2006

Agricultural Trade and Developing Countries

Carmen G Gonzalez, *Seattle University*

In the absence of an Austinian World Government, horizontal conflict of norms between the WTO and other branches of PIL may be inevitable. Pauwelyn's solution for such conflict leans toward PIL as long as he is willing to sacrifice the autonomy of the WTO system to outsource PIL.[57] However, WTO norms exist on their own just as HR and IE claim their own legal distinctiveness. While Pauwelyn's thesis of conflict resolution might turn the WTO porous beyond his wildest dream, at the same time it certainly risks weakening the WTO system through osteoporosis and thus encroaching upon the WTO's identity.

SUNGJOON CHO, *Assistant Professor of Law, Chicago-Kent College of Law, Illionois Institute of Technology, Chicago, IL, USA*

doi:10.1017/S1474745606232877

Global Agricultural Trade and Developing Countries

edited by M. Ataman Aksoy and John C. Beghin

Washington, DC: World Bank, 2004. Pp. v–xviii, 329. $45

Agricultural trade has a direct impact on households, communities, and entire nations in the developing world that depend on agricultural production for their economic survival. More than half of the developing world's population and 73% of the developing world's poor reside in rural areas.[1] Approximately 2.5 billion rural dwellers in developing countries rely on agriculture for their livelihoods, and over 50 developing countries depend on the export of three or fewer agricultural products for a significant portion of their foreign exchange earnings.[2] These countries, communities and households are highly vulnerable to volatility in world market prices for agricultural commodities and to the declining terms of trade for agricultural products relative to manufactured goods.[3] Long-term and short-term declines in agricultural commodity prices can undermine the livelihoods of farmers in the developing world, and can deprive agro-exporting developing countries of the foreign exchange earnings necessary for productive investment and for the purchase of manufactured products and food not produced domestically.[4] Agricultural trade and production patterns are influenced by agricultural trade policy in both developed and developing countries. Thus, agricultural trade policy can play an important role in economic development and poverty alleviation in much of the developing world.

Global Agricultural Trade and Developing Countries examines key issues in agricultural trade policy that are of particular significance to developing countries. Published by the World Bank, the book contains contributions from a variety of

57 'The effect of the approach suggested here, that WTO rules would apply differently to different WTO members depending on whether or not they have accepted other non-WTO rules, may complicate the matrix of rights and obligations between WTO members.' Ibid., at 476.

1 M. Ataman Aksoy and John H. Beghin, eds., *Global Agricultural Trade and Developing Countries* 1 (Washington, DC: World Bank, 2004), 17–18.

2 UN Food and Agric. Org., *The State of Agricultural Commodity Markets 2004* 6 (Rome: United Nations, 2004) [hereinafter, FAO 2004].

3 Ibid., at 12–13; Peter Robbins, *Stolen Fruit: The Tropical Commodities Disaster* (New York: Zed Books, 2003), 2–3, 7–15.

4 FAO 2004, *supra* note 2, at 12–13; Robbins, *supra* note 3, at 7–15.

economists, including many present and former World Bank economists. The book is divided into two parts. Part I provides background and context by describing global agricultural trade flows since the 1980s and by examining a variety of issues relevant to agricultural trade policy, including agricultural protectionism in both developed and developing countries, the effect of industrialized country trade preferences for agricultural commodities from certain developing countries, the impact on developing countries of developed country food safety and agricultural health standards, and the likely consequences of agricultural trade liberalization. Part II presents a commodity-by-commodity analysis of trade and domestic agricultural policy in both producing and consuming countries for those commodities of particular economic importance to developing countries (sugar, dairy, rice, wheat, coffee, cotton, groundnuts, fruits and vegetables, and seafood products).

The book's strength is its painstaking research and detailed and exhaustive analysis of agricultural trade and production policies in a variety of countries and across a variety of commodities. The book provides a clear explanation of the market distortions caused by agricultural protectionism and of the distributional impacts of agricultural trade liberalization.

The book points out that the Uruguay Round Agreement on Agriculture did not result in meaningful reductions in agricultural subsidies and import barriers in industrialized countries. By contrast, most developing countries opened their markets to foreign competition beginning in the 1980s. Certain middle-income developing countries then reacted to this imbalance by imposing agricultural tariffs to protect their own farmers from the influx of cheaper, subsidized exports from industrialized countries. This pattern of protectionism impedes trade flows, depresses world agricultural commodity prices, rewards inefficient producers, and depresses the income of developing country farmers by limiting their access to developed country markets. One of the book's key conclusions is that, despite the heterogeneity of the commodity markets studied in Part II, the elimination of agricultural subsidies and import barriers in both developed and developing countries would likely benefit developing countries by increasing agricultural incomes, alleviating rural poverty, and capitalizing on developing countries' comparative advantage in agricultural production. Indeed, if all regions of the world were to eliminate agricultural subsidies and import barriers, the global income gain projected for 2015 is estimated to be $265 billion, with nearly half of that gain accruing to developing countries (primarily middle-income developing countries).

The book's weakness is its failure to integrate its analysis and recommendations into broader debates about economic development, especially the relationship among agricultural production, industrial policy, and environmental protection. While there is a rich interdisciplinary literature addressing these issues, the book confines itself to extolling the benefits of agricultural trade liberalization without probing the long-term economic and ecological implications of its policy recommendations.

First, the book fails to evaluate the long-term effects on economic development of specialization in agro-export production. The book mentions several times that the most successful developing countries did not rely on agricultural exports,[5] and

5 Aksoy and Beghin, *supra* note 1, at 1, 17.

explains that 'a development strategy based on agricultural commodity exports is likely to be impoverishing in the current agricultural policy environment'.[6] However, the book neglects to fully explain the implications of these observations for its policy recommendations or to reconcile these observations with decades of World Bank policy advice promoting agricultural specialization to developing countries as a means of generating export earnings.

The deterioration in the terms of trade for agricultural products *vis-à-vis* manufactured goods, noted approximately 50 years ago by economists Raul Prebisch and Hans Singer, has been confirmed by subsequent data,[7] and has caused many developing countries severe economic losses and increasing debt burdens.[8] Recent studies on Sub-Saharan Africa have sharply criticized the neoliberal economic reforms imposed by the International Monetary Fund (IMF) and the World Bank as loan conditions on the ground that these reforms perpetuated poverty by promoting 'comparative advantage' in raw material and primary product exports in lieu of encouraging the economic diversification and industrialization vital to economic development.[9] Indeed, the promotion by the IMF and the World Bank of agro-export production as a means of generating the revenue with which to service the foreign debt had the perverse consequence of depressing developing country export earnings by glutting world agricultural markets and causing agricultural commodity prices to decline.[10]

Curiously, the book does not discuss the historic role of the World Bank and the IMF in promoting the agro-export-based development strategies that the book now finds impoverishing. Moreover, it is unclear whether the book's authors believe that eliminating agricultural subsidies and import barriers will reverse the long-term decline in the terms of trade for agricultural commodities relative to manufactured goods and make agro-export specialization a viable development strategy. In light of the importance of these issues to developing countries, the book's failure to address them in a clear and explicit way is troubling.

Second, the book fails to address the economic consequences of the concessions that developing countries must make in order to persuade industrialized countries to reduce their hefty agricultural subsidies and import barriers. Many of these concessions, such as enforcing industrialized country intellectual property rights, may be very costly to developing countries.[11] Bilateral and multilateral trade agreements

6 Ibid., at 3.

7 FAO 2004, *supra* note 2, at 10, 12–13; James M. Cypher and James L. Dietz, *The Process of Economic Development* 87 (Box 3.5) (London and New York: Routledge, 1997), 177–180.

8 FAO 2004, *supra* note 2, at 12, 20–21.

9 Howard Stein, 'Rethinking African Development', in *Rethinking Development Economics* (Ha-Joon Chang, ed., London: Anthem Press, 2003), 153, 156.

10 Robbins, *supra* note 3, at 29–30; John Madeley, *Food For All: The Need for a New Agriculture* (London and New York: Zed Books, 2002), 154–155; Belinda Coote, *The Trade Trap* (Oxford: Oxfam, 1992), 34–35; Susan George, *A Fate Worse than Debt: The World Financial Crisis and the Poor* (New York: Grove Weidenfeld, 1990), 60–61.

11 See Mark Weisbrot, David Rosnick, and Dean Baker, *Poor Numbers: The Impact of Trade Liberalization on World Poverty* (Washington, DC: Center for Economic and Policy Analysis, 2004), available at http://www.cepr.net/publications/poor_numbers.htm (last visited April 22, 2005); Ha-Joon Chang, *Globalisation, Economic Development, and the Role of the State* (London and New York: Zed Books, 2003), 297–298.

severely constrain the ability of developing countries to utilize the protectionist tools historically employed by the United States, Western Europe, Japan, and the Newly Industrializing Countries (NICs) of Taiwan and South Korea to promote industrialization – such as infant industry protection (through tariffs and subsidies), regulation of foreign investment (including local content and local majority ownership requirements), and technology transfer requirements.[12] The book's analysis of the benefits of agricultural trade liberalization is incomplete without some discussion of the concessions and trade-offs that developing countries have accepted in the past and may be forced to accept in the future as the price of gaining access to agricultural markets in developed countries, particularly the cost of foregoing the development strategies that both industrialized countries and NICs have used to diversify and industrialize their economies.

Third, the book's analysis of the distribution of the benefits of trade liberalization between developed and developing countries neglects to take into account the dominant role of transnational corporations in global agricultural trade. Farmers and countries do not generally engage directly in international agricultural trade.[13] Rather, a handful of transnational corporations increasingly control almost every aspect of the production and distribution of agricultural commodities, from the sale of inputs (pesticides, fertilizers, machinery, and seeds) to the processing, shipping, and marketing of agricultural output.[14] The book emphasizes that virtually all of the income gains associated with agricultural trade liberalization are due to the removal of tariffs, thus facilitating access by developing country exporters to the markets of industrialized countries and middle-income developing countries.[15] However, since the export trade in developing countries is controlled by large, domestic agro-exporters and transnational corporations, it would be useful to know what percentage of the income gains from trade liberalization would actually accrue to large trading enterprises and what percentage would reach small farmers and other non-affluent residents of developing countries.[16] The book does not directly address this question. Furthermore, by focusing exclusively on distortions in world agricultural markets

12 See, e.g., Chang, *supra* note 11, at 258–259, 276–277; Ha-Joon Chang, *Kicking Away The Ladder: Development Strategy In Historical Perspective* (London: Anthem Press, 2002), 19–51, 59–66; Ha-Joon Chang, 'The East Asian Development Experience', in *Rethinking Development Economics* (*supra* note 9), 107, 111–117.

13 Sophia Murphy, Inst. for Agric. and Trade Policy, *Managing the Invisible Hand: Markets, Farmers, and International Trade* 9, 18–19 (2002), available at http://www.tradeobservatory.org/library.cfm?RefID=25497 (last visited 22 April 2005).

14 See, e.g., Madeley, *supra* note 10, at 121–123; Brian Halweil, 'Farming in the Public Interest', in The Worldwatch Inst., *State of the World 2002*, 51, 68 (table 3.2) (2002); Murphy, *supra* note 13, at 21–29. For example, five seed firms control over 75 % of the global seed market for vegetables. Five agrochemical companies control 65 % of the global pesticide market. Five grain trading enterprises control over 75 % of the world market for cereals. Several transnational corporations control approximately 90 % of the global coffee trade, and over 60 % of the sugar trade. Similar market concentration can be found in the chicken, beef, and pork trade. Halweil, at 68 (table 3.2).

15 Aksoy and Beghin, *supra* note 1, at 120.

16 See FAO 2004, *supra* note 2, at 30–31 (discussing the domination of agricultural trade by transnational trading, processing, and distribution companies); Murphy, *supra* note 13, at 49–50 (arguing that the benefits of trade liberalization are likely to accrue disproportionately to transnational agribusiness rather than farmers and consumers); Madeley, *supra* note 10, at 125 (suggesting that transnational corporations are likely to be the prime beneficiaries of agricultural trade liberalization).

caused by government intervention, the book neglects to address the ways in which the market power of transnational agribusiness distorts agricultural input prices and prices for agricultural commodities[17] and the strategies that might be adopted to address this problem.

Finally, the book recognizes that agricultural trade liberalization will result in a shift of agricultural production from industrialized countries to developing countries,[18] and argues that the additional revenue resulting from trade liberalization will boost rural incomes in developing countries and provide agricultural producers with the means to 'modernize farming practices'.[19] Regrettably, the book neglects to address the long-term ecological and socioeconomic impact of the expansion of 'modern' export-oriented industrial agriculture in the developing world. This omission is unfortunate in light of the wide range of environmental problems triggered by chemical-intensive, monocultural farming practices in both developed and developing countries, including loss of agricultural productivity, soil degradation, depletion of freshwater reserves, loss of biodiversity, increased susceptibility to pest and disease infestation, harm to wildlife, and contamination of drinking water supplies by pesticides and fertilizers.[20] Increased agro-export production in developing countries is also likely to increase inequality by benefiting large-scale highly capitalized agricultural producers rather than the small farmers who comprise the rural poor.[21] Thus, the expansion of 'modern' industrial agriculture in the developing world is likely to be accompanied by environmental and social 'externalities' that are not addressed in the book's findings. While the book does mention the negative environmental and social externalities caused by the expansion of fishing and aquaculture,[22] these insights are not extended to the other commodities under study.

In sum, this book contains a wealth of detail on agricultural commodity markets and on trade and production practices in both developed and developing countries. However, the utility of this information is limited by the authors' failure to address a number of pressing questions related to agricultural trade policy that developing countries need to consider as they engage in the Doha Round of multilateral trade negotiations and as they attempt to devise forward-looking, ecologically sustainable development strategies.

CARMEN G. GONZALEZ, *Associate Professor of Law, Seattle University School of Law*

17 See Murphy, *supra* note 13, at 19.

18 Aksoy and Beghin, *supra* note 1, at 130.

19 Ibid., at 1.

20 See, e.g, Halweil, *supra* note 14, at 53–56; Jules N. Pretty *et al.*, 'Policy Challenges and Priorities for Internalizing the Externalities of Modern Agriculture', 44(2) *J. Envtl. Plan. & Mgmt.* 263, 264 (2001); Lori Ann Thrupp, World Res. Inst., *Linking Biodiversity and Agriculture: Challenges and Opportunities for Sustainable Food Security* (Washington, DC: World Resources Institute, 1997), 4–10; *The Fatal Harvest Reader: The Tragedy of Industrial Agriculture* (Andrew Kimbrell, ed. London and Washington, DC: Island Press, 2002), 121–147, 167–221.

21 See Coote, *supra* note 10, at 194–195; Murphy, *supra* note 13, at 8; John Madeley, *Hungry for Trade: How the Poor Pay for Free Trade* (London and New York: Zed Books, 2000), 76–77; Lori Ann Thrupp, *Bittersweet Harvests For Global Supermarkets* (Washington, DC: World Resources Institute, 1995), 67–71 .

22 Aksoy and Beghin, *supra* note 1, at 277, 281, 282 (Box 15.1), 291, 293–294.