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# *Articulating and Mainstreaming Agricultural Trade Policy and Support Measures*

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An FAO study based on analyses for Bangladesh, Ghana, Nepal, Sri Lanka and Tanzania

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## **Policy Brief 1 – Articulating agricultural trade policy. May 2011**

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### **Introduction**

A typical practice in many developing countries is to announce the national trade policy periodically, usually every 5-6 years, outlining strategies, policy orientation and broad rules and parameters. In between, especially through annual budgets, specific schemes are announced and parameters adjusted. Thus, the articulation of trade policy is a continuing process, necessitated by new developments internal and external to the country, such as the deepening of regional trade integration processes and membership in new regional trade bodies (notably in Africa, including Economic Partnership Agreements); fundamental shifts in global food markets, from an era of depressed to high and volatile food prices; doubts about the reliability of global world food markets due to use of export restrictions and other policies by trading partners; political pressure due to continued poverty among basic foods producers; and new prospects for increased funding for agriculture (the Aid for Trade initiative, new pledges on the ODA). The challenge facing policy makers is to be able to respond to these developments by improving the *process* of articulating trade policies in a continuous manner.

This was the context in which the FAO project *Articulating and Mainstreaming Agricultural Trade Policy and Support Measures* sought to understand the current practice of trade policy formulation and to provide insights for improving the process. Case studies were undertaken in five countries - Bangladesh, Ghana, Nepal, Sri Lanka and Tanzania. This Brief highlights the findings on trade policy issues and process. Briefs 2 and 3 examine two related topics - the process of articulating trade-related support measures, and approaches to mainstreaming trade policies and support measures in national development frameworks.

### **Key highlights**

*Net taxation of the agricultural sector due to trade and pricing policies has been substantially eliminated* – The case studies which discuss estimates of taxation and support, mostly based on the recent World Bank studies on agricultural distortions, confirm substantial reductions in net taxation over the past three decades. Traditional export crops are still taxed in some countries but only modestly and, importantly, in a transparent manner. Non-traditional exports tend not to be taxed, and the main debate is actually over the forms and appropriate levels of various incentives to producing and exporting enterprises.

*Articulation of trade policy for importables has become more nuanced* – While applied tariffs on most agricultural tariff lines are now both low and stable, with little use of domestic subsidies, trade and related interventions are focussed on a smaller number of strategic products, mainly foodstuffs, mirroring the interests seen in the Doha Round negotiations on sensitive and special products. As a result, food production as a whole enjoys some modest protection. Besides rapidly rising food import bills, relatively higher poverty rates among basic food producers provide the rationale and justification for such policy aimed at stimulating production.

*Trade policy orientation - balancing export promotion and import substitution* – Export-led growth is an explicit strategy in most national trade policies, as well as in many PRSPs. This has led to some confusion about the role of import protection. The case studies show that inconsistency across policy frameworks is inevitable when the trade policy is quiet on import protection, but productive sectors such as agriculture and industry articulate their policies on

import-competing products with expectations of a supportive trade policy, notably some level of protection and recourse to safeguards. Stakeholder consultations show that the relevant ministries are also divided on this issue. Towards mainstreaming trade policy, it seems clear that the PRSP, as the apex policy paper, needs to provide clear guidance on this divisive issue, based in turn on sound analysis of the trade-poverty linkages. In most cases, this analysis is missing currently. The case studies make the point that import substitution is not necessarily incompatible with the development of export agriculture, and the relative emphasis given will in large part be determined by the stage of structural transformation and the role for agriculture in this process. Trade policy needs to recognize this “stage” aspect and be balanced and dynamic.

*The 2007-2008 global food crisis and related uncertainties have influenced recent thinking and policies* – The opportunity created by higher world food prices and the growing perception that global food markets are less reliable have prompted governments to rethink their food security strategies, towards increased self sufficiency, active use of trade policy and domestic subsidies, and food stocks to contain volatility. In the mean time, new initiatives have been taken for promoting the development of regional food value chains.

*Policies for export promotion* – Three policy issues in particular were found to be debated prominently: i) whether or not to tax exports and if so, what are the appropriate levels? ii) whether to restrict the export of raw materials to promote domestic industries? and iii) how should export assistance and incentives be allocated across various products/sub-sectors? While taxation has

fallen remarkably, it continues and is justified on the basis of revenue and commodity development. Views are likewise divisive on the issue of taxing raw exports. The debate is even more intense on point (iii), export incentives, but there are very few studies available for an informed debate as to how best to use these policy instruments.

*Adapting trade policies to emerging regional economic blocks* - The deepening of the regional economic groupings is increasingly influencing national trade policies. This is particularly so in Africa where Tanzania is already part of the ECA customs union while Ghana is close to having that status in the ECOWAS. Increasingly, regional trade policy instruments will become more important than national measures. Considerable debates have been taking place on some regional level trade policy instruments, such as appropriate tariff rates for sensitive products. Regional integration is also re-shaping thinking on the long-standing national strategies including on food self sufficiency and buffer stocks. In Asia, the three case studies reveal the significance of trade relations with India, with Nepal’s trade and pricing policies influenced most by changes taking place in India. The reliability of rice imports from India is also influencing the debate on Bangladesh’s rice self sufficiency.

The case studies note that there is a need for revisiting national trade, agriculture and industrial policies in light of these new developments. It also finds that current national PRSPs have yet to articulate strategies and guidelines for the subsidiary policy papers to address the challenges emanating from the deepening of the cross-border and regional markets.

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For details, see the five country chapters on trade policy in the book *Articulating and Mainstreaming Agricultural Trade Policy and Support Measures*, edited by Ramesh Sharma and Jamie Morrison, 2011, FAO, Rome, available at <http://www.fao.org/economic/est/projects/en/>. Trade and Markets Division, FAO, Rome. The studies were supported by the Department for International Development (DFID) of the United Kingdom.