



# Tackling Agricultural Trade Costs in Asia and the Pacific

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## Abstract

The agricultural sector lies at the heart of the trade and sustainable development nexus. In the Asia-Pacific region, agricultural production provides livelihoods to close to half of the regional population. Agricultural trade is necessary to ensure affordable and sustainable access to food for all. However, agricultural trade costs are much higher than trade costs for manufactured goods. This report reviews agricultural trade costs in the region and presents data on four major cost components that drive them: Tariffs, non-tariff measures, trade procedures, and transport and logistics. An empirical model of agricultural trade costs is also estimated to examine the impact of various policy and other factors. The results confirm that trade facilitation, including paperless trade, is an important policy tool to reduce agricultural trade costs. Policy makers may utilize the recently adopted Framework Agreement on Facilitation of Cross-border Paperless Trade in the Asia and the Pacific to coordinate efforts in this area and developed harmonized and interoperable paperless trade systems for agricultural trade facilitation. At the same time, they may establish national trade and transport facilitation monitoring mechanisms to streamline the business processes associated with import and export of strategically important agro-food products.

Key words: agricultural sector, agricultural trade costs, trade policy, tariffs, non-tariff measures, trade procedures, transport and logistics, trade facilitation, trade process analysis

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## Abbreviations

APEC	Asia-Pacific Economic Cooperation
ASEAN	Association of Southeast Asian Nations
AVE	Ad valorem tariff equivalent
BPA	Business Process Analysis
DB	World Bank Doing Business Indicator
EU	European Union
ESCAP	Economic and Social Commission for Asia and the Pacific
FAO	Food and Agriculture Organization
ICT	Information and communications technology
ICTSD	International Centre for Trade and Sustainable Development
IIED	International Institute for Environment and Development
IMF	International Monetary Fund
LPI	World Bank Logistics Performance Index
NTM	Non-tariff measures
OECD	Organisation for Economic Co-operation and Development
R&D	Research and development
SAARC	South Asian Association for Regional Cooperation
SPS	Sanitary and phytosanitary
TBT	Technical barriers to trade
TFA	Trade Facilitation Agreement
TPAD	Trade Process Analysis Database
UNCTAD	United Nations Conference on Trade and Development
UNRC	United Nations Regional Commission
USA	The United States
USAID	United States Agency for International Development
WEF	World Economic Forum
WTO	World Trade Organization

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## 1. Introduction

The Sustainable Development Goal “Zero Hunger” is listed among the top priorities on the global sustainable development agenda. FAO (2016) has projected that global food supply needs to increase by 60 percent to feed more than 9 billion people in 2050. Feeding mankind is not an easy task: simply increasing agricultural production is not sufficient to achieve it. International trade and global market access are also essential in ensuring affordable and sustainable access to food for all, especially as climate change makes agricultural production less predictable across locations.

“Trade is an excellent buffer for domestic fluctuation in food supply” (World Bank and IMF, 2012). Globally, there is no food shortage, so the problem lies in redistributing the agricultural products from food surplus countries at a reasonable price. In this regard, increased agricultural trade flows hold great potential in stabilizing food prices and ensuring access to food supplies and basic nutrition across the world.

However, international trade in agro-food products faces higher trade transaction costs due to three reasons: first, the perishable and heat-sensitive nature of agro-food products demands efficient infrastructures, such as quick handling and cold storage facilities, both behind and at the border; second, the agricultural sector has a direct impact on food safety and security, hence policies and regulations governing agricultural trade tend to be more stringent, which entails more compliance procedures for cross-border trade; and third, inefficiencies in trade procedures drive up the trade costs, incurring a margin as high as 15 percent above the transaction value (Engman, 2005).

A detailed analysis on agricultural trade costs is imperative to understand where the potential bottlenecks are and how policies can facilitate trade and reduce trade costs. Studies suggest in addition to tariffs and duties, longer transit time, freight and storage charges, lack of regulatory transparency, filing paperwork, as well as inconsistent treatment at borders can all incur unnecessary costs on agro-food trade. It is widely recognized that trade costs negatively impact on trade connectivity, economic welfare, and development (WTO and OECD, 2015). Even modest reductions in trade transaction costs, such as simplifying border procedures, can translate into significant trade increase (OECD, 2005).

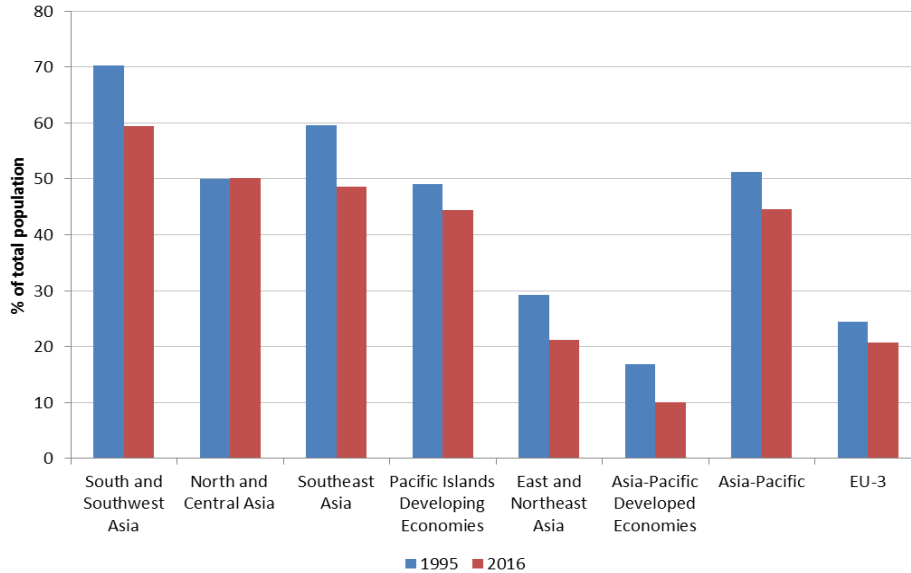
Trade facilitation has been proven effective in streamlining cross border trade procedures and reducing international trade costs. Targeted trade facilitation for agricultural sector can speed up the trading process, lower costs, improve access to food, and enhance food security. Especially in the Asia-Pacific region, where agricultural trade costs remain generally high, emphasis needs to be placed on agricultural trade facilitation if trade is to be fully utilized as a means of implementation of the 2030 Agenda on Sustainable Development.

In this context, the report starts with a snapshot of the agricultural sector in the Asia-Pacific region, and moves on to discuss agricultural trade costs in comparison to trade costs on manufactured goods. It further analyzes major elements of agricultural trade costs and their empirical impacts. The report concludes with policy options to further the efforts of agricultural trade costs reduction.

## 2. Agricultural sector in the Asia-Pacific region

Since the Asia-Pacific region is home to approximately 60 percent of the world population, a more productive and sustainable agricultural sector would help reduce poverty and hunger in many developing economies in the region. Despite the fact that the rural population has been declining from 1995 to 2016 (figure 1), more than 50 percent of population in South and South-West Asia, South-East Asia and North and Central Asia still reside in rural areas, where agriculture is the main economic sector.

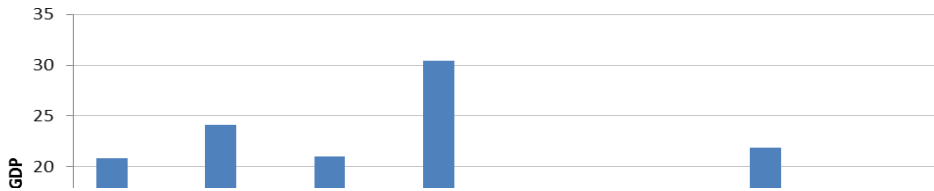
**Figure 1 Population in rural area as a percentage of total population, 1995 and 2016**



Source: ESCAP based on World dataBank by the World Bank, accessed November 2017.

In the past two decades, agricultural value added as a share of GDP has declined across the board (figure 2). In 1995, value added by agriculture on average accounted for 22 percent of GDP in the Asia-Pacific region, while in 2016, this share was 13 percent. The trend was especially pronounced in North and Central Asia, where agricultural value added as a percentage of GDP dropped from 30 percent to slightly above 10 percent during the period. Nevertheless, compared to developed economies in the region (Australia, Japan, and New Zealand) and EU-3 (France, Germany and United Kingdom), agricultural production was still high in developing countries in the Asia-Pacific region, generally above 10 percent of GDP in 2016.

**Figure 2 Value added by agriculture as a percentage of GDP, 1995 and 2016**



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