

Globalization and the Developing Countries: Is Free Trade Beneficial?

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Introduction

- 96% of world's farmers, 1.3 billion, live in LDCs
- 73% of the poor live in rural areas, with over 1000 million people living off under \$1/day
- LDCs very dependent on agriculture for household income
- International markets important to sustained income growth of LDCs

Introduction

- **WTO's Doha Round labeled a “development round”**
- **Two outstanding issues for understanding impact of trade liberalization on LDCs:**
 - **structure of food marketing system in DCs**
 - **problem of access to buyer “networks”**

Globalization and Market Access

- **Increasing concentration of global food system harms LDC exporters of commodities, e.g., coffee (Oxfam, 2001)**
- **LDCs will not benefit from globalization, e.g., Mozambique cashew nuts**
- **Unease over increased international corporate control – calls for global competition policy**

Trade in Food and Agricultural Products

- In aggregate, LDC's account for 31% and DC's 66% of value of world food and agricultural exports (UNCTAD, 2003)
- LDC's have significant share of trade in traditional commodities, e.g., sugar, coffee, and tea
- DC's dominate share of value of exports of high-value processed food and agricultural products

Tariffs in Food and Agricultural Products

- Average tariffs vary by region
- Even with preferential access for LDCs to DC's, there are still tariff peaks
- UNCTAD (2002) reports high levels of tariff escalation for traditional LDC exports to DCs such as coffee and tea
- Will tariff reduction improve market access for LDC's?

Tariff Peaks

Table 3.9 Agricultural tariffs: High peaks and deep valleys

Tariff peaks and variance in selected countries; MFN, out of quota, applied duties (percent and standard deviation)

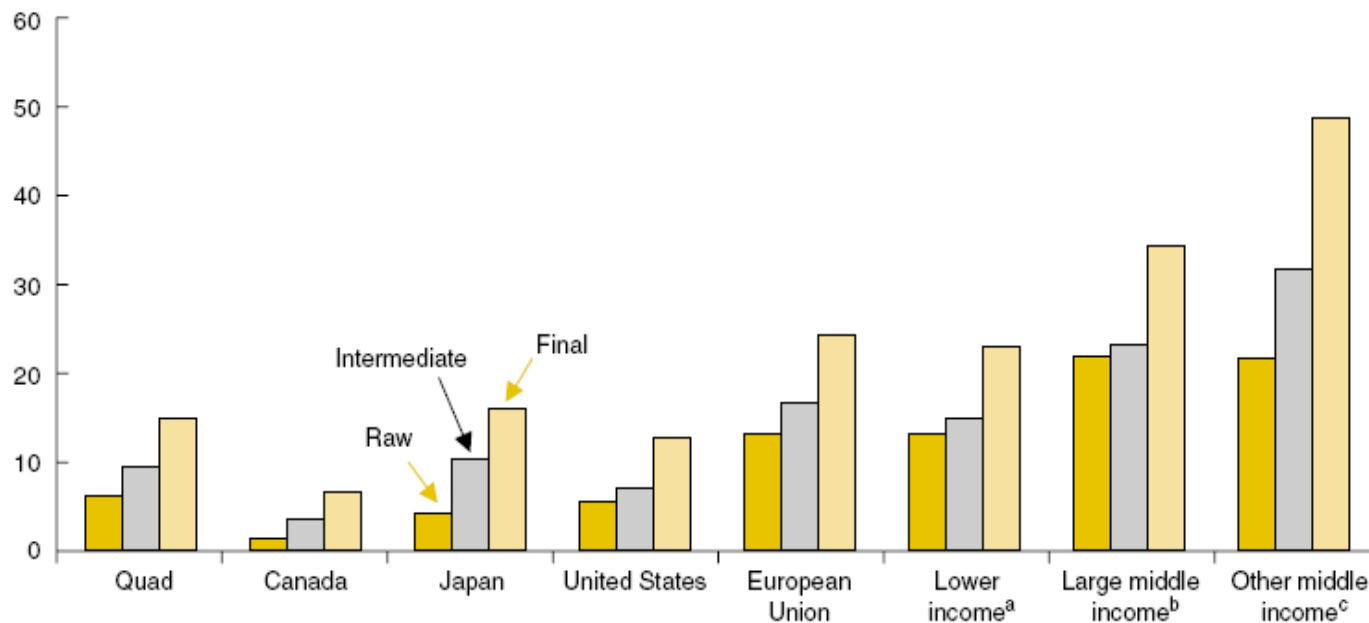
	Average tariff	Maximum tariff	Standard deviation	Percentage of lines covered
Canada	3.8	238.0	12.9	76.0
European Union	19.0	506.3	27.3	85.9
Japan	10.3	50.0	10.0	85.5
United States	9.5	350.0	26.2	99.3
Korea, Rep. of	42.2	917.0	119.2	98.0
Brazil	12.4	55.0	5.9	100.0
Costa Rica	13.2	154.0	17.4	100.0
Indonesia	8.5	170.0	24.1	100.0
Malawi	15.3	25.0	9.1	100.0
Morocco	63.9	376.5	68.2	100.0
Togo	14.7	20.0	6.5	99.9
Uganda	12.9	15.0	3.7	100.0

Source: WTO Integrated Database.

Tariff Escalation

Figure 3.6 Throughout the world, tariff rates escalate with degree of processing

Tariff rates by area and stage of processing (percent)



Note: a. Bangladesh (1999), Guatemala (1999), Indonesia (1999), Kenya (2001), Malawi (2000), Togo (2001), Uganda (2001), and Zimbabwe (2001).

b. Brazil (2001), China (2001), India (2000), Korea (2001), Mexico (2001), Russian Federation (2001), South Africa (2001), and Turkey (2001).

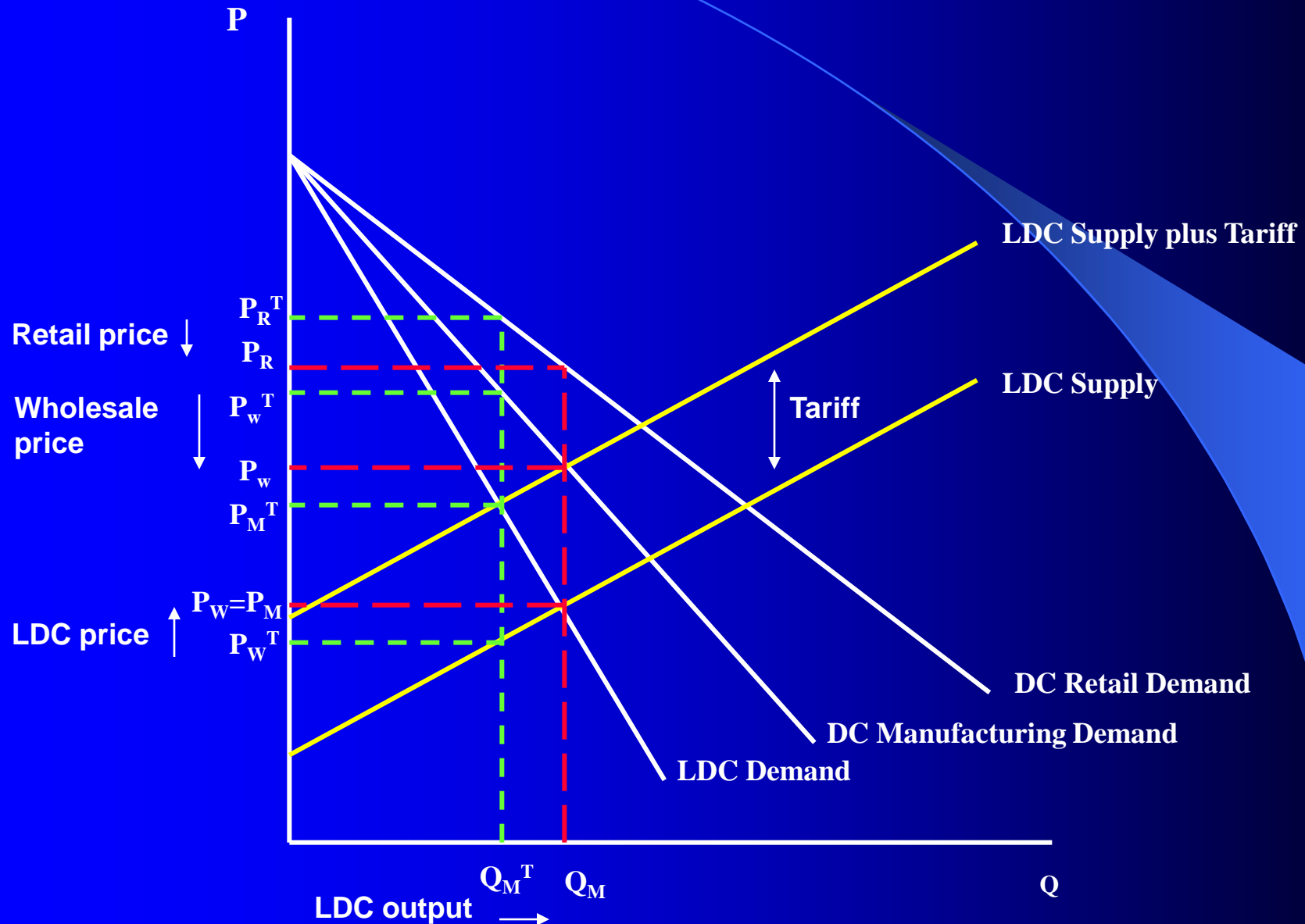
c. Bulgaria (2001), Costa Rica (2001), Hungary (2001), Jordan (2000), Malaysia (2001), Morocco (1997), Philippines (2001), and Romania (1999).

Source: WTO Integrated Database (IDB).

Food Marketing in Developed Countries

- **Food manufacturing concentrated in US and EU, e.g., average 3-firm concentration of 67% in EU**
- **Also characterized by large, diversified, multinational firms selling branded products**
- **Food retailing concentrated at national level in EU, and at regional and local level in US**
- **Firms may exercise some market power**

Trade Liberalization and the Marketing Chain



LDC Access to the Marketing Chain

● Governance in Vertical Markets

- Even if formal barriers reduced, informational and other search costs can hinder trade**
- Trade economists recognize access to “networks” is critical**
- Parallel analysis of “value chains” in development literature**

LDC Access to the Marketing Chain

- **Producer vs. buyer-driven value chains**
 - **Producer chains dominated by multinational suppliers, e.g., Del Monte**
 - **Buyer chains driven by large retailers**
 - **Participation in value chains necessary for LDC's to upgrade and diversify their exports**

LDC Country Access to the Marketing Chain

- **Can LDC's access DC value chains?**
 - **Kenya and Zimbabwe supplying fresh fruit and vegetables to UK retailing sector**
 - **South African producers of canned deciduous fruits**
 - **South African Breweries**

Conclusions

- **Structure of marketing system in DCs matters for who gains from food and agricultural trade liberalization**
- **Increasing consolidation in food marketing system may reduce share of consumer's "food dollar" going to LDC exporters**
- **Diversifying composition of LDC exports has to account for buyer driven nature of food marketing system in LDCs**