

Policies and Trade - Part IV: Export Controls



**AED/IS 4540
International Commerce
and the World Economy**

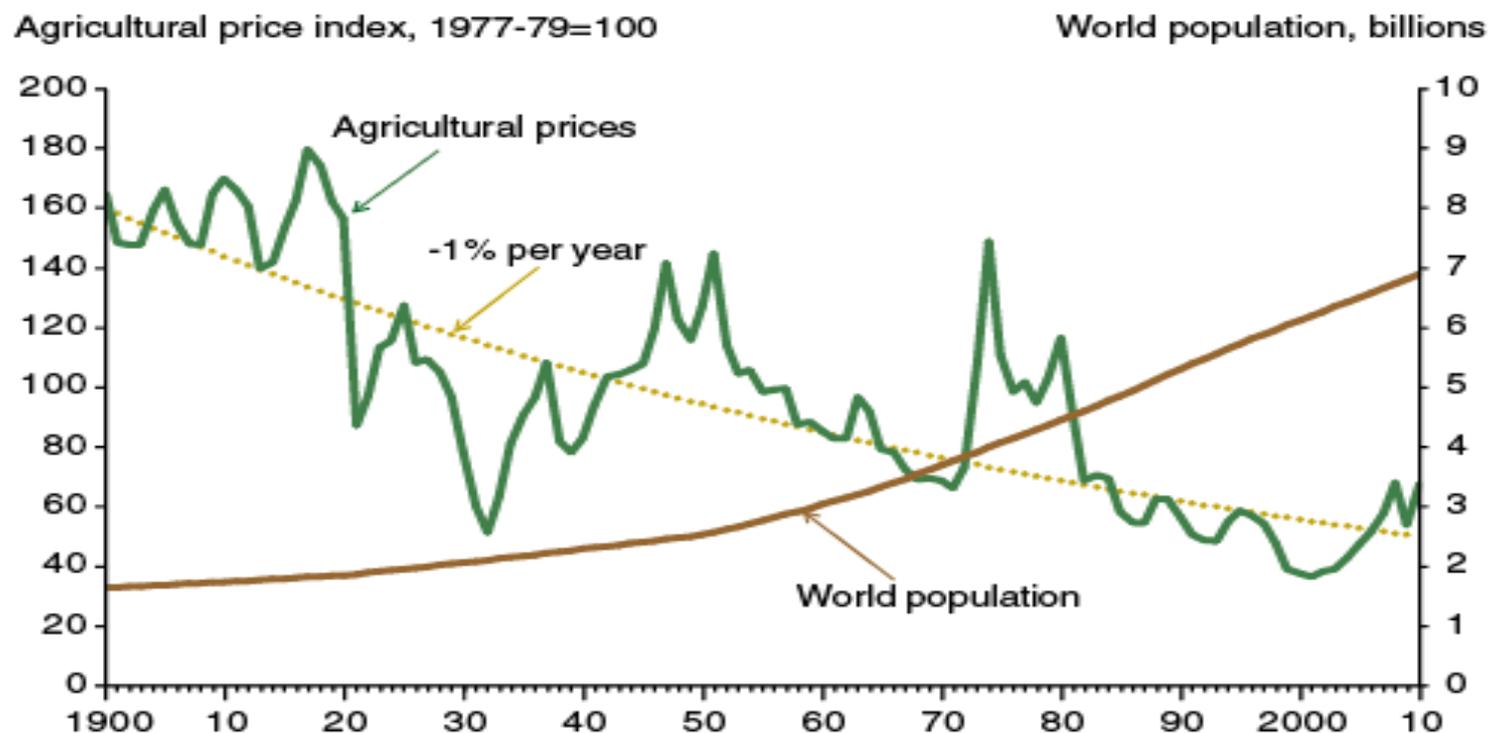
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Spikes in World Food Prices

- ◇ **Post-2007 – world prices of key staple foods volatile around relatively high levels**
- ◇ **Different to pattern over past century where real food prices have trended downwards**
- ◇ **Historically, while price spikes are often intense, they have typically been infrequent**
- ◇ **Since 2008, three price spikes: early 2008, early 2011, and third quarter of 2012**
- ◇ **2008 – price of Thai rice saw 198% increase from \$335/ton to \$1000/ton (Dawe and Slayton)**

Real Food Price Trend

Real agricultural prices have fallen since 1900, even as world population growth accelerated



Source: USDA, Economic Research Service using Fuglie, Wang, and Ball (2012). Depicted in the chart is the Grilli-Yang agricultural price index adjusted for inflation by the U.S. Gross Domestic Product implicit price index. The Grilli-Yang price index is a composite of 18 crop and livestock prices, each weighted by its share of global agricultural trade (Pfaffenzeller et al., 2007). World population estimates are from the United Nations.

Political Impact of Higher Prices

- ◆ **Higher food prices found to increase poverty sharply in short-run (World Bank, 2012)**
- ◆ **Research suggests food riots are correlated with high food prices (Bellemare, 2015)**
- ◆ **Intervention a matter of political survival in countries with large poor populations**
- ◆ **Indian Prime Minister and Indonesian President both re-elected in 2009 after campaigns emphasizing ability to limit impact of food crisis in respective countries**

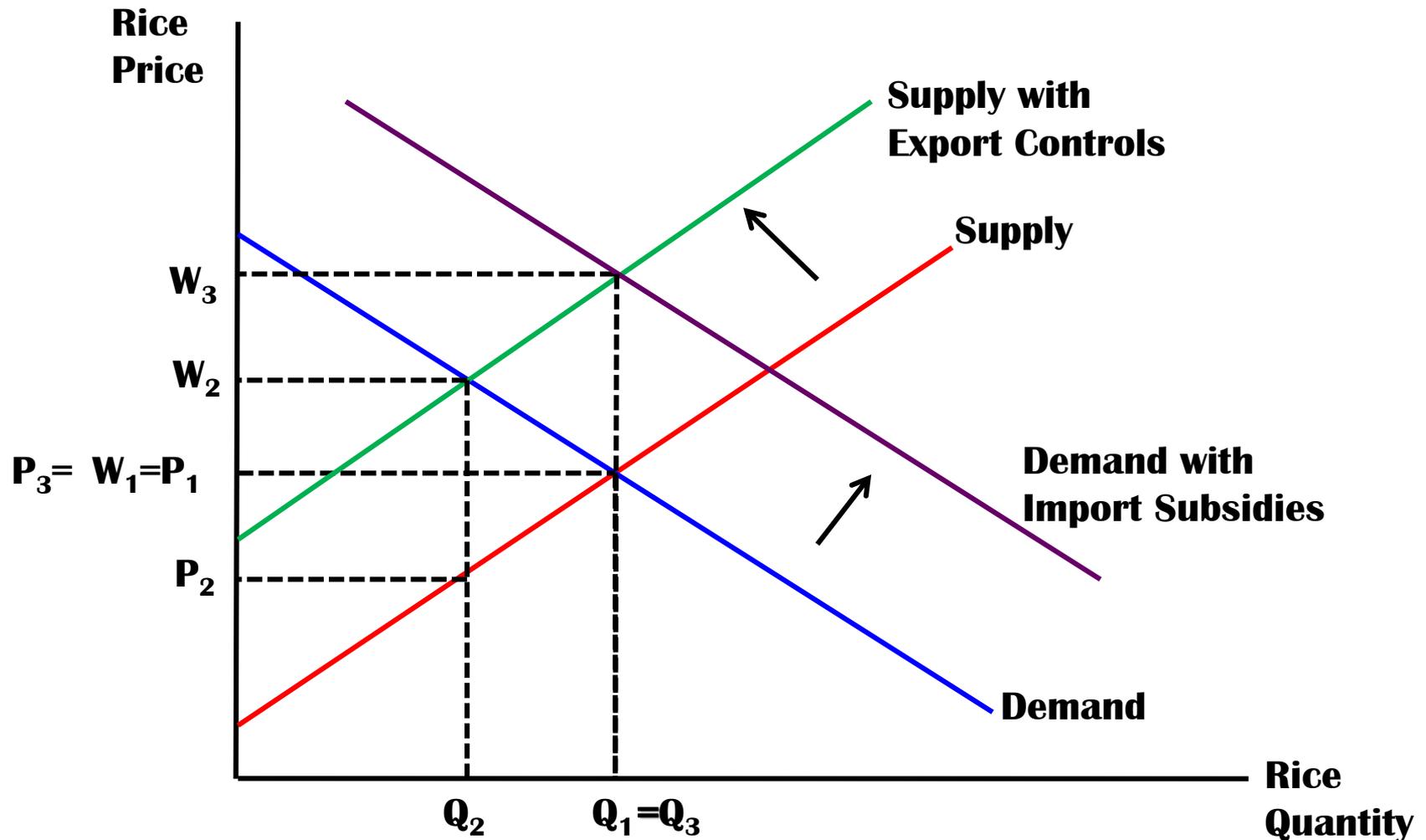
Response to Food Price Spikes

- ◆ **Many developing countries responded to food price spikes by directly intervening to stabilize domestic markets**
- ◆ **2008: 68 countries used trade policies (e.g., China, India)**
- ◆ **Trade policies typically consisted of: (i) export controls for net exporters, and (ii) import subsidies for net importers**
- ◆ **In contrast, developed countries typically did not implement such policies**

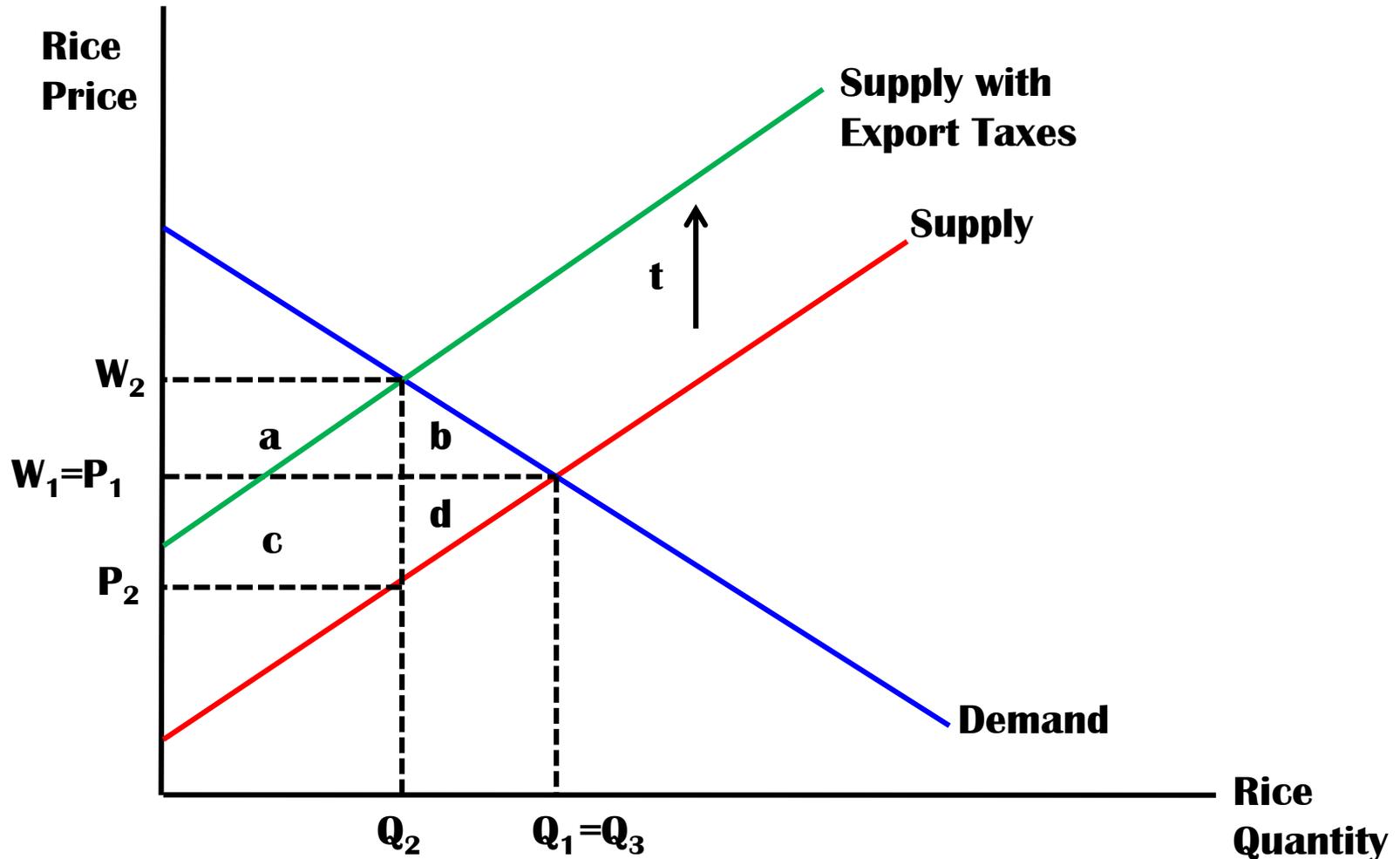
Beggaring Thy Neighbor...

- ◆ **If enough countries adopt trade policies, end result is increased world food price instability**
- ◆ **“...export restrictions play a direct role in aggravating food crises...” (Pascal Lamy, Director General of WTO, 2011)**
- ◆ **40%, 19% and 10% of 2007-08 spike in rice, wheat and maize prices respectively due to trade policies (Anderson and Nelgen, 2012)**
- ◆ **Unless countries cooperate over not using trade policies, each has unilateral incentive to intervene, but collectively no better off**

World Rice Market



Welfare Effect of Export Taxes



Welfare Effect of Export Taxes

- ◇ **If several countries use export tax, shifts up world supply curve, world price increasing to W_2 , domestic price in exporting countries falling to P_2**
- ◇ **Global effects of export tax:**
 - **importers loss of consumer surplus = $-(a+b)$**
 - **exporters loss of producer surplus = $-(c+d)$**
 - **exporting government tax revenue = $+(a+c)$**
 - **deadweight loss = $-(b+d)$**
- ◇ **Exporters gain only if $a > d$, but importers clearly lose as they transfer income to exporter**

Disciplines on Trade Policy

- ◇ **Trade policies appeared successful in stabilizing domestic prices, but ended up exacerbating world price spikes**
- ◇ **Solution to prisoner's dilemma is cooperation via a self-enforcing agreement, i.e., the WTO**
- ◇ **Doha Round of WTO pushing for reductions in agricultural tariffs and disciplines on export subsidies**
- ◇ **Developed countries have also pushed for tighter WTO disciplines on export restrictions – rejected by many exporting developing countries**