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TIME TO STOP DUMPING ON THE WORLD'S POOR

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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 develop-

ing) 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.

Export enhancing measures should be forbidden

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.

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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