Introduction

Trade and Development

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Interest in the relationship between trade and development has existed since the birth of economics as a discipline. Adam Smith's theory of the division of labor and specialization emerged at the founding of the discipline, and we can easily interpret international trade, and the increase in efficiency which could result from it, as the division of labor on an international scale. If the wealth of nations is based on an increased degree of specialization and ever-increasing division of labor, so then does international trade act as both a main engine, and also a consequence, of overall economic development.

Such an interpretation seems to be supported by data from the last forty years indicating that international trade has in fact increased more rapidly than economic growth, and that the variations in the rate of GNP growth across countries have been positively correlated with the rate of growth of international trade. There is no reason to believe that this correlation does not also exist with agricultural growth, certainly in countries for which agriculture is one of the most important productive sectors in the economy.

Until the current Uruguay Round of negotiations, agriculture had been, in essence, exempted from the general discipline imposed collectively on all nations by the GATT. One of the main objectives of the current Round was to bring agriculture under the GATT discipline. From the start of the Uruguay Round, agriculture played a central role in the negotiations, and it was widely assumed that the Round would conclude successfully and significantly change the rules regarding international agricultural trade.

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The idea of this special issue of *Agricultural Economics* evolved out of an interest in the potential consequences of the Uruguay Round, particularly for agriculture in less-developed countries.

At the time of writing this introduction, however, it is not at all certain that the Uruguay Round will be successful. There have always been many impediments to liberalizing trade in agriculture, and agriculture continues to be the stumbling block in arriving at terms all parties can accept. This leaves us wondering whether this special issue should be published after all. The answer to that question is yes, in spite of the uncertainty, for several reasons.

First, the uncertainty regarding this Round is limited. For instance, the current stalemate hinges on whether the French will veto the European Community's agreement to reduce the volume of subsidized exports by 21% over the next six years. The uncertainty does not change the analysis of the implications of various outcomes. While we may not expect a full liberalization of trade to take place, we can project the impact of varying levels of protection reduction, including no change. If in fact the current Round failed to come to any agreement, we could be fairly certain that the likelihood of increasing protectionism would be great, and that this would have dire consequences for many food-exporting developing countries.

Finally, and more importantly, recent work, detailed in several papers in this issue, shows that the GATT outcome with regard to agriculture may not be as critical for the development of agriculture as is sometimes implied. We will address this further on in the introduction.

The remainder of this introduction is divided into two sections. In the first section, the background that led to the design of this issue is presented, as well as a rationale for the choice of topics which are covered here. In the second section, we discuss the relationship of trade and development, as pursued by both more-developed and less-developed countries, and the consequences of trade policies for development. This is done through the a posteriori presentation of lessons learned in the various papers presented.

BACKGROUND AND PRESENTATION

Discussions of international trade in agricultural products have been dominated by the dispute in the GATT negotiations among developed countries, particularly between the United States and the European Community. While it is important to point out that the agricultural negotiations of the Round cannot and should not be summarily characterized as a conflict between the U.S. and the European Community concerning agriculture, nonetheless the lack of agreement between these two players is
more than likely the single most important snag preventing the conclusion of the Round.

A new influence has, however, emerged in the Uruguay Round in the form of the Cairns Group, a group which has played a critical role in several meetings (most notably the Montreal Mid-term meeting) by forcing participants to focus on agricultural issues. While several food-exporting less-developed countries are members of the Cairns Group, it is striking not only how few of these countries there are, but also how silent the remainder of less-developed countries have been in voicing their interests. In addition, there are certainly developing countries who, with the liberalization of trade in beef, dairy products and sugar, would gain considerable benefits, and who therefore might be expected to have a significant interest in the positive outcome of this Round.

These facts led the World Bank and the OECD Development Centre to collaborate on an activity intended to call to the attention of the academic community the fact that they were neglecting the less-developed countries in their analyses of the possible consequences of agricultural trade liberalization. Because this debate has been dominated by quantitative estimates of the effects of protection derived from large scale world models, a seminar was held, bringing together the modelers, and a book resulted (Goldin and Knudsen, 1990) which presented the modelers’ analyses of the impact of trade liberalization on less-developed countries.

In designing this special issue, we asked Ulrich Koester to re-examine the basic relationships between trade and development. Koester provides us with a primer on the importance of protection versus liberalization in agricultural trade, and offers a convincing argument on behalf of the position that liberalized global trade would indeed accelerate the agricultural development of most less-developed countries.

Next, because the model results presented in the Goldin and Knudsen book, based on models which took only partial account of less-developed country situations, are quite diverse and in some cases even contradictory, the World Bank and the OECD Development Centre decided to pursue a specific update of the RUNS general equilibrium model. We include in this issue results of some experiments with the revised model, comparing them with other models. This is presented in the paper by Brandão and Martin.

Acknowledging the limitations of global modelling, we felt that it would be interesting to incorporate a regional perspective in the analysis of the relationship between trade and development, looking back at the events and interpretations of the last few decades, examining the current situation and speculating on likely prospects for the future. Hence we have solicited, from regional expertise, four papers covering Asia, Africa, Latin America
and Central and Eastern Europe including the former Soviet Union. Unfortunately, the paper on Africa was not ready for this issue.

We requested a paper from Alberto Valdés which would follow from his comprehensive work with Ann Krueger and Maurice Schiff on the political economy of agricultural policies. He has responded with a paper discussing the sequencing of policy reforms, in which trade policies are but a few of a myriad of policies which need to be reformed, all of which have an impact on trade. His paper offers a comparison of Chile and New Zealand, both of which have reformed their policies particularly with regard to agriculture, as part of a more comprehensive package of policy reforms throughout their economies.

Finally, we thought that it would be appropriate to ask D. Gale Johnson, author of that most famous book, World Agriculture in Disarray (originally published 20 years ago), to revisit the relationship between agricultural trade and development in light of the modelling results and regional distinctions discussed in the other papers.

LESSONS LEARNED

Through the process of rethinking and articulating the issues covered in this collection of papers, some key lessons learned since the Uruguay Round was launched, and even since this issue was designed, can be extracted from the papers. These lessons might be summarized as follows.

First, the uncertainty of the outcome of the Uruguay Round of negotiations is not so great as was thought at the beginning of the Round. At the time the Reagan administration presented the so-called Zero Option (that is, the objective of eliminating all government interventions in agricultural trade by a specified date in time), uncertainty as to how far the Uruguay Rounds would go was great. Today, however, the differences in position have narrowed such that the main area of uncertainty would appear to be whether or not the parties can agree on the level of acceptable reduction in total expenditure on export subsidies, and the probability of agreement on disputes regarding two or three particular commodities in which there is a special interest by one or the other party.

If an agreement is reached, a reduction in export subsidies of this magnitude would have a significant impact on international markets, with important consequences, particularly in the short run, for foodgrain-importing countries. The consensus of the modelling efforts is that a reduction in export subsidies, combined with reduced agricultural production in the more-developed countries, would lead to increases in the prices of food grains, particularly wheat. Generally speaking, this would imply that developing-country exporters of temperate products would benefit. However, a
reduction in the production of food grains, in particular by more-developed countries, would reduce the amount of surplus available for food aid, a fact which is likely to bear most deleteriously on those countries experiencing the greatest national food-security crises. What the modelling efforts have not yet fully factored in is the evolution of the Central and Eastern European countries, and the possibility that reduced importation by them of food and feed grains in the short run, and the possibility of some of these countries becoming net exporters of food and feed grains in the future, suggests that in fact world prices might remain roughly the same, or even decline in real terms.

The consequences for the foodgrain-importing countries have not been thoroughly studied. Most economists advocate increased foreign aid to the poorest countries, and agree that some compensatory mechanism, linked perhaps to the quantity of food-grain imports, needs to be created on behalf of these countries. The political realities in the more-developed countries, however, are such that the likelihood of increased aid, financial or otherwise, is very low. The tenth replenishment of IDA has not yet been concluded at the time of writing. The prospects of approval for the implementation of the Earth Increment (agreed to in principle at the Rio Summit of the UNCED), to be added to the IDA replenishment, are dim. An increase in contributions made to the Global Environmental Facility will be constrained by the current worldwide recession. In the absence of surpluses-in-kind, additional aid will be slow and meager, if forthcoming at all.

The second lesson we can draw from these papers is that the outcome of the GATT negotiations may be less important than the relationship between trade and development in less-developed countries. What is of far greater importance is the level of discrimination against agriculture present in less-developed economies. In a recent publication, Schiff and Valdés (1992) have estimated the magnitude of the ‘plundering’, as they call it, of agriculture resulting from policy distortions affecting the terms of trade facing agriculture. The authors estimate that on average, for the very diverse eighteen countries which they have studied, these distortions have resulted in income transfers out of agriculture of about 46% of domestic GDP over the period between 1960 and 1985. In earlier results from the same study, Schiff and Valdés, together with Krueger (1991), suggest that the indirect effects of non-agricultural policies on agriculture have a greater distortionary effect on the terms of trade facing agricultural producers in many less-developed countries than agricultural policies themselves. The fact that these policies are entirely at the discretion of national governments implies that the corresponding distortions cannot be blamed on international market effects.
The models presented by Brandão and Martin confirm these findings. They show that domestic policy reform is necessary in order for less-developed countries to benefit fully from global agricultural trade liberalization. The implication may be that we need to shift our focus away from Geneva, the center of the international debate regarding trade, and towards the capitals of the less-developed countries where domestic policies are formulated and implemented. The two papers by Bautista, Schuh and Junguito also illustrate this point, as does the paper by Valdés. In any case, it is clear that domestic policies with regard to markets for all manner of related inputs and services, the role and size of the public sector, and the deregulation and reform of the financial sector, to name a few, must be in order if less-developed countries are to maximize the benefits of liberalized trade throughout the world.

A third lesson we can draw from this collection of papers derives from the collapse of communism in Central and Eastern Europe and in Central Asia, and the implications of this collapse for international agricultural markets. In the past, the Soviet Union was a massive importer of agricultural products, especially grain. One consequence of the dissolution of this political and economic entity is that massive subsidization of food consumption is no longer feasible. Most immediately, this will mean that imports of grains will decline for the foreseeable future. Furthermore, as the tremendous inefficiencies of the socialist system are overcome, it is likely that many of the newly-emerging countries will try, and some will undoubtedly succeed, to increase agricultural production and most probably become net agricultural exporters. Already Central Europe is a significant exporter of livestock products, so much so that the price of milk powder collapsed when Poland put large quantities of milk products on the world market two years ago. Brooks presents a synthetic view of the trends in macroeconomic and agricultural development, and of what we might expect will be their impact on international trade.

Finally, a fourth lesson can be derived from the recent evolution in the prices of tropical products such as coffee, cocoa, natural rubber and palm oil. World prices have declined to such low levels that the consequences for the development of countries dependent on those few crops for foreign exchange earnings are proving to be severe. A most striking illustration of this is Ivory Coast, a country which was considered to be a booming success in the 1970s, but which is now undergoing a major crisis. Two things are worth noting here. First, the collapse of world prices has only very little to do with the uncertainties of the current Uruguay Round of GATT negotiations. Second, a serious economic crisis will be exacerbated by the overvaluation of a country’s exchange rate. Even in this case, where circumstances
beyond the country's control have dramatic consequences, the situation is worsened by distorted macroeconomic policies.

In conclusion, while there are and will continue to be uncertainties with regard to political processes, national policies and production decisions within both more- and less-developed countries, we perhaps understand, better now than even a decade ago, the limited impact which changes in the GATT alone will have. There should be no doubt that the successful outcome of the Uruguay Round would have significant and positive consequences for most developing countries. However, while we can and should still look to the successful conclusion of the Uruguay Round, and the strengthening of the GATT system, for positive measures leading to increased liberalization in both agricultural and nonagricultural trade, the papers presented in this special issue have given us hope even should this Round fail. The essential message is that agricultural growth and development may well be primarily dependent, not on international rules of order and process, but rather on appropriate, and at the very least neutral, government policies which do not discriminate against agriculture.

REFERENCES


