

## CHAPTER 8

# Agricultural Trade Liberalization by All Market Economies

## 8.1. The Scenario F-ALLME

As we have seen in the preceding chapter, the countries liberalizing agricultural trade, in general, seem to gain from it. However, the countries that do not liberalize are often affected adversely. In particular, a number of developing countries lose when the OECD countries liberalize agricultural trade, though some of them gain when they themselves liberalize. It is thus interesting to see what happens when both OECD countries and the developing countries liberalize agricultural trade together.

When more countries remove distortions, the scope for exploiting comparative advantage increases, and global gains in efficiency should also increase. However, in the absence of lump-sum transfers, an individual country may be worse off if the changes in world market prices substantially worsen its terms of trade. To estimate the magnitude of global gains and assess the extent to which losses to some countries are offset by gains to others under agricultural trade liberalization by all market economies, developed as well as developing, this scenario is generated.

The scenario is designated F-ALLME as the centrally planned economies of the CMEA and China do not liberalize. As in other scenarios, only border distortions are removed over a five-year period, 1982–1986, so that agricultural trade is fully liberalized in 1986, when domestic relative prices in a country equal its trade prices.

As in earlier chapters, the results of this scenario are discussed in the following sequence. First, changes in world market prices are described and compared with the corresponding changes under F-OECD and F-LDC. How these changes in world market prices affect domestic prices, the growth process, and factor allocation is described next. Following this, how factor availability and domestic relative prices affect production and trade patterns is highlighted. This

is then used to explain why world market prices change the way they do. Finally, the impact on welfare is examined. Here the global efficiency gains as reflected in world GDP at constant prices and changes in the number of hungry people in the world are examined first. The country-wise impacts on production, consumer welfare, and social welfare, as reflected in extent of hunger and life expectancy at birth and income parity, are discussed to assess which countries gain and which ones lose.

## 8.2. Changes under Agricultural Trade Liberalization by All Market Economies

### 8.2.1. Changes in world market prices under F-ALLME

The changes in the world market prices under this scenario are shown in *Table 8.1*. In *Figures 8.1–8.9* the index of relative world prices of the various commodities with 1980 prices as base is plotted for the various trade liberalization runs. The price changes for many commodities are similar to what can be predicted from the changes in prices under the F-OECD and F-LDC scenarios. The aggregate agricultural price in the year 2000 relative to the nonagricultural price increases by 5% over the reference scenario. Most of the commodity prices rise, but those of nonfood agriculture and other food decline. Other animal products show a very small decline of 1%. Dairy products show the highest price rise of 34%, as compared to the increases under F-OECD of 31% and under F-LDC of 12%. The price increases in 1990 are generally larger than in 2000, as by 2000 adjustments in production structures are more fully realized.

*Table 8.1.* Percentage changes in world market prices and global net exports under various trade liberalization scenarios relative to the reference scenario.

Commodity	Relative prices				Net exports			
	1990	2000			1990	2000		
	ALLME	ALLME	OECD	LDC	ALLME	ALLME	OECD	LDC
Wheat	16	23	18	5	1	3	-2	3
Rice	22	16	21	1	35	36	37	-12
Coarse grains	17	13	11	4	-4	-3	-5	0
Bovine and ovine meat	26	11	17	-3	52	69	35	27
Dairy products	38	34	31	12	30	24	13	24
Other animal products	3	-1	-0	1	3	14	17	-4
Protein feed	11	13	13	1	5	4	5	-1
Other food	-1	-3	5	-6	4	10	10	-2
Nonfood agriculture	-11	-17	-2	-14	5	6	5	0
Total agriculture	9	5	9	-2	-	-	-	-
Nonagriculture	0	0	0	0	13	13	17	-3