

Agricultural Trade and Poverty Reduction: Opportunity or Threat?

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Executive summary

Global agricultural trade has increased tenfold over the past four decades, despite the long-term downward trend in commodity prices. However, the expansion in agricultural trade is unevenly distributed across continents. As a proportion of world trade, developed country imports have fallen steadily, while their exports have risen. The rich world has outpaced the poor world in the very area where developing countries are supposed to have a comparative advantage. This is particularly important in that 75% of the world's poor live in rural areas.

In debating the links between agricultural trade and poverty, opinions differ sharply on what constitutes the most credible source of evidence. There are three broad methodological approaches: (a) descriptive and/or qualitative, for example, case study based; (b) data based and/or survey related; or (c) general equilibrium modelling-based. All have their strengths and weaknesses.

While the contribution of economic growth to poverty reduction is well established, identifying the poverty impacts of trade reforms is problematic. There are relatively few case studies or database exercises, while models face difficulties in disaggregating the impact to a sufficient degree. Further difficulties arise in establishing the differential impact on net food producers and consumers, given the complex interlinkages between production, income and consumption in rural areas.

What is clear is that agricultural growth is the best way to reduce poverty, but does not have to be based on exports. Successful examples of agricultural growth in the 1990s show three broad patterns of growth: Extensive exporters (Chad, Ghana, and Benin); Intensive exporters (Belize, Ecuador, and Peru) and Intensive cereal based production for both export and domestic consumption (e.g. China, Vietnam, Egypt). Given the increasing constraints in export markets posed by standards and low commodity prices, many poorer countries, particularly in sub-Saharan Africa, may find cereal-based intensification provides the most promising avenue for sustained agricultural growth.

In addition to questions over the poverty impact of different agricultural trade policies, a number of issues exist in which the current evidence base is insufficient to give policy makers the guidance they need. Firstly, numerous obstacles to trade drive a wedge between predictions from modelling and observed outcomes: they include growing market concentration and supply side constraints (both discussed in other working papers in the series) and the growing problem of standards. Small-scale farmers are increasingly being excluded from a growing sector comprising large farmers and some of the more prosperous smallholder sub-sectors contracting into modern supply chains, given the difficulty in meeting quality requirements which require major investments and the ability to obtain and respond to timely market information.

Ideas for alleviating the burden that compliance places on developing countries include the harmonisation of standards between different importers; regional cooperation to reduce costs via regional standards bodies; introducing an early warning system to alert developing countries to proposed new standards, and establishing equivalence between national standards in developing and developed countries.

There is also a debate, and a need for more research, on how best to ensure access to export markets for smallholders. Smallholders in Latin America appear to have had greater success in riding the globalization wave than their counterparts in Africa and

Asia. Whether smallholders have benefited or been hurt is determined by a fairly narrow range of issues – vertical coordination with processors or exporters, access to infrastructure and credit, role of public sector and international involvement in capacity building and alternatives available in non-farm sector. Small, but rapidly growing fair trade and possibly organics markets provide areas where standards are an opportunity for smallholders, rather than a threat.

Agricultural trade negotiations have come to dominate the Doha round and other fora. Different developing countries are likely to require different combinations of export promotion and import substitution in agriculture, and so will need to explore different combinations of offensive and defensive strategies in trade negotiations. In terms of developed country policy reforms, the need to end export subsidies and improve access to northern markets for developing country products is relatively uncontroversial.

The role of the state is critical in agricultural take-off. Recent history suggests that before a country can move from low intensity, semi-subsistence agriculture to generating a surplus, an intermediate phase is required in which the process of transformation is “kick-started” with the assistance of a series of government interventions to reduce risks to producers seeking to invest in improved technologies, and enabling access to seasonal credit and to input and output markets on more favourable terms. Without such intervention, necessary investments in agricultural activities will not be made.

Given this analysis, the reforms of the last 20 years towards greater openness and a reduced role for governments may have damaged the prospects for growth in the agriculture sector of many reforming countries. By pushing such reforms, donors have effectively (if inadvertently) ‘kicked away the ladder’ of development.

There is a good deal of disagreement over the most appropriate pro-development trade rules for developing countries. Areas of dispute include the most poverty-reducing approach to setting tariffs, particularly on staples, the role of state trading enterprises, and more generally the level of ‘policy space’ required to enable developing countries to set the most appropriate development policies.

The paper concludes with proposals for closing the evidence gap, based on the previous discussion.

1. Agricultural Trade: What is the issue? Why Does it Matter?

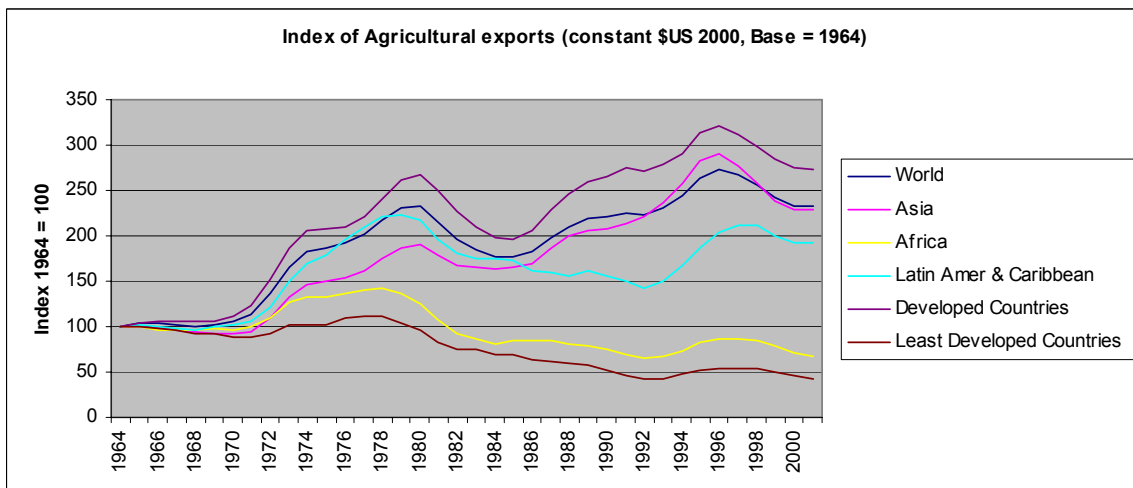
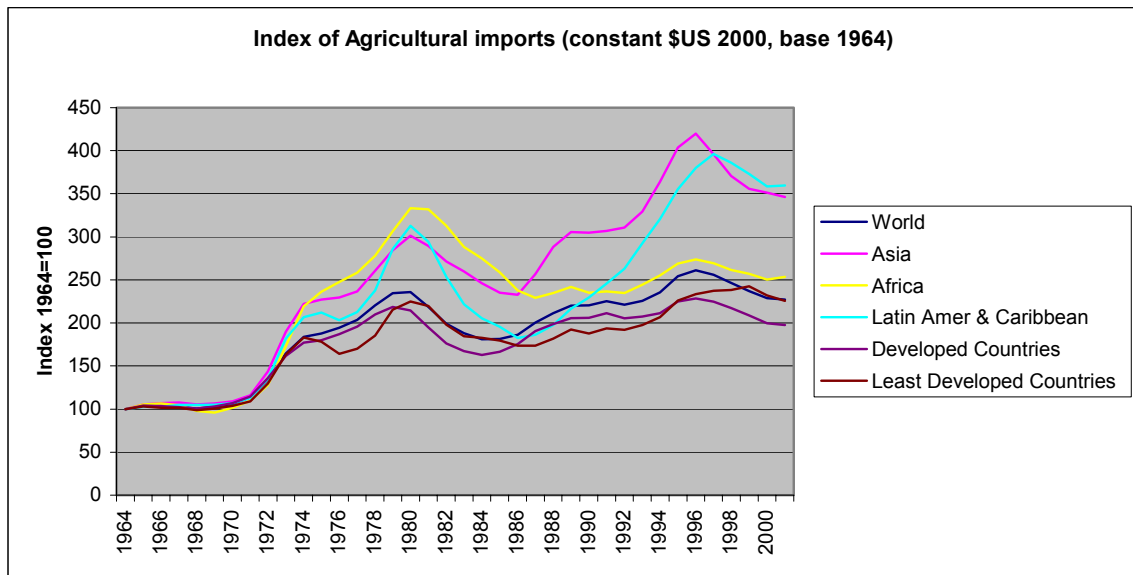
1.1 Evolution of trade in agricultural products

Global agricultural trade has increased tenfold over the past four decades from \$45 billion in 1965 (nominal values) to \$450 billion in 2000. This despite the long-term downward trend in commodity prices.

However, the expansion in agricultural trade is unevenly distributed across continents (see figures 1 and 2). As a proportion of world trade, developed country imports have fallen steadily, while their exports have risen. In imports, the main shift has been the growing proportion of imports going to Asia, while in exports, Africa has seen its share of world exports drop from 11% to just 3%. The rich world has outpaced the poor world in the very area where developing countries are supposed to have a comparative advantage.

Figures 1 and 2: Growth in Regional and World Trade, 1965-2000

Source: FAOSTAT



Since around 1990, however, a further shift seems to have occurred (see Table 1), although the change is still too incipient to mark a definite trend. In recent years, developed country market shares have ceased growing and even slipped back slightly, while Latin American exports have rebounded somewhat. This reflects the rise in a small number of developing

country agroexporters such as Brazil and could herald a long-term shift in the attitudes and negotiating stances of both developing and developed countries.

Within developing country agriculture there has been a move towards high-value food products such as poultry, pork and fish. Over the past 25 years, production of these has grown at 5-8% a year, and consumption has also risen as diets have moved away from starchy staples towards meat and dairy products. In the case of poultry and fish, trade expansion has easily outpaced domestic consumption. The aggregate value of net fisheries exports from developing to developed countries now often exceeds the combined value of net exports of coffee, tea, cocoa, bananas and sugar (Delgado et al, 2001).

Table 1: Regional trade as % of world market, 1965-2000

Table 1 Regional imports as a percentage of world agricultural imports

REGION	1965	1970	1975	1980	1985	1990	1995	2000	2002
Africa	4%	4%	5%	6%	6%	5%	5%	5%	5%
SAA as % Africa	50%	54%	41%	46%	39%	41%	42%	45%	48%
Asia	18%	19%	22%	23%	23%	25%	29%	28%	26%
East & South East Asia as % Asia	16%	20%	17%	18%	18%	21%	24%	23%	24%
South Asia as % Asia	18%	12%	9%	5%	7%	4%	5%	7%	7%
Latin America & Caribbean	4%	4%	5%	5%	4%	4%	6%	6%	6%
Least Developed Countries	2%	2%	2%	2%	2%	2%	2%	2%	2%
Developed Countries	80%	81%	77%	73%	74%	75%	71%	70%	71%

Source FAOSTAT (2004)

Table 2 Regional exports as a percentage of world agricultural exports

REGION	1965	1970	1975	1980	1985	1990	1995	2000	2002
Africa	11%	10%	8%	6%	5%	4%	3%	3%	3%
<i>SAA as % Africa</i>	68%	70%	70%	72%	79%	72%	72%	71%	69%
Asia	15%	14%	13%	13%	15%	15%	17%	16%	16%
East & South East Asia as % Asia	40%	39%	45%	48%	44%	41%	43%	42%	43%
South Asia as % Asia	24%	20%	16%	15%	13%	10%	9%	11%	11%
Latin America & Caribbean	15%	14%	14%	14%	14%	10%	10%	12%	12%
Least Developed Countries	5%	5%	3%	2%	2%	1%	1%	1%	1%
Developed Countries	61%	64%	67%	69%	67%	72%	71%	71%	70%

Source FAOSTAT (2004)

1.2 Agriculture and Poverty

For DFID, the issue is not agriculture or trade *per se*, but their ability to reduce poverty and vulnerability and provide a launchpad for long-term sustainable development. Other papers in this series demonstrate that agricultural growth is uniquely effective at reducing poverty, not least because an estimated 75% of the world's poor live in rural areas (Ingko and Nash, 2004). The policy challenge then becomes: what kind of trade policies and rules lead to pro-poor agricultural growth? Areas of debate include the relative importance of trade rules and trade 'realities', such as supply side constraints; the impact of changing international market structures and domestic liberalisation; the poverty impact of different agro-exports and of import surges, and the relative merits of export promotion versus import substitution in agriculture. This paper sets out some initial thinking on these issues.

1.3 The evolution of rules on agricultural trade

As policy makers struggle to discern the best way to use agricultural trade to achieve national development aims, they face a complex set of trade negotiations and bilateral and multilateral pressures for reform. These pressures often have little to do with national development needs and in some circumstances can even undermine them.

Moreover, debates on agriculture and trade are seldom dispassionate. Agricultural trade has become perhaps the hottest political topic in international trade policy and in many domestic political debates, as agricultural trade reform has prompted opposition from farmers' organisations in both developing and developed countries, many of them with considerable influence.

Formal trade rules (informal rules are also set by private entities such as supermarkets) are formulated at a number of levels: domestically (unilaterally), bilaterally; regionally, or between regions; and multilaterally—for the most part at the World Trade Organization, but trade-related rules that affect agriculture are also discussed at UNCTAD, the Cartagena Protocol on Biological Diversity, *Codex Alimentarius* and elsewhere.

Unilateral

The most significant unilateral agriculture and trade policy reform has taken place in developing countries, as part of structural adjustment and economic stabilisation programmes. Among OECD members, only New Zealand and Australia have experimented with deep and radical liberalisation of agriculture. The overall intention of unilateral reforms in developing countries was to reduce the perceived bias against agriculture, particularly towards exports, in the domestic policy of many developing countries (see for example Schiff and Valdes, 1992). Experience of this unilateral liberalisation has been mixed.

Multilateral

Protectionist agricultural trade policies in developed countries are widely seen to have significant negative impacts on developing countries (although the specific impact on poverty is more disputed).¹ However, multilateral negotiations aimed at reducing this protectionism remain controversial. Since the end of the Second World War, governments have made considerable progress in freeing trade in manufactured goods through successive agreements of the General Agreement on Trade and Tariffs (GATT). Governments, however, consistently excluded agriculture from successive GATT Rounds until the Uruguay Round concluded a specific Agreement on Agriculture (AoA) in 1995.

Commitments under the AoA were structured around three pillars, namely: measures to improve market access for agricultural goods by the elimination of non-tariff barriers, and the binding and reduction of tariffs; reductions in domestic support to agriculture that distort international markets; and steps to reduce and eventually eliminate export subsidies.

Although the United States and the European Union have often been accused of setting baselines and commitments so as to avoid having to make significant changes to their agricultural trade policies, the agreement has been a catalyst for reform to the type, if not the volume, of support. Both the US and the European Union have instituted major changes to their agricultural programmes: the US in 1996 and the EU in a series of reforms starting with the McSharry reforms in 1992 and still continuing. Reforms have not reduced spending on agriculture (if anything, the reverse is true). However, the tools that formerly shaped policy, including production-limiting incentives and the protection of domestic production behind

¹ For example the World Bank, stated in Ingco and Nash (2004), advocates a reduction in trade distorting policy in industrialised countries and reductions in non-tariff barriers and tariffs by both developed and developing countries. The World Bank argues that trade integration is a key mechanism for achieving the Millennium Development Goals (MDGs).

high tariff walls, are being replaced with income support payments, somewhat lower tariff levels and the elimination of export subsidies on a number of products.

²Governments are now engaged on a review of the AoA, as part of the wider Doha Agenda of multilateral trade negotiations at the WTO. The Doha Agenda specifies that negotiations should reflect *special emphasis on the need for greater recognition of developing country requirements*. Agriculture is perhaps the most important item—certainly from a political perspective—on the Doha Agenda. Trade ministers are committed “without prejudicing the outcomes” to agricultural negotiations aimed at “substantial improvements in market access; reductions of, with a view to phasing out, all forms of export subsidies; and substantial reductions in trade distorting domestic support”.

Regional and Bilateral Agreements

There are an ever-expanding number of bilateral and regional trade agreements, almost all of which now include agriculture (although, like the GATT, agreements such as ASEAN and the European Coal and Steel Community initially excluded agriculture). Sometimes the agreements link countries at quite different levels of development—the North American Free Trade Agreement (NAFTA), the Economic Partnership Agreements (EPAs) currently being negotiated between the European Union and groups of its former colonies, and the South Pacific Regional Trade and Economic Agreement (SPARTECA). More typically, they occur among countries at more similar levels of development, such as the Common Market of Eastern and Southern Africa (COMESA). Some regional associations are now in discussion with others—for example, the European Union has pursued a series of bilateral agreements with countries, but also with Mercosur, the common market agreement among Brazil, Argentina, Uruguay and Paraguay.³

The literature on regional agreements presents a mixed verdict. Some commentators fear that regionalism diverts trade into less efficient channels and undermines progress at the multilateral level, while others see the agreements as a useful building block in increasing the overall openness of the world economy. A common concern when partners of different economic power negotiate is that the weaker partners' concerns, which may include development, will be neglected. On the other hand, some agreements among countries that are similarly disadvantaged in world markets can strengthen the individual members by offering a more sheltered space within which to realize the benefits of larger market than the domestic market alone.

Different types of trade agreements impose different levels of constraints and irreversibility on national trade policies. In general, WTO disciplines are shallow but irreversible, while unilateral pressures from donors such as the IMF tend to go further than WTO disciplines, but are easier to reverse. Oxfam (2004) point to the case of Ghana, where the 2003 budget, approved by parliament, raised tariffs on poultry imports by 40% in response to a surge of European poultry imports. Although this was well within Ghana's bound tariff rate of 100%, IMF staff brought pressure to bear on the government, which reversed the decision without consulting parliament. However, such unilateral steps can be reversed by governments, while multilateral commitments are effectively 'locked in' by the difficulties of renegotiation, which leave governments with the unpalatable options of leaving the WTO or risking legal challenge by breaking their WTO commitments.

After the failure of the Cancun ministerial in September 2003, it appeared that regional trade agreements might eclipse the WTO as the main battleground of trade reform. In particular, ACP countries face tough negotiations with the EU on Economic Partnership Agreements,

² Update post General Council

³ A full list of regional agreements can be found on-line at the WTO website: http://www.wto.org/english/tratop_e/region_e/region_e.htm

which the EU wants to be in place by the end of 2007, when the current WTO waiver expires.

2. Current Evidence: Models v Reality

2.1 What constitutes evidence?

No-one is against ‘evidence-based policy making’ but opinions differ sharply on what constitutes the most credible source of evidence. Many of the sharper disagreements on trade issues stem from this disagreement.

Some reviews of research on the relationship between trade and economic policy reform and poverty alleviation classify the methodological approaches adopted according to whether they are (a) descriptive and/or qualitative, for example, case study based; (b) data based and/or survey related; or (c) general equilibrium modelling-based approaches.

In assessing the relative merits of these approaches, FAO (2003b) distinguishes between those studies in which the focus is *ex post*, i.e. investigating the actual impact of reform and those that attempt *ex ante* to determine the likely impact of a potential reform.

FAO notes that while case study approaches may be considered most appropriate in conducting *ex post* investigations, disentangling the impacts of policy reforms is complex. For example, announced policy reforms are not always fully implemented and other factors, such as terms of trade declines, climatic variation, and the effects of past policies, can all muddy the analysis.

Cross country regressions have been used in an attempt to isolate *ex post* the relationships between trade, growth and poverty indicators at the national level, while partial equilibrium approaches using household expenditure data have examined the impact of changes in commodity markets on poverty indicators. However, as Sahn et al. (1997) argue, while quantitative analysis can more fully address the counterfactual question of what would have occurred in the absence of reforms, they require substantial data and the results can differ substantially both between similar approaches with slightly different data sets, and between those adopting case study investigation where assumptions “substitute” for less than complete information.

Ex ante analyses sometimes use partial equilibrium approaches, but have been primarily based on general equilibrium models. Both are open to criticism, in particular over their underpinning assumptions, but despite their weaknesses, such models have proved seductive to policy makers, in that they provide simple messages, look forwards rather than backwards, and put numbers, however questionable, on the benefits of this or that trade reform. Kay (2003) sees models as ‘little stories’ that are ‘like a biblical parable – neither true nor false: only illuminating or unilluminating’. In practice, however, non-economists frequently push them much further than this in policy debates.

2.2 Trade Liberalisation and Growth: What the models tell us

Taking the assumption that trade reform will increase global welfare as read, a field of research based around global Computable General Equilibrium (CGE) models has attempted to estimate the magnitude of the welfare gains associated with reduced protectionism. Economists and trade negotiators often use these models to support the argument that trade liberalisation benefits both the reforming country and its trade partners.

The models use a wide range of assumptions and methodologies. It is therefore not surprising that in his survey of the different model results, Anderson (2004b) shows estimated gains from full liberalisation of agriculture that range from a maximum of \$2080 billion per year to a low of \$254 billion per year.

Despite the variations, the CGE models suggest very large welfare gains would be generated by liberalising agriculture, making it a tempting policy objective. However, it is hardly

surprising that a model that starts with the assumption that a free market will lead to the most efficient allocation of resources then shows that liberalisation will lead to welfare gains. Two questions clearly arise: (a) does experience support the contention that trade expansion (through trade openness) creates economic growth and reduces poverty? And, (b) if this is the case, do the CGE models allow us to determine where the welfare gains (and as importantly the losses) from trade reform fall?

2.3 Trade Liberalisation and Growth: are the modellers right?

The debate over whether the prediction that trade liberalisation leads to growth is supported by the evidence continues to rage. Bolaky and Freund (2004) characterise the debate that has arisen around these studies as a “horse race” between those who find a significant relationship between openness and growth (and sometimes poverty reduction) notably Dollar and Kraay (2002), and those who are sceptical that the link exists. The most prominent sceptic is Rodrik (2001), who suggests, “there is no convincing evidence that trade liberalisation is predictably associated with subsequent economic growth” and that studies that suggest that there is evidence are “misattributing macroeconomic phenomena to trade policy⁴”. Rodrik (2003) stresses the lack of congruence between policy prescription and economic performance, arguing that the Latin Americans have been the world’s most enthusiastic liberalizers since 1980, yet the region’s growth performance has been significantly below pre-1980 levels, while successful traders like South Korea barely score half marks against the liberalisation check list of the Washington Consensus. Overall, Rodrik finds that the only “systematic relationship is that countries reduce barriers as they get richer” indicating that initial economic growth was often generated when behind trade barriers.

More surprisingly, perhaps, some prominent supporters of trade liberalization have little time for the modelling approach. Wolf (2004) concludes that ‘standard empirical estimates of the impact of trade policy on growth are close to worthless’, while Srinivasan and Bhagwati (1999) see the experience of countries that liberalised in the 1960s and 70s as far more compelling evidence in favour of liberalisation.

Moreover, even the studies that support the hypothesis that there is a positive relationship between liberalisation and growth also show exceptions—countries that have not gained significantly (or at all) from reform. Winters (2001) argues that although he believes that trade liberalization does aid economic growth, it “may have some adverse consequences for some – including some poor people – that should be avoided or ameliorated to the greatest extent possible”. He suggests that rather than using this fact as a reason for resisting reform, it should “stimulate the search for complementary policies to minimize adverse consequences and reduce the hurt that they cause”.

Pronk (2004) also believes that openness is better but acknowledges that it is important to ask “what if the domestic conditions required to benefit are not met – is more openness still good?” and “could more open trade lead to a weakening of institutions, less stability, or a deterioration of market conditions?”

2.4 Trade Liberalization and agricultural growth: what appears to have happened?

⁴ There is some ambiguity over the definition of openness and whether it is measured by the ratio of trade to GDP or the type of policy regime. Thus a largely illiberal regime like South Korea can end up being held up as an example of success through openness, and thus of the merits of liberalisation. Sachs and Warner (1995) for example use type of exchange rate regime as a proxy for an open or closed economy. It is notable that in the majority of reform episodes investigated in FAO (2004 forthcoming) changes in the real exchange rate were dominant in explaining changes in price incentives, with sectoral trade policy playing a minor role.

Agricultural growth is key to poverty reduction and forms the basis of most sustained successful development stories. Given the current emphasis on trade as a means of achieving take-off, it is noteworthy that the historical record shows that increased exports are often, but not always, essential to sustained agricultural growth. Dorward and Morrison (2000) review a selection of case study experiences where the agriculture sector grew in excess of 2.5% compound per annum during the 1990s. They found three broad patterns of growth (see Box 1).

Box 1 Sources of agricultural growth

Extensive exporters (Chad, Ghana, and Benin) are broadly characterised by reliance on non-staple tradable crops and on area expansion for the major part of agricultural growth. In some of them, non-tradable staple food crops have also been an important component of agricultural growth, but again due largely to area expansion.

Intensive exporters (Belize, Ecuador, and Peru) have relied on growth in non-staple tradables as the major source of growth in agriculture but as compared with the first group there is more reliance on increased yields (as opposed to area expansion) and there is more diversification into export commodities and in intensive staple crop production.

Intensive cereal based countries' agricultural growth has included major productivity gains in the production of staple, tradable crops. This group includes rice-based agriculture of Vietnam and China and the more mixed cereals grown in Egypt. This grouping includes countries not only of widely differing size, but also with widely differing per capita incomes and with differing current structural roles for agriculture. The emphasis placed on expanding the production of tradables should not, however, be taken to mean that non-tradables are unimportant. Growth in production of non-tradable agricultural products may be critical for sustained agricultural growth that captures the maximum linkage benefits from the stimulus of increased production.

Source Dorward and Morrison (2000)

This gap between theoretical prediction and actual outcome can be explained in terms of the plethora of market failures and distortions affecting agriculture and agricultural trade. Supply side constraints such as the absence of decent infrastructure, effective credit markets or market information are endemic in many developing countries and have played a role in preventing liberalization from producing the expected benefits. They are the subject of other working papers in this series.

When considering the implications for today's policy makers, it should be recognised that developing countries arguably face more difficult export market conditions now than in previous decades: commodity prices are lower, use of sanitary and phytosanitary standards (SPS) has increased considerably and market concentration has also increased. For many poorer countries, particularly in sub-Saharan Africa, the third avenue identified by Dorward and Morrison, namely cereal-based intensification, may well provide the most promising avenue for sustained agricultural growth.

Panagariya (2004) goes further, suggesting that the majority of LDCs will actually be hurt by the removal of agricultural subsidies and perhaps even tariffs in developed countries because the major beneficiaries will be the reforming countries themselves and the Cairns group countries with their comparative advantage in agriculture. He contends increased exports will not necessarily offset reduction in real incomes in importing countries.

Caution is also warranted over the oft-recommended panacea of non-traditional agroexports. Reviewing their potential for African agriculture, Diao et al (2003) find that even with optimistic projections of 14% growth per year, per capita agricultural incomes for Africa would only grow by an extra 0.2% per year. The result stems from the low base – Africa's non-traditional agroexports averaged \$7 billion per annum in 1996-2000.

Agricultural Trade and Poverty

Whilst the contribution of economic growth to poverty reduction is well established (e.g. UNCTAD 2004), identifying the poverty impacts of trade reforms is problematic. Firstly, the nature of 'poverty' is contested. Conway (2004) sets out the spectrum of definitions of poverty from income poverty to the broader definitions incorporating vulnerability and voice. He points out that empirical work has shown that the poor often make trade-offs between poverty and vulnerability, opting to minimise risk, rather than maximise income, and so a wider conception of poverty can help explain why the poor find it hard to take advantage of the opportunities presented by liberalisation. Conway identifies four channels by which trade liberalisation could affect poverty: consumption (prices faced by poor households); income (returns to labour, assets and production); provision of public goods (health, education etc) and security (capacity to mitigate risk and cope with shocks). In most cases, however, analysis is conducted largely in terms of income poverty.

Secondly, when discussing trade liberalisation, it is important to distinguish between liberalisation by the country concerned and that of its trading partners. Both bring different costs and benefits. Own-liberalisation should benefit consumers by lowering prices, and reduce input costs for producers (although this is often reversed by accompanying exchange rate devaluations). However, producers may also face competition from cheap imports that can outweigh the benefits. Liberalisation by trading partners should improve both volumes and prices for exports, thereby benefiting producers of export crops.

FAO (2000) studied the impact of import liberalisation in 14 countries and found that since the 1980s, with trade reforms and unilateral trade liberalization in many developing countries, there have been more frequent import surges by country and by product. In Haiti, Oxfam International (2002) found that a combination of import liberalisation and food aid had reduced local rice production from more than 110,000 tonnes in 1985 to around 80,000 tonnes in 1995, with negative impacts on small producers.

Oxfam also found negative impacts from trade liberalization under NAFTA on maize farmers in Mexico (Nadal 2000). This is disputed by the US Department of Agriculture, which argues that Mexican producers by and large produce white corn, which is for human consumption. USDA claims that most of the corn that the US is sending to the Mexican market is yellow corn intended for livestock feed (USDA 2003), but Oxfam (2003) responds that white corn was previously fed to animals, but has now been replaced by imported yellow corn, thereby reducing demand for domestically produced maize.

More recent work by the FAO has pointed to the complex way in which such import surges impact on domestic production. In Senegal, the FAO found that import liberalisation had led to a surge in poultry imports share of imports in domestic consumption from only 1 percent in 2000 to an estimated 19 percent in 2002. However closer investigation showed that traditional poultry sector, characterized by backyard operations of small producers who sell live chickens in local markets, appeared not to have been affected by rising imports. Instead these had largely displaced commercial broiler houses. The import surge had thus had less poverty impact than if it had displaced small farmer production (FAO 2004).

Attempting to infer on the basis of household level income and expenditure data that a given agricultural supply response has resulted in reduced poverty is equally difficult. In Uganda, for example, economic and trade reform induced significant output increases in key export

commodities, but there have been very limited reductions in levels of undernourishment. Within countries there are also sharp distinctions between regions. In Ghana, where the agricultural supply response following reform has been positive, declines in food insecurity did not occur evenly across different groups. The proportion of households not able to meet minimum nutritional requirements declined by more than 80% in Accra, the capital city, while the proportion of households not able to meet minimum nutritional requirements increased in the 1990s in the rural Central, Northern and Upper East regions. In Ghana, price incentives resulting from the economic reforms appear to have favoured export crop farmers which tend to have higher real household incomes, higher real household expenditure and real food expenditure per capita than households headed by food crop farmers. (FAO, 2004 forthcoming).

A key reason for these complexities is that trade policy reform does not occur in isolation from other policy and institutional changes. Agricultural trade policy reform in many SSA economies has been a component of a wider package of reforms. FAO (2004 forthcoming) argues that exchange rate devaluations had a far more significant positive impact on domestic producer prices than changes in levels of border protection.

The expected impact of price changes on production is often missing. Of the 150 episodes for which data is presented in FAO (2004) on both price and production changes, in only 66% of cases is the response in the direction expected, with 34% of cases either reporting an increase in production when prices are falling, or a decrease in production in face of increasing prices. In Kenya and Tanzania, sectoral output dropped in spite of real price increases. Malawi shows the opposite effect of increasing output across a range of products in spite of declining price.

Faced by the difficulty of isolating the impact of trade policy, analysts have largely resorted to *ex ante* analyses. The World Bank's Global Economic Prospects 2004 provides an example of a simulation exercise attempting to identify the number of individuals lifted out of poverty under a pro-poor trade reform scenario. Under this scenario, rich countries would be subject to a maximum agricultural tariff of 10% and an average of 5% and developing countries, 15 and 10% respectively (with similar changes in manufacturing tariff). In addition, export subsidies would be eliminated and domestic support decoupled. This reduction in agricultural protectionism and support is predicted to result in a gain of \$193 billion by 2015 (2/3rds of the total gain from all merchandise trade reform). In terms of poverty reduction, the number of people on less than \$2 per day would fall by 144 million, with the greatest gains forecast in SSA.

The GEP 2004 analysis has been questioned on the grounds that it included the impact of own liberalisation as well as others' liberalisation, and used a model that did not have preferences or regions in it. World Bank researchers plan to address these failings in future work. Other attempts to take into account the reality that any liberalisation will only be partial arrive at very different conclusions. Achterbosch et al (2004) calculated the consequences for Africa, and found that partial reforms eroded preferences for African producers, but failed to provide them with compensating improved market access to other markets.

Whilst CGE models can be used to simulate the impact of such policy change, they tend not to be sufficiently disaggregated to enable household level responses to policy change to be satisfactorily modelled. If, as evidence suggests (see for example Dorward et al 2003), households respond in quite different ways to changes in price and non-price incentives, estimated values such as those presented in GEP, which assume identical response within, and in some cases across countries, are of limited value. This is a particular issue with the agriculture sector, where many agricultural producers are actually net consumers of food and do not therefore necessarily gain as a result of food price increases.

Here again, complexity rules. McCulloch et al (2001) ask: "are net consumers of food nevertheless part of the rural economy and thus potential beneficiaries from agricultural liberalisation even if prices rise?" Anderson (2004a) finds (for Sub-Saharan Africa) that "the vast majority of the poor would benefit directly [if a food price rise is transmitted domestically]. This is because they are in farm households and are net sellers of food. In other words, they would directly benefit through higher prices and incomes".

3. Areas of Remaining Debate and Disagreement

Given the contested nature of the evidence on agriculture, trade and poverty, it is perhaps hardly surprising that there are relatively few areas of consensus. Some key areas of debate include market structures, standards, and the role of smallholders.

Smallholders and agroexports

In what conditions can smallholders benefit from producing agroexports? Given the many obstacles described below, might smallholders be better advised to concentrate on the shrinking portion of developed country markets where traditional marketing chains continue to play a role? In developed countries, research by Reardon (2002) and others suggests that supermarket penetration appears to plateau at about 75% of the food market with the residual characterised by less diverse, inferior quality and lower priced products with associated potentially lower margins for producers.

Delgado et al (2001) are more sanguine about the opportunities for smallholders. In the case of high value food products such as poultry and fish, they argue there are two key strategies to keep smallholders involved: producer marketing cooperatives and contract farming schemes. However, without proactive policies in these areas, Delgado warns, 'the industry in developing country splits: industrial livestock and fish sectors occupy expanding markets, and a static smallholder sector competes for the low end of the domestic market'.

Surveying the impact of globalization on smallholders, Narayanan and Gulati (2002) conclude, 'smallholders in Latin America appear to have had greater success in riding the globalization wave than their counterparts in Africa and Asia... whether smallholders have benefited or been hurt is determined by a fairly narrow range of issues – vertical coordination with processors or exporters, access to infrastructure and credit, role of public sector and international involvement in capacity building, alternatives available in non-farm sector etc. The search is then for policies that can successfully address these issues.'

Alternatively, smallholders could opt to concentrate on domestic markets, but even those are not safe from the onward march of the supermarkets and their standards. Supermarket penetration in developing countries is expanding rapidly, often bringing in its wake 'northern' quality standards.

The relative merits of agroexports and production for domestic consumption have received relatively little attention. In a much-quoted study, McCulloch and Ota (2002) analysed the poverty impact of the growth of Kenyan horticulture exports. Using the results of a household survey in Kenya undertaken explicitly to compare the incomes of households involved in export horticulture with those that are not, they found evidence that horticultural smallholder households in rural areas have higher incomes than the households of workers on farms owned or contracted by the large horticultural exporters. In contrast, non-horticultural smallholders are significantly poorer than both workers on contract farms and horticultural smallholders. Finally, a simulation exercise showed that enabling more households to participate in the sector could reduce poverty substantially in both urban and rural areas. These findings are important, but based on a relatively small number of households (263 in all) more research of this kind would clearly be valuable in clarifying the linkages between smallholders, poverty reduction and agroexports.

In some as yet underdeveloped niche markets, the mere fact of being a smallholder becomes a source of comparative advantage. While still small relative to the mainstream market, fair-trade brands are growing fast, based largely on products such as coffee and tea supplied exclusively by smallholders. Opportunities also arise from the growing demand for organics, although the cost of certification is a significant deterrent. Writers such as Jason Clay of World Wildlife Fund US see this as the start of a growing focus on production process and

manufacture (PPM) methods affecting social and environmental outcomes that could spill over into more mainstream markets to the benefit of smallholders. Working Paper XX discusses fair-trade products in more detail.

Market Structures

Market structures seldom resemble the perfectly informed and competitive markets of economic theory. The evolving debate on the role of the state, and changes in the nature of international agricultural markets, both have important consequences for the trade and poverty debate.

Market Concentration: Recent decades have seen a wave of mergers and takeovers produce global oligopolies in a number of agricultural trade sectors. Empirical evidence shows a growing disconnect between prices paid by consumers and prices received by producers. According to the International Coffee Organization, in the early 1990s, coffee-producing countries earned US\$10-12 billion from their coffee trade, about a third of the value of final retail sales. Today, retail sales have more than doubled, to US\$70 billion, but the revenue to coffee-producing countries has dropped in half, to some US\$5.5 billion (Osorio, 2002).

This issue is discussed in more detail in the Commodities Working Paper (11), as are policy proposals for curbing restrictive business practices at an international level.

Supply Side Constraints: To expand exports, a country's producers have to be able to provide traders with a reliable supply of the right quality products. Key constraints such as lack of infrastructure, market information, credit and technical know-how apply equally to production for both domestic and international markets, and are discussed in Working Paper XX.⁵

The Role of the State: Trade liberalisation is traditionally seen as part of a wider reform package, described by Kydd and Dorward (2001) as the 'Washington Consensus on Agriculture' (WCA). This built on the term coined in 1990 by Williamson to describe a set of analyses and prescriptions promoted by the Washington institutions. The WCA portrays agriculture as undercapitalised and uncompetitive on world markets and puts this down primarily to intrinsic policy and institutional failures. These include the suppression of agricultural incentives through discriminatory macro, trade and industrial policies, excessive taxation of agriculture and inefficient delivery of services by state parastatals. The latter have also been blamed for causing the reduction in Africa's export market share (see section 1) and inhibiting diversification.

The policy prescription arising from the Washington Consensus on Agriculture involves two interrelated processes: increased opening of markets and a reduced role for the state. However, Dorward et al (2004) argue that reforms towards greater openness and a reduced role for governments may have damaged the prospects for growth in the agriculture sector of many reforming countries. This is because countries go through phases of agricultural modernisation and growth and in different phases, significantly different policy interventions will be required, many of which have been precluded by structural adjustment and other reforms. By pushing such reforms, donors have effectively (if inadvertently) 'kicked away the ladder' of development (Chang 2002) by insisting on a minimal role for the state at just the point when state intervention is required to facilitate take-off.

Essentially, Dorward makes an infant industry argument for agriculture: state intervention is necessary to achieve agricultural take-off, but should then be progressively reduced to ensure market disciplines maintain producer competitiveness. Griffith (2004) argues that the broader

⁵ Note to editor: Which WP is covering supply side constraints?

sweep of history bears out this argument: today's agroexporting developed countries relied on heavy state intervention during earlier take-off periods.

Using India as an example, Dorward argues that, before a country can move from low intensity, semi-subsistence agriculture to generating a surplus, an intermediate phase is required in which the process of transformation is "kick-started" with the assistance of a series of government interventions. These are aimed at reducing risks to producers seeking to invest in improved technologies, and enabling access to seasonal credit and to input and output markets on more favourable terms. Without such intervention, necessary investments in agricultural activities will not be made.

This reasoning suggests that local production of staples may need support and/or protection in early stages of agricultural development⁶. However, as Dorward et al (2004) note, it can be difficult to support such production in small countries with porous borders, where the opportunities for bypassing border controls to obtain increased prices on the local market are high and therefore the fiscal cost becomes excessive. Dorward et al have suggested that regional common markets may be one possibility for overcoming this.

Standards⁷

Developing country producers must meet a panoply of ever-more demanding product standards if they are to sell to retail outlets in developed countries. Small-scale farmers are increasingly excluded from a growing sector comprising large farmers and some of the more prosperous smallholder sub-sectors contracting into modern supply chains, given the difficulty in meeting quality requirements which require major investments and the ability to obtain and respond to timely market information.

Standards are both public and private, set by governments and international bodies such as Codex Alimentarius, and by large multinational corporations and buyer associations. In modern supply chains the effective setting of standards is in some sectors slipping rapidly out of the public domain, with the public standards representing minima for many commodities.

Ideas for alleviating the burden that compliance places on developing countries include the harmonisation of standards between different importers; regional cooperation to reduce costs via regional standards bodies; introducing an early warning system to alert developing countries to proposed new standards, and establishing equivalence between national standards in developing and developed countries (Catley, A. 2004).

Donors are currently trying to improve their coordination to reduce duplication and gaps in standards-related capacity building, and have proposed a Standards and Trade Development Facility (STDF) to this end, focusing particularly on technical assistance in the area of Sanitary and Phyto-Sanitary Standards (SPS).⁸ Another initiative, the Codex Alimentarius Trust Fund became operational in February 2004, funding developing country participation in Codex meetings.

A key issue in the area of standard-setting is the need to ensure the participation of developing country governments and producers (Gooding, K., 2004). Developing country participation would alleviate the widespread suspicion that importers are using standards as non-tariff barriers.

Environment

⁶ This view is reflected in Special Product provisions under debate in the WTO (see page XX)

⁷ Note to editor: Are these being covered in other WPs? If so, shorten section

⁸ <http://www.standardsfacility.org/>

Long term sustainability issues are largely absent from the debate on trade and poverty. Environmental groups have long been concerned that practices in agroexports are undermining the natural resource base on which the poor depend (e.g. deforestation, loss of soil fertility, depleted water resources, excessively high pesticide levels). Meanwhile the growing international attention on issues such as climate change has drawn attention to the externalities of agricultural trade, which are not currently taken into account in discussions of countries' competitive advantages in agricultural trade. Future debates and research agendas on agricultural trade policy will have to give much greater priority to environmental concerns. Sustainability issues are discussed further in Working Paper XX.

Trade Rules

The arguments above suggest that different developing countries are likely to require different combinations of export promotion and import substitution in agriculture, and so will need to explore different combinations of offensive and defensive strategies in trade negotiations. Offensive strategies open export markets for their products, defensive strategies protect domestic markets for local producers.

Offensive Strategies for Developing Countries:

With the exception of food industry lobby groups and some of the more radical environmentalists, the need to improve access to Northern markets for developing country products is relatively uncontroversial. Researchers and policy makers have long highlighted issues such as tariff peaks (anomalously high tariffs on particular product lines) and tariff escalation (higher tariffs on processed products than on their raw material constituents) as urgently in need of reform. Ending export subsidies has also become something of a *cause celebre*. These are used by the EU and to a lesser extent other developed countries to dispose of surpluses on the world market, thereby suppressing world prices and depriving developing country producers of opportunities on both domestic and world markets. In the development community (if not among trade negotiators), a broad consensus exists on these issues, along with the need for duty and quota free market access for LDC exports. The main (important) caveat is the problem of preference erosion – if developed countries lower their tariffs, they will reduce the benefits of their current preferential arrangements with developing countries, e.g. under the EU's sugar protocol, which guarantees a small number of ACP producers prices three times those on the world market.

The impact on developing countries of domestic support to producers in developed countries is much more disputed. In negotiating the Uruguay Round Agreement on Agriculture (AoA) it was recognised that domestic support to agriculture had the potential to distort trade via its encouragement of excess production. This surplus production depresses world prices both by displacing exports from non-subsidizing countries and by depressing prices in local markets in countries that are not protected from this dumping by tariffs. At the same time, it was recognised that not all domestic support measures cause significant distortion – payments to farmers per bushel are likely to distort production much more than paying them to maintain hedgerows. In terms of their 'distortingness', most forms of domestic support sit somewhere in between these two extremes, and controversy surrounds their impact on trade.

The AoA was a compromise that categorised policies into one of three imaginary 'boxes', according to their supposed impact on trade: The Amber Box, which includes market price support and input subsidies, was for policies deemed to be the most trade distorting and was subject to reduction commitments. The Blue Box, which allows exemptions for direct payments under production limiting programmes based on fixed area, yields or livestock units. And the Green Box, which exempts from reduction commitments those subsidies deemed to have "no, or at most minimal, trade-distorting effects or effects on production".

Particular controversy surrounds the inclusion in the Green Box of "decoupled support". Decoupled payments supposedly break the links between support payments and key market

variables including production, prices and input use. In so doing their supporters claim they make producers and consumers more responsive to world prices and therefore reduce market distortions. Critics see the creation of the Boxes as simply a mechanism to enable subsidising countries to meet WTO domestic support commitments without reducing overall levels of support. It is clear that overall spending on agriculture in developed countries has not dropped, and in some cases has increased, since the AoA came into force in 1995.

The OECD (2000) notes that any policy that transfers income to producers could have some effect on production decisions by increasing farm incomes and farmers' wealth, by reducing income risk and thereby altering farmers' expectations. The authors suggest that income support based on past performance could affect current production decisions as such payments could lead to higher investment, input use, adoption of better technology and reduction of debt constraints than would be the case without direct income support. The OECD's Agricultural Outlook 2000 - 05 states that although decoupled, US aid payments to farmers affect production levels because (i) they provide the means to invest more in production, (ii) they reduce producer perception of risk associated with future production, (iii) farmers will expect similar government responses in future periods of low prices and (iv) the top-ups will create a long-run incentive to put resources into agricultural production.

When considering which types of policy are likely to be the most distorting, it is worth noting that the total volume of payments, as well as the detailed design, is a crucial factor in determining the impact of policies on production and trade.

OECD (2004) run two scenarios of potential CAP reform, one with maximum level of decoupling permitted under the CAP reform of 2003, and one with the minimum permitted level.⁹ With the exception of rice, whose production is predicted to fall by 45%, the impact of maximum decoupling on cereal production is limited, at less than a one percent reduction for the major crops. The impacts on net exports are predicted to be marginally greater than the output reductions.

Modelling the impact of decoupling within the EU cotton sector, Karagiannis (2004) estimates a 9 - 20% reduction in production following the implementation of the EU's decision to decouple 65% of payments.

As the use of decoupled payments in developed countries increases, further research should be able to shed empirical light on such predictions, establishing greater certainty over the impact of decoupled payments on production, with a view to ensuring that the Green Box is indeed minimally trade-distorting. A further issue is whether decoupling could have a knock-on effect on other crops that have so far not received large amounts of subsidies, as farmers use their decoupled payments to diversify into products such as fruit and vegetables.

Defensive Strategies for Developing Countries

There is a good deal of disagreement over the most appropriate pro-development trade rules for developing countries. These disagreements arise among developing countries themselves, between developing countries and developed and in the wider policy debate involving academics and NGOs.

Tariffs on Imports: Contrary to received wisdom, not all developing countries have high bound tariffs, despite the leeway provided in the Uruguay Round. In a series of case studies, FAO (2003a) find that 13 out of 21 countries had average bound tariffs of greater than 40% and the remaining 8 countries had tariffs less than 40%. Of the latter, four were net food importers.

⁹ The fact that EU member states have not as yet specified the level of decoupled payment by commodity prompts OECD to use the two extremes on the continuum

In most cases the applied tariffs were significantly less than the bound tariffs (18% vs. 84%) implying some degree of flexibility. The reasons for the lower applied tariffs include the pressure to reduce barriers as part of structural adjustment programmes and the effect of regional integration.

Tariffs on sensitive products, notably food, are however generally higher and much closer to the bound rates and there is some debate as to whether these should be included in general tariff reduction. Some developing countries and NGOs point to the negative impact of import surges, following liberalisation. This has been recognised in the concepts of Special Products and a Special Safeguard Mechanism, now part of the agriculture negotiations within the WTO. Special products are a limited number of crops of particular importance to poverty reduction and rural development, in which developing countries would have greater tariff flexibility. A Special Safeguard Mechanism would allow developing countries to use temporary protection to deal with import surges. However, there is still a wide range of views on how such instruments would be defined, and the extent of their use.

State-Trading Enterprises: One of the tools used by developing countries to manage trade has been the state-trading enterprise. These enterprises (STEs) filled a variety of roles and took a number of different shapes in different countries. They are discussed in more detail in Working Paper XX, on Commodities.

It is now some five to ten years since many STEs were abolished under Structural Adjustment Programmes. Initial reviews commissioned by UNCTAD suggest that initial flurries of local private sector activity often collapsed, leaving one or two foreign transnationals occupying much the same monopoly position as the STE that was disbanded. However, the private sector had no interest or incentive to service more remote (and often more impoverished) areas, leaving an important part of the productive population abandoned by the market.

Many of the needs that prompted the creation of the STEs still persist. The changed context of international trade—in particular, the emergence of highly concentrated markets in the processing and distribution stages of global commodity chains—may strengthen the case for some kind of STE-like intervention. In many cases, the improved political accountability established through institutional reforms could strengthen the case for intervention by removing one of the most obvious criticisms of previous STE implementation. Success requires strong farmer-ownership, transparent accounts, and knowledge of global markets.

An alternative to a return to STEs may be to strengthen producer organisations such as co-operatives, enabling them to fulfil some of the beneficial functions of the defunct STEs.

More research is needed on this aspect of market failure, and how to correct it. In the meantime, it would be premature if future negotiations led to provisions that circumscribed the ability of developing country STEs to operate effectively.

Policy space and special and differential treatment: Within the WTO and to a lesser extent RTAs, the need to reconcile nationally specific development policies with multilateral rules is to some extent addressed by ‘special and differential treatment’ (SDT).

On the basis of the discussion in this paper SDT with respect to tariff reduction and domestic support commitments should be based on the stage of agricultural transformation. However, this suggestion raises a number of questions. Firstly, what is the definition of a country in the intermediate phase of agricultural transformation? One of the largest challenges for a development agency is that rural poverty as measured by sheer numbers is concentrated in some of the world’s most significant agricultural producers, and increasingly these countries are agricultural exporters, too: China, India and Brazil. Exemptions from the rules make little

sense for these countries, and yet they are home to the greatest number of people living with hunger.

Given the diversity of country situations and commodity chains it is necessary to conduct analysis at a greater level of detail. Policy analysis needs to be on a much more disaggregated level with respect to both country and commodity in order to determine whether that country/commodity is a likely “winner” in pursuit of development objectives.

Generalisations can be damaging. For example, some poor countries might benefit from improved access to markets for traditional exports, but also need to protect domestic food production, which can offer greater scope for broad-based growth. Other countries, which are at a more advanced stage of development, could benefit considerably from cheaper food imports.

At the same time, governments need to think about how incentives to improved levels of productivity might be provided at reasonable fiscal cost (e.g. price intervention for smallholders only) and without damaging the food security status of net consumers. This has implications for domestic support provisions.

4. Closing the Evidence Gap

Agricultural Trade Liberalisation and Poverty

There appears to be a dearth of empirical, case-study based evidence on the impact of agricultural trade on poverty. This applies even more to successful cases of export promotion than to import liberalisation. Issues that could be addressed include

- what role do farm structures play in poverty reduction – in what circumstances is smallholder production for export more poverty-reducing than waged labour or smallholder production for local markets?
- what are the net effects on consumers and poor producers of price shifts, import surges and production falls following import liberalisation?

Smallholders and Agroexports

In which agroexport sectors and value chains is smallholder production viable, especially in non-traditional and high value food products? What policies or institutions can help ensure viability? Why have apparently similar neighbouring countries had such dissimilar experiences (e.g. Kenya and Uganda in horticulture; Bangladesh and Taiwan in shrimp)

Standards

Further research on the practicality of small producer engagement with ever-rising standards, the value of an early warning system on new standards, the potential of strengthened producer organisations and contract farming in helping small producers meet standards.

Role of the State

Clearly, the kind of infant industry argument for agriculture discussed in this paper needs further investigation. If it is backed up by the evidence, research will also be required to establish whether the level of policy flexibility under current or proposed trade rules and structural adjustment programmes is sufficient, and the kind of institutional innovations that may be required both to deliver initial take off, and the subsequent withdrawal of the state. The role of regional integration in providing sufficiently large markets for such infant industry approaches also merits study.

Export promotion v import substitution

In light of the topics discussed above, country by country analysis is needed on the best (i.e. most pro-poor) combination of export promotion and import substitution in different countries and sectors. This could help inform developing country priorities in the WTO and other trade negotiations.

Trade Rules: Developed Country Policies

Green Box/Decoupled Payments: Further research, both empirical and via improved modelling, could help clarify the extent to which decoupled payments, as introduced in recent reforms of the CAP are genuinely ‘trade neutral’. Empirical work could cover everything from the impact of decoupling episodes to date, to participatory research with farmers on their likely production choices. Other Green and Blue Box categories of subsidy should also be reviewed in this way.

Are tariff peaks, tariff escalation and preference erosion really such a problem?

Before developing countries use up negotiating capital on these issues, they need to be clear on the extent to which they create genuine losses in exports and poverty reduction.

Preference erosion – is there any solution other than more money?

It is hard to see any enduring solution to the problem of preference erosion other than via increased aid, whether presented as such or as ‘adjustment assistance’. Research should address the thorny issue of diversification (discussed in detail on the Commodities Working Paper); the source and best disbursement mechanisms for such aid (e.g. savings from CAP, a

specific tax on e.g. sugar, a general (very low) tax on international trade, or the diversion of aid from existing budgets).

Trade Rules: Developing Country Policies

Much work still remains to make special and differential treatment operational and effective for developing countries. In general there is a growing recognition of the need for ‘policy space’ to allow a wider range of development policies adapted to national specificities, but policy makers struggle to square this approach with that of the WTO, based on a single set of rules with exemptions and longer transition times for poorer countries. New ideas are needed on this.

In agriculture, two issues stand out: a number of developing countries have invested considerable negotiating capital in inserting the concept of ‘special products’ into the agriculture negotiations. A second issue is that of State Trading Enterprises, where the July 2004 WTO framework agreement recognized the need for special flexibility for developing country STEs ‘which enjoy special privileges to preserve domestic consumer price stability and to ensure food security’. For both SPs and STEs, there is an urgent need for research into how such flexibilities should best be used.

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