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Trade Policies and Food Security

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Globalization could and should benefit developing countries. But unlike a rising tide that lifts all boats, large and small, globalization is unequal. It has fallen far short of its much-ballyhooed potential to help the world's poorest people out of poverty. Instead, a combination of policies in both rich and poor countries creates conditions for the rich to prosper and many of the poor to fall more deeply into destitution.

Agricultural protectionism in rich countries enables them to skew markets in their favor. Tariffs and trade barriers routinely exclude developing-country products. Other non-tariff barriers, such as non-transparent phytosanitary regulations, present additional impediments to poor farmers seeking to enter the global marketplace. Instead of distorting the marketplace, rich nations must pay more than lip service to the ideal of free and fair trade. The World Trade Organization (WTO) is the arena to do so internationally.

Public policies in developing countries also harm poor farmers and producers, who often lack the basic conditions for prosperity: health, education, land, capital, information, and the marketing infrastructure needed to take advantage of export opportunities. Developing-country governments can and must change domestic policies on markets, land tenure, research and extension, and credit to enable smallholder farmers to compete.

The two feature essays in this year's annual report examine who must do what in order for agricultural globalization to work for the poor. Unilateral measures by one side or the other will help. But only concerted effort by both developed- and developing-country governments and institutions to change trade rules, regulations, and practices will enable the very poor to feed their families and live a better life.

TIME TO STOP DUMPING ON THE WORLD'S POOR

Kevin Watkins and Joachim von Braun

WHAT CAN GOVERNMENTS IN RICH COUNTRIES DO ABOUT POVERTY IN POOR COUNTRIES, APART FROM INCREASING AND IMPROVING AID AND ENDORSING AMBITIOUS POVERTY REDUCTION GOALS?

ANSWER: GET SERIOUS ABOUT REFORMING THEIR OWN FARM POLICIES AND START DISMANTLING THE AGRICULTURAL TRADE RESTRICTIONS AND SUBSIDIES THAT CONTRIBUTE TO MASS POVERTY ACROSS THE DEVELOPING WORLD.

RICH COUNTRIES NEED TO REFORM THEIR FARM AND TRADE POLICIES

When the current round of World Trade Organization (WTO) talks was launched at the end of 2001, northern governments promised to overhaul agricultural trade rules—and their own farm policies. That commitment is at the heart of the so-called Doha "development agenda." Unfortunately, fine words have been followed by business as usual. Disagreements between the agricultural superpowers, the United States (U.S.) and the European Union (EU), have produced the familiar pattern of mutual recrimination and deadlock at the WTO, potentially jeopardizing the entire round. And neither protagonist shows any inclination to cut agricultural subsidies at home. The EU reform of the Common Agricultural Policy (CAP) of June 2003 was at best a modest step in the right direction.

REFORMS HAVE BEEN INEFFECTIVE SO FAR

Meanwhile, developing countries have failed to develop the alliances that might shift the terms of the debate at the WTO. The Cairns Group (an alliance of agricultural exporting countries, 3 of which are developed and 14 of which are developing) is seen as a representative of large-scale commercial exporters, African interests have been particularly neglected, and India and China continue to wrestle below their weight class, even though their joint engagement could fundamentally change the WTO round. At risk of understatement, the crucial links between agricultural trade, poverty, and food security do not figure prominently on the WTO agenda.

Reform is needed now to fight poverty and hunger

All of this is bad news for global poverty reduction efforts. More than three-quarters of the poor in the developing world—some 900 million people—live in rural areas. Most are small farmers. That is why agricultural growth based on smallholder producers is one of the most powerful catalysts for poverty reduction: for every additional $1 generated through agricultural production, economic linkages can add another $3 to the rural economy. Support to agriculture in rich countries matters because it restricts opportunities for the pro-poor rural growth that northern governments like to endorse at international meetings. And it matters because the rural poor cannot wait any longer for meaningful reform.

There is a cruel irony at the heart of the current agricultural trading system. In rich countries, agriculture represents a small share of national income and employment, typically less than 2 percent of the total. By contrast, agriculture accounts for 17 percent of gross domestic product (GDP) in middle-income countries, rising to 35 percent in the poorest countries. Agricultural exports exceed one-third of the total in almost half of all developing countries. Yet industrialized countries systematically use subsidies to skew the benefits of agricultural trade in their favor.

Developing countries must act too

It does not automatically follow that northern agricultural policy reform will create a new, more equitable pattern of globalization. In the absence of wider measures taken by developing-country governments themselves to address the underlying causes of poverty and inequality, the opportunities created by trade will bypass the poor.

There are four priorities for developing-country policymakers. First, developing countries have to reform their own market and trade policies (see the accompanying essay by Eugenio Díaz-Bonilla and Ashok Gulati). Second, rural development needs to figure more prominently in national budgets. Third, more weight has to be attached to improving poor people's access to education, health services, and productive assets. Fourth, countries must provide effective institutions, through which the poor can articulate their interests. But agricultural trade reform in rich countries is necessary to create an enabling environment in which pro-poor domestic reforms can work—and it is a condition for making globalization work for the poor.

The fundamental problem at the heart of the WTO negotiations is this. Each year, rich countries spend in excess of US$300 billion in support of agriculture—some six times the amount they allocate to foreign development assistance. Most of the subsidies end up supporting production and generating large surpluses, which are then dumped on world markets at prices that bear no relation to production costs.

Meanwhile, high tariffs and other trade barriers are used to keep imports out. Tariffs on agricultural goods in the EU and U.S. are four to five times those applied to manufactured goods, and peaks in excess of 100 percent—for groundnuts in the U.S. and dairy produce in Europe, for example—are common. While the poorest African countries may not be able to produce an exportable surplus of dairy products, they could do so for beef, sugar, and cotton. Beef and sugar, however, are the most protected products in the EU, even more than dairy products, and U.S. cotton policy hinders African growth.

Winners and Losers

Who benefits from these policies? Research by Oxfam has shown that the distribution of subsidies among farmers in both Europe and the U.S. is more unequal than the distribution of income in Brazil, one of the world's most unequal countries in terms of income. The biggest 25 percent of EU subsidy recipients receive more than 60 percent of all subsidies. In the U.S.

60 percent of farmers get no support at all, while the biggest 7 percent account for 50 percent of government payments. The large slice of subsidies directed toward sugar and dairy producers makes up part of this distorted picture. To make matters worse, most of the benefits generated through agricultural support do not even reach producers: the supports are capitalized into higher land values and higher input prices. According to OECD (Organisation for Economic Co-operation and Development) estimates only 25 percent of price supports end up as net income gain for farmers. The system results in unfair distribution and is highly inefficient. In the long run it provides false signals to the incoming generation of farmers and contributes to loss in equity for many. Furthermore, it contributes to disarray in world agriculture and to poverty worldwide.

Ending rich-country support to agriculture would generate $40 billion for developing countries in net agricultural exports

Whoever wins from the farm subsidy bonanza in rich countries, it is the developing countries that lose in aggregate, even though a few may gain with the EU's "Everything but Arms" initiative (EBA). An IFPRI model predicts that an end to rich-country support in agriculture would generate annual gains of US$40 billion for developing countries, with Sub-Saharan Africa, the world's poorest region, gaining US$3.3 billion. The gains result from an increase in exports (especially for Latin America) and import substitution effects.

Small farmers in developing countries suffer on several counts from rich-country farm policies. Northern production subsidies lower prices for farm produce. Unable to compete against subsidized competition, the world's poorest farmers are often pushed out of international and even domestic markets. The upshot is an agricultural trading system in which success depends less on comparative advantage than on comparative access to subsidies. Small farmers are efficient, innovative, and potentially competitive, and creatively combine farming with off-farm work. But the world's poorest farmers cannot compete against the world's richest treasuries, nor should they have to.

Restricted Export Opportunities

Northern import restrictions and production subsidies help to explain two features of the world agricultural trading system left intact under globalization: slow growth and continued domination by industrialized countries. Agricultural growth in developing countries declined to 2.2 percent per year in the past 10 years, compared to 3.4 percent in the previous decade. Although agricultural trade has increased in absolute terms over the past decade, its share in total trade has dropped to less than 10 percent. And developing countries account for about one-third of exports, roughly the same share of exports as in 1980.

The structure of agricultural protectionism in rich countries reinforces unequal globalization. Within the agricultural sector, high-value-added goods represent the most dynamic growth point. These goods include products such as meat, fruits and vegetables, and nuts. Exports for this category of goods are growing in excess of 8 percent a year—almost four times the growth rate for the sector as a whole. But developing countries seeking access to high-value-added markets face a daunting array of trade barriers.

Tariff escalation, or duties that rise with each step of processing, is a standard feature of industrialized-country protectionism. In the EU fully processed food products face tariffs almost twice as high as tariffs in the first stage of processing. Latin American exporters to the EU face tariffs that are five times higher for tomato sauces than those levied on fresh tomatoes. At the same time, fresh tomatoes may face prohibitive tariffs in the EU during several months of the year to protect mainly Italian and Spanish producers from Latin America, and less so from African producers, who benefit from the EU's ACP (African, Caribbean and Pacific Group of States) agreement and the EBA.

Such practices create disincentives for investment in local processing and deny producers in developing countries opportunities to enter higher-value-added markets, where new jobs could be created. Other high-value-added markets are protected by huge tariff peaks. Developing countries (other than ACP and EBA countries) wanting to export beef to Europe face tariffs of up to 150 percent, while fruit and nut exporters to the United States face tariffs of 200 percent or more. And this is before taking into account the arsenal of non-tariff barriers, including phytosanitary regulations. While the protection of consumer health is clearly a legitimate priority, it is difficult to escape the conclusion that the selective application of health standards is often directed toward protectionist goals.

The upshot is that many developing-country agricultural exporters are operating in the least dynamic part of the global economy—and they are systematically excluded from a larger stake in higher-value-added trade. The present pattern of agricultural trade is thus reinforcing wider inequalities in globalization, with attendant implications for poverty.

The present system of agricultural trade is hindering equitable globalization

Of course, there are those who see restrictions on export opportunities for developing-country agriculture as a blessing in disguise. In recent years EU ministers for agriculture and some in the anti-globalization movement have joined hands to warn against the perils of export agriculture, claiming that it will displace local food production, exacerbate inequalities, and reinforce poverty in developing countries. Whether motivated by a concern to defend indefensible farm policies or by genuine conviction, these siren voices are wrong. The problem is not agricultural trade per se, but the rules that govern it and skew the benefits away from poor countries and poor farmers.

Under the right conditions, agricultural exports can act as a dynamic force for poverty reduction, providing small farmers with opportunities to generate income, diversify their livelihoods, and reduce vulnerability. In parts of East Africa and

Central America, small farmers have succeeded in entering markets for high-value-added fruit and vegetable exports. And IFPRI research shows that export agriculture has played a critical role in reducing rural poverty in Uganda and Vietnam. Far from displacing food production, export success in both countries has gone hand in hand with an increase in output of basic food staples.

None of this implies that agricultural trade generates automatic benefits for poverty reduction. Small farmers—especially women—often lack access to the land, capital, information, and marketing infrastructure needed to take advantage of export opportunities. In the absence of public policies in developing countries to overcome these disadvantages—especially land tenure and credit policies—export growth can marginalize the poor. Surely this situation calls for domestic policies that redistribute opportunities to the poor, rather than denying the potential benefits of agricultural exports or turning a blind eye to northern policies that restrict those benefits.

Harvesting the Cotton Subsidy

When it comes to harvesting subsidies, the U.S.'s 25,000 cotton producers are first among equals. In 2001, government support to the sector reached about US$3.4 billion—a sum that exceeds U.S. aid to Sub-Saharan Africa. Most of this support is directed toward agricultural corporations operating capital-intensive, highly mechanized operations on vast commercial estates. Because the U.S. is the world's largest exporter of cotton, accounting for about 40 percent of the world market, its domestic subsidy programs have global market implications. According to the International Cotton Advisory Committee, these programs artificially lowered world prices by about one-quarter in 2001.

The losers have included desperately poor farmers in West Africa. This is potentially one of the world's most productive cotton-producing regions, thanks partly to the high quality associated with non-mechanized production. Over the past decade production has almost doubled, creating benefits for household income, agricultural growth, and exports. An estimated 10 to 11 million people now depend on cotton production. For many households, cotton is the only cash crop. It is often grown on small farms jointly with basic food staples, such as maize. Not only does cotton production have a major bearing on household food security, agricultural investment, and rural wages, in several countries it is the largest source of export receipts and government revenue.

African cotton farmers do not figure prominently in debates on U.S. farm policy. They ought to. Using household survey data on income and expenditure for Benin, IFPRI has simulated the effect of a 25 percent increase in the world price of cotton, roughly corresponding to the effect of the elimination of U.S. subsidies. The estimates suggest that a price increase of 25 percent would cause the national incidence of poverty in Benin to decline by 4 percent, enabling 250,000 people to rise above the poverty line, which, in this context, consigns those who live below it to hunger.

West Africa's experience also highlights tensions between aid policies on the one side and agricultural trade policies on the other. The lower world prices induced by U.S. subsidies are estimated to have cost the region about US$190 million in 2001, exacerbating foreign debt and balance-of-payment constraints. Much has been made of the debt relief provided under the Heavily Indebted Poor Countries Initiative. Yet Burkina Faso has lost more as a direct consequence of U.S. cotton subsidies than it receives in debt relief. And Mali's losses dwarf American aid to the country.

The Common Agricultural Policy

In the interest of balance, we must also acknowledge the egregious role of the EU's Common Agricultural Policy (CAP). The EU likes to defend its record by pointing out that, on a per capita basis, American farmers get more subsidies. On the other side of the coin, it should be pointed out that the US$104 billion in producer support provided by Europe accounts for one-third of the value of output, compared with one-fifth in the United States.

Transatlantic rivalries aside, there is no doubt that on aggregate the CAP hurts poor farmers. Take the sugar sector. By world standards Europe is an exceptionally high-cost producer of sugar. It is also the world's largest exporter of white sugar, accounting for 40 percent of the global market. Under the CAP, farmers in Europe receive a guaranteed price that is typically two to three times the world market price. Some developing countries in the ACP group—notably Mauritius—also benefit from this price for a fixed quota of exports under a system of trade preferences. Imports are kept out through tariffs in excess of 140 percent. The high margins provided by guaranteed prices support levels of production far in excess of domestic demand—hence the large exports.

Subsidized EU exports, stimulation of domestic production, and taxation of domestic consumption hurt non-subsidizing, developing-country exporters, forcing countries such as Malawi, Thailand, and Zambia out of third markets. CAP exports also lower world sugar prices by around 15 percent.

In 2001 Europe announced the EBA initiative, aimed at removing all import barriers for developing countries. But sugar—along with rice and bananas—was put on the back burner. The reason: vigorous lobbying by assorted sugar-processing and big-farm interests. Developing countries will either have to grow other crops or will continue to lose, as world prices for sugar remain lower than under non-protectionist policies. The EBA initiative is positive because it will force EU policies to change, but the situation would be better if EU policies had changed beforehand.

Hopes that CAP reform would usher in a new approach to agricultural trade by the EU were dashed by the reforms of June 2003. The European Commission had proposed real decoupling, aimed at reducing market-based incentives to produce. However, at the end of the process of member-state wrangling, decoupling has been only partially introduced in cereals, but countries can delay this until 2007. Sectors such as sugar and dairy that account for the bulk of export subsidies are either untouched or subject to only modest reforms.

Meanwhile, overall levels of subsidy spending will probably continue to rise until 2013.

Implications for Food Importers

For countries that are net food importers, standard consumer welfare models register the lower food prices associated with northern production subsidies and export dumping as a positive gain. This situation raises an important policy question that has figured prominently in debates at the WTO: namely, would an end to export dumping by rich countries hurt food security in developing countries?

The answer is no. Standard consumer welfare models tend to obscure the damage caused by agricultural dumping. Export subsidies in industrialized countries undermine incentives for small farmers in developing countries, and destabilize local markets. These subsidies raise important questions for policymakers in developing countries, notably with regard to import liberalization.

DISTORTED WORLD MARKET PRICES CANNOT BE USED AS SIGNALS FOR DOMESTIC PRODUCERS. UNILATERAL LIBERALIZATION IS NOT ATTRACTIVE UNDER THESE CONDITIONS

In India, surges in imports of dairy products forced the government to sharply increase tariffs at the end of the 1990s. Some critical voices saw the move as a retreat from free trade. But what does free trade mean in a context where the world's largest exporter of dairy produce, the EU, is providing subsidies in excess of US$3 billion a year?

Under prevailing market conditions, rapid import liberalization can inflict enormous adjustment costs on small farmers. When Haiti opened up its rice market in 1995, imports from the U.S. flooded in, driving prices down by 25 percent and displacing local farmers. At the time agricultural subsidies to U.S. rice producers represented 40 percent of the value of output.

Without fundamental reform of northern agricultural support systems, import liberalization will remain a prescription for unfair competition. For example, the 2.4 million Mexican

farmers whose livelihoods partly depend on maize production are currently being integrated into a regional market with the United States, whose maize farmers benefit from support estimated at US$9 billion a year, according to the OECD. Given the dilapidated state of the infrastructure supporting Mexican maize farmers, especially in rain-fed areas, the unbalanced competition would appear likely to reinforce rural poverty and migration.

While developing countries may suffer from opening their markets to cheap imports, they also lose from keeping their markets closed. IFPRI research on African markets has shown that the indirect effects of protectionism in undermining the very creation and growth of market institutions, including those related to financing and banking in rural areas, have adverse long-term consequences for development.

Among the most serious problems associated with northern export dumping is the signal it has sent to governments in developing countries, notably in Sub-Saharan Africa. The ready availability of cheap food for urban populations has

provided a rationale for failing to give priority to the economic setting in which small farmers operate and for neglecting rural infrastructure. In fact, public investment in agriculture and rural development had fallen off the agenda of ministries of finance, despite the developmental payoffs. Only recently has it been given higher priority by donors, such as the World Bank, once the detrimental effects of its neglect had become clear.

One consequence of falling agricultural investment has been the dangerously high level of dependence on food aid and commercial imports witnessed in many countries. Of course, these countries should not seek food self-sufficiency for its own sake, but instead seek food security. A central challenge for these countries, and for much of Africa, is to increase smallholder production of food, not just to reduce foreign exchange costs, but also to generate income and employment. Northern export subsidies make this task less attractive.

The Way Ahead

The Doha "development round" provides a critical opportunity to start making agricultural trade work for the poor—and to chart a new course toward a more equitable pattern of globalization. Seizing that opportunity is vital, not just in the interest of small farmers in developing countries, but also in the interest of restoring the credibility of the rules-based multilateral trading system.

Five things need to happen to turn the pleasant words of the Doha Declaration into action.

We need an honest assessment of what has happened under the AoA

First, we need an honest assessment of what has happened under the Agreement on Agriculture (AoA) adopted at the end of the last round of world trade talks, the Uruguay Round. And what has happened is not encouraging. Under the AoA industrialized countries promised to cut agricultural support by 20 percent. The pattern of subsidies has somewhat changed from subsidies tied to production to those that are partly decoupled. The June 2003 reform of the EU CAP promises to go further in the right direction. Much will depend, however, on actual implementation of the stated policies, because "coupled elements of payments may be maintained to avoid abandonment of production," as the EU deal states. Developing-country small farmers cannot even dream of such policy stipulations for themselves.

Broadly speaking, there has been a diminishing use of policy instruments that reward farmers for what they produce with price supports (defined by the WTO as "trade-distorting"). Although there is no question that some subsidies distort trade more than others, nominally decoupled supports often help sustain production capacities. Producer support estimates (PSEs), which include both types of subsidies (coupled and decoupled), have actually increased under the AoA, as measured by the OECD.

How has this been possible? The European Union and the United States have invented a category of support—known as the Green Box and the Blue Box in WTO talks—deemed to be decoupled from production and therefore exempt from cuts in subsidies. In effect, they have shifted their support channels through an elaborate repackaging exercise. Blue box measures were allowed only because the EU had lowered grain prices by 30 percent and had instituted measures to curtail production (set-aside). Blue-box payments are related to land, and to the number of cows for beef production. Subsidies for beef production were introduced at a time when beef prices were lowered. Nevertheless, this category of subsidies should be forbidden. These subsidies might have been justified at the time of the price cuts in order to provide some adjustment aid. But such adjustments are not needed for long.

Blue box measures should be eliminated

Take the case of EU cereals. Currently, wheat producers receive a direct payment equivalent to about US$60 per metric ton, or some 60 percent of the export price. Under WTO rules this payment does not count either as a production subsidy or as an export subsidy. The reason: it is classified as a "decoupled" payment because it is not coupled to current production. This rationale might make sense to trade lawyers and accountants. But food staple producers in West Africa trying to compete against EU imports might take a less benign view. It is vital that the Doha Round deliver real decoupling and real cuts in all support measures that create unfair competition.

Real decoupling of payment and production is needed

Second, the Doha Round must deliver a comprehensive prohibition against export support measures that act directly or indirectly as export subsidies. Farmers in developing countries need rules that outlaw the export of agricultural goods at prices below those received by producers. Those rules must extend beyond direct export subsidies to cover the full range of measures currently in place. These include:

- direct payments for commodities in surplus, such as EU wheat and U.S. cotton;

- export credit programs, such as the US$5.7 billion in officially supported export credit provided under the 2002 U.S. Farm Act; and
- food aid programs used to indirectly cofinance commercial exports.

In this round donors must make a credible commitment to adequate levels of food aid, delivered in non-distorting ways, effectively reaching the needy, and responding swiftly to emergencies.

Export enhancing measures should be forbidden

Third, rich countries need to open their own markets. As the president of Brazil, Luis Inácio "Lula" da Silva, has written: "Any export efforts we might make will be worth nothing if the rich countries continue to preach free trade and practice protectionism." One of the aims of the Doha Round should be an "early harvest" of measures to lower tariff and nontariff barriers on agricultural goods and to eliminate tariff escalation.

Fourth, developing countries must retain the right to protect their agricultural systems from instability and unfair competition associated with northern agricultural subsidies. Developing countries themselves have put forward proposals in this area. For example, the Government of India has advocated a "special safeguard" provision under which higher tariffs would be triggered if import prices fall below specified levels.

Developing countries need special safeguards against distorted world prices

For their part, the EU and the U.S. have resisted calls for entrenched rights to protect food security, arguing that any safeguards should be limited to a narrow range of "food staples" and a small group of countries. This is a particularly hypocritical way of thinking about food security. Protection of the livelihoods of small farmers cannot be reduced to a small range of food crops.

Fifth, while the largest benefits of agricultural liberalization would arise from multilateral negotiations under WTO, regional and bilateral negotiations of free trade agreements (FTAs) are currently ongoing. These negotiations put healthy pressure on

RICH COUNTRIES NEED TO FOCUS MORE ON MULTILATERAL TRADE NEGOTIATIONS THAN ON REGIONAL AGREEMENTS

the WTO process, but they also endanger progress at the global level, if continued in an erratic fashion. For the time being, Europe and the United States should hold back on further bilateral FTAs and fully concentrate on achieving progress in the WTO negotiations.

These five actions will help establish a more equitable system of international trade that is not rigged against small farmers in developing countries. By ending the self-serving instincts that currently dictate their approach to agricultural trade, rich countries can help to create an enabling environment for poor farmers. Then it is up to developing-country governments themselves to create the conditions under which their people can exploit trade opportunities to reduce poverty and hunger. Under these conditions international development finance would have a greater, more beneficial impact as well.

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DEVELOPING COUNTRIES AND THE WTO NEGOTIATIONS

Eugenio Díaz-Bonilla and Ashok Gulati

A DYNAMIC AGRICULTURAL SECTOR IS CRUCIAL FOR ECONOMIC GROWTH, POVERTY ALLEVIATION, AND FOOD SECURITY IN DEVELOPING COUNTRIES. ALTHOUGH PRIMARY AGRICULTURAL ACTIVITIES ARE DECLINING OVER TIME AS A SHARE OF THE ECONOMY, THEY STILL REPRESENT ABOUT ONE-FOURTH OF TOTAL ECONOMIC ACTIVITY AND 60 PERCENT OF TOTAL EMPLOYMENT IN LOW-INCOME DEVELOPING COUNTRIES. PRIMARY AND PROCESSED FOOD PRODUCTS ACCOUNT FOR ABOUT 20 PERCENT OF THESE COUNTRIES' MERCHANDISE TRADE. MOREOVER, OF THE 1.2 BILLION PEOPLE LIVING ON LESS THAN US$1 A DAY, ABOUT 75 PERCENT LIVE AND WORK IN RURAL AREAS IN DEVELOPING COUNTRIES.

In spite of its importance, agricultural growth in developing countries has been hampered over the years by a series of factors. First, as developing countries sought to industrialize their economies, they usually taxed agriculture. The bias against agriculture in developing countries also hurt the poor, who often depended heavily on that sector for income and employment. Although several developing countries have reduced or even eliminated that policy bias since the early 1990s, another negative factor has become increasingly apparent: the subsidization of agriculture in rich countries. During the 1980s these subsidies led to surpluses that rich countries disposed of on world markets with the heavy use of export subsidies. The combination of agricultural protectionism and subsidies in industrialized countries has limited agricultural growth in the developing world, increasing poverty and weakening food security in vulnerable countries. Those policies have also hurt the rich countries themselves through higher food costs and a larger tax burden on citizens. And rich countries' claim that the expected benefits of their agricultural policies, in terms of safer food, a cleaner environment, and better income distribution, are larger than the costs rings false, given recent food scares like "mad cow disease" in Europe, the environmental pollution linked to agriculture in industrialized countries, and the fact that most transfers go to large farmers.

An Opportunity to Level the Playing Field

The Doha Round must complete the reform process begun under the Uruguay Round to level the playing field

The Uruguay Round of trade negotiations initiated the process of bringing agricultural policies under a common set of rules, in an attempt to reduce the negative impact of prevailing practices on world welfare. But the reform process is far from complete. Like the textile industry (another sector in which developing countries have a comparative advantage), agriculture continues to receive separate treatment under the new World Trade Organization (WTO) framework. This framework allows the artificial expansion of agricultural production in industrialized countries, while limiting the potential expansion of agriculture in developing countries. Some have sarcastically called this separate treatment of agriculture and textiles “special and differential treatment” for the rich countries. The Doha Round offers the opportunity to level a tilted playing field. To do that, the negotiations will have to complete the unfinished business of the Uruguay Round in reducing protectionism and subsidies, particularly in rich countries, while at the same time considering the needs of vulnerable countries and groups.

In the Doha Round negotiations, developing countries have been following two basic approaches to varying degrees. One is to “play offense” by trying to limit the ample legal room industrialized countries have under current WTO rules to subsi-

dize and protect their own agriculture (for which they also have large financial resources). The other is to “play defense”by asking for additional exemptions (that is, “special and differential treatment”) to be able to subsidize and protect agriculture in developing countries. The combination of offensive and defensive tactics varies by country and partly reflects the heterogeneity of developing countries in general and of their agriculture sectors in particular.

The Varied Interests of Developing Countries

The differences among developing countries and their agriculture sectors manifest themselves at several levels. Africa and Latin America and the Caribbean, for instance, have more available arable land per capita than Asian developing countries, but land appears to be distributed more unequally in Latin America and the Caribbean. Asia and Latin America and the Caribbean, however, have better infrastructure than Africa. Although all developing regions have experienced increases in trade of fruits and vegetables, Asia and Latin America and the Caribbean have been more dynamic oilseed exporters. Africa has been losing export market share in world agricultural markets. Latin America and the Caribbean is a net agricultural exporter, Asia became a net importer in the early 1970s, and Africa, which had a strong positive agricultural balance in the 1960s and 1970s, has experienced deficits since the early 1980s. The direction of trade also varies. Asian countries trade mainly within the region; Latin American and Caribbean countries trade with Europe, the United States, and other countries within the region; and Africa trades mostly with Europe.

An IFPRI study using cluster analysis also showed the large differences in food security status among developing countries. Those countries appear scattered across nearly all levels of food security and insecurity, although none appear in the very high food-secure group. Among food-insecure countries, the profiles also differ: some are predominantly rural (mostly in Africa and South Asia) whereas for others the urban population is more important (like many countries in Latin America and the Caribbean and in transition economies). Obviously the same policy (such as maintaining high prices for producers) will have different impacts in these two types of countries.

Some countries are food insecure mostly because of low levels of calories and proteins per capita, although they do not use large percentages of their exports to buy food. In the terminology of the study, these countries are "consumption vulnerable" but not "trade stressed." Other food-insecure countries are a mirror image: they appear trade stressed (using a large percentage of their exports to buy food) but less consumption vulnerable (their current levels of calories and proteins per capita are close to the average for all countries considered). Again, the policy options for these two types of countries are different: the first group may increase imports to improve availability of calories and proteins, whereas increasing imports may not be an option for the second group.

The different positions developing countries hold in the Doha Round reflect their different comparative advantages and food security conditions

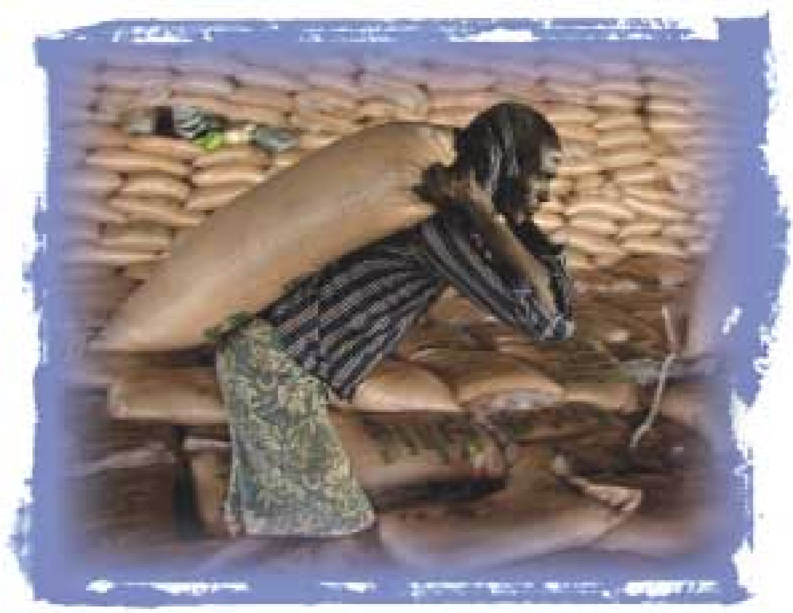
The different positions taken by developing countries in the Doha Round negotiations reflect this heterogeneity. The Cairns Group (an alliance of agricultural exporting countries that includes 3 developed-country and 14 developing-country members) has mainly emphasized playing offense. It is interesting to note that, although the Cairns Group is usually perceived as encompassing countries that are large commercial exporters, in fact 3 countries in this group are in food-insecure clusters. Other developing countries have emphasized a defensive approach advocating additional levels of support and protection for developing countries (such as the 11 WTO members, including Cuba, the Dominican Republic, Pakistan, Sri Lanka, and others, that presented those proposals under the general name of a "Development Box") while also asking for a reduction in subsidies and protection in industrialized countries. Still other countries are trying to coordinate both approaches. India is an interesting case. On the one hand, playing offense seems reasonable for a country that in the past few years has emerged as one of the world's top net exporters of agricultural products. On the other hand, a large percentage of India's poor population lives in rural areas. Concerns about possible negative impacts on the rural poor have therefore underpinned the defensive components in India's WTO proposal, embedded in the notion of a Food Security Box (with proposals for additional levels of support and protection comparable to the Development Box).

Acknowledging that heterogeneity, we may still make some general points. As indicated, a dynamic agricultural sector is crucial in developing countries, particularly the poorest ones, and research has shown that agricultural exports appear to be associated with higher levels of growth. Higher growth, if it is broad based and stable, in turn helps reduce poverty. Conversely, closed economies relying on the dynamics of small domestic markets tend to show slower and more halting growth rates. If countries follow their comparative advantage, international trade by labor-abundant, poor developing countries should increase employment and wages, further alleviating poverty.

INTERNATIONAL TRADE BASED ON COMPARATIVE ADVANTAGE CAN HELP POOR COUNTRIES REDUCE POVERTY AND IMPROVE FOOD SECURITY

To the extent that poverty is the main cause of food insecurity, international trade opportunities should also help improve food security. The expansion of trade in goods and services over the past decades, along with the decline in food prices resulting from technological advances, has led to sharp reductions in the size of the total food bill of developing countries as a share of total export earnings.

Of course, differences in agrifood production and export performance by developing countries depend on several factors, such as income and population growth, natural resource base and climate, and technological progress. But economic policies, in both industrialized and developing countries, also have a major impact. The WTO legal framework and the current negotiations are crucial precisely because of their likely effects on trade and agricultural policies worldwide. When considering negotiating positions from the point of view of the developing countries, it is important to analyze their policies separately from those of the industrialized countries.



The Price of Agricultural Protectionism

Since the 1970s various studies have tried to quantify the impact that agricultural protectionism in industrialized countries has had on the world. Those studies have consistently reported that agricultural surpluses in rich countries, generated through protection and subsidies and then dumped onto world markets, have hurt agricultural development in developing countries. Recent simulations by IFPRI show that those policies by industrialized countries have displaced about US$40 billion in net agricultural exports per year from developing countries and reduced agricultural incomes in those countries by nearly US$30 billion (counting both primary and manufactured agricultural products but not related activities such as trade, commerce, and other services). Moreover, these estimates may be low because they do not include dynamic effects from additional investments that better market opportunities may elicit or second-round multiplier effects from those agricultural incomes that never materialized. More than half of these displacement effects have resulted from the policies of the European Union (and other European countries such as Norway and Switzerland), somewhat less than a third from U.S. policies, and about 10 percent mainly from Japanese policies, with the balance resulting from the policies of other industrialized countries.

These results should give some pause to the proponents of "multifunctionality" in rich countries who argue that agriculture has additional benefits for their societies, and that, therefore, it must be protected and subsidized. But an important effect of those policies is that agriculture in many poor countries is forced to contract. So whose multifunctionality is being advanced, and whose is being trampled upon? The losses resulting from the displaced production are particularly damaging in the many low-income countries whose economies depend heavily on agriculture and agroindustrial production and where most poverty occurs in rural areas.

Current WTO negotiations must complete the unfinished business of correcting those imbalances to allow broad-based economic growth in developing countries. In addition to the obvious and compelling humanitarian arguments, enlightened self-interest also dictates that developed countries combat hunger and poverty: poor, developing countries continue to spawn health, environmental, military, and humanitarian crises worldwide that directly or indirectly impact developed countries, while poverty and hunger deprive the world of the creative potential and economic contribution of billions of human beings.

Three Challenges to Liberalization

Standard arguments against trade liberalization do not hold

Three concerns have been raised against the general proposition that the imbalances in trade rules must be corrected. First, it has been pointed out that liberalizing agricultural policies in the industrialized countries may increase the food bill of developing countries that are net food importers. Although the agricultural policies of the rich countries have hurt developing countries that are net exporters, this argument suggests that those same policies may have helped the balance of payments position of developing countries that are net importers of the same products. Second, for those developing countries that have preferential access to the protected markets of rich countries, the liberalization of trade in those markets may lead to the erosion of trade preferences (that is, by having access to a protected market those countries can sell at prices higher than those prevailing in world markets). Finally, some have argued that by expanding their exports, developing countries may worsen poverty and food security because export crops may compete with staple crops and through other mechanisms may affect the poor and women unfavorably.

The first argument, however, omits the differences in distributional impact within developing countries between consumers and producers and across various types of households. Moreover, agricultural trade policies in industrialized countries

may have had a stifling effect on agricultural and agroindustrial production in all developing countries, regardless of their net trade position. Given that these sectors are the main economic activities in many developing countries, particularly poor ones, and that growth in these sectors is usually multiplied throughout the whole economy, poor developing countries, even net importers, may have lost a substantial source of dynamic benefits. In fact depressed world prices of many food products caused by agricultural protectionism and subsidies in industrialized countries may have contributed to some developing countries' becoming net food importers, pushing them into a more extreme specialization in tropical products.

A welfare-enhancing approach would be to proceed with the liberalization of markets in rich countries while offering cash grants or other financial schemes to help poor countries with possible balance-of-payment problems. The analysis of the possible impact on the balance of payments must be conducted considering the entire economy in a general equilibrium context, because even if agricultural prices rise, the negotiations may have other price and volume effects on exports and imports that compensate for agricultural price effects.

The second point focuses on the possible erosion of preferences for a number of developing countries that have special market access arrangements with industrialized countries. For low-income developing countries, such preferential access usually represents a large percentage of agricultural exports and sectoral value-added and has important implications for rural employment and the balance of payments. Yet, it is not clear how much countries with access to rich countries' markets benefit from the current arrangements, considering that the specific mechanisms for operating those preferences may have high administrative costs, may be uncertain over time, and may tilt the distribution of benefits toward domestic importers and away from the exporting developing countries. Several options offer greater benefits in national welfare terms than maintaining current levels of protection in rich countries. In some cases, changing the way tariff rate quotas operate could compensate for the erosion of preferences in the short run. One possibility would be to grant import licenses to the

exporting countries instead of giving them to domestic importing companies and to reduce to zero the "in quota" tariff for those exporting countries. This approach would transfer the complete quota rent (that is, the difference between the higher domestic price and the lower world price) to the exporting developing countries.

Another possibility is to transform the equivalent value of the trade preferences lost into foreign aid. This approach would mean extending to the affected poor developing countries the same logic applied when industrialized countries compensate domestic producers for the reduction in direct support. These lost preferences should also be calculated considering the economy-wide impact as a whole.

The third question is linked to earlier criticisms of the Green Revolution, later extended to commercialization and international trade. It has been argued first that the limited resources of small farmers could prevent them from participating in expanding markets and lead to worsening income distribution. Second, and more worrisome, if relative prices shift against the poor or if the power of already dominant actors (large landowners, big commercial enterprises) is reinforced to allow them to extract income from the poor or to appropriate their assets, the poor could become worse off in absolute terms. It has also been argued that food security could decrease if cash crops or export production displace staple crops and if these changes result in women having less decisionmaking power and fewer resources.

Yet several studies have shown that the Green Revolution—and domestic and international commercialization—can and did yield benefits for the poor because of its effect on production, employment, and food prices, although any uniform attainment of benefits is by no means guaranteed. Trade expansion that creates income opportunities for women may also give them greater control over expenditures, with positive effects on child nutrition and development, as well as greater incentives to invest in girls. But there may be a trade-off between income-generating activities and the time allocated for childcare—an issue currently being analyzed at IFPRI. Generally, developing countries need to pursue complementary policies that will increase the physical and human capital owned by the poor and by women, build general infrastructure and services, ensure that markets operate competitively, build effective safety nets, and eliminate institutional, political, and social biases that discriminate against vulnerable groups.

Policy Options for Developing Countries

Although eliminating welfare-reducing policies in rich countries should be paramount in these negotiations, at the same time developing countries need to carefully consider their own agricultural policies. For years many of them have discriminated against agriculture, and although the most obvious macroeconomic biases may be gone, many countries still do not invest enough in agriculture and rural development.

Developing countries must reform their own agricultural policies

Several developing countries have expressed concern that further trade liberalization could create problems for their large and predominantly poor agricultural populations. Poor countries have argued for a slower pace in reducing their own tariffs on the premise that industrialized countries should first eliminate their higher levels of protection and subsidization. A related concern has been how to protect the livelihoods of poor producers from sudden negative impacts resulting from unfair trade practices such as subsidized exports and from import surges.

While insisting on a rigid sequence in which developed countries first eliminate all their own distortions seems a sure recipe for stalemate, developing countries seem justified in asking for significant down payments in the reduction of protection and subsidies in industrialized countries. Also, food-insecure and vulnerable countries need (1) longer transition times that must be used to implement adequate rural development and poverty alleviation strategies, and (2) simplified and streamlined instruments to confront unfair trade practices and import surges that may irreparably damage the livelihoods of small farmers. In particular, in the context of the negotiations it is important to clarify the possible use by developing countries of other trade remedies against domestic and, especially, export subsidies of industrialized countries.

Some observers, however, have argued for maintaining high levels of agricultural protection in developing countries, or even increasing it further, as a way of reducing poverty and promoting food security. Sometimes this suggestion is accompanied by the argument that protection "does not cost money" and is easier to implement than subsidies in poor countries. Yet contrary to the common perception that protection is a tax paid by foreigners and collected by governments, much of the implicit tax is paid by domestic consumers and collected privately by producers in the form of higher prices. This tax on food has an obvious negative impact on poor households, which in many developing countries spend more than half of their income on food, and is mainly received by bigger agricultural producers with larger quantities of products to sell. Landless rural work-

ers, poor urban households, and many poor small farmers tend to be net buyers of food. The problems faced by poor farmers and poor consumers are better addressed through policies and investments targeted to them directly. The focus should therefore be on vulnerable groups rather than on crops.

The best approach for developing countries is to eliminate biases against the agricultural sector in their general policy framework and to maintain a neutral trade policy that reduces protection over time. They should use transition periods negotiated in the WTO to increase investments in human capital, land tenure, water access, technology, infrastructure, nonagricultural rural enterprises, organizations of small farmers, and other forms of social capital and political participation for the poor and vulnerable. None of these policies is constrained under the WTO Agreement on Agriculture. The claims that more protection is necessary to shelter small farmers would ring hollow if the current underinvestment in rural development and poverty alleviation in developing countries continues.

Developing countries should eliminate bias against their own agricultural sectors and strengthen rural development

More investments targeted to the poor and vulnerable also require additional financial resources from the international community. Industrialized countries can help by agreeing to significantly reduce their own protectionism and subsidies in the current trade negotiations, while simultaneously making sure there is increased funding by international and bilateral organizations for rural development, poverty alleviation, and health and nutrition interventions. At the same time, governments in developing countries should support macroeconomic stability, good governance, and peace, if they want to overcome poverty and hunger. Without addressing these other key factors, any modification in the WTO agreements will have limited benefits.

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