The Promise and Perils of Agricultural Trade Liberalization: Lessons from the Americas

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New Policy Report:
The Promise and Perils of Agricultural Trade Liberalization: Lessons from the Americas

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Three-year Collaborative Project

**Rationale:** assess the promise of agro-exports and the perils for small-scale farmers from rising imports.

**Based on background papers** by distinguished Latin American researchers:

* Mexico under NAFTA: Fernando Rello
* Agro-exports: South American soybean boom:
  * Brazil – Sergio Schlesinger
  * Argentina – Miguel Teubal
  * Bolivia – Mamerto Pérez
* Perils for small-scale farmers:
  * Bolivia – Mamerto Pérez
  * El Salvador – René Rivera
  * Brazil – Nelson Delgado
Analytical Framework

Expected gains are based on misconceptions about the nature of global agricultural trade:

* Wealthy countries are main beneficiaries of liberalization – dominate most global markets.
* Most developing countries are left out of export boom, but suffer impacts of rising imports on farmers.
* Livelihoods and food security suffer; job creation in general is weak, leaving many worse off. Poverty is often worse after liberalization.
* Long-term development impacts are questionable, as countries that win export shares lock themselves into primary production.
* Long-term trends are toward declining prices; current commodity boom does not alter that structure.
Commodity Boom: High Prices Won’t Last

Real Price Projections, Selected Commodities
2007-2017

Source: OECD-FAO Agricultural Outlook 2008-2017; 2007 prices are preliminary; prices deflated with annual MUV of 2%.
Case Studies: Mexico under NAFTA

Story well known: great export expansion, but job-creation weak, wages low, environmental costs high

- flood of cheap imports, displacement of farmers, migration.

Conclusions:
* Mexico bet on cheap food imports
* Failed to raise productivity
* Better to open slowly, take advantage of export gains, protect and invest in rural food-producing sector.
The Promise: South American Soy Boom

**Unprecedented development opportunity:**
* Rising global demand, esp. from China
* Competitive advantages, based on resources, cheap labor, infrastructure
* Now, high prices over sustained period

**Challenge:** To harness the boom for sustainable, broad-based development

**Findings:** Governments are largely failing to promote sustainable development
Development Impacts Limited: low wages, few jobs
* Brazil – industrial monoculture creates little employment
* Argentina – creating “agriculture without farmers”
* Bolivia – more small farmers, due to losses from growing traditional crops after liberalization

![Brazil: More Soy, Fewer Jobs](chart.png)
Ecological Costs: Short-term Gain, Lasting Ecological Risk

“Extractive” model – expands onto sensitive lands, then moves on

* Bolivia – exhausting the land, no crop rotation
* Brazil – expansion into Amazon to meet rising export demand

Unregulated rise in use of GMO soybeans:

* Argentina – 100% GMO; high risks
* Brazil and Bolivia – now majority of seeds, though not fully approved for use
Benefits Captured by Foreign Companies

Transnational firms control virtually the entire production and marketing chain, capture benefits

- **Brazil** – Cargill and other agribusiness giants dominate most of the industry
- **Argentina** – Reliance on transgenic soybeans creates high dependence on Monsanto and other seed and chemical suppliers
- **Bolivia** – export platform for Brazil to other members of Andean Community. Large farms majority owned by foreigners.
Recommendations on Soy:
Cooperation for Long-term Development

Governments need to cooperate, not compete, to better direct and regulate the soy boom

* Better coordination of policies among governments in the region – environmental, social, infrastructure – esp. with biofuel and GMO policies.
* Develop value-added production (e.g. oil, processing)
* Better balance between export agriculture and domestic food production, to ensure food security.
* Performance requirements on foreign investment at a regional level. Regulate uncompetitive practices to promote national development.
* Sustainable land-use:
  • restrict expansion onto sensitive lands;
  • promote crop rotations with food crops to increase both soil fertility and food production.
The Perils: Small Farmers and Imports

Liberalization story much the same from country to country:
- Cheap imports, mostly from North, flood market
- Prices fall – Brazil, down 45% in real terms in 1990s
- Small farmers can’t compete, can’t enter export markets …

Bolivian Imports of Traditional Andean Farm Products*, 1982-2000

*Includes potatoes, maize, beans, tomatoes, onions, apples, peaches, grapes.
Production stagnates or declines:
* Little investment, so little productivity improvement
* Production can’t meet rising population: Bolivian per capita potato production dropped by one-third
* Loss of farms, migration to work as laborers, reducing food-producing capacity
Imported staples, not local products, fill the rising demand:
* Central America – cut tariffs from 45% to 7% 1985-2000
* El Salvador: dependence on food imports rose 1990-2005
  • Maize – from 6% to 44%; corn imports displaced local sorghum
  • Beans – from 8% to 31%
Recommendations on Smallholder Farming: Promote and Protect

Findings largely consistent with recommendations in World Development Report 2008 …

• Reinvest in productivity of smallholder sector – need more than just anti-poverty programs
• Improve access to land and other productive assets
• Increase government support to overcome market failures
• Reward smallholders’ role as stewards of environment: seed diversity, biodiversity, carbon sequestration, etc. – all go largely unrewarded by deregulated market
• Help smallholders compete for niche markets and sales to supermarket sector, which favors agribusiness.

…but trade liberalization can undermine these policies:

• Extend protection where necessary for food security, rural development, and livelihoods, e.g. “Special Products”
Conclusions: Limited Promise, Great Peril

1. Rural development remains important for Latin America, more so with food crisis
2. Export agriculture will not reliably generate broad-based, sustainable development
3. Many smallholders can become highly productive food-producers with the right mix of protection and government support
4. Governments and international agencies need to focus on productivity, not just anti-poverty programs.
5. Liberalization can undermine these goals
Recommendations: Need New Approach to Trade, Agriculture, and Latin America

Trade:
* “Time-out” on trade agreements – review NAFTA and existing agreements, add development focus
* Leave governments “policy space” for rural development
* Economic development good for US, slows migration
* No rush to WTO agreement – little to gain

Agricultural Policies:
* Strong public investment in rural development
* Encourage protection and support for food producers
* Shift emphasis in World Bank, IMF, IDB, etc. from free trade to domestic food production
A New U.S. Approach to Latin America

• One size does not fit all – Respect the political and economic diversity in the region
• Allow governments to promote broad-based growth – liberalized market has not worked
• US needs to be a global leader in international fair trade, not just a promoter of US agribusiness

Thank you

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