Do Developed Countries Agricultural Policies Slow The Economic Growth of Developing Countries? A Dynamic CGE Approach

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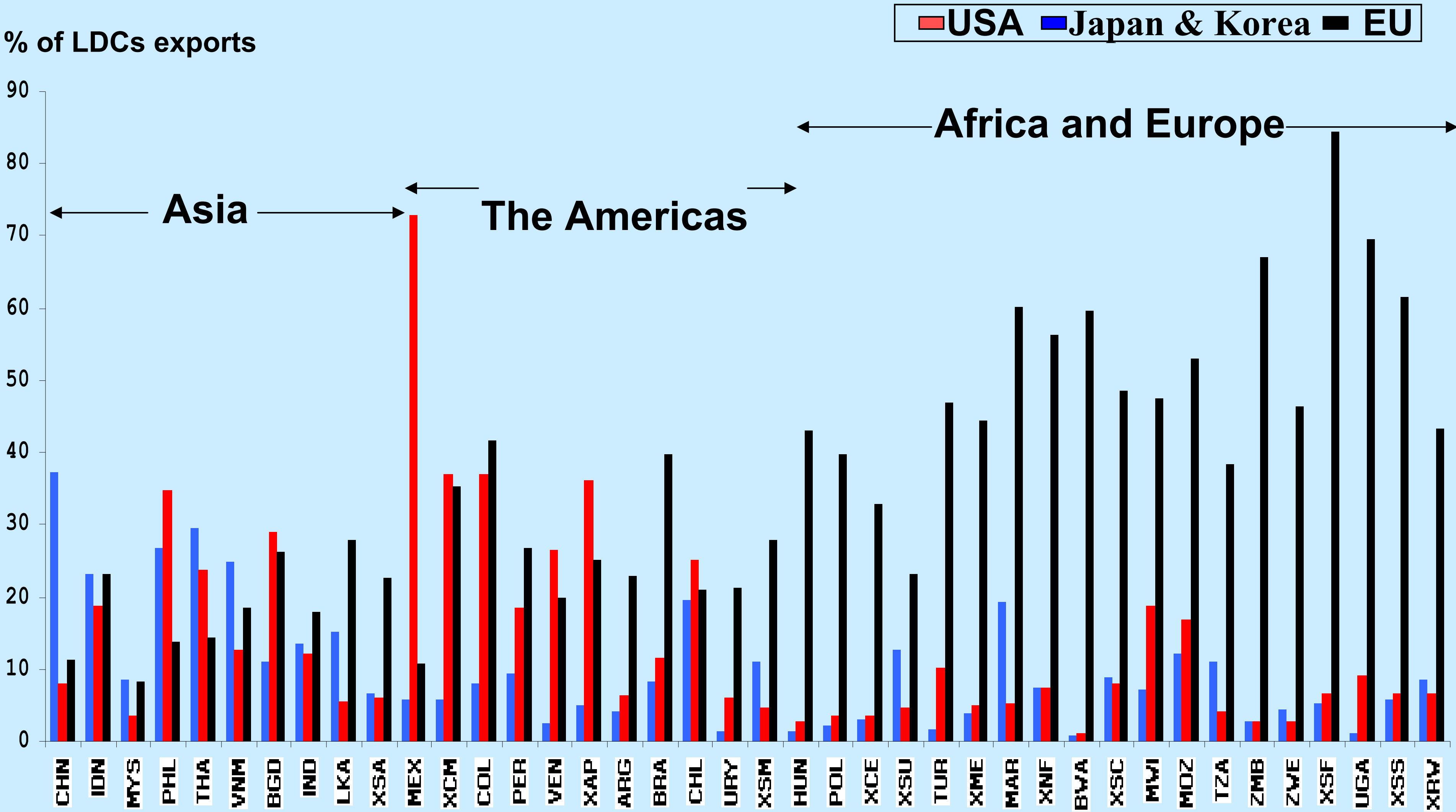
Outline

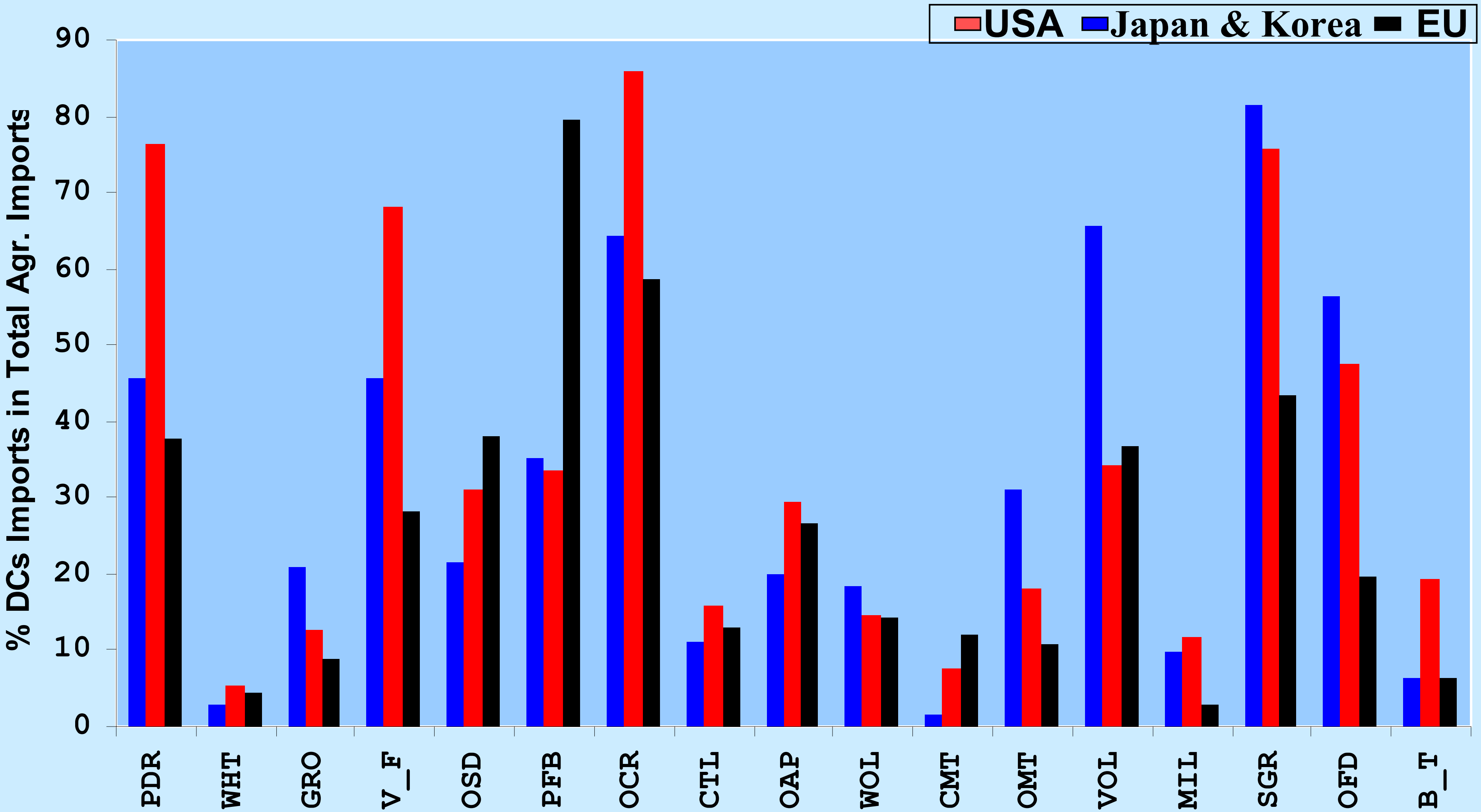
- Developing countries agricultural export markets
- Elimination of developed countries domestic support
  - Static CGE Analysis
- Complete trade reform and long term benefits to developing countries
  - Dynamic Analysis

Developing Countries' Agricultural Export Markets are in the North



Source: ERS, 1998

Developed Countries, As Importers, Are Major Players in World Agricultural Markets



Source: ERS, 1998

Elimination of Domestic Support Static CGE Results

- **Aggregate world welfare gain increase by 2.8 $billion**
- **World agricultural prices increase by 3.6 percent from the base year**
- **At the global level, commodity prices increase (percent from the base)**
  - **grain by 12 percent**
  - **livestock and products by almost 6 percent**
  - **processed foods (the largest category) only by almost 2.0 percent**

Production Effects Are Small and Vary by Sector

	World	DCs	LDCs
	Percentage change from base		
Wheat	-0.04	-5.07	2.92
Rice	-0.21	-1.19	0.15
Other grains	-0.49	-3.18	2.13
Vegetables and fruits	-0.10	0.04	-0.20
Oil and oilseeds	-0.49	-6.99	4.28
Sugar	-0.64	-2.72	0.27
Other crops	-0.44	-1.44	0.27
Livestock and products	-1.90	-3.47	0.67
Processed food	-0.96	-1.51	0.26

Source: Estimated by ERS

Alternative Assumptions About Coupling of Direct Payments To Farm Households

	World	Japan&Korea	USA	EU
	% change from the base year			
	Remove all domestic subsidies, no direct payments removal			
World agricultural price	3.55	0.2	0.9	2.0
Returns to farmland		-1.28	-1.38	-7.26
Total social welfare ($ billion)		-3.66	0.97	6.06
	Remove all domestic subsidies, with direct payments assumed mostly decoupled			
World agricultural price	3.6			
Returns to farmland		-1.3	-8.71	-14.49
Total social welfare ($ billion)		-3.89	1.04	5.92
	Remove all domestic subsidies, with direct payments assumed fully coupled			
World agricultural price	4.78			
Returns to farmland		-0.63	-4.31	-7.2
Total social welfare ($ billion)		-6.5	1.23	5.52

Source: Estimated by ERS

Welfare gains for developing countries are higher in the long-run with *complete* trade reform

% change from the base ($ billion)

	Investment growth			With TFP growth and Investment growth		
	In Year 5	In Year 10	In Year 15	In Year 5	In Year 10	In Year 15
China	1.2	1.7	1.8	1.5	2.0	2.2
Other Asian countries	-0.7	0.5	0.9	2.1	4.5	5.1
Mexico	-0.4	-0.2	0.1	0.5	1.0	1.6
Latin America	3.9	4.3	4.7	4.6	5.4	6.1
South African countries	0.2	0.3	0.5	0.4	0.6	0.8
Developing countries(sum)	1.3	4.5	6.5	10.2	17.4	21.3

Source: Estimated by ERS

Conclusions

- **Most developing countries resources are in agriculture and their export markets are in the North**
- **By taking into account the growth factors, liberalizing world agricultural trade is in the *long-run* interest of developing countries**
- **Developing countries, that depend on exports of a narrow group of commodities, may not benefit from a more liberalized world agricultural markets**
- **Welfare results might be “too optimistic” for some least developing countries**
- **Spreading the benefit of globalization to them would be a challenge**