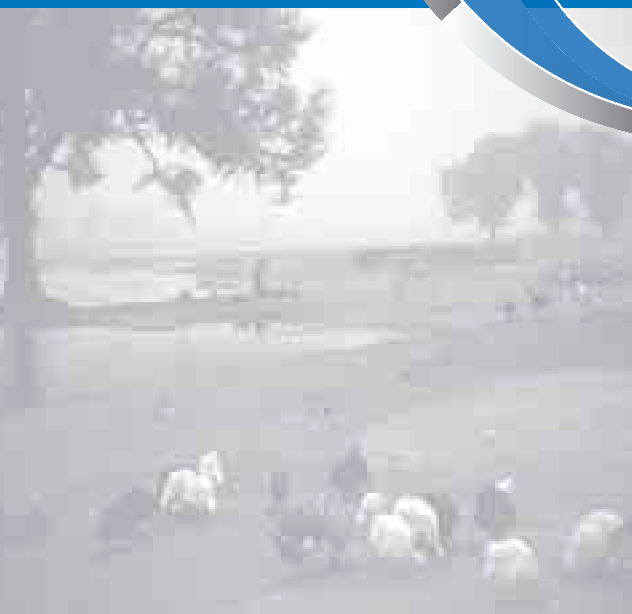
PART 2

IMPORT SURGES IN DEVELOPING COUNTRIES: EVIDENCE AND INSIGHTS FROM CASE STUDIES



PRESENTATION OF THE CASE STUDIES

6

6.1 Introduction

Surges in agricultural imports and their perceived negative effects on producers are sensitive economic and political matters especially in developing countries. One reason for this sensitivity is that the complaints from those who lose often outmatch the voices of the beneficiaries. Indeed, job losses, closure of firms and abandoned farms are some of the usual visible signs of the damage done by excessive imports and these problems may lead to social unease. Developing countries' governments wanting to avoid these difficulties look for interventions to reduce the negative impacts on the affected sector. There has been however no guidance on what the appropriate interventions should be in detecting the presence and assessing and alleviating the impacts of import surges. The need for such guidance is pressing as the incidence of import surges, which many observers believe are the consequences of tariff reduction and domestic market liberalization following the WTO AoA, becomes more and more frequent. One way to address this need is to gather and share information about and lessons learned from import surges that some countries have experienced in the past. It is this context that prompted FAO to examine past import surges in selected developing countries through case studies for selected commodities.[1]

This second part of this book, *Part II* is aimed to highlight and synthesize the findings in these case studies, especially on the identification and the assessment of import surges and on the government's response to the surges. The materials are drawn from FAO briefs and working papers. Part II has five chapters and is organized as follows. After this chapter introducing the countries and commodities in the case studies, Chapter 7 summarizes the analysis identifying the main sources of import surges and reveals the difficulties in disentangling them. Chapter 8 examines some of the consequences of import surges in developing countries and focuses on specific impact indicators and the effects on various stakeholders. Chapter 9 analyses government interventions in dealing with import surges to explain the rationale behind their decisions. Chapter 10 summarizes the content of this book and outlines specifically the findings in the case studies on import surges in developing countries. It also discusses the implications of the dilemma facing those countries in choosing between liberalizing the market and trade to improve total welfare and protecting the local agriculture sector to support small farmers and agro-industries.

6.2 Case studies: the countries and commodities

The choice of the countries and commodities in the FAO case studies stemmed from the concept that the import competing sectors of these countries were among those who were thought to be the most vulnerable to import surges. The commodity selection was based on statistical analysis indicating some prevalence of import surges and on the importance

[1] See various FAO briefs and working papers listed in the reference.

of the commodity in the country's production or consumption. Discussions with local industry stakeholders have helped narrow the choice of the commodities (sectors) in the investigation.

Table 6.1 presents the list of the developing countries, the period that the investigation focused on and the commodities selected in the case studies. For some countries, the table also shows rough estimates of the number of import surge occurrences.

A brief introduction to the selected countries and commodities based in Table 6.1 is helpful for the rest of the analysis.[2]

6.2.1 Cameroon

Agriculture plays a significant role in Cameroon's economy and at the time of the investigation in 2004, agriculture contributed to more than 40 percent of the country's GDP. Agriculture also continues to employ more than 60 percent of the workforce. Cameroon was one of the countries which witnessed the most prevalent and frequent import surges and was therefore suitable for country case studies. Poultry meat, rice and vegetable oils were identified as the most affected and were selected for the case studies. Food import surge in Cameroon was a very sensitive economic policy and political issue, attracting considerable attention as evidenced by increasing and controversial national NGO and newspaper reports. The Government of Cameroon and industry stakeholders through their monthly meetings (notably the quarterly meetings between local poultry farmers and other poultry stakeholders with the Ministry of Livestock and the monthly meetings of palm oil producers/processors with the ministries of trade, agriculture and finance) had expressed continuing concern about the impact of these rising food imports on the local industries and rural communities.

TABLE 6.1
List of selected countries and commodities with the estimated number of the incidence of import surges

Countries	Commodities	Estimated number of import surge incidences
Cameroon (1999-2004)	Poultry	3
	Rice	3
	Vegetable Oils	2
Côte d'Ivoire (1996-2004)	Poultry	at least 2
	Rice	at least 4
	Sugar	at least 2
Ghana (1998-2004)	Poultry	at least 2
	Rice	at least 5
	Tomato paste	at least 5
Honduras (1991-2005)	Rice	at least 2
Jamaica (1980-2005)	Dairy	at least one
	Poultry	at least one
	Onions	at least one
Kenya (1973-2003)	Dry milk powder	at least 5;
	Maize	at least one
	Sugar	at least 2
Malawi (1980-2004)	Dairy	at least 2
	Maize	at least 2
	Sugar	at least 3
Mozambique (2001-2004)	Poultry meat	2
Mozambique (2002-2004)	Vegetable oils	3
Philippines (1999-2004)	Onions	n.a.
	Tobacco	n.a
Sri Lanka (1985-2005)	Dairy products	at least 5
The United Republic of Tanzania (1997-2004)	Dairy	at least 3
	Maize	at least 2
	Rice	at least 3

Source: FAO (2005)

[2] Besides, the FAO policy briefs, other sources of information employed in the description of case studies include FAOSTAT; Paper on Commodity Proble, (FAO 2003); Synthesis of country case studies in agricultural trade and food security (FAO, 2000). Additional information were drawn also from Mosoti and Sharma (2005). Some country specific statistical figures are from Word Bank's Word Development Indicators.

6.2.2 Côte d'Ivoire

The economy of Côte d'Ivoire depends to a large extent on the agricultural sector, including cocoa production. Small-scale family farms have been the dominant source of agricultural output, especially staple food (grains and roots), while large commercial plantations have been mostly prevalent in cash crops such as bananas, rubber and pineapple. Despite attempts by the Government to diversify the economy, Côte d'Ivoire has remained largely dependent on agriculture and related activities, which engaged roughly 68 percent of the population. Social and political tensions, since 2002, have constrained agricultural output and have contributed to a 46 percent rise in imports of goods and services from XOF 2 234 million to XOF 3 262 million in 2005. Trade policy has gone through several milestones: protectionism (1960-1984), liberalization (1984-1988), return of protectionism (1988-1990), and return to liberalization since the mid-1990s to the present.[3]

The import surge phenomenon attracted enormous attention in Côte d'Ivoire in part because of stakeholders' concerns that increases in imports could adversely impact on domestic industry and competitiveness. Three commodity groups, rice, poultry and sugar, were selected for evaluation in part on the basis of a statistical analysis by FAO indicating prevalence of the surge phenomena and discussions with local industry stakeholders.

6.2.3 Ghana

Agriculture has remained the mainstay of Ghana's economy, contributing to about 40 percent of GDP, about 35 percent of foreign exchange earnings and 60 percent of employment. Over 80 percent of the rural populace has their main livelihood activities centred on agriculture.

Import surge cases for rice, poultry and tomato paste were identified for the case studies. These commodities are consumed by a majority of Ghanaians both in rural and urban communities. Import surges of poultry products rose to a national debate during which, many stakeholders pressed policy-makers to raise tariffs, claiming that import competition threatens local industries. Rice is an important cash crop in the communities in which it is produced, besides being an important food staple for both rural and urban communities across the country. Tomato production in Ghana is mainly a smallholder activity and its distribution throughout the year is markedly seasonal. There were rising concerns about the increasing imports of canned tomatoes (mainly tomato paste and preserved tomatoes) from Italy and other countries.

6.2.4 Honduras

Honduras is a small and poor country whose economy depends heavily on agriculture. Official statistics show that agriculture is among the largest employment providers. Half of the population, estimated at 7 million, lives in rural areas where the incidence of poverty reached 70 percent and of extreme poverty 61 percent. Agriculture in Honduras has experienced significant policy changes since the early 1990s. The traditional Honduran staples include rice but are mainly based on corn and wheat. Rice was chosen in the study because rice was considered for decades not only the most profitable of the basic grain crops from the perspective of farming, but also as a cash crop for rural farmers.

Agriculture was previously perceived as the supplier of basic staples for the rural and urban population. Domestic production of maize, beans and rice were protected from the world market by tariffs and non-tariff barriers. However, in the early 1990s, as in most Latin American countries, the Government of Honduras embraced an aggressive economic liberalization model for the agricultural sector. Tariffs were reduced, unilaterally at first and then further as the country joined the WTO in 1994, and more recently with a Central American Customs Union (Unión Aduanera Centroamericana) and in 2005 with a free trade agreement with the Dominican Republic and the United States (DR - CAFTA). Trade

[3] Côte d'Ivoire is a member of the Union économique et monétaire ouest-africaine (UEMOA), and the Economic Community of West Africa (ECOWAS). It was also one of the signatories of the African, Caribbean and Pacific Group of States (ACP) partnership agreement that calls for trade liberalization between the ACP and the European Community and the end of the system of non-reciprocal trade preferences. Côte d'Ivoire has also been a beneficiary of the African Growth and Opportunity Act initiative of the United States.

liberalization was accompanied by deregulation of interest rates, exchange rates and foreign currency allocations, while price controls were banned by law. Credit, research and technical assistance institutions were dismantled and opportunities were given for the birth of private, more effective and economically rational systems, to deliver the services required by farmers. In some cases, trade liberalization resulted in substantial increases in agricultural imports, which affected domestic markets.

6.2.5 Jamaica

Jamaica is a low-income country in the Caribbean where agriculture, though relatively small compared with tourism, continues to play an important role in the economy. Within the period of study, in 2002, agriculture contributed to about 6 percent of the country's GDP. Jamaica's trade policy has been designed and implemented within the framework of the Caribbean Community and Common Market (CARICOM). Through its participation in CARICOM, Jamaica concluded preferential trade agreements with Colombia, Costa Rica, Cuba, Dominican Republic and Venezuela. Jamaica's exports benefit from non-reciprocal preferential trade arrangements offered by a number of developed countries and it faces the challenge of adjusting to an environment in which preferences are being increasingly eroded.

Since 1998, Jamaica has taken steps to encourage trade. These have included customs modernization and computerization programmes, which have resulted in the reduction of the duration of customs clearance. Jamaica has also ceased to use reference prices for fixing applied tariff rates and has adopted the WTO definition of transaction value for customs valuation. Tariffs are the main instruments of border protection and an important source of Jamaica's fiscal revenue. In the context of reductions in CARICOM's common external tariff, Jamaica's simple average MFN tariff fell to 8.6 percent in 2004. However, tariffs on certain vegetables increased from 40 to 100 percent. Average tariff protection for agricultural products (WTO definition) has remained substantially higher than for non-agricultural products: 18.1 and 6.7 percent, respectively. In several cases, tariff escalation is negative from raw materials to semi-processed goods, which may inhibit the production of intermediates. Virtually all imports from CARICOM Members enter Jamaica duty free.

6.2.6 Kenya

Kenya is one of the developing countries where crop and livestock sectors have played a significant role in the economy; they account for about 25 percent of the GDP and support about 80 percent of the country's population. Powdered milk, sugar and maize are key commodities contributing to the food security and the livelihoods of the population especially those living in rural areas, and were chosen to be part of the case studies. Surges of imports for these commodities may have affected stakeholders and the rural economy at large significantly. The imports coincided with the series of significant cuts in tariff following the country's move towards freer trade. The surges also happened during the time when the grip of marketing boards for dairy and maize loosened and the domestic market reforms took place for these commodities.

6.2.7 Malawi

Malawi has been classified as one of the poorest countries in the world with 65 percent of the population, or roughly 7 million people, living below the poverty line. Its economy relies on agriculture and in 2003, for instance, agriculture in Malawi contributed to more than one-third of the country's GDP and more than 80 percent of foreign exchange earnings. Agriculture also continues to generate more than 90 percent of employment in rural areas. There have been arguments against the speed of trade reforms in Malawi, with many contending that the unmanaged nature of trade liberalization has led to import surges with consequential adverse effects on domestic production. Such import surges drew special attention and three commodities, namely, maize, sugar and dairy products have been chosen for the study because of their importance for the livelihood of stakeholders especially those living in rural areas.

6.2.8 Mozambique

Despite sustained economic growth in the last several years, Mozambique has remained a least developed country with a high poverty rate especially in rural areas. Agriculture continues to be an important source of employment and a significant contributor to the economy; it employed 80 percent of the country's workforce and accounted for more than 20 percent of GDP in 2005. Poultry and vegetable oils were chosen for the case study because of their prominent role in food security and food production and that informal investigation also pointed to import surge between 2001-2004. Poultry and vegetable oils have been chosen for the case studies. In 2001, livestock contributed to about 10 percent of the value of agricultural production and, according to the Agricultural and Livestock Census (CAP, 2000), poultry was important for nearly 70 percent of rural households, with backyard production of live birds accounting for 97 percent of the total number of chickens. Vegetable oil production in Mozambique satisfied only 20 percent of the amount of domestic demand but the sector kept growing with reforms on land policies and market liberalization under way.

6.2.9 The Philippines

More than 70 percent of the Philippines' population continues to live in rural areas and agriculture plays an important role in the economy, contributing about 18 percent to GDP. During the investigation period, both the onion and tobacco crops were very important products for rural livelihoods in the Philippines. Onion in particular is also a staple seasoning in the daily diet of the population. Onion farmers often claimed that cheap imports, mostly from China, had reduced the prices of domestically produced onions, particularly because their timing coincided with the peak harvest period for local produce. Meanwhile, tobacco farmers were concerned about the volume of imports which exceeded local production, resulting in a decrease in their market share and threatening their livelihoods.

The views of importers and traders differed from those of farmers on the onions and tobacco imports. Onion importers claimed that there was only limited increase in import volumes and the timing did not coincide with the local harvest period. Also, importers insisted that onion imports were reportedly distributed to a different segment of the market, supplying mainly hotels, restaurants and food chains and should not affect the local producers. Likewise, tobacco importers believed domestic production does not meet the quality requirements of manufacturers. Locally produced tobacco and imported leaf were considered different products, each with a distinct market. Importers claimed that the increase in imports was therefore attributed to the domestic sector's low quality products and lack of efficiency. These differing claims and views were among the important reasons that motivated the investigation within the FAO case studies.

6.2.10 Sri Lanka

Sri Lanka is a low-income developing country with agriculture accounting for about 20 percent of the country's GDP and employs about 40 percent of the workforce. Dairy products were chosen in the case study because they are important in the domestic consumers' diet as well as for the surge in imports. Average levels of consumption of milk and milk products have grown steadily, rising over time and across income categories. In the face of slow growth in domestic supply, this rising demand had been met by imports, which account for most of the milk products consumed in the country. About 90 percent of the dairy import has been powder milk but includes butter, cheese, yoghurt and other milk by-products. Dairy imports, especially milk powder imports, have grown even faster.

6.2.11 The United Republic of Tanzania

A low-income developing country, the United Republic of Tanzania's economy still relies heavily on agriculture which contributed about 50 percent to the country's GDP. Agriculture in the United Republic of Tanzania provides employment for 80 percent of the workforce. Dairy products, maize and rice were selected for the case studies because of their important role in food security and poverty alleviation for the country especially in rural areas. Preliminary investigation also indicated that imports of these three commodities have risen since the 1990s, especially between 1997-2004. The selection was influenced at that time by the stakeholders' concerns, especially those of the farmers, on the possible adverse impact of these increases on import volumes and the Government response and intense media coverage of the issue. The United Republic of Tanzania is involved in many regional trading arrangements such as the Common Market for Eastern and Southern Africa (COMESA), the East African Community (EAC) and the Southern African Development Community (SADC). The liberalization of its agriculture sector started in the late 1980s and has continued and many suspect that the liberalization was the major sources of the import surge.

6.3 Concluding remarks

Examining agricultural import surges in developing countries poses great challenges for analysts because of the lack of reliable information, preventing a complete analysis and the lack of precision and uniformity in the terminology and method, impeding useful comparison among various types of surges across countries and commodities. The selection of the developing countries targeted in the case studies was also a challenge but the prominence of the import surges and the availability of basic information have guided the choice.

References

CAP. 2000.

FAO. 2000. *Synthesis of the country case studies, in agriculture, trade and food security: issues and options in the WTO negotiations from the perspective of developing countries. Volume II, Country Case Studies*. FAO, Rome, 2000.

FAO. 2005. Extent and impact of food import surges in developing countries: An analytical approach and research methodology for country case studies. FAO Import Surge Working Paper No. 7, Rome, May 2005.

FAO. FAOSTAT accessed online. www.faostat.org.

FAO. 2003. Various Papers on Commodity Committee Problems (64th Session). http://www.fao.org/unfao/bodies/ccp/ccp64/ccp64-e.htm

FAO. 2006. Import Surges: What are they and how can they be identified? FAO Briefs on Import Surge Issue no.1 October.

FAO. 2006. Import Surges: What is their frequency and which are the countries and the commodities most affected? FAO Briefs on Import Surge, Issue no.2 October.

FAO. 2006. Import Surges: What are their external causes? FAO Briefs on Import Surge, Issue no.3 November.

FAO. 2006. Import Surges: What are the contributing domestic factors? FAO Briefs on Import Surge, Issue no.4. October.

FAO. 2006. Import Surges: Institutional requirements for the implementation of a Special Safeguard Mechanism. FAO Briefs on Import Surge, Issue no.5. November.

FAO. 2006. Import Surges: Injury: issues and identification. FAO Briefs on Import Surge, Issue no.6. November.

FAO. 2006. United Republic of Tanzania: rice, maize and dairy. FAO Briefs on Import Surge: Country case study no.1 November.

FAO. 2006. Malawi: Maize, sugar and dairy products. FAO Briefs on Import Surge: Country case study no.2.

FAO. 2006. Mozambique: Vegetable oils. FAO Briefs on Import Surges: Country case study no. 3.

FAO. 2006. Cameroon: Poultry, rice and vegetable oils. FAO Briefs on Import Surges: Country case study no. 4.

FAO. 2006. Ghana: Rice, poultry and tomato paste. FAO Briefs on Import Surges: Country case study no. 5.

FAO. 2006. Jamaica: Poultry, dairy products and onions. FAO Briefs on Import Surges: Country case study no. 6. November.

FAO. 2007. Kenya: Dry milk powders, sugar and maize. FAO Briefs on Import Surges: Country case study no. 7. February.

FAO. 2007. Sri Lanka: Dairy products. FAO Briefs on Import Surges: Country case study no. 8. February.

FAO. 2007. Philippines: Onions and tobacco. FAO Briefs on Import Surges: Country case study no. 9. February.

FAO. 2007. Mozambique: Poultry meat. FAO Briefs on Import Surges: Country case study no. 10. February.

FAO. 2007. Honduras: The extent and impact of Import surges in Honduras: The case of Rice. FAO Briefs on Import Surges: Country case study no. 11. February.

FAO. 2007. Côte d'Ivoire: Insights on rice, poultry and sugar imports into Côte d'Ivoire. FAO Briefs on Import Surges: Country Case Study no. 12. February.

FAOSTAT

Government of Cameroon. Various ministerial sources

Government of Côte d'Ivoire. Direction des statistiques douanières

Government of Ghana. Ministry of Agriculture and Fisheries

Government of Ghana. Ministry of Trade and Industry

Government of Honduras. Ministry of Agriculture

Government of Jamaica. Ministry of Agriculture

Government of Malawi. Ministry of Agriculture

Government of Mozambique. Ministry of Finance. Mozambique Customs.

Government of Philippines. Ministry of Finance.

Government of Sri Lanka. 2007. Customs Department Publications.

Government of the United Republic of Tanzania.

Mosoti, V. & Sharma, R. 2005. *The Interpretation of various import surge-related concepts and definitions in the WTO legal texts*, FAO Import Surge Working Paper No. 3, FAO, Rome, May 2005.

World Bank. World development indicators.