I. Overview of the Agricultural Trade in Asia and the Pacific Region

A. Introduction

Over 900 million people in the Asia-Pacific region live on less than $1.25 a day (ESCAP 2010), making the region home to more than two-thirds of the world’s poor. Most of the region’s poor, for whom agriculture is the primary source of livelihood (FAO 2009), live in rural areas (ADB). Agriculture accounts for a quarter of the gross domestic product (GDP) of Asia-Pacific’s developing countries and employs about 60% of the region’s working population (ESCAP 2008). ESCAP research (2008) shows that improving agricultural productivity could pull 218 million people out of poverty in this region. It can bring investment opportunities for the private sector, and be a driver for boosting agriculture-related industries. The World Bank (2007) estimates that GDP growth originating in agriculture is at least twice as effective in reducing poverty as GDP growth originating outside agriculture. These figures indisputably show the importance of agriculture in reducing poverty.

Export growth in agriculture contributes to the modernization of production practices, the expansion of food processing industries and boosts other value-added industries along the supply chain. In the process, it creates employment opportunities for farmers and other supply chain actors. Participation of Micro, Small and Medium Enterprises (MSMEs) in various supply chain functions is also positively influenced by export growth. Agro-imports are also complementing the food deficit in many developing countries in this region. Although contribution of agriculture to GDP in the Asia-Pacific countries is declining, the percentage of the population dependent on agriculture remains high, making agriculture all the more relevant for these nations. So facilitating agricultural trade can contribute significantly towards poverty reduction in the Asia-Pacific region. It is thus a matter of urgent attention.

While agricultural trade is expanding in the region – as a result of population growth, changing food habits and growing demand for processed foods – it only accounts for 20% of global agricultural trade (2008). This suggests potential for growth. However, challenges remain in terms of facilitating trade across borders, and disparities between sub-regions are evident. For example, the World Bank’s Doing Business Report (2011) states that South Asian economies lag far behind the developed economies in terms of time and cost indicators for trading. On average, South Asian economies take 35 days to export one 20-foot container whereas East Asian and Pacific countries require 24 days to process the same. Central Asian landlocked countries also perform poorly in these indicators.
B. What are Agricultural Products?

Agricultural products\(^1\) have been broadly defined in this study to include (i) Perishable Goods, (ii) Cereals and (iii) Other Products. Commodities such as rice and wheat, vegetables and fruits, meat, dairy products, high-value processed food and all other food items that are sensitive to temperature changes and spoilage are included in these categories. With a few exceptions such as cut flowers and seeds, which figure in the Perishable Goods and Other Products categories, most agricultural products are \textit{agricultural food products}. Harmonized System (1996) product classification has been used to extract data from the United Nations COMTRADE database using the World Bank’s WITS online software.

\textit{i. Perishable Goods} – Perishable Goods are a significant part of total agricultural trade and draw special attention due to their high value and sensitivity to time and temperature changes. Perishable goods are mostly food items that are highly susceptible to spoilage (FAO/WHO 1993). FAO and WHO have gone one step further and defined Readily Perishable Food as “...perishable food that consists wholly or partly of milk, milk products, eggs, meat, poultry, fish or shellfish, or ingredients that are capable of supporting the progressive growth of microbiological organisms that can cause food poisoning and other food borne illness.” (FAO/WHO 1993)

For this paper, ‘Perishable Goods’ is defined as foods and non-food plants including flowers which can degrade over time and are sensitive to temperature changes (SITPRO 2009)\(^2\). Fisheries and crustacean products (HS 03) have been included since they are important for Asia-Pacific trade. The following HS categories have been used to extract data from COMTRADE:

02: Meat and Edible Meat Offal;
03: Fish and Crustaceans, Molluscs and other Aquatic Invertebrates;
04: Dairy Produce; Birds’ Eggs; Natural Honey; Edible Products of Animal Origin;
06: Live Trees and other Plants; Bulbs, Roots and the like; Cut Flowers and Ornamental Foliage;
07: Edible Vegetables and certain Root Tubers;
08: Edible Fruit and Nuts; Peel of Citrus Fruits or Melons;
09: Coffee, Tea, Mate and Spices;
16: Preparations of Meat, Fish or Crustaceans, Molluscs or other Aquatic Invertebrates;
20: Preparations of Vegetables, Fruit, Nuts or other parts of Plants.

\(^1\) The term Agricultural Product has been interchangeably used with Agricultural Goods in this paper. Agricultural exports refer to total exports value of the agricultural products. The term Agricultural Trade refers to import and export of Agricultural Products
\(^2\) The UK trade facilitation body SITPRO used that definition but excluded ‘non-food plants including flowers’. SITPRO is now non-operational
ii. Cereals – This includes rice, maize, wheat, barley and other cereals. The HS code for cereals is 10. Cereals feed a large share of the global population including both the rich and the poor; as such, they are a highly important agricultural commodity.

iii. Other Products– This sub-category includes animal or vegetable fats, sugar, cocoa, preparations of cereals, beverages, seeds and other mostly food products. The following HS codes have been used to extract data for this category:

01: Live animals
05: Products of animal origin, nes or included
11: Prod.mill.indus; malt; starches; inulin; wheat gluten
12: Oil seed, oleagi fruits; miscell grain; seed fruit
13: Lac; gums, resins & other vegetable saps and extracts
14: Vegetable plaiting materials; vegetable products nes
15: Animal/veg fats & oils & their cleavage products, etc
17: Sugars and sugar confectionery
18: Cocoa and cocoa preparations
19: Prep.of cereal, flour, starch/milk; pastrycooks’ product
21: Miscellaneous edible preparations
22: Beverages, spirits and vinegar
23: Residues & waste from the food indust; prep ani fodder
24: Tobacco and manufactured tobacco substitutes

C. The Status and Drivers of Agricultural Trade in Asia and the Pacific

1. A Transitioning Asia-Pacific Region

The Asia-Pacific is a region of contrast. It is an important player in the world with a quarter of the world GDP and trade originating in the region. It consists of several economies of various types and structures. Two of the world’s largest economies are in this region, namely China and Japan, and much smaller economies such as Lao People’s Democratic Republic and Nepal. A handful of emerging economies, mostly from East and Southeast Asia, are growing faster in trade also. There are evermore investment destinations in the region. Agricultural mechanization, modern production methods and high-yield crop varieties are replacing traditional practices of agriculture.

The heterogeneity of Asia Pacific countries is also reflected in the Doing Business Indicators which serve as one benchmark for the country’s approach to trade facilitation. Singapore ranks first in overall ease of Doing Business and ease of Trading Across Borders indicators while Lao People’s Democratic Republic ranks 165 out of 183 economies (World
Bank 2011). In Singapore, to trade one standardized container costs around $450 whereas for the Lao People’s Democratic Republic, the cost is around $2,000. However, the diverse structure of the economies and the availability of resources provide plenty of opportunities for growth. Many economies in the region are transforming, getting more diversified and opening up to trade. This implies a smooth integration into the regional and world economies and demands a range of cross border flows of trade, investment and technology. Further steps are expected in trade facilitation which would ensure goods can move across borders more easily and would yield win-win outcomes.

Share of agriculture in national economy

The share of agriculture in the Asia-Pacific countries is not uniform (see Fig I). The poorer economies in this region have relatively higher share of agriculture in GDP in comparison with the rich economies. Data from FAO (2009) shows that the least developed countries in the region have on average 34% of their GDP coming from agriculture. Whereas, developed nations such as Australia and Japan have minimal share of 2.4% and 1.5% respectively. Many countries in the region have significant socio-economic implications for agricultural trade, as a high proportion of the population is dependent on the sector. The proportion of population dependent on agriculture sector is relatively high particularly in the Asia-Pacific compared to the rest of the world, Livelihoods of half to three quarters of the

Figure I - Contribution of Agriculture to GDP in Selected Asia-Pacific Countries

Source: FAO 2009

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3 Except Maldives (no data) and Pacific island countries

4 This is based on FAO list of Asia-Pacific countries, which mostly excludes few Pacific island and Central Asian countries.
total population in developing countries including a number of LDCs such as Nepal, Lao People’s Democratic Republic and Cambodia depend on agriculture (see Fig II). The two emerging countries, China and India are also part of this list. The chances of enhanced dividend of growth to the larger section of the population depend mostly on the developments in the agricultural sector.

**Figure II: Agricultural Population as Share of Total Population in Selected Asia-Pacific Countries**

![Bar chart showing the share of agricultural population in selected Asia-Pacific countries]

*Source: FAO 2009*

**High import growth**

Comparisons of total agro-trade value in real terms among Asia-Pacific, the European Union and the United States of America will only show the large gap among these regions. However, it does not show the acceleration of growth that is taking place in the Asia-Pacific region. The Asia-Pacific region has shown some great strides in accelerating its trade growth in the last decade, influenced by a number of factors. Population growth, change in dietary practices, increased disposable incomes and changing commodity prices in some emerging economies are a few factors that some suggest, have contributed to such growth. Although slower than before, population growth particularly in the least developed countries is quite high. As income increases, people tend to opt for high-value food items, often translating into a market for high-value processed food. In markets in the European Union and the United States, dietary change also means consumers are opting for healthier foods, such as organic products and food with traceable supply chain histories. In addition, food demand increases faster in poorer countries with increasing incomes since most of the income goes to purchasing food items.
Agricultural imports have grown more rapidly in some Asia-Pacific countries than in others. For example, Japan and China ranked 4th and 13th in terms of average annual agricultural imports in the world during 2000-08. Based on the indices relative to the import value, imports of agricultural products in the top 10 Asia-Pacific countries grew at an average annual rate of 12% from 2000-2008; the corresponding figure for top 50 importers of the World is 13%. The main Asia-Pacific economies that influenced the most to this growth of course consist of China, followed by the Russian Federation, India, Malaysia, Thailand, the Republic of Korea and Japan among a few others. During 2000-08, import growth-trend of China, Russian Federation and India have surpassed the European Union and the United States. (see Fig III).

It is important to note the growth of the three fastest growing Asia-Pacific countries in terms of agricultural imports: China, Russian Federation and India. After accession to the World Trade Organization in 2001, China’s agro-trade has grown steadily. Agro-imports have been increasing and have made China a trade-deficit country in agriculture since 2004. It rose more than five-fold during 2000-08. This shift is partly due to greater import of land-intensive products such as oilseeds and, greater demand and price hike of cereals. The Russian Federation has also experienced huge import growth during 2000-08 especially with large meat or meat-based products. With a continuous lack of support for the livestock

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5 Top 10 Asia-Pacific (ESCAP members) importers by annual average 1998-2008
6 Top 50 importers of the world by annual average 1998-2008
industry (lack of feed availability), imports of meat and other agricultural products began to increase. This along with consumer exposure to global products made the Russian Federation a big importing country (Liefert 2009). India’s agricultural policy had centred mostly around ‘self-sufficiency’ until the 1990s, when trade liberalization started to play a role in augmenting international trade including agriculture sector (EC 2007). Since 2000, India’s agro-imports have grown steadily.

The import figures for other top importers in Asia and the Pacific increased sharply in the last decade also. During 2000-08 Indonesia, Malaysia, and Thailand saw an average growth between 13-14%, which places them among the 20 fastest growing import economies among the major agro-importers in the world. Developing and emerging economies of the Asia-Pacific region are turning out to be major importers of agro-products. Commodity trade is a large part of agricultural trade and thus a means for maintaining food security for many developing countries. Cereal imports have more than doubled in the last decade. Analysts suggest a variety of factors behind this sharp increase. Firstly, there has been a change in trade structure since the 90’s, which forces countries to import more high-value products such as fish, fruits and vegetables. Secondly, emerging countries have been seeing a surge in per capita income, making high-value processed food available in these markets. FAO statistics point to a significant increase in the import volume of palm oil in East and Southeast Asian countries (2007). It is also argued that many developing countries are finding it hard to cope with increasing cereal demand: hence they import basic food commodities to fill the gap in their production. Some also point to trade liberalization during the last decade and price-hikes especially during the second half of 2000-10, that may have contributed to such a surge in imports.

**Agro-product export in the Asia-Pacific is growing**

The agro-export scenario in this region is a mixed one also. Compared to 2000, agro-exports grew more than two and half times in 2008. In the same year, Asia-Pacific’s agricultural export stood at about USD 227 billion, which was 45% of their agricultural trade (the rest being imports). Until 2008, export had been growing steadily. During the economic crisis (2009), Asia-Pacific’s agro-export intra-regionally receded much slower than with the rest of the world (~6% compared to ~14%). While the reduction in export due to economic crisis demonstrates the integration of the Region’s trade with rest of the world, the major exporters such as China, the Republic of Korea and the Russian Federation managed to accelerate their exports in this region. China supplied about 59% of its exports to Asia-Pacific countries in 2009. Three quarters of exports from the Republic of Korea were destined for this region also. Another emerging economy, India, managed to keep its exports on par both within and outside the region. Conversely, Southeast Asian exporters such as Indonesia, Malaysia and Thailand reduced their exports during the recession both within and beyond the Asia-Pacific region. Interestingly, Indonesia and Malaysia increased their intra-regional share, reaching up to two-thirds of their agro-exports in 2009. On the one hand, these
Figures indicate that the Asia-Pacific region’s exports are well exposed to global shocks. On the other hand, they indicate that some economies have successfully turned to their regional partners to avoid a complete fall-back. However, questions remain: How many Asia-Pacific countries are able to dent the regional export figures of agricultural products, in good or bad times? Who are the main players and what is Asia-Pacific’s export basket? The following discussion endeavors to address some of these questions.

**Few countries lead in exports**

Only a handful of Asia-Pacific countries have been sharing most of the agro-exports originating in the region. In 2009, the top 10 countries shared 87% of total Asia-Pacific exports with China topping the list. Southeast Asian countries held a major share followed by Australia, New Zealand and East and Northeast Asian countries. Only a handful of Asia-Pacific countries have been sharing most of the agro-exports originating in the region. In 2009, the top 10 countries shared 87% of total Asia-Pacific exports with China topping the list. Southeast Asian countries held a major share followed by Australia, New Zealand and East and Northeast Asian countries.

**Figure IV - Agricultural Export Indices for Selected Countries/Regions 2000-2008**

![Graph showing export indices for selected countries/regions from 2000 to 2008.](image)

*Source: COMTRADE 2011*

Asia-Pacific agro-exports have kept up with World agro-exports in terms of growth trends. Based on indices, the top 50 world agro-exporters have grown at an average annual rate of 19% during 2000-2008, the corresponding figure for the top 10 Asia-Pacific countries is 18 per cent. India, Indonesia, Malaysia, Russian Federation, Thailand and Viet Nam are among the top 10 contributors to such strong export growth. China, the largest agro-

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7 Data missing for most pacific island countries and Bangladesh, Brunei, Iran (the Islamic Republic of Iran), Nepal, Mongolia, Tajikistan and Turkmenistan. However, data from previous years of these countries do not change the basic composition of top exporting countries.
exporter of this region, ranks 10th among the 20 largest exporters to the world. Among the top 50 average exporters in the World, some Asia-Pacific countries grew their agro-exports significantly during 2000-08. The Russian Federation topped the list including India, Indonesia, Malaysia, and Viet Nam, as being one of the 10 fastest growing exporters in the world with a 15-23% growth rate (see Fig IV). In this period, agricultural production practices improved due to the emergence of large integrators that helped to improve production practices and export the produce. However, no Asia-Pacific least developed countries or landlocked developing countries were part of the top 50 average exporter list.

Asia-Pacific developing countries have low per Asia-Pacific agro-export when compared with their agricultural GDP with the exception of a few well performing Southeast Asian nations such as Thailand and Malaysia (see Fig V). Conversely, developed economies such as New Zealand and Australia have significantly higher per capita agro-export values. This only reinforces the fact that participation of developing nations including the least developed countries is low in agro-exports, with only a few players responsible for boosting the figures.

Figure V - Per capita Agro-export and Agriculture GDP Share in Selected Asia-Pacific Countries 2006

Source: FAO 2009 and COMTRADE 2011

The Asia-Pacific region has risen significantly as an agricultural producer region with limited proportionate reflection on its exports. Data from the FAO suggests that, some countries (for example, the Lao PDR and Myanmar) have made phenomenal growth in agricultural production with no corresponding reflection in exports. It was also reported that

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8 Russian Federation significantly increased its grains production during 2000-08. Liefert et. al (2009) suggests downfall of the local livestock sector and subsequent increase in grain production as a major factor.
least developed countries had the strongest production growth in the last decade, followed by the rest of the world and the BRIC\(^9\) countries. India is the second largest fresh vegetable (HS 7) producer in the World (FAO 2011). However, its share of global trade is just above 1 percent. Multiple factors including meeting domestic demand, poor productive capacities and overall, inadequate trade facilitation, are considered as causes for such a phenomenon.

*The Export basket is dominated by few product categories*

There has been no drastic change in the export basket in the region over the last decade. During 2000-08, few products dominated the export baskets of major exporting countries including fish and crustaceans (13%), oil and animal/vegetable fats (12%), cereals (10%) and meat and preparation of meat (7%) (Fig VI). About two-fifths of export items from Asia and the Pacific are high-protein products. Data shows a firm growth in the same product categories over the years. For example, the fish and crustaceans category increased at an average rate of 6% during 2000-08. Some categories had increased faster. The animal/vegetable fat category saw more than a five-fold export growth in 2008 compared to 2000, followed by Cereals, which was three times higher by 2008 compared to 2000.

*Figure VI - Asia-Pacific Agro-export to the World by Product Categories 2000 - 2008*

Source: COMTRADE 2011

\(^9\) Brazil, Russia, India, China
Export destinations are changing slowly

The export market for the Asia-Pacific region for the top five products are still dominated by the developed countries. Japan and the United States are common to major product categories (Fig VII). The major exception is the animal/vegetable fats category, where regional emerging economies such as China and India are major markets. The biggest market for the highest valued export product, Fish and Crustaceans, is Japan followed by the United States; the Republic of Korea; Hong Kong, China; and China. High per capita income of these developed countries induces demand for fish, seafood and fish/seafood based products. Consumer concerns regarding quality, fresh produce, all-year round availability and food safety concern put increased the price of fish and seafood products. Japan, for instance is well known for its demand for raw fish (De Silva 2011).

Figure VII - Top 5 Destinations for Asia-Pacific Major Agro-
exports Categories 2000-2008

Source: COMTRADE 2011

Export destinations for Animal/vegetable Fats and Oil are China, India, the Netherlands, Pakistan and the United States. The Preparation of Meat and Fish are sold mainly to Japan and the United States, followed by Hong Kong, China, the Republic of Korea and the United Kingdom of Great Britain and Northern Ireland. The major markets for Cereals are Malaysia, the Republic of Korea and Saudi Arabia apart from special category exports. The United Arab Emirates, Indonesia and Bangladesh are also among the top 10 destinations for Cereals. The trend suggests that processed foods are destined for developed economies whereas commodity products such as rice and wheat are consumed more by highly populated developing countries. Livestock producing countries also are destinations for commodities such as Animal/vegetable Fats for the production of animal/livestock feed.
2. Intra-regional Trade in the Asia-Pacific Region

Intra-regional agro-trade in Asia and the Pacific grew faster than trade with the rest of the world. In 2008, more than half of Asia-Pacific agro-products were exported within the region, followed by European Union (15%) and the United States of America (10%) (see Fig VIII). Asia-Pacific exports within the region increased from about $66 billion in 2004 to $118 billion in 2008 and accounted for about one-fifth of the world agro-exports. Intra-regionally also, Asia-Pacific agro-exports are led by a small number of countries. The top 5 countries share two-thirds of the total Asia-Pacific export (see Fig IX). China was responsible for a quarter of the Asia-Pacific’s total agro-exports to the region during 2004-08. Nonetheless, the intra-regional demand plays a crucial role for accelerating the export growth.

Source: COMTRADE 2011
Traditional markets are becoming tougher

The European Union is still the largest importer in the world followed by the United States of America. But further growth for agro-exports from Asia and the Pacific could come from demand in rapidly growing economies within the region in addition to the traditional markets of the European Union and the United States of America. The emergence of new and stricter standards for agricultural imports in European and North American economies makes Asia and the Pacific a more attractive export market. A recent example of this is the European Union decision to inspect 20% of the agro-product consignment exported from Bangladesh, which is up from the previous requirement of 10%\(^{10}\). Multiple private standards by big Multi-National Corporations (MNCs) and large retailers pose a continuous challenge to agro-exporters of the Asia-Pacific region. South-south trade or trade between developing countries could be strengthened to play important role in promoting agricultural trade as it has started doing so during the last decade (World Bank 2005). In addition, the global economic crisis has caused the agro-imports of the two largest and most established markets, the European Union and the United States of America, to fall by 18% and 10% respectively in 2009. This has made south-south trade even more necessary. The present trend of regional trade integration needs to be continued in order to supply to regional markets. The key to maintaining this growth trend is to tap potential opportunities intra-regionally.

Asia-Pacific competes for its own market

![Figure X - Top 10 Asia-Pacific Agro-importers from Asia-Pacific 2004-2008](chart.png)

Source: COMTRADE 2011

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\(^{10}\) Discussion from High-level Consultation on Facilitating Agricultural Trade in Asia and the Pacific, Bangkok, January 2011
Asia-Pacific countries are increasingly being integrated into the region’s market. Developed economies such as Japan and rapidly growing economies such as China are major markets for agricultural products within the region. Data from 2004 to 2008 provide a picture of the agricultural imports intra-regionally (see Fig X). Japan and China together represent a market for about 40% of agro-products sourced in the region. The Republic of Korea and Malaysia, as well as Hong Kong, China are also among the top five importers from this region. Together they import about three quarters of the agricultural goods exported by Asia-Pacific countries. Another emerging economy, India, sources 4% of Asia-Pacific imports from the region. In 2008, Japan’s agro-imports growth was moderately higher (14%) than in 2004 while China registered an astonishing growth rate of 91% during the same period. Although smaller in import-value compared to Japan, every emerging economy of Asia-Pacific’s major importing countries experienced noteworthy growth. For instance, imports in Malaysia grew by 91% between 2004 and 2008 those of India grew by 67%. Thailand’s agro-import value in 2008 was nearly double the figure of 2004.

3. A Closer Look at China and India

Both China and India are important trading partners in the Asia-Pacific region due to their sheer size and, rapid import and export growth. China is the second largest importer of agro-products, while India is ranked eighth. Additionally, China tops the agro-export list, where India is fifth. Both economies have large populations, are undergoing rapid urbanization and have an impressive GDP growth rate. These call for an in-depth look at their agro-trade performances.

China’s population for the past five years has been increasing at 0.5-0.6% annually and its food production has been rising by 4.17% annually since 2001 (World Bank 2010). Since 2004, China has become a net agricultural importing country and the deficit has been widening ever since. After accession to the WTO in 2001, a more liberalized trade regime has helped to increase China’s agricultural trade. China bases its exports on labor intensive products, going into more processed and value-added products rather than land-intensive products. This is explained by scarcity of farming land, and movement of workers to processing industries. Per capita arable land is only about 43% of the World average in China. More than half of its workforce is involved in agriculture. Even during the economic recession, China’s agro-import from the European Union has grown (EC 2010). The major export products match with Asia and the Pacific’s major consuming products including fish (15%); prep. of meat & fish (15%); prep. of vegetables and fruits (12%); vegetables (11%); and cereals (6%).

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11 World Bank defines food as something which is edible and has a nutrient value. For instance, coffee and tea are excluded because although edible, they have no nutrient value.
The biggest market for Chinese agro-products is Japan followed by Hong Kong, China; the Republic of Korea, Russian Federation and Malaysia. These countries account for 70% of the Chinese agro-export market with Japan alone buying 41% of the goods.

More than half of China’s agro-import in the Asia-Pacific region is sourced from Southeast and East Asian countries (2004-2008) (see Fig XI). Australia, India, New Zealand and the Russian Federation together share about one-third of agro-imports.

**Figure XI - China’s Top 10 Agro-importers from Asia-Pacific 2004-2008**

![Graph showing top 10 agro-importers](image)

*Source: COMTRADE 2011*

**Figure XII - China’s Top 10 Agro-import Categories from Asia-Pacific 2004-2008**

![Graph showing top 10 agro-import categories](image)

*Source: COMTRADE 2011*
China’s agricultural imports are mainly driven by increasing per capita income, which has brought changes into food consumption patterns. This has resulted in more imports of vegetable oils and fish or fish products and other high-value products. About 44% of China’s agro-import is categorized under animal/veg fat and oils, followed by fish & crustaceans, which accounts for 22% of agro-import (see Fig XIII).

India, the other emerging nation, has a population which has been rising by 1.3-1.4% annually and food production which has been increasing by 3.17% annually. India has more than doubled (136%) the proportion of its agro-exports sold to regional partners from 2004 to 2008. Bangladesh is the biggest market for Indian agro products with 15% share followed by Japan (12%), Malaysia (9%), Viet Nam (9%) and China (7%).

The major products range from Residues, food waste & fodder, followed by Cereals; Fish & Crustaceans; Coffee, Tea, Spices and Sugar & Sugar confectionary. A quarter of the export products consist of Residues and food waste & fodder, which are mainly purchased by Viet Nam followed by Japan (13%) for livestock industries. More than half of the Cereals exported by India go to Bangladesh followed by Malaysia (17%).

On the other hand, India’s agro-import experienced 67% growth from 2004-2008. Indonesia supplies the largest share, 46%, of these imports. Myanmar is the second largest supplier (11%) by a wide margin and is followed by Malaysia (10%), the Russian Federation and Australia (~5% each) (see Fig XIII).

![Figure XIII - India's Top 10 Agro-importers in the Asia-Pacific 2004-2008](Source: COMTRADE 2011)
More than half of India’s agro-imports fall in the Animal & Vegetable Fat and Oil category (see Fig XIV). This reflects the vast demand for cooking oil (Palm oil in this case) necessary to prepare food products in India.

D. Market Potential for Agricultural Products

Agricultural trade remains as a major area of focus for policy makers for multiple reasons. The first is the rising global population. It is expected to lead the food demand increase more than proportionately by 2050. Secondly, the concern of food security for the poor remains very real due to the global price volatility for agricultural commodities. The global price rise in 2008 followed by a drop in 2009 due to the economic crisis is the most recent example of this phenomenon. Many of the least developed countries in this region strongly depend on food commodity imports and price dynamics affect consumers. Agricultural trade often suffers from agricultural subsidy and export restrictions by some countries. Thirdly, changing dietary habits also contributes to the significance of the matter. Due to increase in income, a growing number of people consume meat and other sources of protein, vegetables and high-value food products. Rapid urbanization plays a vital role in increasing demand for processed food, and fruits and vegetables by reducing time available for cooking or maintaining a healthy diet. The Asia-Pacific region is host to all these factors given the presence of developed economies such as Japan and Australia; fast-growing emerging economies such as China and India with big urban populations, and highly
populated least developed countries such as Bangladesh, Cambodia and Nepal. All these factors provide an opportunity to accelerate intra-regional trade.

E. Why Facilitating Agricultural Trade is Crucial?

*Trade Facilitation* is defined as the set of measures that reduce barriers to the movement of goods between buyers and sellers throughout the international supply chains (ESCAP 2010). A broader definition includes consideration of the environment in which trade transactions take place, including the transparency of regulatory environments, harmonization of standards, and conformance to international or regional regulations. Facilitating agricultural trade could result in multiple long term and short term gains for an economy.

**Figure XV - Long Term Impact of Agricultural Trade Facilitation For Poverty Reduction**

<table>
<thead>
<tr>
<th>Trade Facilitation Measures Applied in Agricultural Supply Chains/Sectors</th>
<th>Improved Trade Policies, Efficient Trade Processes</th>
<th>Reduced Transaction Cost, Improved Trading Environment</th>
<th>Improved Trade Competitiveness</th>
<th>Greater integration of MSMEs including Producers</th>
<th>Greater Income for Poor</th>
</tr>
</thead>
</table>

Source: Author’s own illustration

The immediate purpose of Trade Facilitation is to reduce inefficiencies during the movement of goods from factory gate to the port. Efficient processes should result in reduced transaction costs for the trader. Improved processes and reduced transaction cost should lead to enhanced trade competitiveness. This allows more participation of firms in agro-supply chains creating more employment for the poor and ultimately contributing to poverty reduction in the country.

1. Impact on Poverty Reduction

Facilitating agricultural trade contributes significantly to poverty reduction in an agricultural supply chain since millions of farmers, petty traders and other small and medium enterprises are part of the chain. *The Agricultural Supply Chain* can be broadly defined as the activities related to the movement of agricultural products by road, sea and air, starting at production and ending at consumer level.
Producers of agricultural goods are at the bottom of the supply chains. They supply the export products or main ingredients for export products. Almost 70% of rural poor depend on agriculture for their livelihood. They numbers in the millions in the region, are mostly poor and vulnerable to economic shocks. A large number of intermediaries such as wholesalers who handle large volumes of products are next in the chain. Most of them could be considered as Small and Medium Enterprises (SMEs). Many are producers also. SMEs are growing in number in this region. Exporters are the key players in the chain as they perform international trading. They employ a large number of people and relay market demands to the wholesalers and finally to the producers. Many exporters have integrated supply chain operations including storage facilities close to factories and own transportation. In some cases, they maintain suppliers’ contract with wholesalers or contract farming with the producers. The potential impact for poverty reduction through promotion of agricultural exports and thus, production and related supply chain activities is significant.

2. Developing Agro-export Competitiveness

Trade facilitation for agricultural products can tremendously develop export competitiveness of Asia-Pacific countries, which are looking to expand their exports. The gains are realized both at the micro and macro levels for an economy. At the micro level, enterprises gain by saving on transaction costs. Among agricultural products, the perishable supply chain is considered the most complex and hazardous, in terms of spoilage and goods movement. (SITPRO 2009). Predictability of time and procedures for perishable goods is highly desirable due to the limited shelf-life of the items and associated financial loss. SMEs are major sources of rural (and non-rural) employment. They are more prone to economic shocks. A study focusing on Asia-Pacific Economic Cooperation (APEC) economies shows that cutting the days to clear exports by half could enable a small to medium-size enterprise to increase its share of exports in total sales from 1.6% to 4.5% (WB Doing Business 2011). Ensuring efficient and predictable trade procedures would allow SMEs to avoid unnecessary risks and associated costs. It encourages SME participation in international trade, especially in agricultural sector where there is great intra-regional export potential.

At the macro perspective, if each South Asian country equaled the performance of the region’s top performer in terms of trading costs and delays (Pakistan has the lowest costs and India the best Logistics Performance Index), that would reduce trade costs by over 17% and improve in LPIs by 0.72, resulting in an increase in the value of agricultural trade of 18% and 27% respectively (Weerahewa 2009). Experiences in Singapore indicate significant reduction in processing time and costs by introducing ‘single window’ environment. It is reported that Singapore importers and exporters have gained 1% of GDP through the use of e-documentation (SITPRO 2009). Studies show that each additional day that a product is delayed prior to being shipped reduces trade by at least one percent and delays have an even greater impact on developing country imports and exports of perishable agricultural products (Weerahewa 2009).
3. Less Tariff Barriers but no Corresponding Growth

While the Tariff Barriers (TB) for agricultural goods have been reduced, for some, they are still considered high. TBs from European Union countries pose significant challenges to Asia-Pacific countries, especially least developed countries for exports to European Union. For example, MFN Applied Tariff on apples imported from China is around 10% depending on the FTA they have with others countries.

<table>
<thead>
<tr>
<th>Countries</th>
<th>Australia</th>
<th>China</th>
<th>India</th>
<th>Indonesia</th>
<th>Thailand</th>
<th>Viet Nam</th>
<th>Bangladesh</th>
</tr>
</thead>
<tbody>
<tr>
<td>European Union</td>
<td>13</td>
<td>5.92</td>
<td>13</td>
<td>5.92</td>
<td>5.92</td>
<td>5.92</td>
<td>0</td>
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<tr>
<td>Japan</td>
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<td>1</td>
<td>1</td>
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<tr>
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<td>20</td>
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<tr>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>United States</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Average Tariff</strong></td>
<td><strong>6.8</strong></td>
<td><strong>4.5</strong></td>
<td><strong>5.7</strong></td>
<td><strong>4.3</strong></td>
<td><strong>4.3</strong></td>
<td><strong>4.3</strong></td>
<td><strong>3.3</strong></td>
</tr>
</tbody>
</table>

*Source: TRAINS 2010*

In most parts of the world, tariff on Chinese Apples fell from 80% in 1992 to 10% in 2008. Tariffs on Chinese frozen and non-frozen shrimp decreased respectively by 54% and 24% during this same period, reaching quotas of 6.2% and 9%. However, tariffs continue to curb trade. Despite reduction of tariffs for some agricultural products, market access for developing countries has not improved significantly.

A major reason for not improving market access is high trade costs for agricultural products. ESCAP internal calculation shows that non-tariff trade costs are higher for agricultural products in this region (Fig XVI). Most emerging Southeast Asian nations such as Malaysia, Thailand and Viet Nam have between 100 to 150 percent tariff equivalent trade costs. South Asian countries such as Bangladesh, Pakistan and Sri Lanka; Southeast Asian countries like Cambodia and Central Asian landlocked countries such as Kazakhstan and the Kyrgyz Republic have close to 200 percent or more tariff equivalent trade costs.

The need for trade facilitation is mostly reflected in supply capacity constraints of the developing countries in the region. Inter-regional and intra-regional trade suffers from these constraints. Diverse technical regulations and sanitary and phyto-sanitary (SPS) measures imposed by governments form a major constraint. Moreover, many ‘behind the border’ issues restrain the developing countries of The Asia-Pacific region from taking advantage of tariff reductions. These include complex trade procedures, lack of technical capacity for meeting standards, lack of coordination between agencies for authorization or certification.
and so on. The impact of delays and additional cost to export can be very significant corresponding to the size of the sector. For example, Sri Lanka’s Tea contributes to about 16% of total export earnings. So the potential savings from these sectors would also be significant. Removing these barriers can contribute to export growth. And export led growth is highly important in employment generation and poverty reduction. Chapter II discusses these factors in detail.

Figure XVI - Agriculture and Manufacturing Non-Tariff Comprehensive Trade Costs of Selected ESCAP Countries with China

Source: ESCAP Trade Cost Database 2011