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AGRICULTURE, TRADE REFORM AND POVERTY REDUCTION: IMPLICATIONS FOR SUB-SAHARAN AFRICA

by

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ABSTRACT

The current WTO negotiations have a strong focus on development, but a number of developing countries are uncertain as to how to approach these negotiations. Trade liberalization tends to boost economic growth and contribute to the reduction of poverty in the longer term but, it may also impose important short-term adjustment costs. This study explores the poverty implications of the current post-Doha multilateral trade reform agenda of the WTO for developing countries, so those benefits can be weighed against perceived adjustment costs. It addresses the effects of trade reform on poverty at three levels: first on developing countries as a group; then on different types of developing countries; and finally on different types of households within developing countries. The modelling results point to both opportunities and challenges provided by the WTO negotiations for developing countries seeking to trade their way out of poverty. While important gains are to be made from liberalization in the OECD countries, the study also highlights gains to be made from policy changes in the developing countries that would help to reduce the anti-agriculture, anti-export and anti-poor bias of current policies. The paper addresses such questions as whether food-importing countries would suffer from higher food prices in international markets, and what impact reform could have on food security and poverty alleviation. It concludes with lessons of relevance for the domestic and trade policies of developing countries.

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INTRODUCTION

The WTO Ministerial Declaration at Doha in November 2001 places considerable emphasis on development (WTO, 2001b), although the outcome is not guaranteed. Many developing countries – particularly in Africa – are sceptical that they will receive sufficient gains from that MTN to warrant the inevitable costs of negotiations and adjustments. These countries and some donors also still need to be convinced that such trade reform will alleviate rather than add to poverty and food insecurity in developing countries. Some are concerned about the loss of trade preferences as developed countries' MFN tariffs are reduced. Net food-importing countries are especially worried that they will be made worse off by having to pay a higher food import bill following agricultural trade reform.

Trade policy does not deal with income distribution issues, because in virtually all countries they can be handled more efficiently by more direct policy measures (Corden, 1997, Ch. 4). Nonetheless, it is important to be aware of the distributional consequences of trade (and other) policy changes and to check that measures are in place or, are introduced to deal effectively with any vulnerable groups who may be made worse off by those trade reforms abroad and/or at home.

It is estimated that between 350 million and 1.2 billion people live on less than US$1 a day, most of whom are in rural Sub-Saharan Africa and South Asia (Sala-i-Martin, 2002; Collier and Dollar, 2002; etc). This study looks at the likely effects of the current WTO negotiations on poverty alleviation with a particular focus on agriculture and rural households in developing countries, especially those in Africa. The reason for the rural focus is not just because that is where most of the world's poor live and work, but also because agricultural markets are the most distorted in the world and hence any across-the-board cut in trade distortions would bring down the relative price of agricultural products in international markets.

There is a large body of empirical evidence showing that trade liberalization - easing tariffs and other import restrictions as well as reducing or eliminating domestic supports and export subsidies - tends to boost economic growth, at least in the longer term, and this has helped to reduce the number of persons living in absolute poverty (Dollar and Kraay, 2000). In the longer term, and in the absence of externalities, own-country liberalization tends to increase aggregate welfare through improvements in resource allocation and employment generation but, there will always be some who lose in the absence of compensation. However, in the short-term structural adjustment costs and the immediate impact on the poor may be negative, particularly in developing countries that do not have the resources, institutions or infrastructure to facilitate the changes nor the social safety nets to cushion the negative effects. Changes in trade policies in other countries also have an impact through altering a country's terms of trade, which again can generate winners and losers within each developing country. If the combination of the effects of reforms at home and overseas is pro-poor, it will reinforce any positive growth effects of trade reform on the poor; but for countries where those changes are not likely to be pro-poor, governments may need to amend domestic policies or boost public investments to prevent a deterioration in the welfare of vulnerable groups. To achieve this, the developing countries are likely to need some leeway and external support through the provision of resources to build "soft" and "hard" infrastructure.

The many African countries that are heavily dependent on exports of farm commodities can anticipate being better off following WTO-induced trade reform, particularly by the developed countries, which use an array of instruments to support their farm sectors and limit access and entry to their markets. The elimination of these trade distortions would level the playing field, and make it more feasible for African countries to contemplate undertaking their own reforms that would otherwise expose their fragile sectors to unfair competition. Those African countries whose food imports represent a large part of their foreign payments could face a higher food import bill but, if their farmers can respond to expected increases in international prices - however modest - as export subsidies are reduced by the developed countries, this could have positive effects on food security and poverty alleviation. Therefore, all African countries need to play an active role in the WTO negotiations to ensure that their particular interests are taken into account.

The quantitative analysis in this study shows that about half of the potential global economic welfare gains from trade reform would come from changes in the policies of the OECD countries in the agriculture and also confirms earlier analyses (e.g., Krueger, Schiff and Valdes, 1988) showing that some developing countries have an anti-agriculture, anti-poor bias in their own policies and so are not making the best use of their own resources – although the extent of that has been reducing over the past decade or two (see Jensen, Robinson and Tarp, 2002).

These welfare results are driven by improvements in the terms of trade (e.g. export prices rising more than import prices) and the efficiency effects of improvements in the allocation of resources between different activities. This study looks at changes in prices, outputs and trade balances by sector, which can expose potential adjustment problems and policy dilemmas for developing countries. However, it should be kept in mind from the outset that the results are based on a comparative static analysis, comparing a pre- and post-liberalization situation, without taking account of transition periods or adjustment costs such as the movement of resources from highly-protected industrial sectors in developing countries.[1] The results are also limited in that SPS and TBT barriers and other market entry restraints that developing countries face in their major markets are not modelled, and perfect competition is assumed.

The effects of trade reform on poverty are addressed at three levels: first focusing on developing countries as a group; then on different types of developing countries and finally, on different types of households within developing countries.