SANDRA POLASKI

In Agricultural Trade Talks, First Do No Harm

Trade negotiators at the World Trade Organization (WTO) are struggling to meet a self-imposed deadline of December 2005 to agree on the broad outlines of new trade rules that would cover global commerce in agricultural products, manufactured goods, and a wide array of services. Negotiations in each of these sectors pose tough political and economic choices for the 148 countries involved, but the key bottleneck is agriculture. Developing countries threaten to block progress on trade liberalization for manufactured goods and services unless their fears and interests in the agricultural sector are addressed—and with good reason. They are home to the almost 3 billion people who live on less than $2 a day, and most of the impoverished survive on small-scale farming. Unless negotiators from the United States and other wealthy countries make special provisions in the global trade regime to deal with trade's impact on those most vulnerable farmers, the already poor will be made worse off and whole countries could slip backward economically. The United States and Europe have made vague commitments to treat these trade talks as a "development round" but have resisted translating those sentiments into practical proposals on agriculture. There is a clear solution: Treat all crops cultivated by small-scale farmers in developing countries as special products that are exempt from any further reductions in tariffs or increases in import quotas.

Developing countries' worries about the WTO agricultural negotiations are well founded. Most are home to large numbers of subsistence farmers who have few other employment prospects. Global farm trade poses risks to them in two ways. First, government subsidies paid to farmers in wealthy countries allow them to sell their products on world markets at less than the cost of production, thus driving down the prices that poor farmers receive for the same crops. Second, many subsistence farmers cannot compete with global crop prices even without the distorting effects of subsidies, because their small landholdings, dependence on rain rather than irrigation, and lower technology in inputs such as seeds and machinery raise their production costs. If their governments cut the tariffs that now shield them from cheaper imported crops, the resulting lower prices they receive would reduce poor farmers' already low incomes or drive them off the land altogether.

The greater the proportion of the workforce in agriculture, the greater is the risk of increasing poverty. In low-income countries, an average of 68% of the population makes its living through farming. Even in middle-income countries, 25% of the population is engaged in agriculture. In China, farmers make up about 50% of the total workforce; in India, about 60%. In countries with large numbers of subsistence farmers, it would be impossible for sufficient job opportunities to be created in other sectors in the short to medium term to absorb these displaced farmers.

Some developing countries' farmers are globally competitive, and they would do well in a tariff-free world if wealthy countries would reduce domestic and export subsidies. Brazilian sugar and orange producers, West African cotton farmers, and Thai rice farmers fall into this category. However, even in countries where some farmers are competitive, there are many subsistence farmers who cannot compete. Also, in terms of employment, the internationally competitive crops often are land- and capital-intensive, not labor-intensive. Even if those sectors grow in response to trade liberalization, total employment in agriculture may decline if lower tariffs allow cheaper imports to displace the crops that are grown by the more numerous small farmers.

Agricultural imports have offsetting benefits if they drive down food prices for consumers. In terms of poverty, if there are more urban poor than rural subsistence farmers, overall poverty could decline because urban workers could afford to buy more. Worldwide, however, far more of the poor are in rural than in urban areas. Even in those few countries with more urban than rural poor, if displaced farmers migrate to urban areas and compete for scarce jobs there, urban wages might decline as well, again making the country, or at least the poor, worse off. It is the overall equilibrium of the diverse effects of trade liberalization that must be taken into account if poverty is to be reduced.

A long economic transition

The movement of workers from low-productivity, low-income subsistence farming to higher-productivity agriculture or to work in sectors such as manufacturing and services is a desirable step in the process of development. However, moving large numbers of people from basic farming to higher-productivity occupations has taken most countries decades or even centuries. Under the most favorable domestic and international conditions (for example, in Japan and South Korea in the post–World War II era), this transition was accomplished in one or two generations. However in India, sub-Saharan Africa, and elsewhere, the process has moved much more slowly.

Trade advocates often point to the utility of trade-opening as a mechanism to drive forward the process of shifting labor and capital from less productive to more productive uses. However, historical evidence suggests that without complementary policies, trade alone is unlikely to foster the absorption of large agricultural workforces into more productive sectors. Countries that have experienced successful long-term development at tolerable transitional human costs have been those that were able to grow fast enough in other sectors to gradually absorb excess agricultural labor. This occurred in Japan and Korea and is now underway in China. When rural-to-urban migration has been driven primarily by worsening poverty in rural areas, the result has been increasing rural poverty and the growth of low-productivity informal sectors in urban areas. This pattern has been observed in many developing countries, such as Mexico.

Forcing poor farmers to compete with global agriculture will not hasten an increase in their productivity if they do not have sufficient land as well as access to credit, high-yield seed, water, technical assistance, and other necessary inputs. Also needed are adequate roads and other infrastructure to allow small farmers to get their products to market and government policies on taxation, tariffs, and health and educational services that do not discriminate against small farmers and rural areas. Cutting farm tariffs without these complementary measures will deepen, not alleviate, rural poverty.

If trade displaces subsistence farmers, will they find work elsewhere? Manufacturing, which traditionally has provided jobs for low-skilled farmers as countries modernized, currently faces a glut of capacity and labor supply at the global level, especially in labor-intensive low-skill manufacturing. In sectors such as textiles, apparel, toys, furniture, and simple electronics, the integration of the Chinese labor force into the global production system during the past decade has attracted additional investment in production facilities there, while global demand for these goods has not grown at a commensurate pace. The result has been intense competition among developing countries for available orders and generally falling prices. In the case of textiles and apparel, the end of a global quota system in 2005 has ushered in a period in which most developing countries will see their share of global markets for those goods shrink as China and a few other countries dominate the market.

In the service sector, employment opportunities created by liberalized trade are typically out of reach for poor farmers because of education, health, and mobility constraints that poor rural households commonly face. In India, for example, the dramatic increases in service-sector industries and jobs have improved prospects for some urban dwellers, mainly those with higher education, but have had virtually no impact on rural poverty and unemployment.

Poor farmers who are displaced will find alternative incomes out of necessity, because most developing countries have no unemployment schemes or other social safety nets. However, history shows that most will be forced to accept low-productivity work in the informal sector or to emigrate.

Wealthy countries have strong reasons to be concerned about subsistence farmers in developing countries, for reasons of economic self-interest, basic decency, and global stability and security. The broad economic self-interest of developed countries lies in a stable and expanding global economy. Global growth is impeded in a world where the billions of people who live on less than $2 a day have little ability to purchase the goods and services produced by developed countries. With 70% of the developing world's poor living in rural areas, improving the incomes of small-scale farmers is an essential step toward achieving a world of sustained growth and consumption. More immediately, it is unlikely that wealthy countries will be able to conclude the current trade talks and achieve their goals of exporting more goods and services unless the agricultural concerns of developing countries are sufficiently addressed.

Extreme and increasing poverty in numerous countries calls into question the decency and acceptability of the global economic system. In sub-Saharan Africa, the number of extremely poor people (those living on less than $1 per day) increased from 164 million in 1981 to 313 million in 2001, and their average income also fell, from 64 to 60 cents a day. They are overwhelmingly concentrated in subsistence agriculture.

With respect to global stability and security, a world in which poverty is rising in a significant number of countries is less politically stable. Political volatility and war in many parts of Africa and the Andean region have coincided with increases in poverty. Although there is no direct causal link between poverty and extremism, it cannot be ruled out that political instability, fueled by rising poverty, may provide opportunities for extremist groups. Countries that have seen increases in rural poverty and in which extremist groups have been active include Indonesia, Kenya, Morocco, Pakistan, and Sierra Leone.

The current negotiations

The international agreement that launched the current round of WTO trade talks in Doha, Qatar, in 2001 promised to place special emphasis on the needs of developing countries, which had gained much less than was promised from earlier trade deals. At Doha, wealthy countries agreed that agricultural issues and other sectors critical to the developing world would be given "special and differential treatment," although they did not commit to any specific measures. In 2003, the United States and Europe attempted to cut a two-way deal that would continue to favor their own rich farmers. Developing countries walked out of the talks in Cancun, Mexico, in protest. The trade talks were resuscitated last summer when, among other concessions, poor countries extracted the following broad pledge from their wealthy counterparts: "Developing country Members will have the flexibility to designate an appropriate number of products as Special Products, based on criteria of food security, livelihood security and rural development needs. These products will be eligible for more flexible treatment."

DEVELOPING COUNTRIES SHOULD BE ALLOWED TO DESIGNATE AS "SPECIAL PRODUCTS" ALL CROPS THAT ARE CULTIVATED BY THEIR SMALL-SCALE FARMERS.

The vagueness of the call for "more flexible treatment" reflects continued disagreement among the United States and other high-income countries over whether such products will be exempt from any further liberalization during this round of trade negotiations or will merely benefit from smaller tariff cuts or quota increases. This question and the criteria for designating special products form the crux of current negotiations that affect subsistence farming.

U.S. and other negotiators at the WTO should acknowledge the pivotal role of farming as a major source of employment in developing countries when they negotiate the criteria and treatment for "special products." This employment intensity of agriculture distinguishes the situation of developing countries from that of the developed world, where only a miniscule share of the workforce is engaged in agriculture.

Developing countries should be allowed to designate as "special products" all crops that are cultivated by their small-scale farmers. These products should be exempted from any further reductions in tariffs or increases in import quotas. It is important that all crops cultivated by such farmers be covered by this special treatment, because the farmers' livelihoods usually depend on a balance and interchangeability among different crops, depending on climatic and market conditions. There should be no numerical limit on the number of products that can be designated, provided that they are cultivated by small-scale farmers and farm workers.

Such an agreement would allow developing countries with large numbers of small farmers and farm workers to retain the policy flexibility necessary to avoid the displacement of agricultural livelihoods before there are alternative economic opportunities to absorb those who are displaced. This does not imply that they will necessarily use this flexibility with respect to all subsistence crops. It is entirely possible that governments might choose to apply lower tariffs or higher quotas in practice, as harvests vary, world prices change, and farmers gradually migrate out of agriculture. However, these determinations must be left to national policymakers, who are both familiar with the specific circumstances in their countrysides and democratically accountable to their own populations.

The main source of opposition to excluding subsistence farming from new liberalization measures comes from global actors who would benefit from increased access to developing countries' markets for the products now grown there by small farmers. The self-interest of grain-trading firms, commercial farm sectors, and the governments that depend politically on the support of these corporations and sectors drives the opposition at the negotiating table.

In addition, some economists argue against continued protection for subsistence agriculture. The most common economic argument is built on three related propositions: global agricultural prices are held down by overproduction by subsidized farmers in wealthy countries; if these subsidies are eliminated, global agricultural prices will rise; and rising prices for agricultural crops will benefit small farmers. On examination, each of these propositions has limitations. Large subsidies by countries with substantial production capacity undoubtedly influence global agricultural prices. But prices are set by the combination of global supply and demand. Factors other than subsidies, including climate, also have profound and sometimes volatile effects on global supply. Global demand is also in flux. For example, the Asian financial crisis reduced demand and sent global prices down. Recent rapid growth in China has stimulated demand for some crops, such as soybeans, driving prices up. Future economic cycles and shocks can be expected to influence global prices separately from subsidies. If wealthy country farm subsidies are reduced, farmers in other countries may increase production, keeping global supply from falling. The assumption that food prices will increase and remain at higher levels is borne out neither by theory nor by the historical patterns for commodity prices, which generally have shown long-term declining trends. The proposition that the rural poor will benefit from higher world prices is also problematic. In practice, economies of scale and the role of marketing intermediaries mean that much of the benefit of any price increases that do occur will flow to large-scale farms and trading firms rather than to the rural poor.

Developing countries must also factor in some degree of uncertainty as to whether wealthy countries actually will scale back subsidies. In the United States, highly subsidized farm groups continue to be a potent political force that resists any significant changes in their favorable agricultural treatment. Several of the crops of most interest to developing countries, including sugar, rice, cotton, corn, and other grains, are grown in politically pivotal states that determine which political party holds the presidency and a congressional majority. Similar political interest groups wield significant power in the European Union.

Some economists argue that failing to liberalize trade will simply prolong developing countries' dependence on low-productivity agriculture. There is no question that long-term development and poverty alleviation require that low-productivity farmers move into higher-productivity occupations. However, this equation requires not just the phasing out of small-scale agriculture but the contemporaneous creation of more productive job opportunities elsewhere in the economy. The proposal suggested here does not lock such countries into the agricultural sector. Rather, it gives them the autonomy to make decisions on agriculture and rural policies that are appropriate for their level of development and changing circumstances. They are free to accelerate agricultural liberalization as the sector evolves and farm labor is attracted to other sectors.

A final argument is that developing countries will gain more from the liberalization of their own markets (collectively) than from those of wealthy countries. A much-cited World Bank study released before the failed Cancun meeting made that claim. However, more recent studies, including the most recent modeling exercise by the World Bank, find the opposite result. The recent World Bank study finds that most developing countries see a greater improvement in their net food trade (exports minus imports) if rich countries liberalize their agricultural markets but developing countries do not. In that scenario, developing countries as a group would gain an additional $142 billion from improved export of agricultural products. In contrast, if developing countries join rich countries in liberalizing their agricultural markets, the biggest winner in terms of redistributed farm income will be the United States, not the developing world, and especially not the poor.

Sandra Polaski (spolaski@carnegieendowment.org) is director of the Trade, Equity and Development Project at the Carnegie Endowment in Washington, DC.