

United Nations Conference on Trade and Development

**The Integration of Millennium
Development Goals in National
Trade and Trade-related Policies**

The relationship between commodities
production, trade and development, with a
focus on poverty reduction

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Summary

This paper discusses the integration of the Millennium Development Goals (MDGs) in developing countries' trade policies. It aims to show the relationships between commodities production and exports on one hand, and development and poverty reduction on the other. The paper particularly examines countries in Africa and the Least Developed Countries (LDCs).

Before deciding what can be done about extreme poverty, we have to know what it is. Poverty is a complex and elusive topic, and there are many disputes about its qualitative and quantitative nature. However, as a way of raising the issue, the authors of the MDGs were wise to choose simple numerical definitions of poverty (those living below \$1 a day and \$2 a day in 2015) as the target for their campaign.

The linkages between commodity exports and poverty are also complicated. The situation is not eased by the fact that export commodities, poverty and agriculture tend to be researched by different types of specialist, who have only limited familiarity with each other's work. The agricultural situation in poor countries has changed rapidly in recent years, leading to question marks over the future of smallholders in a world dominated by international supply chains which are led by supermarkets and other large agrofood corporations. These in turn are best served by large, highly capitalised agricultural units.

LDCs and African countries find it difficult to keep up. Countries which stay poor under globalisation tend to possess some or all of six characteristics. They are:

- the predominance of rural poverty and the reliance of a large majority of the population on agricultural livelihoods;
- small domestic populations and markets;
- remoteness from world markets;
- dependence on a small number of primary commodities for export revenues;
- low capacity to diversify; and
- lack of competitiveness due to supply-side constraints.

As an example, all six problems are present in Niger, which is now measured as having the lowest human development in the world, and which suffered severe food shortages during the course of 2005.

In the early years of development policy, between the 1950s and 1970s, the attainment of reliable incomes for poor countries from commodity exports was seen as an important goal. In the 1980s this was abandoned in favour of a strategy of opening markets. However, in LDCs and in Africa the results of this policy have been disappointing: it was accompanied by a collapse in the prices of their commodity exports, economic stagnation and, in particular, a sharp fall in output of the leading exports in those countries which depended on metals exports.

More binding trade rules introduced under the World Trade Organisation after 1995 further reduced countries' room for manoeuvre while failing to open up developed countries' markets or remove their subsidies on agricultural goods, as had been promised. Many analysts foresee a further danger today, as negotiations with the European Union on proposed Economic Partnership Agreements appear to pose unexpected threats to African regional integration.

However, in recent times several developing countries elsewhere have achieved sharp reductions in poverty while moving their structures of production and trade

from an agrarian base towards an industrial one. Two examples are China and Malaysia. An important factor in both countries' success lies in the careful planning of development, but in such a way as to keep abreast of international markets. Some other countries, such as Vietnam and Thailand, have also achieved notable success, although starting at a later date, by exporting staple food and feed crops (rice and cassava). The right internal arrangements have to be in place to make this sort of policy possible. Good communications, especially roads, are essential.

Another factor in India's and China's success appears to lie in the very size of those two countries. A large domestic market permits greater diversity and differentiation of output, facilitating the generation of investment surpluses. In both countries, the industrial sector was well implanted before economic liberalisation began. Large size also permits economies of scale and specialisation in supporting activities funded by the state, such as higher education and research. Small countries are more vulnerable to external shocks, partly *because* of the greater dependence on trade that they usually have.

How can these successful cases be emulated in generally much smaller African countries and LDCs? An important factor lies in a recovery in agricultural prices, especially for tropical export crops. In Africa, 41 countries are defined as low-income food-deficit countries (as are 48 of the 50 LDCs). This means they import food to a greater nutritional value than the food they export. This import need is set against daunting foreign exchange constraints when they depend for revenues on declining export commodities and foreign aid. International commodity markets also suffer from three major deficiencies in their price systems:

- price instability.
- declining prices.
- a declining share of export prices or final market prices accruing to the farmer.

One of the main reasons for declining prices lies in chronic oversupplies since the 1980s, which have broadly continued until the present. The danger of oversupply continues in spite of the long experience of export-oriented policies over the last 20 years. Compounding this, a key change in global conditions has been the increasing vertical integration of agricultural supply chains with power concentrated at or near the retailer end.¹ Suppliers find they are faced with ever stricter contractual requirements, adding further impediments to agricultural exports. This can prevent poor people from benefiting from existing trade and cause missed opportunities in trade.

Part of the answer in many markets should lie in international programmes to manage supplies, and thereby remove the structural surpluses that overhang the markets. Proposals to manage supplies in order to counter price difficulties are no more than an attempt to correct for the serious power imbalance which market concentration has given rise to. This situation has also led to a quiet, but quite widespread, conclusion among observers that some form of international competition policy is required.

The food deficits in countries' international trade end up deepening the poverty trap. It is urgent to find measures combining trade and investment to tackle this problem. Ease of access and natural demand similarities suggest that the first stage should lie in domestic and neighbouring markets. This would expand market opportunities for many of the poorest rural people and provide Sub-Saharan Africa with an easier context in which to overcome the structural constraints on development which have hampered it since independence.

¹ Green, D. and J. Morrison (2004), pp. 3-4.

The negative gap between food exports and food imports in Africa as a whole is widening. This cannot be sustained as the declining terms of trade cannot guarantee sufficient foreign exchange to pay for imports of foodstuffs to meet the nutritional needs of growing populations. But, with the partial exception of wheat, the staple foods consumed in Africa are widely grown on the continent itself. An expansion of intra-African trade could have a significant impact on these markets, while benefiting the smallholders who mostly supply them. African production of staples has already risen sharply since 1990 - most of all among those crops which least enter world trade, such as cassava, yams and millet.

Better integration of regional markets could provide important outlets for increased production of staples in some countries. Such an approach to agricultural export commodities would have two developmental advantages. It could lead to economies of scale, which, as appears from the Chinese and Indian cases, are vital for success in modern global trade. Secondly, this would be achieved at a level of technology in products as well as logistical, managerial and marketing skills which is consistent with that of the producers. This marks a sharp contrast with the stringent demands of technology and capital made by international agricultural supply chains today.

Policy recommendations

Here we recommend actions to enable commodity-dependent LDCs and African countries to realise increasing gains from commodities production and trade, with a view to the targets to reduce extreme poverty and hunger established under the Millennium Development Goals. The recommendations are for:

(i) Wider development strategy

- At the highest level of policy, countries should be able to develop policies appropriate to their own circumstances, not just those that are taken 'off the shelf' or prescribed by some predetermined theory suited to other situations.
- Related to the above, an experimental approach to development should be permitted, testing out ideas before finally deciding whether to pursue them. This has worked well in Japan and China over a long period. It requires continuous monitoring of development policy and its consequences, and a readiness to alter or replace policies when they do not produce desired results.
- Effective policies require a stable and competent administration, with the capacity not just to develop policy proposals but to follow them through and evaluate them. In part, this requires that senior government service should be a worthwhile lifetime career, assuring good salaries over the long term for administrative and policymaking staff.
- There should be more communication and better integration between trade and rural development analysis on one hand and policy formulation on the other. This should apply to all overarching policy activities, including World Bank-sponsored Poverty Reduction Strategies (PRSPs).
- Strategies for specific markets are crucial to derive the maximum beneficial impacts from trade for poverty and food security. Quantitative analysis in this respect should start at the rural livelihoods end of the supply chain.²

² See Imber, V. et al (2003), pp. 23 and 34.

- Governments need to emphasise education and the development of high-level skills, especially if these have been downgraded in recent times. Among these it is important to develop managerial skills for both private and public sectors.

(ii) Agricultural strategy

- Countries should develop comprehensive plans to develop agriculture within the economy, taking into account the potential of national and regional markets.
- The following areas of policy should be included in such strategies. Each one should be moulded to each country's policy preferences and social and economic characteristics:
 - a) Development of both market-based and non-market mechanisms to reduce food vulnerability. An important aim is the commercialisation of tropical staple products. The strategy should develop both production and marketing, and ensure appropriate stocking systems both for food crops and export commodities.
 - b) Public authorities should invest in and encourage research and development in agro-product development. This requires a major expansion in agronomic research into staple foods, especially those of Africa, such as millet, sorghum, cassava, yams, sweet potatoes and other roots and tubers, and staple-crop bananas and plantains.
 - c) Flexibility in cropping should be assured both for small-scale and large-scale farmers. In some countries farmers have been obliged to stay in commodity production in spite of bleak trends in world markets. Freer choice in cropping will help to reduce supplies on the most oversupplied markets while providing forms of diversification which the farmers themselves chose.
 - d) Governments should support extension services, the provision of inputs and other necessary requirements for agriculture, especially in countries which are at an early stage in agrarian transformation.
 - e) Governments should encourage innovative business models for rural development, including micro-credit. Commercial banks should be encouraged to address the issues which cause risk aversion towards agricultural activities.
 - f) Improved market information should be made available to farmers, including both market and agronomic information about actual and potential export products. This is made easier by modern communications such as mobile telephones, e-mail and the internet as well as the radio.
 - g) Reliable regional certification bodies for organic production should be established. This should be supported by national or regional standards bodies, with technical and financial support, so that producers can secure certification to standards required by developed countries' importers.

(iii) Regional integration

- In LDCs and African countries, policies to promote domestic and regional economic integration should carry at least equal weight with further integration into the world economy.
- To overcome the limited size of domestic markets in Africa in particular, the following approaches should be considered:

- a) Develop strategies to weaken surviving post-colonial trade structures that hamper the true integration of markets.
 - b) Boost exports of staple foods and other crops to other developing countries, including under regional preference arrangements, in order to increase incomes for small and semi-subsistence farmers and reduce food vulnerability.
 - c) Simplify, rationalise and strengthen Africa's regional economic organisations.
 - d) Develop regional markets and financial institutions, based on these regional groupings, in order to promote economies of scale enabling African countries compete more easily with those on other continents.
 - e) An essential part of this lies in human capital formation. Countries should consider creating regional educational programmes, especially in specialised areas like agricultural training and economic planning, in order to defray overhead costs and assist the harmonisation of their policies.
 - f) Regional, national and sub-national plans to develop infrastructure are needed to facilitate trade. Among other things, this should cover storage capacity, irrigation systems, drinking water, telecommunications services, and building and maintaining roads at all levels, from local to international. The multiplier effects are high and with this approach risks can be pooled.
 - g) The coordination of currencies within LDC regions, especially in Africa, should be explored in order to assist mutual trade. All mutual tariffs and exchange rates between important actual or potential trading partners among other developing countries should be reviewed.
- (iv) Poverty targets**
- There is a difference between poverty in general and actual destitution. Governments should decide whether economic and social development requires them to lay the main emphasis in poverty-reduction policies on easing the former or eradicating the latter, and make their policies accordingly.
 - Governments and their advisors should consider whether particular anti-poverty policies would ease the position of rural households which depend on unskilled women labourers for income. In most countries these households tend to be the most commonly found in extreme poverty. Labour-intensive rural production which employs women should be particularly encouraged.
 - In order to have the best chances of tackling deep poverty, each LDC should be able to choose whatever targets fit its own circumstances best. In many cases (as in China in the 1980s and 1990s) this will mean setting income targets significantly below the \$1-a-day and \$2-a-day levels.
- (v) The international community, including donors and developed countries' governments**
- All donors are called on to accept the importance of country-specific policies in development, and the design and progression of those policies by each country for itself. Donors' programmes and multilateral trade rules need to allow developing countries adequate policy space and flexibility to determine and pursue their own strategies, without the imposition of policies from outside.

- The international community should support the use of pilot schemes in development, following the success of such methods in China and other Asian countries.
- Donors should ensure that there is better integration between trade and rural development analysis on one hand and policy formulation on the other. This should apply to all overarching policy activities, including PRSPs.
- The prices obtaining on world markets for agricultural commodities need to be stabilised and increased. Innovative methods of supply management should be urgently investigated market by market, in order to determine their potential to achieve this. Wherever it is found to be feasible, international supply management should be introduced, supported by sufficient finance from the International Financial Institutions and other donors to ensure its success.
- Other measures are also required in order to create a better balance of market power on international commodity supply chains. These should include stricter regulations governing purchases by supermarkets. Any serious abuses imposed by them on suppliers in developing countries should be fully covered by rules against restrictive practices under competition laws.
- Policies should be vigorously pursued to restrict other anti-competitive practices on global markets by transnational corporations. Means should be examined to implement effective competition policies to deal with concentrations of market power at the buyer's end of global supply chains, and new national, regional and multilateral institutions devised accordingly.
- In view of the dangers to African regional integration which the EU's EPA proposals appear to pose, a suspension of the EPA negotiations should be considered, to give time for African regional arrangements to be rationalised and strengthened. The talks could then be regrouped to take account of the new arrangements.
- Donors should assist the build-up and upgrading of infrastructure in rural areas. Where appropriate, PPP operations may be used for this purpose. Such programmes should include not only construction but subsequent maintenance, in order to avoid the fate of much infrastructure donated in the 1960s and 1970s. These may be good avenues to foster North-South and South-South Trade in Infrastructure services.
- Donors should provide incentive schemes for companies from OECD countries to invest in African countries' and LDCs' agriculture.
- The creation of a new generation of commodity-finance schemes should be investigated and then developed and adequately funded.

(vi) International trade rules

The WTO's Doha Round negotiations are urged to include the following measures among their conclusions:

- Rule out all tariff peaks inhibiting developing countries' commodity exports, as well as anything more than minimal tariff escalation. As stated in a proposal by the Group of 20 countries at the WTO, developed countries should not include agricultural products of export interest to developing countries in their lists of 'sensitive products' under proposed new rules in the Agreement on Agriculture (AoA).

- All OECD countries should simplify and harmonise their preferential trade schemes, including rules of origin, and offer duty- and quota-free access to all exports from LDCs.
- There should be preferential access to LDCs' exports by any other developing countries that are in a position to provide it.
- The possibility of protection by developing countries from agricultural imports should be ensured at the WTO negotiations - affecting especially, but not only, imports of subsidised food products. This should apply both to regular protection, on infant-industry grounds, and in cases of food emergencies. This requires strong provisions under the AoA for Special Products and a Special Safeguard Mechanism for developing countries, as well as tariffs or seasonal quotas in African fruit and vegetable markets.
- Measures should be introduced to remove market-entry barriers in developed countries, such as the use in a protective way of product standards, sanitary and phyto-sanitary measures, and rules of origin.
- WTO rules should continue to permit developing countries to run state trading enterprises (STEs) for export products, while Article XVII of the GATT should extend to agrofood TNCs the requirement on STEs to disclose information to the WTO about their activities. The information provided should at least include details of subsidiaries, affiliated companies and strategic alliances.³
- Countries should be able to apply safeguard measures to avoid the destruction or external appropriation of technologies and other knowledge in traditional agricultural sectors. A scheme should be negotiated under intellectual property rules to redeem stolen traditional knowledge and genetic resources, perhaps under OECD auspices.

(vii) Some further research needs

Further research is needed in the following areas, among others, to illuminate the relationship between international trade and extreme poverty:

- More research and analysis is needed to specify the relationship between commodities and trade and Millennium Development Goal 1 on "reducing poverty and hunger."
- Further research is needed into the lessons for LDCs and Sub-Saharan Africa of India's and China's trade policies since the 1980s. It will be necessary to find out the implications under WTO rules if, with a view to providing for necessary economies of scale, Chinese and Indian development models were to be adapted to African regional trade arrangements.
- More research is required on non-traditional commodities and their implications in relation to countries' specific endowments and characteristics. The reservations mentioned in this paper would need to be taken into account.

³ South Centre (1999), p. 27.

I. Introduction⁴

This paper discusses the integration of the Millennium Development Goals (MDGs) in developing countries' national trade and trade-related policies, with a focus on the contribution of primary commodities. It will aim to show the relationships between commodities production and exports on one hand and development and poverty reduction on the other. The paper particularly examines countries in Africa and the Least Developed Countries (LDCs).⁵

The MDGs emerged from the U.N. Millennium Declaration adopted in September 2000. There are eight Goals, each one accompanied by policy targets to be achieved by 2015. Of particular interest to this paper are Goal 1 and its two targets, and Goal 8 and three of its seven targets. These are:

Goal 1: Eradicate extreme poverty and hunger.

Target 1: Reduce by half the proportion of people living on less than US\$1 a day.

Target 2: Reduce by half the proportion of people who suffer from hunger.

Goal 8: Develop a global partnership for development.

Target 12: Develop further an open trading and financial system that is rule-based, predictable and non-discriminatory.

Target 13: Address the Least Developed Countries' special needs, including tariff- and quota-free access for their exports.

Target 14: Address the special needs of landlocked and small island developing States.

Concerning the production of commodities, three important issues have a direct bearing but fall outside the brief of this paper and so will not be further discussed. They are:

1. The impact of the HIV/AIDS epidemic on agriculture and the agro-food process in both rural and urban Africa.
2. The severe impact of climate change on tropical countries, especially in Africa. It has been estimated that it will put between 56 million and 96 million more Africans at risk of hunger while in Kenya, for example, 400,000 smallholders are threatened by a risk to tea farming.⁶ An official Tanzanian report has warned of a 33 per cent reduction in maize output as well as new pests, plant and human diseases and further desertification and soil loss.⁷ This is of direct relevance where many "non-traditional" horticultural exports are concerned,

⁴ This paper reflects the views of the author and not necessarily those of UNCTAD. The author is grateful for the guidance provided by UNCTAD's staff throughout its preparation, including their very thoughtful and informative comments on his first draft. Any remaining errors or faults are entirely his own responsibility.

⁵ The 50 following countries are currently designated by the United Nations as LDCs: Afghanistan, Angola, Bangladesh, Benin, Bhutan, Burkina Faso, Burundi, Cambodia, Cape Verde, Central African Republic, Chad, Comoros, D.R. of the Congo, Djibouti, Equatorial Guinea, Eritrea, Ethiopia, the Gambia, Guinea, Guinea-Bissau, Haiti, Kiribati, Laos, Lesotho, Liberia, Madagascar, Malawi, the Maldives, Mali, Mauritania, Mozambique, Myanmar, Nepal, Niger, Rwanda, Samoa, Sao Tome and Principe, Senegal, Sierra Leone, the Solomon Islands, Somalia, the Sudan, Tanzania, Timor-Leste, Togo, Tuvalu, Uganda, Vanuatu, the Yemen and Zambia. Thirty-four of them (including Madagascar) are in Africa. See UNCTAD (2004), p. xiv, for the criteria of selection.

⁶ Working Group on Climate Change and Development (2005), pp. 6 and 7.

⁷ Reported in Vidal, J. (2005).

since they are frequently transported by air, emitting far more greenhouse gases per payload than sea shipping.

3. The differential environmental impacts of large- and small-scale farming, especially where the former is monocultural. For example, banana plantations are often planted near coasts in place of rainforest, and depend on extremely high usage of agricultural chemicals; while modern high-density, uncovered coffee estates in the Brazilian lowlands have had a strong competitive impact on traditional small, tree-covered and bird-friendly coffee farms in highland areas. Another example would be palm oil estates in former rainforest areas in Indonesia, and their impact on endangered wildlife such as the orang-utan.

The rest of the paper contains six more sections. Section II examines the nature of rural poverty and the relationship of commodity exports with it. The following section looks at the international policy background, particularly structural adjustment and the evolution of international trade rules, while the one after it presents some cases of successful commodity export policies, particularly where they have led to broader development gains. Section V looks in detail at the commodity export sector as it affects LDCs and African countries. Section VI considers the potential for regional trade in African countries' commodities policy, particularly for staple foods, while the final section makes a series of policy recommendations for consideration at various levels.

II. Commodity exports and the rural poverty dilemma

The Millennium Goals and poverty

The Millennium Development Goals have the aim of eradicating extreme poverty and hunger, and present specific targets to this end. But poverty is a complex and elusive concept, and there is no common agreement on how to define it or measure it.

The World Bank's statistics⁸ indicate that poverty overall has declined since the early 1990s, and Asian countries have been particularly successful in this respect. They show that between 1990 and 2001, extreme poverty - defined, as in the MDGs, as people with incomes of less than \$1 per day - declined in East Asia and the Pacific from 29.6 per cent to 14.6 per cent of the population. Over the same period Sub-Saharan Africa experienced an increase in extreme poverty from 44.6 to 46.5 per cent, with 314 million people there living on less than \$1 a day. There was an increase in both poverty and hunger in Western Asia while poverty increased sharply in both European and Asian countries of the Commonwealth of Independent States.⁹

Poverty specialists are not agreed among themselves whether poverty mainly concerns monetary incomes or less tangible factors such as marginalisation, vulnerability, insecurity and dependence on other people. Before we can determine what policies are needed, we need to know who the poorest people are and what their situation is. According to the International Fund for Agricultural Development (IFAD), 75 per cent of the 1.2 billion people living on less than \$1 a day live and work in rural areas.¹⁰ Moreover, it is estimated that about half of the world's hungry people are from smallholder farming communities, another 20 per cent are rural landless and about 10 per cent live in communities whose livelihoods depend on herding, fishing or forest resources. The remaining 20 per cent live in towns and cities.¹¹

Conway puts flesh on these statistics:

*The majority of the rural poor live in areas that are resource poor, highly heterogeneous, and risk prone. They inhabit the impoverished lands of north-east Brazil, the low rainfall savannas and desert margins of the Sahel, the outer islands of the Philippines and Indonesia, the shifting deltas of Bangladesh, and the highlands of northern South Asia and the Andes of Latin America. The worst poverty is often located in arid or semi-arid zones or in steep hill-slope areas that are ecologically vulnerable. There the poor are isolated in every sense. They have meagre holdings or access to land, little or no capital and few opportunities for off-farm employment. Labour demand is often seasonal and insecure. Extension services are few and far between, and research aimed specifically at their needs is sparse.*¹²

Sender points out that, as most information on rural poverty comes from sample surveys,

⁸ World Bank (2004).

⁹ U.N. Department of Public Information (2004).

¹⁰ International Fund for Agricultural Development (2001), p. 1.

¹¹ Food & Agriculture Organisation (2004), p. 25, citing the U.N. Millennium Project's Hunger Taskforce.

¹² Conway, G., *The Doubly Green Revolution* (Harmondsworth: Penguin, 1997), pp. 134-35, quoted in Ashley and Maxwell (2001), pp. 397-98.

*If the sample is drawn from a population list that excludes 'unregistered' people, such as seasonal and temporary migrants, hostel dwellers, workers living in compounds or 'pondoks' serving construction sites, workers in barracks, lines or temporary accommodation on farms, squatters and those living in illegal housing, sleeping rough, or engaged in the sexual services industry, then the poorest people will be under-represented.*¹³

Arising from his experience in Bangladesh, Matin argues that, "The poorest are not just poorer than the poor. Extreme poverty is not a continuum of deprivation but a structural break."¹⁴ Godinot¹⁵ emphasises the close link between extreme poverty and social exclusion, which he defines as the breakdown in the relationship which links an individual to a community. Another word for this would be destitution. The policy question then is: should MDG1 be interpreted to refer particularly to *destitute* people - who are much harder to reach and assist - or to all those with incomes of less than \$1 a day (also very poor by international standards)?

Many specialists concur that the poorest rural households generally "contain women who are performing manual agricultural wage labour, and ... rely upon these female wages to survive."¹⁶ This narrows the field to some of the 450 million waged agricultural workers around the world,¹⁷ and among them, those women in poor countries who are in the most unskilled, precarious and irregular employment. This implies a need to find adequately paid jobs for unskilled rural women, many of them probably in the growing and processing of export crops, and to help these women increase their bargaining power, for example through trade unions. Godinot concludes that, "Promoting decent work, as defined by the International Labor Organization, should be at the core of anti-poverty strategies."¹⁸

An essential aspect of poverty lies in poor people's vulnerability to risk. Low incomes and income "shocks" can expose people to malnutrition and deprive them of basic health services. Social exclusion can reduce the chances of finding work and shelter. This is what links poor people in the poorest countries with those who are poor, by local standards, in rich countries, even if their material standards and incomes are a long way apart.

People's responses to risk and vulnerability can themselves create a barrier to fighting poverty. The World Bank argues that, "Where the possibilities for effective diversification are limited, poor farmers will specialize in low-risk, low-return activities, making it hard to escape poverty... [For example,] Tanzanian farmers without livestock grow more sweet potatoes, a low-risk, low-return crop, than do farmers who own livestock."¹⁹ Here are some of the risks to their livelihoods that farmers and agricultural workers face:

- sudden price falls;
- an unexpected drop in the harvest;
- natural disasters;
- unexpected events such as higher transport costs, destruction of roads or other infrastructure, civil unrest or war;

¹³ Sender, J. (2003), p. 414 (emphasis in the original).

¹⁴ Matin, I. (2005), first page.

¹⁵ Godinot, X. et al (2005), p. 4.

¹⁶ Sender, J. (2003), p. 413, citing J. Sender, "The Struggle to Escape Poverty in South Africa: results from a purposive survey," in *Journal of Agrarian Change*, 2(1), pp. 1-49 (2002).

¹⁷ The number of 450 million is provided by IUF, the food workers' international secretariat.

¹⁸ Godinot, X. et al (2005), p. 4.

¹⁹ World Bank (2001), pp. 142-43. This edition of the *World Development Report* was devoted to "attacking poverty," and Part 4 in particular to issues of security, including the management of risk.

- illness, epidemics and other health hazards, such as the death of a breadwinner.

It will be seen that these "micro" risks can be economic, natural, social or political in origin. The macro-economy is also vulnerable to various kinds of shock. Many of the causes lie outside the economic sphere: for example, hurricanes, earthquakes and other natural disasters, which tend to result in greater human losses in poor countries. Besides the loss of lives and homes, they often have a direct impact on the economy through the destruction of crops or roads. As will be discussed later, prices for primary commodities tend to be more unstable than other prices, so that countries that depend on them are more vulnerable to both economic and natural risks. They also have less shelter from price shocks when they occur. There is thus a direct link between commodity risks and poverty.²⁰

There is also a lively debate about the relevance to poverty of economic inequality. It is interesting to note that inequality was found to have decreased in only two out of 18 countries that were studied for the impact of 20 years of liberalising reforms. They were El Salvador and Costa Rica, and the reduction was attributed to surges in the employment of unskilled workers in the export sector. In both countries this would surely include coffee, and in Costa Rica also bananas.²¹ However, in a survey of recent research in this field, Cornia points to "a growing North-South polarization" as the income gap between the fifth of the world's population living in the richest countries and the fifth living in the poorest rose from 30:1 in 1960 to 74:1 in 1997.²² We shall see later the relevance of this to the poorest countries' ability to export agricultural produce to the developed world. Cornia says that income inequality within countries has also surged in about two-thirds of the nations which have reliable data.²³ Insofar as the successful East Asian model is associated with low domestic inequality, this could be a worrying sign for future development prospects.

The size of the gap between rich and poor countries has added to pressures for migration, including to the richest countries. Wade says that in today's circumstances, "Globalization erodes the insulation of the North from the responses to poverty, inequality, and subordination in the South - including migration, imploding states, civil wars, religious fundamentalism, and destruction of symbols of the structure of domination."²⁴

This is not the place for an extended discussion of these questions but it is important to draw attention to them, if only to illustrate the complexity of the topic. This paper will be largely restricted to the monetary definition found in MDG1, and the requirement to reduce hunger. Their clarity and simplicity lends these definitions a clear virtue as policy targets. However, although MDG8 provides seven of the MDGs' 18 targets, none of them gives time-bound and quantitative measures. As such they seem more like aspirations than targets.²⁵ There is also no indication of the linkages between them (especially Target 12) and the precisely defined Targets 1 and 2. So although MDG8 offers the only reference to the influence of the international system on world poverty, we will concentrate mainly on the poverty and hunger targets laid down in MDG1.

²⁰ A full discussion of macro vulnerability can be found in Guillaumont, P. (2005).

²¹ See Cornia, A.C. (2003), p. 442.

²² Cornia, A.C. (2003), pp. 426, citing the UNDP's *Human Development Report 1999*.

²³ Cornia, A.C. (2003), p. 433.

²⁴ Wade, R.H. (2005), p. 82.

²⁵ Some indicators of progress in MDG8 are proposed in U.N. Development Programme (2003), p. 162.

Linkages between commodity exports and poverty

The failure to tackle the links between the commodities trade and extreme poverty has been described as the major "sin of omission" in the current approach to poverty reduction.²⁶ Wade places it in a wider context and explains where some of the links are to be found:

One of the strangest silences of development thinking is the silence about internal integration. We should distinguish between "external integration" and "internal integration" (or articulation), and recognize that the development of a national economy is more about internal integration than about external integration...

Development strategy has to operate in the zone where the two forms of integration reinforce rather than undermine each other. But the fact is that the issues of internal integration - including practical nuts-and-bolts issues like nurturing supply links between domestic firms and the subsidiaries of multinational corporations ... - have largely dropped out of the development agenda as promulgated by Western development organizations.²⁷

Kydd *et al* express this in more concrete terms: "The physical infrastructure connecting African cities to their rural hinterlands ... presently tends to be worse than the connections to the world markets."²⁸ This is also related to the recent concern among some donors - expressed in terms which may be more acceptable to neo-classical economists - with the "incompleteness" of domestic markets for agricultural products. As a result, LDCs and African countries face supply constraints in food products for export despite a strong resource base. Meanwhile, at the importers' end of the marketing chains, and even with preferential access to developed countries' markets, their commodity exports face such obstacles as:

- fierce competition from imports of subsidised agro-food products from industrial countries;
- restraints on market access for high-value processed goods;
- a multiplicity of stringent regulatory and private standards; and
- the external control and integration of international supply chains.

These barriers not only crowd out LDCs' and African countries' agro-food exports from domestic, regional and international markets, but discourage or prevent them from venturing into untapped export opportunities outside agriculture. Wolf further emphasises the importance of internal factors in successful processes of development:

If we look at developing countries that have succeeded in accumulating physical capital quickly, we find that this has always been overwhelmingly internally generated. Today, for example, China is investing close to 40 per cent of GDP. All of this is being financed domestically.²⁹

Yet the development literature contains all too little on the detailed linkages between foreign trade and the rural and agricultural sectors, despite a wide awareness of their importance and the likely chains of causation between them.³⁰ Export commodities and agriculture tend to be researched by different types of specialist and placed in separate conceptual boxes. Regarding trade liberalisation,

²⁶ UNCTAD (2004), p. 234.

²⁷ Wade, R.H. (2005), p. 94.

²⁸ Kydd, J. *et al* (2002), p. 14.

²⁹ Wolf, M. (2004), p. 263.

³⁰ See Imber, V. *et al* (2003) for a full discussion of this question.

Imber et al point out that the diversity of the circumstances in which the poor earn their livelihoods will mean that it will have different impacts on different groups.³¹ Again, this indicates the complexity of the task and the unsuitability of universal (or one-size-fits-all) policies in this area. Or, as expressed in a specific context: "No single approach can possibly respond to the complex problem of rural poverty in Central America."³²

In McCulloch et al's framework, the following are only some of the many elements taken into consideration:

- the extent to which prices at the border - both import and export - are passed on to producers and consumers
- consumers' and producers' response to such price changes
- the effect on employment, wages and profits
- changes in government revenue and its response in terms of expenditure to reduce poverty.³³

Where trade in commodities is concerned, the closest there is to a systematic economic frame of analysis is the emerging theory of global value chain (GVC) analysis. This looks at the distribution of value on corporate-driven international supply chains and examines how value is divided up along the chain, and the reasons for that distribution. GVC is mostly applied to industrial goods, especially manufactures, but there have been some valuable insights on tropical export crops such as fresh vegetables and coffee. We will refer to some of these later.³⁴

The rural poverty dilemma

A role in poverty reduction has been posited for international trade ever since development economics began more than 50 years ago, and especially since export orientation became the dominant doctrine in the 1980s. However, a curiosity has been the neglect in recent years of both agriculture and the commodities trade, despite the rapid changes in agricultural markets and the sharp declines in commodity prices which have occurred. Neither commodities nor even agriculture is mentioned in the Millennium Declaration.

Recently this has begun to change. This is no doubt partly in consequence of the MDGs' prominence in development policy since 2000, since the importance of rural poverty as an issue follows naturally on from them. As part of that change of mood, there is a reassessment of assumptions which have dominated thinking on rural development since the 1960s. One of these is a concern above all with small farms and farmers, rather than large-scale commercial farms or plantations and their employees. Many rural development thinkers have begun to question the prospects for small-scale farming in a world of increasingly exigent global supply chains. Ashley and Maxwell list eight reasons why small-farm agriculture may no longer have the advantages that used to be assumed. Among them are these:

- part-time farmers may not see the need to maximise the return from farming;
- small farmers are more likely to grow low-value staples for self-sufficiency;

³¹ Imber, V. et al (2003), p. 24.

³² Overseas Development Institute (2003), p. 4.

³³ McCulloch, N. et al (2001), pp. 73 and 87-88, as interpreted by Imber, V. et al (2003), p. 23.

³⁴ A good example of GVC analysis applied to tropical commodity markets may be found in Kaplinsky, R. (2004).

- the skills required to manage new technologies are beyond the scope of many small farmers;
- small farmers pay more for inputs and receive less for outputs than large farms.³⁵

It may be possible to turn some of those handicaps into virtues, as will be discussed later. In any case, the central place of smallholders in many rural communities is still emphasised by the U.N. Food & Agriculture Organisation (FAO), which argues:

*Improving the productivity of small farmers has a ripple effect that spreads benefits throughout poor rural communities. When small farmers have more money to spend, they tend to spend it locally on labour-intensive goods and services that come from the rural non-farm sector, boosting the incomes of the rural population as a whole, including landless labourers who make up a large part of the population of the poor and hungry in many countries.*³⁶

Ashley and Maxwell go on to discuss whether the rural *non-farm* economy (RNFE) can take up the slack. An equivalent in China, the township and village enterprises (TVEs), has been credited with much of the early dynamism of that country's industrialisation drive. But these authors see in the RNFE elsewhere a "bifurcation" between relatively high-return activities, usually accessible to those with capital or skills, and low-return activities open to poor people. They quote Jan Breman as describing such low-return coping strategies as "hunting and gathering for work"³⁷ - which hardly sounds like the best starting point to transform an economy or eradicate poverty. It is more like the *depictions* of extreme poverty that led Godinot in Burkina Faso and Peru, and Matin in Bangladesh, to the conclusions cited above.³⁸ The growth of the RNFE also depends on the vitality of the *farm* economy, for, as the FAO's statement just quoted implies, "without agricultural growth in rural areas, redressing poverty is an impossible task."³⁹ Ashley and Maxwell point out that the long-term fall in agricultural commodity prices has undermined agriculture's profitability as a business.⁴⁰ This was bound to make the RNFE more attractive than it used to be, even if only relatively.

Commodity prices have long been known to be volatile, and since the 1980s they have fallen sharply against the prices of manufactured goods and services. Real prices for agricultural commodities have declined by almost 50 per cent over the last 40 years.⁴¹ This is difficult for their producers if it means costs go up relative to their earnings, and for their countries as they have to export greater volumes to pay for the same amount of imports. This deterioration in LDCs' and African countries' terms of trade makes it even more difficult to break free from dependence on agriculture.

These problems were widely understood throughout the early period of development thinking and there were serious attempts to act on them between the 1950s and the 1970s. UNCTAD, inspired by Raúl Prebisch as its first Secretary-General, is an important legacy of that. But the issue has been largely ignored since the 1980s as the prevailing philosophy has emphasised the virtues of markets and tended to overlook any drawbacks that markets may have. Some would say that in practice this has confined African and LDC economies to the production of

³⁵ Ashley and Maxwell (2001), p. 407.

³⁶ Food & Agriculture Organisation (2004), p. 32.

³⁷ Quoted by Ashley and Maxwell (2001), p. 409.

³⁸ Godinot, X. et al (2005) and Matin, I. (2005).

³⁹ I. Singh, *The Great Ascent: The rural poor in south Asia* (Baltimore, 1990: John Hopkins UP), p. xix, quoted in Ellis and Biggs (2001), p. 441.

⁴⁰ Ashley and Maxwell (2001), pp. 403-04.

⁴¹ Food & Agriculture Organisation (2004A), p. 11.

commodities, and those production stages in them that represent little competition for developed countries' products.

This poses a colossal dilemma for rural development. Is there any future on present trends for smallholders and subsistence or semi-subsistence farmers in poor countries? If not, what can be done about it? Should large farms and plantations be encouraged as the best source of future rural production and employment? What then happens to all the people who currently depend on smallholdings? And what about the environmental impacts?

Put another way, should we take the world's present arrangements for agriculture and trade as the starting point and try to find ways for poor rural people to fit in with them; or else insist as a priority on the needs and interests of the 900 million poor people in rural areas, and seek ways for *others* to accommodate *them*? Those needs include adequate wages for poor workers' labour and adequate prices for poor farmers' produce. These might seem ambitious and even idealistic goals in present circumstances. But considering the bleak future that extremely poor people might otherwise face, it surely needs to be considered seriously, whatever vested interests may oppose it.

The LDCs and Africa

The LDCs are poor by definition, while the biggest geographical concentration of poverty is to be found in Africa. How much does poverty today arise from specific characteristics of the poor countries themselves, and how much from identifiable economic or geographical circumstances which they have in common?

The United Nations has designated 75 countries as low-income food-deficit countries; of these, 48 are LDCs and 41 are in Africa.⁴² Among staple food products consumed in Sub-Saharan Africa, the region was a net exporter in 2003 only of bananas, gross exports of which had more than doubled to 562,000 tonnes since 1990. But dessert bananas for export are virtually a separate product from the banana and plantain varieties which are consumed as staples. Between 1990 and 2000, SSA switched from being a net exporter to a net importer of cassava, pulses, sorghum and sugar. Its net deficits in maize and rice substantially increased and net wheat imports more than doubled. (See Table 2 in Section VI below.)⁴³

Countries which remain poor under liberalised trade and global markets tend to possess some or all of six characteristics. They are:

1. The **predominance of rural poverty** and the reliance of a large majority of the population on agricultural livelihoods. We have already introduced this topic.
2. **Small size of domestic populations and markets.** Even in 1965-85, India and China were growing faster than other developing countries despite "closed" economic policies which many would now consider prejudicial to development. Over that period, per capita income in China and India grew at 3.5 per cent per year while in other low-income countries the rate was less than 0.5 per cent. Income growth per capita in lower-middle-income countries was at 2.6 per cent and among upper-middle-income developing countries, 3.3 per cent per year.⁴⁴

Many LDCs, and especially African countries, are small, and the larger LDCs have tended to be among their best performers. Over the last 20 years

⁴² The countries are listed by the FAO at www.fao.org/countryprofiles/lifdc.asp?lang=en.

⁴³ Country-by-country data can be found at the FAO's FAOSTAT Database, available on the internet at faostat.fao.org/faostat/collections?version=ext&hasbulk=0&subset=agriculture.

⁴⁴ Overseas Development Institute (1988), p. 6, citing World Bank figures.

Bangladesh has had one of the highest growth rates per capita and has rapidly diversified its exports away from a narrow commodities base.

A large domestic market permits greater diversity and differentiation of output for local firms, facilitating the generation of investment surpluses. In both India and China, the industrial sector was already well implanted before economic liberalisation began. Large size also permits economies of scale and specialisation in supporting activities funded by the state, such as higher education and research. As we have seen, small countries are also more vulnerable to external shocks, partly *because* of the greater dependence on trade that they usually have.⁴⁵

- 3. Remoteness from world markets**, mainly due to geographical characteristics such as a landlocked or small island position or the small size of the main port or ports serving a country. A related factor is low population density. MDG Target 14 on small island and landlocked states recognises this issue. The UNDP says it is no coincidence that all the East Asian success stories of the late 20th century have access to coasts and major shipping routes; access to large markets can help counter the effects of small populations.⁴⁶

However, Africa contains 15 of the 31 landlocked developing countries, which also include four of the 16 LDCs on other continents as well as Bolivia and Moldova (the poorest countries on their respective continents) and other countries with low per-capita incomes such as Kyrgyzstan, Mongolia and Tajikistan. Another 11 LDCs are small island states, including three off the African coast, six in the Pacific Ocean and the only LDC in the Americas (Haiti).⁴⁷

Remoteness matters because of time delays in shipments, when short delivery and turnaround times are increasingly important business factors; and also for costs - the unit costs of transport, port charges and so on are as important as actual distance. There is considerable recent empirical evidence that with the lowering of average tariff barriers, the relative importance of transport costs as a determinant of trade has increased.⁴⁸ Small island states in particular tend to have high ratios of food imports to the value of exports. Many are currently protected by preferential import regimes for bananas and sugar in the European Union and the USA, and their fragile agricultural bases are at risk as these preferences become diluted or may be removed entirely. The recent shift in oil prices has further added to the importance of these factors, and reduced the effective terms of trade of landlocked and small island states.

- 4. Dependence on a small number of primary commodities** for export revenues. This is seen both among African countries and LDCs. Usually these are agricultural products but sometimes they are minerals. Where they are metals, the problem is often even worse as metal exports from these countries have sharply declined in recent years. Dependence on a small number of exports leaves a country vulnerable to sharp changes on world markets and to the adverse effects on production of the weather and natural disasters. The concept of “commodity-dependent developing countries” (CDDCs) has recently received a wider currency to describe countries depending on such exports.⁴⁹

⁴⁵ See Guillaumont, P. (2005), pp. 15-17.

⁴⁶ U.N. Development Programme (2003), p. 74.

⁴⁷ The United Nations recognises 41 countries as small-island developing states. See FAO (2005B).

⁴⁸ Santiso, J. (2005), p. 19.

⁴⁹ See, for example, European Commission (2003).

5. **Low capacity to diversify.** Getting out of reliance on a narrow source of income or exports means widening the range, so that if the price of one falls it will not have such a severe effect on earnings as a whole. This generally requires capital to invest and an ability to acquire the knowledge to produce the new product to the required standard. These are less readily available in poor countries, especially when the prices of the existing export products have themselves fallen. At the same time, many attempts to diversify have been frustrated, either because the price of the new crop itself declined or because access to the market concerned was denied due to direct import barriers, subsidies to domestic producers or other commercial or regulatory restrictions.
6. **Lack of competitiveness due to supply-side constraints.** Constraints on farmers' ability to obtain the best prices for produce or exploit opportunities can arise from inadequate infrastructure, especially in roads and transport; a greater number of intermediaries between small and remote farms and the export port than with larger farms in more prosperous countries; insufficient support to farmers in the form of extension services and other sources of knowledge; and lack of access to inputs at affordable prices.

These are among numerous obstacles on the supply side which prevent the poorest countries from making best use of the commodity markets and maximising the chances of alleviating poverty through them. Partly for these reasons, when world coffee prices were at their lowest between 2000 and 2002, producers of robusta coffee in LDCs were paid on average 17 US cents per pound of coffee beans, compared with 25 cents to producers in other developing countries; and LDC arabica producers received 37 cents compared with 69 cents elsewhere.⁵⁰

All six of these factors were in the background to Niger's recent food crisis. Niger's economy has expanded impressively in recent years, with GDP growth of 5.5 per cent recorded in 2000 and 12.6 per cent in 2001. Nevertheless, its terms of trade have deteriorated, the main exports being uranium (now a very weak market), livestock and onions. Yet its 1.27m sq. km. of land reportedly also contain deposits of gold, oil, coal, iron ore, tin, phosphates, molybdenum, gypsum and salt. The exploitation of gold began recently,⁵¹ but with few roads or other modern facilities, a harsh topography that is mostly desert or semi-desert, and a long distance to the sea, it is likely that investors will continue to overlook these resources, leaving the country's 11m people to survive on the 3.5 per cent of the land that is arable and the 0.01 per cent under permanent crops.

The fact that Niger shares with Mali and Burkina Faso the world's lowest educational attainments⁵² is another handicap. Evidence from UNDP's Human Development Index suggests that commodity export dependence actually has a closer statistical association with low life expectancy and poor education than with low national incomes.⁵³ As the FAO reports, "A farmer with four years of elementary education is, on average, 8.7 percent more productive than a farmer with no education. When complementary inputs such as fertilizers, new seeds or farm machinery are available, the productivity increase rises to 13 percent."⁵⁴

⁵⁰ UNCTAD (2004), p. 236.

⁵¹ Issa, O. (2005).

⁵² UNDP (2004), Table 11, p. 179.

⁵³ See Lines, T. (2004), p. 7.

⁵⁴ *Ibid.*, p. 28.

This suggests a link with MDGs 2-6 on education and health.⁵⁵ No doubt diversifying rural incomes and exports will in the long run assist both health and education standards. But an indirect way of overcoming commodity dependence may also be to raise health and education standards in the countries concerned.

⁵⁵ MDG2 "Achieve universal primary education," MDG3 "Promote gender equality and empower women: eliminate gender disparity in schools," MDG4 "Reduce child mortality," MDG5 "Improve maternal health," MDG6 "Combat HIV/AIDS, malaria and other diseases."

III. The policy background

There was an abrupt change in the dominant philosophy of development after a change of thinking at the World Bank in the early 1980s. This chapter outlines the history of development interventions since then, including the changes in trade regime brought on by the creation of the World Trade Organisation (WTO) in 1995.

Structural adjustment

The origins of the change in thinking are found in a report written for the World Bank in 1980 by Elliot Berg, which said "accelerated development" could be achieved if both international and domestic markets affecting developing countries were freed up, enabling price mechanisms to operate more effectively. The Bank's response was to switch its emphasis from financing new infrastructure to running "structural adjustment programmes" (SAPs), through which recipient countries would be advised how to adjust their economies to respond better to international price signals. The aim of this approach was summed up in the credo of "getting the prices right." National policies were to be reoriented from substituting for imports to encouraging exports - in most cases agricultural or, sometimes, mineral commodities. Countries with a comparative advantage in export crops were expected to exploit it, and use the proceeds to import food if need be. An essential corollary was to reduce import tariffs, which would expose domestic producers to foreign competition and encourage them to match it for costs and productivity.

The thinking derives from Ricardo's theory of comparative advantage, according to which all countries will be better off if they specialise in whatever they produce most efficiently. However, the interpretation was static: countries should concentrate on their existing strengths rather than try to develop new ones in more diverse and advanced areas of activity. Even if such a strategy works, it risks keeping the country that follows it stuck in its present groove. Even if the theory of comparative advantage is accepted (for it is by no means universally so), some would say it should be used in a dynamic way to develop more advanced sectors which enable the country to move up the ladder of development.

The Berg report was closely followed by the onset of the International Debt Crisis in 1982, the response to which gave the International Monetary Fund influence over a great many more countries than before. Government spending was cut back, especially in social fields including health and education.⁵⁶ Regarding structural adjustment's impact on poverty, the Senegalese economist D.M. Dembele wrote:

*Many African States have been stripped of all but a handful of their economic and social functions. Cuts in spending mostly fell on social sectors. State retrenchment primarily aimed at eliminating subsidies for the poor, removing social protection, and abandoning ... income redistribution and other social transfers to the most disadvantaged segments of society.*⁵⁷

The Bank's *World Development Report 1986* then provided what amounted to a manifesto in the area of agricultural trade. In particular, it attacked at length the taxation of agricultural exports, both actual and implicit: "Some taxation of export

⁵⁶ If the apparent association of commodity dependence with low indices in these fields holds, as suggested above, this could be an underlying reason for the deterioration in the poorest countries' commodity-export positions.

⁵⁷ Dembele (2004), p. 3 of 5.

crops involves conventional border taxes or quotas, but frequently taxation is a result of the pricing policies pursued by marketing agencies in the public sector."⁵⁸ State commodity export marketing boards were among the first targets of the reduction in government's role.

In one reported attack on export taxes, the Bank in 1995 required Mozambique to reduce a tax on raw cashew nut exports. This had the expected effect of raising raw cashew prices, including the farmers' share of the price. However, it also led to the closure of cashew-nut processing factories and the loss of about 10,000 jobs, as it ignored the incentive which the tax gave to export the nuts in processed form. In Imber et al's words, "The cashew sector went from being a net exporter of processed cashew to a net exporter of raw cashew" - a reduction in value added and a small step down the ladder of development. Moreover, an export cartel developed, controlling the prices paid to farmers, while the raw cashew exports in turn went to a tightly controlled market in India. "Those with market power - the export cartel and the monopolistic importer were the beneficiaries of the policy change," Imber et al concluded.⁵⁹

Structural adjustment's stated objective was to increase efficiency by deregulating all markets. But it neglected the presence of market failures, such that the private sector often did not take over functions of marketing boards, for instance market information dissemination, research and extension. It would be fair to say that the policies amounted in large part to emergency packages supposed to fix ailing economies. There was no explicit development strategy to replace the once pro-active national plans in place in many countries up to the mid-1980s: this could be (and still is) justified theoretically with the argument that the market would lead to growth once it was allowed to function effectively. The failure to improve socio-economic outcomes can be ascribed to ill-informed assumptions on the functioning of those economies by foreign experts, as well as illusory expectations about the effectiveness of "shock" therapies.

In practice, the policies of structural adjustment were often followed by economic stagnation or even decline; and in the commodities field, by declining incomes as international prices fell. As UNCTAD reported,

*African LDCs have undertaken deeper and faster trade liberalization than Asian LDCs. But it is the latter that have generally had a better performance in terms of poverty reduction and also have been more successful in developing more market-dynamic manufactures exports, partly through regional trade and investment linkages.*⁶⁰

The doctrine of export orientation was weakened by a so-called fallacy of composition, according to which one exporting country can improve its position on a market if it increases its export volume, but if several exporters do so they will cause the market to be oversupplied and the price to fall. See the box on the next page for a recent example. In some cases even the absolute value of all exports will then decline. In this way, while world coffee exports increased from 3.7m tonnes in 1980 to 5.9m tonnes in 2000, their total value declined from US\$12.5bn to \$10.2bn. And in cocoa, export volumes increased over the same period from 1.1m tonnes to 2.5m tonnes but, with persistent production surpluses, they fell in value from \$2.8bn to \$2.5bn.⁶¹ As a counter to this problem, it is essential for export policies to consider a range of possible products and decide which have the dynamic potential to hold their value in international trade even if others should

⁵⁸ World Bank (1986), p. 64.

⁵⁹ Imber, V. et al (2003), p. 19. For an extended account, see Kanji, N. et al (2004).

⁶⁰ UNCTAD (2004), p. VIII.

⁶¹ UNCTAD (2003A), Tables 3.13.3 (p. 158), 3.13.4 (p. 161), 3.14.3 (p. 175) and 3.14.4 (p. 177).

fall. The problem emerges at its strongest when a country takes into account only the "static" comparative advantage embodied in its existing export profile.

According to one summary, "The evidence of economic deterioration in the era of structural adjustment ... includes declining per capita income and food production, worsening balance of payments, growing domestic resource gaps, diminishing participation in foreign direct investment flows and rising foreign debt."⁶² Such statements reflect the disappointment of much of the general public with structural adjustment policies in many African countries.

Box **A vanilla-flavoured fallacy**

The "fallacy of composition" on unregulated agricultural markets was illustrated in shocking colours by recent events in the vanilla trade.

In August 2005 some farmers in Uganda were reported to be returning to planting upland rice after the vanilla price collapsed in what looks like a classic market crash. According to one report, local farmgate prices fell from 150,000 shillings per kg in 2003 to just Sh500 in 2005 - if there were any buyers at all. Vanilla processors were hesitant to buy because they had not sold off the 2004 crop and most had not received any buying orders themselves.

The background lies in a series of crises in Madagascar, which usually produces up to half of the world's output. The resultant price surge in 2003-04 had two predictable consequences. On the demand side, vanilla users substituted cheaper artificial flavourings, while on the supply side new growers entered the market from as far afield as Papua-New Guinea, Uganda, India, Costa Rica and Colombia. As the largest world harvest hitherto was no more than 8,600 tonnes (in 2002), these greater quantities could not be accommodated.

In 1994, the IMF had required Madagascar to abandon price controls on vanilla and the nation's reserves, amounting to 2,000 tonnes, were then sold. But then, in 2000, some 25 per cent of the national crop was destroyed in a cyclone, along with more than 100 tonnes waiting for export. The international price went up from \$20 per kg in 1999 to \$33 in 2000, and soared to a peak two years after Madagascar's political crisis of 2002, variously reported as reaching between \$180 and \$400 a kg.

With several countries harvesting vanilla crops for the first time, by August 2005 the price according to several reports had plummeted to just \$4 to \$6 per kg.⁶³

Why was this? We saw earlier that a country's internal economic integration is as important to development as its integration in the world economy. To adopt a word from neo-classical economics, we might say that market structures are "distorted" when they are as lacking in internal integration as in many African countries today. Their economic systems were formed in colonial times to supply European markets, and they remain directed towards other continents. Not only do the domestic economies lack integration, but in most cases the links with their closest neighbours are also attenuated. For example, telephone cables between neighbouring capitals in West Africa often still go via London and Paris, the former colonial capitals. As regards trade, Sub-Saharan African countries exported on

⁶² Stein, H. (2003), p. 171.

⁶³ Sources: Nyapendi, M. (2005), New Vision (2005), Paul, N.C. (2003), Butler, R.A. (2005), FAOSTAT Database and IRIN (2005).

average \$18.4bn worth of major agricultural commodities per year in 1996-2000, but only \$1.9bn of it was within SSA itself.⁶⁴

A major task of development since decolonisation should have been to build up domestic and regional linkages, since the international ones were already quite highly developed. Instead, throughout the last 20 years international policy has insisted on global integration as an absolute priority, leaving national economic structures almost to look after themselves. In cases such as state marketing boards, it even required elements of internal integration that already existed to be destroyed rather than improved and built upon. If, a quarter of a century after Berg, the liberalising policies have still not yielded the promised acceleration of development, it is tempting to ask when they ever will.

Trade rules

Besides the manifesto for agricultural policy contained in the year's *World Development Report*, 1986 saw the start of one of the most ambitious undertakings in the history of economic policy: the Uruguay Round of trade negotiations, which led in 1995 to the addition to the General Agreement on Tariffs and Trade of a clutch of new trade agreements under a new body, the WTO. Like the GATT before it, the WTO is to be reviewed - and its liberalisation measures taken further - in a periodic series of negotiating "rounds" among its 140-plus members. We are in the middle of the first of these, launched at Doha, the capital of Qatar, in November 2001.⁶⁵

There are also numerous bilateral trade arrangements between countries or blocs of countries, including those between the United States or the EU on one hand and groups of developing countries on the other. The oldest arrangement is between the EU and 77 African, Caribbean and Pacific (ACP) countries, in which a new agreement signed at Cotonou in Benin in 2000 succeeded the former Lomé Convention. The EU already provides duty-free access on over 98 per cent of ACP exports to it.⁶⁶ Alongside the Cotonou Agreement is the Everything But Arms initiative (EBA), which provides for the removal of tariffs on LDC goods imported into the EU, while Cotonou made provision for European Partnership Agreements (EPAs), currently under negotiation between the EU and six sub-ACP regions. On the US side the main deals so far are the Central America Free Trade Agreement (CAFTA), ratified by small majorities in both houses of Congress in 2005, and the unilaterally defined African Growth and Opportunity Act (AGOA), passed in 2000.

Agreements at the WTO cover a wide range of topics, many of them relevant to development. However, Rodrik sees the WTO as essentially:

*an institution that enables countries to bargain about market access... The differential treatment of manufactures and agriculture, or of clothing and other goods within manufacturing, the anti-dumping regime, and the intellectual property rights (IPR) regime, to pick some of the major anomalies, are all results of this political process... there is very little in the structure of multilateral trade negotiations to ensure that their outcomes are consistent with development goals.*⁶⁷

⁶⁴ Diao, X. et al (2003), Table 5, p. 12.

⁶⁵ A useful discussion of the possibilities for poor people in the current negotiations on agriculture may be found in A. Werth and B. Lee (2004).

⁶⁶ Stevens, C. and J. Kennan (2005B), p. 3.

⁶⁷ Rodrik, D. (2001), p. 34.

We will address three of the WTO's agreements in particular: the Agreement on Agriculture (AoA), and briefly the agreements on Trade-Related Intellectual Property Rights, or TRIPS, and Non-Agricultural Market Access (NAMA). The AoA is regarded as the most important measure for the Doha Round because of agriculture's importance to developing countries and its previously anomalous status under GATT, which permitted levels of tariff and subsidy which it prohibited in industrial goods from the 1950s on. The AoA is meant to radically cut the developed countries' support for their agriculture, now amounting to \$350bn per year,⁶⁸ but developing countries are dissatisfied with the reductions made so far and the "special and differential" (SDT) measures meant to protect their interests under it. Negotiations to revise them have made slow progress, with WTO ministerial meetings abandoned in disarray at Seattle, USA in 1999 and Cancún, Mexico in 2003, and a critical lower-level meeting in Geneva making little progress in July 2005.

With a largely unfulfilled promise in the Preamble to the AoA that developed countries would provide "the fullest liberalization of trade in tropical agricultural products," an important issue in the current negotiations is that of tariff peaks and tariff escalation. Tariff peaks are exceptionally high tariffs levied on specific items, often those whose importation is particularly sensitive for the importing country's economy. This might be sugar, fruits, vegetables, meat, dairy products, meat, cotton, textiles, processed coffee, cocoa, tea or wood.

Tariff escalation is a situation where tariffs are higher, the more highly processed the imported product. This inhibits processing in the country of origin as a way to add value and move towards industrial development. According to UNCTAD,

*Tariff escalation prevails in a large number of agricultural commodity chains. Of 17 major commodity chains of interest to developing countries, 12 suffer from tariff escalation, mostly at the first stage of processing. In developed countries, tariff escalation is particularly pronounced in cocoa, coffee, oilseeds, fruit, hides and skins. In developing countries ... in almost all cases [applied tariffs] show relatively high escalation.*⁶⁹

In the cocoa sector, Japan allows cocoa beans to be imported tariff-free but levies a 5 per cent tariff on cocoa paste, 10 per cent on defatted cocoa paste, 13 per cent on cocoa butter and over 280 per cent on chocolate and elaborate products.⁷⁰ This makes it virtually impossible to manufacture chocolate products outside the markets of consumption: while developing countries produce more than 90 per cent of the world's cocoa beans, their production share declines with the degree of processing to less than one-half for cocoa butter, one-third for cocoa powder and just 4 per cent for chocolate.⁷¹

Another important issue at the Doha Round is that of subsidies on agricultural produce exported by developed countries. This applies both to products exported to developing countries, such as wheat and rice, which undercut domestic prices, and those which are in competition with developing countries' exports. A special case of the latter lies in the high US and EU subsidies to their cotton farmers, which reduce general prices and can prevent low-cost producers in West Africa from making adequate earnings.

⁶⁸ Commission for Africa (2005), p. 280, citing OECD, PSE/CSE database: supporting data for *Agricultural Policies in OECD Countries at a Glance* (Paris: OECD, 2004).

⁶⁹ UNCTAD (2003B), p. 5.

⁷⁰ Commission for Africa (2005), p. 276.

⁷¹ Oxfam International (2002B), p. 161, citing UNCTAD, "Strategies for Diversifying and Adding Value to Food Exports," (Geneva, 2000).

The TRIPS Agreement extends to all WTO members strict rules on patents and copyrights which previously affected mainly developed countries. Of concern to many poor rural people is the possibility TRIPS gives for certain kinds of living being and biological process to be patented, such as seeds. African countries have proposed a tightening of this provision at the Doha Round.⁷²

Meanwhile, in NAMA, there is an attempt to persuade developing countries to make deep cuts in their tariffs on industrial goods imports. As one trade lawyer put it,

*If the current push for drastic and draconian tariff slashing ... succeeds, the ultimate result will be that developing countries lose out in the manufacturing sector. This scenario has already been played out under IMF/World Bank structural adjustment programmes, which cut tariffs on industrial goods in some African countries resulting in rapid deindustrialisation. A potential impact of NAMA is that developing countries may be locked into primary commodities and extractive activities.*⁷³

However the Doha Round may turn out, the EPA negotiations are also arousing fears in some quarters. Farmers' representatives from 14 countries in Eastern and Southern Africa called for the negotiations to be stopped, partly out of concern that under new rules of reciprocity their countries might have to remove tariffs on imports from the EU at the same time as the EU removes its tariffs for them.⁷⁴ The EU says reciprocity is needed to make the EPAs permissible at the WTO, as regional trade agreements under Article 24 of the GATT. LDCs may have little to gain from the EPAs anyway as the EU's tariffs on imports from LDCs were already removed under EBA.⁷⁵

Stevens and Kennan, on the other hand, suggest that the EPAs could have a severe impact on government revenues raised from import duties, and pose difficulties for regional integration because of likely differences among ACP neighbours over which tariffs to cut.⁷⁶ Traidcraft points to another danger to regional integration: that individual members of a regional group might reach different conclusions as to whether or not it was in their national interest to even agree an EPA with the EU.⁷⁷ This is all ironic since the Cotonou Agreement states that EU-ACP cooperation "shall build on regional integration initiatives of ACP States."

AGOA, the EPAs and CAFTA follow arrangements made for many years by developed countries to give preferential import tariffs to groups of developing countries. The largest is the Cotonou Agreement, which includes specific arrangements for particular products, notably the Sugar Protocol which gives national quotas on raw cane sugar imports into the EU at the EU's above-market domestic prices. However, UNCTAD reports that in 2001 only 68.5 per cent of the import quotas eligible under such preferences in the US, Canada, EU and Japan were taken up. This was a great improvement on 30.2 per cent in 1997, but still means nearly one-third of the opportunities were not exploited. UNCTAD gives various reasons, of which restrictive rules of origin on goods imported under the quotas are the most important. Other reasons lie in demanding product standards in the importing countries, preferences which do not stimulate products with diversification potential, and prohibitive costs of compliance.⁷⁸

⁷² Correa, C.M. (2005), pp. 130-31.

⁷³ Mariama Williams of the Institute for Law and Economics and DAWN, quoted in M. Khor (2005), p. 6.

⁷⁴ EPAwatch (2005).

⁷⁵ See Traidcraft (undated).

⁷⁶ Stevens, C. and J. Kennan (2005A).

⁷⁷ Traidcraft (undated), p. 2.

⁷⁸ See UNCTAD (2004), pp. 250-52.

Such criticisms have been levelled especially at AGOA. For example, while the Cotonou Agreement allows clothes imported under it to use yarn sourced from anywhere, AGOA insists it should be either from the US or an eligible African country.⁷⁹ Countries have to pass tests on per capita income, economic liberalisation, privatisation, government interference in business and the nature of their legal system before qualifying for AGOA. The President of Botswana was reported as complaining that his country did not qualify because it was "not poor enough."⁸⁰ Moreover, oil accounted for 87 per cent of the \$26.6bn worth of goods imported into the US under AGOA in 2004. Although the non-oil imports increased in value from \$2.9bn in 2003 to \$3.5bn in 2004, their share of the total declined from 20 per cent to 13 per cent.⁸¹ US imports under AGOA in 2003 were correspondingly sourced mostly from a small number of non-LDCs which specialise in mineral exports: 66 per cent from Nigeria, 12 per cent from South Africa and 8 per cent from Gabon.⁸² How much this assists poverty reduction and development in Africa as a whole may be called into question.

Developmental lacunae in preferential access may be illustrated by the EU-ACP Sugar Protocol. Like the Mozambique cashew nut story recounted above, it denies incentives to add value and progress along the agro-industrial chain. For example, Swaziland has one of the largest ACP sugar quotas but is inhibited from building a confectionery industry for export because its products would not qualify for the sugar quota and the special price available to it. Secondly, in a scheme which has lasted, with limited modification, for more than 50 years (originally under the Commonwealth Sugar Arrangement), one can see the consequences over time. The main beneficiary countries have derived financial gains from exporting sugar at well above world prices. Some of them, notably Mauritius, have used that extra revenue to good developmental effect. However, the selection of beneficiaries has not kept up with changes in the market, including the fact that many more LDCs now export sugar. Moreover, the higher prices and assured market access reduce the incentives on beneficiaries to increase efficiency or add value within the sugar sector itself. It is noteworthy that the sugar yields found in the main beneficiary countries under the Sugar Protocol have been static or actually fallen since the 1960s. They are well below those of more recent LDC sugar producers, such as Malawi, Senegal and Zambia.⁸³

⁷⁹ Imber, V. et al (2003), p. 18.

⁸⁰ Mekay, E. (2005).

⁸¹ Data found in U.S. Trade Representative (2005).

⁸² Mekay, E. (2005).

⁸³ FAOSTAT Database.

IV. Successful development from a commodities base

Despite the rapid widening in the income gap between the developed and developing countries, several countries have managed to bridge that gap, or at least substantially narrow it. Most of them are in East and South-east Asia and their success is in part due to the economic pull of Japan. However, specific policies were also involved. Examples of some successful strategies are discussed below. Agriculture and trade policies are examined in particular.

The developmental state

There has been much discussion of how certain East Asian countries succeeded after Japan in becoming industrial economies with high incomes, especially South Korea, Taiwan, Singapore and the Hong Kong region of China. More recently there has been a similar debate about the growth and industrialisation of China itself and India. A comparison of China's reform policies since the 1980s with those of Russia can be instructive. Such a comparison was made 10 years ago by Peter Nolan, and his conclusions remain valid today.⁸⁴

The difference between the two countries can be summed up in the images used by reformers themselves to describe how they wanted to go about it. In Russia the idea was to "cross the chasm in one leap" while the Chinese government wanted to "cross the river by feeling the stones beneath one's feet" - always ready to move on to a steadier one if any stone proved insecure. In Nolan's words:

*All the major reforms [in China] were characterised by the same procedure: local experimentation was combined with central investigation and approval... Vast amounts of labour time of officials and experts were spent investigating, writing reports, organising work conferences, debating results and monitoring new policy initiatives. The contrast with the simplicity of approach under the transition orthodoxy [in Russia] could not be greater. In the latter, the task of 'reforming governments' is simply to remove themselves from intervention in the economy.*⁸⁵

In agriculture, the early Chinese reforms gave farmers market incentives to produce, and with them control over their own production. But the government retained a conventional view of food security based on domestic supply:

*The government judged that there would be large risks involved with greater integration with world food markets... They believed that if China was much more dependent upon world markets for its food supplies and an exogenous shock sharply reduced its ability to import foodstuffs, the results would be catastrophic. Farm output cannot be expanded overnight. Infrastructure needs to be built and farmers skills take time to acquire.*⁸⁶

Russia, on the other hand, applied the "single leap" philosophy to industry but largely neglected the huge problem of turning its collective farms into a viable commercial form of agriculture. Perhaps the problem was just too complicated. The rapid privatisation of industry led to a surge of resource-based exports, which have enabled Russia to maintain a large trade surplus throughout the last 10 years. But the domestic industrial base narrowed rapidly and the exports are all of minerals (oil, gas, gold, aluminium and other metals).

⁸⁴ See Nolan, P. (1995).

⁸⁵ Nolan, P. (1995), p. 169.

⁸⁶ Nolan, P. (1995), p. 183.

This is in stark contrast to the detailed attention that China's leaders have paid to agriculture. A consistent goal has been to tackle rural development - although not entirely by reliance on the market: "When transition began, unlike their counterparts in other transition countries, China's policy makers kept tight control of agricultural commodity markets long after they provided incentives to farmers by decollectivizing agricultural production."⁸⁷ Although the reforms started there, the aim was never to build up agricultural or commodity exports, which were already small in any case. The arable area is so small in relation to population that the aim has always been to grow food for the country's own people, not other countries'. Export growth was based on the development and growth of industry. This has included a large movement of rural and agricultural workers to the cities, but rural expansion was also important. According to Yasheng Huang, the domestic private sector employed 48m urban workers in 2003 and the foreign sector 8.6m; but rural entrepreneurs have created 100m non-agricultural jobs during the reform period.⁸⁸

This shows that in the right circumstances, rural non-farm employment can play an important role. But the TVEs which created these non-agricultural jobs were developed at the same time as agriculture was also strengthened. Even under Mao Zedong's rule, much greater precedence was given than in most developing countries not only to agriculture but to so-called "sideline industries" in rural communes. As stated above, rural development was undertaken for the benefit of Chinese peasants and to feed Chinese cities, not to provide commodities for export. This is quite different from the economic history of most LDCs - especially those in Africa - which were developed largely to supply the European colonial powers. Since its Revolution in 1949 China's path has been in reaction to meeting external needs, after a century of what Chinese people considered to be foreign subjugation. Even after the post-Mao reforms began in the late 1970s, China remained an essentially closed economy, with strict control of imports and a non-convertible currency. But it encouraged FDI in priority areas for the government, especially the coastal industrial zones.

China's strategy required a strong government lead and a competent bureaucracy, and Nolan sees effective planning as a necessary condition of success. He argues, "One of the key functions of planning is to identify sectors that are likely to become internationally competitive in the long run and to take measures to assist them to become so." This is the creation of *dynamic* comparative advantage - which served Japan so well in the 1950s and 1960s and is so different from the static comparative advantage, based on existing resource allocations, which was pursued under structural adjustment. Nolan says, "China's government export incentives flew in the face of static resource efficiency considerations, but had large dynamic gains." He considers that, "Industries which are today viable and becoming increasingly internationally competitive would not exist if the Chinese economy had been opened up at a single stroke to international competition in the late 1970s." Nolan says improved productivity in China was achieved through "demand-induced investment in new, higher productivity activities" while old activities were "allowed to atrophy," rather than being ruthlessly shut down as part of a "surgical operation."

It has been observed that in both India and China, the main liberalising trade reforms took place about a decade *after* the onset of higher rates of economic growth. China's trade policy suited the gradualism of its reforms, requiring a steady build-up of domestic capacity. As Nolan put it, "Throughout the reform period the Chinese economy remained highly protected. Domestic producers could

⁸⁷ Zhang, L. et al (2003), p. 5.

⁸⁸ Huang, Y. (2005).

be certain that, for a long period ahead, their only serious competitors in most spheres were from within China itself." But these protectionist policies indirectly encouraged *foreign* investment since international manufacturers had limited access to the Chinese market via direct sales.⁸⁹

All of this poses two questions. The first is whether it is possible to replicate in smaller countries the numerous economies of scale which were essential to China's (and India's) recent success. We will return to this in later sections of the paper. The second question is less immediately germane to our topic, but needs to be addressed in other research: what were the conditions which permitted success in an essentially closed economy which nevertheless encouraged inward investment? How does it compare with the strategy of import-substituting industrialisation, which had a somewhat similar policy mix but where the record was more uneven when pursued in Latin America and Africa before the 1980s?

Officials of several other Asian countries have referred to the virtues of "planning" in Nolan's sense of the word. When asked recently for the reasons for Malaysia's relative success since independence, the country's trade and industry minister replied simply, "Planning, planning, planning."⁹⁰ In 1981 a former economics minister of Taiwan said:

*Although the value of economic planning is still not accepted by some 'free market' economists, the impressive results that some countries have achieved through such planning cannot be denied... [F]or developing countries, particularly those where the conditions required for the smooth operation of the market mechanism are absent or incomplete, the need for economic planning seems even greater than in the developed ones.*⁹¹

Now, "planning" is a controversial word in modern economic policy, but if we replace it with the phrase "strategy, analysis and leadership," the point seems so obvious as hardly to be worth making. That, surely, is what governments are there to provide. The question is not whether they should do it, but how they should go about it and how well they achieve it. Allowing each government the policy space to pursue its own line of action is an important part of the process. Similarly, Sender makes a point which, in any other context, would only confirm what everyone might expect to happen anyway: a World Bank survey of several **Indian states** indicated that the level of state expenditure on development had a significant effect on poverty reduction.⁹² Green and Morrison expand on this with regard to agricultural development:

*The successful agricultural transformation in India was based on state support to credit, inputs and irrigation infrastructure. These were necessary because initial conditions were characterised by widespread diseconomies of scale and market failures. State action was critical in overcoming these in India, yet in contemporary LDCs, particularly in Sub-Saharan Africa, where episodes of transformation have been at best limited, donors now insist that agricultural development occurs best with very limited state support. History suggests that they are mistaken.*⁹³

Rather than facing the full force of international markets, Stein would apply to Africa the lessons of Asian development, including "a nurturing environment that will permit industries to mature and prosper." Implicitly this requires a

⁸⁹ Nolan, P. (1995), pp. 185-317, *passim*.

⁹⁰ Datuk Seri Rafidah Aziz, Minister for International Trade and Industry, interviewed on BBC Television's *Newsnight* programme shortly before the G8 Summit in Gleneagles, Scotland, July 2005.

⁹¹ Quoted in Nolan, P. (1995), pp. 173-74.

⁹² Sender, J. (2003), p. 415.

⁹³ Green, D. and J. Morrison (2004), p. 6.

"developmental" state.⁹⁴ However, Hamilton et al see the developmental state as of limited importance in the East Asian countries they have studied, at least in the development of manufacturing. Between 1965 and 1985 manufactures from South Korea and Taiwan were mainly exported under contract to US companies. Hamilton et al consider this - an early example of outsourcing - to have been a result of "export pull" from those companies rather than "export push" from the governments. However, it could be objected that the governments had to put the right conditions in place to enable firms from those countries to win those contracts.⁹⁵

Increasing the number of internationally traded agro-food products

The Malaysian government has certainly demonstrated strategy, analysis and leadership in its development policy, and nowhere is this more so than over commodities exports. Its experience shows how diversifying agricultural output and exports can strengthen the economy as a whole and lead to a wider diversification into more advanced forms of activity. The government has promoted exports based on its natural resources and abundant low-cost labour.⁹⁶

At independence, Malaysia's exports were mostly of natural rubber and tin, which is dredged offshore. Starting with the New Economic Policy of 1971-90, Malaysia has gradually expanded first into other export commodities and then into manufactures. The policy has been one of export orientation based on the private sector, with an open attitude towards both imports and inward direct investment. But all has been kept under firm government programming and monitoring. The process has been helped by political stability, with both Tunku Abdul Rahman and Mahathir Muhammed enjoying long periods in office as Prime Minister. An essential aspect of this lies in the continuity of a civil service which works to government rules, not the "clientelistic" desires of an individual ruler. Comparable with the public institutions put in place in India since Jawarhalal Nehru's time, this is very different from the forms of long-term rule which have obtained at various times in many other developing countries.

Malaysia still remains the world's second largest producer of natural rubber and a leading producer of tin. Its rubber production has been little changed since 1970 despite a more-than-threelfold increase in output worldwide. But by 1993 natural rubber accounted for only 1.8 per cent of Malaysia's exports, and tin 0.7 per cent.⁹⁷ Over the same period Malaysia has become the leading producer of both palm oil and tropical timber and ranks 22nd in the world for its ratio of energy exports to gross domestic product⁹⁸ (in Malaysia's case, offshore oil and liquefied natural gas). For a period Malaysia also became the fourth largest producer of cocoa, but production was cut back as prices collapsed in the 1990s; output of pepper - a longer established export crop - has also declined over the same period.

However, more than 80 per cent of exports are now of manufactured goods, some of them (such as oleo-chemicals and furniture) based on processing of commodities, with others in new areas mainly in the electrical and electronic fields. This broad diversification is seen in a reduction of the share in total exports of the three leading commodities (fuels, palm oil and wood) from 30 per cent in 1990-92 to 16 per cent in 1997-99.⁹⁹ Malaysia was also a pioneer among developing

⁹⁴ Stein, H. (2003), pp. 170 and 171.

⁹⁵ Hamilton, G. et al (undated), pp. 17-20 and 35.

⁹⁶ UNCTAD (2004), p. 310.

⁹⁷ Reinhardt, N. (2000), Table 2.

⁹⁸ South Centre (2005), p. 5, citing Oxfam America (2001), "Extractive Sectors and the Poor."

⁹⁹ UNCTAD (2003A), Table A.5, p. 463.

countries in establishing its own futures exchange, the Kuala Lumpur Commodities Exchange, which trades contracts in natural rubber and palm oil.

Most of Malaysia's export commodities are produced on large farms or plantations, but some of the palm oil and rubber is on "land development schemes" on which landless farmers are resettled by the government, with marketing done on their behalf, while 20 per cent of the population are still said to rely on subsistence farming. In the palm oil sector, where there are significant economies of scale, the plantations are organised through vertically integrated milling, processing and marketing companies, but smaller farms (defined for these purposes as less than 100 HA) sell through a series of intermediaries. The small scale of the rest of Malaysia's agricultural sector is shown in the fact that typical vegetable farmers have plots of no more than 1.3 HA. Nevertheless, Malaysia is one of the few countries in the world where there is recent evidence of a decline in inequality.¹⁰⁰

A government ministry has direct responsibility in this area. Now called the Ministry of Plantation Industries and Commodities, it used to be the Ministry of Primary Industries and had the same minister from 1986 to 2004. Its goals include securing more attractive prices and focusing on value-added activities. Wider development policy is guided by the Economic Planning Unit in the Prime Minister's Office and operates through regular development plans and a Long-term Industrial Master Plan. The current aim is to achieve developed-nation status by 2020.

Malaysia's economy has benefited from high domestic savings and an emphasis on education and developing a strong skills base. It is a very open economy with a 120 per cent trade ratio (exports plus imports to GDP). However, it is not pure *laissez-faire*. Under the NEP the government provided funds to purchase shares in foreign-owned companies for the benefit of ethnic groups (mainly Malays) which had not previously played a large role in the economy, while after the 1997 East Asian financial crisis Malaysia stood out for its successful policy of defending the currency with temporary exchange controls, in preference to orthodox stabilisation policies. Another unorthodox policy which has helped to expand exports is countertrade.

This all suggests that economic policy is determined domestically and made to serve development goals. This is made explicit in the first of seven "lessons from the Malaysian development experience" listed by the Economic Planning Unit:

*Each country must formulate its core development philosophy, policies, and plans suited to its particular circumstances and needs. It must also persevere while remaining pragmatic and flexible enough to modify plans so they remain relevant and suited to changing circumstances.*¹⁰¹

After having to cut back its sugar production and exports after the collapse of the USSR in 1991, Cuba greatly limited the financial losses by diversifying into other crops, many of them of higher value, including bananas, rice, cassava, papaya and mangoes.¹⁰² The diversification is seen in a reduction of the share in total exports of the three leading commodities (sugar, tobacco and fisheries at the end of the decade), from 84 per cent in 1990-92 to 49 per cent in 1997-99.¹⁰³

With longer experience of juggling commodities policies, there was a similar effect in Mauritius, taking advantage of dynamic new export possibilities. As its sugar output reduced during the 1990s, there was a decline in total agricultural output from 8.7m to 7.9m tonnes. But it was offset by increased production of high-value horticultural products, leading to a 4 per cent increase in the value of agricultural

¹⁰⁰ Cornia, A.C. (2003), p. 435.

¹⁰¹ Economic Planning Unit (2004), p. 3.

¹⁰² See FAO (2005B).

¹⁰³ UNCTAD (2003A), Table A.5, p. 462.

production. Nevertheless, in 2000-02 sugar still accounted for three-quarters of Mauritius' agricultural exports.¹⁰⁴ But despite the very different sizes of the two countries - and the greater trade openness this inevitably means in Mauritius - Rodrik draws a direct parallel between the island state's "two-track" approach (using both state and market at once) for export diversification and development in the 1980s and 1990s with that pursued in China.¹⁰⁵

Brazil is another country which has diversified its agricultural exports and it is now in a strong position on numerous commodity markets. This marks a radical change from its former strategy of import-substituting industrialisation. For more than a century Brazil has been the world's largest coffee producer, but while retaining a powerful position on that market with one-third of world production in 2004,¹⁰⁶ coffee has steadily declined as a share of exports from around 70 per cent in 1925 to 40 per cent in the 1960s and just five per cent in the 1990s.¹⁰⁷ Brazil is now strong enough in both sugar and cotton to have succeeded in WTO complaints against the EU and the US respectively. It is the second largest banana producing country and is watched apprehensively by other exporting nations for signs of further expansion from its low volume of banana exports. It is a leading exporter in other expanding fruit and vegetable markets such as melons and papayas.

The background lies in low production costs derived from economies of scale on large commercial farms. While a large farm in Malaysia is considered to be one of more than 5.7 HA, in Brazil it is over 100 HA.¹⁰⁸ Even under President Lula da Silva, agricultural policy has been dominated by the large farming sector. Recent expansion in coffee production has benefited large lowland estates more than the smallholders in highland areas who have hitherto been the mainstay of coffee. Brazil's success was reinforced by the currency devaluation of January 1999, which sharply reduced domestic costs when converted into hard currencies. It enabled coffee growers to ride out the collapse in international prices two to three years later, as local farmgate prices remained little below the peak levels of 1997.

But the impact of Brazil's agricultural exports on poverty is unclear and the overall lessons are ambiguous. Economic inequality is extreme and given the historical weakness of government policies on land tenure and labour markets, only to a limited extent does commercial strength translate into improved livelihoods for agricultural workers. Responsiveness to exchange rate changes relies substantially on elements of economies of scale such as financial capital, investments in public infrastructure and professionally organised agricultural markets, as well as the existence of an agro-processing industry and a large domestic market for agro-food products. This is hard to replicate in most smaller and poorer countries. And Brazil's position on agricultural markets may be more vulnerable than it seems. Partly due to currency appreciation, the value in domestic currency of agricultural output (excluding ranching) is forecast to drop by 16 per cent in 2005.¹⁰⁹ A report on a protest by 20,000 farmers in Brasília in June 2005 said,

Brazil's huge agricultural sector remains far more susceptible to domestic and international market fluctuations than those of leading competitors. The prices of several leading crops have fallen sharply. During the past 12 months soyabean prices were down 47 per cent and cotton prices fell 35 per cent. In addition, Brazil's currency has gained more than 25 per cent since crops were

¹⁰⁴ FAO (2005B), pp. 20, 35.

¹⁰⁵ Rodrik, D. (2001), pp. 20-21.

¹⁰⁶ International Coffee Organisation: data available at www.ico.org/prices/po.htm.

¹⁰⁷ Paiva, P. (2000), p. 5.

¹⁰⁸ Ashley, C. and S. Maxwell (2001), footnote 17 on p. 406.

¹⁰⁹ *The Economist* (2005).

planted last year, eroding farmers' income in local currency. "Our costs were calculated at R\$3.20 to the dollar. Today we sell at R\$2.40 to the dollar," [soya bean association head José Rogerio] Salles said.¹¹⁰

This points to the importance of competitive exchange rates, among other aspects of macro-economic policy. China has been criticised in some places for maintaining an undervalued exchange rate, and it responded with a small revaluation and a more flexible exchange-rate system in July 2005. Similar comments could be made about the assistance given to Japanese exports by an undervalued yen under the Bretton Woods system of fixed exchange rates in the 1950s and 1960s, while Russian agriculture benefited greatly from the sharp devaluation of the rouble in 1998. Persistent overvaluation of currencies, as in Argentina during the 1990s, has had the opposite effect.

There are numerous references in the literature to beneficial effects for commodities of the CFA franc devaluation in 1994. Much of the trade concerned was with neighbouring African countries. For example, beef producers in the Sahel zone regained markets in West African coastal countries from subsidised imports from the EU.¹¹¹ Overall, this benefited Africa. On the other hand, currency devaluations in individual countries, such as Nigeria and Ghana, can create obstacles to intra-regional trade, which trade between CFA countries does not encounter by virtue of sharing the same currency.¹¹² The attempts by ECOWAS to coordinate currencies in the region, and eventually create a single monetary zone,¹¹³ deserve to be closely followed, but with a wary eye on the dangers of transferring Nigerian economic shocks to smaller neighbours and the implications of the CFA zone's links to the Bank of France.

However successfully carried out, the diversification of export crops does not necessarily lead either to a great reduction in poverty or to further progress into more advanced areas of production. Kenya has pioneered several agricultural commodities in Africa and exports them with great success, for example tea and cut flowers, while its arabica coffee sets an industry standard for quality. Yet it still hovers only a short way above LDC status while 23 per cent of the population live on less than \$1 a day and 33 per cent are undernourished.¹¹⁴ The situation is not entirely dissimilar to Brazil's. Many Kenyan export crops have an "enclave" character, more like mineral commodities than domestic staples or other agricultural crops. Many new crops are driven by foreign investors or an entrepreneurial class which is wholly separate from most rural dwellers. The linkages with those people's livelihoods are weak to non-existent, making diversification almost a graft on to the local economy, not an endogenous response of traditional producers to international market opportunities. A good part of the explanation is provided by Karshenas, as we shall shortly see.

Bangladesh, on the other hand, has rapidly diversified into simple manufactured exports, when 20 years ago it appeared to have no escape from dependence on a declining world market in jute. Between 1980-81 and 1989 the jute sector's share of exports declined from 68 per cent to 30 per cent,¹¹⁵ and by 1997-99 the country's three leading commodity exports (which by then were led by fisheries, followed by jute and tea) accounted for just 8.7 per cent of exports.¹¹⁶ This was achieved by the rapid growth of the clothing industry, aided by an import quota negotiated at

¹¹⁰ Colitt, R. (2005).

¹¹¹ PricewaterhouseCoopers (2005), p. 41.

¹¹² See, for example, International Collective in Support of Fishworkers (2002), p. 26.

¹¹³ See International Collective in Support of Fishworkers (2002), p. 10.

¹¹⁴ U.N. Development Programme (2004), Table 3, p. 148 and Table 7, p. 162.

¹¹⁵ Overseas Development Institute (1990), p. 1.

¹¹⁶ UNCTAD (2003A), Table A.5, p. 462.

the EU under the former Multi-Fibres Arrangement (MFA). The way was paved for this industry by new industrial policies adopted in 1982 and 1986, which led to the privatisation of jute and cotton mills and simpler procedures for importing capital goods and raw materials.¹¹⁷ However, previous state ownership may have been important for developing knowledge and skills in textiles and garment production.

As Green and Morrison point out,

*Successful examples of export-led growth have generally depended on good external conditions, where periods of high world prices have allowed exporters to accumulate the surplus necessary to move on from commodity exports before the customary bust. That is hardly a description that describes world markets today.*¹¹⁸

A possibly even more important part of the explanation is provided by Karshenas.¹¹⁹ The differences between Kenya and Bangladesh (as well as Malaysia) well illustrate the reasons he gives for Asia's greater success since independence than Sub-Saharan Africa in developing rural infrastructure, integrating national economies and promoting non-agricultural activities, including those in the export sector. In brief, this is due to the much higher density of rural populations in Asia than SSA, which implies surplus labour in the first but not the second, such that non-agricultural wages were much lower in Asian countries, while SSA's investment needs in infrastructure were higher in relation to output and population because of the greater distances and smaller populations involved. These factors also explain much of the higher transaction costs in African agricultural trade to this day. It was therefore possible to develop new industries in Asian countries at competitive wage rates while in SSA they had to be protected by tariffs - and tended to collapse rapidly after trade was liberalised. Karshenas also argues that Africa's marketing boards actually subsidised smallholders, especially those in remote areas: although often inefficient, the boards did not "tax" agriculture as a whole, as Berg and others have maintained. Instead, by dint of uniform national prices and subsidies on inputs and extension services, the boards transferred income from larger farms, often in the export sector, to smaller and more remote farms.

Rural poverty in China

Chinese policy has been partly informed since Deng Hsiao-Ping's time by a concern with continuing rural poverty. The current approach to this is through a "Poverty Reduction Strategy in the New Century" while the previous programme, which lasted from 1994 to 2000, was the "8-7 Poverty Reduction Programme." The latter's approach - and some of the reasons why it was eventually replaced - have lessons for other countries.

The 8-7 Programme picked out China's 592 poorest counties for support through subsidised loans, food for work and government grants. Prior analysis showed that - as in other countries - the majority of poor rural people were in resource-deficient and mountain areas, as well as the western provinces, which are the most distant from the sea.¹²⁰ Many belonged to ethnic minorities. The programme defined poverty according to a pre-existing income threshold which, in dollar terms, was substantially less than \$1 a day. Poverty by this definition was sharply reduced during the 1980s and 1990s, and it has now been replaced as a formal target by the \$1 target used in the MDGs.

¹¹⁷ Overseas Development Institute (1990), p. 2.

¹¹⁸ Green, D. and J. Morrison (2004), p. 7.

¹¹⁹ Karshenas, M. (1999).

¹²⁰ Huajun, T., pp. 3-4.

The 8-7 Programme experimented with different poverty reduction approaches but generally supported production and new infrastructure: a developmental rather than a safety-net approach. Based on another pre-existing policy, about half of the funds went on subsidised loans to TVEs. However, despite the TVEs' general success in developing small businesses in rural areas, it was found that in the poorer, more remote places targeted under 8-7 they failed to make much money and assisting them did not benefit many of the poor people that the policy was meant for. The UNDP concluded that it was a "mistake ... to allocate resources to enterprises in poor counties rather than to poor households. Many of these enterprises, inefficient and unprofitable, have drained resources away from poverty reduction."¹²¹ Pragmatic as ever, the Chinese government duly abandoned that policy.

Likewise, it found that targeting the aid on counties did not provide fine enough distinctions, as there were poor villages in many other counties which did not benefit from it. Therefore, despite greater administrative costs, the targets were switched to the lower administrative level of townships.

Monitoring indicated that during 1997-2001 the 8-7 plan:

- directly supported 30.7m households and 125m persons,
- employed 17.2m workers in poverty reduction activities,
- newly developed 3.25m HA of trees for cash crops,
- built 320,000 km. of roads and 360,000 km. of electricity lines, and
- provided drinking water for 53.5m people and 48.4m animals.¹²²

Several lessons can be drawn from this experience for rural poverty reduction in other countries:

- The validity of precise monetary targets (as under the MDGs) - but also the usefulness of choosing them carefully, according to local circumstances. If the aim is to tackle *extreme* poverty, in many of the poorest countries it may well be best to set the main income target well below \$1 a day level, as China did in the 1980s and 1990s. That will reduce the numbers earning less than \$1, but target the benefits at those in the greatest extremity of need.
- The importance of careful monitoring of the outcomes of policy and - just as important - honesty in recognising where it has not worked. There is little virtue in using monitoring just to find ex-post justifications for decisions already made, as sometimes happens.
- Complete readiness to alter, revise or even replace policies in light of results.

However, it could be argued that the very need for such a programme arose from the results of previous reform policies:

*The fiscal decentralization introduced in 1978 substantially reduced the capacity of the central government to contain the divergence [of average provincial incomes] through transfers to poorer provinces. The industrial and export promotion policies pla[ye]d an even greater disequalizing role, as they favored the coastal over the interior and remote provinces.*¹²³

Severe rural poverty persists in both India and China, and regional and urban-rural divides are a source of political concern in both countries. In India this is widely

¹²¹ UNDP (2000).

¹²² See Sangui, W. et al.

¹²³ Cornia, G.A. (2003), p. 440.

considered to have prompted the electoral defeat of the federal government and several state governments in 2004, while in China there have been numerous local protests in rural areas. Despite rural poverty programmes such as 8-7, China's urban growth has relied to a great extent on indirect taxes on the peasants, such as fees for education in rural areas¹²⁴ - in a curious echo of the World Bank's concerns after the Berg report in the 1980s. According to one report,

*In the 1980s, the gap between urban and rural incomes was 1.8:1. It reached 3:1 in 2003, according to official figures. In reality it is nearer 5:1, maybe 6:1, if one includes the numerous taxes imposed on farmers... According to official figures, the richest families (8.6%) control 60.4% of financial capital - a greater disparity than is known in the United States and Latin America.*¹²⁵

Cornia places the slow growth of rural per capita incomes in China, India and Bangladesh, combined with fast income growth in urban China, among the sources of growing *worldwide* income inequalities.¹²⁶ Wade - doubtful whether the statistics fully support a sharp decline in Chinese poverty - argues that China's inequality is now greater than before the Communists won the civil war in 1949, while the inequality between regions is probably higher than in any other sizable country.¹²⁷

This experience raises several questions for policy in other countries where poverty is mostly rural. In China as in India, the main source of economic growth has been in manufacturing and services, which - despite the success of the TVEs - have prospered mostly in cities. It is a major subject of debate whether development is best achieved by pursuing dynamic parts of the economy such as these, perhaps even with the help of taxes levied in rural areas, in the expectation that the benefits will eventually trickle down to everyone else; or whether instead to concentrate activity on those areas where existing poverty is the deepest. The "trickledown" from the first strategy should occur via urban purchases of income-elastic food products and labour migration that leads to remittances to rural areas. The resulting additions to rural incomes will be invested to achieve greater efficiency, in the forms of higher labour productivity, management methods and responsiveness to market signals. If, however, the goal is a rapid reduction in poverty as such, the strategy surely has to be directed at the poorest sections of society themselves. As we have seen, they are usually to be found in the greatest numbers in rural areas. The question then becomes what types of activity will provide the most rapid and dynamic benefits for poor people in those areas.

Food availability and food price fluctuations

Where markets work, food security¹²⁸ is a problem of income level and availability for spending on food. But when farmers sell crops for the first time they generally gain more in income than in food supplies, at least in the short term; yet for them, getting enough food remains the priority. From a study of 10 countries on three continents, IFAD concluded that cash crops generally increased net household incomes. But while many small farmers saw them as the way out of poverty, few

¹²⁴ Huang, Y. (2005).

¹²⁵ Bobin, F. (2005), translated from French by the present author.

¹²⁶ Cornia, G.A. (2003), p. 432, citing B. Milanovic, "The true world income distribution, 1988 and 1993: First calculations based on household surveys alone," mimeo (Washington: World Bank, 2000).

¹²⁷ Wade, R.H. (2003), p. 145.

¹²⁸ A simple definition of food security is: "access to adequate food for a healthy life by all people at all times" - South Centre (1997), p. 67.

of them boosted cash crop income at the expense of producing their own food. The income tended instead to be used to *intensify* food production.¹²⁹

This may be partly why in many developing countries, market systems have taken time to take root in rural areas. This "incompleteness" of rural markets has long been seen as a problem. It is closely connected with the lack of internal economic integration which Wade identified. Stein comments: "Where the road system is well developed, credit is readily available, transportation options exist and there is an abundance of private traders, private marketing may be viable. However that is not the case in most of rural Africa."¹³⁰ The question then is how to provide those prerequisites for private trading.

In some countries where there is a better infrastructure and a stronger state, exports of staple food products have helped greatly to reduce poverty. Thailand has made great progress since becoming the world's dominant exporter of both rice and cassava. Vietnam also recently became a significant cassava exporter, after success with rice exports. The latter was achieved after domestic paddy prices were raised and production increased with the reduction or removal of tariffs in export markets during the 1990s. It has been reported that,

*Poverty fell dramatically during this period, although a third of the poor remained poor, mainly those who lived in remote areas, ethnic minorities and large households in the agricultural sector with low educational levels... the farmers who benefited most from the reforms were those who diversified away from rice production into horticulture or coffee. Farmers who moved out of agriculture into export processing also benefited more than average. These households ... tended to have higher education levels than those who remained in poverty.*¹³¹

The share in total exports of Vietnam's three leading commodities (fuels, rice and fisheries at the end of the 1990s) fell from 44 per cent in 1990-92 to 33 per cent in 1997-99, indicating the degree of trade diversification achieved.¹³²

But the right internal arrangements have to be in place to make this sort of policy possible. Good communications are essential - especially roads and telecommunications. Modern methods - e-mail, the internet and mobile telephones - can provide easy contact between villages and cities at low cost, enabling rural people to keep in contact with the markets of their produce as never before. Communications are important for both foreign and domestic trade, as IFAD reports:

*High transport costs from the combination of scarce and poor roads in rural Africa make parts of the rural economy only semi-open and are the largest source of marketing margins, accounting for most of the 40% difference between marketing margins for food grains in Kenya and Malawi and those in Bangladesh and Indonesia.*¹³³

The problem can be more severe with certain products and where they are intended for export:

Problems are particularly acute for areas specializing in roots and tubers (which are important in the forest and humid Savanna zones of coastal and Central African countries), as these have higher weight/value ratios and are more perishable than grains. Remote cassava-growing areas, while protected

¹²⁹ International Fund for Agricultural Development (2001), p. 174.

¹³⁰ Stein, H. (2003), p. 168.

¹³¹ Imber, V. et al (2003), p. 30, citing Justino, P. and J. Litchfield, "Poverty Dynamics in Rural Vietnam: winners and losers during reform" (Brighton, UK: University of Sussex, 2003).

¹³² UNCTAD (2003A), Table A.5, p. 464.

¹³³ International Fund for Agricultural Development (2001), p. 164.

*from cheap imports in local markets, find it difficult to compete in cassava chip exporting unless 'remoteness' can be reduced.*¹³⁴

Delgado et al consider that increasing the incomes of large numbers of poor people, thereby expanding the total production of nontradable items, "must involve bringing new external funds into localities on a recurring basis, such as would be the case from expansion of agricultural exports."¹³⁵ However, IFAD insists on ensuring some degree of food security as "a precondition for the poor's enthusiasm for, and safe involvement in, crop-export-based globalization."¹³⁶ While there are numerous assessments, as in Vietnam, that show commercialisation and export orientation as leading to poverty reduction, there are also others to the contrary. A writer in Pakistan refers to a recent study he undertook into export-oriented policies and the lives and livelihoods of rural communities. "It was noted with shock that rural poverty is more severe in areas where cash crops are grown, particularly for export purposes," he wrote.¹³⁷ A report from Indonesia referred to similar effects concerning both staple foods and traditional export crops. It said that after commercialisation, 54,000 children were suffering from malnutrition in the traditional rice-growing region of West Sumatra, while in Tanggamus coffee workers' children also suffered from malnutrition because the price of coffee had collapsed and the workers could not afford to buy rice.¹³⁸

IFAD concludes that, "Liberalization and globalization with initial gross inequality can allow the powerful to abuse their special [market] access and so result in the poor becoming poorer. But huge poverty reduction in many cases shows that liberalization and globalization with fairly low initial inequality can bring widespread benefits to the rural poor."¹³⁹ Incomes are known to be less unequal in Vietnam than in Pakistan, for example.

Rahman and Westley argue that the commercialisation of agriculture will benefit poor rural people in different ways, according to their circumstances:

*Commercialisation is most beneficial to groups with easy access to urban and export markets, human capital, infrastructure, technology and assistance with risk. Thus it does not favour groups with a very poor agro-climate, low access to technology and almost no access to modern education, risk management or credit.*¹⁴⁰

The people it would therefore favour are not on the whole those who were identified above as the poorest of the poor; however, many of them will have incomes of less than \$1 a day, so raising their level will help to achieve MDG1's poverty target. The question remains *how* their level can be raised. Like Green & Morrison (see above), Hazell points out that in the early years of the Green Revolution in Asia, the public sector provided agricultural research and development, extension, improved seeds, fertiliser, credit, storage and marketing. "There is hardly any credible evidence to suggest that the private sector can take the lead in market chains for staple foods during the early stages of agricultural development," he remarks.¹⁴¹ Karshenas' analysis of the structural differences between Asian and

¹³⁴ International Fund for Agricultural Development (2001), p. 164 (ibid.).

¹³⁵ Delgado, C.L. et al (1998), p. vii.

¹³⁶ International Fund for Agricultural Development (2001), p. 187.

¹³⁷ Hasnain, T. (2005), p. 1.

¹³⁸ Pramano, T. (2005).

¹³⁹ International Fund for Agricultural Development (2001), p. 162.

¹⁴⁰ Rahman, A. and J. Westley (2001), pp. 560-61.

¹⁴¹ Hazell, P. (2005), p. 10.

Sub-Saharan African agriculture also implies for the latter an even greater - and continuing - need for state intervention and foreign aid than for the former.¹⁴²

Trade and economic linkages

UNCTAD provides an example of a statistically successful outcome from trade liberalisation which in fact had little impact on poverty and an apparently negative impact on development. Under trade liberalisation in Guinea, exports increased from 19 per cent to 28 per cent of GDP, mainly due to capital-intensive bauxite mining and artisanal diamond mining. Average private consumption per capita rose by more than 1 per cent per year from 1990 to 2000. However, a study found that this had a negligible impact on poverty, due to the mining sector's attenuated links with the rest of the economy when 88 per cent of poor people lived in rural areas. Meanwhile, other parts of the private sector and the country's export base actually narrowed: import-substituting industries declined, public enterprises were liquidated, there was no increase in agricultural exports and manufactured exports fell.¹⁴³

This is what can happen where there are weak linkages between an expanding sector and the rest of the economy, including the sources of poor people's livelihoods. It is noteworthy that Guinea is one of seven LDCs defined by UNCTAD as specialising in the export of minerals (another is Niger, whose difficulties were mentioned earlier).¹⁴⁴ The problems of export "enclaves" in national economies, particularly where metals and other minerals are concerned, are discussed in the next section of this paper. Agriculture is generally more rooted in the traditional economy and society than minerals extraction, and developments in it usually have more linkages with the rest of the economy. But agriculture itself is not homogeneous and it is important to find the best ways to realise these effects. In this sub-section we will indicate some of the routes by which trade in agricultural products can lead to significant growth in household income and employment of poor people, both producers and consumers alike, and give indications of strategies to ensure that increased trade supports the development of economic linkages.

Kydd et al define four kinds of linkage,¹⁴⁵ which are listed below with some examples of how each can operate:

(i) **Upstream production linkages** - examples:

Farmers employ more labour or buy more of other inputs from domestic suppliers as a result of increased income from sales. This is more likely to benefit poor people in the least developed economies where the farmers are smallholders and the production is of staple foods. IFAD argues that production of staples is usually labour-intensive and relies on limited use of external inputs (including imported ones). "Staples provide most of the poorest with most work, income, consumption, and calories."¹⁴⁶ If properly handled, exploiting market opportunities might lead to a similar virtuous circle as was described in the case of Vietnamese rice farming.

(ii) **Downstream production linkages** - examples:

- Greater farm productivity leads to lower prices of a crop and stimulates its domestic processing.

¹⁴² Karshenas, M. (1999).

¹⁴³ UNCTAD (2004), pp. 207-08.

¹⁴⁴ UNCTAD (2002), p. 124.

¹⁴⁵ Kydd, J. et al (2002), p. 3.

¹⁴⁶ International Fund for Agricultural Development (2001), p. 3.

- A change in trade law, perhaps as a result of the WTO's Doha Round, leads to a reduction in tariff escalation, so that for example it becomes more profitable for a country of origin to transform cocoa into cocoa paste butter or chocolate.
- Changes in import preference rules provide sugar products with similar benefits to raw cane sugar, enabling countries like Swaziland (or Malawi or the Sudan) to develop confectionery industries for export.

(iii) **Investment linkages** - example:

- Higher farm income leads to the purchase of livestock, which provides more varied and better nutrition for the household as well as new sources of income from milk, meat, skins and other animal products.

(iv) **Indirect consumption and investment linkages** - examples:

- The purchase of livestock stimulates local production of animal feed.
- Rural workers' extra incomes lead to extra demand for fruit and vegetables, as well as staple foods.
- The growth of internationally tradeable produce indirectly leads to an improvement of transport, telecommunications and other services, with knock-on effects making it easier for other tradeable and non-tradeable produce to reach markets and generate further income. For example, Vietnam's liberalisation of trade in rice led indirectly to some farmers setting up as traders, generating benefits for themselves and creating part of the infrastructure required for market relations to go forward.
- A farming household increases its income and decides to build a better house, hiring workers to do so.

It is self-evident that linkages will have a greater impact, the higher the price of the commodity that is leading the process. However - as Imber et al are at pains to point out - linkages will also work differently in different places, and the best analysis of linkage effects is done through local and national case studies rather than generalised models. Unfortunately, they argue, the literature contains too few specific studies of this sort. The differences in economic structure discussed by Karshenas also have an important bearing here.

Policy pointers

How can the successful cases described above be emulated in African countries and LDCs? The following conditions seem the most likely to make it happen:

- Effective interaction between the state and the market. They should be seen as complementary, or sometimes parallel, agents of change. The frequent opposition of "state v. market" in the development literature is artificial: both have their parts to play - sometimes in close cooperation, sometimes in different parts of the economy as we saw in the Chinese and Mauritian cases. In the early stages of agricultural development, experience suggests that a strong lead from the state is essential, but it can then be eased with prices and trade steadily liberalised - under clear national control. As a general rule, national and local experimentation and a gradual, measured approach to market opening seem to produce the best results, as found in China.
- An essential international condition is a recovery in agricultural prices, especially those for tropical export crops.

- The size of the internal market and associated economies of scale, as well as some prior industrial development, seem to make a difference. For small countries this is naturally more difficult to achieve, but they might push in this direction through mutual cooperation and market opening, wherever feasible.
- High education standards and development of a specialised labour force are further factors, especially at later stages.
- Domestic investment with a high savings rate, leading to the development of competitive domestically owned businesses, are critically important. National policy levers need to be created to facilitate them.
- Adequate levels of public investment in rural infrastructure (including in the rural non-farm economy and rural towns) are essential and are still giving high returns in India and China, for example. Investment in agricultural research and in institutional and human capital is also needed.
- Reduce transaction costs, including freight. The further a country or region is from world markets, the more important this is. According to Diao et al,

*One of the most important mechanisms to achieve significant increases in real incomes and food consumption is not productivity growth in agriculture ... but reducing transaction costs through investments in marketing infrastructure (roads and bridges, ports, storage facilities, electricity, etc) and development of market institutions.*¹⁴⁷

Imber et al suggest that despite China's heavy investments in roads, this is still an important factor in regional inequalities there: the concentration of export industries near the coast is due to inefficient transport, with trucking rates for moving a container 500 km. inland about three times as great, and the time taken five times as long, as in Europe or the US.¹⁴⁸ It has been estimated that a 10% decrease in African transport costs would increase trade by 25%.¹⁴⁹ For example, a leading Malawian businessman said the freight costs for his firm's imported inputs were \$50 per tonne from Sweden to the South African port of Durban but \$160 per tonne from Durban to the Malawian city of Blantyre.¹⁵⁰

- This all requires countries and regional groups to have policy space to negotiate their own terms of engagement with the international economy.¹⁵¹

¹⁴⁷ Diao, X. et al (2003), p. 63.

¹⁴⁸ Imber et al (2003), p. 21.

¹⁴⁹ Imber et al (2003), p. 21, citing N. Limoa and A. Venables, "Infrastructure, Geographical Disadvantage, Transport Costs and Trade," *World Bank Economic Review*, Vol. 15, No. 3 (Washington: 2001), pp. 451-79.

¹⁵⁰ Simon Itaye, head of a packaging company and Chairman of Malawi's Trade Policy National Working Group, speaking at Traidcraft's "Reality Check" seminar, London, June 2005.

¹⁵¹ See Rodrik, D. (2001).

V. The commodity export sector

While commodity exports have enabled certain countries to start on the road to development, a far greater number have remained locked in commodity dependency. Moreover, in past decades the context was more propitious for a commodities-led strategy. This section of the paper examines the nature of commodity markets and discusses recent developments on them, to see what the opportunities are as well as the pitfalls to avoid.

Commodity markets and prices

There has been a marked differentiation in recent trends between agricultural and mineral commodities exports, with minerals generally declining in importance in the poorest countries, especially in Africa. Thus, the increased diversity of Zambia's exports during the 1990s reflects the decline in income from copper and cobalt more than any great success in finding alternatives to them. (The share of the three leading commodities in Zambia's total exports declined from 77 per cent in 1990-92 to 50 per cent in 1997-99.¹⁵²) According to UNCTAD, among six categories of LDCs by export specialisation, "In 2001, the share of world exports of goods and services supplied by the LDCs that export predominantly agricultural commodities was just 56 per cent of its level in 1980, and the share supplied by LDC mineral exporters was just 16 per cent of that former level."¹⁵³ The mineral exporters were the only category in which real exports declined over that period, at the rate of 1.9 per cent per year. Among agricultural exporters, real exports expanded at 6.3 per cent per year.¹⁵⁴

The decline of production and investment in mining (combined with the long-term reduction of prices) has evidently increased poverty in mineral-dependent LDCs. By 1997-99 the mineral exporters showed the highest incidences of poverty in any LDC category, with 82 per cent of their people living on less than \$1 a day and 94 per cent on less than \$2. In 1981-83 the respective figures were 61 per cent and 87 per cent.¹⁵⁵ And yet, at independence in the late 1950s and early 1960s, the rich metal resources of countries like Ghana, Zambia, Guinea and the Congo were expected to give them a strong basis for development. Africa was indeed known as a metal-producing continent: for example, in 1960, it was the second continent for copper mine production after North America. But by 1997 Africa had declined to equal fifth place in copper production, level with Oceania and a long way behind both North and South America, Asia and even Europe.¹⁵⁶

The decline in African minerals production is a complex problem, and we cannot draw any simple conclusions about it. It is partly related to the industry's enclave character, since in an underdeveloped continent there is no strong domestic base for minerals demand as there always is in agriculture, while major investment decisions are taken in other parts of the world. Suffice it to say that the seven LDCs defined by UNCTAD as predominantly exporting minerals are all in Africa, and without exception they have faced serious economic or political troubles in recent times. They are the Central African Republic, the D.R. of the Congo, Guinea,

¹⁵² UNCTAD (2003A), Table A.5, p. 464.

¹⁵³ UNCTAD (2004), p. IV (emphasis added).

¹⁵⁴ UNCTAD (2002), p. 126. UNCTAD lists 21 LDCs as agricultural exporters.

¹⁵⁵ UNCTAD (2002), p. 124. Three of the seven mineral-dependent LDCs have suffered major civil wars in recent years.

¹⁵⁶ Data from the International Copper Study Group at www.icsg.org/Factbook/copper_world/production_consumption.htm.

Liberia, Niger, Sierra Leone and Zambia. Political problems often arise due to rivalry over the control of mineral resources, which has led to conflict in several African countries, for example Nigeria in the late 1960s, Liberia and Sierra Leone in the 1990s, and the D.R. of the Congo periodically since 1960.

Part of the explanation lies in the phenomenon of Dutch disease, which means there is often a squeeze on other parts of an economy in the wake of a minerals boom, frequently due to a surge in the value of the currency. Famous cases include the United Kingdom when its oil production came on stream in the early 1980s, as well as Nigeria after the increase in oil prices during the 1970s. But this difficulty can become vicious when the mineral sector goes into decline if, as often happens, Dutch disease means that possible sectors for economic diversification have already been attenuated. This appears to be what happened in several African countries during the 1980s and 1990s. Besides copper- and diamond-producing countries, the so-called 'resources curse' appears to have afflicted bauxite-dependent Guinea and uranium-dependent Niger, as we have seen.

The problem is not universal. Botswana (with diamonds) and both Gabon and Equatorial Guinea (with oil) have moved rapidly away from LDC status over the last 20 years. Among other factors, it is easier for them to distribute the proceeds of mineral wealth quite widely since they have much smaller populations than Nigeria or even Zambia. However, it seems unlikely that in the immediate future minerals will be a motor of development or poverty reduction in African countries or LDCs which do not already benefit from them, so this paper will make further mention of minerals only in passing, to concentrate its attention on the rural sector and agriculture.¹⁵⁷

Specialists in both agriculture and commodities have long recognised inadequacies in the ways the commodity markets work. Three major deficiencies have been identified in the price systems on international commodity markets:

Price instability. This can take two forms: over the short term (the crop year for agricultural commodities) and the medium term (the length of the business cycle - between five and ten years). Commodity markets are well-known for instability of both sorts.

Declining prices. There is a recognised long-term tendency for commodity prices to fall in relation to the prices of manufactures and services. For a long time the evidence was contentious, but after the sharp decline in commodity prices over the last 25 years there is little dispute about it now.

Declining share of export prices or final market prices accruing to the farmer. This is a worldwide phenomenon, affecting national export revenues as well as the prices received by farmers and the wages and working conditions of farm and plantation workers.¹⁵⁸

Data from UNCTAD¹⁵⁹ indicate that over the 24 years from 1977 to 2001, real US dollar prices for 46 leading commodities declined by an average of 2.8 per cent per year. Among those of greatest interest to developing countries, the real price of cocoa fell by 6.9 per cent per year and that of tin, by 7.5 per cent. In consequence, it is reported that in France, cocoa bean prices accounted for 20 per

¹⁵⁷ A rather fuller discussion of the minerals question may be found in Lines, T. (2004), pp. 11-13.

¹⁵⁸ See Lines, T. (2005), pp. 123-24.

¹⁵⁹ UNCTAD (2003A), Table A.2. Real prices are calculated in constant 1985 dollars. The price deflator is the U.N.'s unit value index of manufactured goods exported by developed economies.

cent of the value of a chocolate bar in 1960 but only 5 per cent today.¹⁶⁰ An indication of the scale and diversity of the changes can be seen in Table 1.

Table 1. Losses to LDCs on commodity markets due to changes in world prices and in LDCs' export market shares since 1980

	Actual value, 2001 (US\$)	Hypothetical 2001 value without the change (US\$)	Change
All non-oil primary commodities Total fall in revenue, 1980 - 2001*	9.3bn	16.7bn	- \$7.4bn or - 44.3%
Largest absolute fall in revenue* Copper	0.6bn	4.2bn	- \$3.6bn
Largest absolute fall in revenue (agriculture)* Coffee	0.44bn	2.06bn	- \$1.61bn
Largest percentage fall in revenue* Zinc	0.2m	161.1m	- 99.9%
Largest percentage fall in revenue (agriculture)* Cocoa	28m	498m	- 94.4%
Largest absolute fall in a staple food export* Rice	37m	466m	- \$429m or - 92.1%
Largest absolute fall attributed to price changes Gold	0.81bn	1.26bn	- \$0.45bn
Largest percentage fall attributed to price changes Coffee	444m	755m	- 41.3%
Largest absolute fall attributed to change in market share: Copper	0.6bn	3.6bn	- \$3.0bn
Largest % fall attributed to change in market share Zinc	0.2m	193.8m	- 99.9%
Largest increase in revenue* Rough wood	863m	365m	+ \$498m or + 236%

* Attributable to changes both in price and LDCs' market share.

Sources: UNCTAD (2004), Box 7, Table 1, p. 127; author's calculations.

One of the main reasons for these declines lay in chronic oversupplies, which have broadly continued until the present. This was in part a consequence of the doctrine of export-led growth and the fallacy of composition, as we have seen. It appears that food production came to be *more* attractive than before in relation to cash crops, as export prices fell by more than those of domestic food crops.¹⁶¹

The danger of oversupply in export crops continues in spite of the long experience of export-oriented policies over the last 20 years. India, the world's largest banana producer but not at present an exporter, could become the second largest exporter after Ecuador within two or three years, according to official plans announced in Maharashtra State.¹⁶² But the banana market, besides undergoing a disruptive restructuring, is already chronically oversupplied and prices have recently come under further pressure from a price war between developed countries' super-markets, especially in the UK, one of the leading markets.

¹⁶⁰ UNCTAD and Common Fund (2004), pp. 8-9.

¹⁶¹ Stein, H. (2003), p. 167, citing K. Boratav, "Movements of Relative Agricultural Prices in Sub-Saharan Africa," in *Cambridge Journal of Economic*, Vol. 25, No. 3 (2001).

¹⁶² "India: Taking Over the World?," in *Banana Trade News Bulletin* (2005), p. 3.

Corporate pressures

As we have seen, the income gap between the richest and poorest groups of countries is estimated to have grown from 30:1 in 1960 to 74:1 in 1997. For 2003, UNDP figures indicate a ratio of 70:1 between the GDP per capita of 57 countries classified as of high human development and that of the 32 of low human development. Between the 39 high-income countries and 61 of low income (which include India), the ratio was 63:1. With GDP re-expressed on a purchasing power parity basis, the respective ratios were 25:1 and 14:1.¹⁶³ The 2003 ratios measure more than just the top and bottom quintiles of the world's population, where even a gap of 14:1 appears stupendously wide. There is a similar chasm between the financial and technological possibilities of agriculture in the North and the South. The two are probably linked.

As a result of the rapid increase in their means, rich countries' citizens have become more demanding about their food and other purchases. Consumers in Western Europe and North America are concerned about food safety, environmental costs (with growing demand for organic produce) and genetic modification. With their spending power as great as it is, they can find it hard to understand any reason for these rising standards not to be met. Supermarkets respond by imposing strict and detailed requirements on their suppliers. It is often very onerous for farmers in *developed* countries to meet those requirements, let alone those in the developing world. Humphrey draws this conclusion: "Large retailers and brand-name companies are particularly vulnerable to consumer campaigns. The easiest way to contain risks of this sort is to work with fewer and larger suppliers."¹⁶⁴

On the positive side, one of the consumers' concerns is for the welfare of people who produce their food. This leads to campaigns for farmers to get higher and more secure prices (mostly via fair-trade), and against child labour and other employment abuses.

But these ever stricter requirements add further impediments to developing countries' agricultural exports, besides restrictions arising from border tariffs and subsidies. They can prevent the poor from benefiting from existing trade and cause missed opportunities in trade. UNCTAD has listed these impediments under two headings: those authorised under multilateral frameworks, namely WTO rules in other areas than the AoA; and those that lie outside multilateral frameworks, whether arising from government rules or market practices:

- **Under multilateral frameworks**
Sanitary and phytosanitary (SPS) measures, technical barriers, restrictive rules of origin and intellectual property rights.
- **Outside multilateral frameworks**
Product and quality standards, health and safety requirements, environmental measures, social and eco-labelling and consumer information, selective taxation, oligopolistic market structures and anti-competitive practices.

The rest of this sub-section deals with those among these impediments which arise from market practices. Green and Morrison sum it up as follows:

Compounding falls in real commodity prices, a key change in global conditions has been the increasing vertical integration of agricultural supply chains with power concentrated at or near the retailer end. In addition to the constant downward pressure that this imposes on farmgate prices, decisions on market

¹⁶³ Data from UNDP (2005), p. 269 (Table 14). The ratios for 2003 were calculated by this author.

¹⁶⁴ Humphrey, J. (2000), p. 2.

*access and on safety and quality standards are increasingly determined by large multinational corporations, rather than by either national or international public bodies.*¹⁶⁵

Having reached near-saturation point in most developed countries' markets, international supermarket chains have expanded with extraordinary rapidity in the rest of the world in recent years, with their share of retail food sales in both South America and East Asia "ballooning" from less than 20 per cent to more than 50 per cent between 1992 and 2002, according to the FAO.¹⁶⁶ The importance of size is illustrated in a finding about UK food retailing:

*The bigger a retailer is, the better able it is to extract lower prices from suppliers. This was a finding from the UK Competition Commission's investigation into the UK supermarket sector in 2000... The biggest supermarket - in this case Tesco - consistently paid suppliers 4% below the industry average, while smaller supermarkets paid above the average rate.*¹⁶⁷

This gives the supermarkets immense bargaining power over their suppliers, even when they compete fiercely among themselves - and, in their own home markets, receive low margins, at least within the stores themselves. Those margins are facilitated by high turnovers and quick turnaround times for stock, which reduce the carrying cost. They attract customers by offering wide ranges of goods under one roof and attractive advertised prices; and can get good terms from suppliers due to the size of throughput they can promise, and increasingly also as a result of the lack of alternative outlets in agriculture. All in all this gives corporations at the buyers' end of the chain a great deal of power to dictate their own terms. It is now a major factor in developing countries' home markets, not just for exports, as Reardon et al report:

*Supermarkets in Latin America buy 2.5 times more fruits and vegetables from local producers than all the exports of produce from Latin America to the rest of the world! This should be contrasted with the nearly-exclusive focus on produce exports in government and donor programs to spur growth in agricultural diversification and access to dynamic markets.*¹⁶⁸

Vorley lists a series of "direct contributions" that supermarkets have been known to *require* of their suppliers: "rebates and retrospective discounts (also known as marketing allowances), promotional expenses, enforced acceptance of late payment on invoices, charges for shelf space during price promotions, and charges made for listing new products in the store."¹⁶⁹ Most farmers around the world today face sellers' markets for their inputs as much as buyers' markets for their sales. They are vulnerable to price and other pressures on both sides of their business and can easily find they are squeezed between them.

The consequences for small farms in particular are spelt out in particular by Imber et al, based on Reardon et al's report of the experience in Latin America:

Supermarkets, who operate on a contract basis, prefer to work with large farm operators... This increase in competition has gradually squeezed out small farmers, who generally rely on production of non-processed staples, where relative profitability has fallen... In subsector after subsector, small farmers are being excluded from the domestic value chain... There has been ... little support from government to assist in the transition into the non-farm

¹⁶⁵ Green, D. and J. Morrison (2004), pp. 3-4.

¹⁶⁶ Food & Agriculture Organisation (2004B), p. 20.

¹⁶⁷ ActionAid International (2005), p. 21.

¹⁶⁸ Reardon, T. et al (2003), p. 8 (emphasis in the original).

¹⁶⁹ Vorley, B. (2003), p. 35.

*sector... government assistance has declined in the increasingly competitive and concentrated environment.*¹⁷⁰

Agro-processing firms (e.g. coffee roasters), integrated production and trading companies (as in the banana sector) and trading companies (especially in bulk crops like cereals and soya beans) remain very important, besides supermarkets. The 25 largest food and agro companies (excluding retailers) are reported to come from just eight countries. Only one of them is even partially owned outside the developed world: the brewing company Interbrew AmBev, which is jointly owned in Belgium and Brazil and is the 16th largest agro-food firm with annual sales of US\$10.7 bn.¹⁷¹ However, many of these companies find that even they are losing a dominant position on their supply chains to the supermarkets. Even in bananas, in which the three biggest trading companies controlled 47 per cent of the international market as long ago as 1966,¹⁷² they now find that they have to accept price cuts pressed on them by supermarket chains in the leading developed countries. It is reported that fresh produce gives the supermarkets their highest gross margins, at up to 40 per cent, most of which they keep by pressuring their suppliers when they cut consumer prices. According to van de Kastele and van der Stichele, "In the UK, Asda/Wal-Mart precipitated a price war when it slashed its margin on bananas from 32% to 22%. The other major retailers met ASDA's prices by slashing their supplier prices, rather than by reducing their own margins."¹⁷³

Competition and supply management

Part of the answer in many markets lies in supply management. There appears to be a renewal of interest in price stabilisation and supply management among some of the developing countries which are most active on the commodity markets. In May 2005 a new government in Ecuador (the largest banana exporter) signed a decree to regulate the volume of bananas leaving the country.¹⁷⁴ Two months later, Malaysia and Indonesia announced a bilateral plan to cooperate on palm oil, rubber, cocoa, timber and other markets to ensure price stability and eliminate the undercutting of their positions by others. "Farmers of both countries are always on the receiving end when prices drop," Malaysian commodities minister Peter Chin Fah Kui was reported as saying. Both countries are in strong positions on the palm oil market, where they are the two leading producers, and natural rubber, where they are second and third.¹⁷⁵

Supply management is any concerted technique which takes supplies off a market, or puts them back on it, in order to influence price movements. It can take many forms, and the best form for any market can only be discovered with reference to that market. It includes the De Beers company's control of diamond distribution and the Organisation of Petroleum Exporting Countries' (OPEC's) operations on the oil market, as well as the International Commodity Agreements (ICAs) between producer and consumer countries which intervened on several markets before 1990. Other examples were the control of prices by the aluminium and nickel TNCs until the 1980s. The aluminium system was extremely successful (and arguably

¹⁷⁰ Imber et al (2003), p. 31, citing T. Reardon, E. Farina and J. Berdegue, "Globalization, Changing Market Institutions and Agrifood Systems in Latin America: Implications for the poor's livelihoods," in 74th EAAE Seminar, Livelihoods and Rural Poverty: Technology, Policy and Institutions, September 12-15, 2001, Imperial College at Wye, United Kingdom.

¹⁷¹ Rabobank International 2004, p. 16.

¹⁷² UNCTAD and Common Fund (2004), p. 5.

¹⁷³ Van de Kastele, A. and M. van der Stichele (2005), p. 29.

¹⁷⁴ *Banana Trade News Bulletin* No. 33 (2005), p. 2.

¹⁷⁵ *Business Times* (2005).

beneficial for consumers) for the first 90 years in which that metal was traded.¹⁷⁶ Those examples all work quite differently from each other: that is no accident, as every commodity market operates in its own way.

On any large international market supplies are likely to be under effective control at some point along the supply chain. In recent years coffee prices at the internationally traded (green bean) and farmgate levels have remained low but the roasters continued to make large profits.¹⁷⁷ The latter necessarily manage their own supplies in their commercial interests in order to purchase as much coffee as they can sell at a given price level, and no more than that much. This means that in the case of oversupply in farm production the surplus stocks will accumulate near the producers' end of the supply chain. The roasters (or in other commodities, retailers) can force down their own purchase price at the expense of farms, plantations and agricultural employees by these means. Just-in-time inventory processes on integrated supply chains make it possible to control the quantities supplied even more finely than before. "Risk and cost are passed down the supply chain to those most vulnerable, such as developing country farmers, and women or migrant and temporary workers... Employment becomes more precarious."¹⁷⁸

This is the use of market power to influence the price level, in this case to the detriment of tropical agricultural exporters. Proposals for other parties to manage supplies in order to counter such falling or sharply fluctuating prices are no more than an attempt to correct for the serious power imbalance which market concentration gives rise to. Besides supply management, the situation has also led to a slow and so far quiet, but quite widespread, conclusion among observers that some form of international competition policy is required. However, competition (or antitrust) policies were designed to deal with cases of monopoly and oligopoly, while in modern agricultural markets the issue is the opposite, oligopsony: fragmented producers are squeezed by market concentration at the *buyer's* end of the supply chain. Politically this is harder to deal with, since consumers (who are also the voters in democracies) will rarely find sympathy with monopoly pricing, but they will be less concerned if distant agricultural producers are squeezed but prices in their own shops remain low.

Supply management is most commonly understood as a mechanism to either limit supplies in order to keep prices up or manipulate them with a view to evening out fluctuations. The European Union's Common Agricultural Policy between the 1960s and 1980s, with its guaranteed prices, intervention stocks and high external tariffs, can be seen as a form of supply management which kept prices high and successfully *expanded* European farm output (at the expense of consumers and taxpayers). Historically, many different means have been used to achieve this, and by a variety of actors in a position to influence the market - some of them purely commercial, others representing farmers' interests, still others based in groups of producer states (such as OPEC on the oil market), or combinations of producing and consuming countries in coordination.

The instruments used to manage supplies at different times have included the manipulation of public or private stocks, both import and export quotas, tariffs, TNCs' controls over their own production and distribution systems, and tightly controlled outsourcing. Supplies can be managed with a view to either raising or lowering the price level. There are methods which push supplies up (e.g. subsidies and import tariffs), cut them back (e.g. production or export quotas) or can do

¹⁷⁶ The breakdown of the former aluminium system is analysed in Lines (1989, 1990).

¹⁷⁷ See Oxfam International (2002A), pp. 20-27.

¹⁷⁸ Traidcraft (2005), p.3.

either at different times with the aim of reducing price volatility (e.g. a buffer stock).

Figure 1 gives examples of supply management both currently and historically on a variety of agricultural and mineral markets. In each case it shows who was in control of the process, the techniques they used, whether they represented a private and commercial or public or social interest, and (on the vertical axis) at what stage they lie along the supply chain between producers and final consumers. With time, supply management has come to be conducted from points further on the right side and further down the chart: i.e. by private and commercial rather than public or social interests, and nearer the consumer's end of the supply chain.

Chart 1. Types of commodity supply management (limiting supply)

Who's in control?		State or socialised			Corporate		
		Commodity	Organisation	Method	Commodity	Company/ies	Method
Producers / exporters	Monopoly control				Diamonds	De Beers (Central Selling Organisation)	Sales control and stocking
	Oligopoly or cartel	Cereals (since 1992)	EU	Limits to sown area (set-aside)	Aluminium, nickel (in the past)	Alcan etc, INCO etc	Vertical integration; production control and stocking
		Chickens, milk	Canadian farm co-ops	Production quotas			
		Oil	OPEC				
Producer-consumer agreement		Coffee (before 1989)	ICO	Export quotas			
		Tin (before 1985)	ITO	Buffer stock			
Consumers / importers	Oligopsony	Bananas	EU	Import quotas	Bananas	Dole etc	Vertical integration; production control
					Coffee	Nestlé, Kraft etc	Purchase control, supply chain management
					Other foods	Supermarkets	

On the commodity markets, publicly run supply management has worked where there is a global market with a common pricing system and a single set of market institutions. Numerous markets have been global for decades, in some cases for centuries: large markets like oil, coffee and copper as well as tin, palm oil and rubber, and small, specialised ones like vanilla, cloves and tungsten.

So what are the criteria for success? First, the technical issues. When the UN-sponsored ICAs intervened on the markets, at various periods between the 1950s and the 1990s, it was mostly in an attempt to keep prices within a predetermined price band, estimated to be the trend price for the commodity in question. But that required a degree of foresight about markets in which the very problem being addressed was their instability. However, the method does not have to be so formal or make the same pretensions to precision. After all, most private

companies make their pricing and production decisions according to commercial judgments rather than hard and fast rules. Indeed, one of the failings of the ICAs was probably that they followed a one-size-fits-all policy, requiring protracted negotiations between the principal countries on both sides of the market. But that is not the only way to do it.

An important question is whether you want to stabilise prices or push them up. Any supply management system has to decide at the outset which of the two it wants to achieve; it is unlikely to manage both. Any scheme can also come under severe, unpredictable strain at times, and provisions to accommodate that strain should be built in. There were two main reasons why the ICAs collapsed in the 1980s. One was a withdrawal of political support, especially from the US, but the second lay in the sharp economic recession of the early 1980s, which forced down prices and built up stocks. This reverse not only destroyed apparently robust ICAs like the tin agreement, but even the previously solid aluminium pricing arrangement. It was not foreseen, but in future the possibility of such strains could be built into an agreement with something akin to an economic *force majeure* provision. (Some stock markets suspend trading when prices move by more than a certain amount.)

On the political side, a condition of success seems to be the existence of a dedicated core of countries (or companies, if it is a commercial cartel) which feel solidarity with each other on other grounds. This applies to Middle Eastern countries in OPEC and it was also true of Indonesia, Malaysia and Thailand in the tin agreement. In coffee it is more difficult because of the large number of countries which export it, while an attempt by copper-producing developing countries to intervene in the market in the 1960s had limited success because the countries concerned were too diverse. Publicly controlled supply management will not work on every market, and certainly not by the same means on every one. But when one looks at what has happened in the coffee market since the export quotas were ended in 1989, it seems that the cure may be worse than that disease.

Openings for poor rural people?

The growing income gap between the LDCs and Africa and developed countries makes it ever harder for the former to meet the latter's standards for food and agricultural produce. Yet if Reardon *et al* are correct in their predictions, there may soon be little choice for their farmers but to meet similar standards even on domestic markets. Otherwise, with imports liberalised, international transport as cheap as it is and many developed countries still subsidising their exports, the growing number of supermarkets in Africa will source their supplies outside the country (or continent) of consumption. In many cases, from Senegal to Zambia, they already do. In any case, as supermarkets grow, small farmers will probably find it harder to achieve local sales. According to the FAO, "In less than five years, Thailand's leading supermarket chain pared its list of vegetable suppliers from 250 down to just 10."¹⁷⁹ Those 10 must have been big. Meanwhile, central control of *global* supplies seems to be on its way: Carrefour, France's largest supermarket chain, buys melons from just three growers in northeast Brazil to supply all its Brazilian stores and to ship to distribution centres in 21 countries.¹⁸⁰

Vorley concludes that, "The high capital requirements for entering buyer-driven chains mean that the higher land and labour efficiency of smallholder production is no longer a comparative advantage." He goes on to argue that "the connection

¹⁷⁹ Food & Agriculture Organisation (2004), p. 21.

¹⁸⁰ Food & Agriculture Organisation (2004), p. 21 (*ibid.*).

between agriculture and poverty alleviation is thereby weakened."¹⁸¹ While there is a widespread acceptance of Vorley's proposition, not all agree with his conclusion. For example, Humphrey also argues that export horticulture favours large firms and marginalises smallholders. But he goes on: "This does not appear to undermine the poverty-reducing effect [of] export horticulture. Qualitative and quantitative studies indicate that large-scale farming reduces poverty in both urban and rural areas."¹⁸²

In the export sector, and the balance between it and domestic agricultural production, there are three broad categories. They are not mutually exclusive and each country and locality will have to strike the right balance between them to match its circumstances. They are as follows.

- 1. Traditional export crops** such as coffee, cocoa and cotton. They must be pursued, especially where countries have a clear quality or cost advantage (as in Ethiopia's and Kenya's coffee and Mali's cotton), or where they provide a major share of export revenues (as in Ghana's cocoa or Swaziland's sugar). Serious international efforts are needed to correct the balance of power on the supply chains, remove tariffs and subsidies which still inhibit developing countries' exports in both raw and processed forms, and restore prices at both the border and the farm gate to more remunerative levels.
- 2. Non-traditional exports**, from cut flowers to fisheries. The category is wide and diverse, and not subject to precise definition. It has been used by different authors to cover a wide range of items. While excluding all staple foods and products sold in large-scale and well-established North-South markets, such as coffee, cocoa, bananas, tobacco and jute, it can refer to almost any commodity that has not in the past been an important export item in a country or region in question. Thus, an export commodity that is traditional in one country (e.g. peppers, groundnuts or pineapples) may be non-traditional in another. The most important characteristic of non-traditional commodities is that they have been deliberately chosen as a prospective means to gain extra export income, and therefore they tend to be in markets which are seen as expanding and can offer dynamic revenue growth. Many of them are not sold in great quantities or in bulk, and they can be quite perishable with deliveries required quickly and at short notice. They very often - but not always - form part of a vertically integrated supply chain driven by Northern corporate buyers.

These are worth pursuing, as long as a country can develop the infrastructure and institutions required. But the fallacy of composition must be borne in mind even here, for example in cut flowers: see the Annex below. In fact the danger may be greater because many non-traditional exports go to narrow, specialised markets, which can easily be overwhelmed by extra supply (see the box about vanilla, above). There should also be little expectation that most of them will benefit smallholders much, while their wider impact on rural and urban poverty will have to be monitored carefully. In some cases, negative impacts will have to be addressed, such as those on poor artisanal producers in fisheries (see Annex on this too).

- 3. Staple foods** including cereals, root crops, livestock and animal products. With a few exceptions, the opportunities for LDCs and Africa on global markets in these areas are limited. However, there *is* assured expansion of future demand as their own domestic urban populations grow and rural people buy a steadily

¹⁸¹ Vorley 2003, p. 23.

¹⁸² Humphrey, J. (2003), p. 14.

larger share of their food needs. With the right policies, this could become an important motor of growth and development. In Vietnam, as well as Colombia, Ecuador, Brazil, Peru and Paraguay in Latin America, there have been signs of a shift of production from traditional export crops such as coffee and cotton to food crops like cassava.¹⁸³ The Mozambican government is encouraging its people to grow traditional pest-resistant crops such as cassava and sweet potatoes.¹⁸⁴ The benefits of this growing demand will be felt more widely than in other areas of agriculture, and more directly by poor farmers and rural workers, including subsistence producers if they produce greater surpluses for the market.

Success will depend on increasing productivity as well as sharply cutting transaction costs, especially for transport and marketing. Both the state and international donors can provide assistance here. And neighbouring countries can help each other by promoting trade in these products with regional market arrangements and the institutions required to support them. With respect to Africa specifically, this is the topic of the next section of this report.

¹⁸³ FAO (2003).

¹⁸⁴ FAO (2005A).

VI. Food self-reliance in Africa through regional trade

The dilemma of poor countries' agriculture

It is timely to ask how much impact on the deepest poverty the further integration of Sub-Saharan Africa into global markets can make at this stage. In the case of agriculture, the first requirement is to stop farmers being displaced from their own markets. There should be strong potential in a continent with vast natural resources on the supply side and demand from 750m people, of whom in 1999-2001 some 27 per cent were undernourished (33 per cent in SSA).¹⁸⁵ In some of them very high levels of malnutrition are reported, reaching 68 per cent of the population in Burundi, 71 per cent in the D.R. of the Congo and 73 per cent in Eritrea. An indication of the vulnerability this implies was seen in the severe food shortages in Niger, Mali and Burkina Faso in 2005 following the previous year's invasion of locusts, despite lower malnutrition rates of 34 per cent, 21 per cent and 17 per cent respectively.¹⁸⁶

As we saw above, the FAO defines 41 countries in Africa (and 48 of the 50 LDCs) as low-income food-deficit countries, meaning they import food to a greater nutritional value than the food they export. Yet this import need is set against daunting foreign exchange constraints in countries that depend on declining export commodities and foreign aid. A possible alternative path would expand market opportunities for many of the poorest rural people and provide SSA with an easier context in which to overcome the structural constraints on development which have hampered it since independence. As we have seen, those constraints are very numerous:

- The predominance of subsistence agriculture - a growing handicap with global supply chains and ever more demanding conditions of supply;
- The small size of domestic markets, which makes it hard to match the economies of scale enjoyed by more prosperous and specialised developing countries such as Brazil, and the large, fast-growing economies of India and China;
- Remoteness from world markets and high transport costs;
- Lack of domestic economic integration, reflected in unorganised, underdeveloped and incomplete domestic markets, inadequate institutions and disruptions in price transmission between different market levels and regions;
- Narrow export bases relying on one or a few primary commodities, the prices of which have fallen sharply in recent years;
- Competition to domestic food suppliers provided by imported goods, many of them subsidised by developed countries - even in markets where there is plentiful local production;
- Simultaneously with the above, a growth in the *necessity* of food imports as deficits in meeting national nutritional requirements have grown;
- Severe constraints on access to foreign exchange to pay for those imports, even after foreign debts in many cases have been written down;

¹⁸⁵ Benson, T. (2004), Table 1 on p. 2.

¹⁸⁶ U.N. Development Programme (2005), Table 7, p. 243, citing FAO data. The figures given are for 2000-2002.

Table 2. Sub-Saharan Africa's trade in staple foods and sugar

		1990	2000	2003
Bananas	Production	5,195	5,392	5,475
	Exports	256	510	562
	Imports	14	46	25
	Exports - imports	241	464	536
Plantains	Production	19,269	21,876	22,802
	Exports	2	-	-
	Imports	-	0	0
	Exports - imports	2	0	0
Cassava (in all forms, cassava equivalent)	Production	70,044	96,745	101,650
	Exports	113	15	39
	Imports	14	54	32
	Exports - imports	99	- 39	7
Maize	Production	23,247	26,408	28,182
	Exports	1,064	225	272
	Imports	1,079	1,433	1,690
	Exports - imports	- 15	- 1,208	- 1,418
Maize flour	Production	-	-	-
	Exports	19	17	46
	Imports	135	198	445
	Exports - imports	- 116	- 182	- 399
Millet	Production	10,566	12,646	14,802
	Exports	21	27	6
	Imports	19	29	47
	Exports - imports	3	- 2	- 41
Pulses (total)	Production	5,907	7,716	8,593
	Exports	190	84	210
	Imports	141	269	301
	Exports - imports	49	- 184	- 90
Rice, paddy	Production	9,179	11,621	12,099
Rice, milled paddy	Exports	20	9	34
	Imports	2,532	3,412	3,547
	Exports - imports	- 2,512	- 3,403	- 3,513
Rice, broken	Production	-	-	-
	Exports	0	7	37
	Imports	123	641	1,412
	Exports - imports	- 123	- 634	- 1,376
Sorghum	Production	10,989	17,119	22,332
	Exports	111	63	49
	Imports	60	116	162
	Exports - imports	- 50	- 54	- 113
Sugar cane Sugar (raw sugar equivalent)	Production	41,134	44,569	48,057
	Exports	1,709	2,082	1,513
	Imports	1,298	2,806	3,752
	Exports - imports	411	- 723	- 2,239
Wheat and wheat flour (wheat equivalent)	Production	2,098	2,282	2,742
	Exports	212	240	366
	Imports	4,873	9,841	10,694
	Exports - imports	- 4,661	- 9,600	- 10,328

Notes: (1) Intra-SSA trade is included, but most root crops excluded because of small amounts traded. (2) All figures are in thousands of tonnes (metric). (3) A dash (-) means not applicable or no trade; a zero (0) means less than 500 tonnes traded. (4) The export-minus-import sums might not add up, because of rounding.

Source: FAOSTAT Database

- An unfavourable environment for local capitalists to emerge in commodity marketing, processing and trade;
- Vulnerability to risk, both at the macro-economic, national level and locally among large parts of the population, especially in rural areas.

Much of the above resembles a description of severe and intractable food insecurity. Lack of food security leads to increased mortality and morbidity, impairs the capacity of families to invest in human capital, thus stripping their country of the skilled labour necessary to develop industries and provide economic growth and diversity. The food deficits in international trade end up deepening the poverty trap. It is urgent to find measures combining trade and investment to tackle this problem. Ease of access and natural demand similarities suggest that the first stage should lie in domestic and neighbouring markets. The rest of this section enlarges on that proposal.

We also saw that SSA's trade balance in staple food crops seriously deteriorated between 1990 and 2000. Table 2 gives details and shows the continuation of that trend up to 2003. But it also shows how much production of staples rose during that period - most of all among those crops which least enter world markets, such as cassava and millet. SSA's sorghum output almost caught up with that of maize. In the case of yams, which scarcely enter international trade at all, output nearly doubled, from 19.9m tonnes in 1990 to 36.6m in 2000 and 38.3m in 2004. Much of the increase, especially in root crops such as cassava and yams, occurred in Nigeria (although maize production there declined). In the banana sector, in which SSA's net exports have more than doubled since 1990, the production of plantains increased by 20.6 per cent to reach 23.2m tonnes in 2004, but that of bananas (net of international trade) fell marginally.

Earlier we discussed the doctrine of comparative advantage and whether the policies pursued under structural adjustment interpreted it in too narrow and static a way. They may have inhibited countries from making a dynamic use of it to enter more advanced or fast growing markets. Why has there been so little diversification into dynamic export products in recent years in the LDCs and Africa? It did, after all, occur to a degree with the creation of many new industries under the former doctrine of import substitution in the early years after independence. Hazell argues that,

*The greatest market potential for most African farmers still lies in domestic and regional markets for food staples (cereals, roots and tubers and traditional livestock products). For Africa as a whole, the consumption of these foods accounts for about 70% of agricultural output ... and is projected to double by 2020... Moreover, with increasing commercialization and urbanization, much of this additional demand will translate into market transactions and not just additional on-farm consumption. There are no other agricultural markets that offer growth potential on this scale and which could benefit huge numbers of Africa's small farmers.*¹⁸⁷

African countries need more food, and market demands for food will continue to grow. A greater range of staple foods is eaten in different parts of Africa than on other continents, and many of them are little traded internationally. Yet many of them are produced - and to a considerable extent placed on commercial markets - by rural smallholders who are among the poorest people on the continent. There is a combination of circumstances here which could contribute to an advance in welfare all round, rather than the cries of frustration and despair which seem to

¹⁸⁷ Hazell, P. (2005), pp. 8-9.

attend so many discussions of Africa's fate at present. What it needs is the concentrated political attention and careful planning which we saw previously behind the successful development of countries like China and Malaysia.

How it might be done

Modern international trade is not on the whole conducted between countries with complementary economies, as the theory of comparative advantage would suggest, but between countries with similar characteristics at similar levels of development. Ricardo's famous example expostulating the theory was between two countries with very different levels of development at the time: England, exporting cotton goods at the cutting edge of early 19th century technology, and agrarian Portugal, exporting a traditional processed agricultural product, wine. But the overwhelming majority of world trade today is carried out between the developed countries of the Organisation for Economic Cooperation and Development - often exchanging similar products with each other. One of the greatest success stories of recent decades has been the economic integration of the European Union, built on a free trade zone between highly advanced economies with a common external tariff, often at high duty rates. This model should be applicable at lower levels of development too - and more than anywhere perhaps in the face of the national fragmentation which characterises Africa. As one commentary put it:

*More than any other continent it is a patchwork of generally small nation states, most composed of different ethnic groups, each with their own history and culture. Different colonial histories have led to further diversity in institutions, language, culture, economic structure and trading patterns.*¹⁸⁸

A somewhat comparable fragmentation in Europe led to two continent-wide wars in the first half of the 20th Century. Fortunately the situation has not descended to that level in Africa. But Europe has overcome this over the last 50 years with a programme of gradual economic integration, achieved through careful - if often difficult - intergovernmental negotiations. In the developing world, other forms of international cooperation have also assisted to overcome commodity dependency. Besides regional groupings such as ASEAN in Asia and Mercosur in Latin America, there have been more informal instances. For example, Bangladesh's expanding garment production in the 1980s was partly achieved through collaboration with East Asian entrepreneurs, who were facing restrictions under export quotas from developed countries in the former Multi-Fibre Arrangement.¹⁸⁹

The negative gap between food exports and food imports in Africa as a whole is widening. At present it is being filled by imports from developed countries or, in products such as rice, more prosperous developing countries in other regions. In either case, the exporting countries tend to subsidise production of the commodities concerned. This cannot be sustained as Africa's declining terms of trade cannot guarantee sufficient foreign exchange to pay for imports of foodstuffs to meet the nutritional needs of growing populations. But, with the partial exception of wheat, the staple foods consumed in Africa are widely grown on the continent itself: grains such as sorghum, millet, rice and maize; root crops including cassava; and other types of food such as bananas and plantains.¹⁹⁰ An expansion of intra-African trade could have a significant impact on these markets, while benefiting the smallholders who mostly supply them. Researchers at IFPRI have concluded that,

¹⁸⁸ Kydd, J. et al (2002), p. 13.

¹⁸⁹ See Overseas Development Institute (1990), p. 4.

¹⁹⁰ UNCTAD (1998), p. 141.

While there are opportunities for improving traditional exports through better quality and niche markets, and non-traditional exports are growing quite fast, albeit from a small base, the greatest market potential for most African farmers still lies in domestic and regional markets for food staples (cereals, roots and tubers and traditional livestock products).¹⁹¹

On the supply side, they conclude that better integration of regional markets could provide important outlets for increased grain production in some countries. A basis is already there in some products, particularly in certain regions. Staple cereals including maize comprised the largest element of intra-SSA trade, amounting to \$310m annually or exactly one-sixth of total intra-SSA trade, in the 1996-2000 period.¹⁹² More than 50 per cent of SSA's maize imports came from other SSA countries, mostly within the same sub-region as the importing country; 60 per cent of East Africa's maize imports were intra-regional.¹⁹³ There is also significant trade in sorghum and millet within West Africa, for example between Niger and Nigeria and in exports from Sahelian countries to Côte d'Ivoire.¹⁹⁴

What this may indicate, more than complementarities between Africa's regions, is a complementarity in food production and consumption in many cases between countries within a region. Given the severe communications difficulties and other transaction costs between African countries, it would in any case be more feasible to build on such trade *within* a sub-region of the continent than to expand it *between* sub-regions at this stage. Different staples predominate in different parts of the continent, such as maize in Southern Africa, bananas in parts of East Africa, and sorghum, millet and cassava in West Africa. But production capacities and consumption needs vary within those regions.

This matches the economic potential of African farmers, including subsistence farmers offering surpluses for sale. The trade can exploit the very strengths of poorer and smaller farms, while working with the grain of comparative advantage and drawing benefit from the improvement in terms of trade since the 1980s between Africa's domestic food crops and existing export crops.

Supporting international trade in basic food commodities should have a superior poverty-reducing impact. A piece of research into household incomes in a poor region of Malawi found that it was the farmers with the smallest plots of land who tended to sell basic crops, with the highest proportion of households selling pigeon pea, sweet potato, cassava, millet and vegetables found among those cultivating 0.5 hectare or less. Such people would benefit disproportionately from any expansion in those markets. Orr et al foresee a wide range of benefits from such a strategy. Unlike traditional cash crops, commercialisation of these intercrops is possible without reducing maize production. This diversification of household production with marketed crops increased food security because it both generated cash to buy maize and acted as a "subsistence strategy" extending the period of the household's self-sufficiency in maize.¹⁹⁵

Now, this was in only one small area of the continent and was not necessarily representative. However, such an approach to agricultural export commodities would have two big developmental advantages. In promoting regional markets of several countries, it could lead to economies of scale, which, as appears from the Chinese and Indian cases, are vitally important for success in modern global trade. Secondly, this would be achieved at a level of technology in products as well as

¹⁹¹ Hazell (2005), p. 8.

¹⁹² Diao, X. et al (2003), Table 5 on p. 12.

¹⁹³ Diao, X. et al (2003), p. 31.

¹⁹⁴ PricewaterhouseCoopers (2005), p. 39.

¹⁹⁵ Orr, A. et al (2001), pp. 63-66.

logistical, managerial and marketing skills which is consistent with that of the producers. This marks a sharp contrast with the stringent demands of technology and capital made by international agricultural supply chains today.

A similar benefit should be found in industry, providing a way to diversify into manufactures without having to meet the strict demands made of exports to developed countries. To take the case of a country which has been more successful than most in agricultural exports to sophisticated markets in the developed world, fully 67 per cent of Kenya's exports of manufactures (excluding agro-processed products) in 2003 went to the regional market of COMESA, and only 9 per cent to the EU.¹⁹⁶ After making due allowance for the different development levels, further development of this in COMESA and other regional groupings would follow quite closely the European model of industrial integration in the 1960s. It would also come as close as could be achieved to replicating China's and India's pattern of gradually fostering industrial development by the use of locally generated capital, while exploiting economies of scale behind protective barriers. It would enable industries to develop with a sufficient scale in a relatively large and integrated "home" market, so that they could eventually compete on the world stage after the barriers were taken down.

Issues to address

Intra-African trade is already quite highly developed in certain products such as sugar and cassava, but there are formidable obstacles along the path. There is insufficient or lack of cooperation between governments. Important issues that need to be addressed at national, regional and international levels include:

- The extent to which intra-regional trade is inhibited by the lack of appropriate commercial and administrative institutions.
- Poor communications, which can be addressed by appropriate prioritisation of public expenditure. There is now a widespread consensus that one of the keys to agricultural and rural development in underdeveloped regions lies in building roads and other infrastructure, as China has done. It is interesting that Brazil's success in agricultural exports has come despite what has been described as a "shaky infrastructure," with just 10 per cent of the country's roads paved.¹⁹⁷
- Barriers to trade both within countries and between neighbouring countries in SSA, as a result of domestic interest groups and limited cooperation strategies between neighbours. These include mutual tariffs, which are often higher between neighbouring African countries than between any of them and countries in the developed world.
- The proliferation of existing regional economic groupings, with different and overlapping memberships and operating according to different economic principles. Between them, the 34 African LDCs are members of 11 different intra-African regional trade arrangements. Five countries are members of three concurrently, including both Angola and the DRC, which share one of the longest frontiers on the continent but do not share membership of any of these organisations.¹⁹⁸ This needs to be greatly simplified and rationalised, perhaps under the auspices of the African Union.

¹⁹⁶ EcoNews Africa (2005), p. 2, citing S. Ihiga, "Assessment of Kenya's Export Potential to EU for Non-Agricultural Products," research study for Keplotrade (2005).

¹⁹⁷ *The Economist* (2005).

¹⁹⁸ UNCTAD (2004), p. 261.

- Insufficient macro-economic compatibility between countries within a regional bloc. For example, effective trade integration often requires a regional currency reference, rather than defining each currency separately against the hard currencies.
- The lack of standardised packing, grading and quality-control systems at regional levels.¹⁹⁹ Without common standards in these areas, no common market is possible. Such standardisation (or "harmonisation") was an important instrument of integration within the European Economic Community in its early days between the 1960s and 1980s.
- The danger (discussed earlier) that the EU's proposed EPAs, far from supporting regional integration efforts as intended, might actually undermine them.
- In agricultural trade, the bulkiness or perishability of many staple food products, including root crops and some coarse grains such as millet. This may be partly corrected by more and better agronomic research in this under-researched field.

¹⁹⁹ Food & Agriculture Organisation (2004A), pp. 28-29.

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