

THE MACRO-ECONOMIC FRAMEWORK INFLUENCING THE AGRICULTURAL SITUATION

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1. General

The macro-economic framework is undergoing important and dramatic change. Whereas previously, national governments determined the policy framework for agriculture, in recent years countries undergoing structural adjustment programmes have had to accept the SAP framework in agriculture. And at present, all WTO member countries have to alter their agriculture policies in line with the Uruguay Round's Agriculture Agreement.

Since this is a relatively new development, not much work has been done in terms of research, understanding of the implications, and advocacy in this area. The local communities themselves have little information, especially on the WTO developments.

Therefore, NGOs should build the capacity to conduct research, inform the communities, and carry out advocacy at national and international levels on the macro-economic aspects of the rural and agriculture situation, especially in relation to structural adjustment and to the WTO Agreements.

Speedy and urgent attention should be paid to this as these factors are likely to be increasingly influential in determining the future and even survival of the agriculture sector and the livelihood of farmers and the food security situation.

Both SAPs and the WTO Agreements share the same approach in putting pressure on Asian countries to liberalise their agriculture sector. Whilst some aspects of liberalisation may have positive effects, each country should choose the pace and nature of liberalisation, whilst at the same time maintain the right to protect the sector in ways that are necessary or in the interests of farmers, sustainable agriculture or food security. The concern here is that SAPs or/and the WTO are placing external pressure towards liberalisation at a forced pace and in a manner that significantly erodes the right of governments and communities to determine the appropriate balance of liberalisation and protection.

Such a "liberalisation under pressure" is likely to have negative social consequences. The social impact of agricultural liberalisation has already been severe, and is likely to worsen with the implementation of the WTO Agreements. According to a report by

UNRISD (1995, p44), which refers to liberalisation under SAPs: "Poor farmers in developing countries undergoing adjustment programmes have had no cushion of social security." In region after region, governments have eliminated subsidies and as a result small farmers have lost access to essential inputs and services, and many have suffered a steep fall in income or have had to leave farming altogether. "Farmers producing food for local markets have also been suddenly subjected to the cold wind of international competition - and may find it impossible to compete with technologically advanced farmers in Europe or North America who can sell cheaply in part because they have benefitted from massive subsidies. Expanding international markets may have created vast opportunities for some wealthier farmers, but the impact on the livelihood of the rural poor in developing countries has been harsh."

2. Structural Adjustment Programme's Impact on Rural Society

The effects of SAPs on agriculture and rural livelihoods and social development have been drastic. However there has not been systematic collation of the existing research done on this area in Asia. Nor have conclusions been made by the NGO community on this subject on a regional level. Since SAPs are still on-going in several Asian countries, it is still important to collect existing studies and if needed to do new studies on SAPs and on the effects of agricultural liberalisation in general.

Support should be given to studie (or to synthesise conclusions from existing studies) at regional and country level on the effects of SAPs on agriculture. This should be the basis for advocacy for reviews and changes to SAPs in the area of agriculture and rural development, should such changes be needed. Such studies and advocacy can be inputs to the international dialogue with the World Bank and IMF on the need to review SAPs.

3. The WTO Agriculture Agreement

The WTO Agreements on Agriculture and also on TRIPs will need even closer study as they will have even wider ramifications. The Agriculture Agreement covers three main areas: improving market access for imports, reduction of domestic support; and reduction of export subsidies. Under market access, countries are asked to abolish non-tariff barriers (eg import quotas, minimum import prices, discretionary licensing, state trading measures) and convert them to equivalent tariffs; and tariffs (including those resulting from tariffication) are to be reduced by 36% for developed countries and 24% for developing countries. There should also be a minimum

access for imports equal to 3% of domestic consumption in 1986-88 established for 1995, rising to 5% at the end of the implementation period.

For domestic support policies, the total level of support (i.e. and not according to individual commodities) given in 1986-88 should be reduced by 20% in developed countries and 13.3% in developing countries. On export subsidies, there must be a reduction of 21% (by volume of exports) and 36% (by value of expenditure on subsidies); these reductions are on a product-specific basis.

The Agreement does have some concessions for developing countries. The time frame to complete the reduction commitments of developing countries is ten years (2004) compared to six years (2000) for developed countries; least developed countries need not make any reductions. For domestic support policies, developing countries that have been given special and differential treatment in the Agreement, are allowed (a) to trade in food security stocks at administered prices; (b) to distribute subsidised domestic food aid to the poor; (c) to give investment subsidies and agricultural input subsidies for poor farmers. Also, there are special provisions recognising adverse effects of expected higher food prices on food-importing developing countries and provides for redress via food aid, technical aid to raise agricultural productivity and possibly short-term aid to finance normal commercial imports.

Despite these concessions, many developing countries are likely to suffer adverse effects. A FAO study on the impact of the Uruguay Round on agriculture concludes: that the Uruguay Round will **raise food import bills of most developing countries** because of the reduction in export subsidies on those products, and it will also lead to a **sizeable fall in the value of preferential trading arrangements**.

A WWF International report by Watkins and Windfuhr (1995) concludes that producers in developing countries will continue to **face competition in local markets from subsidised imports, with adverse consequences for their livelihood**. Exporters among them will also continue to compete in world markets where prices are artificially depressed by subsidised exports from the EU and the US. Middle-income developing countries have to reduce domestic support and relinquish import controls on the unfulfilled assumption of real cuts in production in developed countries, which are unlikely to materialise. As a result, **some developing countries will find it more difficult to improve food security and environmental sustainability**. Although it is difficult to assess

which countries and communities will be most affected, in general "the further opening of domestic markets in some developing countries, in the face of still depressed world market prices, will **reduce the income of many small farmers, and even their chances of staying in production.** Treating food under these market-oriented GATT disciplines fails to take account of crucial food security objectives, such as the access of poor households to food, income, and employment opportunities. It also ignores the failure of market mechanisms to provide for effective environmental resource management."

The implications of the **WTO Agriculture Agreement** are likely to be immense. Its **effects on different countries and communities** may differ, depending on the existing economic conditions and the policies to phase in the implementation of the Agreement. Factors that will influence the effects in a country, in relation to import liberalisation, would include:

- the present price levels of various crops;
- the present levels of subsidies;
- the present non-tariff measures such as bans or quotas on imports;
- what the country has offered or will offer in the Agriculture Agreement in terms of maximum import duties and the rates of liberalisation;
- levels of price competitiveness of products in the country with removal of subsidies and progressive reduction of import duties, in relation to import prices.

Since so many factors are involved, it is important that studies are conducted on a country-by-country basis. A possible draft framework for such country studies is as follows:

Experiences of developing countries in the implementation of the WTO Agriculture Agreement

(I) Experience as Importer

- Have all the non-tariff measures been eliminated? If not, which ones are still existing and what are the problems in eliminating them?
- Have there been difficulties in eliminating the measures?
- Has the annual ceiling on domestic subsidy actually resulted

in reduction or elimination of any domestic subsidy so far? If so, which subsidies and on which products have been reduced or eliminated?

- Has there been actual reduction of export subsidy in terms of amount and quantity? If so, how many products have been covered by the reduction so far?
- Has there been increase in import of agricultural products as a result of the elimination of non-tariff measures? What have been the import levels in 1994, 1995 and 1996?
- Has there been any complaint from farmers, particularly the small and household farmers, against the rise in import?
- Has the production of any product declined because of the reduction of domestic support? What have been the levels of production of these products in 1994, 1995 and 1996?
- Have there been any complaints from farmers against the reduction of domestic support?
- Has there been any decline in the use of agricultural inputs? What have been the levels of these inputs in 1994, 1995 and 1996?
- Has there been any mistake of calculations in the schedules?

(II) Experience as Exporter

- Have the major importing countries eliminated their non-tariff measures? Have they reduced the domestic support up to the extent of commitment?
- Has there been a rise in export to these countries? What have been the exports in 1994, 1995 and 1996?
- Has there been any case of countervailing duty or anti-dumping duty in any importing country in 1995 and 1996?
- Has there been any special safeguard action in importing countries?

The above framework has been proposed by Mr. B. L. Das for the Third World Network. Mr. Das was formerly India's Ambassador to the GATT and subsequently the chief of UNCTAD's Trade Division. In addition to the above questions for study, others may be added, such as specific cases where greater competition from imports (as a result of lower tariffs or removal of non-tariff measures) have led to lower incomes or loss of markets for small farmers and the resulting social effects. Also, the environmental implications of liberalisation can be added on to a revised framework.

The above framework serves, however, as a good starting point for studies on the potential and actual effects of the Agriculture Agreement. **Support and encouragement should be given to groups, NGOs and researchers in the Asian region to undertake studies on how the Agriculture Agreement will affect the rural communities. These studies can then be the basis for policy advocacy and campaigns at both national and international levels.**

An illustration of a case-study is found in another article by Kevin Watkins of Oxfam UK, who analysed the situation of maize farmers in the Philippines. The study shows the effects of a lowering of agricultural tariffs on smallholder producers who have to face drastically increased competition against the industrialised and heavily subsidised farming systems of North America and Europe. Watkins (1997) concludes that: "Silently, relentlessly, and away from the glare of the world's media, 'free trade' is displacing communities and destroying their livelihoods with all the ruthless efficiency of a civil war."

In the Philippines, in the past, import restrictions protected domestic food producers in order to bolster rural employment and national food self-sufficiency. Under its WTO commitments, the government is planning to lower import barriers to half their present levels over the next six years. A recent Oxfam report estimated that average household incomes of maize farmers will be reduced by as much as 30% over the six years as cheap imports from the US drive down prices in the local markets. The report estimates that in the absence of trade restrictions, US maize could be marketed at less than half the price of maize grown on the Philippine island of Mindanao; and that the livelihoods of up to half a million Filipino maize farmers (out of the total 1.2 million) are under immediate threat.

According to Watkins, for the US, the case for free trade is self evident as a third of its agricultural output is now exported, earning \$40 billion. The agri-corporations need foreign markets to absorb domestic surpluses, and the Pacific Rim region (which already

accounts for two-thirds of US farm exports) is expected to be the biggest market. "Hence the drive for free markets and a level playing field. The problem is that the 'free' market in world agriculture does not exist, and that US supremacy in world markets derives less from comparative advantage than comparative access to subsidies. According to the OECD, each US farmer receives a subsidy of about \$29,000. This is roughly 120 times the average income of maize farmers in the Philippines. The upshot is that Cargill can offer US surpluses for sale at prices equivalent to half the cost of production - destroying local agriculture and creating a captive market in the process."

Watkins concludes that throughout the developing world, "free trade" is creating winners and losers. The winners are the corporate grain traders who market US and European surpluses, the big farmers who get most of the production subsidies, and chemical companies providing the inputs that produces the surpluses and destroy the environment. The losers are the rural communities where the poor compete in a market that is rigged against them.

4. The WTO's TRIPS Agreement

NGOs should also pay special attention to another aspect of the WTO, the agreement on trade-related intellectual property rights (TRIPS), which may have serious effects on agriculture and farmers' rights.

A clause in TRIPS requires governments to afford patent protection for microorganisms and biological processes involving them, which includes genetic engineering processes and genetically-engineered animals and plants. It also requires that intellectual rights on plant varieties be protected either through patenting or an "effective sui generis system of protection."

The concern is that the knowledge of Third World farmers and indigenous communities that is mainly responsible for developing crops and the use of plants will not be legally recognised, whilst corporations which genetically engineer biological resources will be rewarded instead. Countries of the South would then have to purchase biotechnology products at high prices (which are facilitated by the patent protection) even though they are the origin of the biological resources (and of the knowledge on their utilisation) used in biotechnology. This is likely to lead to higher cost of seeds and food products in developing countries.

On the patenting of biological resources issue, there has been

opposition among some NGOs and intellectuals in Asia. The farmers' movement in Karnataka state in India also held a large rally of 500,000 farmers in 1994 against patenting. However, outside of India, the issue is still relatively not understood well in Asia among either governments or NGOs or farmers.

By 1999 the WTO will review the relevant clause in the TRIPS agreement on IPRs relating to biological resources. There is therefore only a few years for action to be taken to mobilise public opinion and government policy-makers to make relevant changes to the TRIPS clause. Since the issue is so important and pressing, it is proposed that support be given to Asian NGOs and farmers' groups to understand and to advocate on this issue.

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