

Agricultural trade policies and development

Incorporating institutional and dynamic aspects

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Experiences of policy makers

- *Fragmentation of developing world in blocks with different positions*
- *Questions around assessments of effects of reforms*

Aim of this study

- *Exploring institutional and dynamic complications that:*
 - *make real world outcomes deviate from trade models*
 - *explain the negotiating positions taken by different developing countries*

Country cases

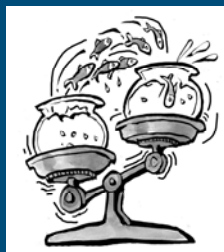
- *This report lays the foundation*

The standard model is marked by static equilibrium, perfect mobility, etc.

But in the real world, there are complications...



Dynamic disequilibrium



Endogenous price fluctuations



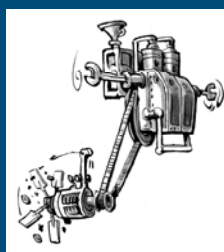
Market power



Endogenous growth



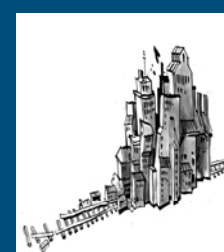
Poverty traps



Linkage effects



Spatial concentration



Strategic control of material flows

Regional development patterns

Balanced growth

- *Developmental states & enabling policies*
- *Agricultural revolution as starter of industrialization*

In regions with a long history of population growth, agricultural intensification, social differentiation & state formation

Unbalanced growth

- *Inequality, oligarchic states & laissez faire policies*
- *Disarticulation & marginalization*

In regions with a history of large landowners, rightless rural workers & oligarchic states

Involution

- *Patrimonial states & 'urban bias'*
- *Involution, poverty traps & stagnation*

In regions with a history of undifferentiated peasant economies & personalist socio-political structures

Idea behind selection of cases

- Case countries should represent the two problematic patterns of 'unbalanced growth' and 'involution'
- Rather than just mirroring these patterns, they should fall (back) into them after seeming to escape
 - *This allows analysis of causal mechanisms rather than mere description*

Kenya (involution)

The puzzle:

- Dismantling of settler society entailed “miracle of the market” (1960s-70s)
 - *Settler economy overwhelmed by problems in the smallholder sector*
 - *Land reform, smallholder access to cash crops, co-operatives*
 - *Kenya seen as exception that confirmed the rule in Sub-Saharan Africa*
- Why did Kenya fall into decline from the 1980s?
 - *Economic stagnation, debt accumulation, political repression & ethnic clashes*
 - *Continuity in political regime*

Kenya

Tentative explanation:

- Traditional pattern of upward mobility
 - *Rights in man* → upward mobility hinged on public positions
 - *Interaction of agricultural development and public sector jobs*
- Two pathways
 - *If farming is profitable: Public sector earnings invested in farming → economic growth → broadening of fiscal base, balanced growth of public sector*
 - *If farming is unprofitable: Insufficient investment in agriculture → soil degradation & stagnation → run on public sector jobs → political market based on doling out these jobs → infighting & private sector over-taxation*
- Clientelism not conducive to supportive farm policies

Kenya

Influence on outcomes trade reform:

- Import competition & preference erosion may exacerbate infighting & over-taxation
 - *Public sector retrenchment may fail*
 - *Erosion of social capital, continuing of 'bad governance'*
- This may hamper growth in activities in which Kenya has a (potential) comparative advantage
 - *The reallocation of resources that is assumed in the standard model may not materialize*

Bolivia (unbalanced growth)

The puzzle:

- Before the 1970s, popular forces seemed to redress the unbalanced development of the Andean economy
 - *Subdivision of ayllus and expansion of haciendas blocked by popular resistance*
 - *National Revolution (1952) → land reform, import substitution industrialization*
- Why did unbalanced development return at a higher spatial level?
 - *Rise of export-oriented latifundios & agribusiness chains in the Amazonian region (soy & cereals; deforestation)*
 - *Weakening of Andean agriculture*

Bolivia

Tentative explanation:

- Fragility of populist politics
 - *International depression after 1980 → Bolivia first country to accept SAP*
- Impact of liberal globalization
 - *Increased price fluctuations: brake on domestic chain development*
 - *Regional integration and surge in food imports (MERCOSUR)*
 - *FDI in mining and soy: no linkages with local food supply & demand*
- Other factors
 - *Dual tax regime as inhibitor of domestic market-oriented agri-food chains*
 - *Redistributive cultural traditions curb private accumulation and investment in Andean agriculture*

Bolivia

Influence on outcomes trade reform:

- Negotiating position reflects Amazonian (= Brazilian) agribusiness interests rather than Andean smallholder interests
 - *Mercosur, G20 & Cairns group ↔ CAN & G33*
 - *Will this change under Morales? (S&D, bilateral agreements, joining of G33)*
- Agricultural specialization and spatial concentration patterns are different than CGE-modeling suggests
 - *Institutional economic drivers ↔ comparative costs and price transmission*
 - *Regional processes ↔ country sovereignty*

Outline for further research

- Completion of desk studies with locally gathered information
- In-depth study of selected aspects
 - *Kenya: interaction of population growth, soil degradation & political markets. How will ESA-EPA influence this pattern of 'involution'?*
 - *Bolivia: regional specialization processes (esp. Brazil-Argentina) & interest articulation in trade policy formulation. How will EU-MERCOSUR influence the pattern of 'unbalanced growth'?*
- Synthesizing of findings resulting in:
 - *Improved descriptions of regional development patterns*
 - *Improved understanding of negotiation positions of countries & dynamics of regional trade blocks*
 - *Suggestions for improving trade models or using their outcomes*