

CHAPTER 1

Issues in Trade Liberalization

1.1. The Setting

1.1.1. Interventions are common in agriculture

Almost all governments in the world intervene in the determination of agricultural production and prices. As a consequence, international trade in agricultural products is affected. This is not a new phenomenon, as governments have done so from very early times for various reasons, such as to safeguard adequate food supplies, to extract resources from farm populations, or to exchange agricultural products for other desired commodities and services. These objectives still characterize agricultural policies in many developing countries today and, to some extent, also in the developed industrial countries. While in developing countries, because of the dominance of agriculture in employment and production, the major objective is often extraction of resources from the agricultural sector for the development of the entire economy, in developed countries relatively few people are still engaged in agricultural production, so supporting the incomes of these few at levels comparable to the rest of the population is the major objective of intervention. A multitude of interventions that influence domestic agriculture in virtually all countries has led to considerable distortions in international trade in the contemporary world.

Indeed, the patterns of interventions and distortions have become so complex that any attempt to disentangle them faces major problems. Even the terms to be used in describing the present situation are not unambiguous and therefore need to be defined with considerable care. A basic characteristic of world agriculture is the starting point of the analysis: policies affecting agriculture are nationally (and sometimes regionally) made, to serve overwhelmingly *domestic* objectives. However, these interventions in the national markets do have an impact on each country's external balance and can and do lead to

distortions in international trade. There is no special agency that is charged with responsibility for international markets, let alone any explicit international objectives that such an agency would serve were it to exist. International negotiations concerning agricultural trade usually focus on price instability and distortions in these markets but, ironically, domestic policies, which cause the distortions, are outside the scope of these negotiations.

A first impression of the magnitude and spread of interventions can be gleaned from *Figure 1.1*, which shows the extent to which domestic prices of agricultural products differ from world market prices. These differences, when plotted against per capita gross domestic product (GDP) for the major agricultural producing countries of the world, demonstrate that richer countries tend to protect their agricultural markets more against foreign competition than do poorer countries. This confirms, to some extent, the differences in national objectives between developed and developing countries described earlier. It also suggests that richer countries have greater resources to finance their interventions.

The interventions are not without cost; some can, indeed, be quite expensive. The distribution of the costs and benefits depends on the nature of the intervention, both between the various affected economic groups and over time. Experience in many countries demonstrates that interventions that started as a transfer – in either direction – between producers and consumers become a major burden on the government budget. If policies are not flexible and timely adjustments are not made as the underlying situation changes, the adjustments are postponed until they become unavoidable. At that stage the needed adjustment is drastic and may involve politically difficult, if not impossible, redistribution of costs. The rigidity of interventions – the lack of flexibility in adjusting these over time – is a characteristic of almost all interventions in agriculture in virtually all countries.

1.1.2. A multiplicity of objectives behind interventions

Government interventions in agriculture are usually meant to achieve one or more of the following objectives:

- (1) Food self-sufficiency and the expansion of domestic production of major agricultural inputs.
- (2) Food security for all people in all regions within the country.
- (3) Mobilization of resources for development.
- (4) Maintenance of agricultural incomes compared to other sectors.
- (5) Sustaining environmental balance.
- (6) Exploitation of any real or perceived market power.