Easing the Transition to More Open Global Markets

April 8, 2004

**Lessons from the 32nd IPC Plenary Seminar, November 12-13, 2003
New Delhi, India**

Many developing countries are skeptical about opening their markets to international trade. They fear that their farmers will not be able to compete with imported products, and at the same time, that farmers will not be able to take advantage of new market opportunities. The IPC's seminar, "Easing the Transition to More Open Global Markets," November 12-13 2003 in New Delhi, India offered some valuable insights into both the concerns of developing countries and into ways developing countries can ease their transition to more open global markets.

For much of the 1990s, globalization was seen as good in and of itself. But as Indian Agriculture Minister Rajnath Singh asserted, **globalization can no longer be taken as a noble objective**. **It should also lead to improved living conditions for the scores of farmers in developing countries.** T. Venkat Subramanim, head of India's Export Import Bank agreed that any globalization that does not benefit the largest share of the population is bound to fail. As Bob Thompson, IPC Chairman and former Director of Rural Development at the World Bank has often pointed out, trade theory posits that the benefits of those who gain from freer trade are large enough to offset the losses of those who suffer. But, if those who suffer have the least capacity to adjust and adapt, it is unjust to pursue trade liberalization without policies in place to help those who will lose.

***Full proceedings of this seminar are available at www.agritrade.org.*

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There was broad agreement that **trade is the most powerful engine of economic growth**, but that in agriculture the playing field is tilted against developing countries. However, this is no reason for developing country governments to keep their markets closed. Former Argentine Secretary of Agriculture and IPC Member, Marcelo Regunaga reminded delegates that Argentina has had experience with open and with closed markets over the last 75 years. Before the 1930s, the economy was open and growing faster than the United States or Australia. After the Depression, Argentina closed its markets and growth stagnated. Only when Argentina re-opened its economy in the early 1990s, did economic growth resume. Jikun Huang, Director of the Center for Chinese Agricultural Policy and IPC member, concurred and pointed to China's strong economic growth since opening to trade some twenty years ago. Even during the Asian Crisis, the Chinese economy grew at an average annual rate of eight percent. Even India, which is often portrayed as being opposed to trade liberalization, understands that trade is a positive sum game in which both North and South can win.

Clearly **the current system of high subsidies and protectionism in developed countries impedes the ability of developing countries to take advantage of the benefits of trade liberalization.** Developed country subsidies keep world prices artificially low. As Vandana Shiva of the Research Foundation for Science, Technology and Ecology pointed out, falling prices are not linked in this case to increasing efficiency. They are false prices linked to high levels of subsidies. Minister Singh echoed the widespread agreement among speakers and participants that the developed countries need to correct the global environment for trade if the developing countries are to benefit from trade. Ironically, noted Nestor Osorio, IPC Member and Executive Director of the International Coffee Organization, as developed country governments tried to convince developing countries to abandon commodity agreements, they were putting in place "commodity agreements" of their own.

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While participants agreed on the need to reduce trade-distorting subsidies**, the lack of market access was cited as the most detrimental trade barrier for developing countries.** IPC Member Csaba Csaki of the World Bank told participants that the Bank is shifting its lending focus away from staples to high value crops in an effort to raise farmers' profitability. This strategy can only yield limited successes as long as trade barriers remain high. Although governments should talk about the opportunities from trade, not just the threats, Osorio argued it will be impossible to convince farmers to diversify out of staple crops into high-value added crops if those markets are closed. As Osorio pointed out, increasing global market access can only be accomplished through the WTO, giving developing countries a bigger stake in the outcome of the negotiations than many developed countries.

Unfortunately, **the formulas being discussed in the WTO to increase market access into developed countries are still too flexible**, argued Marcelo Regunaga. He noted that most of the United States and the European Union's trade is accounted for by only a few tariff lines. In the EU, for example, 80% of the trade is covered by 10% of the tariff lines. Using the so-called Uruguay Round formula of average tariff cuts will have little impact on overall trade. Moreover, many developing countries apply tariffs far below the bound rates in the WTO agreement. If countries must only reduce from their bound rates, then actual market access will not increase much. The lack of any reference to increased import quotas in the Cancun text also undermines efforts to expand market access for developing countries.

Given the importance of multilateral trade reform to developing countries, Pedro de Camargo, IPC Member and former Brazilian Secretary of Production and Trade, said **developing countries must play a strong part in the WTO negotiations**. The developing countries came together in Cancun to form the Group of Twenty to demand equitable trade terms. The Group of Twenty, which includes Brazil, China and India

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- Pedro de Camargo Neto, Former Secretary of Production and Trade, Brazil

among others, will stay together until there is real progress that addresses overall development needs, the role of rural populations, and the role that international trade can play in creating development opportunities.

But, as Minister Singh argued, **the responsibility for more open markets does not lie with developed countries alone.** Developing countries must also take a number of steps to integrate into the global market. For example, India began removing quotas on agricultural imports and exports in 1994, completing the removal in 2001. Agricultural tariffs are also falling. To that end, former WTO Deputy Director General, Anwarhul Hoda encouraged countries like India to be more forthcoming on market access in the global trade negotiations. Hoda, along with Nestor Osorio, who is also a former Chairman of the WTO's agriculture committee, contended that trade liberalization is much more important for developing countries than for developed countries. Hoda argued that developing countries should hold out for a strong deal in the WTO negotiations which he believed would be more likely in the longer term. But Osorio cautioned developing countries not to block a deal. As he pointed out, there are many protectionist interests in developed countries who would benefit from a failure in the WTO.

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- Shri Rajnath Singh, Honorable Minister of Agriculture & Cooperation, India

In his keynote address, Minister Singh noted that **for developing countries, there are really two, not one, transitions to an open market.** The first transition must be from subsistence agriculture to market-oriented agriculture within the country's own borders. The second transition must be from internal to external trade. Thus, as Philippine farm leader and IPC Member, Raul Montemayor argued, trade cannot substitute for domestic agricultural reforms and agricultural development. Trade reform can complement this transition by providing markets for excess local output, but developing countries cannot export themselves out of under-development.

In China, for example, farmers' real incomes have increased four-fold. This has led to a significant decline in the number of farmers living in poverty. When China began its reforms in the late 1970s, 250 million farmers lived below the poverty line. Now, only thirty million farmers live in poverty. Jikun Huang noted that **almost all China's farm income gains came from internal structural reforms that enabled farmers to be more competitive on their own market**, although trade liberalization helped encourage China to implement the necessary institutional and marketing reforms. For China, like much of Asia, this meant converting small rice farms, which could never compete in the global arena, into horticulture or other value added crop production. For example, the share of crops in agricultural output was 80% in 1978 and now is only 50%, due to changing consumption patterns. New Zealand also liberalized its internal market without external liberalization. In New Zealand, the agricultural sector actually grew from 12% of the economy to 20%. China and New Zealand's experiences demonstrate that even without external liberalization, countries can benefit from their own internal liberalization.

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While it is often believed that the financial costs of such internal market liberalization are high, **the kinds of reforms cited as most important were not necessarily expensive.** For example, according to Jikun Huang, one of the most important institutional changes made by China was giving farmers the right to control their land for thirty years. (In India there is still no land lease law, so farmers are afraid to lease their land, lest they lose control of it.)

At the same time, China phased out government price intervention, thereby raising prices received by farmers, and reduced tariffs on imports. While much of the focus is on reducing tariffs on commodities, reducing tariffs on technology and equipment can play an important role in developing country economies. For example, developing country tariffs on farm equipment average 65%, according to Jake Vowles of the Agricultural Engineer's Association. This equipment could help small farmers improve their food processing, storage and handling, improving quality and reducing losses.

In fact, sometimes, large expenditures can be ineffective or even counterproductive. Sarala Gopalan, of the National Institute of Agriculture noted that India's **rural development schemes have so far been expenditure oriented—and expenditure is not the same as investment.** Rural expenditures in India, for example, have been concentrated in only one of India's three food-producing river basins, and has been inadequate in the other regions. Groundwater potential has not been fully exploited in some areas, while in other areas water resources have been depleted. Much of what is produced in India cannot get to market. Extension agents, vital to agriculture, do not have an allowance to purchase the petrol needed to visit farmers.

Too often, Gopalan said, **developing country governments have invested money in agriculture without coordinating with the private sector**. For example, India has begun setting up Agri-Export Zones, where food-processing units are directly linked to contract farmers to increase value added processing in wheat, mangoes and spices. Yet, Hardeep Singh of Cargill India cautioned the government to be careful about encouraging further value added processing, noting current overcapacity in large segments of the food processing industry because of concessions, taxes and other distortions. Government investments have also suffered from lack of coordination. Singh likened the huge system of warehouses at origins and ports built by the Indian government to building a parking lot without a road.

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- Sarala Gopalan, Trustee, National Institute of Agriculture, India

Adverse and inadequate government incentives need to redirected. Subsidies, for example, on fertilizer and "free" electricity and water further distort the market, without improving farmers' profitability. Indian government studies show that 90% of these subsidies are "eaten" by industry or others in the chain, without actually benefiting farmers. They also have negative consequences for the environment: large segments of land in Northern India are being destroyed because of free power and water.

Shiva criticized the Indian government because more open markets have hurt the Indian oilseed sector—a sector in which India was once the world's largest producer. But, Hardeep Singh pointed out that India is not competitive in oilseeds, and in fact is one of the most uncompetitive producers of oilseeds in the world. India's objective should not be to produce oilseeds, but to feed its people, even if that means importing more oilseeds. In another example, Prem Kumar detailed the Food Corporation of India's program of minimum price guarantees and interventions in the market. He acknowledged that only five states account for 60% of the FCI's procurement and only two crops—wheat and rice. Yet, as Singh pointed out, the FCI operates in precisely the areas where good marketing systems already exist while the 70% of farmers with no support price or risk management system must market their farm production close to or at the farm at depressed prices during harvest, because there is no government procurement. The government should operate in places where there are no currently no market mechanisms with a view to encouraging internal trade.

Speakers also pointed to a need for greater synergy between public and private investment. Cargill's Hardeep Singh pointed out that **in 1980, global investment in agriculture was double the value of global subsidies in agriculture. In 2000, global subsidies were three times the value of investment**—not because public subsidies are up, but because private investment is down. Both Hardeep Singh and Partha Das Gupta of Syngenta India argued that there was a large amount of money waiting to be invested by the private sector in developing countries, but the investments are not forthcoming because of distortions in the local economy. Montemayor went further saying that if the private sector sees that government is only half-hearted about its commitment to agriculture, it will not make serious investments in the sector.

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Montemayor noted that **the private sector plays a crucial role in upgrading the lives of farmers and stimulating the economic transition in agriculture.** Small farmers need seeds, fertilizer, credit and farm equipment. Incomes, costs and competitiveness of farmers in global markets vary greatly depending on how efficiently private business can supply these inputs and services to farmers. Processors, traders and other market intermediaries provide invaluable services by buying farmers' production, adding value and delivering it to consumers. The whole production and marketing chain in turn relies on a network of banks, truckers, shippers, and other private sector service providers, who move goods and services to and from farmers. In some cases, the private sector has invested in rural infrastructure like storage, marketing facilities and other services. Some companies have set up processing facilities and entered into contract farming arrangements with local producers.

While the "private sector" is often thought of as companies and corporations, Minister Jain pointed out that Indian agriculture is the largest private sector in the world: employing some 110 million farmers. As Montemayor reminded the audience, **there is a large, forgotten, underestimated player in agriculture in developing countries: the farmers.** They produce the product, take the risk, invest their time and labor. The small farmer must be given incentives to make a profit. If the small farmer can make a profit, then the whole chain will benefit. Profitable farmers can buy more seed and fertilizer, sell their products and improve their quality and repay their loans. Although referring to India, Hardeep Singh put it well: agriculture is the most ignored sector in most developing countries. It is as pure a form of capitalism as can be imagined.

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Farmers in developing countries are often very vocal about low prices, but they do not demand what they need most from the public sector: better systems for extension, research, animal/plant health and price transparency. Pedro de Camargo argued that providing extension and education to farmers is essential to increasing productivity and profitability. There are creative ways to team with the private sector to provide these services. For example, according to Minister Jain, India has started using television, radio and agri-clinics, staffed by agricultural graduates who charge a small fee to farmers for their advice. India is also providing extension training to private sector seed and equipment dealers, who act as extension agents. Corporations involved in contract farming are also providing extension services. China has made advances by working with the private sector to promote large-scale cultivation and distribution of new seed varieties to small farmers. And, as Brian Chamberlin, IPC Member and New Zealand's former trade envoy pointed out, bringing the private sector into extension shifts the focus from increasing farmers' production to increasing farmers' profitability.

De Camargo highlighted Brazil's historically strong research agenda that helped turn Brazil into an agricultural powerhouse—particularly in tropical agriculture. Creating a positive climate for biotechnology research was key in Argentina, Brazil and China. Partha Das Gupta, Chairman of Syngenta India went further saying that challenges to food security for India and other populous countries are real and imminent. While these countries may be self-sufficient today, the available technologies that rely on large amounts of purchased inputs and irrigated water are suitable for only the best land. **Many developing countries have reached the saturation point with existing technologies. These productivity gaps can only be filled with research and extension—both of which are in decline in most developing countries.** Minister Jain argued that without these investments there will not be a major improvement in household food security in most developing countries.

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- Partha das Gupta, Chairman, Syngenta India

Beyond the needed investments in research, Das Gupta also argued for the creation of transparent regulatory systems. The lack of these systems is a particular problem for biotechnology research. In India, for example, food and feed biosafety regulations are not developed, despite the fact that the first application for approval of a GM crop was filed in 1995. Detection facilities for genetically modified products are not yet available. The policy for food crops is unknown. There is no secretariat for the GM regulatory system. There are offices and committees, but no permanent secretariat or regulatory staff. Decisions on biotechnology approvals are taken by majority votes, which are not necessarily based on science. There is a lack of transparency in the regulatory process and the application process can go on for years. This will be a major deterrent for small companies and even public sector institutions that will not be able to sustain the costs of the regulatory process. De Camargo also highlighted the role of strong sanitary and phytosanitary regulations. While he agreed that sometimes SPS measures in OECD countries were simply protectionism in disguise, he also noted that the health of a country's plants and animals are important for the national economy. Investing in such measures should not just be seen as a way to export products to foreign markets.

Many speakers also pointed to the importance of price transparency. India's Minister of Agriculture Jain cited **one of the biggest problems in India: that farmers do not know the price of their produce on the market,** aside from procurement prices listed by the Food Corporation of India for wheat and rice. Creating price transparency does not have to involve significant government investment. Pedro de Camargo noted that in Brazil the private sector provides farmers with price information via television, radio and the Internet. This programming has made a tremendous improvement in price transparency over the last decade. Today, he said, there is no farmer in Brazil that does not know the price of his products anywhere in the world. In China, the increased integration of the internal market has increased price transparency and also reduced price fluctuation—both benefits for small farmers.

To make sure rural issues are raised in national and international policy debates, farmers need to have a stronger voice in national policymaking. As part of its Rural Development Strategy, the World Bank is trying to give voice to the rural poor. The Bank is helping developing countries participate in the global trade negotiations and trying to move the international policy framework toward a more equitable and efficient framework for development. The Bank is working with client countries to develop domestic policies to create an enabling environment to ease problems or take advantage of opportunities brought by trade liberalization. The Bank provides thirty to fifty percent of the world's non-private resources for rural development and is trying to encourage developing countries to create policies that are employment sensitive and oriented towards small holders, but that do not discriminate against agriculture or give it special privileges. IPC Vice Chairman Piet Bukman also called on the Bank to strengthen the role of farmer cooperatives and farm unions, which can give farmers more power in the market but also in policymaking.

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But, as a number of speakers cautioned, **ultimately answers to rural poverty will have to be found outside of agriculture.** This means that increased incentives for private investment and for education in rural areas must accompany trade reforms. It also means that developing countries need to accompany internal and external liberalization with an aggressive anti-poverty program. In China, the poor farmers gained less from reforms than the richer farmers simply because they lacked the education needed to take advantage of off-farm employment. Nestlé's Hans Johr noted that in most developed countries rural families earn most of their living off the farm. Even in China, more than twenty percent of farmers are employed full time in non-farm activities. In 1978, 90% of farmers' incomes came from agriculture. Today, less than half comes directly from farming. This is a historical, global trend that developing countries need to recognize and anticipate.

IPC Member Brian Chamberlin remarked that throughout the seminar he had heard many comments to the effect that free trade has not benefited Indian farmers. He reminded participants, "At this point we are not talking about free trade. We are trying to develop a fair, rules-based, trade system. If people have the impression that the WTO or other countries are trying to impose free trade on them, they are wrong."

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- Brian Chamberlin, Former Special Trade Ambassador, New Zealand

In his closing remarks, IPC Vice Chairman Piet Bukman encouraged developing countries to take responsibility for their own needs. The international community has a role to play, but the real work of modernizing rural economies lies with developing countries' national governments, local governments, civil society, the farmers and private sectors.

Concluding the meeting, IPC member and Trustee of the Indian National Institute of Agriculture, Devi Dayal said while the current debate implies that the national government's role is small—and that the role of the private sector, or the role of international trade is omnipotent—the consensus of the IPC meeting is precisely the opposite. The government has an important role to play in ensuring that agriculture can benefit from trade liberalization.

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- Devi Dayal, National Institute of Agriculture, India

The IPC would like to thank the National Institute of Agriculture, India (NIA) for co-sponosoring this seminar. The NIA is a non-governmental organization that carries out development and research activities in agriculture, rural development and environment. The NIA espouses the cause of farmers and rural community and promoting scientific techniques of land and water management, in association with other NGOs and government organizations.

The IPC would also like to thank the Punjab National Bank, the Food Corporation of India, and the Oriental Bank of Commerce for their support of the seminar:

32nd IPC Plenary Seminar: ***Easing the Transition to More Open Global Markets***

November 12-13, 2003
New Delhi, India

Keynote Address: Shri Rajnath Singh, Minister of Agriculture and Cooperation, India

Session One - The Role of the Public Sector: Agricultural and Rural Policies

Chairman, RCA Jain – Secretary, Ministry of Agriculture, India

Sarala Gopalan – Trustee, National Institute of Agriculture, India

Prem Kumar – Chairman, Food Corporation of India

Pedro de Camargo Neto – Former Secretary of Production and Trade, Brazil

Jikun Huang – Chinese Center for Agricultural Policy

Vandana Shiva – Research Foundation for Science, Technology & Ecology

Session Two: The Role of the Private Sector – Technology and Investment

Chairman – Hans Jöhr, Nestlé

Partha Das Gupta – Syngenta, India

Hardeep Singh – Cargill India

Raul Montemayor - Federation of Free Farmers Cooperatives, Philippines

K.S. Money - Agricultural and Processed Foods Export Development Authority, India

Session Three: The Role of Trade – South-South and Global

Chairman - Brian Chamberlin, Former Agricultural Counselor, New Zealand

Shishir Priyadarshi – World Trade Organization

T. Venkat Subramanium –Export-Import Bank of India

Marcelo Regunaga – Former Secretary of Agriculture, Argentina

Anwarul Hoda –Indian Council of Research on International Economic Relations

Session Four: The Role of the International Community

Chairman – Robert Thompson, Chairman International Food & Agricultural Trade Policy Council

Csaba Csaki – The World Bank

Pedro Medrano Rojas – World Food Program, India

Nestor Osorio – International Coffee Organization

Attakir Raman – International Fund for Agricultural Development

Piet Bukman – Former Minister of Agriculture, Former Minister of Trade and Former Minister of Development, The Netherlands

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The International Food & Agricultural Trade Policy Council (IPC) convenes high-ranking government officials, farm leaders, agribusiness executives and agricultural trade experts from around the world and throughout the food chain to build consensus on practical solutions to food and agricultural trade problems.

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