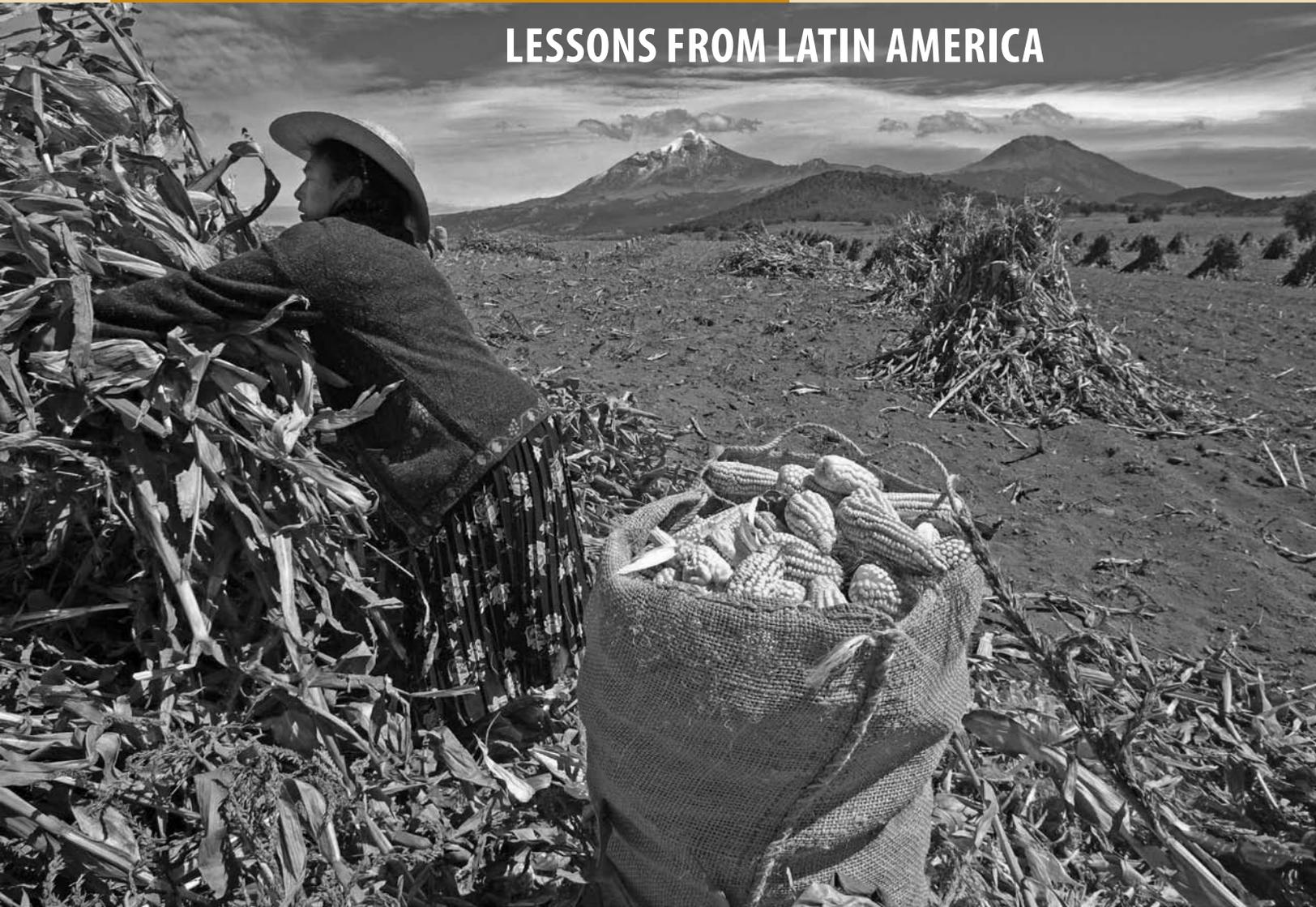


The Promise and the Perils of Agricultural Trade Liberalization

LESSONS FROM LATIN AMERICA



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Executive Summary

As a region, Latin America enacted the most sweeping reforms to its trade policies in the world. Following the Washington Consensus policies, government after government opened its economy significantly to foreign investment and goods. In agriculture, the new policies have generated dramatic increases in agricultural trade, but have they produced sustainable rural development?

That is the question this report seeks to answer. Based on detailed studies by a select group of U.S. and Latin American researchers, it examines both the promise of agricultural trade liberalization for developing countries — growth through expanded exports — and its perils — the potential loss of rural livelihoods as low-priced imports flood domestic markets. The coordinators of the project, Mamerto Pérez of Bolivia, Sergio Schlesinger of Brazil, and Timothy A. Wise from the United States, conclude that the promise of export agriculture for development is overstated while the perils for small-scale farmers are very real.

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This report, produced with the Washington Office on Latin America (WOLA) and Tufts University through its Working Group on Development and Environment in the Americas, is based on seven case studies on the impacts of liberalization and related policies on specific countries. To assess the promise of export agriculture, researchers examined the South American soybean boom with studies of Brazil, Argentina, and Bolivia. To review the impacts on small-scale farmers, the project commissioned case studies on El Salvador, Bolivia, and Brazil. Finally, a case study on Mexico after fourteen years under NAFTA looks at both the expansion of export agriculture and the impacts of rising imports on small-scale farmers.

This report offers concrete policy suggestions for the U.S. government, international financial institutions, and national governments in the region. The recommendations offer a new approach to Latin America, one that recognizes the limited promise and the real perils of agricultural trade liberalization for developing countries. The recommendations are based on the following six overarching conclusions, with a focus on smallholder agriculture and poverty reduction:

- 1 Agriculture and rural development remain important economically.** More than 20% of Latin American residents still live in rural areas, as does a large portion of the region's poor, with an estimated 58 million rural residents (46% of the rural population) living below the \$2/day poverty line. Sustainable rural development for local and regional markets is critical to reducing poverty.
- 2 Export agriculture, through expanded access to global markets, is not by itself a reliable engine for broad-based development that benefits the rural population.** South America's soybean industries are undeniable winners from global trade liberalization, but few of the benefits go to rural communities. Based on high-input, industrialized monoculture farming, employment and wages have both declined despite rising production. Ecological harm from agricultural expansion onto sensitive lands leaves lasting damage.
- 3 Smallholder agriculture can be made more productive and can serve as the catalyst for integrated rural development and poverty reduction.** With appropriate government investment, many small-scale farmers can increase their productivity, meeting critical domestic food needs while reducing poverty.
- 4 Governments need to play an active role that emphasizes productivity and breaks from the prevailing focus on anti-poverty programs.** The withdrawal of government

investment in favor of targeted anti-poverty programs relegates rural communities to the role of welfare recipients rather than important food producers. The private sector will not provide adequate investment; it must come significantly from the public sector.

- 5 **Smallholders need government support and organization to ensure they benefit from new demand in niche markets and from the growing supermarket sector.** The globalized economy offers opportunities for small-scale farmers, but they need sustained public support and organization to take advantage of them. Supermarkets and other buyers demand volume, uniformity, and timely delivery, which put smallholders at a disadvantage compared to agribusiness firms.
- 6 **It is critical to recognize, enhance, and reward smallholders' role as stewards of the rural environment.** The deregulated market fails to recognize the contributions of small-scale farmers to the maintenance of a healthy environment. Government policies need to find ways to reward these critical ecological services — seed diversity, watershed management, soil preservation, carbon sequestration, biodiversity conservation, etc.

These conclusions are consistent with many of the findings of the *World Development Report 2008: Agriculture for Development*, published by the World Bank. In a welcome shift from its advocacy of export-oriented policies, the report reasserts agriculture's importance in the economic development process, particularly for less-developed, agriculture-based economies such as those in Sub-Saharan Africa, but also for what the report calls the "urbanizing" economies of regions such as Latin America. The report notes the particular importance of small-scale agriculture in poverty reduction: "Improving the productivity, profitability, and sustainability of smallholder farming is the main pathway out of poverty in using agriculture for development."

Most importantly, the report's authors recognize the critical role of government in overcoming market failures. They call on governments and international agencies to increase the assets of poor farmers (particularly access to land, water, education, and health care), to raise the productivity of smallholders, and to generate opportunities in the rural non-farm economy.

Unfortunately, the World Bank report continues to call for deeper liberalization in agriculture, an approach we find to be at odds with these stated goals. The studies in our project demonstrate that sustained rural development and poverty reduction in Latin American societies with strong agricultural sectors cannot be achieved under a framework of indiscriminate liberalization. The most important policy reform needed for Latin America now is a much more selective and careful management of international trade, particularly in agriculture. Such an approach is even more urgent in light of the current food crises in developing countries.

A New Approach to U.S. Policies

This report establishes the economic and environmental importance of rural areas and smallholder agriculture. It also demonstrates how these sectors have been harmed by the dominant policy of liberalization. With a new administration coming to Washington, the United States has the opportunity to take the lead in setting policies that promote real development and reduce poverty.

To begin with, the Administration and Congress should evaluate the trade agreements with Colombia and Panama to assess whether they will promote equitable and sustainable development. The agreements should be rejected if they do not. Existing trade agreements, such as NAFTA, should also be evaluated and reformed to recognize the profound rural impacts of trade liberalization. Recent efforts in the U.S. Congress to establish clear criteria for

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trade agreements are welcome, as are proposals by some candidates for the U.S. presidency to evaluate NAFTA and other trade agreements.

In addition, the U.S. Agency for International Development, which has often provided technical assistance and grants to help Latin American governments make market liberalization policy changes, should shift away from this kind of assistance and provide more aid directed toward strengthening producers who supply local and regional markets, and to building infrastructure. Similarly, the Treasury Department should charge the U.S. Executive Directors at the World Bank, IDB, and IMF to press the institutions' boards to revise policies and issue loans that support local and regional markets and that build local infrastructure to benefit local producers.

These concrete measures are a first step towards ensuring that U.S. policy supports smallholder agriculture and rural development as central strategies. They are also consistent with the long term interests of the United States in fighting poverty and generating development in Latin America. Development can bring political stability to hemispheric neighbors, reduce the push factors that contribute to extensive immigration, and offer alternatives to poor rural farmers who might otherwise turn to illicit activities. Local and regional market development can also stimulate demand for U.S. goods and services.

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Further recommendations for policy reform include:

Trade Policy:

- ▶ Governments in developing countries must retain the right to regulate imports and exports in order to protect vulnerable populations and resources.
- ▶ Governments must also retain their ability to support national industrial development.
- ▶ Developed countries should reduce tariff escalation on processed goods.
- ▶ Trading partners must develop meaningful anti-trust enforcement and limit the undue market power of transnational agro-food firms.
- ▶ Trade agreements must protect farmers' rights to preserve and strengthen native seeds by withdrawing restrictive intellectual property regimes.
- ▶ The European Union, which has been aggressively pursuing trade agreements with Latin American countries, should consider similar policy reforms.

Export Agriculture and the South American Soy Boom:

- ▶ Governments must adopt policies that favor smaller farms, advance land reform programs, and promote crop diversification.
- ▶ Governments must establish policies that control the unregulated extractive model of soybean farming.
- ▶ Governments must use the precautionary principle to guide the adoption of new agricultural technologies, including genetically modified seeds.
- ▶ Governments must promote regional integration, not just of infrastructure but of standards and policies, including those for foreign investors.
- ▶ Governments must encourage the development of domestic processing industries to capture more value from primary production.
- ▶ Governments must redirect research and development away from industrial monoculture farming and toward sustainable production on smaller farms.