USING ENERGY RESOURCES TO DIVERSIFY THE ECONOMY: *Agricultural Price Distortions in Kazakhstan*

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The Caucasus and Central Asia

Kazakhstan's Economic History

* 1991- 9
* 1999 – today

* How to use the oil revenues:
  – I in physical and human capital
  – Diversification
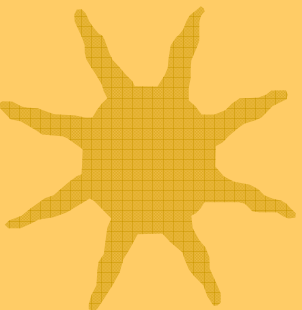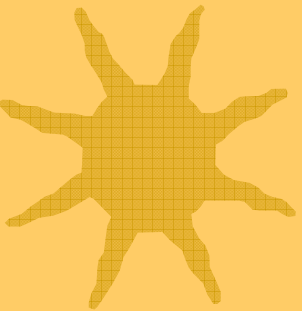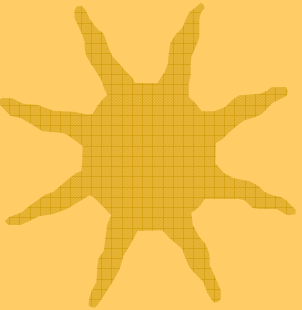* This paper focuses on one aspect of diversification - agriculture

OUTLINE

1. Review of Kazakhstan's economy and role of agriculture.
2. Estimates of distortions facing Kazakh farmers
3. Design of ag policies and their relation to other policies,
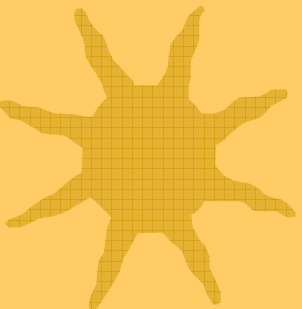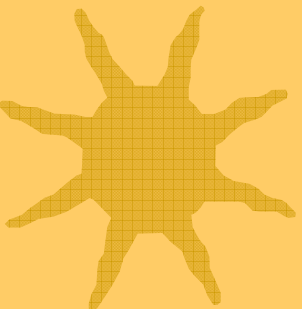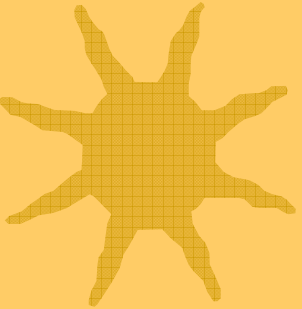   ★ in particular how to reduce trade costs
4. Conclusions

Contexts

* Liberal trade policy – ag support ***not*** through border measures

* High trade costs during 1990s
    * Is the discretionary power of officials being reduced?

* Supermarkets and emergence of value chains
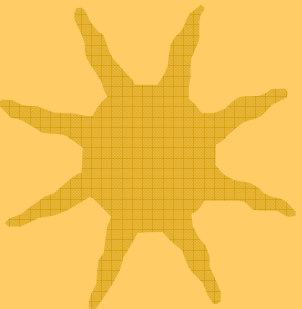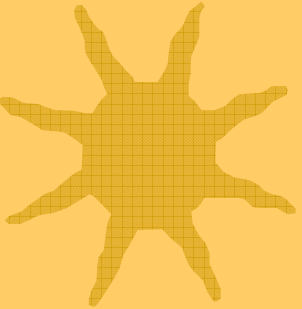
Agricultural Policy in Kazakhstan

* Neutral in 1990s – policymakers were elsewhere (no sectoral bias in tariffs) – subsidies cut in first half of 1990s

* Price liberalization – initially negative impact because input prices ↑ relative to output prices – but short-term. Some price support after 1999.

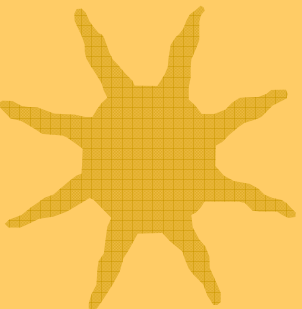* Subsidies very small in 1990s - ↑ after 1999, especially with 2003-5 AFP.
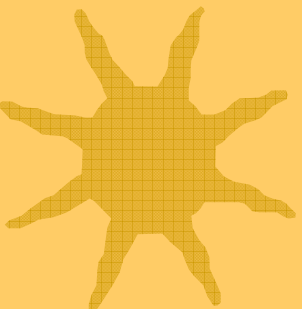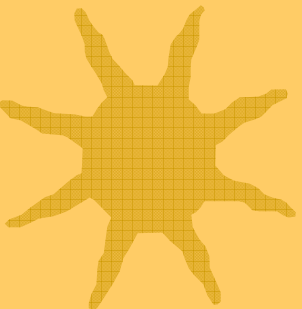
Measuring policy-induced distortions
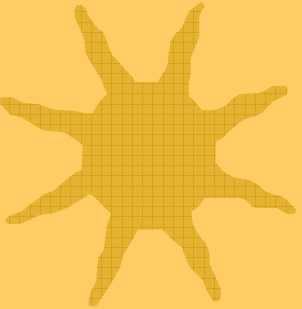
* Nominal & effective protection (Corden; Johnson)

* Use world prices -- Little and Mirrlees (1969)

* OECD producer support estimates (PSEs)

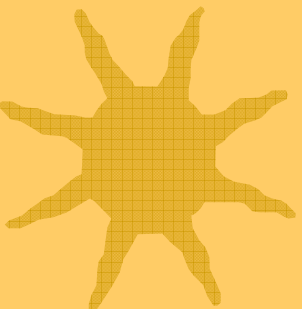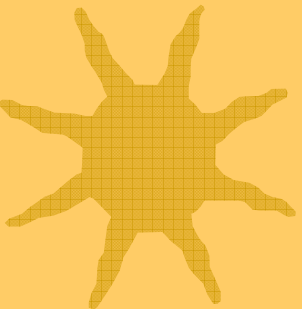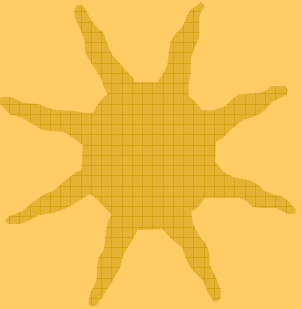 = (domestic price - border price).Q + budgetary transfers

PSE-type estimates – Version 1

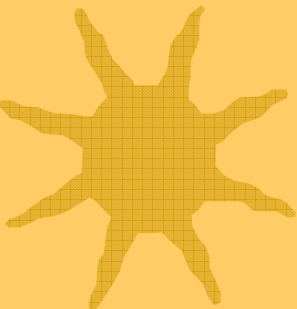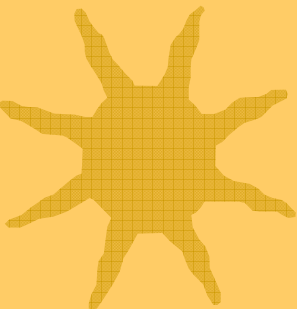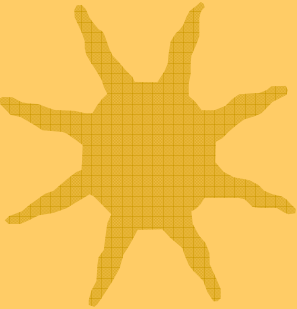Produced by FAO and WB for Agricultural Policy Assessment project

-- initial wheat estimates for 2000-4 are -10% to -28%

- this is not consistent with analysis of policy developments in Kazakhstan (especially the upturn in 2002-4)
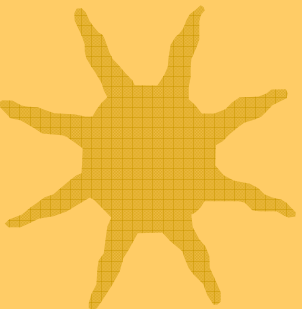
Producer Support for 2000-4

Wheat	-14	-22	-10	-11	-28
Barley	-6	-6	23	-3	-57
Sugar	6	8	26	30	25
Cotton	31	-13	37	39	-23
Beef	-60	-2	0	27	41
Mutton	-150	-5	17	25	34
Poultry	46	86	67	79	108
Eggs	20	14	-1	15	46
Milk	-2	-3	1	-4	8

World Bank Estimates
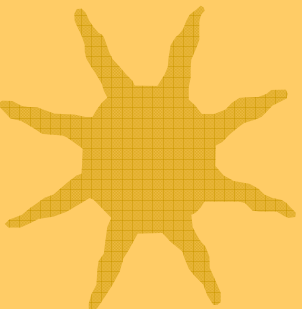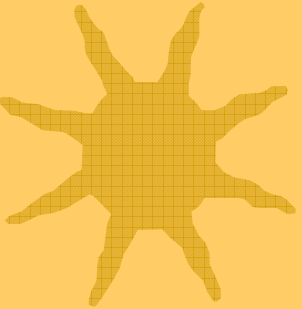
APA
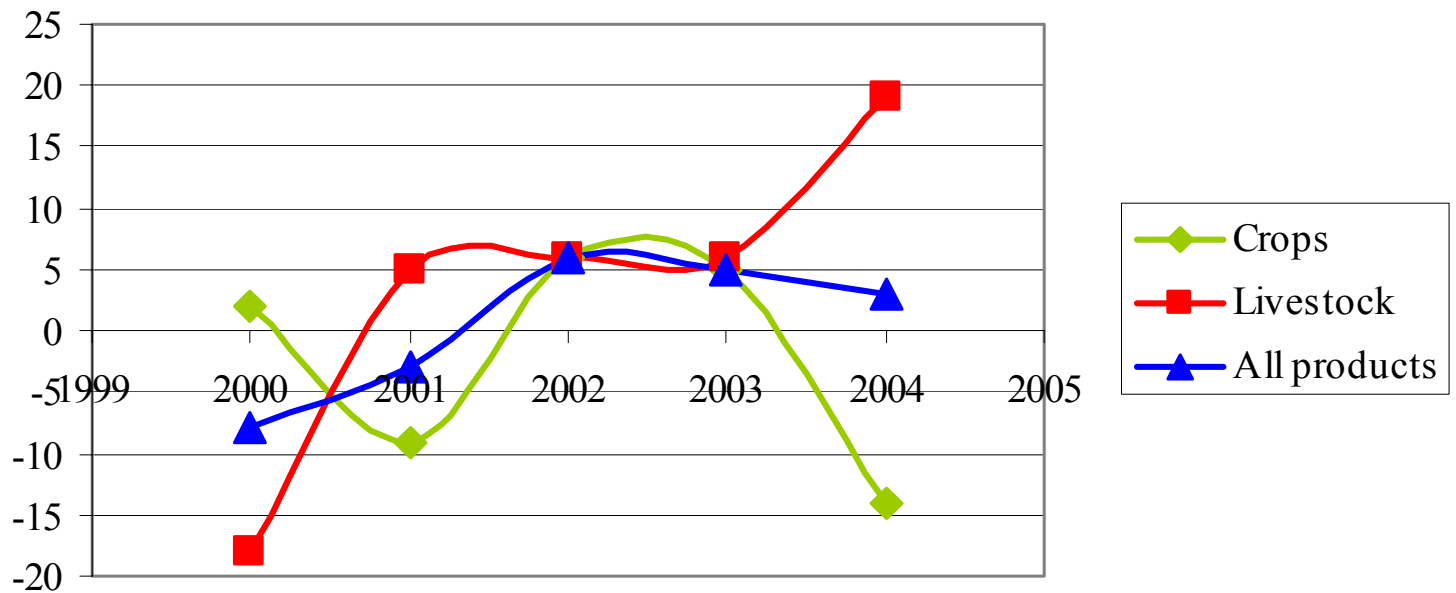
Question: Why is measuring PSEs hard in Kazakhstan?
Answer: difficult to define relevant prices

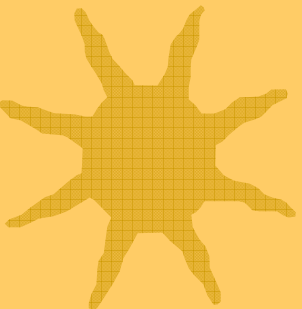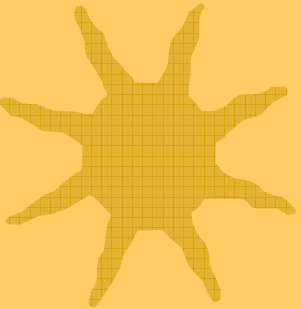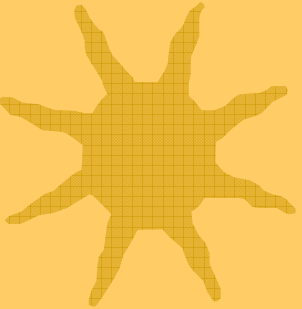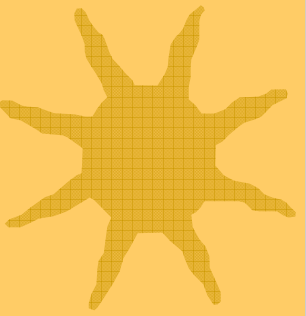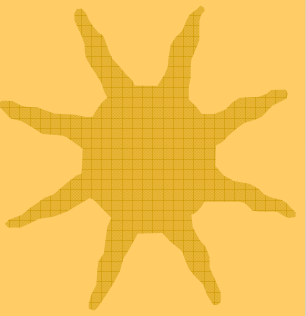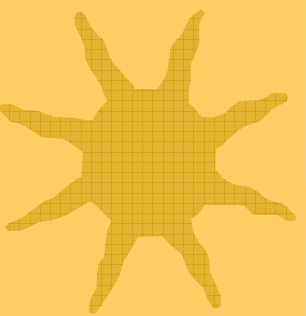* Even for a homogeneous product like wheat there is a large variation in reported prices
  – Which border? Which benchmark?
  – Which farm?
* Partly a problem of a large country,
* but also reflects the importance of costs between producer and end-buyer which are not border costs

Producer Support for 2000-4 remove outliers; revise wheat

	2000	2001	2002	2003	2004
Wheat	-1	-8	4	2	19
Sugar	-6	-3	17	21	17
Potato	8	-4	4	3	11
(crops)	1	-7	6	5	14
Milk	-2	-3	0	-4	8
beef	-61	-3	-1	26	40
pork	39	32	28	45	37
(live stock)	-5	-1	4	15	24

Alternative Estimates
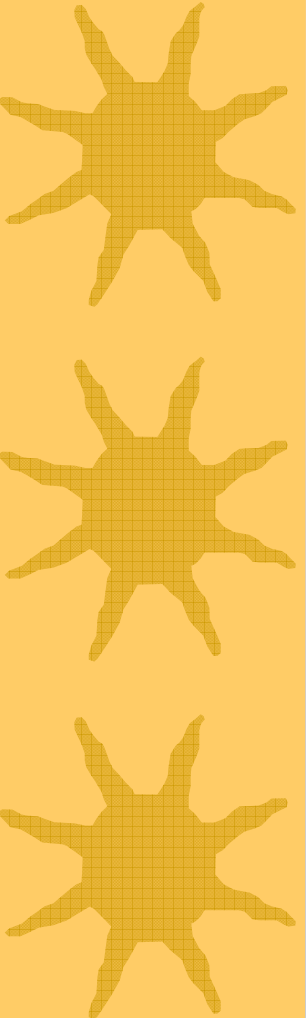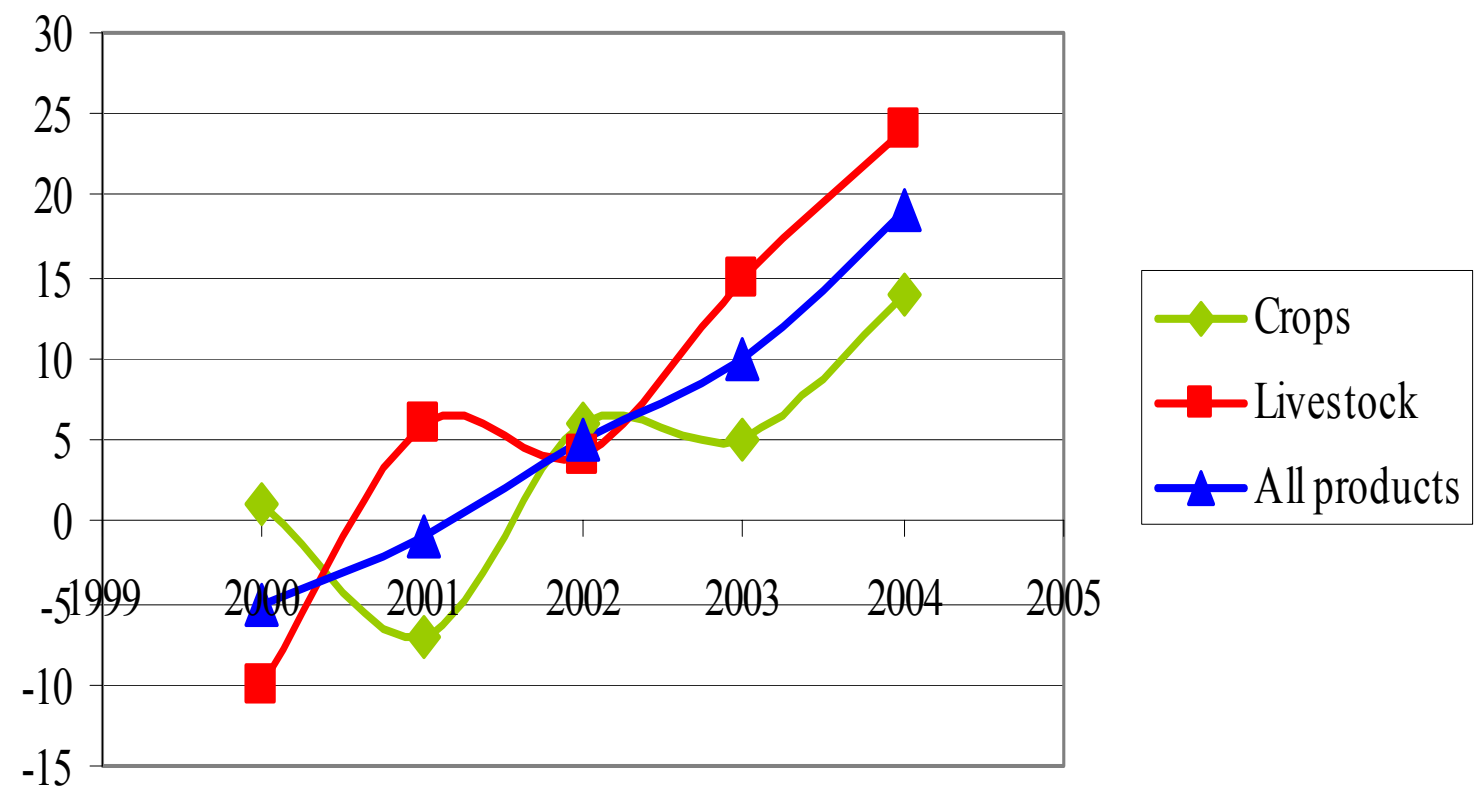
Revised Estimates

* Better capture what we know from policy description
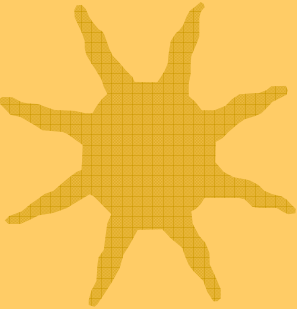 – Negative support in 1990s,
  – positive especially post-2003

Why are the 2000-1 PSEs negative?

* Calculations

  – dominated by price gap: unit values for border prices minus producer price

  (quality adjustments & transport costs are minor, as are subsidies)

* Explanations
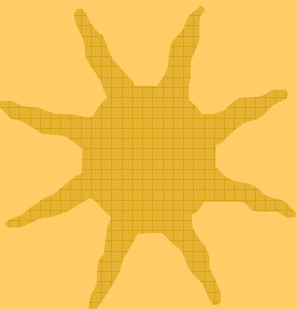 – trade costs are high due to poor hard & soft infrastructure

Trade Costs

Anderson & van Wincoop (JEL, 2004) - trade costs due to poor hard & soft infrastructure

- only indirectly a distortion against agriculture, but likely to hurt agriculture most (decentralized policy is implemented by local officials who impose taxes especially on dispersed producers, ie. farmers)
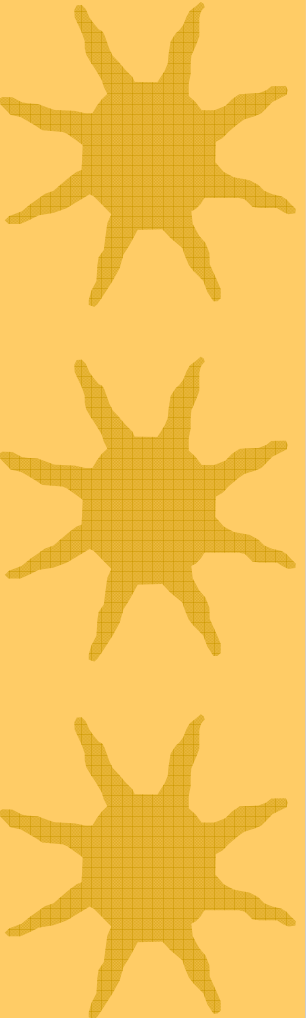
★ Can we break down the change in PSEs?

- More favorable policies
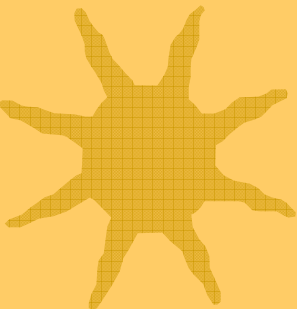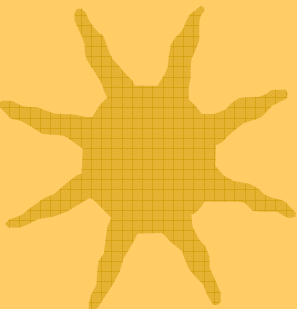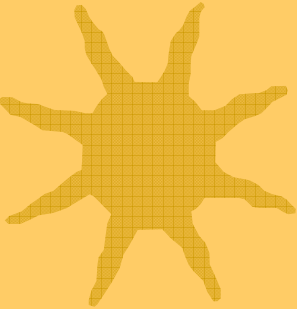- Lower trade costs
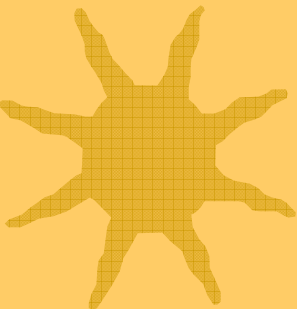
Impact of Diversification Policy

* PSEs suggest that change in ag policy impacted on farm incentives:
  - but it is difficult to pick-up impact of 2003-5 on ag output

* Is that because trade costs remain high and are especially onerous for farmers?

Conclusions

* Distortion measures such as PSEs have advantages over measures which only capture protection due to tariffs, but they are more difficult to measure.

* Trade costs other than border costs can be large and uneven (both spatially and across sectors)

* If Kaz wants to diversify, then trade costs need to be addressed