Anderson K.<sup>47</sup> impacted into research of political issues of agricultural protection, disarrays in world food markets, agricultural trade reform and distortions to agricultural incentives.

For the purposes of the current research we have also addressed Prof. A. Schmitz's investigations<sup>48</sup> of current agricultural policies in USA and other developed countries, as well as a global perspective of agricultural policies in the next decade.

There are works performed by Russian economists, which have to be taken into consideration when studying the issues of sustainable rural development. Particularly, Ushachev I.<sup>49</sup> is one of the leading Russian researchers in the sphere of sustainability and competitiveness of agriculture in the conditions of international trade liberalization, including WTO accession. Alongside with Ushachev I. for the purposes of this research we have also addressed the works by Tarasov V.<sup>50</sup> related to risks and treats of competitiveness of agriculture and food security of Russia at its accession to WTO.

Being de jure regulated by a number of multilateral and bilateral agreements, international trade liberalization in practice faces a range of problems that lay in details and separate mechanisms of social and economic systems. Existing trade barriers whether direct (tariff) or indirect (non-tariff) character

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<sup>46</sup> Josling, T., Anderson, K., Schmitz, A., Tangerman, S. (2010): *Understanding International Trade in Agricultural Products*. One Hundred Years of Contributions by Agricultural Economists, Am. J. Agr. Econ., vol. 92(2): 424-446.

<sup>47</sup> Anderson, K., Jha, S., Nelgen, S (2013): *Re-examining policies for food security in Asia*, Food Security, vol. 5, no. 2: 195-215.

<sup>48</sup> Schmitz, A., Moss, C., Schmitz, T., Furtan, W, Schmitz, H. (2010): *Agricultural Policy, Agribusiness, and Rent-Seeking Behaviour*, Second Edition. Toronto: University of Toronto Press.

<sup>49</sup> Ushachev, I. (2012): *Measures to Secure Competitiveness of Russia's Agricultural Production in the Conditions of its Accession to WTO*. Economics of Agricultural and Processing Enterprises: Academic and Research Journal, Vol. 6: 1-5 (in Russian).

<sup>50</sup> Tarasov, V. (2012): *Risks and Treats of Competitiveness of Domestic Agriculture and Food Security of Russia at accession to WTO*. Available at: <http://www.myasoportal.ru/analitika/riski-i-ugrozy-pri-prisoedinenii-rossii-k-vto> (accessed November 2013) (in Russian)

combined with huge volumes of state support of agriculture (especially in developed countries) do not let developing countries to take full advantages of involvement into international division of labour and trade of agricultural products. It seems possible to expect that the issues of access to domestic markets, state support of farmers and influence on competition in the sphere of export of agricultural products will hold the limelight in the long-term.

### **TRADE BOOM, FOOD SECURITY AND RURAL DEVELOPMENT: THREE CONCERNS OF CONTEMPORARY AGRICULTURAL MARKET**

Modern processes of globalization cause a range of problems and economic conflicts in international economics. The development of international economics becomes increasingly unstable; recession in the leading developed countries becomes prolonged and hard. There is new global problem in addition to the chronic energetic and financial ones – food security. Production of agricultural commodities and food more and more evidently becomes one of the strategic spheres of international economics, influenced by the contemporary global economic processes.

The state of the national food security is traditionally evaluated by the following four factors:

- Physical availability of agricultural commodities and food (i.e. one can buy food anytime),
- Economic accessibility of agricultural commodities and food (i.e. income of poor people is enough to buy food),
- Food safety for consumers (agricultural commodities and food have to be ecologically clean),
- National food independency (share of imported food should not exceed 20% of total volume of consumed food and agricultural products).

For the purposes of the current research, we have addressed Russia because of several reasons:

1. Russia is the largest country with enormous land resources and agricultural potential, but it does not ensure its national food security for a variety of agricultural commodities.

2. Over 25% of Russian people live in rural areas, but rural infrastructure is outdated, level of income is low, production of agricultural commodities and food is uncompetitive.

3. Russia recently accessed World Trade Organization and declared a solid level of protection for its farmers, but import tariffs are getting lower; domestic market is continuously saturated by imported food with higher added value; state support of domestic farmers is low and gets even lower in future; country lacks adequate and effective programs of rural development.

According to the Food Security Doctrine of the Russian Federation, levels of national food independency are set for the most important agricultural commodities and food (Table 3.1).

**Table 3.1.** Levels of national food independency of Russia for the major agricultural commodities and food

Agricultural commodities and food	Share of domestic production
Grain	≥ 95%
Sugar	≥ 80%
Vegetable oil	≥ 80%
Meat and meat products	≥ 85%
Milk and dairy products	≥ 90%
Fish products	≥ 80%
Potatoes	≥ 95%
Salt	≥ 85%

*Source:* Tarasov, V. (2012): *Risks and Treats of Competitiveness of Domestic Agriculture and Food Security of Russia at accession to WTO*. Available at: <http://www.myasportal.ru/analitika/riski-i-ugrozy-pri-prisoedinenii-rossii-k-vto> (accessed July 2013) (in Russian)

However, despite such high levels of food security, approved by the Doctrine, in reality Russia's agriculture is rather "dependent" than "independent". This is related both to the population (according to the Academy of Medical Sciences of the Russian Federation, 40% of population consume bread below the nutritional standard; 70% insufficiently consume meat and meat products; 90% – milk, dairy products, vegetable and other fats), and producers of agricultural products, oriented on the foreign markets.

Russia because of the twofold decrease of domestic agricultural production in 1990s was forced to open its market for foreign agricultural commodities and food. There was one of the most liberal trade regimes at those times, when the average tariff on agricultural and food commodities was only 12-14%.

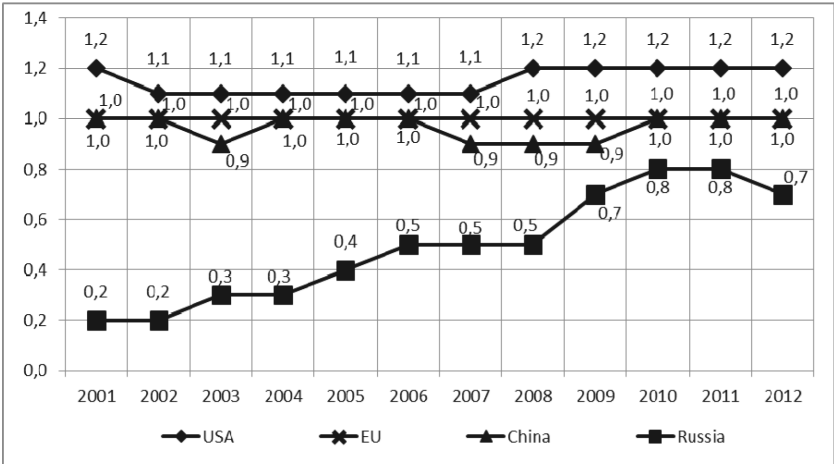
According to its WTO obligations, Russia will have to decrease that level even further, by one third. In such a case, the average bound tariff rate would be less than 10%. This is equal to the complete openness of the domestic market for imported agricultural commodities and food, produced by the biggest multinational companies and developed countries. It should be appreciated that most of the food exporting countries implement export subsidies and high volumes of domestic support of their agricultural producers. Because of that, imported agricultural products in the conditions of low import tariffs will have doubtless competitive advantages in comparison with Russia's domestic products. According to FAO, in 2012 share of imported agricultural commodities and food on Russia's domestic market reached 42.1% Russia does not implement the "tariff peaks", as the highest import tariff on food commodities in Russia is only 25%, whilst 2550% in Japan, 450% in Mexico, 379% in USA,

300% in India, 219% in EU. The number of tariff lines in EU is 220, in Japan – 1806, in USA – 1769, in Mexico – 1080, while in Russia – only 847.<sup>51</sup>

Herein the majority of developed countries, including EU and USA, the leading exporters of agricultural commodities and food on the global market, completely secure their national food independencies by means of domestic production, while export their surpluses of agricultural commodities and food with the active state support of their exporters.

According to V. Tarasov,<sup>52</sup> Head of the EurAsEC Agrarian center of the Russian Research institute of agricultural economics, EU, China and USA have the essential volumes of exceedingly produced agricultural commodities and food, which potential volumes are distributed on the markets of developing countries, including Russia (Figures 3.1 and 3.2).

**Figure 3.1.** Levels of food security of EU, USA, China and Russia on poultry meat in 2001-2012



Source: author’s development according to Tarasov, V. (2012): *Risks and Treats of Competitiveness of Domestic Agriculture and Food Security of Russia at accession to WTO*. Available at: <http://www.myasportal.ru/analitika/riski-i-ugrozy-pri-prisoedinenii-rossii-k-vto> (accessed July 2013) (in Russian)

<sup>51</sup> FAO (2012): *Review of Trade and Agricultural Policy. Russian Federation*. Available at: [http://www.fao.org/fileadmin/templates/est/meetings/wto\\_comm/RU/Trade\\_Policy\\_Brief\\_Russia\\_Rus\\_final.pdf](http://www.fao.org/fileadmin/templates/est/meetings/wto_comm/RU/Trade_Policy_Brief_Russia_Rus_final.pdf) (accessed November 2013)

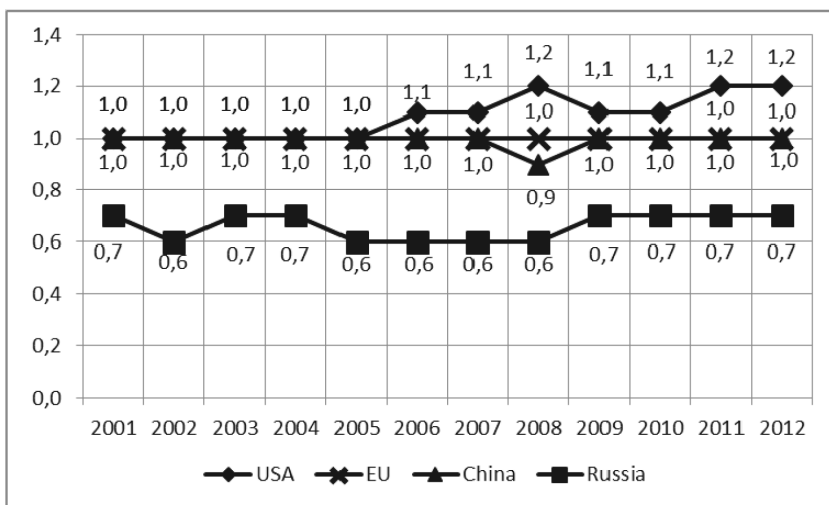
<sup>52</sup> Tarasov, V. (2012): *Risks and Treats of Competitiveness of Domestic Agriculture and Food Security of Russia at accession to WTO*. Available at: <http://www.myasportal.ru/analitika/riski-i-ugrozy-pri-prisoedinenii-rossii-k-vto> (accessed July 2013) (in Russian)

Only by 2009-2011 Russia succeeded to reach the relative food security on poultry meat, when 70-80% of that product was produced in Russia and not imported from abroad. However, such an effect may be explained by the consequences of the global financial and economic recession, appreciation of import and effects of import-substituting production (as the import dependency on poultry meat increased again in 2012).

USA, securing their domestic demand on poultry meat, export their surpluses on external markets. Its food independency coefficient exceeds 1.2 starting from 2008. Even China with its world's biggest population, ensures its internal requirements in poultry meat on 100%. The insignificant "failure" in China's food independency on poultry meat in 2007-2009 (coefficient 0.9) was easily compensated by purchasing on the global market.

Situation with global production of pork meat is more or less similar to the production of poultry meat: while developed countries cover their domestic demands and export their surpluses, Russia import up to 40% of pork meat to meet its requirements. (Figure 3.2).

**Figure 3.2.** Levels of food security of EU, USA, China and Russia on pork meat in 2001-2012



Source: author's development according to Tarasov, V. (2012): *Risks and Treats of Competitiveness of Domestic Agriculture and Food Security of Russia at accession to WTO*. Available at: <http://www.mysportal.ru/analitika/riski-i-ugrozy-pri-prisoedinenii-rossii-k-vto> (accessed November 2013) (in Russian)

It is obvious, that with such high level of dependency on import deliveries the reduction of import tariffs after Russia's accession to WTO on such ag-

ricultural commodities as beef, pork, poultry and dairy products, may harm the domestic animal production. Protection opportunities are limited. The latest example of WTO effect is the embargo on export of grain outside of Russia, introduced by the Government of the Russian Federation in 2010 and cancelled in 2011. In the WTO framework such actions are not allowed, the member state has to declare the limits of such embargo and protect that decision on WTO commission. This is exactly how Ukraine introduced the partial embargo on export of its grain in 2010.

Fulfillment of WTO conditions, specified by the Protocol of Accession of the Russian Federation, will not let to implement large-scale programs on development of animal production in particular and rural development in general, because the domestic market will not be effectively protected from foreign competition and state support of domestic farmers will be limited. According to I. Ushachev,<sup>53</sup> the annual losses of Russia's agriculture may reach \$4 bln because of concession of the part of domestic market to foreign farmers and shrinkage of external markets for Russian exporters of agricultural commodities and food.

According to Ernst & Young, Russian School of Economics and Centre of Economic and Financial Research,<sup>54</sup> annual Russia's GDP growth, caused by WTO accession, will reach 0.41% (with gradual decrease of tariffs during 5 years) and increase up to 0.96% within 5-6 years (after complete reduction of tariffs).

According to World Bank,<sup>55</sup> accession to WTO may bring the annual growth of Russia's GDP (up to 3.3%), but consequences for agriculture will be negative as for the volume of agricultural production (decrease on 3% during the transition period) and for the foreign trade activity (decrease of export of agricultural commodities and food on 6%, increase of import on 11%).

The expectations of the Russian Union of Industrialists and Entrepreneurs are presented in the Table 3.2.

According to the Russian Academy of Agricultural Sciences,<sup>56</sup> Russia's accession to WTO may cause growth rate reduction of agricultural production

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<sup>53</sup> Ushachev, I. (2012): *Measures to Secure Competitiveness of Russia's Agricultural Production in the Conditions of its Accession to WTO*. Economics of Agricultural and Processing Enterprises: Academic and Research Journal, Vol. 6: 1-5 (in Russian)

<sup>54</sup> Research Institute of Agricultural Economics of the Russian Academy of Agricultural Sciences (2013): Available at: <http://www.vniiesh.ru/news/9651.html> (accessed November 2013)

<sup>55</sup> Tarasov, V. (2012): *Risks and Treats of Competitiveness of Domestic Agriculture and Food Security of Russia at accession to WTO*. Available at: <http://www.myasoportal.ru/analitika/riski-i-ugrozy-pri-prisoedinenii-rossii-k-vto> (accessed November 2013) (in Russian)

<sup>56</sup> Research Institute of Agricultural Economics of the Russian Academy of Agricultural Sciences (2013): Available at: <http://www.vniiesh.ru/news/9651.html> (accessed November 2013)



and rural development in comparison to the State Program: 14% instead of 21% during 8 years, which is equivalent to the losses of €25 bln (€3.1 bln annually during the transition period).

**Table 3.2.** Consequences of the Russia's accession to WTO for agriculture (according to the Russian Union of Industrialists and Entrepreneurs)

Industry	Annual losses caused by WTO accession, € bln.
Production of pork meat	- 0.50
Production of beef	- 0.43
Production of poultry meat	- 0.42
Production of sugar	- 0.63
Production of milk and dairy products	- 0.74
TOTAL	- 2.72

*Source:* Tarasov, V. (2012): *Risks and Treats of Competitiveness of Domestic Agriculture and Food Security of Russia at accession to WTO*. Available at: <http://www.myasoportal.ru/analitika/riski-i-ugrozy-pri-prisoedinenii-rossii-k-vto> (accessed November 2013) (in Russian)

Consequently, liberalization of trade with agricultural commodities and food brings real threats for national food security. Foreign competitors will get easier access to the Russia's domestic market with their surpluses of agricultural commodities and food, while domestic farmers will not be able to compete because of their low effectiveness and debt load. To be able to ensure its food security and sustainable development of agricultural production and rural territories in the conditions of trade liberalization developing countries need efficient and qualitative state support of the strategic and the most sensitive industries of domestic agriculture, development of rural infrastructure, involvement of rural people into agricultural production.

### **NEW TRADE AND AGRICULTURAL POLICIES AND THEIR INFLUENCES ON SUSTAINABLE RURAL DEVELOPMENT**

There is a tendency of recent years when developed countries gradually cut their support programs for domestic farmers. Support policies are the subjects of change as well along with the volumes of relative support. Moreover, support is becoming reoriented from production of the certain agricultural commodities to production-limiting programs (for example, when the compensatory payments are aligned with the fixed acreages, yields or livestock population). However, exactly the most developed countries allocate the large funds

for support of their farmers (2011: \$47 bln in USA; \$121 bln in EU; \$49 bln in Japan).<sup>57</sup>

Developed countries apply the range of thresholds to protect the separate (most sensitive to foreign competition) segments of domestic agricultural complexes. For example, the “tariff peaks” set by the developed countries for the separate kinds of food and agricultural commodities exceed 100% (when the average level of tariff protection of agriculture by WTO member states is about 62%).

**Table 3.3.** Mechanisms applied by EU and USA to eliminate disparity of domestic and international prices on agricultural products

Target Directions	EU	USA
Support of farmers' income.	Direct payment to farmers to support their incomes. Payments to compensate for disaster damages.	Direct payment included into farmers' income. Payments to compensate for disaster damages. Payments to compensate for damage related to production reorganization.
Import control.	Import duties on agricultural products. Import licensing. Import quotas.	Import duties on agricultural products.
Price support of farmers.	Indicative prices: 1. Target prices – high. 2. Intervention prices – minimum prices on domestic market. 3. Threshold prices – minimum prices of import.	Indicative prices: 1. Target prices – minimum prices on domestic market. 2. Intervention prices – equal to target or loan ones. 3. Differential payment.
Curtailment of production.	Anti-surplus policies at domestic market. Promotion of agricultural land withdrawal. Farmers' withdrawal programs. Land diversion for support of prices and income.	Anti-surplus policies at domestic market. Promotion of agricultural land withdrawal. Land conservation programs. Land diversion for support of prices and income.
Domestic demand promotion.	Not applicable.	Food aid to poor people.

Source: author's development according to FAO (2012): *Review of Trade and Agricultural Policy. European Union* and FAO (2012): *Review of Trade and Agricultural Policy. United States of America*.

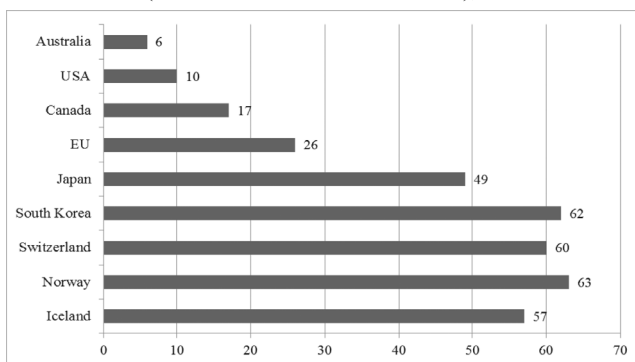
<sup>57</sup> Erokhin, V., Ivolve, A. (2011): *Entrepreneurship in Agriculture: New Challenges of International Trade Integration*. Contemporary Agriculture: the Serbian Journal of Agricultural Sciences, no. 3–4, Vol. 60: 398–402.

Developed countries widely implement non-tariff barriers and measures of phytosanitary control as well. One of the main “distorting” effects of state support of agriculture for the global agricultural market is that WTO rules do not consider the existing distinctions between natural and economic conditions of agricultural production in various countries. They are not related to the specifics of the past decades of economies in transition (like Russia and other CIS states), when agricultural production decreased and suffered a lot.<sup>58</sup>

The world biggest agricultural producers (USA, EU, and Australia) enjoy the more favorable natural and economic conditions for agricultural production unlike most of the developing countries, including CIS states and Russia.

On the other hand, the developed exporting countries who established GATT in the middle of the 20<sup>th</sup> century have the diversified agricultural complexes, benefit the WTO preferences and widely apply export subsidies (which is not a case with the accessing countries).<sup>59</sup>

**Figure 3.3.** Support of agriculture in selected countries in 2011 (share in overall farmers’ income), %



Source: author’s development according to FAO (2012): *Review of Trade and Agricultural Policy. European Union*, FAO (2012): *Review of Trade and Agricultural Policy. United States of America*, FAO (2012): *Review of Trade and Agricultural Policy. People’s Republic of China* and FAO (2012): *Review of Trade and Agricultural Policy. Russian Federation*.

<sup>58</sup> Erokhin, V., Ivolska, A. (2012): *How to Ensure Sustainable Development of Agribusiness in the Conditions of Trade Integration: Russian Approach*. International Journal of Sustainable Economies Management (IJSEM), Vol. 1, issue 2: 12-23.

<sup>59</sup> Ushachev, I. (2012): *Measures to Secure Competitiveness of Russia’s Agricultural Production in the Conditions of its Accession to WTO*. Economics of Agricultural and Processing Enterprises: Academic and Research Journal, Vol. 6: 1-5 (in Russian)

Developed countries, WTO member states, not only support their farmers by administrative price control and subsidies, but increase competitiveness of their agricultural complexes with general services provided to domestic producers of agricultural commodities (i.e. Green Box measures). Such general services include:

- introduction of scientific achievement into production;
- support of marketing, information, financial and transport infrastructure;
- costs associated with crop insurance;
- development of consulting and extension services in rural territories;
- modernization of rural infrastructure;
- support of scientific achievements;
- veterinarian services.

Such measures do not distort trade and production at all or affect them in a minor way. Consequently they are not the subjects of reduction commitments and are eligible in any extent. Support conditioned by the Green Box is of great importance for agriculture in developed countries, including competition on the global agricultural market, since production cost advantages of one country can be neutralized by lower costs of transportation and marketing of another.<sup>60</sup>

Effectiveness of the Green Box measures in the long term can be even higher than of the direct subsidies. However, the most distorting effect is still caused by direct payments to agricultural producers. The given payouts are implemented by the governments in order to protect small and medium farmers from foreign competition, but in practice large-scale producers who are not in such a desperate need gain the best of such support. The fact is that such support is calculated and distributed based on the certain quantitative indicators: production volumes, acreages, livestock population, etc. Small farmers, without being large landowners and having high incomes from their main productive work, try to compensate their incomes working off-farm (which is not supported, evidently).

Even more, small volumes of the “real” support gained by small farmers can be cut even in the midterm. EU has the world biggest budget allocated for support of the domestic agriculture. However it would be a hard task for EU to maintain such a high level of support in the face of a range of macroeconomic problems and internal situation. The volume of state support of EU farmers decreases gradually. Nowadays EU spends approximately 0.4% of its GDP on agriculture (0.6% in 1990-2000s), although it merged the less developed countries of Central and Eastern Europe, where agriculture prevailed in the struc-

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<sup>60</sup> Erokhin, V., Ivolve, A. (2011): *Entrepreneurship in Agriculture: New Challenges of International Trade Integration*. Contemporary Agriculture: the Serbian Journal of Agricultural Sciences, no. 3–4, Vol. 60: 398–402.

ture of their economics and which therefore needed to support it.<sup>61</sup> The reform of the EU system of payments is aimed to overcome the existing regional disparities. In case of the decision to delegate the part of payments (10%) previously made from the EU budget to the national budgets (as it is suggested by some EU member states), France would lose \$200 mln annually, Spain – \$188 mln. At the same time Germany, Italy, Great Britain, Belgium and ten new EU member states would increase their subsidies. According to their accession treaties these countries are obliged to increase subsidies from the national budgets gradually until 2013.

Primary areas of new EU Common Agrarian Policy expected to be approved by the EU Parliament in 2014 are integrated in the Table 3.4.

**Table 3.4.** Primary areas of CAP reforming and measures to be introduced in 2014

№	Areas of reforming	Measures
1.	Interrelation between volume of support and production volume.	Permission to reconcile volumes of support with production volumes. Subsidy rates – up to 15% of the “national package” of funds allocated to agriculture.
2.	Decrease of Green Box support.	During the first year of the reform 3% of agricultural land will be delivered the status of “nature reserve areas” with further increase of such areas. Toughen standards to be recognized as an organic farmer.
3.	Termination of double funding practices.	Cancellation of double payments for single “environmental” action (achievement of the certain environmental indicator and support in the frameworks of agricultural and environmental programs financed independently).
4.	Revision of production quotas.	Maintaining of sugar production quotas until 2020. Cancellation of milk production quotas after 2015.
5.	Maintaining of export subsidies.	Availability of export subsidies to be implemented until 2020.
6.	Restriction on size of payments to large farmers.	Restriction of size of direct payments (€300.000 per 1 farm).

*Source:* author’s development according to FAO (2012): *Review of Trade and Agricultural Policy. European Union.*

<sup>61</sup> FAO (2012): *Review of Trade and Agricultural Policy. European Union.* Available at: [http://www.fao.org/fileadmin/templates/est/meetings/wto\\_comm/RU/Trade\\_Policy\\_Brief\\_EU\\_RU\\_final.pdf](http://www.fao.org/fileadmin/templates/est/meetings/wto_comm/RU/Trade_Policy_Brief_EU_RU_final.pdf) (accessed November 2013)

In general, EU agrarian reform preconditions the further decrease of state support of agriculture. Thus, if today the share of state support in farmer's budget can reach 70%, it will be reduced to 40% by 2020. It is necessary to lessen the disproportions in subsidies in different countries and to encourage environmental activities. Such changes will force EU farmers to increase their effectiveness, to enhance export activities, to explore new markets and investment opportunities abroad.

Most of the developing countries in some or other way are in "dependent position" on the global market compared to developed countries. They supply raw materials, mineral resources and agricultural commodities and consume higher conversion products. Evidently, being dependent developing countries are to a far greater degree concerned that the major part of benefits of trade liberalization goes to developed states.

"Justification" of export of raw materials or low-processes products from developing countries and return import of high-technology commodities is aligned with the Heckscher-Olin theorem, which states that countries export goods that use their abundant factors (and, respectively, the most developed sectors of their economies) intensively. Consequently, developing countries, where labour and land are cheaper than in the developed states, are naturally specialized in production and export of primary goods and agricultural products. When exporting these goods they earn foreign currency revenues and later spend it on purchases of foreign high conversion goods produced by developed countries, who implement capital, technologies and high skilled labour, i.e. factors which are scarce for developing countries.

Following the Heckscher-Olin's logic, growth of international trade and its liberalization have to balance production factors naturally and to reconcile income inequality of trading countries. According the theorem, export of raw materials from developing countries supports industrial growth in developed ones, which in turn accelerates extra demand for raw materials and provides the growing volume of revenues going to the developing countries.

However, a theory is just a theory, and things go in another way in practice. There are many reasons of that, but for research of the global agricultural market we have to concentrate on consequences of the modern international division of labour for the developing countries. We are of the opinion that there are four consequences: slow growth of agricultural export volumes; substantial growth of food import from developed countries, outrunning the growth of export; modification of trade conditions to the disfavour of developing countries; incapacity to support domestic agriculture on the level with the developed states.

Global demand for agricultural and food commodities is under-elastic. Food and agricultural products are essential commodities; that is why developed countries aim at assurance of their food security by means of domestic production (except, perhaps, Japan) and saturate domestic markets with high-

quality own-produced food commodities. To entry those markets foreign producers have to have some substantial competitive advantage. This is usually not the case of developing countries, which do not have sufficient resources to support their farmers and deliver such competitive advantages to their products. Consumers in developed countries already have all necessary food commodities of required quality; there is no reason to expect any essential growth of market capacity. Moreover, there are high custom barriers (either tariffs or sanitary regulations) on the way of foreign agricultural commodities.

EU and USA implement mechanisms of tariff rate quotas along with the prohibitive taxes for non-quota deliveries of food commodities (Table 3.5).

**Table 3.5.** Tariffs for non-quota deliveries of agricultural commodities to EU, USA and Russia's domestic markets, %.

Agricultural commodity	Russia	EU	USA
Milk and dairy products	19	163	126
Vegetables, fruits and live plants	36	161	132
Sugar and confectioneries	68	118	79
Vegetable oil	24	94	164

Source: Ushachev, I. (2012): *Measures to Secure Competitiveness of Russia's Agricultural Production in the Conditions of its Accession to WTO*. Economics of Agricultural and Processing Enterprises: Academic and Research Journal, Vol. 6: 1-5 (in Russian).

In most cases non-quota protection of EU and US domestic food markets exceeds 100%, while, for example, Russia implements 20-30% rates, which is not an essential barrier for foreign farmers subsidized by their governments. Consequently, it is questionable if developing countries would definitely benefit from trade liberalization and get an easier access of their agricultural commodities to the domestic markets of developed countries. To succeed on such markets one has to undertake essential efforts to secure an exclusive competitive advantage and get state support.

Principles of competition and fair self-regulation of global agricultural market, which underlie WTO activities, seem too hard for developing countries, particularly in the conditions of high state support of domestic agricultural complexes by developed countries, distorting fair competition. However, the situation is not so unpromising for developing countries. Alongside with such serious apprehensions there are quite realistic effects of agricultural trade liberalization. De jure developing countries are granted with a light regime of access to foreign markets when accessing WTO and participating in trade and economic integration. But one can benefit here not so much by an expansion to the developed countries' markets as by getting more predictable operation re-

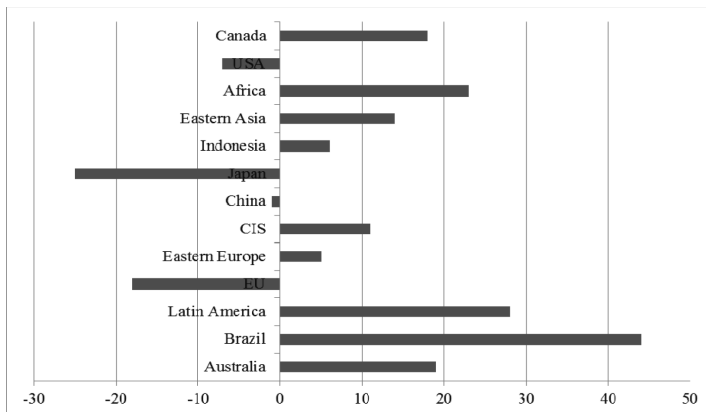
gime on traditional markets, i.e. expansion of trade between developing countries themselves.

Development of domestic market might have been another significant effect of agricultural trade liberalization owing to:

- growth of assortment, improvement of quality and accessibility of food commodities for consumers;
- enter of domestic farmers into competition for customers;
- development of infrastructure of production, processing, storage and transportation of agricultural commodities, as well as rural territories by means of refocusing of state support on Green Box measures;
- broaden income opportunities for rural people.

The latter is particularly topical for developing countries with their high share of rural population and high unemployment in rural territories. According to the World Bank report on international trade 2011,<sup>62</sup> trade liberalization would positively affect incomes of rural people in almost every developing country, while developed countries would suffer. Figure 3.4 demonstrates the forecast of income alterations of rural population by 2015 in comparison with the “non-liberalization” scenario.

**Figure 3.4.** Forecast of income alterations of rural population in selected countries and regions by 2015, %



Source: author’s development according to VLANT (2012): *International trade and international cargo flows in 2011 (final report)*. Available at <http://vlant-consult.ru> (accessed November 2013) (in Russian) and Liapis, P. (2011): *Changing Patterns of Trade in Processed Agricultural Products*. OECD Food, Agriculture and Fisheries Papers, No. 47

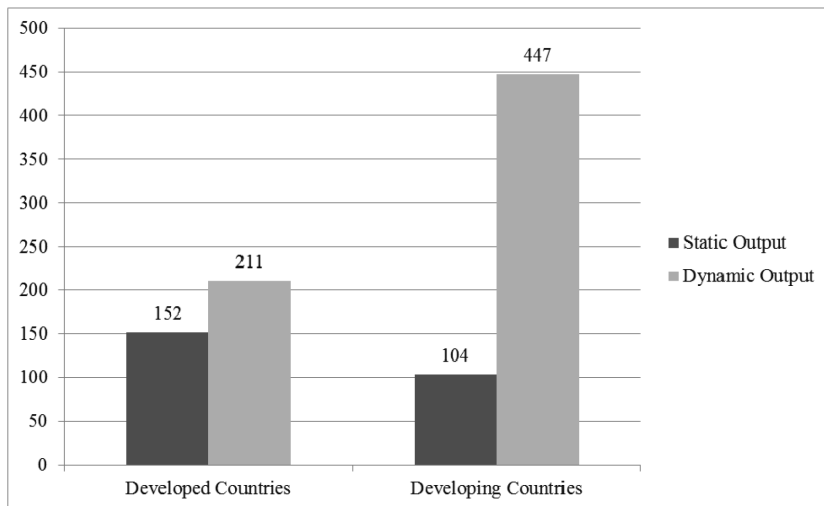
<sup>62</sup> OECD (2011): *Agriculture Policy Monitoring and Evaluation 2011*. OECD Countries and Emerging Economies, Paris, France.



The maximum potential growth of income of rural population as a result of trade liberalization is expected in Latin America, particularly in Brazil – over 40% by 2015. Substantial potential of growth is forecasted for Asia and Africa. Lower growth rates are expected by the World Bank in CIS and Eastern Europe. Rural population in developed countries (except Australia) do not benefit from trade liberalization in general. The World Bank expects revenue contractions in EU and USA.

In general, the benefit from the radical liberalization of international trade, according to the World Bank, might have been enormous in comparison with the official support provided nowadays for development purposes. Figure 3.5 presents the forecast of real income alterations in developed and developing countries by 2015, calculated using the models of static and dynamic outputs. Static output is a scenario of global trade reform with fixed production volume, while the dynamic output model includes interrelation of production with market openness (ratio of export volume to production volume).

**Figure 3.5.** Forecast of real income alterations in developed and developing countries by 2015, \$ bln



Source: author's development according to VLANT (2012): *International trade and international cargo flows in 2011 (final report)*. Available at <http://vlant-consult.ru> (accessed November 2013) (in Russian) and Nilson, A. (2011): *Commodity Trade Between EU-27 and CIS Countries, 2000-2010*. Eurostat, Statistics in Focus, Vol. 40. Available at: <http://epp.eurostat.ec.europa.eu> (accessed November 2013)

Evidently, participation of developing countries in the international trade integration does not bring any competitive advantages automatically. There is always a combination of the certain treats and opportunities, which is unique for every country due to its economic particularities and specialization on the global market. Selective protection from threats, identification of competitive advantages and resources allocation to the most perspective spheres of agricultural production – these are the very broad recommendations for developing countries involved into the international trade liberalization. Every country, accessing into WTO or participating in the regional trade agreement, has to implement the transition period and reform its foreign trade policy gradually in compliance with its strategic interests.

One of the most critical challenges for the sustainable development of the global agricultural market is how to supply the growing demand for food and agricultural commodities in the conditions of toughening environmental regulations and at the same time – to protect customers from price fluctuation on the global agricultural market. According to the World Bank, almost 20% of world population is starving (primarily in developing countries), while developed countries experience an inverse problem – utilization of “food garbage”, i.e. agricultural and food commodities disposed because of the unprofitability of their dissemination.

Such critical disproportions arise from unequal rates of agricultural development in different regions as well as from the general imbalance in the global economy. The bulk of agricultural commodities is produced and, what is more, concentrated in the developed countries like USA, Canada and EU. These countries supply their domestic food demand by means of either domestic production or import. Food demand in developing countries grows at a faster pace than in developed ones. Most often developing countries are not capable to supply this demand completely. Thus, while the global agricultural production keeps growing, the gap between food production and food consumption in developed and developing countries is being increased. Developed countries continue to concentrate food surplus and developing ones suffer from growing demand for food and its deficit.

The strategic goal in order of sustainable development and is equilibrium in different regions is to increase the productivity in developing countries by means of technical modernization, investments in new technologies and development of infrastructure.

## **CONCLUSIONS**

In the modern conditions of trade liberalization and changing patterns of international and national agricultural policies developing countries have limited capabilities to protect domestic producers and ensure sustainable development of their rural territories. Involvement into the international trade integra-

tion forces developing countries to open their domestic markets for foreign agricultural and food commodities. Ensurance of sustainable rural development in developing countries is impeded by the outdated rural infrastructures, low effectiveness of agricultural production, low involvement of rural people into entrepreneurial activities, as well as by insufficient state support of agricultural production and rural development and low import tariffs, which facilitate an easier market access for foreign agricultural and food commodities and lead to reduction of domestic production.

The vital issue for developing countries is how to secure the sustainable development of national agriculture and agribusiness in the conditions of a growing market openness and liberalization of agricultural trade, taking into consideration the incomparably lower financial capabilities. Rural regions are by nature highly open to trade and must focus on competitiveness in order to grow. But for a rural region to be competitive, and hence sustainable, it has to be capable of producing goods and services that can be sold at a profit to other regions. With globalisation and shifts in terms of trade, most rural regions have to find new economic roles. This suggests that a better understanding of the economic strengths and weaknesses of rural regions is essential to improving their growth prospects. Clearly rural regions will not grow in the same way that urban regions grow. And because “first-nature geography” (climate, natural resources, soil, etc, as opposed to secondary or human geography) is more important in rural regions, it will also be the case that growth opportunities will vary considerably among rural regions, even within the same country.

Current research shows that developing countries may succeed in ensurance of sustainable rural development by introduction of the following measures:

- state support of import substitution agricultural production;
- provision of environmental safety of domestic food and agricultural commodities;
- agricultural and food export increase once the domestic is saturated;
- development of rural infrastructure;
- enhancement of economic activity of rural households and expansion of their incomes;
- development alternative sources of income for rural people, including rural tourism;
- preservation and rational usage of existing environmental, climatic, health and recreational resources of rural territories.

Sustainability of the global agricultural market can be secured by increasing of its polycentricism. Examples of Brazil, Argentina and China, which increase their shares on the global agricultural market, are illustrative. Another side of this process is a set of opportunities provided to developing countries and their unions in view of trade liberalization.

International economic relations keep growing actively, especially in the certain regions and between them. There is an opinion that such a rapid growth of regionalization can discourage and decelerate rural development. However, proceeding from the assumption that international economy would grow into the single market of goods, services, capital, labour and information, we can alternatively consider the modern rural development as an in-bound movement to regionalization and clearer identities of rural regions.

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