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## **Promise or pitfall? The limited gains from agricultural trade liberalisation for developing countries**

Timothy A. Wise

It has become an article of faith in international trade negotiations that farmers in developing countries have much to gain from agricultural trade liberalisation. This paper assesses the evidence for such claims, relying on World Bank data and analyses, United Nations trade data, and other economic modelling carried out to inform the current round of World Trade Organisation negotiations. It concludes that the promise of agricultural trade liberalisation is overstated, while the costs to small-scale farmers in developing countries are often very high.

**Keywords:** agriculture; trade; commodities; rural development; liberalisation

### **Introduction**

It has become an article of faith in international trade negotiations that farmers in developing countries have much to gain from agricultural trade liberalisation. The World Bank issues study after study touting the potential gains to the rural poor of policies that reduce tariffs, subsidies, and other barriers to agricultural trade. Meanwhile, campaigners for global justice, such as the international development agency Oxfam, assert that such reforms to rich country agricultural policies will represent a major step in reducing poverty in the global South.

This paper assesses the evidence for such claims. It concludes that the promise of agricultural trade liberalisation is overstated, while the costs to small-scale farmers in developing countries are often very high. The promise is that reforms will reduce overproduction in the global North. Prices will rise, benefiting all producers. Developing countries, which are seen to have a comparative advantage in agriculture, will gain rising shares of export markets for their agricultural goods. In essence, the promise of agricultural liberalisation is the lure of export markets.

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An earlier version of this work appeared under the title ‘The limited promise of agricultural trade liberalization’, published as a discussion paper by the Indian Institute Research and Information Systems for Developing Countries (RIS-DP #152, New Delhi, March 2009). The research was originally carried out for a project of the Working Group on Development and Environment in the Americas, ‘The promise and the perils of agricultural trade liberalization: lessons from the Americas’ (see <http://ase.tufts.edu/gdae/WorkingGroupAgric.htm>), which has published an earlier version in Spanish as a chapter in the book, *La promesa y los peligros de la liberalización del comercio agrícola: lecciones de Latinoamérica*. The author would like to thank those who have offered comments on the discussion paper as well as those at *The Journal of Peasant Studies* for their constructive suggestions. Remaining errors are the sole responsibility of the author.

Relying on World Bank data and analyses, United Nations trade data, and other economic modelling carried out to inform the current round of World Trade Organisation negotiations, this paper shows that rich countries are the main beneficiaries of agricultural trade liberalisation, gaining markets in both the global North and South. Only a limited number of developing countries – for example, Argentina and Brazil – can compete effectively in global markets. Most developing countries are left out of the export boom but suffer the negative effects of rising imports, as they reduce their own tariffs and farm supports. Meanwhile, farm prices do not remain high for long after liberalisation, as supplies, fed by rising yields and new land under cultivation, catch up to rising demand. While the current commodity boom, fueled in part by the demand for agro-fuels, may keep prices high for a few years, it is unlikely to fundamentally alter the structure of global agriculture and the long-term trends toward lower prices.

It remains to be seen whether the current food crises plaguing much of the world represent a long-term shift toward higher prices, but it has already generated some welcome, if limited, new attention to agricultural development. In late 2007, the World Bank published *World Development Report 2008: Agriculture for Development*. In a long-overdue shift from its neglect of the sector, the report reasserts agriculture's importance in the economic development process, particularly for less-developed, agriculture-based economies such as those in sub-Saharan Africa, but also for what the report calls the 'urbanising' economies of regions such as Latin America. The report notes the particular importance of small-scale agriculture in poverty reduction and the critical role of governments in overcoming market failures. The authors call on governments and international agencies to increase the assets of poor farmers (particularly access to land, water, education, and health care), to raise the productivity of smallholders, and to generate opportunities in the rural non-farm economy (World Bank 2007).

Not surprisingly, the World Bank report is significant less as a signal of fundamental policy shifts in the institution's neo-liberal development paradigm than a reflection of just how badly such policies have worked in developing countries. As many analysts have pointed out, the report may call for a reinvestment in agricultural development, but it in no way questions the pre-eminence of agribusiness through globalised 'value chains', acknowledges the importance of the state's role, or recognises the complex way urban and agricultural economies are connected. Most important, WDR2008 fails to correct past biases against smallholder agriculture and recognise the economic, social, cultural, and environmental value generated by the sector.<sup>1</sup> Also unsurprising is WDR2008's continued call for deeper liberalisation in agriculture.

This paper does not pretend to be a comprehensive critique of the neo-liberal model for agriculture, nor is it a detailed assessment of the uses and misuses of World Bank research in furthering the liberalisation agenda (see, for example, Broad 2006, Deaton *et al.* 2006, Gallagher 2008). Rather, I offer a macroeconomic analysis of why the promise of liberalisation for developing country farmers is overstated, while the dangers are very real.

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<sup>1</sup>See, for example, Oya (2009) and others in the excellent 'Symposium on the World Development Report 2008: Agriculture for Development?'

### Who wins from liberalisation?

Contrary to the rhetoric that accompanies trade negotiations, evidence suggests that developing countries have far less to gain from agricultural trade liberalisation than free-trade proponents suggest. The claims are certainly grandiose. Anderson *et al.* (2005) of the World Bank have referred to the gains from agricultural trade liberalisation under the World Trade Organisation's Doha Round as 'huge'. It is hard to see how their own projections justify such a statement.

Table 1 presents the World Bank's projections for gains from agricultural trade liberalisation under a scenario modelled in 2005 to estimate the likely reforms from the Doha Round. Global gains are estimated at \$96 billion (2001 US dollars) for the year 2015, with \$75 billion coming from agricultural reforms. That is already a far cry from the more widely quoted figure of \$287 billion overall (\$182 billion of which is from agricultural liberalisation), which is the Bank's estimate under a scenario of full liberalisation. The more realistic projection is only 0.18 percent of global GDP. More important, high-income countries are projected to capture \$66 billion of the \$75 billion in gains from agricultural liberalisation, nearly 90 percent of the total. Developing countries as a group see just \$9 billion in welfare gains, less than one-tenth of one percent of GDP and less than \$2.00 per person per year. Gains of less than a penny-a-day per person would not seem to justify the use of the term 'huge'.

So part of the reason the promise of agricultural trade liberalisation is overstated is that the projected gains, once put in context, are quite small, and high-income countries capture the vast majority of the benefits.

This should not be surprising. While trade theorists continue to refer to developing countries' comparative advantages in agriculture, rich countries dominate global agricultural trade. Table 2 shows the global market share of agricultural exports for the most traded non-tropical agricultural commodities. In 2005, rich country exporters dominated global markets for maize, wheat, barley, and cotton. Only in oilseeds, sugar, and rice did developing countries as a group export more than half the value of any non-tropical agricultural commodity in 2005.

As the table shows, the next largest region's share of each of those markets tends to be dominated by the countries of the former Soviet Union and Latin America and the Caribbean. A closer look shows how concentrated these markets are, with Brazil, Argentina, China, and the former Soviet Union controlling the lion's share of agricultural exports from the non-industrialised world. Table 3 presents more detail on the size and potential of these export markets and the relative competitiveness of developing countries.

Table 1. Potential gains from agricultural liberalisation.

	Doha scenario: Beneficiary Region		
	High-income	Developing	World
Total	\$66 billion	\$9 billion	\$75 billion
Percent GDP	0.20%	0.09%	0.18%
Per capita	\$64.96	\$1.77	\$12.36

Source: Anderson *et al.* (2005).

Table 2. Rich country shares of commodity trade.

2005 shares of commodity export value:		
	Share of developed world	Next largest region (share)
Maize	65%	Latin Am/Caribbean (15%)
Wheat	75%	Former Soviet Union (12%)
Barley	72%	Former Soviet Union (19%)
Sugar	39%	Latin Am/Caribbean (34%)
Oilseeds	48%	Latin Am/Caribbean (42%)
Cotton	66%	Sub-Saharan Africa (10%)
Rice	29%	South Asia (32%)

Source: UN Statistics Division, Comtrade.

The table presents the 2005 global export value for each commodity group, in descending order of value. The second column shows the growth in these export markets globally in the previous decade. While some have shown dynamic growth – notably, oilseeds and barley – it is worth noting that several have barely expanded, despite the dramatic rise in global trade. Wheat, maize, and cotton registered only two percent growth in overall export value from 1995–2005. One way for the developing world to benefit from expanding global trade is to maintain its market share in a dynamic and growing market. It would be a mistake to suggest that all of these agricultural markets show that dynamism.

Columns 3 and 4 show the developing country share of each market in 2005 and the amount by which that share grew since 1995. The latter draws on a methodology developed by Lall and Weiss (2005) to gauge international competitiveness. They look at the global market share gained or lost by a given country or region as an indicator of its ability to compete in the global marketplace for a given product. Trade liberalisation is expected to reduce overproduction in protected or subsidised markets, raising prices and opening up market opportunities for exporters in other countries. This indicator of revealed competitiveness suggests which countries may be prepared to capture those opportunities. As the fourth column shows, developing countries as a group lost market share in cotton and rice while making impressive gains in oilseeds, maize, barley, and, to a lesser extent, wheat and sugar. This suggests that developing countries as a group have shown only uneven capacity to compete for market share in a liberalised world market.

Columns 5 and 6 are perhaps the most revealing. In most global markets, the number of countries that have shown competitiveness in agricultural commodities is quite limited. These two columns take Brazil, Argentina, China, and the former Soviet Union out of the developing country totals. Only in rice do the remaining developing countries control a majority of exports. And the revealed competitiveness shown by the ability to expand market share over the previous ten years is vastly reduced.

Making reference to columns 4, 6, and 7, we can see that in oilseeds, developing countries gained 25 percentage points of global market share, and 23 of those were captured by Brazil (19) and Argentina (4). Similarly, Brazil claimed 11 points of the 14-point gain in sugar. The 24-point gain in developing country maize trade was captured largely by China (10) and Argentina (6). Meanwhile, the countries of the former Soviet Union took 10 of the 13-point gain in wheat exports and 16 of the 20-point increase in barley sales. In the developing world, only two other countries show

Table 3. Limited signs of global competitiveness.

	Developing world's share of global export value for selected commodities						
	2005 world export value (US\$ billions) 1	Growth, 1995-2005 (%) 2	Developing world		Without Brazil, Argentina, China, and former USSR		Countries gaining significant market share Country (% point gain 1995-2005) 7
			2005 share 3	Change, 1995-2005, % pts 4	2005 share 5	Change, 1995-2005, % pts 6	
Oilseeds	\$20.9	82%	52%	25	11%	3	Brazil (19), Argentina (4)
Wheat	\$17.4	2%	25%	13	6%	1	Former USSR (10), Australia (6)
Sugar	\$15.8	16%	61%	14	30%	-1	Brazil (11)
Maize	\$11.1	2%	35%	24	9%	4	China (10), Argentina (5)
Cotton	\$8.2	2%	34%	-3	24%	-3	India (7), Brazil (4)
Rice	\$7.9	29%	71%	-4	66%	3	Pakistan (7)
Barley	\$3.6	72%	28%	20	8%	3	Former USSR (16)

Source: UN Statistics Division, Comtrade.

significant competitiveness in these major export commodities, India, with a 7-point gain in cotton, and Pakistan, with a 7-point gain in rice exports.

The main conclusion from this examination of revealed competitiveness is that very few developing countries find themselves in a position to compete internationally in liberalised agricultural markets. Those that do, such as Brazil and Argentina, generally have vast tracts of high-quality land, have achieved a significant level of industrialisation, have modernised much of their agricultural production, and have developed the infrastructure to respond to the demands of the global market. To emerge winners from agricultural trade liberalisation, other developing countries will need to out-compete not just the global North but these emerging agricultural export powerhouses. Of course, family farmers and smallholders in those countries that are able to compete are unlikely to gain much, if at all, as most of the gains are captured by large-scale, industrialised producers well-connected to global value chains.

### **Limited shift in northern production, prices**

The prospects for broad developing country gains from agricultural trade liberalisation dim even further when we examine the projected impacts of liberalisation on specific commodity markets. The promise, championed by advocates as diverse as the World Bank and the development group Oxfam, is that reforms to rich-country agricultural support programmes will result in significant production and export cuts in those countries. As a result, prices long suppressed by trade-distorting policies – mainly farm subsidies in the United States and tariffs and export subsidies in the European Union and Japan – will rise and developing countries will earn higher prices for their exports and gain market share in a less distorted global marketplace.

Most evidence suggests that such promises are true to only a limited extent and for a limited number of commodities. Using a partial equilibrium model, researchers at the French institute, CEPII, projected the static price impacts of a likely Doha agreement on world agricultural prices, breaking down the projected price impacts by the particular area of reform – domestic support, export subsidies, or tariffs (Bouet *et al.* 2004). Their results, reprinted in Table 4, are indicative.

For the entire agro-food sector, they project only a 2.8 percent price increase as a result of likely Doha reforms. Only three sectors show price increases higher than 3.1 percent – fibres (mainly cotton), paddy rice, and oilseeds. We examine those in more detail below, but before moving on it is worth noting how limited the price impacts are for some of the most important commodities under discussion. Coarse grains, which include maize, show only a 3.1 percent price impact despite being the most heavily subsidised crop in the United States. Similarly, wheat prices are projected to increase only 2.3 percent with liberalisation. Even sugar shows limited price impacts, with gains from the elimination of EU export subsidies being partially offset by the loss of preferences that boost prices for many developing country exporters.

Let us examine more closely the commodities projected to show significant production and price impacts, at least in the short term. The US cotton programme, with its trade distorting domestic subsidies, was found to be in violation of even the Uruguay Round agreement. CEPII projects a 26 percent price impact from reform of the US programme. This is significantly higher than other estimates (see, for example, Alston *et al.* 2007). But all analysts agree that cotton is one commodity

where Northern policy reform would have an impact on global production and prices.

Table 5 shows the 2005 market shares for the top ten cotton exporters. With nearly 50 percent of the export market dominated by the United States, it is no surprise we would expect significant production and price impacts from US reforms. Less clear is who would benefit from such policy changes.

Using our previous method to estimate revealed competitiveness, we can see that the countries that showed export dynamism (i.e. significantly increased their global market shares) from 1995–2005 were India, Australia, and Brazil. West African countries, which are important producers and perhaps most need to gain from reforms, show only limited competitiveness. Some recent studies suggest that US

Table 4. Impact of the Doha Agreement scenario on world prices (import prices).

Sector	Initial share in world exports	Domestic support	Export subsidies	Tariffs	Doha agreement, 3 pillars
Paddy rice	0.6	8.2	0.1	1.3	9.4
Processed rice	1.2	0.6	0.0	0.3	1.0
Coarse grains	3.6	2.6	0.1	0.5	3.1
Wheat	3.9	1.4	0.1	0.9	2.3
Sugar	2.7	0.2	5.6	-1.5	2.8
Oilseeds	5.7	9.1	0.0	0.5	9.7
Live animals	1.2	0.9	0.1	0.7	1.6
Animal products	3.4	0.6	0.0	0.1	0.8
Meat	4.0	0.6	0.1	0.5	1.2
Meat products	4.8	0.3	1.5	0.1	2.0
Dairy products	3.6	0.3	2.3	0.0	2.7
Fibers	3.6	25.6	0.0	0.2	26.0
Fruits & vegetable	8.3	0.1	0.2	0.5	0.8
Other crops	10.1	0.8	0.0	0.4	1.2
Fats	7.2	2.8	0.0	0.2	3.0
Beverages and tobacco	11.0	0.1	0.5	0.3	0.3
Processed food	25.0	0.3	0.6	0.4	0.9
Total agro food	100.0	2.1	0.5	0.3	2.8

Source: Bouet *et al.* (2004).

Table 5. Leading cotton exporters, 2005.

Cotton: top 10 exporting countries by export share, 2005		
	2005 share	Change, 1995–2005
USA	48.8%	2.1
Australia	9.3%	2.3
India	8.0%	7.3
Brazil	5.5%	4.3
Greece	4.2%	-0.7
Kazakhstan	2.0%	1.6
Benin	2.0%	0.5
Cote d'Ivoire	1.7%	0.0
Cameroon	1.6%	0.6
Pakistan	1.6%	-1.2

Source: UN Statistics Division, Comtrade.

cotton reforms could dramatically boost West African cotton incomes (see, for example, Alston *et al.* 2007). This could well be true, even if these producers see only higher prices and no increase in market share following US reforms. But the competitiveness indicator in Table 5 offers a caution: Australia, India, and Brazil are the countries that sit poised to capitalise on any decline in US production, and they could easily siphon off the benefits from liberalisation in cotton.

Rice is a more complicated story. Rice markets show a projected nine percent short-term price increase from Doha reforms, mainly from reductions in farm subsidies in the United States and removal of protective tariffs in important rice-consuming countries such as Japan and South Korea. The global North does not dominate rice export markets, though, with only the United States and Italy showing up as significant exporters (see Table 6). (Belgium is principally a re-exporter.) Pakistan is the one country showing gains in competitiveness from 1995–2005. Other modelling suggests that Thailand would be a major winner from liberalisation in Northern rice policies, exporting to other Asian countries.

Oilseeds, the other commodity projected to show significant production and price impacts from liberalisation, are dominated by soybean trade. As noted earlier, Brazil and Argentina in the last ten years have grown considerably as competitive

Table 6. Leading rice exporters, 2005.

Rice: top 10 exporting countries by export share, 2005		
	2005 share	Change, 1995–2005
Thailand	29.2%	–0.5
India	17.7%	–3.0
USA	16.2%	1.0
Pakistan	13.8%	6.5
Italy	5.7%	–0.5
China	2.8%	2.6
Uruguay	2.5%	0.0
Belgium	1.8%	1.8
Spain	1.5%	–0.3
Argentina	1.1%	–1.0

Source: UN Statistics Division, Comtrade.

Table 7. Leading oilseed exporters, 2005.

Oilseeds: top 10 exporting countries by export share, 2005		
	2005 share	Change, 1995–2005
USA	32.0%	–19.1
Brazil	25.7%	19.0
Argentina	11.6%	4.0
Canada	6.8%	–4.0
China	3.2%	–1.1
France	2.9%	–2.0
Paraguay	2.9%	1.3
Netherlands	2.1%	0.1
Australia	1.4%	0.7
India	1.4%	0.2

Source: UN Statistics Division, Comtrade.

exporters, entirely at the expense of the United States and, to a lesser extent, Canada. Table 7 shows Brazil gaining about 19 percentage points in market share, equal to the US decline, with Argentina gaining four points, equivalent to Canada's loss. The only other country to show sizeable gains in market share in that ten-year period was one of South America's other soybean producers, Paraguay.

To summarise, the promise that developing country farmers will see significant benefits from global agricultural trade liberalisation is overstated because:

- The projected gains from agricultural liberalisation for the developing world as a whole are quite small;
- Reforms in rich-country farm programmes produce relatively small production and price impacts for most commodities; impacts are projected to be significant in only cotton, rice, and oilseeds;
- A limited number of countries – most notably, Brazil, Argentina, China, and those of the former Soviet Union – have demonstrated the competitiveness to take advantage of such market openings;
- The smallest-scale farmers are likely to benefit the least, as large-scale industrialised producers capture most growth in export markets.

This last point is important. While the unit of analysis in this article is mainly at the level of countries, it would of course be a mistake to imply that the gains from liberalisation are equally shared among farmers in countries that gain access to export markets. Even increases in global commodity prices may be of limited or temporary benefit to small-scale farmers. As the World Bank notes, the transmission of world prices to local producers is 'very imperfect'. Thus, 'the overall effect of trade policy reform on farm incomes of staple food producers in the poorer developing countries is likely to be small' (World Bank 2007, 156–7).

### **Short-term gains, long-term decline**

The promise of agricultural trade liberalisation is overstated in another important way as well, one that is less widely acknowledged than the limitations above. Most trade models, including the ones cited above, do not capture long-term adjustments in commodities markets. Most models are static. They establish a baseline, impose the policy change within the model, and measure the changes in output, prices, and incomes. Some go one step further, factoring in assumed economic growth or productivity increases to give an estimate for a future post-reform year. The World Bank's Doha projections did just that, testing a reform scenario against a 2001 baseline, then factoring in economic growth to give an estimate for 2015 of the gains from reform compared to the non-reform scenario.

The problem with this approach is that the shock of an initial reform can produce an impact that diminishes over time as commodities markets adjust. The CEPII model cited above, for example, projects a 26 percent price increase for cotton, presumably because it models significant reductions in US cotton subsidies, which produce an equally significant shift out of cotton by US producers. Prices go up as global production goes down. But it would be a mistake to assume that global production will remain that low or that prices will remain that high. In fact, other producers will increase production, supplies will rise to meet demand, and prices will fall. Those subsequent movements are not captured in static economic models.

Not only are initial production and price impacts of limited duration, they are also quite misleading. Recent commodity price increases notwithstanding, primary goods over the long run show terms of trade losses compared to manufactured goods. The U.N. Food and Agriculture Organisation (FAO) has estimated the annual losses at two percent (FAO 2004). Agricultural trade policy reform does nothing to reverse this long-term trend. Demand grows mainly with population growth; the demand for food is inelastic because the human stomach is inelastic, as US agricultural economist Willard Cochrane famously said (Cochrane and Levins 2003, 74–5). Production grows faster, as technology raises yields and more land is brought into industrialised production. Supply outstrips demand, driving prices down in a long-term trend that has shown brief interruptions but few hints of structural change.

For a given commodity that shows production-responsiveness to reform, we are likely to see a short-term price increase followed by a slow return to previous levels, or lower. Drawing on a model that estimated price impacts of full global agricultural liberalisation, taking into account these dynamic trends in commodities markets, we can see these tendencies clearly (IFPRI 2003).

Figure 1 shows the projected impacts on global rice prices under a full liberalisation scenario. The reform is assumed to take place in 2004. There is an immediate production impact, and global prices rise 18 percent. Generally, this is where many trade models leave off. Here, though, the commodity market is modelled into the future, to the year 2020, against the baseline assumption of no reform. The modellers still report that in 2020 rice prices are 13 percent above the baseline, suggesting a long-term benefit. But note:

- (1) The baseline assumption reflects a long-term downward trend in real prices. This is consistent with the terms of trade losses mentioned earlier.

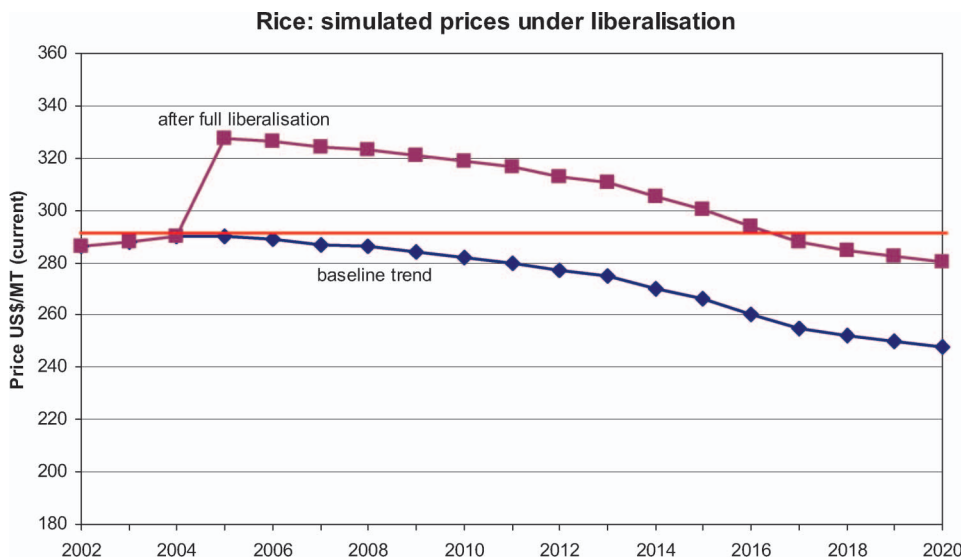


Figure 1. Simulating price impacts from liberalisation.

Notes: Based on price estimates for rice derived from IFPRI (2003).

- (2) The reform scenario shows the same downward trend, albeit from a slightly higher starting point after the reform. In other words, the reforms did nothing to reverse that trend.
- (3) Post-reform prices may remain higher than the baseline, but by 2016 they are below pre-reform levels. In other words, the benefits of an 18 percent price increase from full liberalisation of international rice markets are gone by 2016. After 2016, prices are below pre-reform levels.
- (4) The scenario modelled here is for the unrealistic case of full liberalisation. Partial liberalisation, such as that under negotiation in the Doha Round, will produce partial impacts. Initial price adjustments might be more on the order of five percent. Prices will fall to their pre-reform level within five years in such partial liberalisation scenarios, making any gains quite limited.

This analysis suggests that even for a commodity such as rice, which shows production-responsiveness to liberalisation, the gains from such reforms are likely to be short-lived. Global commodities markets eventually adjust, with the most competitive producers expanding production, partly in response to higher prices. For commodities markets that show little responsiveness to reform, such as maize and wheat, there is little short- or long-term gain from Northern-country reductions in support.

Perhaps most important for developing countries, increasing one's dependence on primary production offers poor prospects for dynamic economic development. Economic development generally involves some process of industrialisation, with a shift from primary production toward more value-added economic activities. Agricultural trade liberalisation, to the extent it generates production impacts, tends to increase developing country dependence on low-value commodities exports. According to one recent study, the Doha Round is projected to decrease developing countries' terms of trade by 0.74 percent. Brazil, projected to be one of the big winners in the Doha Round largely because of its agricultural exports, sees its terms of trade decline 0.18 percent in the process (Polaski 2006).

### **Will the 'commodity boom' be sustained?**

The surge in prices for some commodities in 2007–2008 had a decided economic impact on many commodity-exporting countries, with prices for many raw materials rising to levels not seen in many years. The commodity boom created additional incentives for countries to promote primary production as the engine of economic development. With China and other low-cost producers capturing the lion's share of manufacturing exports, commodities might seem to offer a more promising path. The key question remains: How likely are global commodities markets to sustain demand beyond global production capacities?

In agriculture, evidence suggests the boom could be longer than most cyclical swings but will not reverse the long-term trends toward declining prices. We have already seen significant drops in commodities prices, highlighting the extent to which the price spikes of 2008 were driven by speculative investments as capital fled crumbling housing markets. By mid-2009 it was clear that some part of the commodity 'boom' was more a commodity 'bubble', and it had burst. While it is

difficult to separate the speculative activity from the fundamentals, the recent years of relatively high prices appear in this context as larger and more sustained increases than we generally see in these volatile markets.

It is important to remember the long-term trends. According to the FAO, real agricultural commodity prices declined two percent per year from 1960–2002 (FAO 2004, 10). The recent agricultural commodity boom fails to promise sustained high prices for farmers. Most projections show production again catching up to demand, albeit after several years rather than just one or two (see Figure 2). Vast new tracts of land are being brought into production, more than enough to meet and exceed the increases in demand. Even for a crop like soybeans, in high demand both for animal feed and agro-fuels, real prices were projected to resume their downward trend after 2007 (OECD-FAO 2007). An estimated 13 million more hectares worldwide are projected to be planted in soybeans in the next decade, a jump of 14 percent. Not surprisingly, 11 million of those new soybean hectares are projected to be in Brazil, an increase of more than 50 percent (FAPRI 2007).

In the long run, none of the new demands for agricultural products promises to resolve the tendency of agricultural production to meet and exceed demand. As long as there are significant tracts of arable land available to be brought into production, and as long as technological innovations continue to increase yields, global supplies are likely to catch up with global demand. Just as markets adjust to trade liberalisation, markets will adjust to changes in demand. Some countries stand to gain market share from such changes. But it remains an open question whether even those apparent ‘winners’ in global agriculture end up as leaders in sustained and sustainable economic development.

### New sources of demand, new challenges

There is no question, though, that the recent surge in agricultural prices poses new challenges and opportunities. For farmers (if not society as a whole), the recent upswing was based on two important changes in the fundamentals of agriculture. First, it was driven in part by shifts in demand from vegetable to animal-based

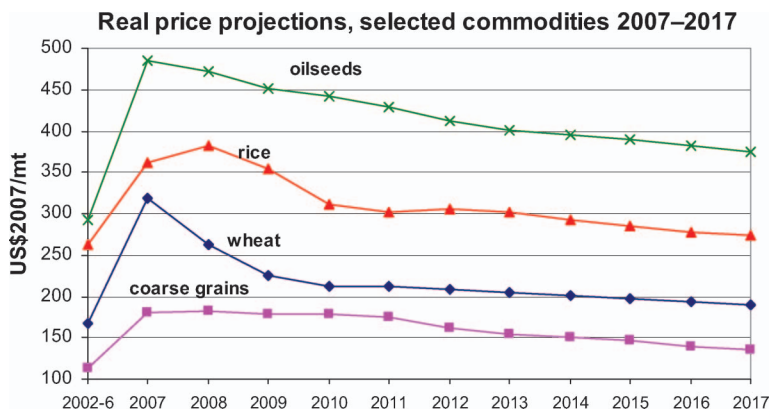


Figure 2. The end of the commodity boom.

Source: OECD-FAO Agricultural Outlook 2008–2017.

Notes: 2007 prices are preliminary; prices deflated with annual MUV of 2%.

protein in growing parts of the world, especially China. It takes much less corn and soybeans to feed humans than it does to feed animals that can then be fed to humans. So demand increases faster than population growth for commodities used as animal feed. This is particularly true in the early stages of development, when the shift to meat consumption is the most dramatic.

Secondly, demand for agricultural-based fuels is adding a large new source of demand to international markets. This too takes agriculture beyond the limited demands of a growing population for food, adding a non-food-based source of demand for what the land can produce. Both new sources of demand present daunting challenges. Unless there are spectacular and unexpected increases in productivity, agriculture probably cannot sustain a world in which the majority of the population is deriving the bulk of its protein from meat. One cost of this transition will be rising prices for staple foods, as we have seen recently. This is unsustainable even in the short run for the world's poor, who will not view the long-run probability of lower crop prices with calm. In the long run, the fears of global food shortages could prove warranted and high prices could return.

Similarly, most bio-fuels offer limited net environmental benefits while putting added pressure on land. With further industrialisation of global agriculture, based on petroleum-based inputs, the world faces the prospect of farm prices increasingly tied to oil prices. Add to this panorama the land-use implications of climate change, which already threatens to render parts of the world unsuitable for grain production.

As the recently published report of the International Assessment of Agricultural Knowledge, Science and Technology for Development documented clearly, responding to these new sources of demand under the prevailing model of industrial agriculture will not be sustainable (IAASTD 2009). It is beyond the scope of this paper to address the complex issues of climate change, bio-fuels, and the so-called 'food vs. fuel debate'. But there is no doubt these factors will be decisive in the evolution of agricultural commodities markets.

### **The perils of liberalisation for family farmers**

If the promises of agricultural trade liberalisation are exaggerated, the perils are very real. As case after case has shown, in a global market in which rich countries or a select few advanced developing countries dominate, liberalisation leads to a flood of cheap imports, which undermine domestic producers previously protected by tariffs or other government supports. Employment in expanding sectors of the domestic economy generally does not grow fast enough to absorb new entrants into the workforce, never mind those displaced from traditional agriculture. The result is often a decline in livelihoods for the rural poor, a decrease in food security, and a rise in food dependency for the nation as a whole. Poor urban consumers may benefit from lower food prices, but it is doubtful that there is a net benefit to the nation from this trade-off.

The negative impacts of such policies on smallholders in developing countries are well-documented, and this paper's focus is principally on the fallacies of mainstream assumptions regarding the potential gains in export markets. Several recent studies carried out by the Working Group on Development and Environment in the Americas for its report and book, *The Promise and the Perils of Agricultural Trade*

*Liberalization: Lessons from Latin America*, contribute new research to this rich literature.<sup>2</sup> In Bolivia, liberalisation undermined the markets for a host of Andean smallholder crops while decimating domestic rice production in the lowlands (Perez and Perez 2009). In Brazil, family farmers did not share in the commodity boom but rather saw a 45 percent decline in real prices for their products in the 1990s (Delgado 2009). In El Salvador, the production of key staple crops such as maize and beans stagnated as rising imports drove down prices and captured growing demand. As in Mexico, Bolivia, and other countries examined in the project, food dependency in El Salvador increased dramatically (Rivera 2009).

Of course, displacing small-scale producers from the land and creating dependency is precisely the goal of this economic model. Smallholders are seen as hopelessly inefficient, and trade liberalisation is intended to force inefficient farmers into more productive work. Often lost in the market calculations of efficiency, though, are the market failures that plague the sector. Smallholders are being asked to compete with low-priced imports from countries that not only subsidise their agricultural sectors but also offer adequate infrastructure, functioning credit markets, strong histories of research in applicable technologies, and the agricultural extension services to help farmers raise productivity. Smallholders share few of these benefits. As UN researchers have noted, ‘free market rules in a context of highly concentrated property and imperfect and missing markets [lead] to the marginalization of otherwise perfectly viable enterprises’ (David *et al.* 2000, 1685).

Trade liberalisation globalises not only markets, it globalises market failure. Bringing smallholders into unmediated competition with subsidised and supported industrialised producers from the global North places millions of productive farmers – and food-producers – at risk.

### **Conclusion: alternatives to liberalisation**

For most developing countries, agricultural trade liberalisation holds limited promises and great perils. The promise is limited because the comparative advantages of the global South in export agriculture are quite limited. Liberalisation will only significantly reduce Northern production in a small number of commodities, most notably cotton and rice, and perhaps soybeans and sugar. Even where liberalisation produces openings, other rich countries or developing countries with advanced agro-industrial sectors sit poised to win the intense competition for those markets. In soybeans, Brazil and Argentina will dominate. Brazil is likely to capture any new market share in sugar. In cotton, many developing countries – including an important group of West African producers – could benefit, but they will be hard-pressed to beat Brazil, Australia, and maybe India. In rice, Thailand, India, and Pakistan could show significant gains.

Perhaps most important, liberalisation does not reverse the long-term tendencies toward lower real prices for agricultural commodities. Even in markets where liberalisation produces production and price impacts, the gains will be ephemeral as new land is brought into production, yields continue to rise, and global supply catches up with global demand. Meanwhile, small producers, primarily of staple crops, bear the brunt of economic adjustment. Left unprotected and unsupported,

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<sup>2</sup>This paper was originally written as a framework document for this project.

they see prices for their goods fall, markets to which they used to sell captured by conglomerates, and few new job opportunities emerging to sustain their families.

There are alternatives to liberalisation. Recent work by the FAO documents that different levels of import protection are appropriate at different levels of development (Morrison and Sarris 2007). In fact, recent research suggests that many countries could benefit from 'food first' policies that give priority to domestic food production and internal market development over the pursuit of export markets (Morrissey 2007). In contrast to the many barriers most developing country producers face in highly competitive export markets, domestic food markets tend to show stable growth. Demand grows with population, generally at a fairly predictable rate.

Where liberalisation opens access to that stable and growing market to international agribusiness, continued protection can reserve an important portion of the domestic market for domestic producers. With appropriate government-supported credit and investment, small-scale producers can increase their productivity to meet the rising demand for their goods.

Such policies seem even more urgent in light of recent food crises in developing countries. Fortunately, there is a growing awareness that the kind of one-size-fits-all liberalisation that has dominated official policy for the last 25 years has failed to generate either development or food security. The World Bank's recent *World Development Report 2008* in no way represents a paradigm shift for agricultural development, but it signifies an important opening in the policy debate. Perhaps there will now be space for policies that recognise not just the potential for export-led agricultural development but also the continued importance of domestic agriculture and the smallholders on which it often rests (World Bank 2007).

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