

# Just Do the Math: How Agricultural Trade and Subsidy Policies in Rich Countries Harm Poor People in Developing Countries

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Strengthening rural communities in low-income countries is extremely important to reduce poverty, hunger and related human misery. Three out of every four poor people live in rural areas and most of them depend on agriculture for their meager incomes, either as farmers with smallholdings, farm workers, or providers of goods and services purchased by farmers.

If farmers do not make money, neither does anybody else in rural communities. On the other hand, when farmers do make money, they spend it on things that generate employment and income throughout the economy. The economy grows and people in both rural and urban areas escape poverty. This so-called “multiplier effect” is much stronger in small-scale agriculture than in any other sector of a low-income country. There is no better illustration of the “multiplier effect” than the developments in China during the 1980s. While most countries are struggling to reach the Millennium Development Goals for poverty and hunger alleviation by 2015, China has already achieved them.

Towards the end of the 1970s, the Chinese government introduced a new set of policies that effectively gave Chinese farmers an opportunity to make more money. The opportunities were well received by the farmers, who increased their purchase of fertilizers, pesticides, and consumer goods such as bicycles, radios and a large number of other goods and services. Construction boomed in rural areas and employment and incomes rose rapidly in both rural and urban areas, resulting in the beginning of a long period of high economic growth and rapid reduction in poverty and hunger.

There are other success stories to show the importance of agricultural growth in alleviating poverty and hunger, including the impact of the Green Revolution in Indonesia, Korea, Taiwan and India to mention a few. Unfortunately, agricultural growth is limited in most low-income countries and, partly as a consequence, very little if any reduction in poverty and hunger is occurring.

## *The Big “Minus”*

The agricultural trade and subsidy policies in the United States, European Union and Japan (hereafter called “the rich countries”) are harming poor people in developing countries and making rural development difficult. The harm done by far exceeds the good done by development assistance.

A few numbers may illustrate the problem. The annual subsidy payment received by farmers in rich countries is about \$280 billion. The total annual development assistance to developing countries is about \$60 billion, or less than one quarter of the subsidies. A Japanese dairy cow receives about \$3,000 in annual subsidy, and the dairy cow in the EU gets about \$1,000. In comparison, the average annual income of citizens in Sub-Saharan Africa is about \$500, and the development assistance from the EU and Japan to sub-Saharan Africa is about \$10 per African.

If developing country farmers, who do not receive subsidies, cannot sell their products at a price above production costs, they cannot earn the incomes needed to escape poverty and they cannot generate the aforementioned multiplier effect that would help others out of poverty. The net result is continuation of poverty, hunger and related misery.

These policies are taking markets away from poor farmers, not because poor farmers are inefficient but because they cannot compete with highly subsidized farmers in rich countries who can sell below production costs. High import tariffs also keep low-cost developing country farmers out of rich countries’ markets. Import tariffs on products that developing country farmers can produce cheaper than rich country farmers such as rice, sugar and cotton are high precisely to keep poor farmers out of the markets and protect high prices within the rich countries. Import tariffs and subsidized export of what cannot be sold in the rich country markets are the tools for maintaining these high domestic prices. The rich country consumers pay and poor country farmers are not given a chance.

Whether the consumer or the taxpayer pays, the consequences for poor countries and poor

people within are severe. They depend directly or indirectly on agriculture. If they are unable to sell what they produce, they make no money and they continue to suffer from poverty and hunger, their children continue to be malnourished and many die.

So, why do such policies continue to exist? Partly because a small but politically powerful minority of the population in rich countries—the land owners—and agribusinesses would lose if the policies were changed, and partly because inertia in the policy process makes it difficult to change policies that in fact served a legitimate purpose when they were first introduced many years ago. Another reason is that rich societies wish to ensure that farmers have a reasonable income level relative to others in the society.

All of these reasons could be dealt with in a manner that would not penalize poor people. Landowners could be compensated for falling land prices, agribusiness could adjust to new opportunities, voters and politicians could be informed that the original purposes are no longer valid, and farmers could be paid an income supplement that would not require import tariffs and surplus production.

## *And Thanks for the Small Favors*

In an effort to help the 49 least developed countries, the EU designed a program called Everything But Arms (EBA) which would permit these countries free access to the EU markets without paying tariffs for any products except arms. The major problem with the EBA is a safety clause that permits the EU to close imports of any product if it threatens domestic suppliers. In other words, imports coming from poor farmers in the least developed countries can be stopped if they threaten to be more competitive than what rich-country farmers produce. Is it a surprise that little import has occurred? The main value of the EBA appears to be public relations for the EU on the assumption that no one would be interested in reading the fine print.



Celia Escudera-Espadas

Poor countries must be able to trade what they produce in their agricultural sector. Otherwise “rural communities will not be strengthened and the Millennium Development Goals are a mere illusion,” says Per Pinstrup-Andersen.

The United States has a similar provision that permits selected low-income African countries to export certain commodities into the United States without tariff. As in the case of the EBA, these countries have exported very little through that provision, with the exception of oil, which did not need the provision in the first place.

Preferential treatment given to some developing countries is much more valuable. The EU admits fixed amounts of sugar from selected developing countries without tariff and pays the high internal EU price. The downside of this arrangement is that the imported sugar adds to the sugar surplus that the EU then exports at prices below production costs with the negative impact mentioned above. One of the world’s largest sugar exporters, the EU produces sugar at much higher costs than most poor countries.

Likewise, the United States is the world’s largest exporter of cotton even though cotton is produced much cheaper by farmers in poor countries. But they do not get a chance. U.S. cotton producers receive very large subsidies. In response, they produce more than can be sold in the United States. The rest is exported at prices below cost of production taking the export opportunities away from farmers in poor countries.

Export of subsidized maize, wheat, rice, oilseed, dairy products and meat at prices below

production costs and dumping of surpluses on poor country markets make life miserable for poor country farmers. But why do poor countries not protect themselves by implementing import tariffs and refuse to accept food at prices below production costs? For one thing, it is likely to be prohibited for countries that are members of the World Trade Organization. Furthermore, many poor countries are net importers of food. An import tariff would be a regressive tax on consumers.

Well-meaning development assistance from rich countries sometimes conflicts with the same countries’ agricultural trade policies. EU development assistance to the Dominican Republic was successful in developing a small-scale dairy sector, helping poor farmers out of poverty. Unfortunately, soon after this development success, the EU decided to dump some of its surplus of milk powder resulting from EU dairy subsidies. A good bit of the milk powder ended up in the Dominican Republic and was reconstituted and sold at prices below the cost of production in both the EU and the Dominican Republic. The consequences for the Dominican dairy farmers were as could be predicted.

One way to help poor people out of poverty is to generate employment by adding value to agricultural commodities through processing. Development assistance agencies are fully aware of that opportunity and have provided

funds for a variety of such activities, often with export in mind. At the same time, rich countries maintain the so-called tariff escalation, which increases the rate of import tariff along with increasing processing. Not exactly an incentive to developing countries to add value to agricultural commodities.

The reason for tariff escalation is clear. Rich countries want to create the employment and added value in their own countries. They want poor countries to export the raw materials such as green coffee in bulk instead of roasted coffee nicely packaged for the retail market. Sounds like a practice left over from colonial times.

### ***Is Trade Liberalization the Answer?***

Would poor countries really benefit from trade liberalization or would middle-income countries such as Brazil and Thailand reap the benefits? Could poor countries in fact end up losing out because preferential arrangements they now enjoy would be replaced by the removal of tariffs for all?

Countries with good infrastructure and appropriate policies will be the winners from trade liberalization. That means Brazil, Thailand and other middle-income countries and poor people within those countries. Poor countries with poor infrastructure and inappropriate policies are much less likely to gain.

Poor countries should prepare for the day when trade liberalization occurs by investing in roads and other rural infrastructure, appropriate institutions, market development, research to develop appropriate technology for small farmers, and primary health and education for rural areas. But these investments should be made anyway, irrespective of trade considerations. Without them, poverty, hunger, malnutrition and the related human suffering will continue. Rural communities will not be strengthened and the Millennium Development Goals are a mere illusion.

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