

Impact of FTAs on Agriculture: Issues in Food Security and Livelihood¹

*Sajin Prachason
Sustainable Agriculture Foundation (Thailand)
/ FTA Watch*

1. Agriculture as Source of Livelihood and Food Security

Agriculture has been realized as a source of livelihood of vast majority of people in developing countries², despite its declining share in many national economies during the past decades. As far as the most updated statistics is acquired, in 2004, farming labor force in Asia, excluding the Middle East accounted 55% of the total labor force. In Nepal and Bhutan, for example, as many as 93-94% of the total labor force were working in agricultural sector. In Southeast Asia, farming labor force in major agricultural countries ranged from 16% in Malaysia to 69% in Cambodia and 81% in Timor-Leste³. In 2007, Thailand has about 5.7 million households involved in agriculture.

In fact, the above figures can be underestimated as they do not yet include many more people in non-farm sectors who are economically supported by one way or another by their farming family members. For farmers and their families, agriculture is a source of food, medicines, housing, saving, etc. in which they can also convert farm outputs into income for their children's education and to meet other needs. In social terms, agriculture can also be a source of freedom, knowledge, and social network and relationships.

In Thailand, role of agriculture during 1997 financial crisis was widely discussed. While financial, industrial and service sectors were plummeted into deep crisis, rural agriculture served as a social safety net by absorbing many unemployed people back from cities. According to a survey on Northeastern households whose members were laid-off during the crisis, about 40% of the returnees joined the agricultural sector, while many more received economic support from families, whose earnings relied on two main sources: general wage labor and agriculture⁴.

Rapid rice price surges in many parts of the world in early 2008 was another landmark for people to re-realize that agriculture was important for food security and any neglect can lead to devastating impacts. Due to unfavorable climate in several rice-producing countries, total rice production was less than expected while levels of rice stock in previous years were low. Some rice-exporting countries including Vietnam and India imposed a ban on rice export in fear of domestic food price spirals.

¹Paper presented at "Asian Regional Workshop on Free Trade Agreements: Towards inclusive trade policies in post-crisis Asia", co-organized by International Development Economics Associates (IDEAs), The Good Governance for Social Development and the Environment Institute (GSEI) and the International Institute for Trade and Development (ITD), 8-9 December 2009, The Twin Towers Hotel, Bangkok. (revised 20 December 2009)

²A livelihood comprises the capabilities, assets (including both material and social resources) and activities required for a means of living. A livelihood is sustainable when it can cope with and recover from stresses and shocks." (Chambers and Conway's, 1991, cited in www.eldis.org)

³World Resources Institute. 2007.

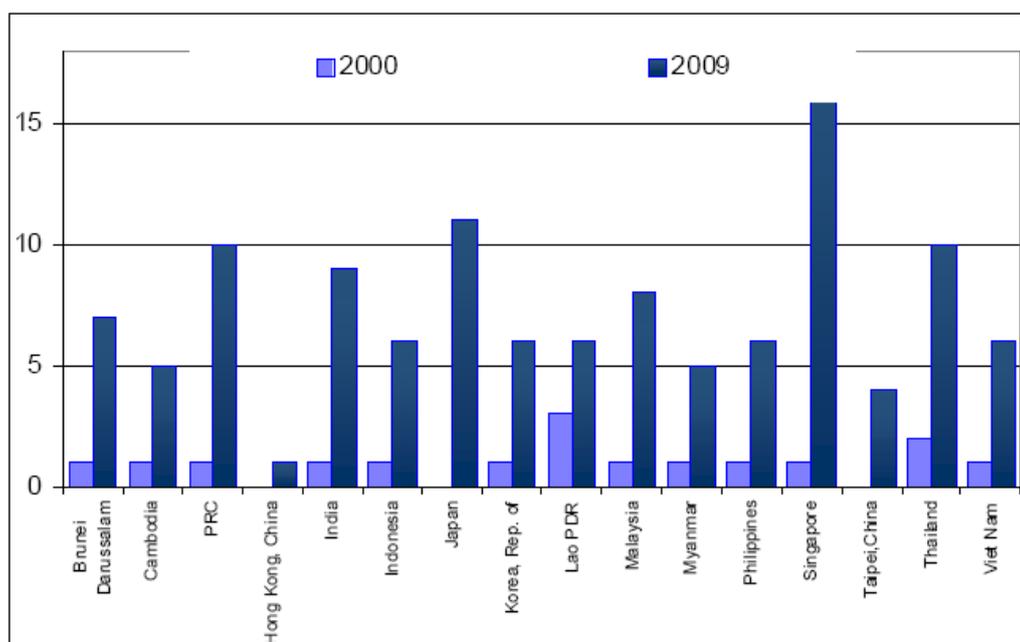
⁴Pitaksit Chayapute et al. 1999.

Some analysts blamed this action to cause further price shoot up; however, others saw this as legitimate action. Soon the crisis triggered social protests and even violence in a number of food-importing countries. Following the incident, a handful of oil-exporting countries, such as Kuwaitis, Saudi Arabia and Qatar started exploring farmlands in Southeast Asia and elsewhere for agricultural investment to assure their future food security.

Therefore, unlike other sectors, agriculture is multifunctional. It is a source of income, self-employment and social safety net for rural population. It is fundamental to food security although it can be argued that not all people in food abundant countries were secured food access. In addition, the way agriculture is developed is closely linked to biodiversity, natural resources, local knowledge and cultures.

2. FTAs in Some Selected Asian Countries

Figure 1: Growth of Concluded FTAs in Integrating Asia
(Number of FTAs by Country)



ADB = Asian Development Bank; FTA = free trade agreement; Lao PDR = Lao People's Democratic Republic; PRC = People's Republic of China.

Note: FTAs in Integrating Asia covers all FTAs with at least one integrating Asia member country.

Source: ADB's Asia Regional Integration Center, cited in Masahiro Kawai and Ganeshan Wignaraja, 2009.

From the above figure, obviously, there is a growing number of FTAs in many parts of Asia including in several developing countries where agricultural sector constitutes an important part of people's living. FTAs have potentials to affect agricultural sector via 4 main channels:

- 1) **Tariff reduction/ elimination:** In most cases, parties aim to reduce or eliminate as many items as possible and put as few items possible in sensitive list, which allows longer period of tariff reduction. Decision to liberalize or protect or delay any agricultural products depend on knowledge and understanding of negotiators as well as access to information and bargaining power of particular group of farmers. However, policy makers and negotiating teams are likely to believe that agricultural trade liberalization will

help boosting international agriculture trade and automatically pressure farmers and entrepreneurs to adjust themselves more efficiently to international competition. Bilateral safeguard measures for agriculture are usually put in the agreement text to ensure the public that they will be invoked temporarily if needed to mitigate serious impacts on their domestic markets from abrupt import flux.

- 2) **Standard regulation:** For many developing countries, Sanitary and Phytosanitary Standard (SPS) in developed partners prevent expected benefits from increasing agricultural export since standards in these countries are high and stricted. Demand of some developed partners such as the US can also affect internal regulation such as on genetically modified organism (GMO).
- 3) **Intellectual property rights (IPRs):** In FTAs with developed countries, demand for developing countries to shift their governing regime towards stricter intellectual property rights is evident. The IPR provision usually asked the other parties to expand the property protection to cover plants, animals and living organism.
- 4) **Investment liberalization:** Investment provision is usually integrated into a FTA as trade and investment are seen intertwined. Like trade liberalization, investment liberalization requires negotiators to negotiate sectors where principles of national treatment (NT) will apply and reserve sensitive sectors in either temporary exclusion list, sensitive list or general exclusion. Investment eligible for protection under the FTAs are also widely defined, including profits, intellectual property rights, license authorization, permits, etc.

3. **Impacts of FTAs on livelihood and food security in agricultural sector**

Agricultural sector does not exist in isolation, but closely linked back to natural resource such as water, soil, seeds and biodiversity. When the production is directed to the market, there are also issues of food supply, market entry, price and bargaining power involved. Therefore, what happened at each of the spectrum will impact one another. (see figure 2)

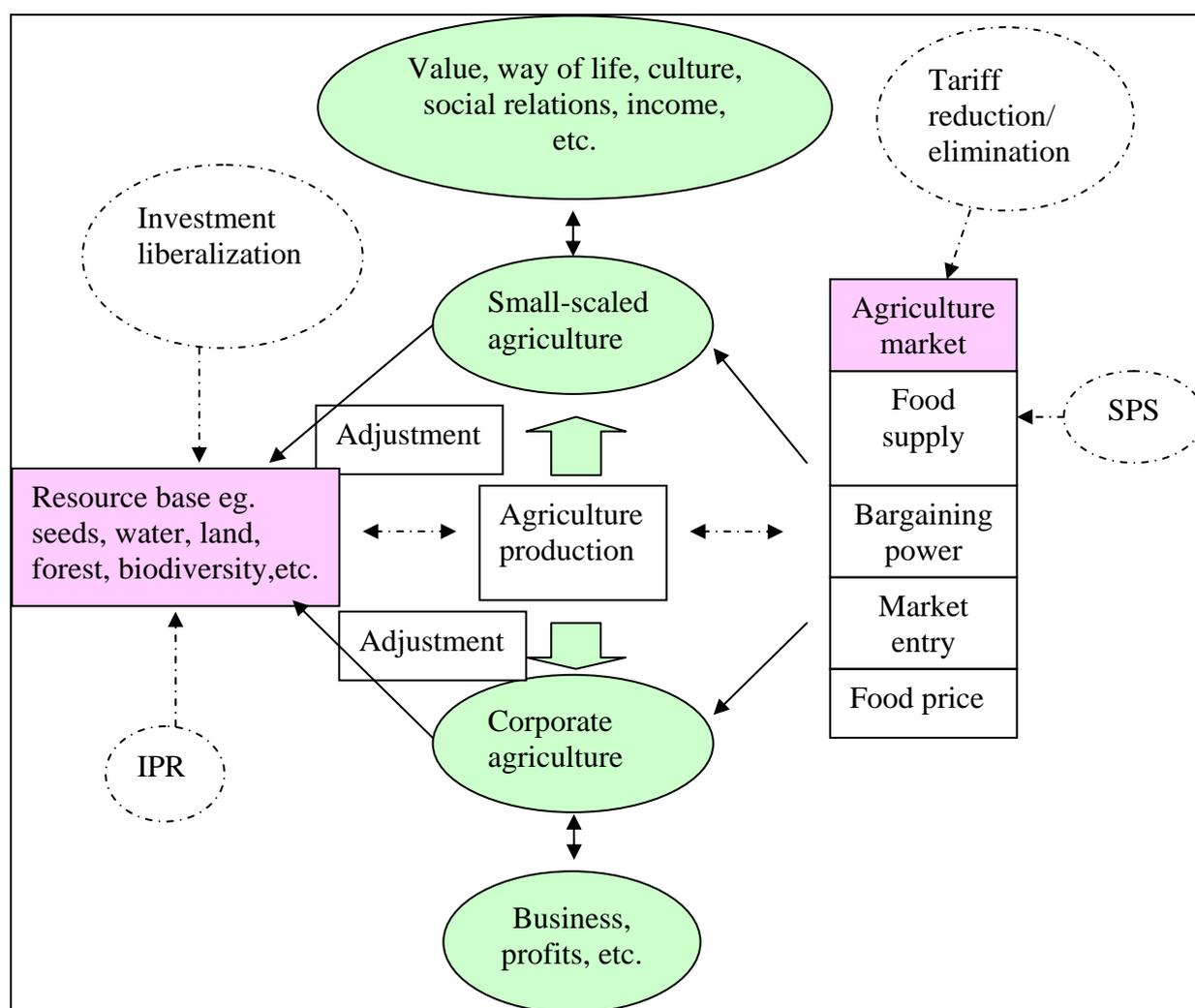
When discussing about situation of agriculture either at national or regional levels, one must additionally distinguish between different players in the supply chains- corporate, middlemen and small and medium farmers- so that impacts on them and their responses to a particular situation are clearly understood under their contexts and current market structures.

Traditionally, farmers are producers of food and other agricultural products by utilizing natural resources, labor, skills and knowledge plus their investment, either from their own saving or financial loans. But some farmers are poorer than others. Usually they are landless farmers who need to rent other people's land or become daily-waged agricultural workers. Farm products are usually directed to local middlemen or brokers, who sometimes provide farmers loans and factors of productions with tied conditions, before distributing to larger national suppliers. These people will then sell the products to the markets. Under this market-oriented structure, most farmers are price takers. Their bargaining power is low except in rare circumstances such as in very early or late season or during period where supply is shortage. A need to respond to market demand but no direct access, dealing with

easily perishable products and being indebted are major factors contributing to this low bargaining power.

In modern days, corporate has increasingly taken a dominant share in controlling production side. Agriculture by corporate is usually at larger scale and have direct market access to national markets or external markets. Many corporate are supplied agricultural products by local middlemen while others may have direct contract farming with farmers. To owners and people working in corporate, agriculture is just an economic sector and their main concerns are about loss, profits and financial gains rather than being an integral part of their livelihood.

Figure 2: Relationships between agriculture, natural resource and market; and where FTAs' impacts take place



How FTAs affect livelihood and food security? : Experiences from Thailand

1) **Tariff reduction/ elimination disrupts farmers' domestic markets and do not yield the export promise⁵:**

⁵ Detcharat Sukkarnert et. al., 2008.

Domestic agricultural producers are traditionally protected by quotas and tariffs. As import barriers are lowering, middlemen have more options to source and manage their agricultural supply via domestic production or/ and import to maximize profits. In some cases, actual tariff reduction may be very low or insignificant but psychologically, trade liberalization policy and additional government's promotion signals traders and middlemen towards external sources of agricultural supply. In coupled with taste and sometimes nutrition indifferences of consumers, cheaper and nice-looking products from abroad are easily marketed and preferred. Tariff reduction/ elimination do not only affect domestic prices but also undermine market's demand for the products, hence lowering or even closing market access for some farmers.

Consequently, market-oriented farmers are negatively affected, particularly during immediate period and the following years, considering that most of them are not well-informed about the policy and are not ready to adjust their production to in response to the changing market environment. But the most vulnerable is landless farmers and agricultural wagers who have almost no assets to cope with the situation while bills are delivered and debts payment is due. For domestic corporate, market disruption as a result of import can also be felt but they are more equipped with resources and capital to adjust to changing markets, such as converting raw vegetables into a pack of prepared materials for cooking.

Not all farmers are put in the losing side when negotiators projected outcome of FTAs since a number of farmers were anticipated to benefit from lowering trade barriers and wider market access. However, in reality, their market access and prices continue to depend on middlemen who also have to struggle with increasing competitors in the newly liberalized markets. Moreover, with safety standards and other non-tariff barriers applied, agricultural export may not increase as anticipated. As a result, there is no guarantee that benefits from trade liberalization will pour down to small farmers.

2) Intellectual property rights, investment liberalization and protection together can intensify monopoly of natural resource and discriminate against small farmers:

In general, negotiators are unlikely to offer agriculture for investment liberalization due to its sensitivity to security issues. But in some cases, this did happen⁶. Problems with investment liberalization in agriculture lie in unlocking obstacles for corporates to have a direct access to food resource base which are fundamental to not market-oriented farmers but subsistence farmers and people who are primarily natural resource-dependent, for example, forest people and indigenous people. Given interests of most governments on monetary returns, natural resources important to agriculture such as water and land can be easily given away to corporate investors at the cost of farming families and local communities' rights, therefore worsening conflicts which might already exist between people, government and investors.

Another problem with investment provision comes in the form of investment protection. According to most FTAs, hosting governments have obligations to act or

⁶ For example, Thailand was planning to liberalize plant cultivation, propagation and breeding under the ASEAN Comprehensive Investment Agreement (ACIA) for ASEAN investors but due to civil society's protests, the plan was now put on hold.

they will be sued in international arbitration when “foreign investment” under the definition is interrupted in their territories. Particularly important to agriculture is an issue of intellectual property rights. Together with IPR provision, plants, animals and living organisms in biodiversity-rich countries can be privatized into investors’ property. This situation can lead to higher cost of production for market-oriented farmers as a result of patents; threaten the existing sharing of common biological resources in local communities; and undermine farmers’ capacities to move towards environmental and social-friendly agricultural systems.

3) **Safeguard measures are inefficient to protect farmers:**

At global level, only a few safeguard measures are implemented and number has been decreasing over the past few years⁷. At bilateral/ regional FTAs, safeguard measures are less frequent invoked due to technical complication and limited period to prove serious injuries as a result of trade liberalization. To invoke safeguard measures, the responsible government units must follow the steps agreed in the FTAs. If the assessment reveals injuries in terms of changes in quantity, price, share, employment, loss/ profits, etc., duty can be raised to mitigate the impacts but in many cases only temporarily during transitional periods. An example of safeguard measure for agricultural products is Thailand-Australia FTA that contains specified volume trigger levels for the implementation.

Thailand has related regulations regarding safeguard measures. To invoke the mechanism, they required producer(s) with major proportion of the production to write to the authority⁸ or the responsible authority can invoke using data from the monitoring unit. But in practices, to prove that imports have been surged extraordinarily from FTAs are extremely difficult⁹. Thailand as a member of the WTO has invoked anti-dumping measures over 40 product items but never used safeguard measures at all during 1995-2007¹⁰. In 2007/2008, a group of garlic farmers in Chiang Mai province did a similar action that could lead to investigation of import surges by submitting a letter to the authorities and called for a measure to slow down garlic imports in some months. By their production size, they cannot be called major producers but the government could be hardly denied that they were indeed in difficulties. However, their call was not satisfactorily responded¹¹.

In the coming implementation of Asian Free Trade Agreements (AFTA) in 2010 when tariffs of almost agricultural products including rice in Thailand will be eliminated, safeguard measures are considered one of the options to mitigate negative impacts on farmers. Special safeguard mechanism (SSM), which is easier invoked without having to prove the injury is also listed. But as past experience shows, the actual implementation remains questionable.

⁷Paul Kruger, Willemien Denner and JB Cronje. 2009.

⁸Department of Foreign Trade. n.d.

⁹“Commerce advised high dose of safeguard measures to cope with cheap import flux“ Prachachart Turakij, 20 December 2007.

¹⁰Anchana Withayathammarat.2007.

¹¹ “Chiang Mai farmers called for government’s responsibility on dropping garlic prices”. *Prachatham Press*. 8 April 2008.

4) Food safety measures to protect consumers are inadequate:

Despite being a major food producing country, Thailand continues to face food safety problems. Each year, the Ministry of Public Health monitors and finds a level of contamination in both domestically-produced food and import food. As a major food exporting country, the government is likely to focus on improving food export to meet standards of the trading partners while largely neglect the standards of food import. Measures and capacities to protect domestic consumers from food import hazards are still inadequate. As trade is liberalized, evidences of food hazards were found not only from developing countries but also from developed countries.

Another concern is related to GMO products. The negotiating FTA with the US that required the country to follow the WTO's Agreement on Applications of Sanitary and Phytosanitary (SPS) Measures will increase risks of GMO import because the rule does not allow import ban based on precautionary principle.

5) Adjustment to free trade does not simply happen and farmers are pushed to join contract farming.

When farmers are unable to compete with import products, they are told to adjust themselves to the new business environment or simply change to do other jobs. But for many farmers adjustment means to continue growing the same crops because it is part of their lives and these very same crops had proved for years to provide them and their families with basic needs and some levels of luxury. For other farmers, adjustment means to join government programs or companies in contract farming. This is especially true in Thailand since contract farming is promoted by many policy makers and organizations because of their promises on market access and guaranteed prices for farmers.

In fact, contract farming may be favourable for farmers if contracts are negotiated on equal footing and there is a mechanism to regulate and control unfair practices. But experiences in Thailand and elsewhere showed that farmers are usually put in a disadvantageous position in both the production and marketing sides. In addition, the government ignores the jobs of protecting and empowering the weaker, leaving farmers and companies to negotiate on their own capacities. Farmers are often required to put high investment in advance and obliged to buy expensive production factors from contracting companies. Price guarantee is not always straightforward. While some farmers may be lucky enough to cover their expenses, other farmers do not find this option a better alternative. Furthermore, in some cases, there are negative impacts on environment, farmers' health and their social relations with others. In stead of becoming entrepreneurs, farmers become simply workers in their own land.

4. Concluding remarks

A number of people have argued that FTAs are not totally evil because they provided many economic gains despite some loss. Indeed, there are some people who can take advantages of or be able to adjust to this free trade game, particularly middlemen and large corporations, and others who lose or cannot cope with this changing business situation; however, more appropriate questions are rather on what basis the rule is determined and whether it is fair.

In an economic theory, it is assumed that people will always adjust themselves by shifting their resources to other prospective sectors, so farmers will finally be alright and agricultural sector as a whole will adjust according to the market signals. But this statement only considers agriculture purely from business point of view while ignores that small farmers face obstacles and limitation regarding ownership and security over resources, market entry and exit, and bargaining power, etc. Although some problems mentioned in this paper have existed even before FTAs, they seem to get worsen when trade liberalization applies.

Moreover, one should recognize that as liberalization ideology and practice are strengthened, not only the production and market sides are affected but the trend of natural resource commodification and monopoly are also on the rise, reducing available options for adjustment.

.....

References

- “Chiang Mai farmers called for government’s responsibility on dropping garlic prices”. *Prachatham Press*. 8 April 2008. [in Thai]
- “Commerce advised high dose of safeguard measures to cope with cheap import flux”. *Prachachart Turakij*, 20 December 2007. [in Thai]
- Anchana Withayathammarat. 2007. “Safeguard measure and protection of domestic industry”. Powerpoint presentation at a conference “Safeguard measures and protection of Thai industry”, 12 December 2007, Anoma Hotel, Bangkok. Department of Foreign Trade. [in Thai]
- Department of Foreign Trade. n.d. “Safeguard Measure: SG”. [in Thai]
<[www.dft.go.th/the_files/\\$11/level3/safeguard.doc](http://www.dft.go.th/the_files/$11/level3/safeguard.doc), accessed on 3 December 2009>
- Detcharat Sukkarnert et. al., 2008. *The Economic and International Relationship Research Project on the Changes in the Thai Fruit and Vegetable Agribusiness System after Thai-China Free Trade Agreement*. The research report submitted to the Office of Knowledge Management and Development. [in Thai]
- Masahiro Kawai and Ganeshan Wignaraja, 2009, *Asian FTAs: Trends and Challenges*. ADBI Working Paper Series, p. 7.
<<http://www.adbi.org/files/2009.08.04.wp144.aftc.fig.1.pdf>, accessed on 1 December 2009>
- Paul Kruger, Willemien Denner and JB Cronje. 2009. *Comparing safeguard measures in regional and bilateral agreements*, *International Centre for Trade*. ICTSD Programme on Agricultural Trade and Sustainable Development, International Centre for Trade and Sustainable Development, Geneva, Switzerland.
- Pitaksit Chayapute et al. 1999. “A Study on Economic and Social Conditions of Ultra Poor Households and Households with Unemployed Members as a Result of Economic Crisis in the Northeastern Region”. In Narong Petprasert (ed.), *Thai Poor People in the Crisis*, pp. 269, 273-275. [in Thai]
- World Resources Institute. 2007. “Earth Trends: The Environmental Information Portal”. <http://earthtrends.wri.org/searchable_db/index.php?step=countries&ccID%5B%5D=1&allcountries=checkbox&theme=8&variable_ID=205&action=select_years, accessed on 2 December 2009>