A photograph of a person in a field of harvested corn. The person is wearing a dark shirt and a hat, and is standing in the middle ground. In the foreground, there is a large, full sack of grain, likely corn, which is the focus of the image. The background shows a vast field of harvested corn under a clear blue sky. The overall scene is a rural agricultural setting.

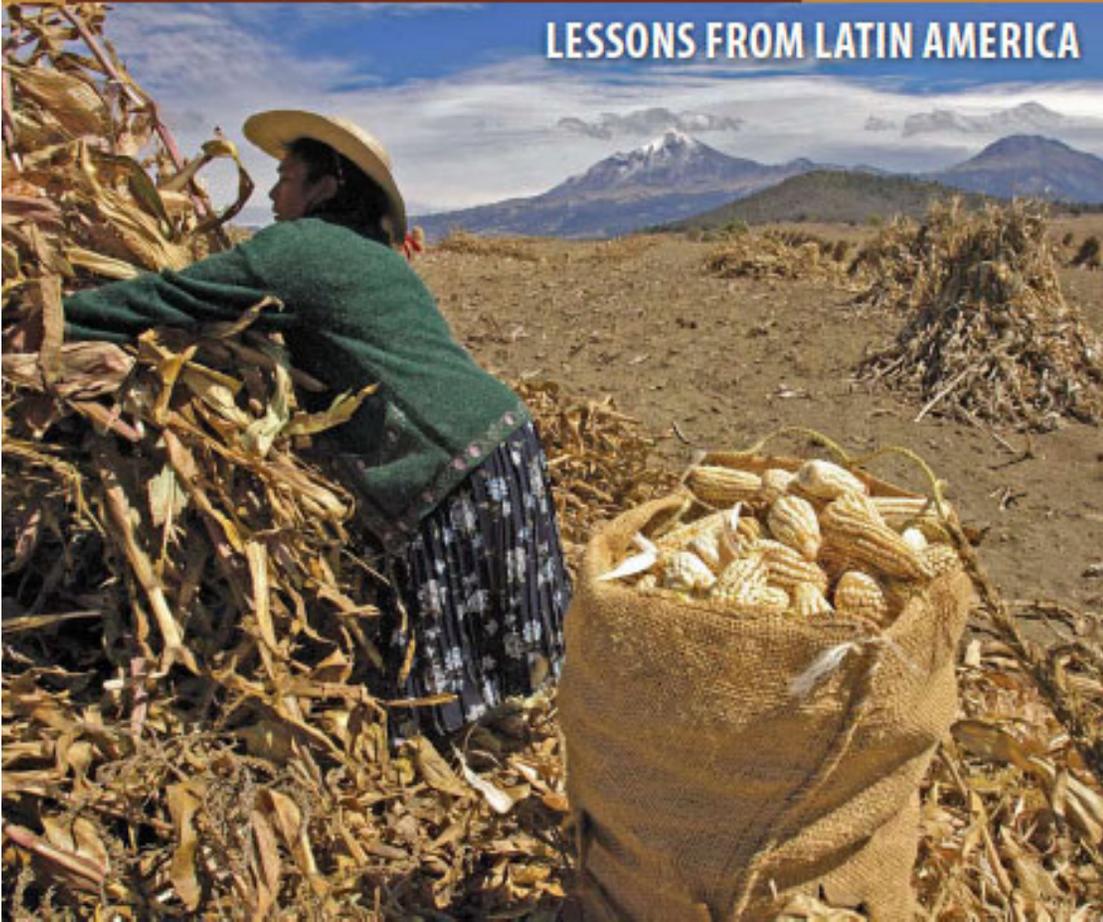
The Promise and Perils of Agricultural Trade Liberalization: Lessons from the Americas

Mamerto Pérez and Timothy A. Wise

July 2008

The Promise and the Perils of Agricultural Trade Liberalization

LESSONS FROM LATIN AMERICA



by Mamerto Pérez, Sergio Schlesinger, and Timothy A. Wise with
the Working Group on Development and Environment in the Americas

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

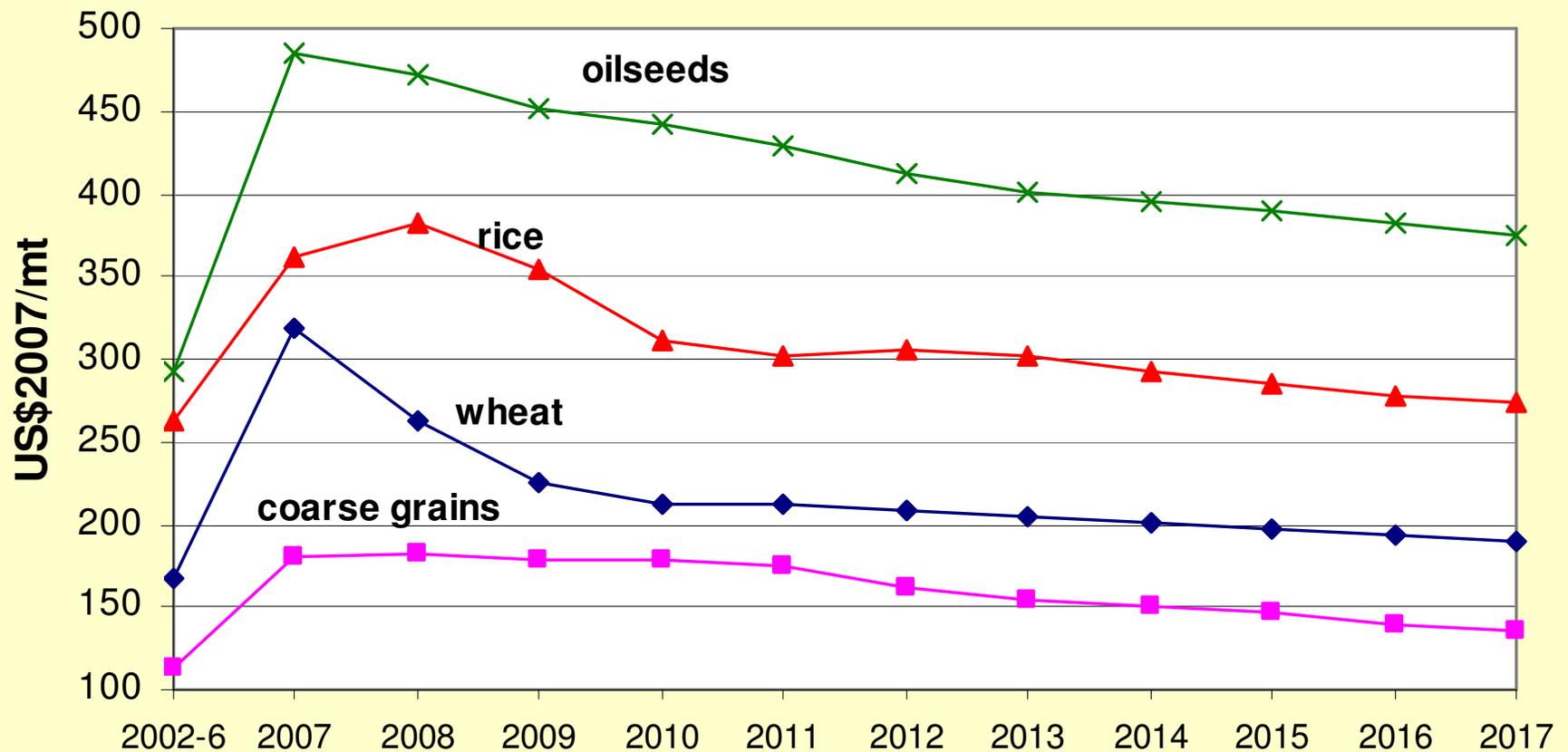
Analytical Framework

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%.

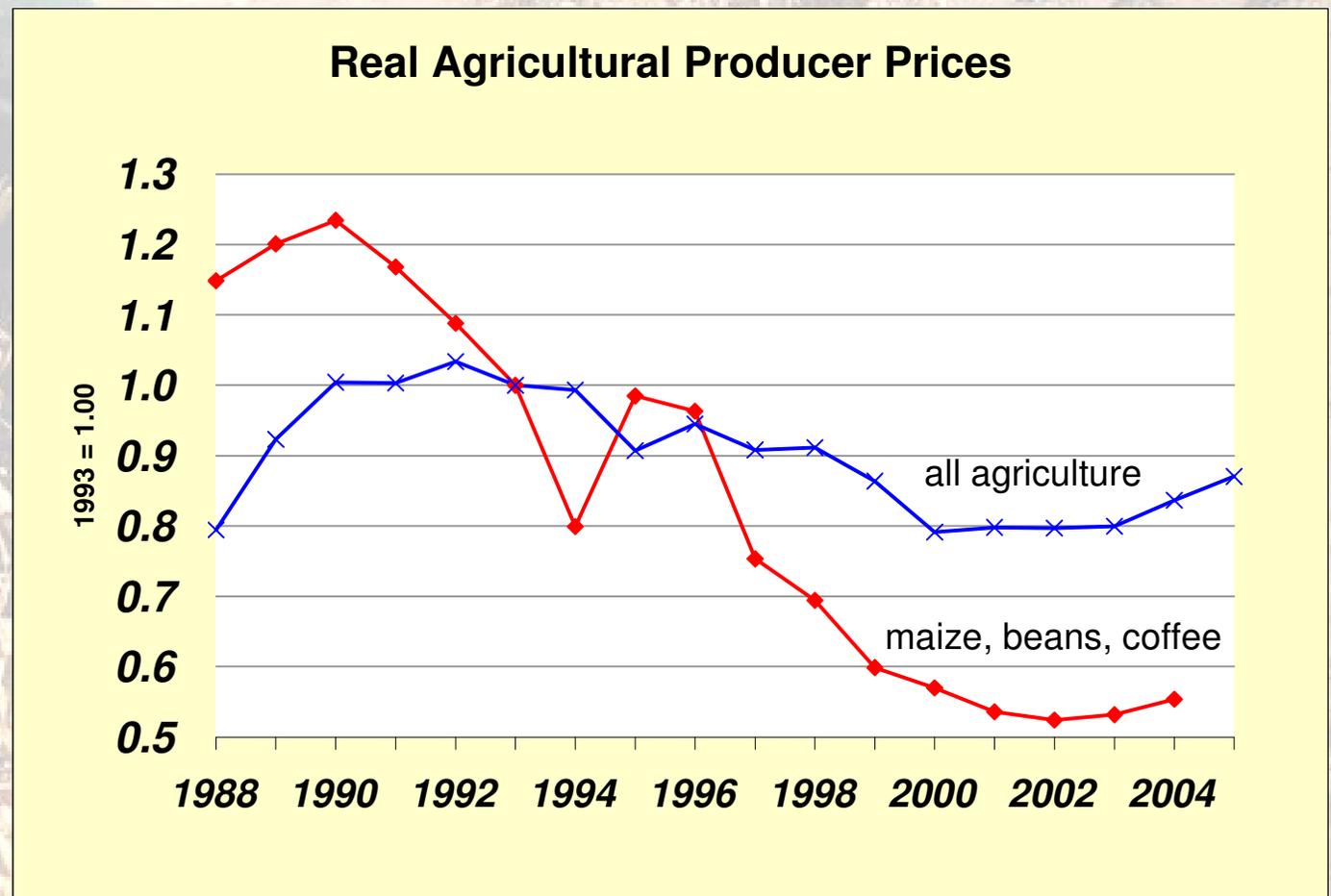
Case Studies: Mexico under NAFTA

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

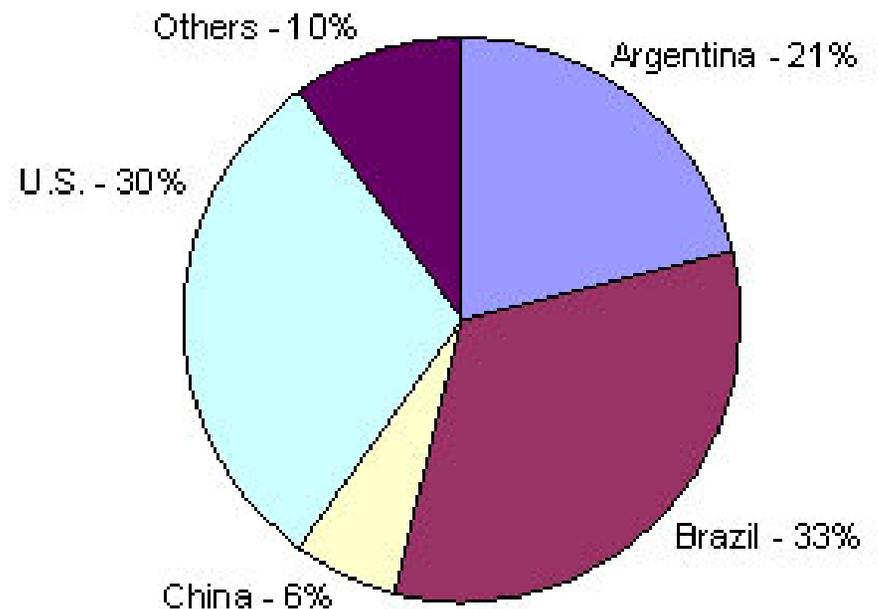
Unprecedented development opportunity:

- * 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

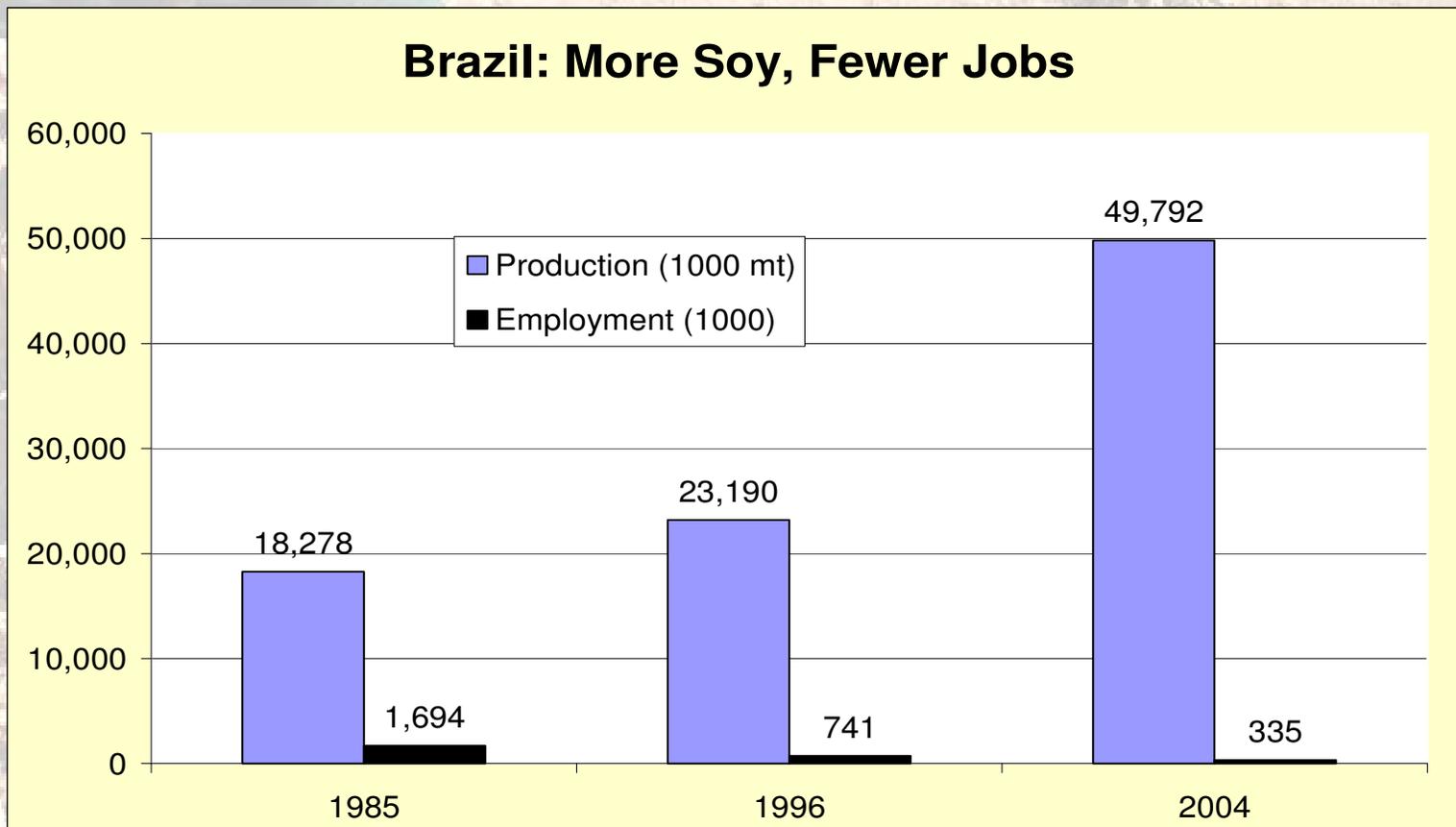
Findings: Governments are largely failing to promote sustainable development

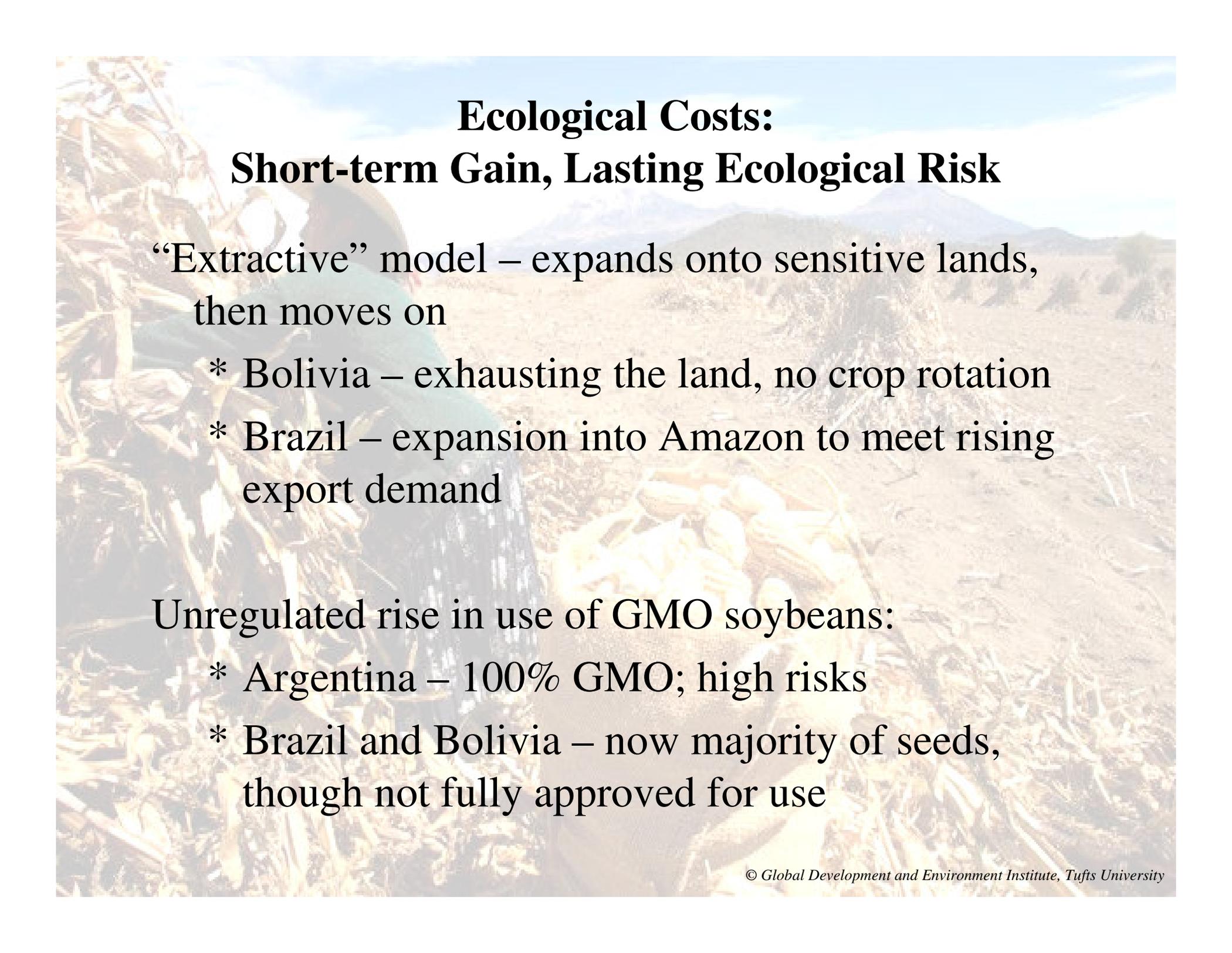
Projected World Soy Production, 2015/16



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



A person wearing a green shirt and a hat is seen from behind, working in a field of harvested corn. The field is filled with golden-brown corn stalks and husks. In the background, there are rolling hills or mountains under a clear blue sky. The overall scene is a rural agricultural landscape.

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

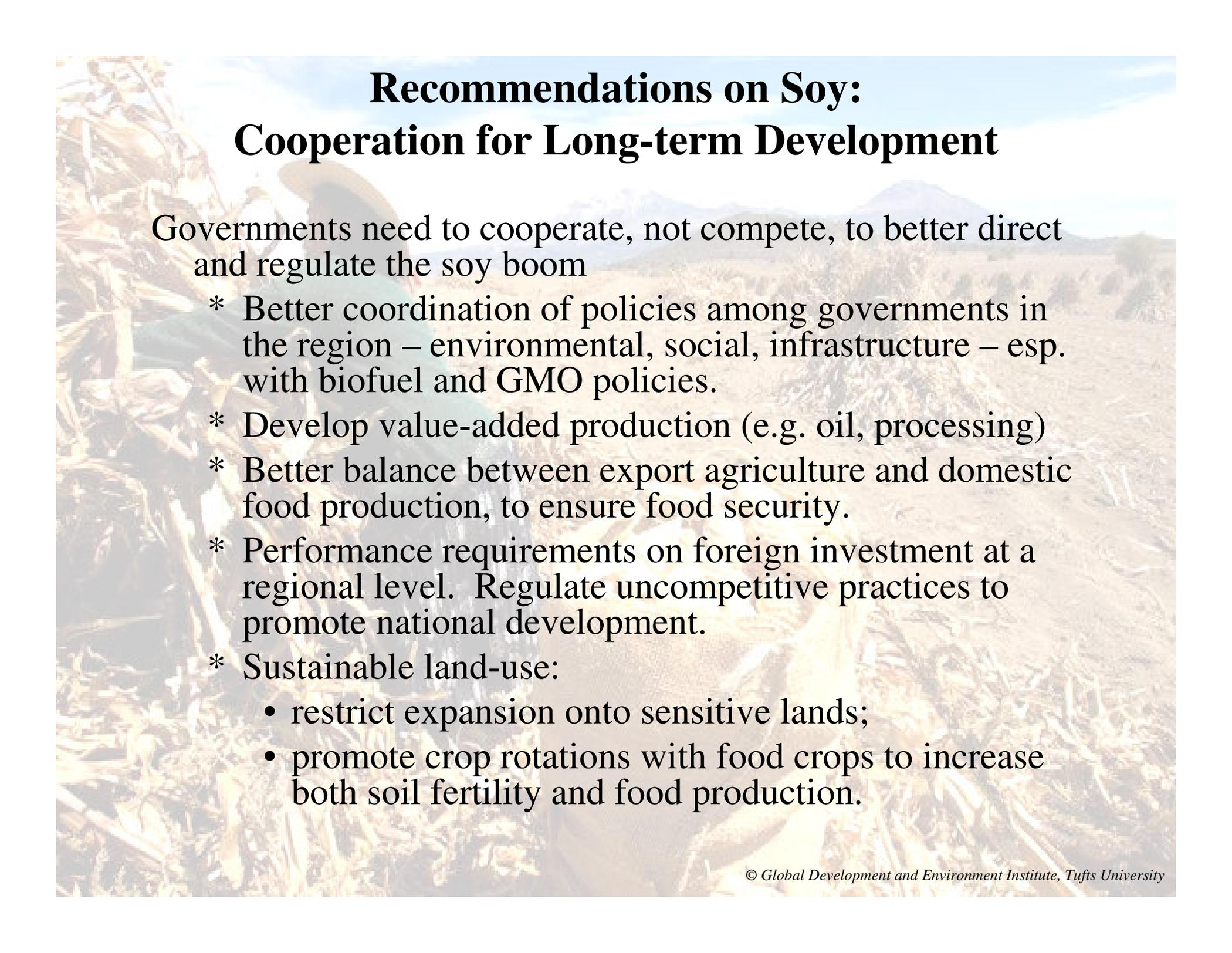
Unregulated rise in use of GMO soybeans:

- * 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

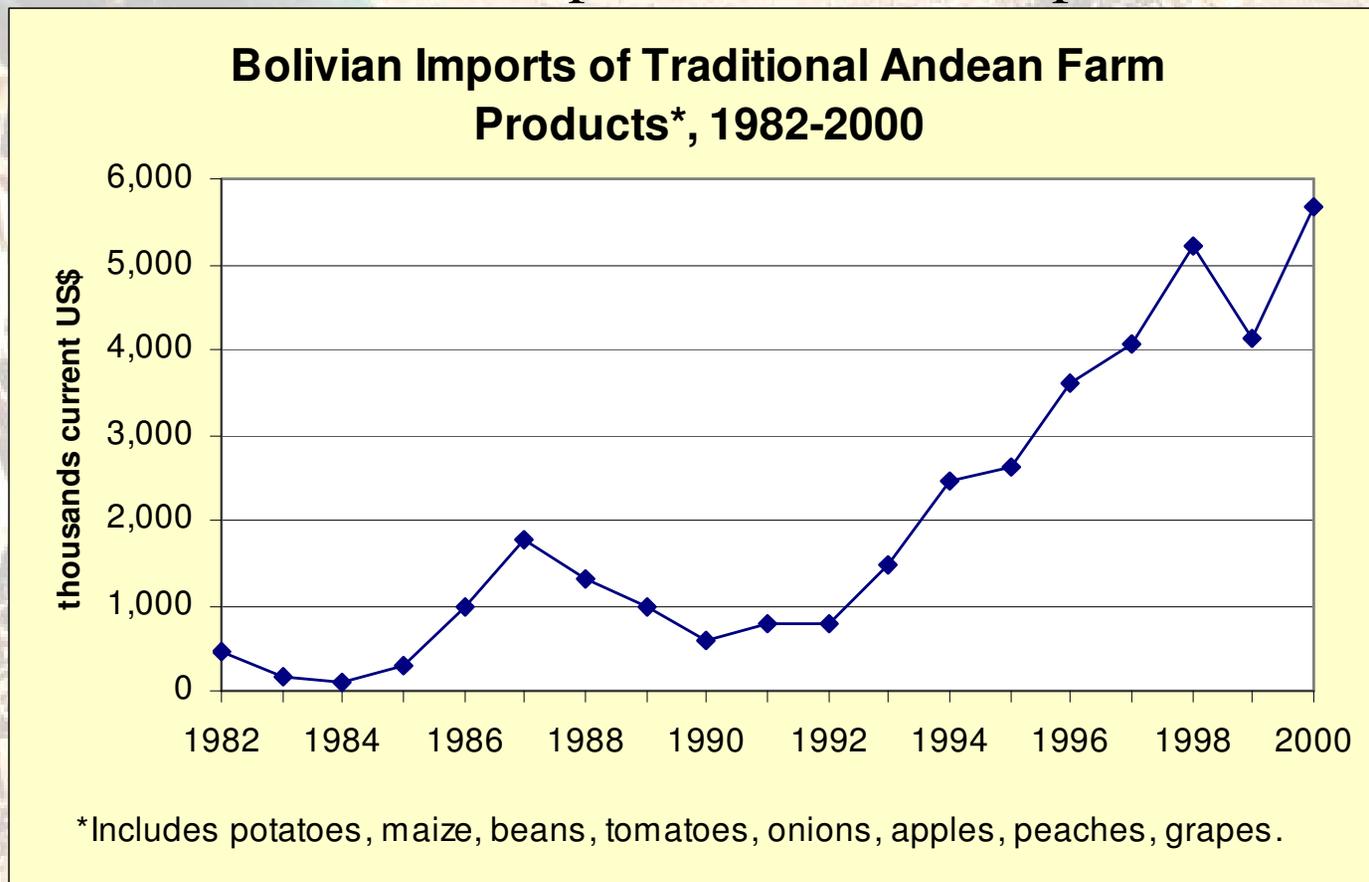
Governments need to cooperate, not compete, to better direct and regulate the soy boom

- * 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

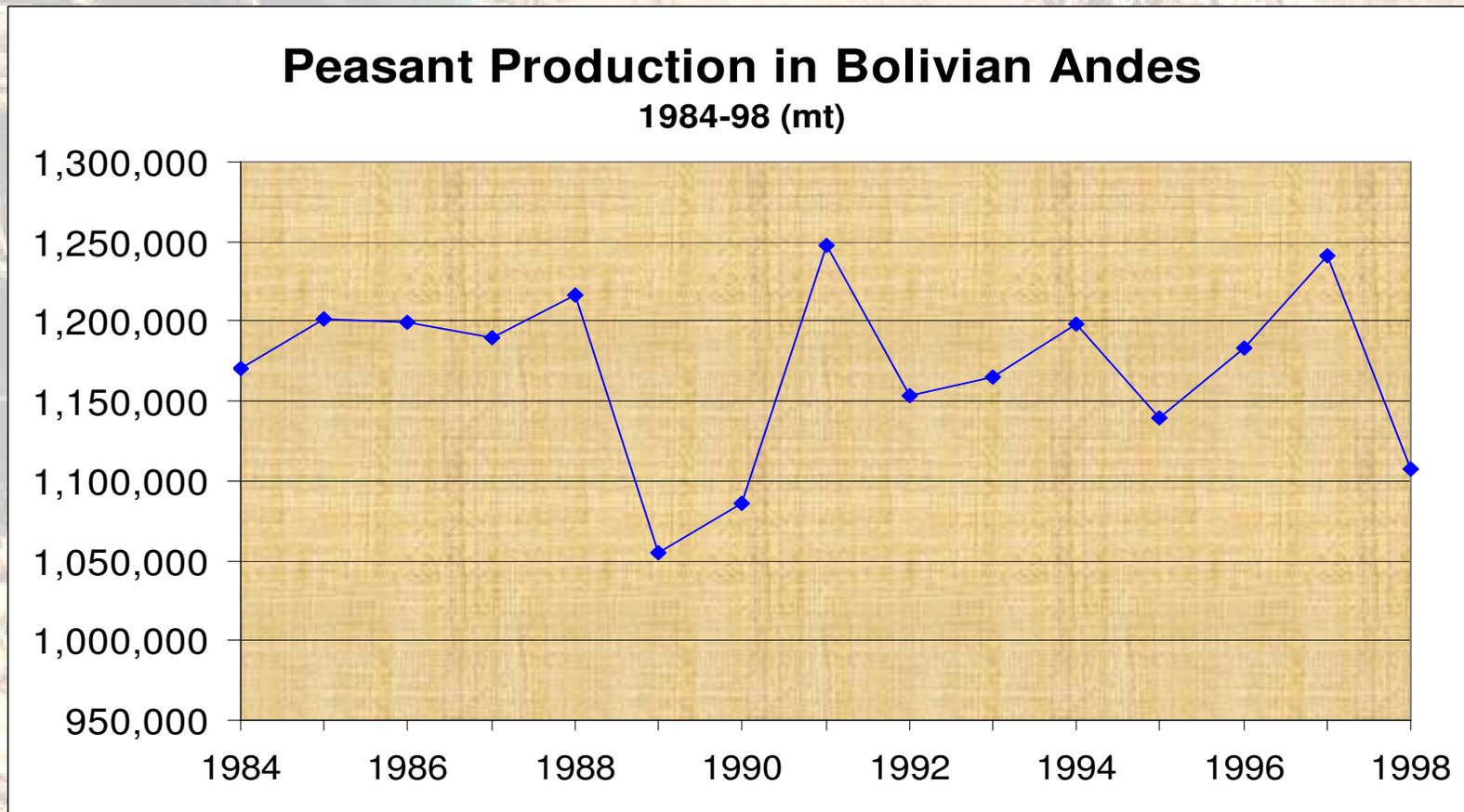
Liberalization story much the same from country to country:

- 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 ...



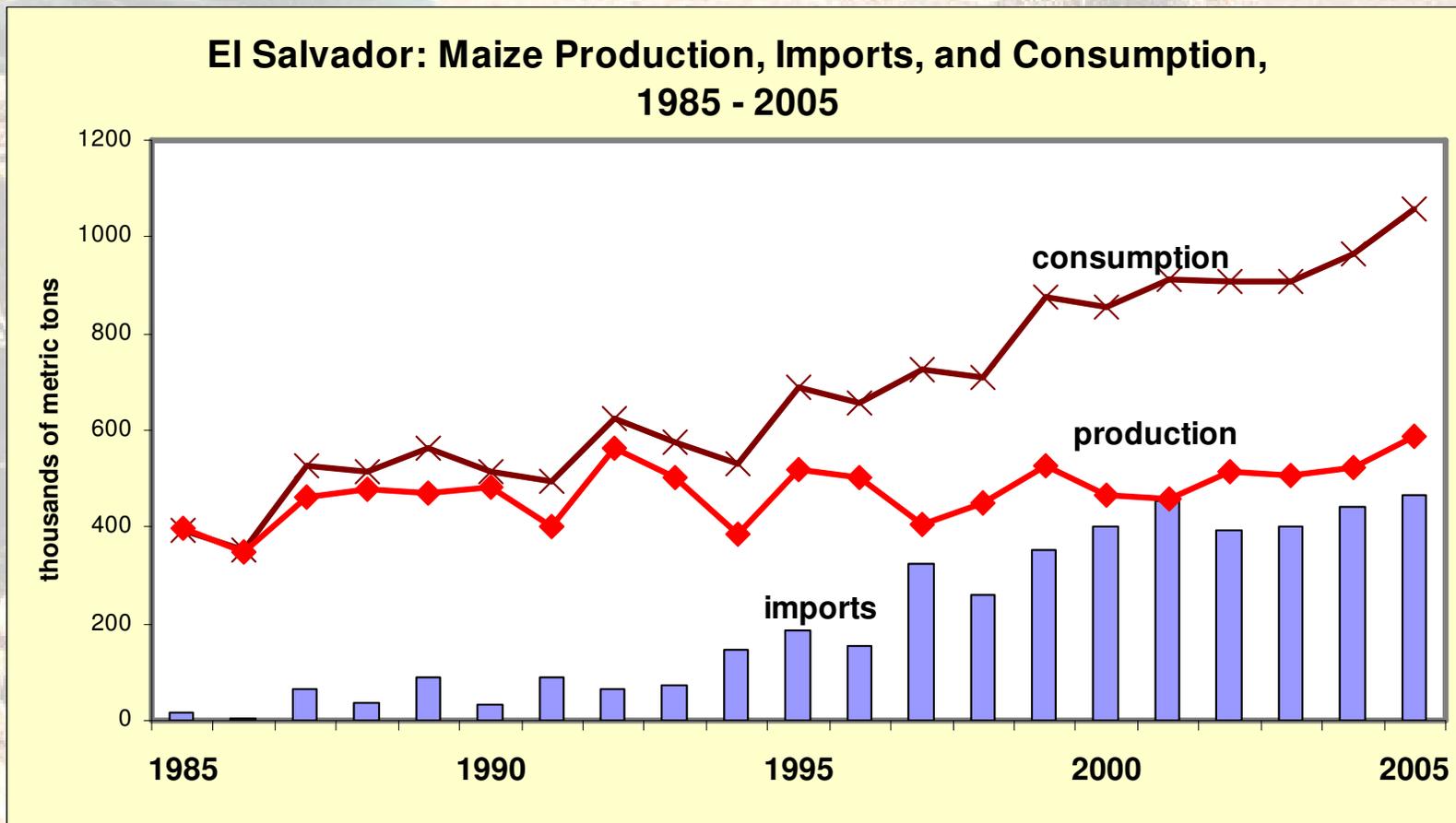
Production stagnates or declines:

- * 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

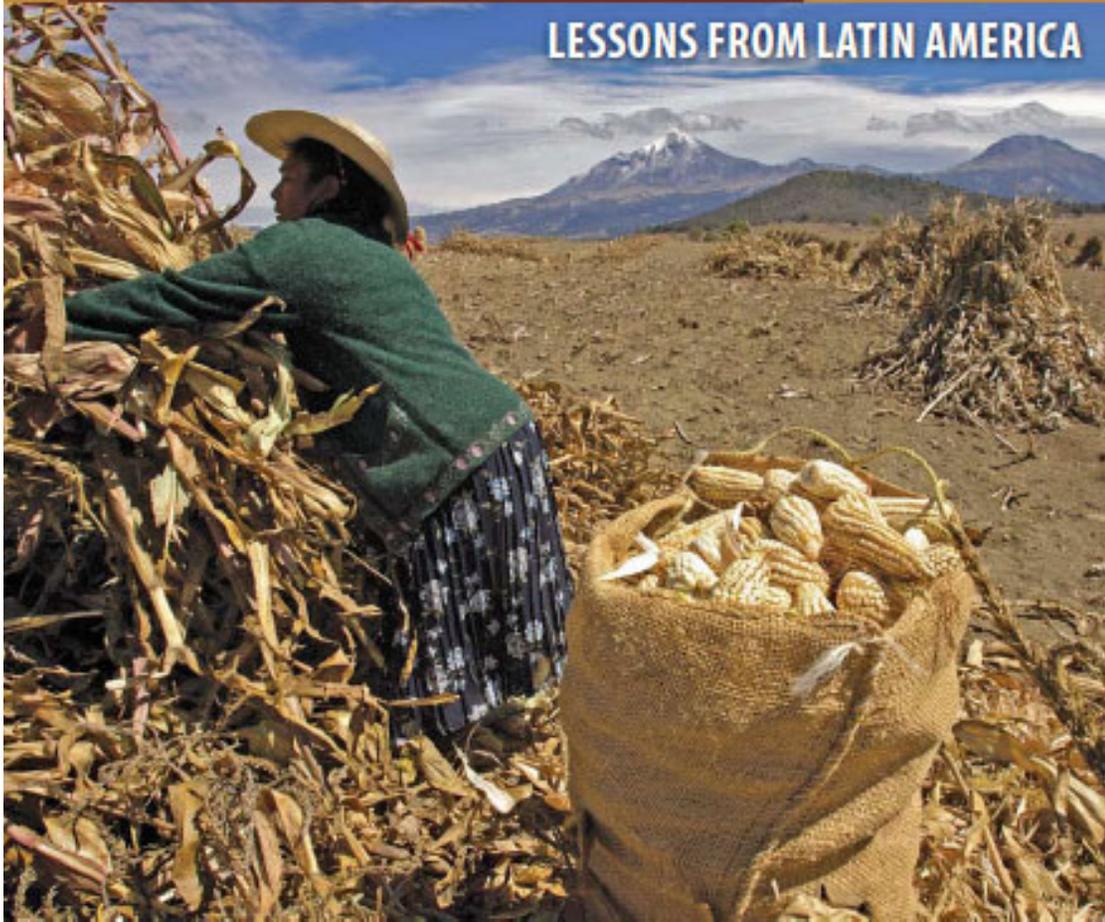
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