Trade Can Play A Role in Agricultural Development

By Gawain Kripke | February 23, 2007

FPIF asked Anuradha Mittal of the Oakland Institute and Gawain Kripke of Oxfam the following questions:

Is it possible or desirable to construct an agricultural subsidy system in the North that protects small farmers in both the North and South? Is there a role for protective tariffs for agriculture in the global South? Some argue that agriculture should not be included in tariff reduction discussions at the WTO. Is this advisable or even possible?

This is Gawain Kripke's essay.

This year may prove critical for the intertwined puzzles of trade rules, agriculture policy, development, and hunger. A few facts to consider:

The Doha Round of global trade negotiations is sputtering to an unsuccessful end. Disputes around agriculture trade are the central obstacle.

The U.S. Farm Bill expires in September 2007, and the new Democratic Congress is expected to revise American farm programs in coming months. At stake is close to $100 billion annually in government spending on farm subsidies, food stamps, environmental programs, and related programs.

Agriculture is the most important livelihood for the poorest people. Of the 1.3 billion people who live on less than $1 per day—a common measure of absolute poverty—more than 70% rely on farming for their livelihood.

Global hunger is on the rise. According to the latest UN figures, historic progress reducing the number of hungry people has reversed in the most recent tallies. Eight hundred fifty-four million people, mostly in Africa, are undernourished.

For better or worse, all these issues are connected. And it would be very nearsighted, perhaps destructive, to address any of these in isolation from the others.

As Americans, perhaps the most proximal issue for us is the Farm Bill, which will be considered by Congress this year. The Farm Bill was initiated as "a temporary solution to deal with an emergency" in 1933, as part of the New Deal program to help rural America recover from the Great Depression and the Dust Bowl. Although the farm supports have been reformulated over the years, the programs still reflect the legacy of that era.

The current Farm Bill was enacted in 2002. It immediately became controversial—especially among our trading partners who viewed it as a major expansion of unfair subsidies promoting farm exports. Although the United States has very few "export subsidies" as defined by the WTO, the reality is that the Farm Bill helps to maintain the massive surpluses that are exported. About one-quarter of U.S. farm production is exported, so farm subsidies that encourage increased production are, effectively, export subsidies.

Competing agricultural exporters, like Brazil and South Africa, are unhappy with U.S. farm subsidies, which they view as unfair competition. Agricultural importers are unhappy as well, since U.S. farm exports lower prices for their farmers and undermine rural livelihoods in countries like Guatemala and Mexico.

In this way, U.S. farm policy is, effectively, trade policy. And since trade—especially agricultural trade—has a lot to do with poverty-reduction and development, U.S. farm policy is a form of anti-development policy.

All of this would be troubling, but perhaps understandable, if the Farm Bill was an effective program to help American farmers. But, it's not. Most U.S. farmers don't get any support from the Farm Bill. The vast majority of funds are allocated among farmers who grow a limited number of crops: wheat, corn, cotton, rice, soy beans, sugar, and a few others. Only about one-quarter of U.S. farmers qualify.

Even among those who do receive support, the vast majority receive very limited payments. 72% of the subsidy payments go to the biggest 10% of farmers. The remaining 28% of the subsidy pie is divided among 90%.

There is in American agriculture an unrelenting trend toward higher productivity, consolidation, and increased farm size. The vast majority of "farm households" don't really make a living by farming. Off-farm income makes up 91% of the household income, with farming providing a supplement in good years for the large majority. Of course, it's a different story for a relatively small number of commercially competitive farms—usually very large and mechanized—where farm income is the livelihood.

At the aggregate level, American farmers aren't poor. On average, farm households have higher incomes and greater wealth than the population at large.

So what does all of this mean for the Farm Bill?

For one thing, it means that the current program is not achieving any meaningful objective. That's not to say that there's no role for farm programs to support American agriculture. There's room for reform that targets support to vulnerable or disadvantaged farmers, directs support for better environmental practices or land stewardship, prioritizes healthy food and promotes more diverse rural development. All of this could be achieved within existing budgets by reducing the production-oriented subsidies that largely benefit big farm operations and hurt farmers in other countries.

Cutting production-oriented subsidies could reduce the massive surpluses that U.S. agriculture produces and dumps onto global markets. This reform would likely raise prices and create market opportunities for developing country farmers to sell their agricultural production.

However, reforming the Farm Bill will not solve all the problems in agriculture trade. Even major reforms to the bill are unlikely to have a measurable impact on development and poverty reduction unless complementary measures are undertaken by developing countries and development donors.

Farmers in developing countries, more than 2.5 billion of them, will continue to face risks in the volatility and long-term decline of farm commodity markets. Many of these farmers are very poor, with little cushion to absorb shocks in the market. A collapse in coffee or cotton prices, for example, can mean destitution for millions of farmers in Africa and Latin America. A surge in maize imports can ruin the livelihood of millions of farmers in Mexico or Malawi.

Developing country governments need to retain the ability to moderate these market shocks through safeguard mechanisms and protections.

And they should pursue policies that ensure food security for their populations—which includes maintaining domestic production capacity. Many of the poorest countries are growing increasingly dependent on a limited number of basic commodities to achieve economic growth. At the same time, these countries are also becoming more reliant on food imports to satisfy their national demand. This dependency creates major risks and creates a vulnerability to market shocks or climatic conditions. A drought or a collapse in prices for their exports can create an economic crisis, draining foreign exchange reserves and impeding the ability to pay for imports, including food.

As such, developing countries—particularly poor countries—should maintain and expand domestic agriculture, both as a valuable economic strategy and as a hedge against the food insecurity caused by the vicissitudes of trade. This is not an argument against trade, nor for food autarky; just a recognition that globalization offers risks that must be managed, as well as an opportunity to be exploited.

Some trade agreements work against this objective. Trade agreements negotiated by the United States—such as the North American Free Trade Agreement (NAFTA) and the Central American Free Trade Agreement (CAFTA)—could seriously impede developing country food security and development strategies by requiring countries to open their markets completely, with few safeguards or other moderation. These agreements treat negotiating countries as equals and essentially require symmetrical and reciprocal obligations from both rich and poor. Missing from these agreements is a recognition of the special vulnerabilities of poor countries, particularly among their poor rural populations.

At the same time, a multilateral trade agreement could offer the potential to benefit both rich and poor countries, while permitting the "policy space" for developing countries to pursue food security and development. In addition, the multilateral venue is the only place where reducing rich-country subsidies is on the negotiating table. The Doha Round negotiations, while incomplete, offered some promise of a result that takes into account the differences between rich and poor, and the need to permit developing countries tools to pursue pro-poor strategies in agriculture.

Embedded in the negotiations was the principal of non-reciprocity, i.e. that developed countries must take on higher obligations than developing countries. In addition, several new measures have been proposed to give developing countries special mechanisms and safeguards for food security and development. Admittedly, when the negotiations stalled in July 2006, the state of play was far from adequate. But, the failure of the negotiations, in some way, was a measure of the growing assertiveness of developing countries in pursuing their interests and in negotiating an equitable agreement.

Some have argued that agriculture should be removed from purview of the WTO and the Doha Round. But doing so could also limit the opportunities that greater trade and investment in agriculture can offer to developing countries. By restricting trade-distorting subsidies—like those in the Farm Bill—the WTO helps to limit the damage that rich countries can do to developing country farmers. And there are significant economic benefits at stake in reducing the high tariffs that block access to rich-country markets for commodities important to poor countries.

Removing agriculture from multilateral governance and negotiations risks ghettoizing the economic sector of greatest importance to poor people. It would be unwise to isolate agriculture and hope that developing country markets are not pried open by pressure from aid donors, bilateral trade agreements, and private sector lobby. A better strategy is to push for a good agreement with strong pro-poor development orientation.

In many of the poorest countries, agriculture has long faced neglect by governments and the private sector. It has often been viewed as an unproductive and inefficient economic backwater. As a result, there has been little investment in infrastructure, stagnant or declining productivity, and entrenched poverty.

But there is strong evidence that investments in agriculture offer the best prospects for development, with comparatively big impacts on poverty reduction. With new interest among aid donors and many developing country governments, with the Farm Bill under consideration in Congress, and with Doha wounded but not yet dead, the time could be right for a new package of policies and investments to make agriculture an engine for development and poverty reduction in poor countries.

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