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# WTO's Agreement on Agriculture: Implications for Trade, Sustained Agricultural Growth and Poverty Alleviation

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Date: January 29, 2002

From: Dr. Anwar F. Chishti  
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To: J.C.Bureau  
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**Subject: Contributed Paper for X EAAE Congress**

I send three copies of my contributed paper entitled "WTO's Agreement on Agriculture: Implications for Trade, Sustained Agricultural Growth And Poverty Alleviation" for the X Congress of European Association of Agricultural Economists going to be held on August 28-31, 2002 in Zaragoza, Spain.

An electronic version of the paper is also being sent through email, as desired.

Sincerely,

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# WTO's Agreement on Agriculture: Implications for Trade, Sustained Agricultural Growth And Poverty Alleviation

Anwar F. Chishti and Waqar Malik<sup>1</sup>

## Abstract

A theory-based graphical analysis of WTO's trade liberalization policies (opening of close-economy to international trade and cuts in price-supports, import-tariffs and export-subsidies) suggests that most of such policies would yield net social gains to the society, as a whole. The adverse effects and losses in producer surpluses of some of the policies would be balanced out by greater gains in consumer surpluses and vice versa. Losses in producer surpluses due to cuts in price supports and import tariffs are also expected to be partially subsidized by reductions in export subsidies mainly granted by the USA and EU; hence, policies need to be enforced, not in isolation, but in a simultaneous fashion.

Trade liberalization would help minimize control of individuals on trade, leave less room for individual policy makers, tax collectors and interest groups to exploit situations in their own interest and lead the economy to be run in accordance with the supply and demand forces based on the last lasting general tendency of human nature. This would help to achieve a sustainable and stable agricultural growth; however, more durable sustained growth would depend as how effectively trade liberalization is pursued and enforced the world over. Opening of closed economy for exportables, and withdrawal of export subsidies by foreign exporters would be pro-producers and would directly contribute to poverty alleviation. Opening of economy for importables, withdrawal of price supports and tariff-cuts on imports would yield savings to consumers and would positively contribute towards poverty reduction.

## 1. Introduction

The Agreement on Agriculture (AoA) of the World Trade Organization (WTO) is considered as the most effective tool affecting world trade. This Agreement requires, for both developed and developing countries, to initiate a process of reforms in their agrarian economies with the objective of establishing a market oriented agricultural trading system through multilateral trade negotiations. The Agreement on Agriculture specifically asks for major

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reductions in export subsidies, domestic support and import barriers on agricultural products and set quantitative targets for cuts in each of the three specified areas, namely import tariffs, domestic supports and export subsidies (WTO, 2001a).

<b>Period/time allowed</b>	<b>Developed Countries</b> 6 years (1995-2000)	<b>Developing Countries</b> 10 years (1995-2004)
<b>Tariff:</b>		
1) Average cut for all agricultural products	36%	24%
2) Minimum cut per product	15%	10%
<b>Domestic Support</b>		
1) Total AMS cuts for sector (base period: 1986-88)	20%	13%
<b>Exports:</b>		
1) Value of Subsidies	36%	24%
2) Subsidized quantities (base period: 1986-90)	21%	14%

The above reported proposed reductions in import tariffs, domestic supports and export subsidies were to be affected in the developed and developing countries up to the year 2000 and 2004, respectively. However, the progress of implementation, reported so far, presents a mixed picture. Gurler (2001) raised some of the concerns of developing countries and reported that, even after the five-year implementation of the WTO Agreements, the developing countries could not observe any improvement in their position. In trade, despite the liberalization process, areas of export interest to developing countries, particularly agriculture and textile and clothing, remained heavily protected. Capital markets in developing countries were opened up, whereas labour markets in the developed countries were still being protected. Many developing countries felt that, while they had made progress in liberalizing their own markets, developed countries

were quite slow in this respect. Without consolidating their liberalization process, the developed countries were rather concerned to expand WTO agreements to include additional and new forms of economic activities such as labour standards, trade investment issues, genetically modified products, electronic commerce, and so on. While reviewing the implementation in the OECD countries, the FAO (2000) pointed out that, despite reduced Aggregate Measures of Support (AMS) levels, total support to agriculture was not declined. Analyses had shown that, not all policies exempt from reduction commitments, were indeed production and trade neutral, as often assumed. To the extent these exempt policies distorted production and trade, the overall positive impact of lower AMS support was undermined.

The WTO, in its recent 4<sup>th</sup> Ministerial Conference held in Doha in November 2001, reaffirmed “the principles and objectives set out in the Marrakesh Agreement Establishing the World Trade Organization” and pledged “to reject the use of protectionism”. The Conference reconfirmed its commitment to the programmes embodied in the AoA and committed itself “to comprehensive negotiations aimed at: substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade-distorting domestic support”. The Conference also took note of various concerns of developing countries and chalked out work programmes for various interest areas, with the commitment that negotiations would be pursued and completed before January 2005(WTO, 2001b).

There are, at present, 144 countries that have already signed WTO’s membership, while another more than two dozens are negotiating for it. Each of these countries would have to adopt the measures asked for to liberalize its agricultural sector. It would be in the interest of these countries if these carry out some comprehensive studies covering the effects and implications of

the WTO's Agreement on Agriculture. This particular paper develops some theory-based graphical analytic techniques for measuring welfare effects of the proposed cuts in import tariffs, domestic supports and export subsidies on producers, consumers and government treasury and for the society, as a whole. The techniques so developed would not only indicate the direction of the effects, but may also further be used for empirical studies of the pros and cons of WTO's trade liberalization for various agricultural commodities.

## 2. Trade Liberalization: A Theoretical Framework for Capturing Effects

It is a well-known general tendency of the human nature that he/she responds to price changes differently when he is a supplier or producer of a commodity versus the situation when he acts as a consumer or buyer of the same commodity. When price increases, a producer enhances his production or supply (panel a of Figure 1), but at the same time, a buyer reduces his consumption or demand for that commodity (panel b)

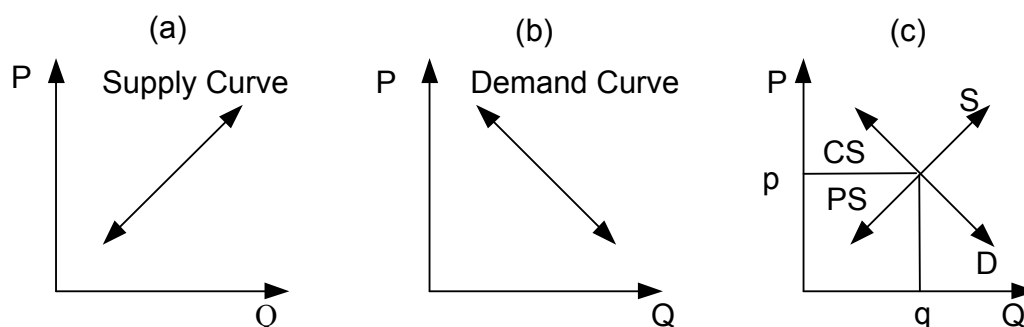


Figure 1: Supply-Demand, Prices & Social Surpluses

This general tendency of human nature (generally referred to as the principles or laws of supply and demand in the discipline of economics) provides the basis of a compromise on an agreed price and quantity supplied and demanded (panel c).

The general Marshallian paradigm, presented in panel (c) of Figure 1, whereas, represents how the forces of supply and demand determine prices in the market, it also indicates that, while behaving differently to price changes, the producers and consumers, in fact, try to maximize their respective social surpluses (PS and CS). Producer tries to maximize producer surplus (PS) – the area above the supply curve and below the price line - and consumer tries to maximize consumer surplus (CS) - the area below the demand curve and above the price line (panel c of Figure 1). Whereas the PS represents the ‘profits’ to the producer, CS represents the ‘savings’ to the consumers.

The position of the price line and curvatures/slopes of the supply and demand curves determine the volumes/magnitudes of the producer and consumer surpluses. Panel (c) of Figure 1 suggests that any change in the position of price or any rightward or leftward shift of the supply and/or demand curve will change the magnitudes of the PS and CS. It should also be noted that any positive change in PS would mean a reciprocal negative change in CS and vice versa. This phenomenon thus provides a mechanism to compare and evaluate an intervention or policy on the basis of changes in the PS and CS; a better policy would thus be the one, which yields net social gains (NSG) to the society, instead of incurring net social cost (NSC) defined, as follows.

$$NSG = \Delta PS + \Delta CS > 0 \quad (1)$$

$$NSC = \Delta PS + \Delta CS < 0 \quad (2)$$

Some of the interventions/policies are accompanied with some other gains like import and export tax collections and some are accompanied with subsidies and other costs; all such gains and losses should also be added/accounted for in the above equations for a fair evaluation



of the policy under study<sup>2</sup>.

### **3. WTO's Trade Liberalization: Theoretical-Based Graphical Analysis<sup>3</sup>**

Of the several implications of WTO's trade liberalization, we take the following four specific cases for detailed analysis.

- a) Opening of the closed economy
- b) Reduction/elimination of Aggregate Measures of Support (AMS)
- c) Reduction of tariffs on imports
- d) Reduction/elimination of export subsidies

#### **3.1 Autarky-to-Open Economy:**

Though, many countries have substantially reduced the number of products included in their negative lists (banned for import or prohibited for export), there may be still a number of products banned for import in or export from those countries. In case the numbers of such products are further reduced or the negative lists are altogether eliminated, the effect on domestic economy of Country X would be, as follows.

##### **a) A Case When World Price ( $P_w$ ) > Domestic Price ( $P_d$ ):**

If the world price  $P_w$  of the commodity involved is higher than the domestic price  $P_d$ , the opening of economy of Country X would help introduce the world price  $P_w$  prevailed in the domestic market, which would induce the domestic producers to increase their production from the closed economy level of 'ab' to the new level of 'cd'. (Panel a of Figure 2) The domestic

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<sup>2</sup> For a review of the concepts of social surpluses (PS, CS) and their uses as a criterion for comparing effects of various policies and interventions, see Chishti (1994; pp.32-47).

<sup>3</sup> For more details on the following and similar analysis, see Houck (1986), Gardner (1988 a&b), Knutson, Penn and Boehm (1990), Tweeten (1992), and Chishti (1991, 1994 & 1997).

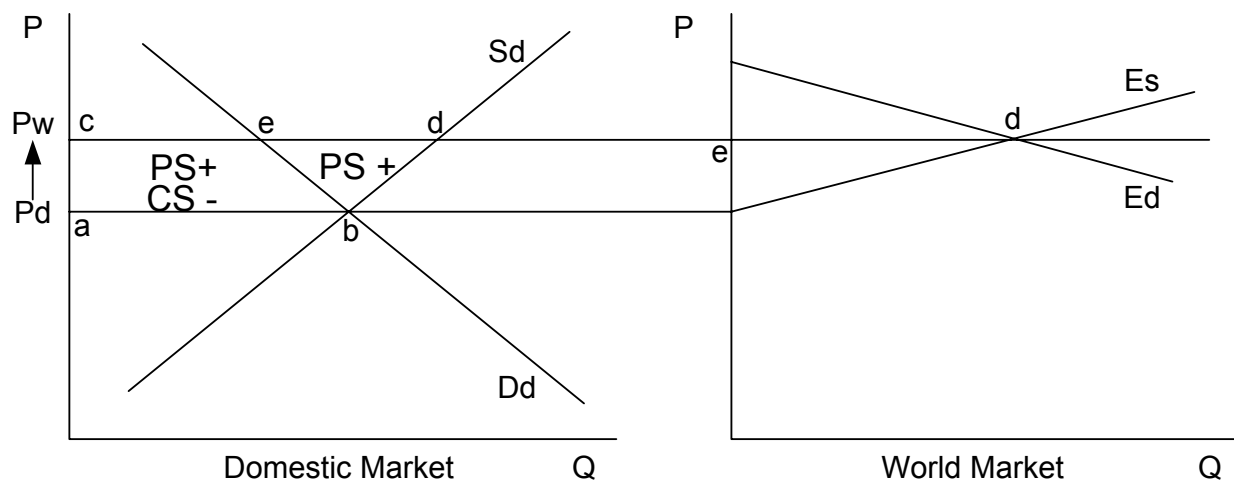


Figure 2(a): Autarky is relaxed (when  $P_w > P_d$ )

consumer, on contrary, would reduce their consumption from 'ab' level to 'ce' level, leaving an exportable surplus equal to 'ed', which would be exported to the world market on a price  $P_w$ . Consequently, producer surplus (PS) would be up by an area equal to 'abdc', consumer surplus (CS) would be lower by 'abec'; and end-result would be a net social gain (NSG) equal to area 'bde'. Summarizing the results,

If  $P_w > P_d$ , then

$$\Delta PS = (abdc) > 0 \quad (3)$$

$$\Delta CS = (abec) < 0 \quad (4)$$

$$NSG = \Delta PS + \Delta CS = (bde) > 0 \quad (5)$$

#### b) A Case When World Price ( $P_w$ ) < Domestic Price ( $P_d$ ):

If the world price  $P_w$  is lower than domestic price  $P_d$ , Country X would become a net importer, as reflects in Panel b of Figure 2.

The lower  $P_w$  would depress domestic production from the existing level of 'ab' to 'cd'; the lower  $P_w$  would encourage domestic consumption from existing 'ab' to 'ce', resulting in a

net demand for import equal to 'de'. As a consequence of the lower world price, the PS would decrease, CS would increase and, again, there would be a NSG equal to area 'deb', as indicated below.

If  $P_w < P_d$ , then

$$\Delta PS = (abdc) < 0 \quad (6)$$

$$\Delta CS = (abec) > 0 \quad (7)$$

$$NSG = \Delta PS + \Delta CS = (deb) > 0 \quad (8)$$

It should be noted that if autarky is relaxed and economy is opened to outside competition, whether a country becomes an exporter or importer, it reaps net social gains;

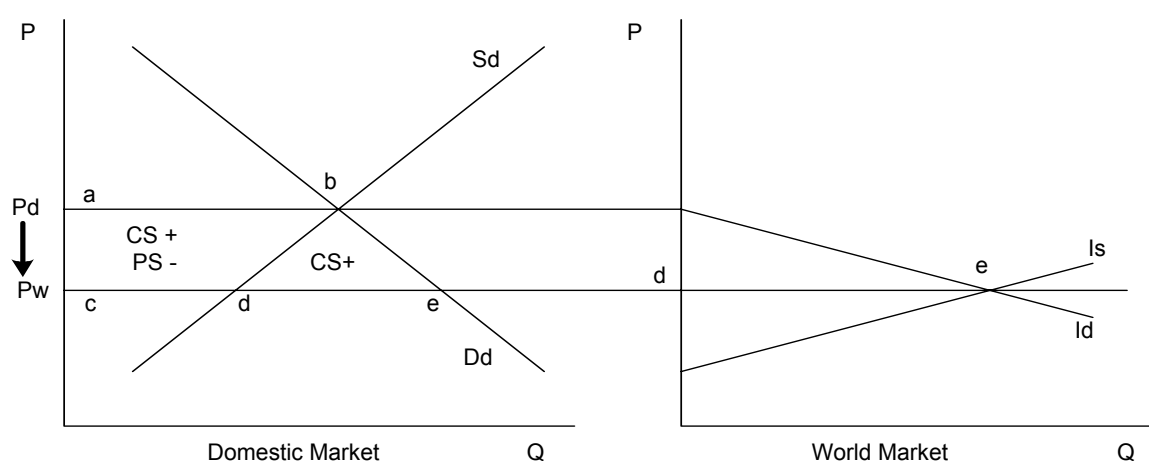


Figure 2(b): Autarky is relaxed (when  $P_w < P_d$ )

however, the producers gain and consumers hurt in the former case, and consumers gain and producers hurt in the latter case.

### 3.2 Reduction/Elimination of Aggregate Measures of Support (AMS):

The WTO trade liberalization requires that the Aggregate Measures of Support (AMS), which include both subsidies and price supports provided to producers in domestic market, be

reduced, and eliminated ultimately. Figure 3 (a & b) represents the cases of reduction or elimination of price supports for an exporting and importing country, separately.

**a) Relaxing Price Support (An Exporter Case):**

If Country X is already exporting a commodity and the government decides to support its price above the free market price  $P_f$ , the price supported at  $P_s$  would enhance domestic production from 'ab' to 'cd' level and exportable surplus from 'eb' to 'gd' level.. The enhanced exportable surplus 'gd' would depress the world price and the government would have to dispose off its exportable surplus at a world price  $P_w$ , which is lower than its domestic support price  $P_s$ . The government would thus have to provide a subsidy on export - equal to the difference between  $P_s$  and  $P_w$  - to maintain  $P_s$  at its supported level; otherwise, the exportable surplus would not be disposed off in international market and the price support mechanism would collapse due to availability of heavy stocks in domestic market. In case the support price is reduced/eliminated, the  $P_s$  decreases to  $P_f$ , domestic production declines from 'cd' to 'ab' level, domestic consumption increases from 'cg' to 'ae' and exportable surplus reduces from 'gd' to 'eb' free market level. Since exportable surplus 'eb' is easily disposed off at free market price  $P_f$ , there would be no need to grant export subsidy ( $ES = 'hidg'$ ); the cost of subsidizing export would thus be saved. The changes in social surpluses would be, as follows.

If  $P_s \rightarrow P_f$  (in an exporting country), then

$$\Delta PS = (abdc) < 0 \quad (9)$$

$$\Delta CS = (aegc) > 0 \quad (10)$$

$$\Delta ES = (hidg) > 0 \quad (11)$$

$$NSG = \Delta PS + \Delta CS + \Delta ES = (eghidb) > 0 \quad (12)$$

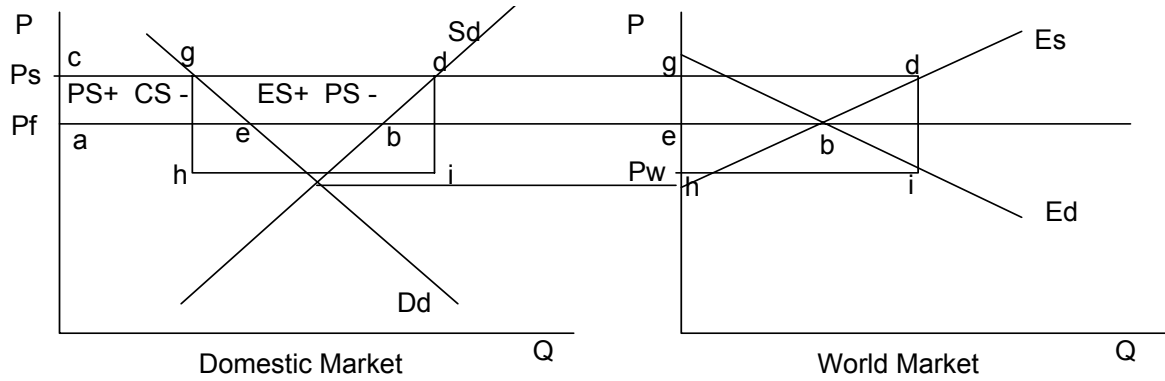


Figure 3(a): Price Support Relaxed (Exporter Case)

#### b) Relaxing Price Supports (An Importer Case):

If Country X is already an importer of the commodity (Figure 3, panel b) and the government decides to support its price above the free market price  $P_f$ , the price supported at  $P_s$  would cause domestic production to increase from 'ab' to 'cd' level, domestic consumption to decrease from 'ag' to 'cf' and import quantity to decline from 'bg' to 'df' level. The depressed demand for import 'df' decreases the world price and the country imports the commodity 'hj' on a lower world price  $P_w$ , sells it on a higher domestic price  $P_s$  and, in the process, receives import tax equal to the difference between the two price levels to maintain  $P_s$  at its supported level; otherwise, the price support mechanism collapses due to the availability of stocks on lower price in international market. In case the support price is reduced/eliminated, the  $P_s$  decreases to  $P_f$ , domestic production declines from 'cd' to 'ab', domestic consumption increases from 'cf' to 'ag' and import demand increases from 'df' to 'bg' level. Since import demand 'bg' is easily met at free market price  $P_f$ , there would be no import tax (IT) received by the government.

The changes in social surpluses would be, as follows.

If  $P_s \rightarrow P_f$  (in an importing country), then

$$\Delta PS = (abdc) < 0 \quad (13)$$

$$\Delta CS = (agfc) > 0 \quad (14)$$

$$\Delta IT = (hjfd) < 0 \quad (15)$$

$$NSG/C = \Delta PS + \Delta CS + \Delta IT = \{(bkd)+(egf)\} - (hjek) \geq 0 \text{ or } \leq 0 \quad (16)$$

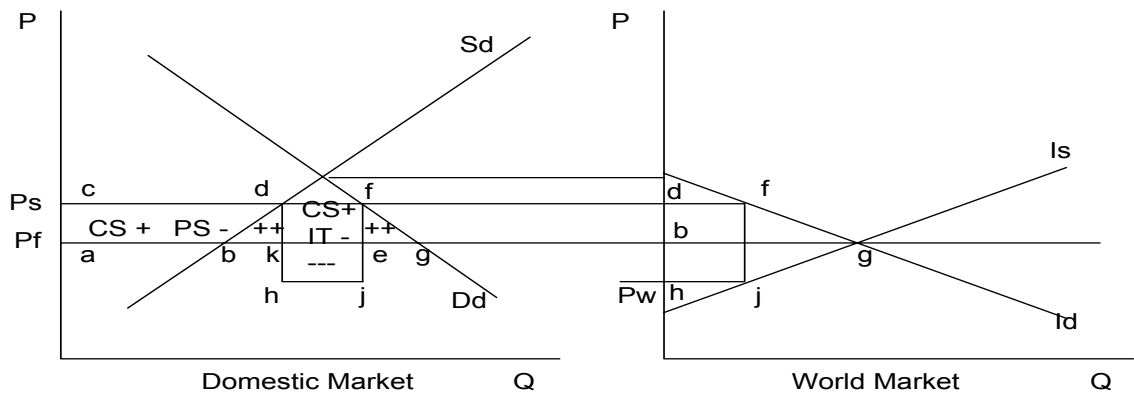


Figure 3(b): Support Price is relaxed (Importer Case)

Equation 16 indicates that whether there would be net social gain or cost (NSG/C) of reducing/elimination of price support is not clear as it would depend on differences in magnitude of the area  $\{(bkd)+(egf)\}$  indicating savings in CS and area  $(hjek)$  representing net losses in IT.

### 3.3 Reduction of Tariffs on Imports:

As Figure 4 reflects, when a tariff is imposed on an import, the import demand curve shifts inward from  $I_f$  position to  $I_t$  position. The  $I_t$  curve intersects export supply curve  $E_s$  at a point which sets world price at  $P_w$  and domestic price at  $P_t$  against the earlier common Tariff-free market price  $P_f$ ; consequently, an import tax (IT) - equal to area 'edhg' - is collected on account

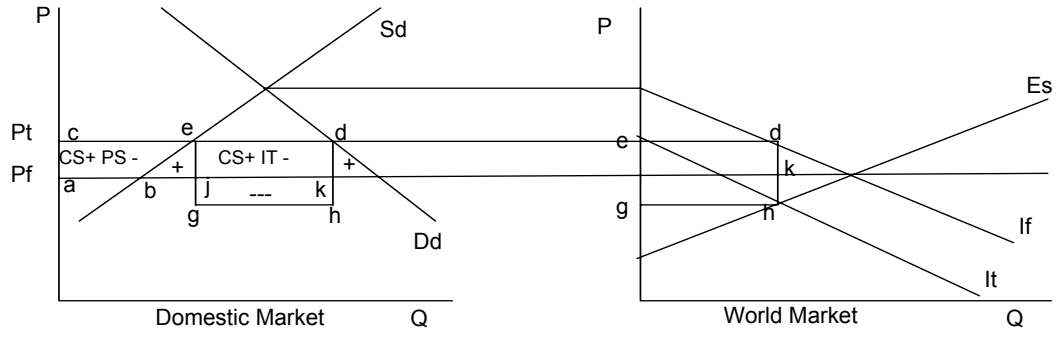


Figure 4: Import Tariff Relaxed

of tariff or import duties imposed.

The elimination of tariff on import would mean reduction in PS by area 'abec', increase in CS by area 'akdc' and elimination of IT altogether. The changes would thus be:

If tariff  $\rightarrow 0$  &  $P_t \rightarrow P_f$ , then

$$\Delta PS = (abec) < 0 \quad (17)$$

$$\Delta CS = (akdc) > 0 \quad (18)$$

$$\Delta IT = (ghde) < 0 \quad (19)$$

$$NSG/C = \Delta PS + \Delta CS + \Delta IT = \{(bie)+(jkd)\} - (ghji) \geq 0 \text{ or } \leq 0 \quad (20)$$

Equation 20 indicates that, whether there would be net social gain or cost (NSG/C) of reducing/elimination of tariff, it is not clear as it would depend on differences in magnitudes of the areas  $\{(bie)+(jkd)\}$  indicating savings in CS and area (ghji) representing net losses in IT.

### 3.4 Reduction/Elimination of Export Subsidies:

These are mainly the USA and EC, which heavily subsidize their exports. The developing countries, in general, do not subsidize their exports. The elimination of subsidies on exports in international market would result in higher prices of these exports. This would affect Country X in two ways: (a) as an exporter of the commodity; (b) as an importer of the commodity.

#### a) Effect on Country X, being an Exporter:

The Es and Is curves, in Panel (a) of Figure 5, represent, respectively, the export supply

and import demand curve of Country X exports in an international market, where the US and EC exercise export subsidies. The resultant price for Country X export is  $P_s$ . If the US and EC reduce or abolish its subsidies, their export prices would go up, giving a chance for Country X products to be substituted for high-priced US/EC exports. The demand for Country X exports would thus enhance and the  $I_s$  curve would shift to a new position at  $I_f$ , resulting in a higher export price for Country X commodities at  $P_f$ .

The reduction or elimination of foreign export subsidies would thus help Pakistan to have

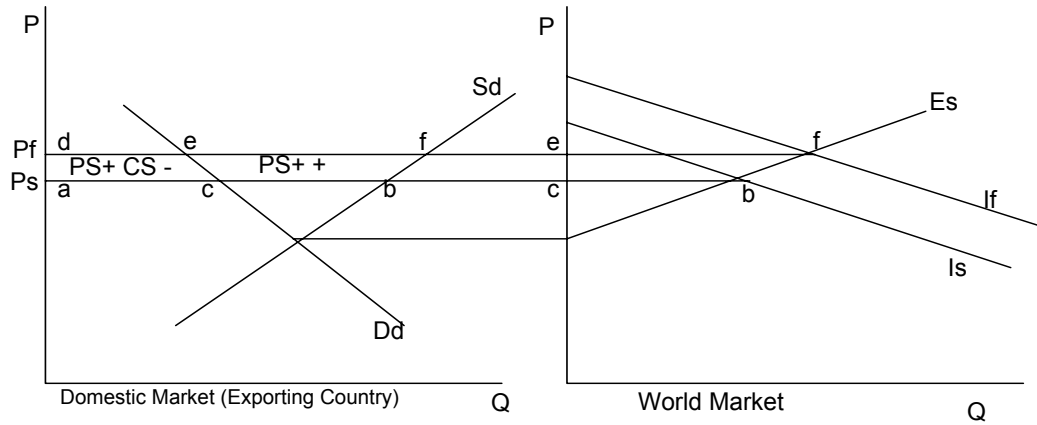


Figure 5 (a): Foreign Export-Subsidies Withdrawn (An Exporter Case)  
a higher demand for its exports at higher prices. As a result, the PS would increase by an area equal to 'abfd', CS would decrease by 'aced', and there would be a NSG equal to area 'cbfe'.

If foreign export subsidies  $\rightarrow 0$  &  $P_s \rightarrow P_f$ , then

$$\Delta PS = (abfd) > 0 \quad (21)$$

$$\Delta CS = (aced) < 0 \quad (22)$$

$$NSG = \Delta PS + \Delta CS = (cbfe) > 0 \quad (23)$$



**b) Effect on Country X, being an Importer:**

The  $E_s$  and  $I_d$  curves, in Panel (b) of Figure 5, represent, respectively, the export supply and import demand curve of Country X imports in an international market, where the US and EC provide export subsidies. The resultant price for Country X imports is  $P_s$ . If the US and EC reduce or abolish its export subsidies, their export supply curve would shift inward from  $E_s$  to  $E_f$  position. The newly shifted export supply curve would intersect Pakistan's import demand curve  $I_d$  at  $P_f$ , a point which is higher than the export-subsidy-regime price of  $P_s$ . Consequently, PS would increase by an area equal to 'abed', CS would decrease by area 'acfd', and there would be a NSC equal to area 'bcfe'.

If foreign export subsidies  $\rightarrow 0$  &  $P_s \rightarrow P_f$ , then

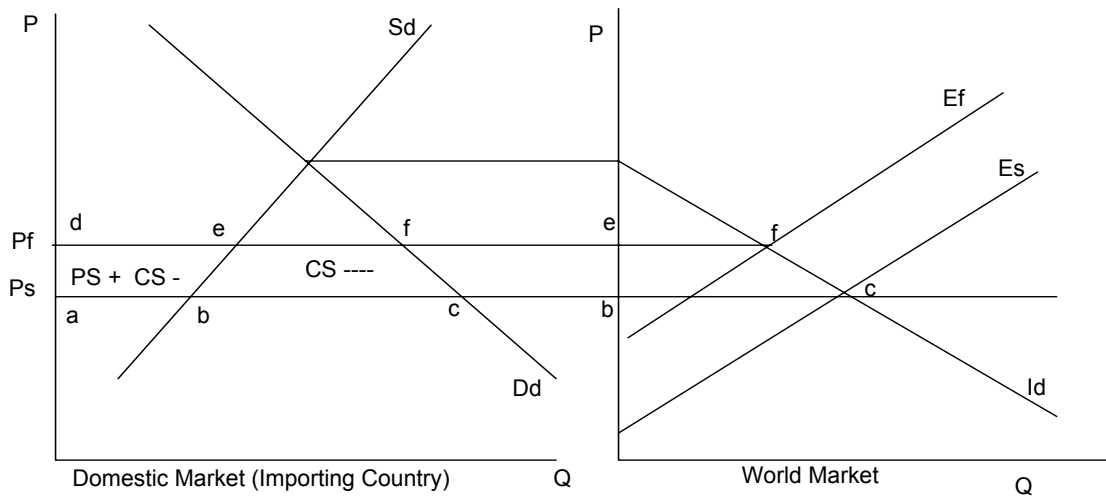


Figure 5 (b): Foreign Exports - Subsidies Withdrawn (An Importer Case)

$$\Delta PS = (abed) > 0 \quad (24)$$

$$\Delta CS = (acfd) < 0 \quad (25)$$

$$NSC = \Delta PS + \Delta CS = (bcfe) < 0 \quad (26)$$

## 4. Results: Discussion and Implications

### Summary of Results:

The results of the theoretical analysis carried out in the previous section are reproduced in a summarized form, as follows.

Liberalization Moves	$\Delta PS$	$\Delta CS$	Saving/Dis-saving To Treasury		NSG > 0 NSC < 0
			$\Delta ES$	$\Delta IT$	
a) Opening of closed economy					
1) If $P_w > P_d$	> 0	0 <	-	-	> 0
2) If $P_w < P_d$	< 0	> 0	-	-	> 0
b) Relaxing price supports					
1) As an exporter	< 0	> 0	> 0	-	> 0
2) As an importer	< 0	> 0	-	< 0	?
c) Relaxing tariffs on Imports	< 0	> 0	-	< 0	?
d) Export subsidies withdrawn					
1) Pak as an exporter	> 0	0 <	-	-	> 0
2) Pak as an importer	> 0	0 <	-	-	0 <

### Relaxing Autarky/Opening of Closed Economy:

If autarky is relaxed, Country X may become an exporter or importer. It would become an exporter of the commodities for which the world prices are higher than its existing domestic prices. The higher world prices would prevail in the domestic economy, which would help producers to engage more resources for higher outputs. The income of producers of such commodities, resource suppliers and traders engaged in domestic and export trade would increase. This would positively contribute to poverty reduction. However, consumers would lose in the process; the domestic consumption and consumers' surplus would decline. This would partially offset the producers' gains, but, society, as a whole, would gain as the positive producer surpluses would exceed losses to the consumers.

In contrast, Country X would become an importer for the commodities for which world prices are lower than its domestic prices. The opening of economy would help prevail world prices in domestic market. The lowered domestic prices would depress domestic production and incur losses in producer surpluses. The lowering of domestic output would help relieve resources for some more efficient uses. The losses in producer surpluses would also be offset by higher gains in consumer surpluses due to the savings to consumers caused by lowered prices. Efficient re-allocation of resources and higher savings to consumers (relative to lower losses in producer surpluses) would help alleviate poverty in the society.

### **Relaxing Price Supports:**

Whenever price is supported in an already exporting country, the domestic output would increase, but domestic consumption would decline due to higher supported price. There would thus be higher exportable stocks available, and the country concerned would therefore have to rely on export subsidies to dispose off the so achieved additional exportable stocks. Hence, whenever, support price is relaxed in such a situation, it would reduce domestic output, increase domestic consumption, and there would also be less exportable surplus available. There would be no export subsidies required to dispose off this exportable surplus. These savings in export subsidies, coupled with increases in consumer surpluses (due to lowered domestic prices) would be higher than the losses in producer surpluses; there would be thus net social gains.

In contrast, in an already importing country, an import tax has to be imposed to maintain a support price, and when such a support price is relaxed, the import tax is vanished. Hence, when support price is relaxed, it is the gains in consumer surpluses (caused by lowered prices) that are compared with the losses in producer surpluses coupled with import-tax-revenues

foregone. The graphical analysis carried out (Figure 3-b) does not provide full insight for such a comparison; an empirical estimation based on the model presented in equations 13 to 16 would help.

### **Relaxing Import Tariffs:**

When an import tariff is relaxed, the domestic price for the imported good is lowered, which, in turn, would depress domestic output and producer surpluses. The lowered output would help release some of the resources to be more efficiently used in some other sectors. The losses in producer surpluses would be completely balanced out by gains in consumer surpluses caused by lowered domestic prices. Gains in consumer surpluses would exceed the losses in producer surpluses, and there would be some surplus gains (ebkd) left to meet the losses in import duties or tariff collections (eghd; Fig. 4). The graphical analysis carried out does not indicate whether the savings to consumers, in the form of consumer surpluses, would fully compensate the losses in tariff collection; empirical estimation suggested in equation 20 would help solve the problem.

### **Reduction/Elimination of Foreign Export Subsidies:**

Withdrawal of subsidies on exports by foreign exporters would increase the prices of their exports, which, would, in turn, encourage Country X exports to substitute for the high priced foreign exports. Higher demand for Country X exports would result into higher output, higher absorption of resources and higher producer surpluses. Higher product prices would also be accompanied with some losses to the consumers in the form of lower consumer surpluses. However, gains to producers would be much higher than the losses to the consumers, and therefore society, as a whole, would gain.

Withdrawal of export subsidies by foreign suppliers would also mean higher prices for Country X imports. Consequently, domestic output of such imported products would enhance, which would employ some more resources. Producers would gain, but gains in producer surpluses would not be enough to compensate the total losses to consumers in their consumer surpluses caused by higher domestic prices.

## **5. Conclusion**

The theory based graphical analysis carried out in the preceding section leads to some very important conclusions, namely:

First, the opening-of-close-economy move would help a country to become an exporter of the commodities for which it has some comparative advantage, and an importer for the products the others have comparative advantage. In the former case, the enhanced domestic output, triggered by greater demand for exports would bring extra resources absorbed in such commodity sectors. The enhanced gains in producer surpluses would be greater than the losses in consumer surpluses, and economy, as a whole, would gain. In the latter case, the opening of economy would encourage some imports and discourage domestic production, resulting in lower producer surpluses and relieving some resources for efficient uses elsewhere. The gains in consumer surpluses would, however, be greater than the losses in producer surpluses, and the economy would gain.

Second, though the abolition of price support policy would produce gains for the exportable commodities for the society as a whole, it would incur some losses to the producers. Such losses to domestic producers may reverse due to enhanced demand of Country X exports triggered by export subsidy withdrawal by foreign exporters. This implies that efforts should be

made to persuade the US and EC, - the world major export-subsidy providers - to abolish export subsidies. The enforcement of export subsidy withdrawal by foreign exporters would also help reduce losses in producer surpluses caused by enhanced imports due to support price abolition and import-tariff relaxation.

Third, reduction of import-tariffs would encourage imports due to lowered import prices. Withdrawal of subsidies on exports by foreign exporters would balance out some of the losses in producer surpluses caused by the cuts in tariffs and resultant higher imports. Cuts in tariffs would also lessen the domestic cost of production, inflation and smuggling in.

Fourth, of the WTO's liberalization policies, opening of closed economy for exportables, and withdrawal of export subsidies by foreign exporters would be pro-producers; these policies would help absorb new resources and enhance producer surpluses, and would therefore directly contribute to poverty alleviation. Opening of economy for importables, withdrawal of price supports and tariff-cuts on imports would reduce domestic outputs, but at the same time, would relieve resources for their more efficient uses elsewhere. In addition, these policies would yield savings to consumers and would positively contribute towards poverty reduction. Cuts in tariffs on imports would cause declines in government revenues, but these cuts are also expected to control smuggling and enhance greater imports through legal routes, resulting in higher import tax revenues to government treasury. Policies aiming at greater imports would need higher volumes of foreign exchange, which are expected to be sufficiently generated by higher exports in the new competitive system.

Last, these trade liberalization moves would help minimize control of individuals on trade. This would leave less room for an individual policy makers or tax collectors to use their

discretionary powers and exploit the situations in their own or someone else interest. This would help lessened the role and importance of various pressure groups and their chances of exploitation, and would lead the economy to be run in accordance with the forces of supply and demand based on the last lasting general tendency of human nature. This is how one can achieve a sustainable and stable growth in agriculture and other sectors of Country X economy. But country, in isolation, would not be able to achieve a durable sustained growth; a more durable sustainability would be achieved when the liberalization is pursued and enforced world over.

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