Protection versus ...

Liberalisation does not benefit the rural poor

Mute Schimpf

European decision-makers preferred to describe last year's Misereor report on "Slow Trade Sound Farming" as utopian. Misereor's vision places the needs of small-scale farmers at the centre of the report, honouring their contribution in coping with ecosystems. Combining social, ecological and economic tasks, the organisation recommended a more equitable distribution within the value chain as a whole. The Multilateral Framework for Sustainable Markets in Agriculture that Misereor outlines aims to widen policy space for governments of developing countries and describes the negative impact of trade liberalisation.

Now, a year later, the International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD) report states that the "small-scale farm sector in the poorest developing countries is a net loser under most trade liberalisation scenarios" – a complete reversal of earlier mainstream opinion. Thus we find that our utopia has reached the centre of the agriculture debate. After years of neglecting small-scale farmers, their experiences and capacity are finally being acknowledged.

The paradigm of trade liberalisation misses the point of improving the situation of the rural poor. Import liberalisation carries significant risks for agriculture both because of the prevalence of under-priced (dumped) commodities in world markets, which undermine local markets by distorting prices, and because of the oligopolistic nature of a number of commodity markets and commodity processing chains. All too often, the resulting surge in imports devastates local farm and livestock production and leaves thousands of farmers bankrupt. Moreover, since the World Trade Organization (WTO) considers not only tariffs or quotas at the border as barriers, but non-tariff measures such as price controls, investment rules or health standards as well, the power of societies to protect the public interest according to their collective preferences is seriously weakened.

The WTO regime has hustled the Philippines into introducing import quotas for rice and other agricultural products, discouraging local production. Now, given recent supply shortages, their former exporters from Thailand have prioritised local consumers and terminated supplies to the Philippine market. And this has happened to an agricultural economy where the majority of the population depend on farming for their livelihood.

The continuing food crisis in the developing countries highlights the fact that the only basis for food security is local production and consumption of staple food, especially in rural areas. Small-scale family farms hold the key for more productivity, environmental sustainability, and more employment. Misereor rejects the hidden assumption of free trade diplomats that small farmers are on their way out. Instead, it encourages a model of agriculture that is low-cost, bottom-up and as much as possible in farmers' control.

Following the above observation, both Peru and Bangladesh are currently promoting the cultivation and local consumption of potatoes, a crop that is not traded on the stock exchange and thus has more stable market prices. Slowly, the Andean farmers of Peru are starting to benefit from the increased demand for native-produced potatoes.

In face of the current price explosion e.g. for rice, corn and wheat, I emphasise that the situation on the local market differs from what the stock exchange prices suggest. In what is called a buyers' market, powerful processing or trading companies can set prices at their will. In Bangladesh, just 15 percent of the farmers benefit from rising rice prices. The small-scale farmers have no storage possibilities, so that they sell their harvest directly to the middlemen and have no space for price negotiations. In the Philippines you can find the same situation: with the co-operation of agricultural input suppliers, the rice-trading companies dominate the market rules and prices.

The IAASTD report highlights the multi-functionality of agriculture. Recognising that farmers are providing indispensable public benefits without remuneration represents a huge step forward. Markets are unrivalled in producing and delivering goods and services efficiently, but they were never meant to create community or equity, security or sustainability, sacredness or beauty. It must be the core objective of any multilateral trade regime to define a framework of rules that allows for the mobilisation of financial capital without the degradation of social and natural capital. The latter generates commercial goods, such as bushels of wheat, litres of olive oil, or sacks of coffee to be sold to processors and wholesalers – but it also provides subsistence, sustains food habits, supports artisans and shapes community relations.

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... liberalisation of agriculture

The blessing of liberalised agricultural markets

Harald von Witzke

Global agricultural markets are subject to many types of government intervention. Producer prices in the wealthy nations are usually kept above the world market level, while the governments of the poor countries tend to set food prices below the market price. Many industrialised countries have significantly reduced their price support of agricultural commodities in recent years. Coupled with the fundamental changes on world agricultural markets, this has led to steeply rising prices for food. How increasing agricultural prices impact on households in developing countries and on the developing countries overall, depends on the extent of self-sufficiency and the timeframes under consideration.

In the short term, rising prices put net food buyers in a weaker position because both individual households and the countries as a whole are forced to pay higher prices. The reverse is true for net food sellers. Their position is stronger than before, because they obtain higher prices for their products. Most of the world's poorest countries are food importers. With rising agricultural prices, therefore, the producers' gain is more than outweighed by the consumers' loss.

In the longer term, however, the net loss becomes a net gain, irrespective of the countries' level of self-sufficiency. The reason for this is very simple. The combination of low producer prices in the wealthy nations resulting from agricultural subsidies, and state-controlled low prices on markets in the developing countries, removes the incentive for farmers in the poor countries to produce more food and invest in agriculture.

It is not simply a matter of investment in agricultural implements and other capital goods. Rising agricultural prices also attract investment in private agricultural research, which in turn leads to increased productivity.

The landless poor in the rural regions of the developing countries also benefit from higher agricultural prices, because their wages are boosted accordingly. As agriculture is by far the most important economic sector in most developing countries, rising agricultural prosperity has a positive impact on the overall economy. The increasing nationwide affluence leads in turn to higher tax revenues, which allow governments in the developing countries to take sustainable steps to reduce poverty.

Critics of liberal agricultural markets often assert that poor countries have balance of payment problems which prevent them from buying enough food on the world market. In response it can be argued that all too often it is the governments of these countries themselves which, by eroding economic incentives that promote agriculture and overvaluing the local currency, are to blame for the balance of payment deficits.

Into the 1960s the developing countries were net food exporters. Today they are net food importers. It is expected that by 2030 the developing countries' food deficit will increase fivefold compared to 2000.

Competitive agriculture needs well-trained farmers

The traditional paradigm of international trade policy was that growing food that is competitive on international markets needs a large pool of unskilled and therefore cheap labour. However it has transpired that producing safe, high quality food has become a high-tech activity, requiring sophisticated quality assurance systems. These in turn demand relatively large amounts of capital and well-trained farmers, both of which are more readily available and comparatively more affordable in the wealthy nations. Both capital and skilled labour are in relatively short supply in the developing countries and are therefore expensive.

Nonetheless poor countries repeatedly succeed in exporting at least some products to the industrialised countries. This is often thanks to foreign direct investment in their agricultural systems, which provides much-needed funds, and at the same time human capital and knowledge on accessing food markets in the industrialised countries. Creating wealth in the developing countries, therefore, calls not only for a liberal global trading system for agricultural commodities, but also liberalised capital markets.

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