IMPROVING POLICY COHERENCE BETWEEN AGRICULTURAL AND DEVELOPMENT POLICIES

Alan Matthews
Trinity College Dublin, Ireland
Email: alan.matthews@tcd.ie

Abstract

There is now a strong political commitment to policy coherence for development (PCD) in many OECD countries. Agriculture is at the heart of much of the debate about possible incoherence between trade and development policy. This paper reviews the evidence on the impact which OECD country agricultural policies have on developing countries. Policies to promote coherence between agricultural policy reform in OECD countries and food security and agricultural development objectives in developing countries must take account of the need not only for improvements in market access opportunities for developing countries, but also their responsibility to integrate trade objectives as a central component of their national development strategies, as well as increased and effective international financial and technical assistance for developing production and trade capacities.

Keywords: Agricultural policy, trade, developing countries, policy coherence

Introduction

Recent years have seen more attention paid by the development community to the pursuit of greater policy coherence in order to promote the achievement of the Millennium Development Goals (OECD, 2003). Policy coherence for development is a process whereby a government, in pursuing its domestic policy objectives, makes an effort to design policies that, at a minimum, avoid negative spillovers which would adversely affect the development prospects of poor countries and, more positively, seeks to maximise synergies. There is now widespread recognition that the impact of the transfer of resources alone by the industrialised countries through aid – the cornerstone of traditional development co-operation – will not have the desired impact – indeed, may well be undermined – if these same countries or their development partners adopt conflicting policies in other areas, such as trade, migration, investment, and so on.

Agricultural trade and support policies are an oft-quoted example of policy incoherence (OECD, 2005). By limiting market access to the food markets of developed countries, while subsidising the export of surpluses to developing countries, it is argued these agricultural trade and support policies undermine markets for rural producers in developing countries and make it more difficult for these countries to trade their way out of poverty. The negotiations on further agricultural trade liberalisation in the Doha Round provide an opportunity to tackle this example of policy incoherence. Indeed, for developing countries and NGOs, achieving a high level of ambition in the agricultural negotiations has become the lynchpin by which progress in the overall talks is judged.

Nonetheless, in more recent years there has been a growing sense that agricultural trade liberalisation by developed countries may not make as substantial a contribution to policy coherence as was first thought.

The reasons for this are varied. Partly, it has been fed by an awareness that not all developing countries, and perhaps not even all farmers in these countries, necessarily stand to benefit from multilateral trade liberalisation. At the country level, the problem of net food importers, which could face an adverse terms of trade shock if world food prices increase as a result of liberalisation, had already been recognised in the Uruguay Round Agreement. The Marrakesh Decision was an attempt to put in place policies which could

help to alleviate any adverse impacts.[1] The problem of net food importers arises because the consumer interest in importing countries is larger than the producer interest; producers still gain from higher world food prices but these gains are outweighed by the losses to consumers.

Recently, more attention has been paid to the potential losses to those developing countries which benefit from preferential access to developed country markets, where it is the producers who are the losers. This argument has gathered force in line with new empirical results from simulation models which appear to identify a number of countries that could be made worse-off as a result of a Doha Round agricultural agreement (Ackerman, 2005; Bouët, 2006; Polaski, 2006).

Even where simulation results appear to show positive gains for farmers in developing countries as well as overall gains, scepticism is evident. Some question whether the postulated increases in trade flows would in fact take place given the potential for various non-tariff barriers, both formal and informal, not captured in the model specifications to hinder this. The trade-restraining role of sanitary and phytosanitary standards is often mentioned in this context. The growing concentration in retail markets particularly in developed countries, and the related emergence of global supply chains with their potential to exclude particularly smaller producers from the benefits of formal market access, is another cause for concern.

Yet another reason for scepticism concerns the ability of the poorest developing countries to take advantage of improved market access. One of the consequences of the renewed interest in preferences has been to highlight that many developing countries have failed to maintain their market share in developed country markets despite significant preferential advantages. The limitations of preferences as a way to encourage trade are well known: they are arbitrary and uncertain, their value is undermined by restrictive rules of origin, and the preferences themselves are often limited in precisely those commodities which developing countries could export. Nonetheless, the apparent lack of response to preferences suggests that increased market opportunities do not necessarily translate into increased market access.[2]

These arguments that the impacts of a Doha Round agricultural agreement which led to a reduction in developed country tariffs might bring more limited gains to developing countries than initially foreseen have also resulted in doubts about its likely impact on poverty alleviation. For example, an agricultural exporting country may benefit from OECD country liberalisation, but may also be required to reciprocate by reducing tariffs on import-competing food crops. If the tariff reduction outweighs the impact of higher world prices, and if import-competing food producers are relatively poorer than other households, then poverty may increase even if aggregate welfare indicators suggest that the country as a whole is better off.

It is obviously important not to let the pendulum swing too far. Even if unrealistic expectations of the gains from OECD country agricultural trade liberalisation for developing countries have built up, it remains an essential ingredient in any Development Round. What is important to recognise is that there will be winners and losers from this policy change, and the gains to the winners will not come automatically.

Awareness of these issues has led to a growing interest in trade-related development assistance (TRA). TRA covers technical assistance, trade capacity building, adjustment assistance and support for trade-related infrastructure. OECD countries have indicated their support to further increase TRA, including at the G8 Summit in Gleneagles in July 2005 and at the Development Committee meeting of the IMF and World Bank in September 2005. The WTO Hong Kong Ministerial Declaration in December 2005 invited

[1] Its full title is the Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food-Importing Developing Countries.

[2] For example, in 1962 Africa's share of world exports of groundnuts was 83%, by 2002 this had fallen to 3%. This collapse was not due to external trade barriers but to domestic supply difficulties.

the Director-General to create a task force to provide recommendations on how to operationalise Aid for Trade which has now reported (WTO, 2006).

The pursuit of policy coherence for development through the reform of OECD country agricultural policies is explored in this paper. Section 2 of the paper reviews recent assessments of the likely gains from a successful Doha Round agreement on agriculture and the distribution of these gains between different developing countries. The specific problems of developing countries with preferential access to OECD country markets are discussed in Section 3. The need to accompany greater market opening with the aid for trade agenda is discussed in Section 4. Section 5 concludes that the agricultural policy coherence agenda needs to be broadened to focus not just on removing barriers to developing country exports but also to ensure that the necessary complementary policies to provide adjustment and capacity-building assistance are put in place.

The Effects of Trade Liberalisation

Table 1 shows that tariff barriers against developing country exports remain significant even after the Uruguay Round. The average tariff on agricultural imports by high-income countries from other high-income countries is 8.4 per cent. By contrast, the average tariff on developing country exports to high-income markets is nearly twice as high at 15.9 per cent. Developing country agricultural exports to other developing countries face even higher average tariffs at 18.3 per cent. As these figures take preferences for developing countries into account, they underline the continued barriers facing developing countries pursuing trade as a route to poverty alleviation.[3]

[3] These figures are taken from the GTAP 6 database which in turn builds on the MacMap tariff database maintained by the Centre d'Etudes Prospectives et d'Informations Internationales (CEPII) in Paris. The higher average tariffs on developing country agricultural exports despite preferences are partly explained by their concentration on products with particularly high tariffs (sugar) and partly by the frequency of specific tariffs in developed country tariff schedules which weigh more heavily on the lower-value products typically exported by developing countries within a tariff category (Hertel and Keeney, 2006).

Table 1. Average applied import tariffs, by sector and region, 2001 (per cent, ad valorem equivalent)

	Importing region		
Exporting region	*High-income economies*	*Transition economies*	*Developing economies*
Agriculture			
High-income	*8.4*	*16.8*	*18.8*
Transition	*10.3*	*10.3*	*17.4*
Developing	*15.9*	*17.2*	*18.3*
Other primary			
High-income	*0.2*	*0.8*	*4.8*
Transition	*0.1*	*0.3*	*1.7*
Developing	*0.7*	*0.4*	*3.4*
Textiles and apparel			
High-income	*3.4*	*6.4*	*18.2*
Transition	*1.8*	*6.5*	*30.9*
Developing	*8.4*	*16.2*	*20.5*
Other manufactures			
High-income	*1.0*	*3.7*	*9.9*
Transition	*0.8*	*4.0*	*8.7*
Developing	*1.3*	*6.0*	*9.2*

Source: Hertel and Keeney, 2006

There are now numerous studies which have simulated what would happen as a result of further reducing these trade barriers. We present a selection of the headline numbers from four of the most recent and careful studies in Table 2.[4] At first glance, comparing only the projected global welfare gains from global merchandise liberalisation, the numbers vary considerably, ranging from US$84 billion (Hertel and Keeney, 2006) to US$287 billion (Anderson et al., 2006). There can be many reasons why model results differ, including differences in the way scenarios are specified, differences in the way results are presented (for example, in 2015 values for dynamic models compared to 2001 values for static models), differences in model specification (for example, whether perfect or imperfect competition is assumed, whether models are static or dynamic, and whether resources are assumed in fixed supply or not). Despite these differences, some common themes emerge (see also Bouët, 2006).

[4] For surveys of empirical model results and reasons why they differ, see Ackerman, 2005; FAO, 2005a; Bouet, 2006 Chapter 4; Polaski, 2006, Chapter 4. For a critique of the computable general equilibrium methodology which underlies these model results, see Taylor and von Arnim, 2006.

Table 2. Recent assessments of the impact of further trade liberalisation

	Anderson et al. 2006 (World Bank)	*Anderson et al. 2006*[1] *(World Bank)*	*Hertel and Keeney, 2006*	*Hertel and Keeney, 2006*	*Bouët 2006 (IFPRI)*	*Polaski 2006*[2] *(Carnegie)*
Scenario	*Global merchandise trade liberalisation*	*Doha Round merchandise liberalisation*	*Global merchandise trade liberalisation*	*Global agricultural trade liberalisation*	*Global merchandise trade liberalisation*	*Doha Round merchandise liberalisation*
Model used	*Linkage 6.0*	*Linkage 6.0*	*GTAP-AGR*	*GTAP-AGR*	*MIRAGE*	*GTAP-mod*
Static or not	*Dynamic*	*Dynamic*	*Static*	*Static*	*Dynamic*	*Static*
Aggregation (region x sector)[3]	*27 x 25*	*27 x 25*	*29 x ?*	*29 x ?*	*20 x 17*	*24 x 27*
Data	*2001*	*2001*	*2001*	*2001*	*2001*	*2001*
World welfare, US$bn	*287*	*17.7*	*84*	*56*	*99.6*	*59*
World welfare, %		*0.04*			*0.33%*	*0.19%*
of which:						
Share of DC gains in total	*30%*	*-3%*	*26%*	*21%*	*26%*	*51%*
Share due to agricultural lib.	*63%*	*45%*[3]	*67%*		*100%*	*9%*
Share due to DC liberalisation	*45%*			*89%*		
Losers	*None*	*Hong Kong China Mexico Russia MENA Rest of Europe Rest of SSA*	*Philippines Bangladesh Other LA Mozambique Rest of SSA*	*Philippines Bangladesh Mozambique Rest of SSA Vietnam Other MENA*[4]	*Canada EU Argentina Mexico SACU [OECD liberalisation only - plus] Rest of SSA Zambia*	*Bangladesh East Africa Rest of SSA [Agricultural liberalisation alone - plus] China MENA Mexico Vietnam India Rest of SSA*

Notes: [1] *Scenario 2 in Anderson, Martin and van der Mensbrugghe, 2006. In this scenario, 2% of developed country and 4% of developing country agricultural tariff lines can be subject to smaller tariff cuts as a result of Sensitive Product and Special Product treatment.* [2] *The central Doha scenario in Polaski, 2006. GTAP-mod is the basic GTAP model but with an altered labour market specification as discussed in the text.* [3] *The question mark in this row indicates that the aggregation level is not specified in the paper.* [4] *MENA = Middle East and North Africa. The table is based on a structure which was originally devised by Bouët, 2006.*

- First, all studies underline the global gains from further trade liberalisation, although more recent studies tend to show lower overall gains than earlier studies.
- Second, studies tend to show that, under full merchandise liberalisation, while the largest gains in absolute terms accrue to OECD countries, in proportionate terms trade reform is 'development friendly', i.e., the percentage gains are higher for developing countries (DCs) and highest for the LDCs.
- Third, studies tend to show that the largest proportion of gains arise because of agricultural trade liberalisation.
- Fourth, in studies which simulate a more realistic Doha scenario compared to full liberalisation, the magnitude of the estimated gains falls dramatically and a much smaller proportion accrue to developing countries.
- Fifth, while most studies show that developing countries in aggregate will benefit from further trade liberalisation, they also agree that some of the poorest countries, and particularly countries in Sub-Saharan Africa, are likely to lose particularly in the context of a more limited Doha Round outcome.

We now turn to the mechanisms proposed to turn 'losers' into 'winners' and to help ensure that 'winners' really win.

Preference Erosion

Much greater attention has focused on the potential problems facing preference recipients in the Doha Round negotiations as compared to the Uruguay Round. All OECD countries implement preference schemes which provide developing countries with preferential access at lower than most-favoured-nation (MFN) tariffs to OECD markets. Lowering MFN tariffs will erode the value of this preferential access for beneficiary countries. Because tariffs are generally higher on agricultural and food products with more tariff peaks, preferences for these products tend to be more valuable. Not surprisingly, the consequences of preference erosion are likely to be more significant for beneficiaries with preferences in agri-food products.

Two widely quoted IMF studies assuming a 40 per cent reduction in the preference margin enjoyed by LDCs and middle-income countries found an insignificant impact overall for these groups (e.g., less than two per cent of exports for all LDCs). But eight middle-income countries (where sugar and banana preferences account for the vast majority of benefits) and seven LDCs could lose 4–12 per cent of total export revenues (Subramanian, 2003; Alexandraki and Lankes, 2004; see also Low et al, 2006; Amiti and Romalis, 2006).

A variety of responses have been suggested to this problem. Some authors point to the continued significance of tariff barriers even for preferred exporters, and argue that market access gains from MFN tariff reductions (either in the preference-giving country or other countries' markets) could offset the loss of preferences. Another suggested response is to maintain nominal margins of preference to the maximum extent possible. This is clearly impossible when preferred countries already face zero tariffs. Some WTO members have proposed that tariff reductions in OECD countries for products where preferences are significant might be smaller or phased in over a longer period than might otherwise be the case under any general tariff-cutting formula that might be agreed. Yet others sought ways in which the erosion of existing preferences might be offset by the extension of new preferences. For LDCs this was achieved at the WTO Hong Kong Ministerial Meeting in December 2005, where it was agreed that all developed country members (and developing countries in a position to do so) would extend duty-free and quota-free access to LDCs by 2008, although up to 3 per cent of tariff lines can still be excluded (WTO 2005). In any event, middle-income developing countries are not affected by this offer. Led by Mauritius, which faced significant losses due to preference erosion on both sugar and clothing, there were calls for a

compensation mechanism for countries adversely affected by preference erosion (Commonwealth Secretariat, 2004; Hoekman and Prowse, 2005).

However, assistance for trade adjustment where this is due to preference erosion is contentious. There are many sources of negative shocks that create the need for adjustment, both trade and non-trade related. Focusing on just one of these while ignoring others is difficult to justify. Trade reforms by countries which do not currently grant preferences can help to attenuate the negative impact effects of erosion. Gains from trade reforms in non-related sectors (for example, in manufacturing trade) may also balance potential losses in agriculture. This raises the difficult question, if compensation were to be made, whether this should be related to the gross value of specific preferential access arrangements, or whether it should depend on the net adverse effects of MFN liberalisation overall.

A related issue is whether compensation for preference erosion is a bilateral or multilateral responsibility. Because the most important preferences originate in unilateral trade policy decisions by OECD countries, it is argued that it is those countries whose preferences are being undermined who should bear the responsibility to put in place alternative mechanisms to assist the recipient countries. On the other hand, proposals for a multilateral preference erosion compensation fund have been justified on the grounds that trade liberalisation can be seen as a global public good. The limited number and small size of most of the economies concerned imply that measures to help mitigate the impact of preference erosion need to be closely focused on the countries at risk.

Aid for Trade

One of the reasons that many developing countries feel they will not benefit from further liberalisation of access to OECD agri-food markets is ubiquity of supply-side constraints. Low-income countries, in particular, face many constraints in taking advantage of improved market access. They may be land-locked countries facing high transport and transit costs across neighbouring countries. They may have difficulty in complying with increasing stringent sanitary and phytosanitary standards. They may simply lack the trading infrastructure and market contacts in developed countries to exploit new market opportunities. Thus, many academics as well as WTO members have called for increased financial assistance to developing countries to accompany any market liberalisation package (Hoekman and Prowse, 2005; Charlton and Stiglitz, 2005). The scope of such aid for trade is potentially broad, covering implementation of new standards, social safety nets, support for negotiating capacity, overcoming supply side capacity constraints such as poor infrastructure, and trade facilitation and services, as well as adjustment and implementation costs for any Doha Round agreement, compensation for fiscal revenue losses, compensation for food price increases for net food importers, and compensation for preference erosion.

Aid for trade has become part of a final Doha agreement since the Hong Kong Ministerial Council. The Task Force on Aid for Trade set up at that meeting reported in July 2006 (WTO, 2006). It proposed a narrower focus for aid for trade activities, including technical assistance for trade policy formulation and negotiation, trade development, trade-related infrastructure, building productive capacity, trade-related adjustment and other trade-related needs. The idea of providing compensation, whether for higher food prices, preference erosion or loss of fiscal revenues, remains contentious. But even with this narrower scope, questions remain. Does it make sense to differentiate aid for trade from development aid in general? Given that it is often difficult to distinguish the two, is it sensible to complicate the aid system by creating separate frameworks and structures for trade-related assistance? There are already a variety of new channels to deliver this assistance, including the IMF's Trade Integration Mechanism, various bilateral donor programmes as well as multi-agency programmes such as the Integrated Framework for Trade-related Technical Assistance to Least Developed Countries. At a minimum, trade-related assistance should be disbursed in the context of the "new aid framework" which emphasises the need for

coordination between donors and coherence with national policies and priorities. The relationship between aid for trade and policy conditionalities which may be associated with other forms of assistance also needs clarification.

Should aid commitments be brought under the WTO umbrella and formalised as part of a Doha Round Agreement, thus making them subject to the dispute resolution mechanism? The Food Aid Convention which seeks to guarantee a minimum level of food aid deliveries is a previous example of such an agreement, which also serves to underline its possible limitations. The big potential for disillusionment lies in the fact that aid is fungible, and that new 'commitments' for trade-related assistance may simply repackage aid flows that would otherwise go to other sectors. A proposal that all countries agreeing to increased aid for trade should subscribe to a Maintenance of Effort Commitment that current aid levels would not be reduced has been made to deal with this concern (Charlton and Stiglitz, 2006).

Conclusions

There is now a strong political commitment to policy coherence for development in many aid donors. This reflects the growing understanding in development circles that increased development aid resources to help developing countries to achieve the Millennium Development Goals may well be nullified by the non-developmental policies pursued by donor countries in areas such as trade, migration, agriculture and fisheries policies, investment and debt.

This paper has reviewed the evidence on the impact which OECD country agricultural policies have on developing countries, and the impact which reform of these policies would have on global poverty. Recent model simulation results highlight that not all developing countries are likely to benefit from further trade liberalisation, particularly in agriculture, as a result of a successful Doha Development Round. The paper proceeds to discuss the mechanisms proposed to turn 'losers' into 'winners' and to help ensure that the 'winners' really win. Ensuring additional market access through ambitious reductions in both agricultural and non-agricultural trade barriers is part of the story, but only one part. Other elements are also needed: trade rules must support and not undermine food security; the fears of net food importers need to be addressed; solutions must be found to preference erosion at the country level; developing countries need assistance to improve their capacity to trade and to ensure a positive supply response to enable them to take advantage of increased market opportunities; and there needs to be a greater attention to understanding the impact on the poor of further agricultural trade liberalisation.

These issues underline the importance of broadening the policy coherence agenda. First generation policy coherence policies sought reform of OECD country agricultural policies because of the way they make it more difficult for developing countries to trade their way out of poverty. Second generation policies must take account of the need not only for improvements in the international trade regime, but also ensure that developing countries integrate trade objectives as a central component of their national development strategies, as well as provide increased and effective international financial and technical assistance for developing production and trade capacities.

References

Ackerman, F., 2005. The Shrinking Gains from Trade: A Critical Assessment of Doha Round Projections, Working Paper No. 05-01, Global Development and Environment Institute, Massachusetts, Tufts University.

Alexandraki, K. and Lankes, P., 2004. The Impact of Preference Erosion on Middle-Income Countries, Working Paper WP/04/169, Washington, International Monetary Fund.

Amiti, M. and Romalis, J., 2006. Will the Doha Round Lead to Preference Erosion, Working Paper WP/06/10, Washington, International Monetary Fund.

Anderson, K., Martin, W. and van der Mensbrugghe, D., 2006. Market and Welfare Implications of Doha Reform Scenarios, in Anderson, K. and Martin, W., eds., Agricultural Trade Reform and the Doha Development Agenda, Washington and New York, World Bank and Palgrave Macmillan.

Bouët, A., 2006. What Can the Poor Expect from Trade Liberalization? Opening the "Black Box" of Trade Modelling, MTID Discussion Paper No. 93, Washington, D.C., International Food Policy Research Institute.

Charlton, A. and Stiglitz, J., 2006. Aid for Trade: a report for the Commonwealth Secretariat, London.

Commonweath Secretariat, 2004. Preference-Dependent Economies and Multilateral Liberalization: Impacts and Options, London.

Department for International Development, 2003. Agriculture and poverty reduction: unlocking the potential, DFID Policy Paper, London, DFID.

FAO, 2005a. Trade Policy Simulation Models: Estimating Global Impacts of Agricultural Trade Policy Reform in the Doha Round, FAO Trade Policy Technical Note on Issues Related to the WTO Negotiations on Agriculture No. 13, Rome, FAO.

Hertel, T. and Keeney, R., 2006. What is at Stake: The Relative Importance of Import Barriers, Export Subsidies and Domestic Support, in Anderson, K. and Martin, W., eds., Agricultural Trade Reform and the Doha Development Agenda, Washington and New York, World Bank and Palgrave Macmillan.

Hoekman B. and Prowse S., 2005. Economic Policy Responses to Preference Erosion: From Trade as Aid to Aid for Trade, Policy Working Paper No. WPS3721, Washington, World Bank.

Patrick Low, Roberta Piermartini and Jurgen Richtering, 2006. Non-Reciprocal Preference Erosion Arising From MFN Liberalization in Agriculture: What Are the Risks? Staff Working Paper ERSD-2006-02, Geneva, World Trade Organisation.

OECD, 2003. Policy Coherence: Vital for Development, OECD Observer Policy Brief, Paris, OECD.

OECD, 2004. Non-Tariff Measures on Agricultural and Food Products: The Policy Concerns of Emerging and Transition Economies, Paris, OECD.

OECD, 2005. Agriculture and Development: the Case for Policy Coherence, Paris, OECD.

Polaski, S., 2006. Winners and Losers: Impact of the Doha Round on Developing Countries, Washington, Carnegie Endowment for International Peace.

Subramanian, A., 2003. Financing of Losses from Preference Erosion, WT/TF/COH/14, Geneva, World Trade Organisation.

Taylor, L. and von Arnim, R., 2006. Modelling the Impact of Trade Liberalisation: A Critique of General Equilibrium Models, Oxford, Oxfam International.

WTO, 2005. Doha Declaration, Ministerial Declaration adopted following the Hong Kong Ministerial Conference, WT/MIN(05)/DEC 18 December 2005, Geneva, World Trade Organisation.

WTO, 2006. Recommendations of the Task Force on Aid for Trade, WT/AFT/1 27 July 2006, Geneva, World Trade Organisation.