GLOBALIZATION, LIBERALIZATION AND PROTECTIONISM

Impacts on poor rural producers in developing countries

TWN
Third World Network

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GLOBALIZATION, LIBERALIZATION, PROTECTIONISM: IMPACTS ON POOR RURAL PRODUCERS IN DEVELOPING COUNTRIES

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Sponsored by the International Fund for Agricultural Development (IFAD)
Globalization and trade liberalisation carry with them tremendous challenges for poor countries and poor people, especially rural poor people, within poor countries. They carry also opportunities. In order for IFAD to be able to develop effective and relevant programmes and engage in effective policy dialogue and advocacy for pro-poor changes in the context of globalization and trade liberalisation, it needs to develop a firm grasp of the circumstances and situations under which countries or communities are affected by the opportunities and risks that these two processes generate. While there have been many studies which discussed, in general, the overall negative outcomes of globalization on the poor, what has been direly lacking, however, has been the collection of local evidence and the documentation of local situations affected by factors, both in the domestic and international policy environment, which emanate from the broader processes of globalization and liberalization.

To address this IFAD has entered into partnership with the Third World Network and extended its financial support to undertake some case studies (including of its own programmes) that would provide, precisely, the evidence and concrete realities that would argue for pro-poor changes in the present global order and, more specifically, in relation to the international and domestic trade regimes.

The studies that follow are the fruits of that collaboration.

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GLOBALISATION, LIBERALISATION, PROTECTIONISM:
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INTRODUCTION

By Martin Khor
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In recent years there have been growing concerns about the nature of the global framework influencing trade and production in the agricultural sector, particularly in developing countries.

In this context, in 2004-2005, the Third World Network undertook a project supported by IFAD to examine the impact of globalization and trade liberalization on rural producers in developing countries.

Four research papers were produced: an analysis of the global framework affecting rural producers; a survey of experiences of rural producers in Africa, Asia, Latin America and the Caribbean affected by trade liberalization; and case studies of the Philippines and Ghana.

This book is a compilation of these four papers.

The research, as elaborated by the four papers, found that the livelihoods and incomes of rural producers in developing countries have increasingly been affected by global frameworks of rules that in turn influence agriculture policies and practices at the national level.

The first overview paper, “Globalisation, Liberalisation and Protectionism: The Global Framework Affecting Rural Producers in Developing Countries”, found the following frameworks or rules in operation:

(i) Imbalanced multilateral trade rules, which enable developed countries to maintain high protection and support (mainly domestic and export subsidies) for their agriculture sector. A major effect of these rules is the continued dumping of the rich countries’ farm products into developing countries’ markets; while the developing countries are required to place restrictions on their subsidies, to prohibit quantitative restrictions of imports; and to progressively reduce their tariffs, thus exposing their farmers to import competition (including from subsidized imported goods);

(ii) A set of policy conditionalities attached to loans from the international financial institutions that are in many ways inappropriate for the promotion of rural development in many developing countries. These include withdrawal of the state from agricultural activities such as marketing, subsidy for and the supply of production inputs; and reduction of agricultural tariffs to low levels, as well as discouraging or prohibiting the use of WTO flexibilities of raising the applied import duty rate towards and up to the level of the bound rates, especially when import surges affect local production.

(iii) Regional and bilateral trade agreements that often require the developing country partners to sharply reduce their agricultural tariffs, often to zero.
The absence of international cooperation on the problems surrounding agricultural export commodities of the developing countries has resulted in a trend decline in their prices, with dire consequences for the small producers.

Besides trade, other issues that affect the interests of small producers are also subject to global frameworks. These include intellectual property rights over biological materials, including seeds, microorganisms and genetic materials.

The second paper, “Liberalization and Interactions with the Market: A Survey of Some Experiences of Rural Producers in Developing Countries”, by Meenakshi Raman, surveyed the literature on the effects of import liberalization on the market and livelihood of rural producers in developing countries and reported many cases from the African, Latin American, Caribbean and Asian regions. The cases show how the reduction of agricultural import tariffs had led to the influx of imported food products (some of them subsidized) which had disrupted the locally produced products of small farmers. The paper also provided examples of IFAD projects and initiatives that assist farmers in innovative production (for example, organic farming), in finding “niche markets”, or in improving their capacity to market and process their surplus produce. These are some positive examples of assistance to farmers to be in a better position to take advantage of local or international markets.

The third paper, “The Impact of Globalisation and Liberalisation on Agriculture and Small Farmers in Developing Countries: The Case of the Philippines”, by Victoria Tauli-Corpuz, Ruth Sidchogan-Batani and Jim Maza, found that imports of several food items (including vegetable and poultry) had climbed in recent years, especially after 2001 and 2002, as a result of the country’s obligations under the WTO’s agreement on agriculture. A survey of a village composed of indigenous people (Cattubo barangay, in Benguet province) found a significant drop in household income of farmers as a result of the fall in vegetable prices due to the increased inflow of cheap vegetable imports. Researchers found piles of vegetables left by the roadside of the province as farmers could not find a market for their produce. The IFAD project in this area, known as CHARM, was designed to assist farmers to grow high value crops and cut flowers, with the aim of increasing average farm family incomes and reducing the number of families living in poverty. The target set for increased family income could not be met because of the decline in vegetable prices and the inability of farmers to market their vegetables as result of increased imports.

Another survey found that domestic chicken production was increasing steadily in the Philippines, but suffered a significant drop in 1999 as a result of a dramatic increase in imports, and has not recovered to its 1998 level. The import of dressed chicken into the Philippines rose from 199,540 tonnes in 1996 to 2,417,000 tonnes in 1998. The local effects are seen in Alaminos town, Laguna. As a result of increased imports, the large poultry companies (known as integrators) reduced their orders to contract growers by as much as 60%, with loss of revenues for contract
growers and uncertainty of employment for farm workers. Import liberalization also led to an influx of cheap, subsidized feed grains (mainly corn), which are used to feed the poultry. This suppressed the market of the local small farmers in the area producing corn.

The two cases in the Philippines show that import liberalization has adversely affected two major aspects required for local farmers to successfully participate in the market economy, i.e. the ability to market their produce and the ability to have access to and control over the inputs for production (for example, animal feed).

The fourth paper “The Impact of Globalisation and Liberalisation on Agriculture and Small Farmers in Developing Countries: The Experience of Ghana”, by Martin Khor with the assistance of Tetteh Hormeku, describes the deregulation and liberalization of the country’s agriculture sector under reforms linked to loans of the international financial institutions. In particular, the state’s role in subsidization and provision of facilities (such as marketing and production inputs) was much reduced, while the country’s applied tariffs were drastically reduced. The study then analyses the effects of import liberalisation on three sectors – rice, tomato and poultry. It finds that the local rice producing sector declined from a thriving industry in the mid-1970s (when local production met all consumption needs) to the present dismal situation when tariff reduction led to growing import of cheaper subsidized American rice (in 2002, Ghana produced only a third of its domestic consumption). The decline of the local rice industry (especially in Northern Ghana) has resulted in loss of employment and income and reduced schooling.

Tomato had also been a thriving crop, especially in the North-East region. However, as part of the loan conditionalities, the government sold its tomato processing and canning factories and relaxed import restrictions. The collapse of two important tomato canning factories sharply reduced the demand for locally produced tomatoes, with farmers unable to market their surplus tomato during the harvesting season. Import liberalization enabled the increasing importation of tomato paste, especially heavily-subsidized tomato products from some European countries. (The quantity of imported tomato paste rose from 3,209 tonnes in 1998 to 24,077 tonnes in 2002). As a result, the potential growth of the domestic tomato sector has been hampered.

Ghana’s poultry industry experienced growth from the late 1950s to the late 1980s, then declined steeply in the 1990s after the withdrawal of government support and the reduction of tariffs resulting from loan conditionalities of the international financial institutions. There has been a significant increase in imported frozen chicken parts, mainly from the EU and US. As these are heavily subsidized, the cost of the imports are artificially low and have taken over the market share of local farmers, whose share of the local market fell from 95% in 1992 to 11% in 2001. An attempt by the government to raise the applied tariff of poultry meat from 20 to 45 per cent to protect the local farmers (which is possible under WTO rules as the bound rate is 99%) was reversed after intervention by the IMF. There is now a strong local movement of farmers
and NGOs advocating government action to defend the local poultry industry from the influx of cheap subsidized poultry products.

The study of the three products shows that Ghana is a victim of unfair market conditions. It faces competition from subsidized products of rich counties. It is legally able to protect itself from such unfair competition by raising its applied tariffs, but has been disallowed from doing so by international financial institutions on which the county depends on loans. An additional challenge is that the current negotiations in the WTO is likely to have an outcome in which Ghana will have to reduce its bound tariffs on agricultural products; while the Economic Partnership Agreement negotiations with the EU could also lead to obligations for Ghana to reduce its tariffs, possibly to zero.

The Ghana study also showed that an IFAD project in the Upper East region of the country had been affected by the marketing problems facing the tomato farmers. The closure of the tomato processing and canning factory in Pwalugu and the influx of cheap tomato products affected the market of the local farmers, and acted as a disincentive for them to produce. It is common for farmers’ tomatoes to remain unsold and thus wasted in some years. The implementation of the IFAD project (part of whose aim was to help farmers develop and expand their production, including of tomato and poultry) was affected by the inability of farmers to market their surpluses, thus putting a severe constraint on the possibility of expanding their production and incomes. Another IFAD project (Root and tuber improvement programme) had limited success because of the problems faced by farmers of cassava in the post-harvest phase, i.e. how to find markets for the surplus produce. The prices of cassava had declined as there was more supply than demand, and the incomes of farmers had hardly increased as a result. In the next phase of this project, more focus will be given to the post-production phase, including seeking new uses of the crops and on processing and marketing.

Some conclusions and lessons can be drawn from the research undertaken. Among them are the following:

1. The global framework is powerful in determining or influencing national policies and practices. As this framework is imbalanced or inappropriate, there is an urgent task to reform this framework. In particular: (i) the rules governing agriculture in the WTO have to be modified so that export subsidies and domestic support in developed countries are eliminated or phased out, and the developing countries should have enough flexibility to meet the interests of their small farmers; (ii) the trade policies that form a prominent part of conditionalities of the international financial institutions have to be reviewed and changed, so that developing countries can make use of the flexibilities available to them under the WTO to take measures that protect their farmers; (iii) provisions in regional and bilateral free trade agreements should enable developing countries to maintain tariffs that enable their farmers to retain and improve their sources of livelihood; (iv) measures should be taken to enable farmers to receive fair prices...
for their export commodities, that enable them to have adequate remuneration.

2. Import liberalization has already led to import surges of many agricultural products in many countries across the developing world. Case studies show damaging consequences for small farmers in terms of revenue losses, loss of livelihood, and negative social effects. There is an urgent need to address this problem by taking measures, international and national, to avoid it or at least drastically reduce its incidence in the future.

3. In many mainstream discussions on trade and development, the emphasis has been on the benefits to farmers of taking part in international trade and in their having access to international markets. While farmers in a few developing countries could take advantage of this, the reality is that poor farmers in most developing countries find it hard to market their surplus in their own local markets, due to lack of infrastructure, storage, transport and marketing facilities. Increasingly these farmers also find that their local markets are being limited or taken away by imports that increase because of tariff reduction, or imported products that replace alternative local products because of changing consumer taste and demand. This problem has to be resolved as a matter of priority, before there can be hopes of exporting to the world market.

4. IFAD has an interest in this issue: firstly, because it has a mandate to improve the livelihood and incomes of farmers in developing countries, and global rules as well as inappropriate liberalization have an important impact on these; and secondly, the success of the implementation of many IFAD projects is to a significant extent influenced by the global framework and the decisions on liberalization taken at global, regional and national levels. It is thus important for IFAD to take into consideration these issues in its policy and advocacy work, as well as in the planning, implementation and evaluation of its projects. In addition, IFAD has supported a number of projects that assist farmers in improving their marketing, in producing products (for example, organic food) that can meet “niche markets”; and in seeking new uses of products. It would be useful for IFAD to expand in this direction.

5. IFAD should also collaborate with NGOs and social movements that are involved in these issues, and consider increasing its support to these groups since they can play an important part in the process of improving the situation.

We thank IFAD for collaborating with and supporting us in the project, and we hope that the results will contribute to the ongoing discussion and to follow-up activities on these important issues that affect farmers’ livelihoods and food security in developing countries.
GLOBALISATION, LIBERALISATION, PROTECTIONISM:
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OVERVIEW

By Martin Khor

A. INTRODUCTION

This paper provides an overview of the phenomenon of globalisation and its effects on the conditions of rural producers in developing countries.

It begins by outlining the features of globalisation. It argues that globalisation’s most important aspect is the “globalisation of policy making”, and that global rules are a strange combination of liberalisation and protectionism.

The paper then outlines the institutional basis of global policy-making, looking at the international financial institutions (IFIs) and their structural adjustment programmes, as well as the World Trade organisation (WTO) and some of its rules and the implications for developing countries.

The resulting imbalances in the global agriculture trade and production framework are then examined, with focus on subsidies and protection in the North, and the effects of this, especially the incidence of import surges in developing countries and their effects on on Third World farmers. The case of cotton subsidies is highlighted as an example of losses incurred in the developing world.

The paper the discusses recent developments in the WTO, including the proposals in the negotiations on agriculture that have been put forward by leading developed and developing countries.

It examines the issue of low and declining commodity prices and their effects on developing countries, using coffee as an example.

Finally, some recommendations are outlined on what can be done to improve the situation.
B. GLOBALISATION, LIBERALISATION AND PROTECTIONISM

Globalisation is often taken to mean a process that is synonymous with liberalisation, or the opening up of the local and national markets to the global market. However, the economic globalisation process is much more nuanced than this simple or automatic linkage between globalisation and liberalisation. Whilst there has been very significant liberalisation in recent years, this has been accompanied by the continuation or even the accentuation of protectionism in some areas and in some countries, including some major developed countries. For example, the internationalisation of intellectual property rights (IPR) systems through the WTO has led to increased monopolisation, especially by transnational corporations, that are better able to charge higher prices for their products than if there were greater competition. Also, the high subsidisation of and high tariffs on agricultural products constitutes the continuation of high protection of the agriculture sector in the rich countries.

In many developing countries, the process of liberalisation in trade, investment and finance has been taking place at significant rate and scope. This process has been promoted by the loan conditionalities of the international financial institutions, the rules of the WTO, and unilateral policy measures.

Thus the policies associated with the globalisation process are a strange combination of liberalisation and protectionism. The strangeness is perhaps accentuated by the fact that in some important instances developing countries are asked to undertake more intensive liberalisation, whilst the developed countries are proposing to retain or even increase protectionist policies. It is strange because normally it is accepted that the poorer and weaker countries should be given more time and flexibility to liberalise as they have to prepare and be ready to face competition from the bigger and stronger enterprises of the developed world; and that the already developed countries should liberalise more and faster as they have already reached a high level of development and can compete.

Perhaps the most important aspect of globalisation is the “globalisation of policy making.” Policies and decisions on a range of issues that were once under the sole or main purview of national governments are now made through international agencies or under their influence. Many developing countries are “policy takers” in the sense that they have had little say in the making of the rules or policies of some of the powerful international agencies, particularly the IMF, World Bank and the WTO, and they have to implement the policies at national level which have been laid out through these agencies. The developed countries are able to be “policy makers” as they have overwhelming influence at the World Bank and IMF (by virtue of the voting system which is weighted by equity shares) as well as at the WTO. The United Nations is generally regarded as a more democratic institution, as its decisions are made on a one-country-one-vote system and as the developing countries are better organised to represent their interests there. However, in recent years the influence of the UN over economic and social matters has declined
significantly and the mandate and influence of the IFIs and the WTO has expanded. This shift of power to institutions that are dominated by the developed countries has meant the reduction of the influence of the developing countries in decision-making over economic and social issues at the international level.

There have been increasing concerns that the policies adopted at or by some of the major international agencies (IFIs and WTO) have not been appropriate or effective in meeting the development needs of developing countries. In the area of trade and trade-related rules, the concerns have particularly centred on the disappointment by developing countries that they have not benefited much in trade or income terms from the implementation of WTO rules and some of them have suffered cost and losses. They are also concerned that the implementation of the TRIPS agreement in WTO may erode the rights of farmers and holders of traditional knowledge. There are also concerns that the loan conditionalities of the IFIs have caused many developing countries to liberalise their imports excessively and too rapidly, especially as the high subsidies and tariff protection continue to be maintained in the developed countries. For many developing countries, the potential benefits of meeting export opportunities have not been realised, whilst the risks of import liberalisation have become very real and have already adversely affected rural livelihoods and national incomes.

Those who are concerned about alleviating poverty and providing increased income opportunities for the rural population in developing countries are therefore interested in the following issues:

- The “supply side” problems faced by rural communities, including access to land, credit, infrastructure, production, storage, transport and marketing.
- The barriers preventing access to national and global markets.
- The conditions in the market for primary commodities, including supply and prices, especially in view of the significant decline over time of commodity prices and the adverse effects on export revenues and household incomes.
- The inappropriate rates and scope of import liberalisation, with adverse effects on the economic viability of the produce of the rural communities, and resulting loss of income and livelihoods.
- The external factors, including policies of the IFIs and the WTO, that contribute to the unfavourable conditions of the rural producers of developing countries.

C. THE GLOBAL AGRICULTURE POLICY FRAMEWORK

Some developing countries have been able to formulate and implement their own development strategies and policies, and some of these have had a strategy of selective liberalisation in which they have chosen the sectors and rates of liberalisation according to a systematic and sequenced programme. They are also able to choose a combination of
production for export and for the domestic market, and to vary the combination according to circumstances and policy inclination.

However, many other developing countries that at one stage or another suffered a debt default situation came under the purview of the World Bank and IMF, which were agreeable to arranging debt rescheduling and new credit on condition the countries agree to implement conditions, now commonly known as “structural adjustment policies.”

The policies normally include the following approaches and measures as they pertain to the rural sectors: the withdrawal of the state from economic activities, the closure or downgrading of state marketing boards, privatisation, reduction or removal of subsidies, elimination of import controls such as quantitative restrictions, reduction of import tariffs, re-orientation towards exports, and investment liberalisation and deregulation, or the opening up to foreign ownership of assets.

The structural adjustment policies have had a major impact on agricultural policies in developing countries. In particular, the removal of subsidies and protection from imports have made the rural producers more vulnerable to the direct effects and vagaries of the global markets, as the interventionist measures and capacity of the state were withdrawn or withheld. In many countries, rural producers are facing intense competition from imports that are cheaper than their own produce.

The effects of loan conditionalities began to be felt in the 1980s and 1990s for most of the affected countries. The WTO made a later entry, as it was established in 1995. At first, the developing country governments were hopeful that they would benefit from the new rules in agriculture, as the incorporation of agriculture into the system of the WTO would presumably lead to the dismantling of protection in the developed countries. Agriculture is one area where the developing countries are widely believed to have a comparative advantage, and thus they expected to benefit from expanded exports to the rich markets.

However, they were sorely disappointed, as the expected benefits have not accrued, due to continued protectionism in the North. This maintenance of protectionist measures were moreover allowed within the framework of the Agreement on Agriculture (AoA). On the other hand, the developing had, under the AoA, also committed to place strict limits on their domestic subsidies, to give up quantitative restrictions placed on imports, and to reduce their bound tariffs. These commitments made it even more difficult for the developing countries to promote and protect the interests of their rural producers.

The global economic framework on agriculture, shaped to a large extent by the loan conditionalities of the IFIs and the rules of the WTO, have resulted in a situation where the developed countries are able to continue with and even expand their domestic subsidies, and to continue with significant levels of export subsidies, as well as high tariffs on their sensitive agriculture products, whilst the developing countries are constrained (by the WTO rules, by loan conditionalities and by budget
constraints) from increasing their farm subsidies, and have strong pressures (through loan conditionalities) to maintain low applied tariff rates and even reduce these, as well as to significantly reduce their bound tariffs (through existing WTO rules and new proposed rules).

The imbalances in the global framework have handicapped the developing countries, which already have weak starting points due to their lack of financial and technical resources and their low level of development.

The unilateral policies taken under structural adjustment have then been reinforced or complemented by multilateral commitments that the countries are obliged to implement under the WTO rules. This combination of policies initiated under loan conditionality and then reinforced under multilateral rules have bound the developing countries in a web of commitments and policy constraints and measures and they find it difficult within this context to manoeuvre or to be able to choose between policy options those that are suitable for their agriculture development.

The following two sections look in greater detail on loan conditionalities and the WTO agriculture rules.

D. LOAN CONDITIONALITY AND STRUCTURAL ADJUSTMENT POLICIES

Many developing countries that had faced a debt default situation have come under the influence of loan conditionalities of the IFIs (IMF and World Bank). The “structural adjustment” programmes and policies include measures that affect rural producers directly. These include the liberalisation of imports, the dismantling of state marketing boards and state procurement systems, and the reduction or elimination of subsidies. These policies resulted in the rural communities of many of these countries facing greater vulnerability.

Recent studies conducted by the FAO have revealed that many developing countries significantly liberalised their agricultural imports as a result of IFI loan conditionality, rather than WTO rules. The FAO book, “Trade Reforms ad Food Security” (2003: p75) states:

“Structural adjustment programmes implemented over the past few decades have resulted in radical reform of the agricultural sectors of many developing countries, a period during which the majority of OECD agricultural sectors have continued to be heavily protected. Whilst it is generally acknowledged that unilateral reforms were often required, it has also been concluded that the process adopted has, in many cases, severely damaged the capacity of developing countries to increase levels of agricultural production and/or productivity. These unilateral reforms tend to have been reinforced by multilateral agreements.
Unilateral trade liberalisation has been undertaken in developing countries under pressure from international financial institutions as part of structural adjustment programmes. By contrast, agricultural trade has only recently been impacted by multilateral agreements (for example the AoA). WTO rules constrain the extent to which countries can protect themselves from increased competition. This has resulted in a number of NGOs suggesting that the more negative aspects of unilateral liberalisation in developing countries have been compounded by double standards in commitments to multilateral agreements, and maintaining the “you liberalise, we subsidise” attitude is extremely damaging.”

The FAO report adds:

“The opening of markets in developing countries, in the context of a global agriculture still characterised by high levels of protection in developed countries, left the reforming developing countries less able to prevent (a) the flooding of their domestic market (import surges) with products sold on the world market at less than their cost of production; and b) the displacement of local trading capacity which was intended to, and in some circumstances initially did, fill the void left following the deregulation of local markets and associated dismantling or parastatals.

On point (a), the Washington institutions promoting structural adjustment did not take into account the existing imbalance in designing and proposing the reforms and therefore did not predict the resulting disincentive effects on local production in some regions. On point (b), rather than the emergence of sustained local private sector involvement, internal markets have often been overwhelmed by larger companies dominant in global value chains. The impact of the unilateral reforms preceding the first multilateral negotiations on agricultural trade (negotiations that essentially excluded developing countries) was to leave developing countries potentially more vulnerable to greater openness, and to impose further constraints on policy intervention aimed at promoting agricultural growth.” (FAO 2003: p72-73).

An earlier study by the FAO on the effects of the WTO Agriculture Agreement surveyed the experience of 14 developing countries in implementing the agreement. The two-volume study (FAO 2001, 2000) made several interesting findings. One of the major conclusions was that import liberalisation had a significant adverse effect on small farmers and food security in many of the countries, and that the liberalisation had been the result of loan conditionality of the IFIs, rather than the WTO rules. In fact the agricultural tariffs that were bound under the WTO were relatively high, but the applied rates were much lower, as a result of the structural adjustment policies that formed the loan conditionality. The effects of import liberalisation of the countries surveyed were thus mainly the result of World Bank-IMF policies.
Among the major findings were the following (FAO 2001: p. 3-26):

- Although bound tariffs were generally high, the applied tariffs were on average much lower for the countries surveyed. Most countries had already reformulated their domestic policies under structural adjustment programmes. The simple average of the applied rates for 12 of the 14 countries was 22 per cent whereas the bound rate was 90 per cent. Some countries were obliged to set applied rates well below their WTO bound rates due to loan conditionality. While bound tariffs were high on average, there were several exceptions: Egypt's rates (28 per cent average) were low; India's tariff binding was zero for 11 commodities (including sensitive items like rice and some coarse grains), and all of Sri Lanka's agricultural tariffs were bound at 50 per cent with applied rates capped at 35 per cent for 1999.

- Import liberalisation had a significant effect. The average annual value of food imports in 1995-98 exceeded the 1990-94 level in all 14 countries, ranging from 30 per cent in Senegal to 168 per cent in India. The food import bill more than doubled for two countries (India and Brazil) and increased by 50-100 per cent for another five (Bangladesh, Morocco, Pakistan, Peru and Thailand).

- Increases in food imports were generally significantly greater than increases in agricultural exports. In only two countries was export growth higher while in most other countries import growth far outstripped export growth. The study also measured the ratio of food imports to agricultural exports and found the ratio was higher in 1995-98 than in 1990-94 for 11 of the 14 countries. An increase in the ratio indicates a negative experience, as it shows food import bills growing faster than agricultural export earnings. The worst experiences were those of Senegal (86 per cent rise in the ratio), Bangladesh (80 per cent) and India (49 per cent) (ibid.: 22-24). As the FAO's Senior Economist concluded: “A majority of the studies showed that no improvement in agricultural exports had taken place during the reform period…. Food imports were reported to be rising rapidly in most of the countries, and import surges, particularly of skim milk powder and poultry, were common. While trade liberalisation led to an almost immediate surge in food imports, these countries were not able to raise agricultural exports due to weak supply response, market barriers and competition from subsidised exports” (FAO 2000: 30).

- Several case studies reported import surges in particular products, notably dairy products (mainly milk powder) and meat. In some regions, especially the Caribbean, import-competing industries faced considerable difficulties. In Guyana, there were import surges for many main foodstuffs that had been produced domestically in the 1980s under a protective regime (FAO 2001).
In Sri Lanka, policy reforms and associated increases in food imports have put pressure on some domestic sectors, affecting rural employment. There is clear evidence of an unfavourable impact of imports on domestic output of vegetables, notably onions and potatoes. The resulting decline in the cultivated area of these crops has affected approximately 300,000 persons involved in their production and marketing. The immediate possibilities for affected farmers to turn to other crops are limited. Consequently, the economic effects of import liberalisation in this sector have been significant (ibid.: 325-26).

There was “a general trend towards the consolidation of farms as competitive pressures began to build up following trade liberalisation” and this has led to “the displacement and marginalisation of farm labourers, creating hardship that involved typically small farmers and food-insecure population groups, and this in a situation where there are few safety nets” (ibid.). The study noted especially the case of Brazil, where consolidation taking place in the dairy, maize and soybean sectors has affected traditional cooperatives and marginalised small farmers.

In 1996, as a result of dialogue between the World Bank President, James Wolfenson and several civil society organisations, a joint participatory investigation by civil society and the World Bank was carried out on the impact of structural adjustment policies. Called the Structural Adjustment Participatory Review Initiative (SAPRI), it was a joint five-year, multi-country investigation. The Initiative was a tripartite arrangement involving national governments, World Bank teams and national networks of civil society organisations that mobilised around the opportunity to influence the economic course of their respective countries.

The recently published SAPRI Report on Structural Adjustment (SAPRI 2004) has a chapter on the agricultural sector, which is based on case studies on Zimbabwe, Uganda, the Philippines, Mexico and Bangladesh. Common to these countries are the following structural adjustment policies aimed at reforming the agricultural sector: reduction of direct state involvement in producing, distributing and marketing of agricultural inputs and commodities; removal or reduction of subsidies on agricultural inputs and credits; liberalisation of trade in agricultural commodities; export promotion; promotion of privatisation and private sector involvement; parastatal reform and privatisation. The study found a lack of participation in designing these policies by the people most affected by them.

Among the main findings:

- Export promotion was meant to lead stimulate agriculture-led growth. Yet in several cases this emphasis led to heightened inequalities, as many farmers lacked an equal opportunity to enter and benefit within a liberalised market. Constraints such as lack of rural infrastructure were inadequately addressed, and export earnings were subject to world price fluctuations. In some
countries such as Zimbabwe, the expected market diversification did not occur; in others, like the Philippines, an increase in agricultural export earnings in one subsector was at the expense of other sub-sectors. Also, production for export often occurred at the expense of production for the local market, as in Mexico.

- In Zimbabwe maize production in 1997-99 was far below the level needed for human consumption and livestock feed, contrasting with the persistent surplus years earlier. This shortfall is attributed to liberalisation, which resulted in a shift to tradables such as horticultural products. Also, the costs of inputs such as seeds and fertiliser rose so high that communities had to drastically reduce acreage under cultivation; fertiliser prices shot up over 300 percent in five years after removal of subsidies. Small farmers’ traditional source of credit became inaccessible when the repayment procedures of the Agricultural Finance Corporation became more stringent as a result of structural adjustment. Farmers’ competitiveness was hurt by cuts in government spending on roads and transport systems, as well as processing, storage and distribution systems. Farmers were also negatively affected by the loss of information once provided by state marketing boards, by insufficiency of technical services and by high interest rates, as well as by a lack of access to land (SAPRI 2004: p136). As a result of liberalisation, private middlemen replaced the state in marketing farm inputs and produce for the smallholder sector; this placed these farmers at a disadvantage as far as determining the price of their produce was concerned and they were forced to sell at low prices, sometimes even below market prices. Farmers complained that before reforms they bought inputs (seeds, fertiliser, farm equipment) at cheap prices, but liberalisation of trade and removal of subsidies on inputs allowed traders to charge exorbitant prices and this led to reduced use of inputs and poorer yields. (SAPRI 2004:p138-9).

- In Uganda, the area under cultivation of coffee rose from 250,000 hectares in 1992/3 to 300,000 hectares in 1999/2000 and output rose from 2.8 million bags to 3.2 million (60-kilogram) bags, due to a government programme to expand coffee plantations. But as world coffee prices plummeted during the second half of the 1990s, the value of coffee exports fell from a peak of US$432 million in 1994 to US$165 million at the end of the decade. (SAPRI 2004: p137).

- In Bangladesh, crop sector profitability declined in the 1990s. Prices of inputs (fertiliser, seeds, irrigation equipment) increased significantly. Small farmers were hurt in particular by: withdrawal of subsidies for the poor, privatisation of agricultural input distribution system, the oligopolistic behaviour of private input traders, inadequate provision of food-purchase and storage facilities by the government and decline in regulation of fertiliser, seed and pesticide standards, and reduced access to formal credit institutions. (SAPRI 2004: p139-40).
• In Mexico, workshops in four regions revealed significant deterioration in conditions of small producers and rural peasants. They indicated that the dismantling of state services and withdrawal of subsidies for rural production created an unequal playing field in which large producers and foreign companies gained at the expense of small farmers, who suffered increasing production costs and lack of access to affordable credit (SAPRI 2004: p140).

• All the country studies, except for Bangladesh, concluded there had been a worsening food security situation as a result of the agricultural reforms.

• Adjustment policies have not taken account of existing socioeconomic differentiation in each nation, and little or no consideration was given to how policy impacts might reinforce differentiated access to economic opportunities and exacerbate inequalities. The studies indicate that the reforms generated differentiated impacts on a range of socio-economic groupings; the effects of adjustment policies often differed for large as opposed to small farmers, rich and poor farmers, export crop producers versus those producing primarily for the domestic market. (SAPRI 2004: p143). As a result, agricultural reforms have exacerbated inequalities. Export promotion, import liberalisation and the withdrawal of government support in agriculture reinforced differentiated access to resources for production. Where exports expanded, much of the benefit accrued to large producers as small producers lacked equal opportunity to gain within a liberalised market. Constraints such as lack of rural infrastructure were inadequately addressed, and the concentration of land use for large-scale export crop production has replaced cultivation of food crops for local use and tended to push small farmers to overexploit marginal-quality land. (SAPRI 149-150).

• The study concluded that “the agricultural sector reforms have not, on the whole, improved the well-being of those living in the rural sector” in the countries surveyed. The real incomes of farmers, particularly small farmers, have not improved as a result of reforms, principally as prices of agricultural inputs rose everywhere. Even where produce prices rose, the cost of production rose higher. (SAPRI 2004: p149). Small farmers were particularly affected, because as a result of the reforms, production subsidies were removed, public expenditure on extension services declined, and obtaining credit became more costly. This increased costs and lowered incomes of these farmers, whose marketing options have become more limited as a result of the withdrawal of the state from this function. (SAPRI 2004: p150).

• With reduced or inadequate cultivation of food crops for the local market, lack of improvement in earnings by low-income sectors and a rise in the cost of living, there has been a general deterioration in food security nearly everywhere. In several cases, the new
patterns of agricultural production resulting from the reforms led to negative environmental impacts, and women tended to bear a greater burden under the reform process (SAPRI 2004: p149).

The study (SAPRI 2004: p151) recommends that:

(a) Policy should be reoriented to give priority to production for the domestic market and ensuring food security;

(b) While agricultural exports are important, policy choices and investment decisions must take into account the differentiated ability of certain groups (especially women and smallholders) to access new market opportunities and improve their access to land and other resources;

(c) Trade policy in the sector should be nuanced, allowing countries to pursue some degree of self-reliance while stimulating production by marginalized farmers in order to support the rural poor in accessing affordable food.

(d) The implementation of effective steps to support small producers and achieve food security should precede, and then be integrated with, the opening of the sector and promotion of exports.

(e) The state should provide the support needed to ensure these farmers’ access to affordable agricultural supplies and extension services, improvements in rural roads and transportation, further development and regulation of irrigation systems, and promotion of land tenure reforms.

(f) Formal institutions should be in place, with state support, to provide equal access for all producers to information and markets, as well as to ensure environmental oversight and address negative impacts.

(g) In general terms, agricultural policies should be designed to reduce existing inequalities by boosting the capacity of small and medium producers and helping subsistence farmers to build sustainable livelihoods in the rural sector. To this end, policies should emerge from a participatory process involving all stakeholders, and environmental and socio-economic factors, including gender considerations, should be integrated into policy design.

There should also be an independent on-going review of the trade aspects of the present and proposed conditionalities of present and future loans. Developing countries presently have flexibilities within the WTO rules to adjust their applied tariffs up to their bound rates, and even beyond the bound rates in certain circumstances. Loan conditionality should not prevent or constrain the developing countries from making use of these flexibilities. Moreover, these conditionalities should not oblige developing
countries to undertake a rate and scope of liberalisation that is beyond their capacity to cope, or which will be damaging to the livelihoods and incomes of rural producers. The approach to liberalisation in developing countries should be re-oriented to be more realistic, especially since the developed countries are still maintaining high subsidies.

E. WORLD TRADE ORGANISATION RULES AND THEIR IMPLICATIONS

When WTO's Agreement on Agriculture (AoA) was established in 1995 together with the WTO itself, it had been expected to reduce Northern subsidies and protection and benefit developing countries that were supposed to expand their exports significantly. However this expectation has not been fulfilled and instead there has been growing awareness of the imbalances and unfairness of the AoA itself.

The flaws in the AoA enable developed countries to continue high levels of protection, whilst many developing countries have liberalised and their farmers are facing severe and often damaging competition, often from imports artificially cheapened through subsidies.

In the AoA, under the market access rules, all members had to abolish quantitative restrictions and non-tariff barriers and replace these with tariffs, and members have to reduce their tariff levels by 36 per cent over six years for developed countries, and by 24 per cent over 10 years for developing countries. LDCs do not have to reduce their tariffs, but cannot raise their bound rates.

Under domestic support rules, the AoA has three categories of domestic support measures: (a) the Amber Box, or measures that have effect on production and are taken to be trade-distorting (b) the Green Box, or measures that are assumed not to have effects on production, and (c) the Blue Box, or measures such as direct payments to farmers aimed at limiting their production. Amber Box subsidies have to be reduced (by 20% for developing countries and 13% for developing countries) but there are no disciplines on the two other boxes.

Under export competition rules, direct export subsidies have to be reduced by 36 per cent in value and 21 per cent in volume over six years for developed countries and by 24 per cent in value and 14 per cent in volume over 10 years for developing countries.

Under the AoA, developing countries have committed to a programme and schedule of liberalising their agriculture sector, similar to developed countries, the only concession being slightly lower reduction rates and slightly longer time schedules. The LDCs do not have to reduce their tariffs or subsidies, but cannot raise them.
Flaws in the AoA

The AoA contains several types of imbalances that are favourable to developed countries and unfavourable to developing countries. These imbalances have been analysed by Das (1998) and in Third World Network (TWN 2001).

The essence of the imbalances is the following: "The WTO Agreement on Agriculture has permitted the developed countries to increase their domestic subsidies (instead of reducing them), substantially continue with their export subsidies and provide special protection to their farmers in times of increased imports and diminished domestic prices. The developing countries, on the other hand, cannot use domestic subsidies beyond a de minimis level (except for very limited purposes), export subsidies and the special protection measures for their farmers. In essence, developed countries are allowed to continue with the distortion of agriculture trade to a substantial extent and even to enhance the distortion; whereas developing countries that had not been engaging in such distortion are not allowed the use of subsidies (except in a limited way) and special protection" (TWN 2001).

The main form of unfairness is in the area of domestic support. Developed countries with high levels of domestic subsidies are allowed to continue these up to 80 per cent after the six-year period. In contrast, most developing countries (with a very few exceptions) have had little or no subsidies due to their lack of resources. They are now prohibited from having subsidies beyond the de minimis level (10 per cent of total agriculture value), except in a limited way. In addition, many types of domestic subsidy have been exempted from reduction, most of which are used by the developed countries. While these countries reduced their reducible subsidies to 80 per cent, they at the same time raised the exempted subsidies substantially. The result is that total domestic subsidies in developed countries became even higher compared to the base level in 1986-88. Thus, in the EEC, the subsidy in the base period 1986-88 was US$83 billion, and it was increased to US$95 billion in 1996. In the United States, the corresponding levels are US$50 billion and US$58 billion. The professed reason for exempting these subsidies in the developed countries from reduction is that they do not distort trade. However, such subsidies clearly enable the farmers to sell their products at lower prices than would have been possible without the subsidy. They are therefore trade-distorting in effect.

The exemption from reduction applicable to developing countries is limited to four items: input subsidy given to poor farmers; land improvement subsidy; diversion of land from production of illicit narcotic crops; and provision of food subsidy to the poor. The scope is very limited and hardly half a dozen of the developing countries use these subsidies (Das 2000, 1998). Furthermore, subsidies exempted from reduction and used mostly by developed countries (Annex 2 subsidies) are immune from counteraction in the WTO; they cannot be subjected to the countervailing-duty process or the normal dispute settlement process. But those
exempted from reduction and used by developing countries do not have such immunity.

With regard to export subsidies, the developed countries get to retain 64 per cent of their budget allocations and 79 per cent of their subsidy coverage after six years. The developing countries, on the other hand, had generally not been using export subsidies, except in a very few cases. Those that have not used them are now prohibited from using them, whilst those that have subsidies of little value have also to reduce the level.

Another inequity is in the operation of the "special safeguard" provision. Countries that had been using non-tariff measures or quantitative limits on imports were obliged to remove them and convert them into equivalent tariffs. Countries that undertook such “tariffication” for a product have been given the benefit of the “special safeguard” provision, which enables them to protect their farmers when imports rise above some specified limits or prices fall below some specified levels. Countries that did not undertake tariffication did not get this special facility. This has been clearly unfair to developing countries, which, with few exceptions, did not have any non-tariff measures and thus did not have to “tariffy” them. The result is that developed countries, which were engaging in trade-distorting methods, have been allowed to protect their farmers, whereas developing countries, which were not engaging in such practices, cannot provide special protection to their farmers (Das 2000, 1998).

This inequity and imbalance appears aggravated when one considers the limitation to the use of the general safeguard provision (in GATT) in the agriculture sector. One necessary requirement for taking a general safeguard measure is that there be injury (or threat thereof) to domestic production, which will be extremely difficult to demonstrate in this sector because of the large dispersal of farmers across the country.

Apart from these specific problems in the areas of subsidy and protection, there is a basic problem with the agreement. The AoA is based on the assumption that production and trade in this sector should be conducted on a commercial basis. But agriculture in most of the developing countries is not a commercial operation, but instead is carried out largely on small farms and household farms. Most farmers take to agriculture not because it is commercially viable, but because the land has been in possession of the family for generations and there is no other source of livelihood. If such farmers are asked to face international competition, they will almost certainly lose out. This will result in large-scale unemployment and collapse of the rural economy, which is almost entirely based on agriculture in a large number of developing countries (TWN 2001).

**Continuation of Protection in Developed Countries**

It has become clear that even after many years of the implementation of the AoA, the developed countries have continued high protection of their agriculture.
Firstly, the high tariffs on selected items of potential interest to the South have had to be reduced only slightly. In the first year of the agreement, there were tariff peaks at very high rates in the United States (e.g., sugar 244 per cent, peanuts 174 per cent); the EEC (beef 213 per cent, wheat 168 per cent); Japan (wheat 353 per cent) and Canada (butter 360 per cent, eggs 236 per cent) (Das 1998: 59). According to the agreement, developed countries needed to reduce their tariffs by only 36 per cent on average to the end of 2000, and thus the rates for some products remain prohibitively high (Das 1998).

Secondly, domestic support has increased rather than decreased. The reason is that although developed countries reduced their Amber Box subsidies (as the AoA has obliged them to), they also increased the exempted subsidies (under the Blue and Green boxes), resulting in an increase in total domestic support. OECD data show that the Total Support Estimate (TSE), a measure of domestic support, of the 24 OECD countries rose from US$275.6 billion (annual average for base period 1986-88) to US$326 billion in 1999 (OECD 2000).

Thirdly, export subsidies are still high as the AoA only obliges the developed countries to to reduce the budget outlay by 36 per cent and the total quantity of exports covered by the subsidies by 21 per cent. Thus, even in 2000 export subsidies are allowed to be as high as 64 per cent of the base level in 1986-90.

Of the three aspects above, worldwide public criticism has focused most on the expansion of Northern domestic subsidies. Awareness is growing that the AoA has a loophole allowing developed countries to increase their total domestic support by shifting from one type of subsidy (price-based, which is directly trade-distorting) to two other types (direct payments to farmers, and other “indirect” subsidies) that are exempted from reduction discipline. The US has already shifted most of its subsidy from the Amber to the Blue and Green Box subsidies. The EU had more of its domestic support in Amber Box subsidies but is also in the process of shifting and within a few years is expected to have much of its subsidies in the Blue and Green boxes.

Subsidy payments in the EU favour the largest producers. Data from 1996 show that 17 per cent of farms that are large or extra-large received 50 per cent of agricultural support under the CAP (ActionAid 2002: 8). Another study shows that in 1997-98, direct payments in the UK’s arable, sheep and beef sectors totalled about Sterling 2,730 million, and 16 per cent of the largest holdings received 69 per cent of the subsidies (ActionAid 2002: 9).

The shifting of subsidies from one category to another is supposed to phase out “trade distorting” support. In reality, the Blue and Green Box subsidies also have significant effects on the market and trade. For the farmer, what is important is whether he can obtain sufficient revenue and make a profit (i.e. the revenue is more than the production cost). It is not so important whether he obtains this sufficient revenue from a higher
price (through price support measures) or from direct payments and various forms of grants from the government. If a subsidy, in whatever form, is assisting the farmer to obtain revenue and to be economically viable, then that subsidy is having a significant effect on production and on the market.

An example of this is given in Table 1. Under the Amber Box, the farmer gets his subsidy through being paid a domestic price far higher than the world price, thus covering his high production cost and obtaining a profit. In one type of subsidy system under the Blue Box, the same farmer with the same production cost is no longer paid a high price, but a domestic price that is brought down to the world market price (or even below that), and this local price is below his production cost. However the farmer is given a grant or various types of grants and payments that together are large enough to enable him to get a revenue higher than his production cost.

The nature of the subsidy has changed from price support to grant support, but the end result is that the farmer makes enough to remain viable. Further, since the price has been brought down to the world price or even lower, the farm output can now be sold competitively on the world market, even without an export subsidy being given. Thus, shifting from a price-based to a grant-based subsidy system can be just as trade-distorting, or even more so.

The conclusion is that the AoA has erroneously categorised several types of subsidies under the so-called Blue Box and Green Box and made them respectable and not subject to discipline, even though they give an unfair advantage to the farms receiving the subsidies. This has allowed the developed countries to maintain or even increase the level of their total domestic support, with damaging effects on the developing countries, whilst they can claim to be meeting their legal obligation of reducing the Amber Box subsidies under the AMS.

F. NORTHERN SUBSIDIES AND PROTECTION AND THEIR LINK TO IMPORT SURGES AND LOST OPPORTUNITIES IN DEVELOPING COUNTRIES

Subsidies, dumping of agricultural products and effects

The combination of continued high protection (especially export and domestic subsidies) in developed countries and further liberalisation in developing countries (under AoA and structural adjustment loan conditionalities) has resulted in surges of imports to many developing countries across the world. In many cases these imports were artificially cheapened by domestic or/export subsidies. There are many cases of “dumping” in which the developed-country products’ export price is below the cost of production, and where the farms or companies in developed
countries are still able to make a profit because their revenues are pumped up by subsidies.

As long as the subsidies continue, the “dumping” of artificially cheapened agricultural products to developing countries will continue. This is obviously so in the case of export subsidies and Amber Box subsidies. However, as pointed out earlier, it is also the case in relation to other subsidies, i.e. in the Blue and Green Boxes. These subsidies can be trade distorting as well, and in some cases even more, as the distorting nature is more disguised and less detectable.

Thus the mere shifting of subsidy boxes will not end protection but may even facilitate its increase. This has serious effects on rural livelihoods and food security in developing countries. The route of the effects is that artificially cheapened products are being imported into developing countries. Often, the poorer countries may have more efficient farmers, but their livelihoods are threatened by inefficient farmers in rich countries because of subsidies.

The effect of agriculture subsidies in developed countries is that their farm production levels are kept artificially high and their producers dispose of their surplus in other countries, by often dumping on world markets at less than the production cost. Farmers in developing countries incur losses in three ways:

(a) They lose export opportunities and revenues from having their market access blocked in the developed countries using the subsidies;

(b) They lose export opportunities in third countries, because the subsidising country is exporting to these countries at artificially low prices;

(c) They lose their market share in their own domestic market, or even lose their livelihoods, due to the inflow of artificially cheap subsidised imports.

**Import surges in developing countries**

The serious and sometimes devastating impact of cheap imports is now well documented in many studies by researchers, NGOs, the media, and by international agencies. A recent FAO paper, Some trade policy issues relating to trends in agricultural imports in the context of food security (March 2003), shows very high incidences of import surges in 1984-2000 for 8 key products in 28 developing countries, with the incidence rising after 1994. (See Table 2).

For example, Kenya experienced 45 cases of import surges, in wheat (11 cases), rice (3), maize (5), vegetable oils (7), bovine meat (4), pigmeat (6), poultry meat (5), milk (4). Philippines had 72 cases of import surges, Bangladesh 43, Benin 43, Botswana 43, Burkina Faso 50, Cote d’Ivoire 41, Dominican Republic 28, Haiti 40, Honduras 49, Jamaica 32, Malawi 50, Mauritius 27, Morocco 38, Peru 43, Uganda 41, Tanzania 50, Zambia 41.
Many other countries which are not in the study have also been affected. For example, Indonesia also experienced many import surges.

The import surges documented by the FAO were also accompanied in some cases with production shortfalls in some of the same products where there were import surges. For example, in Kenya, in wheat there were 11 cases of import surges and 7 cases of production shortfall; in maize there were 5 cases of import surge and 4 cases of production shortfall. This indicates that the import surges were sometimes linked to declines in output by the farmers in the importing countries. The rise in imports led to decline in output and incomes of the farmers, affecting their livelihoods. As the FAO report concluded, “Given the large number of cases of import surges and increasing reports of the phenomenon from around the world, this could be potentially a serious problem.”

A major imbalance of the AoA is that the special safeguard (SSG) mechanism is not allowed for use except in cases where a country has tariffed a product in the Uruguay Round. Only 20 developing countries are eligible. Thus most developing countries have no proper instrument to counter import surges. The FAO study also found that during the period 1995-2001, only 2 developing countries made use of the SSG.

The FAO study also cites that several recent studies on import surges trace the problem to unfair trade practices (eg dumping), export subsidies, domestic production subsidies. It says: “Indeed, import surges seem to be more common in product groups that are subject to high levels of subsidies in exporting countries, notably dairy/livestock products (milk powder, poultry parts), certain fruit and vegetable preparations and sugar.”

There are now many case studies of the incidence and damaging effects of import liberalisation on local communities are rural producers in developing countries. These studies show how farmers in many sectors (staple crops like rice and wheat; milk and other dairy products; vegetables and fruits; poultry; sugar; wheat) have had their incomes reduced and their livelihoods threatened by the influx of imports. The problems caused to small rural producers in developing countries are now very widespread.

**The case of cotton subsidies and the Cotton Initiative in the WTO**

A good example of the effects of Northern agricultural subsidies on developing countries is provided by the case of cotton, which has now received special treatment as a topic of negotiations in the WTO. However, there has not been a resolution of this case yet.

The cotton case first came under the spotlight in WTO when the President of Burkina Faso, Mr Blaise Compore, made a special visit to Geneva and addressed the WTO's Trade Negotiations Committee (TNC), on 11 June 2003. He called for a decision at the WTO’s Cancun Ministerial Conference later in the year to adopt measures to eliminate cotton subsidies, and until
then, to pay financial compensation to the least developed countries that suffer losses due to the subsidies (Khor 2003f).

President Compore highlighted the plight of West and Central African cotton-exporting countries resulting from the developed countries' agricultural subsidies and the urgent need for action to prevent further loss of income and livelihoods. He pointed to the hypocrisy and double standards in the global economic system. The multilateral trade rules, reinforced by the Washington Consensus, led developing countries to undertake structural adjustment reforms.

In line with these, West and Central African states eliminated their agricultural subsidies but these reforms were nullified by "multiform subsidies" by some WTO members "in total contradiction with WTO basic principles," according to President Compore. In 2001, the rich countries' $311 billion farm subsidies were six times the $55 billion dispensed as aid. Mali received $37 million in aid but lost $43 million from lower export revenues caused by other producer countries' cotton subsidies.

"Such practices provide rich country agriculture with an unfair competitive edge that works against developing countries," he said. African farmers produce cotton 50% cheaper than their competitors from developed countries, ranking them among the most competitive in the world. But cotton subsidies have caused a crisis, with Burkina Faso losing 1% of its GDP and 12% of its export income, Mali 1.7% and 8%, and Benin 1.4% and 9% respectively.

In 2001, cotton production in Benin, Burkina Faso, Mali and Chad accounted for 5% to 10% of GDP and 30-40% of export revenues, and over 10 million people in West and Central Africa depend on cotton production and several other millions are indirectly affected by the distortion of world prices due to subsidies. And while cotton accounts for a small part of the rich world's economy, in Africa it represents a determining factor for poverty reduction policies and political stability.

"From this platform I am launching an appeal in the name of several millions of people for whom cotton is the main means of subsistence, I ask the WTO and its member states to prevent these populations who are victims of the negative impact of subsidies, from being excluded from world trade," said President Compore.

Referring to the proposal by Benin, Burkina Faso, Chad and Mali (issued on 16 May), he suggested that the Cancun Ministerial "set up a mechanism to progressively reduce support to cotton production and export, with a view to fully suppressing all cotton subsidies at a defined deadline." Also, as an immediate and transitory measure in favour of least developed countries, he suggested that a mechanism be adopted to compensate their farmers for revenue losses incurred because of cotton subsidies.

"African countries share the opinion that a satisfactory settlement for the cotton subsidy issue is both a must for the current negotiation round and a
test that will allow member States to prove their sincerity behind the commitments taken at Doha."

The 16 May paper by the African countries pointed out that in July 2002 the International Cotton Advisory Committee (ICAC) estimated that 73% of global cotton production required direct financial support from governments, compared to only 50% five years previously. Cotton support by the US, EU and China was $6 billion in 2001/02, which corresponds in value terms to all global exports that year. These figures show that the WTO’s aim of phasing out production and export subsidies have not been achieved in cotton, and the classification of subsidies in the various WTO boxes is a major problem as the description of each box is often a matter of interpretation.

Almost half the direct domestic support received by cotton producers is given by the US ($2.3 billion in 2001/2), and the ICAC estimates that American cotton producers will receive $3.7 billion in 2003. Moreover, the US gives direct aid for cotton exports. The EU gives cotton producers in Spain and Greece around $700 million through a ceiling price support mechanism. In 2001/2, Spanish producers received support corresponding to 180% of global prices and Greek producers 160%, compared with 60% for American farmers.

The subsidies to US cotton producers are 60% more than Burkina Faso’s GDP where over 2 million depend on cotton production. Half the cotton subsidies to American producers (around $1 billion) goes to a few thousand farmers who cultivate around 1,000 acres. In contrast, in West and Central African countries, these subsidies penalise one million farmers who each only have five acres of cotton land and live on less than $1 per person per day.

The paper said that the US, China and EU subsidies cost West and Central African countries $250 million in direct loss in export earnings in 2001/2. Including indirect effects, the loss would be about $1 billion a year to these countries.

The countries therefore call for recognition of the strategic nature of cotton for development and poverty reduction in many LDCs, and a complete phase-out of support measures for the production and export of cotton. At Cancun, there should be the establishment of:

- A mechanism for phasing out support for cotton production with a view to its total elimination (early harvest). There should be a decision on immediate implementation, providing for substantial and accelerated reductions in each of the boxes of support for cotton production, with a specific date for complete phase-out of cotton production support measures.

- Transitional measures for LDCs. Until cotton production support measures have been completely eliminated, cotton producers in LDCs should be offered financial compensation to offset the income they are losing.
Because of the high profile appeal by the African leaders, the cotton issue received a priority status in the WTO’s Cancun Ministerial in September 2003, where it was known as the African Cotton Initiative. However, support for their case was not forthcoming, especially by the United States. The US attempted to deflect from the African demand that cotton subsidies be eliminated on a fast-track basis, by raising the issue that “problems affecting cotton extend far beyond the issue of subsidies,” as stated by the US Ambassador Josette Shiner (2003). Shiner added that cotton is a key input in a manufacturing chain from fiber to textiles to clothing, and demand should be boosted not only for cotton but also cotton-related products. Besides cotton subsidies, she raised the issues of cotton tariffs, non-tariff barriers in textiles and clothing and industrial policies relating to man-made fibres which displace cotton sales. The US proposed another initiative to target distortions in the entire value chain, including raw cotton, man-made fibre, textile and clothing trade. The initiative would address subsidies for cotton and man-made fibre; tariffs in fibre, textiles and clothing; non-tariff barriers; and other barriers (state monopolies, special tax advantages, etc).

The US response was unacceptable to the African countries, which saw it as a means of turning away their proposal and of clouding the specific subsidies issue by tying it to a whole range of other issues to be tackled simultaneously. Since this range of issues is so complex with no chance of quick resolution, the cotton subsidy issue would be submerged and also remain unresolved.

The Cancun draft Ministerial text of 13 September had a paragraph 27 on the cotton initiative. It was however widely seen by developing countries as very unsatisfactory. It ignored the two demands of the West African countries for developed countries to eliminate subsidies, and for financial compensation for losses due to the subsidies. Instead, in line with the attitude adopted by the U.S, the paragraph disperses the issue of cotton to be addressed by various negotiating bodies – Agriculture, non-agriculture market access, and Rules. (Third World Network 2003). Even here, the Chairman is instructed simply to consult with Chairs of these bodies to address the impact of distortions in the cotton sector – including textiles, fibres, clothing etc. The paragraph also instructs the WTO Director General to consult with bodies like the World Bank and the FAO to direct existing programmes and resources toward diversification of the economies from cotton dependency. This side-steps the issue of financial compensation. as no new funds or resources are to be made available, but existing resources are to be diverted. Worse, the existing resources are to be diverted not into addressing the financial and other losses arising from cotton subsidies, but towards moving the countries out of cotton production. This was seen as an advice to the more efficient African producers to shift out of cotton production, whilst the less efficient developed-country producers could continue to remain in production, with the subsidies intact. This text on cotton was widely criticized at Cancun by developing-country delegations as well as NGOs.

Following Cancun, a framework on the agriculture negotiations was established in August 2004. In this framework, a sub-committee on cotton was established within the WTO’s Committee on Agriculture, with the aim of
discussing both the trade and the “development” aspects (by which is primarily meant the provision of financial resources) of the cotton issue. It was decided that the cotton issue would be negotiated within the context of the overall agriculture negotiations. However, the African countries continue to insist that an early decision be taken to eliminate export subsidies and domestic support within a few years, and in any case, there should be special treatment for such an early elimination, irrespective of the time-table for elimination or reduction for agriculture generally.

At the Hong Kong Ministerial Conference of the WTO in December 2005, the cotton-producing developing countries, especially the African countries, were deeply disappointed with the outcome on cotton. Representatives of the cotton producers of Africa criticised the decision as having achieved nothing. The Ministerial Declaration offered the elimination of export subsidies in 2006. This constitutes only a small portion of the nearly $4 billion subsidies the US gives to cotton producers every year. There is no action agreed for trade distorting domestic subsidies which amount to about USD 3.8 billion or 80-90% of total US support for cotton. Domestic subsidies also make up almost all of the European cotton subsidies.

The African Ministers, at their conference earlier in 2005, had demanded that 80% of domestic subsidies for cotton be eliminated by the end of 2006, and the rest within a few years. The Hong Kong decision is miserly; it only endorsed the objective that, “as an outcome of negotiations, trade distorting domestic subsidies for cotton production should be reduced”. The African Cotton Producers Association’s response is that “there has not been any concrete proposal on the most essential request”.

**Wheat as another example of the effects of subsidies**

A report by ActionAid (2002) has revealed the system of subsidy for UK wheat and its effects. In 2000, the world price of wheat was £73 a tonne, the production cost of UK wheat was £113 a tonne, and the UK wheat price was £70 a tonne. Thus the selling price in the UK was £43 below the production cost. How could the UK farmer sell below the production cost? Because of a massive subsidy paid by the government in the form of direct payments, e.g. subsidy on each acre of wheat to compensate for reducing the previous system of price support (£226 per hectare in 2001) and subsidy for “set-aside” (another £226 per hectare). In 2000, £458 million was paid for 2 million hectares of wheat and another £127 million for set-aside for 550,000 hectares.

Previously the system of support was for the government to subsidise through price intervention, i.e. to buy from the farmers at a price higher than the world market price, and this contributed to the farmers being able to stay in business. In the period 1992 to 1999, the intervention price fell, and thus the EU wheat price has fallen in ten years, to a point now where there is little price support and the EU wheat price is similar to the world price. But there has instead been an increase in direct payments. Farmers get their extra revenue not in the form of being paid
an artificially high price, but by being given direct payments (or grants). The effect is the same, i.e. the farmers get a revenue higher than if there were no subsidy, and they remain economically viable, even though the price they are paid is far below the cost of production.

Moreover this shift from price-support subsidy to grant (or direct payment) subsidy enables the UK or European farms to have a price similar to (or even below) the world price, and thus they are able to sell in the world market at an artificially low price, and without needing an export subsidy.

The ActionAid study also found that the UK subsidy for wheat had an effect on developing countries. In one case, cheap wheat exported from UK/Europe was imported by a developing country. The wheat was processed and the country could export cheap wheat flour to other countries. One country (Kenya) found that low-priced wheat flour imports undermined the local flour industry. It also affected the market and livelihood of wheat farmers that supplied to the local flour industry.

In another case, Indonesia has found that EU and other exporters dumped wheat flour on its market.

G. AGRICULTURE IN THE WTO

As mandated by the Uruguay Round agreements, fresh negotiations on agriculture began in 2000 at the WTO. The negotiations provide the opportunity to re-visit the Agreement on Agriculture and for members to propose amendments.

Several developing countries that had realised the problems faced by their farmers resulting from their liberalisation obligations promoted the concepts of non-trade concerns, food security and the need to ensure that the needs of small farmers to their livelihood are met. Many developing countries also advocated that the developed countries make significant reductions to their protectionist measures, including eliminating export subsidies, further reducing domestic support (including subjecting the Blue Box and the Green Box subsidies to reduction commitments), and addressing tariff peaks on agricultural products of interest to developing countries.

At the Doha Ministerial Conference of 2001, the Declaration that was adopted was a carefully drafted compromise stating that the negotiations will aim at reduction of export subsidies “with a view to phasing (them) out” and “substantial reductions” in trade-distorting domestic support. It also states an intention to “enable developing countries to effectively take account of their development needs, including food security and rural development.” It specifies that special and differential treatment for developing countries “shall be an integral part of all elements of the negotiations” by embodying it both in the rules and in the schedules of Members’ commitments.
The developing countries generally believed that the Doha Declaration enabled them to demand that the developed countries adhere to a schedule to eliminate their export subsidies, and to substantially reduce their domestic support, whilst there would be protection from import competition for their own small farmers through the principle of special and differential treatment.

Attempts during the subsequent negotiations to agree to “modalities” of the negotiations by the deadline of early 2003 were not successful. The drafts of the Chairman of the agriculture negotiations could not be accepted by consensus of the members.

On 13 August 2003, the US and EU produced a joint proposal on a “framework” for modalities. Many developing countries criticised the draft which they claimed would allow the US and EU to escape from their expected commitment to eliminate export subsidies, and to continue to maintain or even expand their overall levels of domestic support. The US-EU proposal also involved a “blended approach” to tariff reductions for all members, involving a combination of average tariff cuts for some tariff lines, a “Swiss formula” (involving steeper and steeper cuts for higher and higher levels of tariffs) for some other tariff lines, and zero tariff for other tariff lines. Some developing countries pointed out that this approach favoured the developed countries and saw this as aimed at maintaining high protection in the developed countries whilst putting pressure on developing countries to open up their agriculture markets further.

On 20 August, a group of 17 developing countries (led by Brazil, India, South Africa and China) presented their own proposal at a WTO meeting, which was seen as a counter-proposal to the US-EU draft. This “alternative framework proposal” aimed to be in line with Doha’s ambition level and incorporate the concerns of as many players as possible, thus mainstreaming S and D provisions in all pillars. According to Brazil, coordinator of the group, on domestic support, the proposal aimed at faster reduction of support in developed countries for those items that most benefit from it, and those that find their way to third markets. It proposed reduction for amber box subsidies, elimination of the Blue Box category, and strengthening the criteria for Green Box payments which should be capped and/or reduced. “For us it is absolutely essential that the reform of domestic support will not degenerate into an exercise of futile box shifting. The re-labelling of policies is not an appropriate way of solving concrete problems.”

On market access, the paper proposed that developed countries adhere to the basic structure of the blended formula but that developing countries adhere to the Uruguay Round tariff cut formula of achieving a simple average tariff cut. It also proposed the creation of a Special Products category (under conditions to be negotiated) and a special safeguard mechanism (contingent on the level of liberalisation) for developing countries. On export competition, the countries proposed elimination of developed countries’ export subsidies and effective disciplines on their export credits and food aid.
This grouping eventually became the Group of 20, which now plays a major role in the WTO's agriculture negotiations. Another group of developing countries, the Group of 33, focuses on fighting for special treatment for “special products” (defined as products related to food security, rural development and rural livelihood concerns) and for a special safeguard mechanism (to be used when there is an import surge) for developing countries.

At the WTO's Cancun Ministerial Conference in September 2003, there could be no agreement on the modalities of the agriculture negotiations. In fact the conference ended without any substantive decisions on any issue. In August 2004, a framework for agriculture negotiations was adopted by the WTO General Council as part of the general “August 2004 Package”. The framework provides decisions and guidelines on elimination of export subsidies, reduction of domestic support, and market access. It also recognises the concepts of special products and special safeguard mechanism, but the details remain to be worked out. While the framework has been set up, the “modalities” of how much reduction is to be made by developed and developing countries are still the subject of intense negotiations as of March 2006. Only one concrete decision was made at the WTO’s Hong Kong Ministerial Conference in December 2005: that agricultural export subsidies would be eliminated by 2013. However, the negotiations on domestic support (which is much larger than export subsidies) and on market access still continue.

**Suggestions for WTO negotiations**

There should be regular monitoring and analysis of the on-going negotiations on agriculture in the WTO, as well as on other areas that may have an effect on rural producers, such as the TRIPS agreement and the SPS agreement, and the dispute settlement understanding. This can be done by or arranged by international agencies with an interest in the conditions of rural producers, and by independent organizations as well as by the producers’ organizations themselves. Information should be provided to the farmers’ organizations and ways found to enable them to participate, at least in having their voices heard and their inputs considered. Information should also be provided to policy makers in developing countries, especially in the Agriculture Ministries and agencies dealing with agriculture and farmers.

In the negotiations on agriculture in the WTO, modalities should be developed which give the utmost priority to the interests of the small farmers in developing countries. The main principles for the modalities should be the reduction and removal of protection in the developed countries as soon as possible, and special and differential treatment for developing countries, especially for ensuring the maintenance or revival of conditions enabling the viability of small farmers’ livelihoods. A more detailed proposal would be that:

(a) The export subsidies (and concessional export credits) of the developed countries should be eliminated within a specific time
frame. [The WTO’s Hong Kong Ministerial has now set a deadline for the elimination by 2013).

(b) On domestic support, for the developed countries, the amber box subsidies should be reduced substantially; the blue box subsidies should be re-categorised as amber box subsidies and subjected to reduction disciplines; whilst a reexamination of the green box subsidies can be made to tighten the criteria, cap the relevant subsidies and reduce them.

(c) Developed countries should significantly reduce their high agricultural tariffs and tariff peaks, and an approach on market access be adopted to ensure this.

(d) The imbalances that presently curb or limit the ability of developing countries to provide subsidies to their farmers should be corrected. For food products and the products of small farmers, domestic subsidies should not be limited, to take into account the food security and rural development needs of developing countries.

(e) Developing countries should not be subjected to further tariff reductions, at least for food products and products of small farmers, as long as the high subsidies in developed countries continue. For other products, an average tariff cut (on the lines of the Uruguay Round) may be considered.

(f) A special safeguard mechanism (SSM) and the designation of special products (SPs) should be established for developing countries, to enable them to deal effectively with the incidence and problems of import surges.

More detailed proposals and their rationale can be found in Das (2003). Although some of these proposals seem to have been “overtaken” by the WTO’s August 2004 framework on agriculture and the WTO’s Hong Kong Ministerial Declaration (December 2005), the principles and proposals remain relevant, at least as reference points.

H. THE COMMODITIES PROBLEM

Decline in terms of trade

One of the most serious problems facing rural producers in developing countries is the significant trend decline in the prices of their agricultural export commodities and instability in demand. The fall in prices has worsened for some key commodities in recent years. Most of the lower income developing countries are still dependent on a few commodities for their export earnings, and for a sizable part of the GDP. For them, the problems relating to commodity prices and export earnings constitute their most important trade concern.
The effects of falling commodity prices have been devastating for many countries. According to UN data, the terms of trade of non-fuel commodities vis à vis manufactures fell by 52 per cent from 147 in 1980 to 71 in 1992, with catastrophic effects. For sub-Saharan Africa, a 28 per cent fall in the terms of trade between 1980 and 1989 led to an income loss of $16 billion in 1989 alone. In the four years 1986-89, sub-Saharan Africa suffered a $56 billion income loss, or 15-16 per cent of GDP in 1987-89. For 15 middle-income highly indebted countries, there was a combined terms-of-trade decline of 28 per cent between 1980 and 1989, causing an average of $45 billion loss per year in the 1986-89 period, or 5-6 per cent of GDP (Khor 1993).

In the 1990s, the general level of commodity prices fell even more in relation to manufactures, and many commodity-dependent developing countries have continued to suffer deteriorating terms of trade. According to UNCTAD’s Trade and Development Report, 1999, oil and non-oil primary commodity prices fell by 16.4 and 33.8 per cent respectively from the end of 1996 to February 1999, resulting in a cumulative terms-of-trade loss of more than 4.5 per cent of income during 1997-98 for developing countries. 'Income losses were greater in the 1990s than in the 1980s not only because of larger terms-of-trade losses, but also because of the increased share of trade in GDP' (UNCTAD 1999: p85).

It has been a mistake to claim that one reason for the poverty of poor countries is that they are not integrated enough or do not participate enough in the world trading system. In reality, trade constitutes an important share of the economy of many of the poorer countries. However, they have not benefited from the trading system because their main way of participating in the system has been to export commodities, whose prices have been declining, and thus their terms of trade have been deteriorating. Thus the problem for these countries is that they have had adverse and unequal terms in their participation in world trade (i.e. exporting commodities).

There are agricultural commodities which developing countries produce which compete with the products of developed countries. In such cases, such as cotton and sugar, the world prices are lower largely because of the high subsidies attached to the developed countries’ commodity exports. A large part of the problem facing developing countries is related to the subsidies of the rich countries.

There are also agricultural commodities of developing countries which do not compete with the developed countries. Developing countries face a range of problems, including their products being at the lower end of the value chain with the lack of capacity (or the lack of market access) to climb the value chain through processing and manufacturing. Another problem is a situation of global over-supply in the case of some commodities, which exerts a downward pressure on prices. This is partly the result of too many countries being advised by international agencies to expand the export of the same commodities. Yet another problem is that the developing countries have little bargaining power when selling their products to monopsonist
buyers, which are usually transnational companies, and thus they get lower prices.

The case of coffee

Coffee provides an important example of a commodity in crisis. The price of coffee beans has dropped sharply, and the share of the coffee market revenue accruing to producer countries has also declined sharply. The price of coffee in December of the year fell from 127 US cents per lb in 1980 to 89 cents in 1990, 66 cents in 2000 and 46 cents in 2001.

In June 2002, the real price of coffee (taking into account inflation) was only 25% of its 1960 level. In 1992, producer countries earned US$10 billion from a global coffee market worth around $30 billion; in 2002 they received less than $6 billion export earnings from a market that has doubled in size. Their share of revenue fell from 33 per cent to less than 10 per cent. According to Oxfam data, the retail price of one kilo of soluble coffee in a UK supermarket is US$26.40, whilst the coffee farmer sells the equivalent of one kilo of green coffee beans to the middleman at $0.14. (Oxfam 2002).

There are many countries dependent on coffee for exports and for livelihoods. The effect of the fall in coffee price has been very serious for them and for the 25 million coffee growers around the world. Coffee accounts for over 50% of Ethiopia’s export revenue and 80% of Burundi’s. Coffee is linked to the livelihoods of a quarter the population in Uganda, 10% in Honduras and 8% in Guatemala as well as 7% the national income of Nicaragua. In Brazil there are 230,000 to 300,000 coffee farmers and another 3 million are employed in the coffee industry, and in India 3 million are also employed in the coffee industry (Oxfam 2002: p8). The price fall has had devastating effect on national export revenues and on communities alike. For example, coffee revenue fell in Central American countries from $1.7 billion in 1999/2000 to $938 million in 2000/01. Ethiopia’s coffee exports fell in one year from $257 million to $149 million. There has been much increased unemployment, reduced income and hunger among the coffee growing communities in he developing countries (Oxfam 2002: p 9-12).

The main reason for the fall in price is the increasing over-supply situation. Supply has grown by over 2% per year whilst demand growth has been lower at 1-1.5% per year, leading to stocks being built up to 40 million bags. Up to 1989, the coffee market was regulated by the International Coffee Agreement (ICA) made up of producer and consumer countries and managed by the International Coffee Organisation (ICO). Export quotas were set for producing countries to determine the supply level and the price was targeted at a high and stable level in a band of $1.20 to 1.40 per lb. The ICA broke down in 1989, with opposition from the US (which left as a member) being a major factor. The Agreement remains but no longer has the power to regulate supply through quotas and the price band. Coffee prices are now determined by futures markets in London and New York. During the ICA years, coffee prices had remained relatively high, rarely falling below the price floor of $1.20/lb. After the ICA broke down, prices
have fallen very low. Proposals to revive the Agreement have been impeded by lack of political will, with consumer countries not willing re-start their participation. In the absence of consumer country interest, some producer countries attempted to limit their own exports, but the initiative collapsed in 2001. The ICO has developed a scheme to reduce the amount of coffee traded by removing some coffee of low quality. The implementation remains to be worked out. (Oxfam 2002: p17-18).

Another reason for the low prices are the expansion of production by some countries, including Vietnam (which is a relatively new major coffee producer, having expanded output from 1.5 million bags in 1992 to 15 million bags in 2000 to become the second largest exporter) and Brazil, the largest producer. The increased overall supply has not been matched by a similar rate of increase in demand, resulting in an imbalance in demand and supply that is depressing price levels. (Oxfam 2002: p18-19). Moreover, there is a great imbalance in the global coffee supply chain, with small farmers at the lowest end being paid very low prices by their traders, the exporting traders in developing countries being paid little by the large roaster companies in the US and Europe that buy the coffee beans, and these companies reaping much of the benefits on their retail coffee business. In a study of the stages and prices on the value chain, Oxfam found that the coffee farmer in Uganda received 14 US cents per kilo for his green beans, which pass through various traders to the roaster factory at a price of $1.64 per kilo. It ends up at a UK supermarket shelf as soluble coffee at $26.40 a kilo, which is 7000 percent higher than the price paid to the farmer. A similar journey into a pack of roast and ground coffee sold in the US involves a price rise of nearly 4000 percent. (Oxfam 2002:p 22).

Suggestions

International institutions such as the UN General Assembly and UNCTAD should give priority to seeking solutions to the crisis of commodities. The high global priority once given to attaining reasonable and stable prices should be restored. A good start was made by the establishment in 2003 of an eminent persons’ group on commodities by the UN General Assembly. Its report, which has been submitted to the UN, should be followed up.

The problem can be addressed through an international conference or convention, and other institutional mechanism.

UNCTAD and the Common Fund for Commodities should review the experience of commodity agreements and look into the possibility or desirability of reviving such agreements. One possibility is to initiate a new round of commodity agreements aimed at rationalizing the supply of raw materials (to take into account the need to reduce depletion of non-renewable natural resources) while ensuring fair and sufficiently high prices (to improve the incomes and livelihoods of the rural poor, and to reflect ecological and social values of the resources).

Although international cooperation is the preferred method of improving the commodity situation, and attempts should be made to revive it, this may
not be feasible at present. In the absence of joint producer-consumer cooperation, producers of export commodities could take their own initiative to rationalize their global supply so as to better match global demand. Such initiatives by developing-country supplier countries should be encouraged, rather than frowned upon.

UNCTAD, UNIDO and other agencies can assist commodity-producing developing countries to improve their capacity for increasing the value of their commodities by going up the value chain through processing and manufacturing as well as marketing. At the same time, developing countries should press developed countries to reduce tariff escalation and allow better market access for processed and commodity-based manufactured products, and thus help commodity producers reap better benefits from the trading system.

In the case of developing country commodities where developed countries are also producing and exporting, unfair competition from the latter in the form of export and domestic subsidies should be phased out as soon as possible.

I. CONTINUED LACK OF SUPPLY CAPACITY IN MOST DEVELOPING COUNTRIES

A major reason why developing countries are unable to benefit from trade is their lack of capacity to produce and market. Thus, even if there is market access for these countries, especially the LDCs, this 'supply constraint' prevents them from being able to take advantage of the access. The supply and marketing constraints to trade span the range of stages, including formulating appropriate export strategies (including choice of products and markets), providing incentives, training, credit and technology assistance to enterprises, product design and production techniques, and marketing, as well as the government's role in providing general health, housing and education facilities to citizens so that there would be skilled labour. The supply capacity problem has not been a significant area of concern in the WTO, and it may be more appropriate for other international institutions to deal with it. It must however be recognized that dealing with this basic issue is a vital task of the global trading system.

Several international and regional agencies already have programmes to assist developing countries to improve their productive and trade capacity, including the International Trade Centre (ITC), UNCTAD, the UN Industrial Development Organization (UNIDO) and the multilateral and regional development banks. However, given the continuing weaknesses and deficiencies of many developing countries, these efforts are insufficient. It would be useful for developing countries to identify and assess the impact of programmes being conducted by the various agencies. A study can also be done on the elements for a successful export strategy and export-supply capacity-building programme for developing countries, taking into account the recent experiences of developing countries; on the present weaknesses; and on how to overcome the obstacles.
J. SUMMARY OF SUGGESTIONS FOR FOLLOW UP

This section provides a summary of the suggestions that are contained in the previous sections on various issues.

Review of global framework

1. The global framework within which agricultural trade is conducted should be reviewed in a comprehensive manner. The review should incorporate the loan conditionalities of the IFIs, as they relate to and have an effect on trade, the rules of the WTO and the new proposals, and the workings of commodity markets. A system of monitoring trends and developments in these areas could be set up.

Review of Loan conditionality

2. An on-going review can be made of the appropriateness of the policies attached to loans of the IFIs, in the structural adjustment programmes and other recent forms such as the PRSPs. The recommendations of the SAPRI report as it pertains to the agriculture sector (SAPRIN 2004: p151) can be considered:

   (a) Policy should be reoriented to give priority to production for the domestic market and ensuring food security;

   (b) While agricultural exports are important, policy choices and investment decisions must take into account the differentiated ability of certain groups (especially women and smallholders) to access new market opportunities and improve their access to land and other resources;

   (c) Trade policy in the sector should be nuanced, allowing countries to pursue some degree of self-reliance while stimulating production by marginalized farmers in order to support the rural poor in accessing affordable food.

   (d) The implementation of effective steps to support small producers and achieve food security should precede, and then be integrated with, the opening of the sector and promotion of exports.

   (e) The state should provide the support needed to ensure these farmers’ access to affordable agricultural supplies and extension services, improvements in rural roads and transportation, further development and regulation of irrigation systems, and promotion of land tenure reforms.

   (f) Formal institutions should be in place, with state support, to provide equal access for all producers to information and markets,
as well as to ensure environmental oversight and address negative impacts.

(g) In general terms, agricultural policies should be designed to reduce existing inequalities by boosting the capacity of small and medium producers and helping subsistence farmers to build sustainable livelihoods in the rural sector. To this end, policies should emerge from a participatory process involving all stakeholders, and environmental and socio-economic factors, including gender considerations, should be integrated into policy design.

3. In addition, there should also be an independent on-going review of the trade aspects of the present and proposed conditionalities of present and future loans. Developing countries presently have flexibilities within the WTO rules to adjust their applied tariffs up to their bound rates, and even beyond the bound rates in certain circumstances. Loan conditionality should not prevent or constrain the developing countries from making use of these flexibilities. Moreover, these conditionalities should not oblige developing countries to undertake a rate and scope of liberalisation that is beyond their capacity to cope, or which will be damaging to the livelihoods and incomes of rural producers. The approach to liberalisation in developing countries should be re-oriented to be more realistic, especially since the developed countries are still maintaining high subsidies.

WTO negotiations

4. There should be regular monitoring and analysis of the on-going negotiations on agriculture in the WTO, as well as on other areas that may have an effect on rural producers, such as the TRIPS agreement and the SPS agreement, and the dispute settlement understanding. This can be done by or arranged by international agencies with an interest in the conditions of rural producers, and by independent organizations as well as by the producers’ organizations themselves. Information should be provided to the farmers’ organizations and ways found to enable them to participate, at least in having their voices heard and their inputs considered. Information should also be provided to policy makers in developing countries, especially in the Agriculture Ministries and agencies dealing with agriculture and farmers.

5. In the negotiations on agriculture in the WTO, modalities should be developed which give the utmost priority to the interests of the small farmers in developing countries. The main principles for the modalities should be the reduction and removal of protection in the developed countries as soon as possible, and special and differential treatment for developing countries, especially for ensuring the maintainence or revival of conditions enabling the viability of small farmers’ livelihoods. A more detailed proposal would be that:
(a) The export subsidies (and concessional export credits) of the developed countries should be eliminated within a specific time frame. (The WTO’s Hong Kong Ministerial has now set a deadline for the elimination by 2013).

(b) On domestic support, for the developed countries, the amber box subsidies should be reduced substantially; the blue box subsidies should be re-categorised as amber box subsidies and subjected to reduction disciplines; whilst a reexamination of the green box subsidies can be made to tighten the criteria, cap the relevant subsidies and reduce them.

(c) Developed countries should significantly reduce their high agricultural tariffs and tariff peaks, and an approach on market access be adopted to ensure this.

(d) The imbalances that presently curb or limit the ability of developing countries to provide subsidies to their farmers should be corrected. For food products and the products of small farmers, domestic subsidies should not be limited, to take into account the food security and rural development needs of developing countries.

(e) Developing countries should not be subjected to further tariff reductions, at least for food products and products of small farmers, as long as the high subsidies in developed countries continue. For other products, an average tariff cut (on the lines of the Uruguay Round) may be considered.

(f) A special safeguard mechanism (SSM) and the designation of special products (SPs) should be established for developing countries, to enable them to deal effectively with the incidence and problems of import surges.

More detailed proposals and their rationale can be found in Das (2003). Although some of these proposals seem to have been “overtaken” by the WTO’s August 2004 framework on agriculture and the WTO’s Hong Kong Ministerial Declaration (December 2005), the principles and proposals remain relevant, at least as reference points.

Commodities

6. On the problem of commodities:

(a) International institutions should focus on finding solutions to the commodities and restore the high global priority once given to the issue.

(b) The report to the UN General Assembly by the eminent persons’ group on commodities should be followed up.

(c) An international conference or convention, and other institutional mechanisms, should be organised.

(d) UNCTAD and the Common Fund for Commodities should review the experience of commodity agreements and look into the possibility or desirability of reviving such agreements.

(e) In the present absence of political will for joint producer-consumer cooperation, producers of export commodities could
be encouraged to take their own initiative to rationalize their global supply so as to better match global demand.

(f) International agencies can assist commodity-producing developing countries to improve their capacity for increasing the value of their commodities by going up the value chain through processing and manufacturing as well as marketing.

(g) Developed countries should reduce tariff escalation and allow better market access for processed and commodity-based manufactured products, and thus help commodity producers reap better benefits from the trading system.

(h) In the case of developing country commodities where developed countries are also producing and exporting, unfair competition from the latter in the form of export and domestic subsidies should be phased out as soon as possible.

Improving supply capacity in developing countries

7. Several international and regional agencies already have programmes to assist developing countries to improve their productive and trade capacity, including the international Trade Centre (ITC), UNCTAD, the UN Industrial Development Organization (UNIDO) and the multilateral and regional development banks. However, given the continuing weaknesses and deficiencies of many developing countries, these efforts are insufficient. It would be useful for developing countries to identify and assess the impact of programmes being conducted by the various agencies. A study can also be done on the elements for a successful export strategy and export-supply capacity-building programme for developing countries, taking into account the recent experiences of developing countries; on the present weaknesses; and on how to overcome the obstacles.
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**Table 1**

Example: Comparison of method of farm remaining economically viable through Amber Box and Blue/Green Box subsidies

<table>
<thead>
<tr>
<th>ITEM</th>
<th>Model A</th>
<th>Model B</th>
</tr>
</thead>
<tbody>
<tr>
<td>A. World price per ton</td>
<td>73</td>
<td>73</td>
</tr>
<tr>
<td>B. Domestic price per ton</td>
<td>130</td>
<td>70</td>
</tr>
<tr>
<td>C. Cost of production per ton</td>
<td>113</td>
<td>113</td>
</tr>
<tr>
<td>D. Direct payments (grant) per ton</td>
<td>0</td>
<td>60</td>
</tr>
<tr>
<td>E. Farm revenue (B plus D)</td>
<td>130</td>
<td>130</td>
</tr>
<tr>
<td>F. Farm profit (E minus C)</td>
<td>17</td>
<td>17</td>
</tr>
</tbody>
</table>

**Type of subsidy**

1. Export subsidy (B minus A) per ton for the part of the output that is exported 57  no need
2. Price-support subsidy or consumer subsidy (with tariff protection) for the part of output that is locally consumed (B minus A) 57  no need
3. Direct payment (grant) subsidy - 60
Table 2

Number of cases of import surges (selected countries and foods, 1984-2000).

The number of production shortfalls in the same period is also given in brackets. Import surges have occurred more frequently in the post-1994 period.

<table>
<thead>
<tr>
<th>Country</th>
<th>Wheat</th>
<th>Rice</th>
<th>Maize</th>
<th>Vegetable oils</th>
<th>Bovine meat</th>
<th>Pigmeat</th>
<th>Poultry meat</th>
<th>Milk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>5 (2)</td>
<td>6 (0)</td>
<td>9 (4)</td>
<td>7 (0)</td>
<td>5 (0)</td>
<td>6 (-)</td>
<td>2 (0)</td>
<td>3 (0)</td>
</tr>
<tr>
<td>Benin</td>
<td>6 (-)</td>
<td>4 (0)</td>
<td>3 (1)</td>
<td>3 (7)</td>
<td>6 (0)</td>
<td>7 (3)</td>
<td>8 (1)</td>
<td>7 (0)</td>
</tr>
<tr>
<td>Botswana</td>
<td>6 (5)</td>
<td>4 (-)</td>
<td>0 (0)</td>
<td>6 (5)</td>
<td>4 (4)</td>
<td>9 (4)</td>
<td>7 (0)</td>
<td>7 (2)</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>6 (-)</td>
<td>9 (2)</td>
<td>4 (2)</td>
<td>3 (2)</td>
<td>8 (0)</td>
<td>8 (0)</td>
<td>6 (1)</td>
<td>4 (0)</td>
</tr>
<tr>
<td>Cape Verde</td>
<td>3 (-)</td>
<td>6 (-)</td>
<td>3 (9)</td>
<td>5 (-)</td>
<td>7 (3)</td>
<td>11 (3)</td>
<td>10 (1)</td>
<td>3 (1)</td>
</tr>
<tr>
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Acknowledgement: This table is reproduced from ActionAid, CAFOD and Canadian Food Grains Bank, Agriculture negotiations in the WTO: Six Ways to make a new Agreement on Agriculture Work for Development (2003).
GLOBALISATION, LIBERALISATION, PROTECTIONISM: 
IMPACTS ON POOR RURAL PRODUCERS 
in Developing Countries

SURVEY OF EXPERIENCES

By Meenakshi Raman

A. INTRODUCTION

This paper presents the results of a survey of some experiences of small rural producers in developing countries in their interaction with the market, in the context of increasing liberalization and globalization.

There has been increasing interest in this subject in recent years. On one hand, many international agencies, policy makers and academics have been advocating a closer integration of rural producers and the agriculture sector of developing countries with the market, both local and global. This is believed to be a vital (even a necessary) route for the rural population to get out of the cycle of poverty. On the other hand, there are two increasing concerns. Firstly, barriers against market access remain strong, especially in the developed countries (which maintain massive domestic support in agriculture), and these limit the export opportunities for the developing countries’ agricultural products. Secondly, despite the continued protectionism in the rich countries, the developing countries have increasingly liberalized their agricultural imports, and opened themselves to the risk of cheaper imports competing with and often displacing the products of local farmers.

This paper presents a survey of the experiences of rural producers in some developing countries in facing up to the promises and challenges of liberalization and in interacting with the market.

Its objectives are to: (a) look at the problems encountered by producers in marketing their products, firstly in their local and national market, and secondly in the global market; (b) examine cases where rural producers face competition from imports, which can reduce their incomes or even displace them from their livelihoods; (c) provide some examples of innovative ways in which rural producers are attempting to find a beneficial place in the market.
One of the subsidiary aims of the paper is to examine and learn some lessons from the experiences of the International Fund for Agricultural Development (IFAD). Some of the cases and views presented are derived from published papers and documents of IFAD, and from interviews conducted with IFAD staff members. Information, cases and insights are also derived from other sources including other international agencies such as the FAO, NGOs, academics and experts and articles in newspapers and magazines.

Section B describes the framework for describing the different categories of cases and experiences. The following sections present case studies according to the regions: Latin America and the Caribbean (Section C), Africa and Arab countries (Section D) and Asia (Section E).

In each of the regional sections, experiences of problems with liberalization are presented, and also experiences of innovative interactions with the market.

B. FRAMEWORK FOR DESCRIBING THE EXPERIENCES

This paper provides an account of the experiences of rural producers according to the following categories of experiences:

a. Mainly subsistence or small farmers who are constrained by lack of land and other resources and infrastructure (for example, storage, transport and credit facilities) and who have little surplus output or find it difficult to market their products, even to the local market.

b. Inability of farmers to export or to reap export benefits due to barriers to market access abroad, or due to a situation of global surplus for the export commodities, or to declining commodity prices.

c. The market share and livelihoods of farmers are adversely affected by imports, some of which are unfairly cheap because of subsidies provided to the producers of the imported products.

d. Farmers that have succeeded in overcoming difficulties, and initiatives taken by them (with the help of agencies supporting them) that enable them to benefit from participation in the market.

Rural producers in developing countries face a myriad of relationships and issues when they confront the market, or when the market confronts them.

As pointed out by IFAD, the economic environment of the rural poor comprises several interlocking markets: for agricultural produce and for agri-inputs; for production support (agricultural extension) or financial services; for information; for assets, including land and water; for labour; and for food and other consumer goods. The terms upon which the rural poor enter and participate in such markets are sometimes inequitable. (IFAD 2001a).
IFAD also recognizes that many of the poor are currently passive participants, often obliged to sell at low prices (immediately after harvest) and buy at high prices, with little choice of where they conduct transactions, with whom, and at what price. "With the liberalization of domestic markets and the globalization of international markets, these markets have become more open, with more choices, but also complex and uncertain. Today more than ever before, enhancing the ability of the rural poor to reach these markets, and actively engage in them, is one of the most pressing development challenges." (IFAD 2001a: p 161)

From a review of some IFAD publications and documents as well as from the interviews with staff members on their experiences from projects implemented, the constraints in relation to poor infrastructure and supply capacity leading to an inability to market in urban and national markets are well known and documented. The main problems faced by farmers include the lack of land, insecurity of land tenure, lack of credit, storage facilities, roads and transport facilities. Fluctuations and declines in commodity prices are also a major problem.

Less obvious and less deeply addressed (until recently) are the problems stemming from barriers to access to international markets, the high agricultural subsidies in developed countries, and these countries’ export of subsidized farm products that can threaten the incomes and livelihoods of small producers in developing countries. Many cases are presented in this paper on how liberalization has caused disruption to the livelihoods of small farmers in many of the developing countries.

As for providing opportunities for farmers to overcome some of the difficulties in relation to the market and to seek benefit from participation in it, IFAD has made some attempts, some of them innovative, in this direction. Some of these experiences are also summarized in the paper.

Although much of the focus in this paper is on how cheap imports are causing problems for small farmers in developing countries, it must be recognized that these farmers also face many problems that are rooted in their inadequate access to land, and poor infrastructure, thereby constraining their ability to produce, store and market even within their own countries. These are problems in category (a) in the list above. In relation to these problems, the IFAD report on rural poverty (IFAD 2001a) elaborates as follows:

Five main aspects of remoteness, rurality and poverty create large physical problems, and often combined constraints, on market access by poor, remote or rural communities:

1. Lack of roads, or presence of seasonally impassable or poorly maintained roads.

2. High transport costs, arising from the lack of well-maintained roads, long distances and lack of affordable, appropriate transport.
3. Poor or non-existent communications infrastructure for disseminating information on markets, products and prices.

4. Low value/weight ratios of much of what poor people make and sell, which make transporting it to market difficult and costly.

5. The perishable nature of much agricultural produce from the rural poor, especially women, combined with a lack of storage facilities and long distance markets.

Distance to markets, and the lack of roads, is a central concern for rural communities throughout the developing world. In Ecuador, one farmer claimed simply: “There are no good roads. To get the products out of the farm you have to use horses, but those who don’t have a horse cannot do it”. In Malawi, participants in research identified poor roads as a major problem in all but one of the ten communities visited. In Twabidi, Ghana, farmers complained of the high transport fees charged by truck drivers because of poor roads. As a result, a large share of food crops was locked up on farms, leading to post-harvest losses.” (IFAD 2001a: p163)

The report adds that access to markets in assets (including land and water), technology and credit is vital for consolidating and expanding production. (IFAD 2001a: p174). A main cause of entrenched poverty is lack of access to natural resources such as land, water and forests. Their inequitable distribution is often derived from long-standing historical and cultural practices. Increasingly, land tenure systems, water rights and access by rural communities to forests and other common property resources are sources of social conflict. Reducing such tensions and planning for sustainable and equitable resource use are key challenges throughout the developing world. (IFAD 2003a).

In relation to credit, in many countries, commercial banks provide little credit to rural traders. While some NGOs and non-bank financing agencies provide credit, the need far outstrips the supply. Rural trade is a marginal concern of the microfinance plans in many countries on account of its itinerant nature and the large size of established trade networks. (IFAD 2001a: p 170).

C. EXPERIENCES AND CASES FROM LATIN AMERICA AND CARRIBEAN

C1. Cases of Rural Livelihoods Affected by Cheap Imports

Mexican Farmers Affected by Cheap Imports

In 2002, tens of thousands of Mexican farmers took to the streets of Mexico City, calling on the government to accord them greater protection in the face of U.S. imports under the North American Free Trade
Agreement. The Mexican farmers’ movement began intensifying their protests against NAFTA and the dire poverty in the countryside since late 2002, blockading highways and briefly threatening to close the US-Mexico border on 1 January 2003, the day remaining tariffs on many U.S. farm products were removed. (Associated Press, 2003)

Mexican exports of farm products to the U.S rose to $6.2 billion in 2001 from $3.2 billion in 1993. However, imports of U.S farm goods to Mexico have skyrocketed and farm groups allege that massive subsidies, cheap credit, better transportation and technology give U.S farmers an unfair advantage. The main beneficiary of rising Mexican exports have been large corporate farms rather than the small-plot farms on which millions of Mexicans still live. (Associated Press, 2003).

An analysis by the US-based group, IATP, showed in 2001 that corn cost an average of $3.41 a bushel to produce in the U.S and is sold in the world market for $2.28 a bushel. Food First, a California-based group, reported that California rice costs between $700 and $800 an acre to produce but receives $650 an acre on the world market and that U.S wheat is exported at 46 per cent below cost. (Carlsen 2003). The sale at prices below production cost is made possible by domestic or/and export subsidies.

Mexican farmers cannot compete with grains sold at less than U.S production costs. They lack credit, economies of scale, fertilizers, other inputs and most importantly government support (which are disallowed by IMF policies). This compares with the massive agricultural support provided by the US, which was $248.6 billion under the period of the 2002 Farm Bill. In addition to subsidized prices, cheap and ready access to U.S financing played a key role in the inflow of grain imports to Mexico, which in turn devastated domestic prices. The Centre for the Study of Rural Change in Mexico (CECCAM) reported that there has been an overriding financial incentive for importers in Mexico, as U.S exporters and government export-financing organizations offer low cost loans to Mexican importers buying U.S grains (Carlsen 2003).

Between 1995 and 1996, corn imports rose 120 per cent – double the quota stipulated under NAFTA, and all imports were tariff-free. Despite these adverse economic conditions, Mexican corn farmers continue to subsist, largely through unpaid family labour, from small-scale commercial activities and from more than $9 billion in annual remittances sent home by Mexicans working in the U.S.

Critics of NAFTA say that after two decades of trade liberalization, Mexican agriculture has steadily lost ground with more than 1.7 million people being displaced. On the other hand, much of the $6 billion in agro-export earnings have gone to fewer than 7 per cent of Mexican farmers. (Carlsen 2003).
Haiti and Rice

Haiti is the poorest country in the Western Hemisphere with a per capita income of $556. Two-thirds of its people live in rural areas, and 80% of them are poor. Rice is a major staple in the Haitian diet, produced mainly by small farmers. Twenty per cent of people depend on rice cultivation for their livelihoods. Moreover, thousands of agricultural labourers, traders and millers derive income from rice.

Having gone through rapid trade liberalization in recent years, Haiti is now one of the most open economies in the world. Liberalization of the rice market began in the 1980s. In 1994/95, under pressure from the IMF and the US, the rice tariff was cut from 35 per cent to 3 per cent.

After the first wave of liberalization, rice producers reported that prices fell by 50 per cent during 1986-7. Local production fell by 27 per cent in 1995 and between 1985 and 1999, rice imports increased 30 times as a result. Subsidised US rice constitutes most of the rice imports.

These trends have severely undermined the livelihoods of 50,000 rice-farming families and led to a rural exodus. Initially, cheap imports benefited poor consumers. However, in recent years, these benefits have been diminishing. Due to the depreciation of the national currency and to cartel activities by rice importers, the prices of local and imported rice are now converging. According to the FAO, overall malnutrition has increased since the start of trade liberalization, affecting 48 per cent of the population in 1979-81 and 62 per cent in 1996-98. Almost half of Haiti’s food needs are now met by imports. (Oxfam International, 2002)

Honduras and Rice

Honduras produced 100 per cent of its rice needs and even had surpluses to export in the 1980s. It was known as the grain basket of Central America. However the situation was to change with the rapid liberalization of its rice sector.

An interesting article on this situation, published in the Guardian (London) in September 2003, was written by Patricia Hewitt, who was then the UK Secretary of State for Trade and Industry, and who visited the country. According to Hewitt, under pressure from the IMF, the Honduran government abolished the system of import controls and threw the rice market wide open. The local rice faced unfair competition from heavily subsidized US rice imports, which enjoys subsidies worth 65 per cent of the production cost of rice in Honduras.

Against such unfair competition, rice production in the country collapsed and the farmers’ plight was worsened by hurricane Mitch in 1998. Rice production fell to just 1 per cent of domestic needs, with the gap filled by imports, leading to unemployment and lawlessness.
Subsequently, Honduran rice farmers fought back by forming their own association with rice processors and won an agreement that processors must first buy local rice before they can bring in foreign imports. In 2002, according to the rice producers association, Honduran farmers produced 16 per cent of their country’s needs. In 2003, it was to rise to 33 per cent.

Dominican Republic and the Dairy Sector

In the Dominican Republic, around 30,000 farmers were involved in milk production. Most of these farmers produce on a small-scale and many live in poverty. Fifteen per cent of milk producers live in the Northwest region where half of the population lives in extreme poverty with only one child in two going to school.

In the 1990s, the national dairy consumption doubled. However, the rising demand has largely been met by increasing quantities of cheap imported dairy products. Domestic milk production has remained stagnant.

Part of the reason attributed for this increase in imports was the policy of import liberalization, following the country’s accession to the WTO in 1995. The country has a tariff quota system for milk powder imports under which 32,000 tonnes can enter the republic at a low tariff rate of 20 per cent. The EU accounts for 70 per cent of the import quota at 22,400 tonnes.

The price of EU milk powder imports undercut the local price of fresh milk by 25 per cent, partly due to the EU export subsidies. The EU export subsidy rate for Whole Milk Powder (WMP) ranged from Euro 680 per tonne to Euro 1,090 per tonne. The Dominican Republic was the fifth most important market for the EU’s WMP exports.

It is estimated that around 10,000 farmers have been forced out of business during the past two decades despite considerable investment in the dairy sector by the government and the industry. The heavily subsidized European imports make it difficult for local milk producers to compete.

(Sources: Oxfam International 2002; G. Fanjul, 2002)

Jamaica and the Dairy Sector

Jamaica is well suited for dairy production with ample pasture-land, water and a well-adapted cow breed. According to the Jamaica Dairy Farmers Federation (JDFF 2003), in the 1960s there were 4,000 small dairy farmers and 200,000 acres of improved pasture. However, in 2003, there were only less than 200 dairy farmers, most of whom are small farmers. However, 50 per cent of the milk production is from two corporate farms.
Jamaica annually consumes 170 million litres equivalent of milk and milk products (about 20 million litres of fresh milk, 60 million litres as cheese and 90 million litres as milk powder).

According to the JDFF, due to the cheap imports of milk powder from the EU, the market for local fresh milk has been shrinking from 38 million litres in 1993 to 18 million litres in 2002. The annual value of the sale of milk and milk products in Jamaica is nearly J$7 billion (or 3 per cent of GDP); however the farmers were only getting J$0.5 billion in 2001.

During the past decade, there been a marked decline in the local production of milk form a peak of 38.8 million litres in 1992 to about 18 million in 2002. According to the JDFF this decline was largely a result of the negative impact of trade liberalization and specifically the dumping of subsidized milk powder which followed the lifting of trade restrictions in 1992.

In 1986, following the problem of milk dumping, the government implemented a “parity transfer mechanism” to use duty from milk powder imports to supplement the price that processors paid for their milk. A state-owned company was the sole importer of skimmed milk from the European Community during this period. This brought the price of heavily subsidized milk powder up and lowered the price of fresh milk and made it equally beneficial for a processor to buy either. According to JDFF, the milk production rose by an average of 7.5 per cent annum.

In response to the World Bank’s structural adjustment loan, the parity transfer mechanism was removed in 1992 and the import duties on milk powder were reduced. This resulted in large increases in imports of milk powder primarily from the EU and dairy farmers were again facing with an uncertain market for their milk. In some cases, the unsold milk was thrown away, and some farmers then either cut back production or went out of business.

The dairy farmers then commissioned a study in 1994 which they presented to the Jamaican Anti-Dumping Advisory Board calling for the imposition of a 137 per cent countervailing duty against dumping. Consequently, in 1996, the Jamaican Parliament decided that the import duty on Whole Milk Powder (WMP) be increased from 30 per cent to 50 per cent. However, the problem for the dairy farmers was that at the same time, the concessionary import duty of 5 per cent that Nestle enjoyed was extended to all manufacturers.

According to the JDFF, a study showed that as a result of the new import regime, the collection of duties on milk powder of both whole and skimmed milk powder had declined as the ratio of skimmed milk powder had increased and virtually all importers classified the end use for manufacture and enjoyed the concessionary duty of 5 per cent. (Ibid)

The Commonwealth Secretariat in 1996 sent a team to investigate the viability of the Jamaican dairy industry following the government’s response to the farmers’ outcry. The subsequent report, ‘A Milk
Production Strategy for Jamaica’, was produced and accepted by the government in 1997. This was followed by the setting up of the JDFF in 1998 and the Jamaica Dairy Board in 1999. Despite such initiatives, the farmers belonging to the JDFF have been unable to compete with subsidized milk powder imports from the EU. The JDFF says that the removal of export subsidies would allow Jamaican milk to more fairly compete with EU milk powder.

Further, according to the JDFF, “Given current levels of world market distortions and the importance of dairy to Jamaica’s rural economy and poverty levels, we would like to see a rise in the Jamaican milk powder tariff levels. But our experience with the Jamaican government has shown that they are under external constraints and internal pressure from the World Bank and lobbying from the Jamaican food processing industry. We would like to see a loosening of these constraints, especially from international institutions, in the interest of Jamaica’s food security and rural livelihoods”. (JDFF 2003).

**Uruguay and milk**

Small producers in the west and south of Uruguay provided milk for the domestic and export market through the National Cooperative Milk Producers (Conaprole) until recently. Eighty per cent of the cooperative’s 6,500 milk producers were small, family run farms. (Madeley 2000).

In the Mercosur regional trade grouping (comprising Uruguay, Brazil, Argentina and Paraguay), the milk market is huge – 22,000 million litres per day. This attracted the Italian multinational company Parmalat to Uruguay in 1992. Both Parmalat and Nestle were competing for the Mercosur market.

Brazil absorbed a high proportion of exports from Conaprole. However, these exports were adversely affected due to competition from highly subsidized milk exports from Europe. As a result of this, the cooperative faced financial problems. “Externalization policies aimed at subordinating the company to foreign interests are causing the bankruptcy of small milk producers,” said Luis Goichea, Secretary-General of the Association of Workers and Employees of Conaprole. (Madeley 2000).

**Brazil and Milk**

Milk and milk products are the second largest item in food imports in Brazil. The imports of these products grew rapidly in 1993 when the country opened up its markets. The largest source of dairy imports is the EU. According to CAFOD, the dairy industry in the southern state of Mato Grosso do Sul faced a crisis in 2001, after the price local farmers received for their milk fell by a third. Two milk processing plants went bankrupt, leaving farmers with no outlet for their produce.
C2. Problem of Market Access

St Lucia and the Banana Sector

Like most island-states in the Caribbean, St. Lucia is faced with several structural constraints to development. Its small size and low population presents such a small market for agricultural or manufacturing development that these run into problems of economies of scale. Also, as St Lucia is surrounded by oceans, the cost of transport to external markets tends to raise the export costs. The small size of the country and the rugged and hilly nature of its terrain inhibits the possibilities of expanding agriculture beyond its present limits. Infrastructure is poor and roads and communications are not adequately developed. In the international setting, the trend towards liberalization represents a real threat to St. Lucia and the Caribbean as the economies of scale are difficult to achieve in any sector, making competition difficult in a global market (IFAD 1994).

There is great inequity in the distribution of land and this acts as a constraint for greater agricultural development, since larger estates are poorly managed and face serious labour problems. Meanwhile, small farms in “family lands” face problems of land tenure and access to credit. (IFAD 1994: p5)

Banana growing has been the backbone of the agricultural economy but this sector began to have problems after 1993. The countries which belong to The Organisation of Eastern Caribbean States (OECS), St. Lucia included, had for many years enjoyed a protected access to the U.K. market for all their bananas. In July 1993, the EU defined a new regime for banana marketing. According to this, the Windward Island producers were restricted to selling a fixed quota of bananas per country to the EU, with the St. Lucia quota being set at 127,000 tons per year.

In 1999, the EU ended its preferential treatment. This led to St. Lucia having to diversify its agricultural crops. In 2002, the tropical storm Lili devastated the banana crop.

C3. Innovative Experiences In Interacting with the Market

Organic Agriculture Among Small Farmers in Latin America and the Caribbean

Organic agriculture has been able to provide opportunities for farmers to benefit from participating in the market. More than 20 per cent of certified organic farming areas in the world are in Latin America. In addition, small farmers dominate organic agriculture in Latin America and the Caribbean.

Several IFAD projects are promoting organic agriculture, although such promotion was not the result of having included this in the project design.
As IFAD did not have a position on organic agriculture, a thematic study on the subject was conducted in order to provide insights on including organic agriculture in projects that target the rural poor, as well as to generate lessons and policies on how to support the adoption of organic production among small farmers. (IFAD 2003a)

According to the study, organic production mainly involves the application of agronomic, biological and mechanical methods instead of chemical synthetic methods. The study analyzed issues through a set of case studies of small-farmer groups that have been successful in adopting organic technologies and in marketing their organic products. The cases included the following:

- coffee production in the state of Chiapas in Mexico and honey production in the Yucatan peninsula in Mexico;
- cacao and banana production in Talamancan county, Costa Rica;
- coffee production in Huehuetenango, Guatemala;
- sugar production in the San Javier region in Argentina;
- fresh vegetables production in the Las Pilas region, El Salvador and banana production in Azua, Dominican Republic.

The study covered 12 farmer organizations with 5,150 farmers and close to 9,800 hectares of organic crops. In all the cases, except for El Salvador, the projects involved production of organic products for export, while the organic vegetables produced in that country are sold to domestic markets, including through supermarkets. Three of the cases involved farmer organizations supported by IFAD and eight of them represent indigenous communities.

According to the thematic study (IFAD 2003a), the following are among the significant impacts of organic production on small farmers:

1. The shift to organic production had positive impacts on the incomes of small farmers in all the case studies as all the organic producers obtained higher net revenues relative to their previous situation. The sustainability of these effects depends on many factors, including the capacity to maintain similar or higher yields and the future prices of organic products.

2. Those farmers who used to produce under production systems closer to the organic system experienced a rapid increase in yields after shifting to organic methods of production. In contrast, those who used to apply chemical inputs obtained lower yields during the first years after the shift. Farmers in some cases (bananas in the Dominican Republic and honey in Mexico) experienced no significant change in yields.

3. All farmers who shifted to organic farming obtained higher prices for their produce than those obtained by conventional producers located close by. Apart from the organic nature of the products, the higher prices were also attributable to the type of relationship the farmers had established with buyers. Higher prices were obtained when farmer organizations succeeded in developing long-term relationships with buyers.
4. Small farmers dominated organic production in all countries in the region except in Argentina. Such a dominant share in organic farming suggests that small farmers may have a comparative advantage in organic production. This is because, most small farmers already produce more or less ‘organically’, using few or no chemical inputs and frequently grow crops under the forest and mixed with other species. Thus, they find the shift to organic production relatively easy. The technologies of organic production require little investment and are labour intensive. They thus rely on factors of production that are most available to small farmers.

5. The organic system has positive effects on the health of producers and workers and on the environment. Further, organic production has introduced additional improvements such as soil-conservation measures that are absent among conventional producers. They have also helped preserve natural forests and biodiversity, characterized by a high number of species of trees and birds.

The constraints faced by some small organic producers included insecure land tenure, ensuring quality of production especially in relation to access to foreign markets, lack of extension services with professionals trained in organic agriculture and limited availability of formal sources of on-farm credit.

It is also pertinent to note that government policies and institutions dealing specifically with organic agriculture have played a marginal role in the emergence of organic products in general and in the success of the small producers in the case studies. Hence, more support in this direction is needed.

The marketing of organic products through farmer associations have established direct contact with buyers and this has been key in helping small farmers obtain better prices. Long-term contracts have been better, as they provide a safe market and stable prices. Access to fair-trade markets has increased substantially and further reduced price instability.

Programme for the Support of Rural Micro Enterprises in Latin America and the Caribbean (PROMER)

The Rural Micro Enterprises Support Programme in Latin America and the Caribbean (PROMER) is a regional programme specifically devoted to micro enterprise and market development activities in IFAD-financed projects.

The role of PROMER is to help improve the competitiveness of rural micro enterprises. One of the ways that PROMER helps promote market access is through the organizing of international fairs to help rural micro entrepreneurs sell their products at fair prices.

One such event was the first Latin American Rural Business Fair held in Chile in 2002. The participants included small farmers and rural micro entrepreneurs from Bolivia, Brazil, Costa Rica, El Salvador, Guatemala,
The Agricultural Development Project For Small Producers in Zacapa and Chiquimula, Guatemala – Increasing The Value Added of Traditional Crops

The initial formulation of this IFAD supported project did not include components directly related to marketing and processing of agricultural products. The strategy was reformulated in the light of changes in market opportunities. Among the strategic modifications introduced, two cases were noteworthy: improvements in the process of marketing black beans in Chiquimula and construction of a plant for drying and processing coffee beans in Zacapa. (IFAD 2001b)

• **Black beans in Chiquimula**

Prior to the project, farmers were selling their products to local intermediaries through traditional market channels. The project promoted the organization of several marketing committees composed of producers, with the aim of enabling the producers to sell their products directly to wholesalers in Guatemala City and establishing sales agreements with supermarkets.

The good quality of the black beans resulted in a high regional demand and the marketing committees had simple machinery for packaging the beans at very low cost. A preliminary evaluation revealed that the farmers had the potential to obtain a 20 per cent increase in sales price after deductions for inputs, packaging and transport. The price difference is estimated to have generated a total of USD 300,000 per year in additional revenues for farmers in the project area. (IFAD 2001b: p116)

• **Coffee drying plant in Zacapa**

An experimental subproject financed the construction of a coffee drying plant and the supply of pulp extraction equipment for small groups of coffee producers of La Union (Zacapa). The cost of the drying plant, amounting to USD 10,000, was paid for by 22 producers. The plant also offered its services to other growers who were charged. The effect was the following:

The cost of drying was reduced by one third with respect to the price charged by the local private drying plant and this enabled the farmers to
double their net earnings. The group earned an additional income of USD 18,000 per year.

As a result of the marked difference in the cost of drying, the local intermediaries have had to increase the price of processed coffee for all the farmers in the area. The project helped to finance another 5 coffee drying plants, which have helped more than 150 producers. (IFAD 2001b: p 116)

One of the most important lessons from these cases is that small innovations in marketing and processing of agricultural products can increase net earnings for producers.

D. EXPERIENCES AND CASES FROM AFRICA AND ARAB REGIONS

D1. Cases of Cheap Imports Affecting Livelihoods

Ghana and Food Crops

Agriculture accounts for over 40 per cent of Ghana’s GDP and employs most of the labour force. Economic reforms began in 1983. As part of the reforms, the government removed food price controls, raised cocoa prices for producers and boosted extension services. The situation was less favourable for food crops. Removal of subsidies from fertilizer and other inputs has resulted in dramatic decline in the use of inputs, in particular of fertilizer. With the exception of cassava and millet, yields did not improve in the past decade (IFAD 2001c).

IFAD’s operations in Ghana are guided by its Country Strategy which targets smallholders with emphasis on women and other vulnerable groups and has three main thrusts: (i) improving food security and arresting environmental degradation in the northern savannah areas; (ii) assisting resource poor subsistence farmers in the southern, central and western regions; and (iii) enhancing income generating activities. Since 1988, IFAD has financed 12 projects in support of its strategy, covering community and commodity-based approaches to agricultural development, rural finance and micro-enterprise development, and rural infrastructure, including the Smallholder Rehabilitation and Development Project.

Among the underlying causes of poverty and food insecurity identified in the northern region of Ghana are the increasing international competition depressing domestic and external output market prices on the one hand, and on the other, the removal of input subsidies and high inflation in the costs of inputs. (IFAD 2001c).

During an interview with the author, the IFAD Country Portfolio Manager for Ghana remarked that a successful effect of IFAD’s support has been
the building of small irrigation schemes with small dams that have assisted rural farmers to cultivate rice and off-season vegetables such as tomatoes and onions.

However, the tomato farmers have faced a significant constraint in their ability to market their produce, as a result of competition from cheap subsidized tomato products from the European Union countries, especially Italy. A tomato processing plant in an IFAD-supported project area had to be abandoned as it was no longer profitable. The plant faced competition from cheap Italian tomato concentrate.

This problem was also reported in an Italian newspaper as well as in a paper by Christian Aid. These accounts are presented below.

According to another IFAD official, in an interview with the author, local onion production is adversely affected by the surge of imports of onions from Europe. Onions which are viewed as not having a good enough quality for Europe are sent to countries in Africa such as Ghana and Senegal.

**Competition from subsidized Italian tomato paste**

According to a report in an Italian newspaper (Cadaluna 2003), local Ghanaian tomatoes do not reach the tables of consumers as imported Italian canned tomatoes have flooded the local market.

In 1968, a tomato cannery was built in Pwalugu with state support in Ghana’s Upper East District. It employed 60 permanent staff and 100 temporary workers. It was located in a fertile tomato-growing area to provide incentives for subsistence farmers to increase their produce and to support the local agro-industry.

In 1989, the Pwalugu cannery was closed due to the structural adjustment programme introduced by the World Bank and IMF. The closure was part of a policy for government withdrawal from the economy on grounds of efficiency. The cannery was producing about 100 tons of tomato concentrate daily before it closed. Its closure deprived the tomato farmers in the region of a regular purchaser. Demand was reduced, and in particular the farmers were no longer able to sell their surplus in the harvesting season.

Meanwhile, the policy of import liberalization, also encouraged by the IMF and World Bank, opened up Ghana’s market to subsidized tomato products from EU countries. The EU provides annual subsidies for tomato processing in southern Europe, averaging about 372 million euros. (Christian Aid, 2002). Ghana has become Africa’s largest importer of tomato concentrate, with imports of over 10,000 tonnes per year. As a result of the increased imports, the demand for local tomato has declined and tomato farmers selling their produce on the roadside for whatever price people will pay has become a familiar sight in the tomato-growing areas (Christian Aid 2002).
Urban consumers’ preference for cheap imports

According to the IFAD Country Portfolio Manager for Ghana, urban markets in Africa are facing import surges of rice, wheat and milk. The imported rice and wheat are increasingly being preferred by urban consumers to the traditional crops that are being cultivated by rural producers such as sorghum, millet and cassava.

In order to improve the farmers’ income, it is important to pay greater attention to develop more linkages between the commodities produced by the rural farmers to the urban markets. Consequently, in IFAD’s programme in Ghana to improve roots and tubers, more focus is being given to the aspects of processing and marketing in future, including promoting new uses for the farmers’ produce. For instance, there are opportunities to use cassava flour to make bread with wheat. In addition, IFAD is also looking at marketing opportunities for the use of millet flour in bread and cookies, and the use of cassava for feed and starch.

Problem of cheap imports of maize and soya

Research by Christian Aid also found that in Ghana, cheap imports of maize and soya have caused problems for farmers and traders in the country. Maize imports come primarily from the US where farmers are highly subsidized. The imported maize is not consumed directly but is sold to livestock farmers and feed processors. Consequently, the demand for and the price of locally produced maize are reduced. Due to the subsidies, the imported maize can be up to a third cheaper than local maize. (Christian Aid 2003)

Local maize processors claimed that they were doubly affected. In addition to suffering from the effects of cheap subsidized imports, the export of maize to neighbouring countries pushed up the price of locally produced Ghanaian maize. According to Christian Aid, the argument seems to be that immediately after the maize is harvested, it tends to be exported, in particular to Mali, Burkina Faso and Niger, accelerating the price rise as stocks run out. This shortens the time in which it is economic for local processors to buy local maize.

Farmers hoping to sell soya to local processors for turning into animal feed also found they were being undercut by cheap imports. Ghanaian farmers had no problems selling soya in 2001, and in many cases made considerable profit. However, by 2002, imports had increased and local farmers found themselves without a market. At the time of the research, the 2003 harvest was starting while around a third of the 2002 harvest remained unsold. This resulted in many of the local farmers unable to repay their loans. Local soya processors also found themselves without a market, as imported soya tends to be ready-processed. (Christian Aid 2003).
**Senegal: Tomato and Poultry**

**The tomato industry**

Tomato cultivation was introduced in Senegal in the 1970s. The country was producing about 73,000 tonnes of tomato concentrate by 1990 and was a significant exporter to its neighbours. It was the 23rd largest tomato producer in the world. Tomatoes were sold by producers to state-owned tomato-paste factories and tomato production was the best paid activity available to rural households in the early 1990s. Due to unfair competition from the EU (which is the world’s second largest producer of tomato concentrate), by the 1996/97 growing season, Senegal’s production fell to less than 20,000 tonnes. (Faizel Ismail 2002; Christian Aid 2005)

Prior to 1994, high tariffs and quotas were used selectively by the government to protect and promote domestic industries. In 1994, in order to comply with the conditionalities of the World Bank and IMF under structural adjustment loan agreements, Senegal opened up its economy. It gradually reduced tariffs between 1994 and 2001 from an average of 36 per cent to 14 percent, with the highest tariffs falling from 70 per cent to 42 per cent. Import quotas and licences were eliminated altogether. (Christian Aid 2005)

The once integrated and stable industry was weakened by the lowering of tariffs on EU triple-concentrate tomato imports, accompanied by the privatization of Senegal’s tomato-paste factories and the withdrawal of government support for farmers. The EU’s exports of tomato concentrate to Senegal increased from 62 tonnes in 1994 to 5,348 tonnes in 1996 due to the increased access to Senegal’s market. Since then, there has been a stagnation in Senegal’s tomato processing industry with declining prices of tomato concentrate and a lack of credit and investment resources available to processors. (Faizel Ismail 2002; UNCTAD 2002: p160)

European commercial tomato farmers have easy access to credit and qualified labour compared to the Senegalese counterparts, and they are able to produce tomatoes more cheaply for the European processing industry. Moreover, in 1997 alone, the EU paid out US$300 million in export subsidies to tomato processors. This posed yet another problem for the farmers in Senegal that had managed to continue to grow tomatoes. The tomato-paste factories stopped buying their tomatoes as they found it cheaper to import the triple concentrate tomato paste from Italian processors and transform it into double-concentrate for the local market, than to buy local fresh tomatoes. As a result, prices received by local tomato farmers fell (from CFA50 to CFA25 a kilo during this time) and European tomato paste imports soared. (Christian Aid 2005)
The poultry industry

The poultry industry in Senegal plays a key role, employing around 10,000 people with an annual turnover of about CFA25 billion. In 1990, chicken consumption was 1.5kg of chicken per person and this increased to 2.5kg in 1997. By 2000, domestic semi-industrial farms were producing around a third of the country’s total poultry meat, with smaller traditional farms supplying the remaining two-thirds. (Christian Aid 2005: p.17)

The government lowered tariffs on imported chicken parts from 60 per cent to 20 per cent in 2000. This led to an 11-fold increase in the volume of chicken meat imports between 1999 and 2003. Three-quarters of this, primarily in the form of frozen chicken parts, came from the EU (mainly Holland and Belgium). These were sold at half the price of the local equivalent. Between 1992 and 1999, there was a general expansion of poultry meat exports from 400,000 to 1 million tones resulting from the reform of the cereals sector in the EU.

Following the subsidies given to cereal farmers in Europe, the EU producer price for wheat, fodder and barley (which make up about half of the ingredients for poultry feed) dropped by around 50 per cent between 1990 and 2002. Consequently, the price of poultry feed in Europe fell by almost a third. Since poultry feed comprises 70 per cent of the cost of poultry production, the price drop made EU exports much more competitive. There was an exponential rise of chicken-parts exports to Senegal, from 1,787 tonnes in 2000 to 9,312 tonnes in 2003, which depressed the chicken prices in Senegal. (Christian Aid 2005: p.18).

Local chicken production dropped by a third, leading to around 2000 job losses and the closure of seven out of every ten chicken farms in Senegal. Hence, the livelihoods of many small farmers were destroyed and most industrial producers are out of business. Maize farmers were also hit by the collapse of the chicken industry as locally grown maize is mostly used for chicken feed. The collapse of commercial chicken farms as a result of European imports of chicken parts has cost maize farmers and their families around CFA7 billion in lost sales. In addition, imports of subsidized cereal meal and pellets from the EU have risen almost four-fold since 1993. (Christian Aid 2005: p. 18).

Mozambique and the Cashew Nut Sector

The cashew sector has historically constituted a significant part of Mozambique’s economy, providing income to several million individuals across the country. In the 1960s, Mozambique produced as much as half the world’s total cashew nuts.

The country’s early success in the production of raw nuts was accompanied by a boom in its cashew processing industry. Mozambique became the first African country to process cashews on an industrial scale. There were 17 processors in 2000 using various levels of technology. (IFAD 2000).
Processing of cashew peaked in 1973 when 149,800 tonnes of cashew were processed for export. The industry has since declined dramatically and in 1999/00, Mozambique processed only 8,000 tonnes of raw cashew. In the case of cashew production, the peak was reached in 1973 at 240,000 tonnes and that level has not been reached since (McMillan, Rodrik and Welch, 2002).

In 1978, in an attempt to stem the decline in processed cashew exports, the government banned the export of raw cashew. The decade of civil war starting in 1982 gravely affected both the production and processing of cashew. By 1989/90, the country produced only 22,106 tonnes and its share of world raw cashew nut production dropped to 5%. Since then, the range of cashew production has fluctuated between 22,106 and 66,510 tonnes, which is lower than in the early 1970s.

The industry used to be highly regulated. Following independence, the government banned the exports of raw cashew and set up the State Secretariat of Cashew, the central body controlling the cashew industry, as well as the Caju de Mocambique, the holding company for the state-owned processing factories.

When Mozambique entered into its first structural adjustment programme with the World Bank in the late 1980s (the 1987-1990 Economic Rehabilitation Programme), government control of the cashew sector began to be relaxed. In 1995, the Bank required the liberalization of cashew marketing and exporting in order for Mozambique to qualify for loan assistance. In addition, the Bank also recommended as a subsequent step that the government privatize the processing industry. According to the World Bank, the government did not follow this advice and privatized the industry before it liberalized cashew marketing. While the Bank outlined several policies for improving cashew production and increasing producers’ incomes, it focused on eliminating the export tax on raw cashews. The Bank hoped that there would be sufficient competition at the marketing level to ensure that reducing the export tax would increase the export price and therefore the producer price. The Bank favoured an immediate and complete elimination of the tax, while the industry favoured a gradual and partial reduction. (McMillan, Rodrik and Welch, 2002)

**Price reforms**

The export ban on raw cashew nuts was lifted in 1991/92 and limited quantities of raw nuts were allowed to be exported. However, a 60% tax on the difference between the FOB and factory gate prices and a quantitative restriction of 10,000 tonnes were imposed. In 1992/93, the tax (on the difference between the FOB and factory gate prices) was lowered to 30%. In 1993/94, while the initial export quota remained fixed at 10,000 tonnes, additional quantities were auctioned off in 5,000 tonne lots to registered exporters. In 1994/95, the quantitative restriction was lifted and the export tax was reduced to 20% of the FOB value in 1995/96
and then 14% in 1996/97 and 1997/98. In 1999, due to domestic opposition, Mozambique’s Parliament passed a Bill that increased the tax to between 18 and 22%, the exact amount to be determined each year, depending on market conditions. In both 1999/00 and 2000/01 seasons, the export tax was 18%. (McMillan, Rodrik and Welch, 2002)

Other measures included the raising of producer prices which were significant in 1987/88. Also at this time, the government announced that a minimum producer price would replace the fixed producer price as the liberalization programme progressed. The government continued to significantly increase the minimum producer price throughout the 1990s until 1998/99 when it was fully liberalized. During the period of the export ban, the government also fixed the “factory gate price” or the price processors paid for their raw nuts. Government control over prices paid by the processing industry for raw nuts was eliminated in 1991.

Marketing reforms

There were significant changes to the marketing system due to liberalization of the cashew industry. The state trading company was privatized in the late 1980s. Additional marketing channels opened up in 1991/92 when the ban on raw cashew exports was lifted. The rationing arrangement for export licenses was eliminated. (McMillan, Rodrik and Welch, 2002)

Privatisation

Privatisation of the holding company of the state-owned processing factories began in 1991. By the end of 1994, all the formerly state-owned factories had been privatized. The factories were sold to local entrepreneurs. The privatization move had local industrialists up in arms. When the World Bank President, James Wolfensohn, visited Mozambique, angry industrialists approached him claiming that the World Bank was responsible for the problems the industry was having procuring raw cashew. Wolfensohn authorized another study of the cashew industry which came out in favour of protecting the processing factories for some time. Following this, the government also commissioned two further studies, paid by the Bank. (Ibid)

Effects of liberalisation

An analysis of the distributional and efficiency consequences of the reforms was undertaken by McMillan, Rodrik and Welch (2002). The authors concluded:

“...Many of the textbook implications of export liberalization were indeed realized. Farmgate prices rose, raw cashew exports increased, and resources were pulled out of cashew processing. However, even under the
most favorable assumptions, the magnitude of the benefits generated by these effects were quite small -- both in economic terms and in relation to the amount of time and energy that Mozambique’s government spent on this question over the years. We estimate that the efficiency gains generated by the removal of the export restrictions could not have amounted to more than $6.6 million annually, or about 0.14% of Mozambique GDP. The additional income accruing to the farmers was probably no greater than $5.3 million, or $5.30 per year for the average cashew-growing household. These are puny amounts for a policy that was a key plank in the World Bank’s reform agenda, and that became a serious bone of contention between the Bank and Mozambique, requiring the personal attention of both their presidents.”

A significant fallout has been the impact on Mozambique’s domestic processing industry. The industry processing cashew came to a standstill. Although accounts vary, most estimates put the quantity of raw cashew processed close to zero, in the early years of the new century. In 1997, the existing factories employed 10,000 workers and they began closing thereafter. By 2001, none of the highly mechanized factories were operational. Factory closures have exacerbated a severe unemployment problem. Interviews by CAFOD suggest that whole towns have literally shut down as a result of the closure of the factories. Many of the unemployed are women.

According to a BBC news report (on 4 September 2003), 10,000 people who were directly employed by the industry lost their jobs and another million nut collectors lost their income.

From the viewpoint of the owners of the processing factories, the export tax reduction is the primary reason for the industry’s failure. Critics of the World Bank claim that owners who purchased the processing factories from the government in 1995 required a period of protection in order to rehabilitate the factories following the civil war and the period of government operation. Without a ban on exporting raw nuts or a prohibitively high tax, the processing factories could not obtain enough raw cashew nuts to operate. According to one source, the policy “effectively stimulated the export of raw nuts to India, starving the local processing industry of its raw material” (Panafrican News Agency, 1999). When the factories were privatized, there was an implicit assumption that the constant supply of quality nuts had existed in the past would continue.

As McMillan, Rodrik and Welch (2002) observed, whatever the reasons for the failure of the industry, it is clear that without an increase in the supply of raw nuts, there will be no vibrant processing industry in Mozambique. However, for various reasons, output response to increase in producer prices has been disappointing, and this is also true in much of the rest of Sub-Saharan Africa (UNCTAD, 1998). According to McMillan, Rodrik and Welch (2002): “Inadequate attention to economic structure and to political economy seems to account for these disappointing outcomes.”
Swaziland and Sugar

Although Swaziland produces sugar at less than half the cost of the EU, it is unable to compete with EU confectionary imports that increasingly dominate its market and that of neighbouring countries (ActionAid 2002).

Sugar production amounted to about half a million tonnes in Swaziland and the industry plays a crucial role. A significant proportion of this is produced by small-scale growers. According to ActionAid, over the period 1995-6, sugarcane growing accounted for 53 per cent of agricultural output and 34 per cent of total agricultural wage employment. In addition, Swaziland also has a sizeable sugar manufacturing industry. In the period 1995-6, sugarcane milling contributed 37 per cent to total manufacturing output and 22 per cent to total manufacturing wage employment. Sugar exports comprised 22 per cent of total exports for the period 1995-6.

As an ACP country, Swaziland had an annual import quota into the EU of approximately 117,000 tonnes and relatively little EU sugar is exported to the country. “Nevertheless, subsidized dumped EU sugar products (primarily confectionary products) are seriously undermining the Swazi sugar processing industry. For example, the Sugar Daddy factory used to produce sugar confectionary products for the South African market, providing 300 jobs for local people. However, in recent years the South African outlets have increasingly switched to buying cheaper, subsidized EU sugar confectionary imports and in 2001 the Sugar Daddy factory was forced into liquidation” (ActionAid 2002).

EU industrial users of high priced internal sugar such as confectionary producers also receive an export subsidy to enable them to sell processed sugar goods on the world market. According to ActionAid, the dumping of EU sugar products has led to the loss of some 16,000 jobs in the Swazi sugar industry and 20,000 jobs indirectly linked to the industry, such as packaging and transport.

Kenya: Wheat and Rice

Wheat

According to ActionAid (2002), wheat farmers in Kenya have been adversely affected by cheap imports of wheat flour from Egypt. It is believed by the Kenyan cereal growers’ organization that subsidized wheat originating from the US and possibly also the EU has been used to manufacture flour in Egypt which has then been exported to Kenya at cheap prices, contributing to a drop in local Kenyan producer prices and discouraging domestic wheat production.
One of the top destinations for EU wheat is Egypt and it is also the second largest market for US wheat exports. The US and EU supplied Egypt with almost four million tonnes of wheat in 2000-01. According to ActionAid (2002: p16): “Available figures show significant quantities of this wheat were dumped on the Egyptian market because the reported selling prices were less than the cost of production in both the US and the EU.”

Both Egypt and Kenya belong to the Common Market for Eastern and Southern Africa (COMESA), which allows its members tariff-free access for commodities as long as a minimum 45 per cent of the product originates in the exporting country. In 2000, the Government of Kenya became extremely concerned about increases in the volumes of cheap, duty-free wheat flour imported from Egypt. According to wheat industry sources, the flour was affecting the domestic market and undercutting local prices. The imports had a negative impact on Kenya’s wheat farmers according to government officials.

The Kenyan press reported that local wheat farmers faced ruin as producer prices plummeted by 30 per cent. Millers threatened to shut down and refused to purchase locally grown wheat, as they could not compete with imported flour. As a result, the government invoked special safeguards on COMESA wheat imports, and placed a 60 per cent duty.

The Kenyan Cereal Growers’ Association told ActionAid they are convinced that as Egypt’s costs of wheat production are high, Egypt uses cheap wheat imports from EU, US and other countries to subsidize its flour exports to Kenya.

**Rice**

One third of the rice consumed nationally is produced by Kenyan farmers, including by 60,000 smallholders. The average annual income earned from rice production in central Kenya is USD$3,500, which is considered a decent living by national standards. (Oxfam, 2005).

The incomes of the rice growers have been affected by imports. Rice imports into Kenya come from Asia and the EU. Rice is imported in rough form into the UK from Asia and US, where it is then milled and re-exported around the world. Re-exports to Kenya have been on the rise since 1995, peaking at 22,000 tonnes in 2000. Consequently, Kenyan rice producers obtained only half the price for their produce in 2002 compared to what they received in 2000. In 2000, they received Ksh 28.32 per kg of rice, and this fell to 16 Ksh per kg in 2002.
West and Central Africa – Observations from IFAD Officials

In the course of the author’s interviews with IFAD officials involved in the West and Central African regions, the following were some observations made:

“One of the problem faced in the regions is the impact of cheap imports. Cheap imported wheat and rice compete with local cassava production. Cheap rice imports come from South-east Asia especially Thailand and Vietnam while cheap wheat from Europe is dumped in the region. There are also cheap animal by-products from Europe such as beef, chicken parts and cheap fish. In Gambia and Senegal, there is a general problem with rice. We try to raise outputs but there is the problem of dumping. We try to introduce new rice varieties to increase yields but we have marketing issues to deal with. Subsidized rice comes from abroad at low cost. Poultry production is possible but faces competition from dumped chicken parts. For example, this problem exists in Cote d’Voire.”

Near East and North Africa Region

In an interview with the author, an IFAD official working in the Near East and North Africa (NENA) department made the following observations:

“My experience in the region shows that it is not so much a generic ‘globalization’, in the sense of pressure towards market liberalization and integration at the global level that affects rural markets in most countries in the region. With few exceptions (like Sudan), the NENA is not a producer of agricultural commodities for the global market, but rather it produces for domestic, regional (Arab or African), and European markets first and foremost.

Indeed, even pressure for liberalization and related institutional reform here has come not only from international institutions normally associated with globalization (World Bank, IMF, WTO), but also from growing economic ties with the European Union. In particular, the prospect of integration into a free-trade Euro-Mediterranean space by 2010, which should be the culmination of a process of gradual integration and policy convergence initiated in Barcelona in 1994, is a major factor shaping rural markets and agricultural policy in the NENA.

Given the importance (and political sensitivity) of Europe’s Common Agricultural Policy and the similarity of natural endowments between parts of the EU and countries on the Southern shore of the Mediterranean, integration into this free trade space will not be easy nor necessarily beneficial for NENA rural producers. However, where European channels for export of local produce (notably flowers, citrus, canned fish, etc.) have opened or improved, there are already signs that newly liberalized rural economies (notably in North Africa) may be orienting themselves towards production for export, rather than for the internal market. This is a phenomenon that very much deserves studying for a number of reasons, including the fact that it tends to bring with it a
reallocating assets such as land, water, and finance in favour of a private sector in which the poor or small farmers are generally under- or not represented. In some areas, notably parts of Algeria, this process is believed to have played a major role in the asset de-stabilization that has fuelled violence in some rural areas in recent years.

These considerations aside, it is also important not to forget that the NENA presents extremely different configurations of resources, policies, and institutions, and that neither global nor regional market integration will impact two countries in largely similar ways. For the most part (and despite some remarkable exceptions), the region is poor in agricultural resources, and some governments have traditionally invested very little in agricultural development. Though the latter is not true everywhere (and in some cases things have changed in recent years, partly to cushion the impact of government retreat from the economy and also to limit urban migration), it is still the case that many rural markets are and will be affected by integration more on the level of consumption than on that of production. Again, the way to study this phenomenon is not that of looking at the impact of WTO provisions and such, but rather of regional integration, including the impact of political events that have regional resonance (such as the current Iraq war).

Where integration opens up possibilities for finding external markets for local produce, local markets tend to be short-changed in the process (and may be captured by imports from Asian or European producers). Poor and small farmers tend to be affected by this process mainly as consumers, since production for export is rarely their affair.

This said, one still has to look at the gender dynamics of the process. My impression is that women generally seem to be over-represented in the latter category, since they generally own little (or no) productive assets, and participate less in the private sector. However, it is also the case that women everywhere in the region are over-represented in the informal sector, which may offer new possibilities for income generation and unstable employment for them when market integration stimulates demand for rural production. The particular willingness of women to accept unstable work arrangements that leave them vulnerable legally and otherwise makes them ideal participants in these growing market configurations, although the phenomenon is not comparable in magnitude to the case of other areas in the world.

Related to this, it would also be worth looking at how market integration and relative liberalization impacts different typologies of organization of production in which the poor in general and women in particular may be over or under-represented. In some areas, semi-public and cooperative forms of organization are becoming a preferred realm of work for small farmers and also for poor women producers, while the formal private sector is still comparatively inhospitable to both groups. This fact seems to be creating a dynamics of self-perpetuation of market marginality among rural producers that identify with semi-public institutions. Again, the gender factor here is important. However, there is also a larger problem of lack of market institutions that are transparent and accessible.
to all, and that may ease the process of market integration of small producers and semi-public institutions (as well as their transition to full private enterprises).

Finally, an aspect of global/regional market integration that has major relevance in the region is that of integration of labour markets. Migration from rural areas is a phenomenon of very great proportions all over the NENA, sometimes with Europe as a goal, sometimes towards urban areas. The particular mix of urban-rural (or Europe-rural economies) that tends to result from this process also has important gender aspects, as well as a direct impact on the status of rural assets, natural resources, and social structures.”

D2. Innovative Experiences In Interaction with the Market

PhytoTrade Africa

PhytoTrade Africa (the Southern African Natural Products Trade Association) is a representative body for small-scale producers in the natural products sector. Established in 2001 with a grant from IFAD, the Association is operational in Botswana, Malawi, Zambia and Zimbabwe, and expects to also cover Mozambique and South Africa. Although its primary beneficiaries are poor rural producers, its membership base encompasses the full range of private-sector providers (NGOs and technical research institutions) to the natural products industry. (Phytotrade Africa 2003)

The association’s overarching goal is to develop a long-term supplementary income source for poor rural people in the region, and to enable them to improve their livelihoods, from the sustainable use of natural products. Among the initiatives it has undertaken are the development of Fair Trade and Environmental Charters for all members to try and regulate the commercialization of natural products by members in a way that guarantees the provision of equitable benefits to rural producers, and the ecological sustainability of the production of natural products.

In the first year of operation, the Association’s members developed export and local marketing contracts, including for the following products:

- Kalahari melon seed oil (supplied to international cosmetics companies)
- Baobab oil (supplied to regional cosmetics companies)
- Baobab fruit juice (for domestic sales in Malawi)
- Baobab fruit pulp (for domestic sales in Zimbabwe)
- Marula oil (supplied to international cosmetics companies)
- Devils Claw (for international pharmaceutical companies)
• Masau and Mazhanje fruit pulp (for use in jam, supplied to international Fair Trade buyers)
• Herbal teas (for domestic and international Fair Trade buyers)

One of the Association’s members earned USD 300,000 from the sale of marula oil in 2002, while the combined value of Devils Claw to its members was about USD 320,000.

Sao Tome and Principe and Aromatic/Organic Cocoa

Historically, cocoa has been a very dominant export crop for the small island state of Sao Tome and Principe, representing 95 per cent of all exports. Due to this high dependence and the serious fluctuation in the world price of cocoa, Sao Tome and Principe is a low income country. The price of cocoa dropped from USD450 per tonne in 1975 and USD 550 in 1980 to USD330 in 1985 and rose to 560 USD in 1988. The price then went on a downward trend and was USD 280 in 2001.

IFAD commissioned a study in January 2000, conducted by a French company, Kaoka, to analyze the feasibility of developing aromatic/organic cocoa in the Sao Tome and Principe. IFAD then financed a pilot project on aromatic/organic cocoa in the country.

Aromatic cocoa has a 2.7 per cent share of the world market, and approximately 800,000 tonnes were produced in 1998. The aromatic cocoa market is independent of the common cocoa market, and while the price premium for this type of cocoa varies, it can reach significant levels in certain instances. (IFAD 2003c).

A separate market exists for organic cocoa; annual world production amounts to about 10,000 tonnes and depending on the level of demand and the quality, the premium price it achieves is between 20 and 100 per cent above the price of common cocoa.

The objective of the pilot project with a target of producing 1,000 tonnes of aromatic/organic cocoa is the marketing of a highly valued category of cocoa which is relatively protected from the wild fluctuations of world market prices.

E. EXPERIENCES AND CASES FROM ASIAN REGION

E1. Globalisation and the Upland Poor

With underdeveloped infrastructure, the upland and mountainous areas of Asia suffer from social deprivation due to political neglect and remoteness. According to IFAD (2001d), the current process of globalization increases the risk of further marginalization, disempowerment and desperation, unless it is specially adapted for these areas.
The limited accessibility, fragility, marginality and diversity of the mountain areas generally require diversification of resource use and production. But globalization, guided by short-term profitability and external demand, promotes narrow specialization in few specific products. It encourages indiscriminate resource-use intensification and over-extraction of niche opportunities, with little concern for their environmental and socio-economic consequences. The process of globalization is so rapid that mountain communities do not have sufficient lead-time and capacity to adapt. (IFAD 2001d: p139).

According to IFAD, several processes are in operation through which globalization is eroding the mountain areas’ niche of comparative advantages:

- In response to high external demand and profitability, globalization introduces new incentives, technologies, infrastructure and support systems. As a result, man-made facilities are created for the production in the plains, undermining the comparative advantages held earlier by mountain areas. In India, for example, products such as off-season vegetables, crop seeds, honey, mushrooms, flowers and herbs can now be produced cost effectively, and in large quantities, in greenhouses in the plains of Punjab, substituting the production of such commodities in the mountain areas of Himachal Pradesh.

- Trade liberalization and the opening up of imports will further erode the comparative advantages of mountain areas in the production of high-value commodities, as they will not be able to compete with cheap imports on domestic markets. For example, it is difficult for apples from the mountain areas of India to compete in the domestic market with imports of apples from developed countries.

- Lack of resources and skills prevent mountain people from participating in, and gaining from, opportunities offered by globalization, which is leading to their exclusion from the global economy.

- Mountain people are also being exposed to resource-base exclusion, as huge areas of land are leased out or auctioned to outsiders for mining or tourism development or cultivation of non-timber forest products (NTFPs) in many countries of the region.

**E2. Production Impeded by Farmers’ Lack of Land or Access to Land**

**Bangladesh: Marginalization of Small-Scale Producers**

A survey conducted in 62 villages in Bangladesh in 1995 showed that about 38 per cent of the households that had not been poor in 1987/88 had fallen into moderate poverty or extreme poverty in 1994; and 32 per cent of the moderate poor had slid into extreme poverty. According to a
government publication, the average Bangladeshi family farm family needs 2.5 acres of land to meet the minimum subsistence needs; but over half of the total households in the village of Kurigram had considerably less than this minimum (IFAD 2001d).

The irony is that the marginal farmers (those with less than 0.5 ha of land) had virtually no access to credit, while the landless households could get micro-credit in the form of Grameen Bank loans and the medium farmers had access to commercial credit. The marginal farmers, constantly at risk of further marginalization are called the ‘missing middle’ or ‘tomorrow’s poor’. (IFAD 2001d: p 34)

**Philippines: Marginalization of Western Mindanao Fisherfolk**

The Appraisal Report on IFAD’s Western Mindanao Community Initiatives Project (1998: p35) described how the artisanal fishermen in the area were being marginalized, mainly through unfair competition with the growing number of commercial fishing units which employ only 2 per cent of the fisher population. From 1991 to 1995, commercial landings grew by 295,000 tonnes, while the landings of the artisanal fishermen (comprising 98 per cent of the fishing population) actually declined by 150,000 tonnes.

**E3. Cases of Cheap Imports Affecting Local Farmers**

**Asian Farmers' Associations Asking for Protection From Cheap Imports**

In many Asian countries, small farmers have been or anticipate being affected by competition from imports that are cheaper than their products. Their organizations have been raising the alarm and requested assistance from their governments. An example of Asian farmers making such requests was at a meeting of Asian farmers’ associations grouped in the Asian Farmers Group for Cooperation. A report by Antara News Agency (19 April 2000) stated that the Group at their second meeting held in Jakarta would ask the WTO to let Asian countries continue to protect their agricultural products. Its president, Sutrisno Iwantono (also chair of the Indonesian Board of Cooperatives) said the WTO was tending to be more representative of developed countries' aspirations, and wanted to abolish import duties particularly of developing countries. "We don't want this situation. We will ask the WTO to give priority to efforts to make developed countries open their markets first." The agriculture sector is important particularly to nations with large populations. If the sector was liberalized, many farmers would move into the industrial sector. Iwantono added that if they no longer want to be farmers, the Asian countries would be threatened in the matter of food security.
Sri Lanka Farmers Facing Competition from Imports

The Sri Lankan agricultural sector has come under heavy pressure from increasing competition arising from cheap imports resulting from import liberalization.

That this would pose problems for Sri Lanka and for IFAD projects in the country was suggested by an IFAD Country Programme Evaluation Report for Sri Lanka (Jan 2002). The report emphasized that a key factor for the sustainability of projects supported in that country relates to appreciation for the future prices of agricultural commodities in general and of rice in particular. It added that in view of the impending liberalization of markets, it would be necessary to assess the farmers’ resulting improvement in productivity in relation to import and export parity prices, rather than financial prices in the local market. It observed that long term forecasts suggest that prices of agricultural commodities in general and of rice in particular would decline significantly over time.

The report recommended that the comparative and competitive advantage of Sri Lanka to produce particular commodities be considered in selecting IFAD’s interventions in future projects. “Such considerations do not appear to have entered into the preparation of previous and ongoing projects,” asserts the evaluation report.

There have been reports of protests of Sri Lankan farmers who were adversely affected by cheap imports. According to an IPS news report on 30 August 1999, the protests were held first by potato farmers, then by chilli and onion producers and then chicken farmers who were up in arms against cheap and ruinous imports (Samath 1999). The report added that with Sri Lanka’s once-thriving poultry business buckling, farmers said they are forced to sell below production cost. There are 75,000 chicken and egg farmers with more than 200,000 involved in the trade. Thousands of small farmers, worried about growing imports of chicken meat and eggs, took to the streets in April 1999, demanding the government ban imports since it was affecting their livelihoods. In response, the government said it would permit imports only under licence and put in place a proper pricing formula for imports.

The report also stated that potato, onion and chilli farmers have been complaining about the influx of cheap imports from India and Holland. Local farmers were unable to produce food cheaper than their foreign counterparts and were demanding protection through higher import duties and lower local taxes and reduced tariffs on imported inputs.

IFAD officials, in an interview with the author, had similar observations. They also recounted that cheap imports of potatoes and rice from Pakistan had become a problem for local farmers.

A study on Sri Lanka by the FAO in 1999 observed that the impact of import surges on major food items like chillies, onions and potatoes “...seems precarious, as reflected in the significant drop in areas of production and the rise in imports.” (FAO 2000).
According to the FAO report, the risk of high dependence in imported food items such as onions became obvious in 1998 when India imposed a ban on onion exports, resulting in more than a quadrupling of retail prices of onions in Sri Lanka, to almost 80-100 rupees per kg. Moreover, local production fell to 17,000 tons as the area cultivated was reduced significantly, with unfavourable consequences for both onion farmers and consumers.

**Philippines and Poultry Sector**

In 2000, the U.S Agriculture Department accused the Philippine government of violating WTO rules when the import of US chicken was disallowed. The Philippine government limited the import of U.S chicken according to the Minimum Access Volume (MAV) to curtail dumping. According to the MAV, only 19,000 metric tons could be imported to safeguard the local chicken industry. (The Philippine Daily Inquirer, 21 July 2000).

U.S. chicken, whose price was at one time as low as P60 per kilo at the shelves, is priced below the cost of production. “These are excess produce of the US market that is being dumped here and is killing our local chicken market which is priced at about P91 per kilo, already down from P120 before US chicken flooded the market”, said the Philippine Daily Inquirer article. It added that 330,000 workers or a third of a million in the chicken industry were affected.

Domestic chicken production is almost enough to meet local requirements. According to IBON Foundation, a Filipino research institution, due to the country’s commitment to the WTO, chicken imports grew tremendously in 1998. More than half of the chicken imports in 1996 came from Singapore and 12 per cent from China. In 1997, the U.S accounted for four-fifths of chicken imports. From 1997 till 2000, the U.S and Canada accounted for 79 per cent of chicken imports. (IBON, 2000)

**China and Impending Competition After Entry into WTO**

The economic reforms in China, especially on the occasion of China’s entry into the WTO, have led to concerns by some senior officials as well as experts that there may be adverse effects on the competitiveness and livelihoods of local farmers.

According to a report by Peter Goodman in the International Herald Tribune, 26 September 2002:

"China’s leaders worry that economic reforms could be placing more burdens on farmers than they can bear. Farmers are on the receiving end of the earliest and sharpest changes from the new policies that China agreed to implement to gain entry to the WTO. Protective tariff must be
lowered. Foreign foods must be allowed into the country to compete with local produce. According to a report by China's State Council, the country's WTO commitments are likely to wipe out the livelihoods of 13 million farmers who grow wheat, rice and cotton, while creating new ones in non-grain crops for only about 1.5 million. Some economists reckon that China will eventually need to find jobs for about 200 million farmers as its market reforms continue. 'The Chinese farmer is in a very unenviable position,' said Ke Bing-sheng, director general of the Research Centre for Rural Economy, which is part of China's Ministry of Agriculture. 'The impact of reforms on agriculture is profound.'

According to another report, by Bill Savadove, carried by Reuters news agency on 5 February 2002:

"China is facing big challenges in raising the incomes of farmers and keeping a lid on social unrest in 2002, its first year in the WTO, said Agriculture Minister Du Qinglin. China's entry into the WTO will bring a flood of foreign farm imports and speed layoffs in a country where almost two thirds of its 1.3 billion people live in the countryside. 'After WTO entry, imports will lash China's agriculture. The difficulties will be more prominent,' Du told a news conference. Analysts say farm product prices are likely to fall this year as imports increase after WTO entry, since domestic prices are far higher than in the international market. China must find jobs for 40 million 'surplus' rural workers between 2001 and 2002, officials say. Du said 78 million rural dwellers migrated in search of jobs at some point last year."

**India and Import of Skimmed Milk, Butter Oil and Milk Powder**

Indian farmers have in recent years faced competition from imported skimmed milk. According to Devinder Sharma (2002):

"The import of 17,000 tonnes of skimmed milk powder from Denmark at zero duty a couple of years ago resulted in a political uproar in Punjab. The dairy industry is once again up in arms. New Zealand has dumped a large quantity of butter oil into India. Even after paying an import duty of 35.2 per cent, the butter oil imports have been at less than US$1,000 per tonne against the prevailing global price of US$1,300 per tonne. Domestic prices crashed, coming down by 10-15 per cent....

It took India nearly 30 years to achieve self-sufficiency in milk production, involving farmers through a network of cooperatives. The logic behind allowing MNCs to import milk powder without countervailing duties is difficult to fathom, when their own governments are giving them massive subsidies. The Producer Subsidy equivalent (subsidy as a percentage of value of milk produced) in 1997 was 82 per cent in Japan, 59 per cent in Canada, 54 per cent in the EU, 47 per cent in the US and 23 per cent in Australia. Further, the per tonne subsidy of US$811 for milk powder declared by the EU in 1998 or the US$875 per tonne subsidy by the US under its dairy export incentive programme constituted 55 per cent of the prevailing international price of US$1,500 per tonne in the same year...."
Such has been the high level of protection that even with the stipulated reduction in subsidies, the EU and US can continue to flood and dump their highly subsidised milk and milk powder onto the unsuspecting developing countries, which have little safeguard mechanisms to protect their small dairy producers. The signs are therefore ominous. Highly subsidised imports of milk flowing into India will only further marginalise millions of milk producers. Thousands of dairy cooperatives which pulled the poverty-stricken masses into a path of economic emancipation will collapse faced with cheap and highly subsidised imports.”

**Indonesian Farmers Affected by Cheap Imports**

Indonesian farmers in several sectors – including poultry, rice and corn have been affected by cheap imports on different occasions in recent years. This situation has been described by Kafil Yamin in an IPS agency report on 28 April 2002. According to this report:

"Indonesia has spent the last few years adjusting its import policies with WTO agreements. But lowering import duties and lifting bans on various commodities have not sat well with local producers, who say they are being forced to close shop as a result. Complaining loudest are those in agriculture-related businesses as well as poultry and animal husbandry entrepreneurs, who grumble that the flood of imports is hurting them most. Food imports have been growing.

Indonesia is already a major importer of rice. Intensifying dependence on expensive corn imports, meanwhile, has led to an 80 per cent contraction in the chicken industry, which uses corn for feed. When the price of imported feed soared in mid-January, many poultry farmers went out of business. Now, an upcoming lifting of a ban on imported chicken legs has local chicken breeders up in arms again; at least 48,000 breeders have suspended their operations. The local industry is not yet ready to compete with cheaper imports...

When Indonesia experienced a food crisis in 1999, Jakarta lowered import tariffs on rice and corn. The imported varieties made such an impact on the local market that the domestic rice and corn industries are now described as being paralysed. These days, the "foreign food" bogey is scaring farmers of other crops. Last week, hundreds of sugarcane growers from Java and South Sumatra flocked to the compound of the Industry and Trade Ministry and poured sacks of sugar and sugarcane onto the ground in protest of the sugar import. The farmers say they have simply been unable to compete with imported sugar. They are demanding the import duty increase from 20 to 110 per cent.”
The rice sector

Rice is the staple food for most Indonesians and is a strategic commodity for the country, grown by 40 million farmers.

According to Suparmoko (2002), prior to 1998, i.e. before the reforms in the country following the Asian financial crisis, the price of rice was kept at low levels by the government's food agency, BULOG, by implementing a buffer stock policy. Farmers were given production input subsidies. During the harvest season, BULOG used to purchase rice produced by the farmers to protect them from the declining price of rice, and it built the rice stock during the harvest season. During the dry season when rice production usually becomes lower, BULOG sold the rice stock to the market to protect consumers from the high rice prices. The price of rice was maintained low and stable was to curb the inflation rate which was very high during the 1960s and 1970s (600% in 1966). Most Indonesian rice farmers operate very small sizes of paddy fields, and as a result, income from the rice farming is low and averages around US$ 50 to US$ 70 per capita per year.

In 1997, the country was hit by the Asian financial crisis and Indonesia turned to the IMF for emergency support. Although the crisis was rooted in the banking sector and exchange rate policy, the IMF demanded trade liberalization measures in both the agricultural and manufacturing sectors. This included ending the monopoly of the BULOG on food imports and marketing, and cutting the import tariff on rice to zero. (OXFAM 2005)

From 1996 to 1999, rice imports more than doubled, reaching 4.7 million tonnes. Since BULOG was unable to defend the floor price promised to producers, farmers were left to sell their crops at low prices. In late 1999, the government stepped in to restrict the flood in imports and in 2000, reintroduced a levy, equivalent to an import tariff of 30 per cent.

BULOG was turned into a state-owned and profit-oriented company, partly due to the IMF. Oxfam's research in West Java in 2004 among rice-farming families showed that BULOG is no longer buying the rice of farmers, who now have to sell to middlemen at prices 25-40 per cent below the promised floor price for rice.
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