

CHAPTER 9

Findings and Policy Conclusions

After the analyses of the impact of agricultural trade liberalization presented in the preceding chapters of this book, the questions naturally arise: What are the major findings and what do they mean for policy? To what extent do the results reflect reality and to what extent can they be ascribed to the characteristics of the analytical tool used? What are the methodological or analytical lessons to be learned from the study? These questions are addressed in this chapter. Before addressing them, however, it would be useful to reiterate the scope of the study.

The study was concerned with assessing the impact of agricultural trade liberalization by various groups of countries. Agricultural trade liberalization was partial in the sense that trade distortions reflected in the differences between domestic relative price and border relative price (FOB for exports or CIF for imports) were removed from agricultural commodities. Thus, distortions introduced as a result of border measures such as tariffs and quotas were removed. The distorting effects of other measures, such as input subsidy or taxes, may have also been removed to the extent that they are reflected in the relative price differences, which depend on the measures used to restrict trade.

It should also be emphasized that distortions on the nonagricultural economy, which was represented by one aggregated sector, were not removed. Thus, agricultural trade liberalization, as defined here, removed relative distortions, as defined above, from all agricultural commodities in the country, but not all of the distortion between the agriculture sector and the nonagriculture sector.

Finally, in none of the scenarios is agricultural trade liberalization accompanied by any compensating nondistorting income transfers between countries.

The scenario results presented in this book consist of agricultural trade liberalization by OECD countries, by the EC, by the USA, by the developing countries excluding China, and by all market economies. The CMEA countries and China do not liberalize their agricultural trade in any of the scenarios, but they do adjust their trade volumes in response to changing world prices.

9.1. Small Global Impact of Agricultural Trade Liberalization

Agricultural trade liberalization leads to a global efficiency gain, as reflected in global GDP measured at constant world prices. The gain, however, is small. The largest gains occur when all market economies liberalize. Even then, the annual gain is only 0.28% in the year 2000 over the GDP in the reference scenario.

It is true that in the present study only partial liberalization of agriculture is carried out and the distortion between agriculture and nonagriculture is not fully removed. One may think that, were these distortions to be fully removed, the global efficiency gains would be larger. Scenarios were generated to analyze the impact of removing, in addition to agricultural protection measures, those in nonagriculture. For the latter, some very crudely estimated and some assumed protection factors were used. The results did not show a significant increase in global efficiency gains. Of course, with only one aggregate nonagriculture sector the BLS cannot capture fully the efficiency gains that could be realized by removing distortions among various subsectors of nonagriculture.

Other studies of trade liberalization that follow the general equilibrium approach also report such gains to be small and of similar magnitude. Thus, Whalley (1985) reports an annual gain of around 0.65% (measured as equivalent variation) of global GDP from a simultaneous abolition of tariffs from all the seven regions of the world. Similarly, Deardorff and Stern (1986) also report welfare gains comparable to that reported by Whalley. These studies involve liberalization of all trade, whereas the present study has involved only agricultural trade liberalization.

The small size of the gain in percentage terms is understandable, as agriculture is a small part of the global economy and only agricultural trade is being liberalized. The annual gain expressed as a percentage of agricultural GDP of the countries liberalizing amounts to 4% when all market economies liberalize. In the case of agricultural trade liberalization by the OECD countries, the global gain in GDP evaluated at 1970 world prices is 0.22%, which amounts to 20% of the agricultural GDP of OECD countries.

Viewed this way, the present study shows somewhat larger gains from trade liberalization than other studies do.

These trade liberalization studies, including the present one, which show gains at the global level to be small, assume that production in an economy takes place on the production possibility frontier before and after liberalization. The gains are to be obtained by a change in the production structure along this efficiency frontier due to changes in relative prices. These studies also assume that producers do not enjoy any monopoly powers. The monopoly power that producers in a sheltered economy enjoy may be severely curtailed and disappear when the country liberalizes. The efficiency gains from such a situation could be substantial. Thus, Harris (1984), in his study of trade liberalization for Canada,