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FAO'S OUTLOOK FOR THE FOOD AND AGRICULTURAL SECTOR IN THE CONTEXT OF TRADE LIBERALIZATION

by

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ABSTRACT

This paper is basically a composite of presentations made by FAO at the World Food Summit in November 1996. Some reflections have been added that relate specifically to the Caribbean Region. The paper is divided into four sections:

- (i) World Perspective on Agricultural Trade;
- (ii) Food Security, Sustainability and Trade Liberalization;
- (iii) Impacts of the Uruguay Round on Agricultural Trade;
- (iv) Agricultural Trade and Trade Liberalization in the Caribbean Region.

In the first section - *World Perspective on Agricultural Trade* - major changes taking place in the international trade environment are outlined. Then, the globalization of markets and some conclusions of the Uruguay Round are mentioned. Finally, a brief overview of the last two decades of world agricultural trade is described. In the second section - *Food Security, Sustainability and Trade Liberalization* - definitions and concepts are presented and the relationships between these definitions and concepts are discussed. The third section - *Impacts of the Uruguay Round on*

Agricultural Trade Liberalization - has a discussion of the agreement on agriculture from the Uruguay Round and matters related to it. Two important issues are:

- (1) that only partial liberalization of agricultural trade will occur, and
- (2) that countries and regions will not share equally in the benefits from increased trade.

Based on world-wide experiences, the impact of trade liberalization on Latin America and the Caribbean is presented in section four - *Agricultural Trade and Trade Liberalization in the Caribbean Region*. The focus is on the Caribbean experience during recent years.

A detailed Bibliography used for the preparation of the document is presented at the end of the paper.

I. WORLD PERSPECTIVE ON AGRICULTURAL TRADE

The major changes taking place in the international trade environment are partly driven by breakthroughs in transport, communications and information technologies, and partly by policy reforms. Globalization of markets and increased

economic integration mean that foods, capital and ideas move around the world ever more easily, bringing new opportunities as well as risks. Shifts in production patterns are leading to changes in the structure of world trade, particularly because of rapid growth in the East Asian economies, and in its composition, with the growth in importance of internationally traded services.

These changes are reinforced by the conclusion of the Uruguay Round of multilateral trade negotiations. Significant steps are being taken to liberalize the agricultural and services trade. Moreover, the transitional economies and many developed and developing countries have been adopting more market-oriented trade policies, with the Uruguay Round reinforcing this trend. Further liberalization is taking place in the context of regional trade groupings, which are taking on a new significance. Agricultural trade is fully included in the changes under way, and it will be affected profoundly by ongoing deregulation and liberalization, given the extensive nature and scope of government intervention in agricultural markets in the past.

During the past two decades, on a world perspective, a number of characteristics of food and agricultural trade performance can be highlighted: its continuing importance for both developed and developing countries; its uneven growth over the period, with rapid expansion in the 1970s followed by virtual stagnation in the mid-1980s and a slow recovery since then; the collapse of commodity prices during this latter decade; the changing directions and commodity composition of agricultural trade; and the disarray on world markets resulting from policy distortions in both developed and developing countries.

Recently, growth in agricultural trade among developing countries, after having slowed down in the 1980s, became more vigorous in the early 1990s. By 1993 its value was estimated at around US\$46 billion, or over 10 percent of world agricultural trade. The main source of the more buoyant markets in recent years has been agricultural trade among Asian countries and among countries in Latin America and the Caribbean. However, the increase in trade probably owes more to the relatively rapid economic growth in these two regions than to the intensification of trading arrangements among groups of countries in these regions, even though these two factors are linked.

In that agricultural trade is concerned, two dimensions of the commodity composition are of interest: the horizontal differentiation by product, and the vertical differentiation by level of processing. As agricultural trade has grown, there has also been a structural shift in the commodity composition of this trade from bulk commodities to value-added products, as a result of rising incomes. High-value trade in products such as cut flowers and tropical fruits has been the source of agricultural export growth for a number of developing countries.

As it is well known, government intervention in agricultural markets in developed economies usually provides support to the agricultural sector. The magnitude and modalities of this support vary widely between countries and commodities. The regular monitoring of agricultural support in developing countries undertaken by the Organization for Economic Cooperation and Development (OECD) shows that support (measured as the percentage producer subsidy equivalent) increased from an average of 30 percent in 1979-1981 to 43

percent of the value of production in 1993-1994 (OECD, 1995).

In developing countries, the pattern of government intervention is more mixed. Because of the relatively large share of agriculture in the economy and the relative ease of collecting border taxes, many governments have taxed agricultural exports. On the other hand, in the pursuit of self-sufficiency for food staples, governments have often provided protection to producers of grains and other import items. Input subsidies have also been a common feature of developing-country agricultural policies. However, often more important than the direct effects of sectoral policies are the indirect effects on agricultural production incentives of industrial-sector protection and exchange rate overvaluation.

On a world perspective, agricultural trade made a substantial contribution to the improvements in global and household food security that occurred during the 1980s. Ample food supplies were available on world markets at decreasing real prices. The volatility of world prices decreased. World grain stocks never fell below the 17 to 18 percent of world cereal consumption estimated by FAO as the minimum necessary to ensure world food security. Food aid flows, particularly for emergencies, increased. Despite this overall positive balance, a number of weaknesses were also evident in the 1980s. Depressed commodity markets damaged the growth prospects of agricultural exporters; the continued insulation of many national markets from world market trends meant that world markets were excessively sensitive to changes in supply and demand conditions; and increased volumes of commodity exports were achieved at the expense of environmental degradation in some

countries. To some extent the situation in the last six years has been different, with stocks lower, prices higher and food aid flows by 1995 at their lowest since the mid-1970s.

II. FOOD SECURITY, SUSTAINABILITY AND TRADE LIBERALIZATION

The contribution of trade to food security occurs in a number of ways: through making up the difference between production and consumption needs; reducing supply variability; fostering economic growth; making more efficient use of world resources; and permitting production to take place in those regions most suited to it. But reliance on trade may also bring some risks. These include deteriorating terms of exchange on world markets (falling prices for agricultural exports, higher prices for food imports); uncertainty of supplies; world market price instability; and increasing environmental stress if appropriate policies are not in place.

One definition for food security could be a situation in which all households have both physical and economic access to adequate food for all members, and where households are not at risk of losing such access. There are three dimensions implicit in this definition: **availability, stability and access**. Adequate food availability means that, on average, sufficient food supplies should be available to meet consumption needs. **Stability** refers to minimizing the probability that, in difficult years or seasons, food consumption might fall below consumption requirements. **Access** draws attention to the fact that, even with bountiful supplies, many people still go hungry because they do not have the resources to produce or purchase

the food they need. In addition, if food needs are met through exploitation on non-renewable natural resources or degradation of the environment, there is no guarantee of food security in the long term.

Another definition for food security can be approached at different levels: for the world as a whole, or for individual nations, regions or households. Ultimately, food security concerns the individual or family unit, and its principal determinant is purchasing power, income adjusted for the cost of what that income could buy. Similarly, purchasing power at the national level, the amount of foreign exchange available to pay for necessary food imports, is a key determinant of national food security.

At the national level, there are two broad options for achieving food security: the pursuit of food **self-sufficiency** or the pursuit of food **self-reliance**. While food **self-sufficiency** means the satisfaction of food needs as far as possible from domestic supplies with minimized dependence on trade, **self-reliance** means to take into account the possibilities of international trade. In several developed countries the motivation for the policy goal of high self-sufficiency in food has often been more to transfer income to farmers than to protect against uncertain world markets. A number of larger developing countries adopted this policy because year-to-year changes in their import requirements could otherwise have been big enough to affect world prices. This was particularly true with respect to rice, for which the world market was relatively small. Another consideration that influenced the choice of **self-sufficiency** policies in some countries was that under a free trade regime they could have been exporters of basic food commodities, which would have resulted in higher than affordable domestic prices, to the

detriment of the food security of poor consumers. Other countries have, however, pursued a policy of encouraging the country to produce enough food itself to provide a minimum level of food intake per person, to protect against the contingency that it might be unable to import food at any cost, as in time of war or embargo. The concept of food self-reliance implies maintaining a level of domestic production plus a capacity to import in order to meet the food needs of the population by exporting other products. The benefits and risks of relying on international trade to ensure food security are at the heart of the debate between these alternative strategies.

A major contribution of trade to food security has been that it has permitted food consumption to grow faster than domestic production in countries where there are constraints on increasing the latter. Over the period from 1970 to 1990, gross agricultural production in the 93 developing countries grew by 3.3 percent per annum, while domestic demand increased by 3.6 percent per annum.

On one hand, there is no doubt that food imports can make a vital contribution to food security. Countries relying on food imports have two key concerns: their capacity to maintain food imports at desired levels and reliability of access to these imports. Food import capacity depends on the prices and other terms on which food can be imported, as well as on the foreign exchange situation, which for many developing countries is limited by debt repayments, declining terms of trade and limited export potential.

A significant decrease in the purchasing power of export commodities can also put a country's food security at risk. For this reason, countries (and farm households)

often maintain a higher level of food self-sufficiency than might otherwise be warranted as insurance against unexpected fluctuations in import purchasing power. However, for many countries, achieving a higher level of food self-sufficiency may still represent an illusory security if it shifts dependence from food to fertilizer and other essential inputs where these are imported. Maintaining foreign exchange reserves is an alternative and, in theory, a more efficient approach, but in view of other development needs, reserve levels in developing countries are rarely sufficient.

In Latin America between 1970 and 1991, the food import share fell from 11 to 10 percent. A declining share of food imports implies that developing-country food imports in total imports implies that developing-country food importers have greater flexibility to reallocate foreign exchange to food imports in the event of major price increases. Conversely, those countries whose dependence on food imports has been increasing are now more vulnerable to shocks arising in food or other markets.

Economic literature offers much theoretical support for a positive relationship between trade and economic growth. Export growth may relieve a foreign-exchange constraint and permit a higher level of imports, thus allowing more domestic growth if this has been constrained by the need to keep import demand at a certain level. It allows firms to escape the limitations of home market size and to reap the benefits of economies of scale. Exposure to foreign competition helps to remove inefficiencies that may build up in relatively closed economies and discourages unproductive activities such as lobbying and rent seeking. Access to foreign markets means that countries gain exposure to ideas, knowledge and new technologies.

International trade contributes to income growth in a number of ways. First, it enables countries to reap the benefits of comparative advantage. Second, an increase in export demand enables production to be expanded. Third, trade is associated with greater possibilities for the transfer of capital and expertise, particularly through foreign investment. While the role of transitional agribusiness firms in developing countries has been controversial in the past, there is increasing recognition of the management benefits they can bring to production, processing and marketing. However, the impact may be more positive on larger farmers producing cash crops than on small or subsistence farmers.

Trade contributes to food security by accelerating national income growth. Economic growth can enhance food security by increasing individuals' command over resources and thus their access to food. As incomes grow, the fraction spent on food declines and the chances of falling into food insecurity decrease, while at the same time savings enhance longer-term food security. However, if national economic growth does not trickle down to the poor, then the food security of poor groups does not improve and may in some cases deteriorate.

Inevitably, however, theoretical conclusions are derived from simplified models of the real world, giving rise to skepticism about their validity when policy choices must be made. For example, the classification of a country's trade strategy could be carried out on the basis of a number of indicators such as the effective rate of protection, use of direct controls such as quotas and import licenses, use of export incentives and degree of exchange rate overvaluation. Building on earlier applications of this methodology by the World Bank (1987), the International

Monetary Fund (IMF) recently compared the economic performance of four groups of developing countries following different trade regimes. The results generally support the conclusion that more open trade orientation is associated with better economic performance.

But studies of this kind are, however, open to a number of criticisms. The attribution of countries to particular trade-regime categories is inevitably arbitrary and subjective. The question of causation is not directly addressed. It may be that rapidly expanding economies are more able to dismantle protection than stagnant ones. Various authors have queried whether the results hold consistently for countries at all stages of development (in particular, whether or not a "threshold effect" exists, such that growth is positively related to trade orientation only once countries achieve some minimum level of development). Others argue that the studies ignore the importance of world market conditions in determining the feasibility of a successful trade opening strategy.

The alternative approach investigates whether there is a positive relationship between exports and economic growth, making the (usually implicit) assumption that higher export growth is associated with a more open trade orientation. Research has generally shown that a positive relationship exists, and that faster export growth is correlated with higher productivity growth in developing countries. The approach, however, has been criticized for its reliance on simplistic statistical methods and for bypassing the question of causality. Output growth may be the cause of export growth or vice versa. Overall, the issue of the relationship between trade and income

growth is still open and available evidence does not permit definite conclusions.

It is evident that agricultural trade affects the volume and location of agricultural production. Such a simple statement may have important positive or negative environmental effects. Not only trade, but also global food security depends on maintaining and conserving the natural resource base for food production in both developed and developing countries. There is increasing evidence that as agricultural production becomes more intensive, there are substantial risks that the natural resource base can become degraded unless specific conservation measures are put in place. Soil erosion and desertification, water logging and salinization, deforestation, the exhaustion of water supplies and chemical pollution from fertilizer and pesticide use are all serious threats to maintaining and increasing food production levels over time.

Agricultural interventions have often led to environmental problems. In some developed countries certain subsidies for agriculture have reinforced market failures by encouraging intensification, although in other cases subsidies have been paid to withdraw land from crop production. Similarly, in some developing countries prices for farm inputs such as water, fertilisers and pesticides have been kept artificially low. In these cases the effect has been to encourage producers to specialize in certain crops and to intensify their use of inputs, contributing to soil and water degradation and other types of environmental mismanagement. However, most developing countries suffer from low levels of productivity and need to increase their input use in order to raise output and to avoid environmental problems associated with expanding the area under production into marginal lands.

The interaction between trade and environmental issues can be seen in two ways: first, there is concern about the impact of trade on the environment. Second, there is concern about the way that environmental standards may change conditions of competition and induce demands for protection against products from countries with lower environmental standards. Trade and the environment can be compatible and complementary to each other provided certain policies are in place. Both interactions are currently being studied by the Committee on Trade and Environment (CTE) of the World Trade Organization (WTO), whose terms of reference include examination of the effect of environmental measures on market access, especially in relation to developing countries, as well as the environmental benefits of removing trade restrictions and distortions.

The extent of the environmental impact of trade liberalization cannot be directly estimated from conventional measures of changes in the volume of agricultural output. Thus, for example, while 1 tonne of rice is priced at twice the level of 1 tonne of wheat, it cannot be assumed that the environmental impact of an additional tonne of rice is twice as great as the environmental impact of an additional tonne of wheat. Assessment requires measures more closely reflecting the environmental impact of each commodity in each region. Environmental impacts are not equivalent across countries.

Agricultural trade liberalization could well reduce global environmental damage, although it is not necessarily the case that environmental pressure in each individual country will be reduced, and in some it may increase. What is relevant is the environmental impact of the change in resource use in each country, relative to the

environmental impact of alternative uses for these resources. The main effects of such liberalization derive from three sources. **First**, an international relocation of crop production from high-subsidy (and high chemical input) to low-subsidy countries would reduce the use of chemicals 'in world food production (Anderson, 1992). Chemical use in low-subsidy countries, including developing countries, would increase, though from a relatively low base. **Second**, trade reform will also lead to a reduced demand for land for agricultural production in low-subsidy countries, including developing countries. Empirical evidence shows, however, that land is the input least responsive to changes in farm prices, and that the expansion in agricultural area induced by the price increases expected from the Uruguay Round will be small. **Third**, if trade reform encourages export crops that are more labour intensive than staple food production, this will help to reduce the pressures on forests from the encroachment of subsistence farming.

Trade exacerbates environmental problems, even if general trade is not the root cause of the problem. Environmental damage generally results from (domestic) policy distortions and private costs not reflecting the full social cost of resource use. The appropriate policy response to address such failures is the internalization of unaccounted environmental costs. This can be done through regulation and/or the use of market-based economic instruments, but it must be recognized that, in developing countries in particular, the administrative and market mechanisms to implement these policies may not yet be in place. Moreover, many developing countries are under tremendous economic pressure to exploit their resources regardless of the long-term consequences. Because this is a consequence of poverty

rather than a deliberate desire to exploit the environment for the purposes of competitive gain, multilateral assistance towards the implementation of environmental policies is an appropriate policy response.

Even in the absence of appropriate environmental policy trade can still be welfare improving. The standard welfare gains from trade liberalization may be sufficiently great to offset the environmental costs of increased agricultural on.

Countries at different levels of economic development will not necessarily want to make the same trade-off between economic development and the alleviation of poverty on the one hand, and environmental quality on the other. From this perspective, trade facilitated by differences in environmental standards is an important mechanism for raising incomes in low-standard countries, thus ensuring higher environmental standards in the longer-term. However, harmonization of standards may be desirable where pollution results in transborder spillovers or has an effect on the global environment. **The Rio Declaration on Environment and Development** makes clear, however, that such problems should be solved through international co-operation and consensus.

In general, trade measures pursued to achieve environmental aims often do not address the real cause of the environmental problem, although such policies are often favoured because they are easy to implement and manage. The ability of the Uruguay Round agreements to defuse disputes between countries and to prevent trade tensions arising from the clash between trade and environmental interests will be tested in the years ahead.

III. IMPACTS OF THE URUGUAY ROUND ON AGRICULTURAL TRADE

The Final Act of the Uruguay Round of multilateral trade negotiations has led to very significant changes in the global trade regime for both merchandise and services trade, and particularly for agriculture, which was included for the first time in a significant way in such negotiations. The liberalization process is a dynamic one, in that negotiations on further liberalization, particularly in agriculture and services, are scheduled to begin in 1999. In some instances, individual-country trade policies, particularly those of developing countries, may actually be changing more rapidly than as signified by their schedules to the Uruguay Round, which establish maximum levels of protection or minimum access opportunities. Furthermore, the greater interest in new regional trade groupings with ambitious objectives of freeing intra-regional trade also implies a more rapid reduction in barriers on certain trade flows than were foreseen in the Final Act.

Over the years, many attempts have been made to estimate the impact on world income of trade liberalization. Recently the focus of this literature has been on the Uruguay Round, including an effort to assess liberalization in all sectors of the economy that have been significantly affected by the Round.

As regards the quantification of the impact of the Uruguay Round, an important limitation needs to be emphasized. The estimated trade and income gains from the increase in market access for goods underestimate the full impact of the Uruguay Round on world trade

and income. **First**, there are many possible dynamic effects mentioned in the economic literature that were not considered. **Second**, the estimates implicitly assume that the status quo in commercial relations and business confidence would have been maintained if the Uruguay Round had failed. Many observers would argue that a failure of the round would have meant a distinct worsening of trade relations for a considerable period into the future and a delay in world economic recovery. Avoidance of the associated losses in trade and income would have to be included in a full accounting of the gains from a successful Uruguay Round. **Third**, and in many ways most important of all, the estimates ignore every result of the round except the liberalization of trade in goods. Models have not attempted to include the beneficial impact of the strengthened rules, procedures and institutions, including the market-access commitments and rules for services in the General Agreement on Trade in Services.

Irrespective of the magnitude of the Impact of the Uruguay Round, there are also important distributional shifts both between and within countries, with significant implications for household incomes and therefore household food security. On balance, UNCTAD estimates that the Uruguay Round will lead to a small reduction in absolute poverty (1.4 percent), though there will be gains and losses across regions as well as groups within countries.

The Agreement on Agriculture (AOA) covers market access, domestic support, export subsidies, export prohibitions and restrictions and introduces important rule changes in each of these areas. The Uruguay Round Agreement on Sanitary and Phytosanitary Measures introduces new disciplines in this increasingly important area

and is designed to minimize the discriminatory and adverse trade effects of such measures. Special and differential treatment was provided for developing countries under the rules on domestic support and export subsidies, in the form of lower reduction commitments and longer implementation time frames, as well as through more substantial tariff reductions on tropical agricultural product. Least-developed countries were not required to make reduction commitments. Particular concerns of the net food-importing and poorest countries were met through the Uruguay Round Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least Developed and Net Food-Importing Developing Countries.

The rules and commitments on domestic support are broadly designed to consolidate domestic policy reforms at the international level and to encourage a progressive shift towards domestic policy measures that are less trade distortive and are exempt from reduction commitments. Initially there may be some scope for switching support from one commodity area to another under those sector-wide or global domestic support commitments.

The new rules and negotiated commitments on import protection, together with the binding of virtually all agricultural tariffs, represent an unprecedented and important step in the direction of systematically liberalizing trade in agriculture, in terms of both improved conditions of competition and trading opportunities. The provisions of the AOA and the related ministerial decisions on the least-developed and net food-importing countries also reflect a number of concerns that were taken into account in the negotiations.

First, the ministerial decision reflected the concerns of a number of net food-importing and least-developed countries that, while the implementation of the results of the Uruguay Round as a whole should generate increasing opportunities for trade and economic growth for the benefit of all participants, negative effects might be encountered by those countries during the implementation of the trade-liberalizing reform programme on agriculture. In this regard, ministers made specific reference to the need for adequate supplies of basic foodstuffs from external sources on reasonable terms and conditions and to short-term difficulties in financing normal levels of commercial imports of basic foodstuffs. The ministerial decision contains a number of provisions relating to these aspects, including export credits, technical assistance to agriculture and access to the resources of international financial institutions or such facilities as may be established. In addition, ministers agreed to review the level of food aid established periodically under the Food Aid Convention; to initiate negotiations in the appropriate forum to establish a level of food aid commitments sufficient to meet the legitimate needs of developing countries during the reform programme; and to adopt guidelines to ensure that an increasing proportion of basic foodstuffs is provided to least-developed and net food-importing countries in fully grant form and/or on appropriate terms.

A second area of concern, related specifically to the implications that agricultural trade reform and liberalization could have for domestic food security, is reflected in the provisions of the AOA on quantitative export prohibitions and restrictions.

Overall, the Agreement on Agriculture (AOA) represents a major improvement in the conditions of competition governing trade in agriculture. The new rules are not just systemic improvements. In a practical sense they will enhance the quality of trade concessions and other commitments. The new rules prohibiting the use of export subsidies not subject to specific reduction commitments, and prohibiting non-tariff access measures have already entered fully into force and will have a beneficial effect on conditions of competition for trade in all agricultural products.

Closely linked to the Agreement on Agriculture is the Agreement on Sanitary and Phytosanitary Measures (SPS). The SPS recognizes that governments have the right to take sanitary and phytosanitary measures but that they should be applied only to the extent necessary to protect human, animal or plant life or health and should not arbitrarily or unjustifiably discriminate between members where identical or similar conditions prevail. In order to further the use of harmonized sanitary and phytosanitary measures on as wide a basis as possible, members are encouraged to base their measures on international standards, guidelines and recommendations, where they exist.

The changing policy environment has implications for the size and stability of world food markets and the likely levels of prices prevailing. As developed countries usually subsidized their agricultural sectors while developing countries often taxed them, the net effect of policy reforms on world markets is ambiguous. The Uruguay Round disciplines bear most heavily on developed countries, but SAP's in developing countries are being implemented simultaneously.

The Uruguay Round will influence world price stability through the tariffication process. If prices in all countries now become more responsive to changes in world market conditions, the magnitude of the changes needed in world market prices in response to supply or demand shocks is likely to be reduced. While most agricultural tariffs are now bound, countries may apply lower tariffs at any time. This gives countries some flexibility to soften the effect of world price fluctuations on the domestic economy, for example, by applying a sliding scale of tariffs, subject to the constraint that tariffs may not exceed the bound levels.

Another way in which the Uruguay Round could influence the extent of world price instability is through changed incentives for stockholdings. The reduction in market intervention, particularly by developed-country exporters, makes it less likely that government stocks will accumulate in the same way in the future as seen in the past, and thus the size of global stocks may fall. Limited global stocks mean that the world is less able to buffer adjustments of consumption to changes in production. However, the reduction in government stocks in developed country exporters will provide an incentive both for increased private stocks and for more government stocks by developing-country importers, since government purchases of food-security stocks continue to be permitted under the Agreement on Agriculture. Even though the degree of substitution of private for public stocks will not be complete, a reduced level of global stocks, with a higher proportion in private hands, could make the same contribution to stability if private stocks are more sensitive to work market fluctuations than stocks in government hands. On balance, price stability should improve for most commodities, but because of the

stockholding effect it may deteriorate for grains and for some livestock products.

A further, more general effect is that liberalization of trade is often associated with the removal of barriers to the international flow of capital. International capital movements are now much less linked to underlying trade in goods and much more responsive to speculative assessments regarding rates of return in different asset markets. As a result, international capital flows are much more volatile. A sudden change in investor sentiment, as occurred recently in some Latin American countries, can result in large changes in a country's exchange rate, with knock-on effects on the domestic prices of imported goods, including food. The magnitude of such currency-related shocks in future may be much greater than that arising from food markets themselves.

While the Uruguay Round represents only a partial liberalization of agricultural trade and the benefits from increased trade will not be shared equally by all countries, there are still potential opportunities for all of them. In the case of the products that were subject to the tariffication process, the main trade opportunities are expected to generate in the short term through the arrangements negotiated under tariff quotas and the related concessions. As noted above, tariffied products represent only about 15 percent of total agricultural tariff lines, and in many cases concern basic agricultural commodities whose trade growth has been relatively sluggish.

It is evident that improvements in developing countries' agricultural output and export performance, and that of other goods and services, depend on many other policy-related factors, including improvements in

infrastructure (transport systems, energy networks, irrigation, etc.); education and training; dissemination of knowledge about appropriate (new) production technologies and product varieties; pest and disease control systems; quality management, and reforms of the domestic regulatory system (including the agricultural price system, the distribution system and land reform). These factors, together with market access abroad and better trade and trade-related policies at home, can help to raise agricultural (and other sectors) productivity, income and employment and, at least indirectly, to overcome the wider *impediments to economic development and food security in developing countries, inter alia*, by making these countries more attractive for, and increasing the efficiency of, foreign direct investment (including the transfer of capital, skills, technology and marketing channels), official aid and technical assistance.

Some developing countries have been concerned that the restrictions imposed on the policy instruments permitted to pursue agricultural policy objectives will make it more difficult for them to achieve their agricultural growth and food-security objectives in the future. For example, direct subsidization of production will be increasingly limited, so too would be the use of public-investment measures for agricultural and rural development purposes. Investment and input subsidies, both frequently used measures in developing countries to promote increased production, continue to be permitted under the Uruguay Round Agreement.

IV. AGRICULTURAL TRADE AND TRADE LIBERALIZATION IN THE CARIBBEAN REGION

Recent FAO analysis implies a continuing decline in the degree of self-sufficiency and rising import requirements in developing countries in aggregate, particularly in cereals, from the base period 1987-1989 to the year 2010, offset by an increased self-sufficiency ratio in the transitional economies and in the other developed countries. Import requirements to 2010 are derived as a residual from production and consumption projections and are thus subject to a high margin of error. Even a very small difference of 0.1 percent in projected production growth rates can, over a 20-year horizon, make a substantial difference to projected trade. Commentators argue that the FAO projections underestimate emerging constraints on growth in output, such as the shrinking backlog of unused yield-increasing technologies; the diminishing yield response of cereals to the use of additional fertilizer; the need to reduce excessive irrigation pumping to restore a balance between pumping and aquifer recharge; the effects on agriculture of social disintegration and political instability; and the effect on production of various forms of environmental degradation. If these constraints are indeed more binding than assumed in the FAO analysis, developing countries will face much higher import requirements and much higher import prices. Differences in these baseline scenarios should be borne in mind in interpreting the consequences of the policy changes in the international trade regime currently under way.

International trade brings change, and change usually implies winners as well as losers. Agricultural trade liberalization has

been accompanied by concerns that the structural changes that accompany economic growth may lead to reduced food security among the very poor countries and households unable to take advantage of the new opportunities; that food imports may become more expensive; that global food price instability may increase if global stock levels are run down; and that the intensification of agricultural production in low-subsidizing regions could contribute to further environmental degradation in those countries. That is, trade can also have an adverse impact on food security in each of its three dimensions of access, availability and stability, as well as on sustainability. In negotiating further trade liberalization, these concerns should be understood and steps taken to minimize their adverse impact. There is a need for flanking policies at both global and national levels to ensure that the gains from trade are widely distributed and that the potential for greater food security is fully exploited.

In the Latin American experience, according to the Economic Commission for Latin America and the Caribbean (ECLAC) "the processes of trade liberalization have made it possible to improve the utilization of natural resources, in which the region has an exceptional comparative advantage. Nevertheless, the old problems of low relative productivity and insufficient competitiveness and innovative drive remain to be solved. Today these problems are compounded by new challenges arising from the necessity of improving linkages with the global economy and promoting competitiveness.

There is growing agreement that macroeconomic stability and an open, competitive and deregulated economy are necessary but not sufficient conditions for an

independent process of economic growth and changing production patterns. Countries recognize both the importance of supporting this process through appropriate macro-economic incentives and regulatory frameworks and the need to design and enhance the efficiency of financial and productive development policies. In the absence of such policies, it would seem difficult to achieve the increases in productivity essential for improving linkages with the global economy and attaining high growth rates".¹

From the Caribbean experience, author Winston Dookeran concludes that "the Caribbean countries face a multitude of uncertainties in the rapidly changing international trade regime. One thing that is certain is that action will be required on their part to ensure that their participation, although already limited, is not further jeopardized by such developments. This will require increasing levels of competition that cannot be achieved in the short term, and certainly not without some form of protection. Protection for Caribbean industry to date has not lived up to expectations, in large part due to the failure of Caribbean countries fully to utilize their potential benefits with the aim of achieving higher market shares and levels of efficiency. What is required is a change of attitude, already in evidence albeit in response to extreme external pressures and the threat of economic pitfalls. The preferential regime will continue to play a vital, complementary role in the transition period in order to achieve, in the longer term, higher levels of human development for the Caribbean society. Global trends are characterised by moves toward liberalization of trade through the reduction of tariff and nontariff barriers.

¹ "Strengthening Development - The Interplay of Macro and Micro-Economics", CEPAL 1996

Competition, efficiency, and productivity have become the new watchwords. The Caribbean's underdeveloped productivity severely constrains participation in increasingly liberalized trade regimes. While Caribbean countries have realized that preferential treatment has not engendered a competitive production base, preferential agreements can play an important role *in the short term* in the attainment of desired levels of production. One of the disturbing aspects of the Caribbean's economic history is that these short-term measures have discouraged the developing of long-term strategic plans. Primary export commodities such as bananas, sugar, and rum, which have traditionally sustained many Caribbean economies, have survived well beyond their natural lifetimes through preferential treatment. New manufactures have also been protected by preferential treatment from the major trading partners. This has allowed Caribbean countries to enjoy a level of access to the international trading system that is not compatible with its levels of production, productivity, and international competitiveness".²

The Caribbean Region has been traditionally a net agricultural exporter. During the 1987-89 period the Region exported an average of US\$5.6 billion of agricultural products and imported some US\$3 billion annually, resulting in a net export surplus of US\$2.6 billion. The Region's agricultural exports are highly concentrated, however, with one country, Cuba, accounting for over two-thirds (68.5%) of agricultural exports in 1987-89. On the import side, Cuba accounted for a much smaller share, some 22% of the Region's aggregate agricultural imports. Following the virtual collapse of Cuba's

traditional export market in the early 1990s, its agricultural exports declined drastically by over US\$2 billion in 1991 compared to 1990. By 1993, Cuba's agricultural exports stood at only US\$1.5 billion, a decline of over 70% compared to the 1990 level. The Region's aggregate agricultural exports followed the same trend, given the high share of Cuba in the total. Thus, by 1993 the Region's agricultural exports were less than half of the 1987-89 level, and the Region in fact turned into a net agricultural importer in that year of about US\$0.5 billion.

In general terms according to preliminary FAO studies, the impact of the Uruguay Round Agreement on Agriculture on the Caribbean region points to both some positive and some negative effects. On the positive side there is an increase in the value of export earnings of the Region as a result of a strengthening of prices of the major agricultural commodities exported. However, at the same time, there could be erosion of preferential margins leading to a reduction in the value of preferences. Also, on the negative side the Caribbean's food import bill is seen to increase due to the projected rise in the price of basic food commodities. In the aggregate, the net agricultural trade balance for the Region as a whole is positive, although small in relative terms and not equally shared.

It is well known that the agricultural potential of the Region as a whole is limited. However, some countries are better endowed than others and could exploit their potential by taking advantage of opportunities that may be available, in view of the general strengthening of world market prices. It may be noted that such opportunities are not to be found only in products that are already exported by the Region but other agricultural products in raw

² "Preferential Trade Agreements in the Caribbean: Issues and Approaches", by Winston Dookeran, IDB/CEPAL, 1995

or processed form. In particular, there has been some improvement in tariff escalation as a result of the commitments under the Uruguay Round, which may open opportunities for the Region that did not exist before.

In the Caribbean Region the countries most heavily dependent on food imports present little that they can do by themselves to offset the higher import bills as a result of higher food prices. The countries would require some compensation from international mechanisms, as envisaged by the relevant Decision of the Final Act. In addition, these countries will have to strengthen existing domestic mechanisms that would protect poor households in the event of excessive price increases in basic foodstuffs.

Other policy areas that may require some further attention are the need to develop policies that comply with the World Trade Organization (WTO) Agreement on Agriculture in respect of member countries of that organization. Others, non-members, may also actively consider the value of adopting similar policy packages. The reduction and possible elimination of non-trade barriers should also stimulate countries in the Caribbean region to examine the scope for strengthened intra-regional trade links in the future. Finally, because of the greater relevance in the future to national agriculture policy of the WTO disciplines, permanent international administrative machinery may need to be developed to handle the complex issues of compliance with the Agreement on Agriculture.

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