



Is agriculture compatible with free trade? ☆

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ABSTRACT

This article examines the relationship of free trade with agriculture in view of agriculture's distinctive features in the following three ways. First, agriculture produces a wide array of local and national nonmarket goods and services (in addition to market commodities) collectively known as multifunctionality of agriculture. Second, agriculture is intimately associated with global public goods of grave importance to humanity such as climate change, sustainability, and food security (poverty/hunger) in developing countries that require transnational cooperation to minimize free-rider and consequent under-provision problems. Third, embodying the first and second problems, agriculture plays distinctively different roles across countries. Specifically, this article views the global agriculture as consisting of four broad groups of countries with widely divergent needs from agriculture. This article concludes that the above agriculture-related problems are too diverse and complex to be left to free trade. When the global community is too much preoccupied with the illusive mission of agricultural trade liberalization, the great danger is that such preoccupation may distract it from effectively addressing the agriculture-related problems of the 21st century in a timely manner that pose imperative challenges to humanity. The governance for global agriculture should prioritize managing/taming such global problems rather than squandering time for unworkable liberalization of agricultural trade.

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1. Introduction

Ricardo's *Principles of Political Economy and Taxation* in 1817 has given birth to the notion of comparative advantages that arise from differences in technologies, factor endowments, and tastes across countries. Since then, it has become the intellectual foundation of the ideology of free trade. While dominant, the ideology of free trade has not been free of challenges. Most notably, List published in 1846 *The National System of Political Economy* presenting his political economy theory that rationalizes why infant industries in late-industrializing Germany should be protected against competition from advanced British manufacturers. Free trade was more rigorously contested in recent decades when economies of scales (that arise from increasing returns to scale) and external economies were shown to be significant sources of trade (Brander and Spencer, 1983; Helpman and Krugman, 1989; Krugman, 1986). Contravening the notion that comparative advantage is the only source of trade, the findings led to the strategic trade theory implying that government interventions can raise national welfare at another country's expense when industries are characterized by increasing return to scale, external economies and imperfect competition. The consequence is that, while remaining as a powerful theory, free trade lost its status as a universal theory of international trade (Krugman, 1987).

The free trade ideology was placed under assault once again when ecological economists accused it of exacerbating the degradation of environmental quality. Neoclassical economists argue that free trade promotes economic growth which in turn stimulates consumers' demand for higher environmental quality and prompts governments to tighten regulations, thereby fostering improvement in environmental quality. Their rationale is eloquently encapsulated in the Environmental Kuznets Curve (EKC) hypothesis (Copeland and Taylor, 2004; Dinda, 2004; Grossman and Krueger, 1995). To refute the neoclassical economists' conceptualization of the virtuous effects of free trade and economic growth on the environment, ecological economists raised intriguing concepts/rationales such as the environmental carrying capacity as a limit to economic growth, the unequal ecological exchange (the North is transferring environmental costs to the South), the ecological threshold, the underpricing of natural capital stock, the pollution haven hypothesis, and irreversibility (Daly and Goodland, 1994; Ekins et al., 1994; Muradian and Martinex-Alier, 2001; Ropke, 1994; Seidl and Tisdell, 1999; Tisdell, 2001). The contribution of ecological economists was further highlighted by nascent research about the link between free trade and sustainability of renewable resources such as fisheries and forestry (e.g. Brander and Taylor, 1998; Bulte and Barbier, 2005; Fischer, 2010; Jinji, 2007).

1.1. Research Objectives

In light of the insights that are shed by the history of how free trade has been contested in connection with strategic industrial policies, the

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environment, and renewable natural resources, this article examines the relation of free trade with agriculture and categorically shows why free trade has been contested when it comes to agriculture.¹ Over the last few decades, the WTO has been making coherent efforts, on the one hand, to liberalize agricultural trade on the grounds that it would contribute to the growth of the global economy *via* specialization and expanded production and trade, benefit consumers around the world, and stimulate farming sectors in developing countries by enabling them to access markets in developed countries (Anderson, 1992; Anderson, 2005; Anderson and Martin, 2005; Hertel and Keeney, 2006; Johnson, 1987; 1990; McCalla, 1993, 2003). On the other hand, the following distinctiveness of agriculture has made such WTO efforts controversial (Birner and Resnick, 2010; Gonzalez, 2002, 2006; Hanjra and Qureshi, 2010; McMichael, 2007; Stringer, 2000; UN, 2009).

First of all, agriculture is at the forefront in managing a wide range of natural resources (e.g., land, soil, water, biodiversity, forestry) and as a consequence, proper management of such depletable resources is critically important in fostering the flow of ecosystem services (Dominati et al., 2010; Ribaud et al., 2010; Swinton et al., 2007), coping with global warming (Battisti and Naylor, 2009), and promoting sustainable agricultural production and food security of future generations (Khan and Hanjra, 2009; Tilman et al., 2002). This need for conservation becomes particularly important in considering the burden the world agriculture faces in terms of meeting the global food demand that is projected to double by 2050 due to population growth to 9 billion along with rising income and urbanization in developing countries (Godfray et al., 2010). That is, agricultural productivity needs to be enhanced in an ecologically sustainable manner. Viewing agriculture from the perspective of developing countries, it is a critically important sector that needs to be nurtured for them to gain the capacity to promote industrialization and economic growth (Timmer, 2005, 2010). Further, it is an industry that is most directly accountable for hunger and malnutrition of nearly 1 billion people in least developed countries (LDCs). In developed countries, it represents an industry that holds disproportionately large political power compared to its share in the GDP and the total labor force, and it produces not only market commodities but also a range of nonmarket goods and services (positive externalities and public goods) such as viable rural communities, farmland amenities, agrarian cultural heritage, and ecosystem management.

In short, agriculture plays sharply different roles across countries at various development stages and is deeply associated with the nature of public goods at the local, national, and global levels. Such distinctiveness of agriculture makes its relation with free trade special: i.e., farm policies designed to address the nature of agricultural public goods will affect comparative advantages and liberalized trade has implications for sustainable use of natural resources (land/soil, water), food security in LDCs and mitigations of and adaptations to climate change.

1.2. Preview of Conclusions

The preview of agriculture-related problems/issues above demonstrates that they are exceptionally diverse and complex, and they are clearly distinguishable from other industries. Challenging the mainstream view that liberalizing agricultural trade will be beneficial for the world overall, this article contends that agriculture is incompatible with free trade because of its innate role in managing ecological/natural resources at both national and global levels and the uneven playing field that was created by the way that agriculture has been treated (protected/taxed) differently across countries in the past. The WTO is too much bent toward achieving liberalized trade to appropriately handle such diversity and complexity of agricultural

¹ In this article, agriculture refers to production of primary agricultural commodities such as grains/oilseeds, livestock, and fruits and vegetables.

problems. Two corollaries follow from the conclusion: (i) the global community is in want of an improved system of agricultural governance at the global level that would weigh transnational cooperation substantially more than the WTO currently does (Foresight, 2011) and (ii) the highest priority of the new governance should be managing/taming the agriculture-related problems rather than pursuing trade liberalization.

To substantiate our conclusions, the ensuing sections in this article are organized surrounding the three broad themes that originate from the unique position/nature of agriculture in the global economy. The first theme concerns the nature of the box system in the Uruguay Round Agreement on Agriculture (AoA) that eloquently demonstrates the persistent need for WTO member countries to use farm subsidies or border protection to address the public good and developmental aspects of agriculture. The AoA admits inherent limitations in the degree of trade liberalization in agriculture. The second theme is about the necessity to effectively tackle the global challenge of increasing food production in an ecologically sustainable manner (reduction of carbon emissions and conserving soils and water resources) and organizing such production so as to raise the incomes of those who are most food insecure in developing countries. In particular, transnational cooperation at the global level is called for to avoid free-rider problems associated with the provision of the three global public goods (food security, sustainability, mitigation of climate change) intimately related to agriculture (Harvey and Pilgrim, 2011; Tisdell, 2009). The third theme is centered around the doubt as to whether it is sensible for the principle of free trade to be uniformly applied to extremely heterogeneous groups of countries with distinctively different needs from agriculture. This article views global agriculture as consisting of four broad groups of countries that require radically different functions from agriculture depending on their economic, social, environmental, and developmental conditions.

1.3. Global Perspective

Each country in this world has the sovereign right to make a collective/societal decision with respect to the size and type of agriculture that it considers optimal as determined from its unique economic, social, cultural and ecological conditions. Yet, such sovereign rights should be coordinated on a global scale in the wake of the gravity of the common challenge faced by humanity of increasing food production in an environmentally sustainable and geographically equitable manner. This article takes the normative position that every country now and in the future is entitled to food security and such food security is indispensable for economic globalization to progress in an ethical and equitable manner. Indeed, the Universal Declaration of Human Rights and the Covenant on Economic, Social and Cultural Rights formally recognize the access to food as a basic human right (Gonzalez, 2006; UN, 2009). This position on food security is an extension of Amartya Sen's theory of famine (entitlement approach) to the global society.² Sen's entitlement approach to food security shifted the frame of the debate from food supply (availability) in connection with the Malthusian theory to food distribution (Devereux, 2001). With the extended entitlement approach, the global community is compelled to draw on transnational cooperation so as to provide every possible arrangement that would ameliorate food insecurity in developing countries and promote food security of future generations.

² The entitlement approach emphasizes the capability of individuals to acquire food using the societal means available in a country as well as their own resources (Sen, n.a pp 45–51). More specifically, Sen identifies four legal sources of food: "production-based entitlement, trade-based entitlement, own-labor entitlement and inheritance and transfer entitlement." Sen developed the entitlement approach to oppose the notion of food availability decline as a cause of famines. Yet, the entitlement approach is empiricist based on Sen's observations of four famines in the 20th century rather than normative (Devereux, 2001).

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