

# Agricultural trade reform: diversity of impact on poverty and development

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# Presentation outline

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- Summary of the discussion paper
  - Agricultural policies, markets
  - WTO liberalisation, national effects
  - Trade policy impact on poverty
  
- Thoughts to take home

# A dead end?

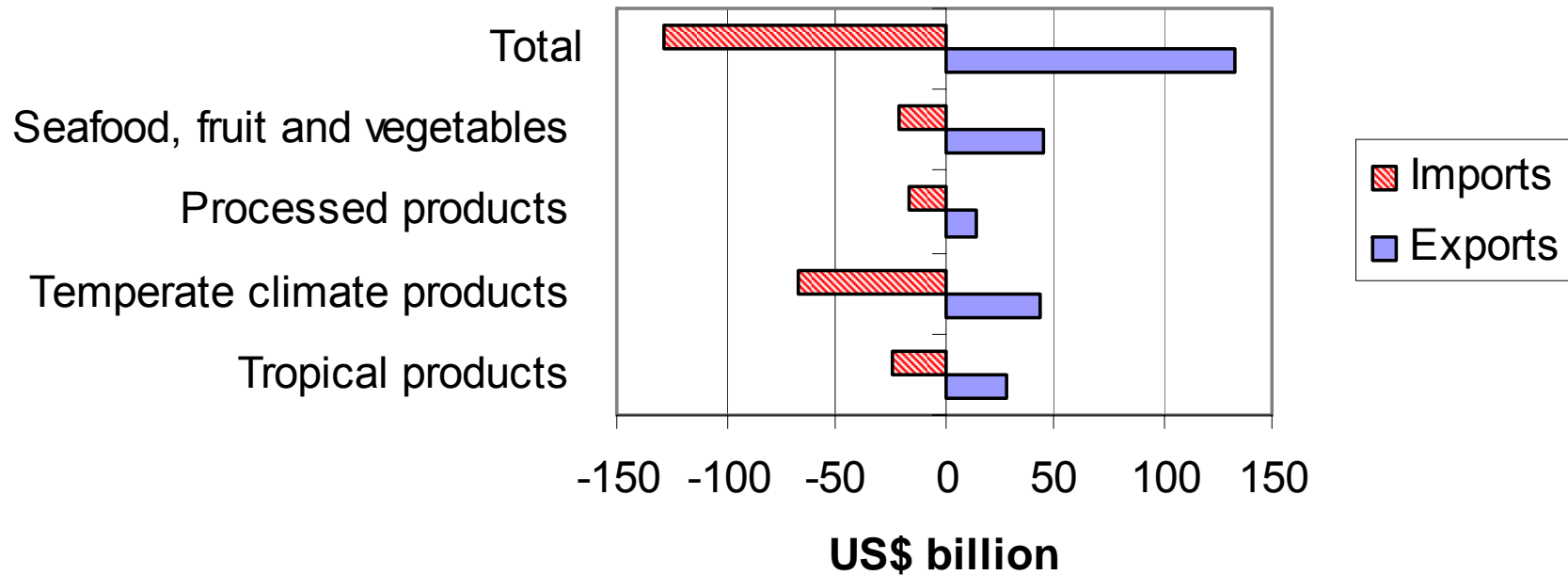
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1. **Agricultural trade liberalisation and economic development**
2. Global assessments of economic impact of agricultural trade reform
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# Trade patterns vis-à-vis OECD

## Agricultural trade of the developing countries, 2001-03



source: PCTAS, calculations LEI

# Diversity of interest in reform OECD farm policy

- Agricultural growth in low-distortion sectors
- Only 12 net temperate agricultural exporters.
  - Market access into OECD economies and emerging countries (Mexico, China, Mahreb)
  - Cotton
- Preference erosion (plus reform) is an issue for tropical exporters
  - ACP exporters of sugar, bananas

## Diversity of interest in reform OECD farm policy (2)

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- 90% developing countries little interest in OECD market opening, possible terms of trade losses
- Terms of trade ▼ (cereals, livestock) ▲ (cotton, soybean), how much?
  - OECD supply down following farm subsidy cut (perhaps not under decoupled payments?)
  - Export subsidies,
  - Price incentives for expansion, decline, relocation, value-adding, etc.
  - Interplay global-domestic market.

# More opportunities on the long term

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- Status quo in OECD farm policy, discouraging market entry
  - Temperate zone products: no exit incentive for OECD producer
- More productive agriculture and supply chain management (vertical coordination, supermarkets)
  - benign link with FDI

# Wanted: opportunities outside agriculture

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# Similar methods

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- Standard tool for trade analysis
  - Global Trade Analysis Project database
  - All-sector model of world economy
    - GTAP, LINKAGE, MIRAGE, etc
- Shrinking gains from Doha round
- Agricultural trade liberalisation: small global and national welfare effects, large distributional impact

# Similar results across studies

Welfare gains (EV) from partial agr. reform, US\$ billion

region	country (group)	Anderson,Martin, vdMensbrugge	Carnegie
		Scenario 3	Doha for agriculture
MENA	Middle East and North Africa	-1.5	-0.2
	Turkey	0	n.a.
	Selected Sub-Saharan Africa	0	-0.1
	Rest of Sub-Saharan Africa	-0.3	-0.1
	South Africa	0.1	0.1
ASIA	Bangladesh	0	0.0
	China	-1.6	-0.3
	India	0.2	0.0
	Indonesia	0.2	0.0
	Thailand	0.3	n.a.
	Vietnam	0	-0.2
	Rest of East Asia and Pacific	0	n.a.
	Rest of South Asia	0.1	0.0
LAC	Argentina	1	0.4
	Brazil	0.9	0.3
	Mexico	-0.3	-0.2
	Rest of Latin America and the Caribbean	0.5	0.1
	Total	-0.4	-0.3

# Argument for diverse methodologies in trade analysis

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- Applied global economic models and GTAP database
  - Bring numbers to the debate
  - Key stakes in trade reform lie in manufacturing, service, and interaction with agriculture economy
  - 0.1% of GDP, what's the fuzz? Distribution effects!
- Research agenda
  - Poverty impact
  - Mobility of land and labour, etc.
  - Institutional preconditions
  - Standards, non-tariff measures

# Alternative perspectives, other results

- Structuralist economics
  - Macroeconomic consistency
  - Deviate from neoclassical framework, underemployment
- Evolutionary, institutional economics
  - Market failures, and 'history matters'

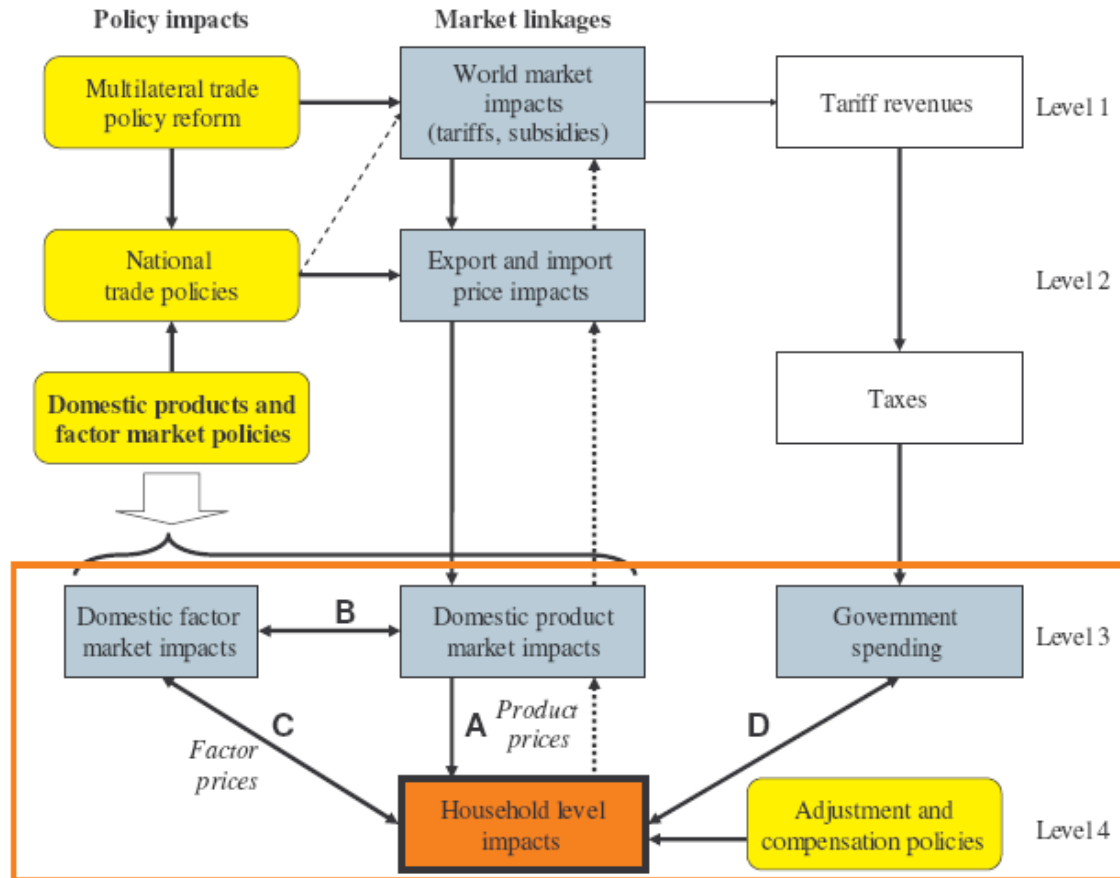
# Overload, or a way out?

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# Tracing the links = trying to solve a puzzle



# Agricultural trade reform: impact on the poor

- Agriculture is important source of employment
- Continuum of trade-poverty links:
  - First-round effects: households face price changes
  - Second-round effects: households adjust to changing market conditions
  - Long-term effects: sustained poverty reduction via economic growth
- Outcome strongly depends on the ability of the poor to respond to changes (second-round vs. first-round)

# Will second-round effects overturn first-round effects?

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- Impact of reform may differ among households
  - Decisions on production, consumption and labor
  - Rural vs. urban households
  - Vulnerability of households
  
- Constraints for adjustment
  - E.g. absence of operational factor markets in rural China limits the ability of households to make simple decisions about production and consumption



# First collect the pieces, then solve the puzzle

- Research on trade and poverty should first be focused on finding and understanding the missing pieces
- Therefore current poverty impact studies should not be taken too literally (since the puzzle is not yet completed)
- However, the importance of domestic policies is already quite clear (strategic and tactical policies)

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# Thoughts to take home

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Agricultural trade reform (OECD and non-OECD) remains in the interest of most developing countries if part of a multi-sector reform, and when considering long term effects

The analytical gaps in the links between trade and development are increasingly well-defined, though not always respected in the debate

Model studies are caricatures putting your focus where the cartoonist wants to have it (they will change your perspective)

Is it worrying that the expectations of trade analysts on possible economic effects of a trade reform are so similar?

## Forthcoming LEI report

Achterbosch & Roza. 'The diversity of impact of agricultural trade liberalisation on poverty and development'.

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