

International Trade in Agriculture: a Developing Country Perspective

Seventy percent of the world's poor live in rural areas and nearly all are dependent on agriculture as the major source of income and sustenance. Most rural people in these countries remain in poverty because agricultural productivity has either stagnated or has not grown fast enough to keep up with population growth. The World Bank's refocused agenda for agriculture, which is outlined in *Reaching the Rural Poor*, recognizes the need to move from a narrow agricultural focus to a broader policy context—including global factors. Agriculture in low-income countries will have to grow at an aggregate rate of close to 3.5 percent per annum in order contribute to the Millennium Development Goals (MDG) for poverty reduction. This growth requires investment, which has not been forthcoming in recent years. Simply put, if farmers cannot access international markets, they cannot make a profit from their work. If agriculture in developing countries is not profitable, there will be only limited investment in the sector. Therefore, one of the critical global factors that the World Bank will address is international agricultural trade and access to markets.

The Bank's agenda includes advocating reform of trade and agriculture policies in both developing and OECD countries, as well as building capacity within developing countries to negotiate at the WTO and to establish systems that ensure their products meet international quality and traceability standards.

Reform in OECD countries

Promoting rural development in OECD countries is a legitimate and laudable goal. The problem is that the policies adopted to achieve this goal—protecting and subsidizing agriculture—seriously damage poor countries. These policies penalize poor countries by restricting their possibilities for trade precisely in those areas where they have comparative advantage. They lower the world price of many commodities and increase price variability, both of which are especially damaging to developing countries.

In 2001/2002, with cotton prices at an all time low, the U.S. provided US\$4 billion in support to its cotton producers. This is more than the GDP of Benin, where cotton production makes up 85 percent of exports. In 2002, the International Cotton Advisory Committee estimated that the effect of U.S. subsidies alone costs the West African countries around US\$250 million per year.

Agricultural subsidies in large countries can devastate small countries and regions that rely on specific commodities.

In both the short and the long term, the developing countries will gain the most from eliminating border protection. The estimated annual gain to developing countries from liberalization of agriculture and food by high-income countries is more than US\$30 billion (World Bank, 2002).

In the OECD countries, subsidies and agricultural protection drain government budgets, damage the environment through overproduction, and distort prices and patterns of development. These policies impact the poor even more because poor people spend a larger share of their income on food than the rich. In addition, large farmers and land owners get a much larger proportion of benefits. Policies that keep domestic commodity prices high have negative “spillover”

From 1999 to 2001, consumers in OECD countries paid about US\$183 billion per year in higher food prices due to agricultural support policies. (Baffes, 2003) In the 1990s, the poorest 20 percent of U.S. households spent about 34 percent of their income on food; the richest 20 percent spent only about 8 percent (Blisard and Harris, 2001).



effects, with the result that downstream markets may need similar protections; otherwise, they may have to leave the country in order to stay competitive.

The Bank advocates reforming agriculture and trade policies in order to achieve national rural development goals without inflicting such high costs on domestic consumers and on poor countries. The first three steps to reform are:

Decouple support from production. To continue promoting rural, agriculture-based livelihoods, the link between direct subsidies and production must be broken, i.e., *decoupling*. Instead, payments could be targeted to areas like rural development, maintaining environmental and quality standards, and ensuring animal welfare. The affect of subsidies on production and, hence, on prices would be far lower for the same level of aggregate support. Decoupling can reduce over-production and, therefore, the need for export subsidies to dispose of surpluses. These export subsidies in all forms, including the subsidy element in export credits and program food aid, should then be phased out.

Bring agricultural products into the general framework of ad valorem tariffs used for other products. Many countries still use specific tariffs and tariff quotas to protect many agricultural products. These tariffs are not transparent, can penalize cheaper products from developing countries, and can create disincentives for efficiently using resources.

Greatly reduce tariff peaks and the average level of border protection. Although the industrial countries boast average *ad valorem* tariffs of less than 5 percent on manufactured goods, the highest agricultural tariffs are 40 times the average tariff in the OECD countries. Tariffs are also escalated along the production chain, discouraging processing in developing countries—essentially a tax on development. Making tariffs more uniform will mitigate this problem.

While the discussion of policy reform has focused on OECD examples, the problem extends beyond OECD countries. Average tariff levels are high in developing countries, and reducing these levels of protection has the potential of increasing south-south trade and generating more income for households in these countries. In 2002, the World Bank estimated that developing countries would gain an estimated US\$114 billion from their own liberalization of agriculture and food.¹ Middle-income countries are increasingly important markets for low-income country producers, and this trade has great potential to expand. As long as OECD policies constrict market opportunities, there is no incentive for developing countries to liberalize, and calls for reform are seen as unfair. There is also a perception that what is “good” for industrialized countries is “good” for developing countries. OECD nations have set a bad example; one that should not be followed.

¹ This gain would come from developing country liberalization even without OECD reforms.

Baffes, J. “Agricultural Support in OECD Countries: An Explanatory Note” World Bank 2003. Processed.

Blisard, Noel and J. Michael Harris “Household Food Spending by Selected Demographics in the 1990s” ERS Agriculture Information Bulletin No. 773, August 2001.

International Cotton Advisory Committee, “Production and Trade Policies Affecting the Cotton Industry,” July, 2002.

OECD, Farm Household Incomes in OECD Countries, January 2003.

World Bank, Global Economic Prospects, 2002.