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Trade and Untapped Economic Growth in Developing Countries
October 17, 2008 – 1:30 – 3:30 p.m.
Moderator: **Ann Tutwiler** – Managing Director, William and Flora Hewlett Foundation
Participants: **Kym Anderson** – George Gollin Professor of Economics, University of Adelaide
Pedro de Camargo Neto – President, Brazilian Association of Pork Producers and Exporters
Robert Thompson – Gardner Chair in Agricultural Policy, University of Illinois
Rhoda Peace Tumusiime – Commissioner for Rural Economy and Agriculture, the African Union

Charlotte Hebebrand
President, International Food and Agricultural Trade Policy Council

Good afternoon. Could everybody have a seat, please. Sorry. I think the trick is to start talking, and then hopefully more people will join us as they realize that the session is underway.

Good afternoon. My name is Charlotte Hebebrand. I'm the president of the International Food and Agricultural Trade Policy Council, and I want to welcome you all very much to this afternoon session – which is a difficult session after lunch and the last session of a very long and interesting dialogue. But we will make it as interesting as we possibly can.

IPC organizes meetings around the world, and I have to say it's been a real pleasure to come to Des Moines. Des Moines definitely lives up to its reputation for great Midwestern hospitality. It's been a privilege to be here and be part of the Borlaug Dialogue. And I want to thank Ambassador Quinn and Frank Swoboda very much for letting us participate. We have enjoyed it tremendously, and we've been very impressed with the organization of the congress and the excellent speakers, and of course have been honored to participate in the Award Ceremony last night, which was an incredible spectacle – very, very nice.

We have been here and we have heard a lot about increasing productivity in agriculture. And no doubt that that is an enormous challenge considering that we are looking at a doubling of food demand by 2050.

I think it's also very interesting, though, to think about the role of trade and not just to look at increases in productivity – because basically, if you increase your productivity, you get to a surplus, but the surplus won't translate into profits unless you actually can reach the markets with that.

So I thought it was very interesting to hear both Sylvia Burwell and Rajiv Shah talk about when the Gates Foundation first started working on agriculture; they had to focus on increased productivity, but then very quickly realized that doing that without paying attention to markets is not going to work, is not going to be a sustainable solution for the problems in Africa. So I really want to second that – I think that's very important.

Our group, the IPC. We are a group of some 40 international agricultural-trade experts around the world, working to promote a more open and equitable trading system. And as our name says, we focus on international trade. I think it's fair to say that the focus on access to markets in this conference so far has focused on the local level. And certainly that's very important for Africa – if you're talking about smallholders, you probably don't want to make a jump right away to think about the big, international markets. You do need to first of all think about getting from the village to the next town and so on.

But I would like us also to pay a little bit of attention to international trade policy, because it does matter. You remember the slide that was shown of a truck at the border between two countries and the difficulty in getting that truck through the border. Every single sack of grain had to be taken off the truck in order to get it through the border. In Africa you have 53 countries, and if you don't make a greater push on regional integration, you can't really achieve economies of scale, which are really very crucial for increased productivity and increased incomes through trade.

Another reason that international trade policy matters to Africa is, it has a direct impact on the markets there. We have talked a lot about here the difficulties caused by high prices. But we shouldn't forget that for many, many decades, the problem was actually low commodity prices, partially caused by trade-distorting subsidies. So the international trade regime really does matter.

We also heard here a couple of days ago the impact of export restrictions on the food price. The estimates vary on this, but between 30 and 50 percent of the food price increases were caused by export restrictions.

So this is all just to say that the external environment really does matter.

Maybe one last point [on] why it does matter is for investment. We have heard a lot about investment and the need for increased investment in agriculture in Africa, and certainly the African countries' trade regimes also play a role in attracting that investment.

So with that short introduction, it's my pleasure to introduce this panel to you. The panel will be moderated by Ann Tutwiler, who is in fact a cofounder of the IPC. And she is now also the Managing Director at the Hewlett Foundation. We have heard here from the Gates Foundation. We have heard today from the Rockefeller Foundation. The Hewlett Foundation also is very active on global development issues and in particular on agriculture, really mainly thanks to Ann, who has spearheaded their program here. So, Ann, it's my pleasure to ask you to take over and moderate this panel.

Ann Tutwiler
Managing Director, William & Flora Hewlett Foundation

Thank you, Charlotte, and thanks for organizing this. And as you said, trying to organize something Friday afternoon after lunch is always a tough time. But we've got a great panel, and I think we'll have a great discussion.

Let me just make a couple of comments about the activities that the Hewlett Foundation has been supporting.

We have been focusing our efforts primarily on these issues around trade and agricultural policy because of our firm belief that you can make all the wonderful investments that we've been talking about here in terms of productivity, in terms of local farming systems, but if you don't have an appropriate policy environment in which farmers can operate, their incentives to actually produce and grow into the kind of farming systems that we know we need in the future will be severely diminished. And the policy area is a tough one for a lot of foundations to be engaged in, and I think Hewlett has taken on a very difficult challenge. The road is long, as any of us [know] who have been wrestling with U.S. foreign-policy reform and who have been watching the WTO trade negotiations over the years; but just because it's long doesn't mean it's not worthwhile.

So let me, just to, put a couple of more comments on the nice introduction that Charlotte gave. One of the things I hope we get out of this panel – over the last 10 or 15 years, the sort of narrative about trade policy and agricultural policy has been focused around the price-depressing effects of OECD policies. And now that we have returned to a higher-price environment, there are a lot of people, who weren't big fans of reform to begin with, who are saying, "Well, we don't really need to bother about reforming U.S. and EU and other countries' policies, because, look, prices are high." And there are, in fact, some people who are calling for a return to policies in this current environment.

We've also seen, as Charlotte mentioned, trade policies that – in terms of export bans, export restrictions – that have been put in place in response to the higher food prices. And there has been, in part because of that, a severe erosion in government's willingness to trust the international marketplace.

So I think we have four experts here who can help put this sort of new environment into a longer-term historical perspective and help us maybe revise the narrative a bit, so that we understand why it continues to be important to get the policy environment right as we go forward into the next stage of agricultural trade and development.

What we're going to do, I'm going to ask each of the speakers to come up and make a presentation, and I'm going to be very strict about keeping them to 10 minutes. Several of them have PowerPoints, so I'll ask them to come up and give those presentations and then have a seat. And then after the four are finished, we'll have a more conversational exchange.

So we're going to start with Kym Anderson who – and I'm not going to read these long introductions you have – but most recently before he went back to Adelaide has been serving as lead economist at the World Bank Trade Development Research Group. And he was a team member and contributor to the 2008 World Development Report on Agriculture, which was the first on agriculture since, I believe, 1982. And it was also something that Hewlett was proud to be a sponsor of.

So, Kym, if I can ask you to come up.

Kym Anderson
George Gollin Professor of Economics, University of Adelaide

Thanks very much, Ann, for that warm welcome, and to the World Food Prize group for having me here. It's a great pleasure to be at this meeting. I'm sure everybody feels that.

The issue that Ann raised has been one around for a long time, and it's a question of the extent to which farmers can contribute in developing countries to economic growth when they face distorted incentives. And the distortions are threefold, really.

With long history of their independence since the late '50s, many of these countries have faced export taxes on their products, and that hasn't helped. But in addition, their governments have had manufacturing-protection policies in place and overvalued exchange rates, which also have been discouraging of investment in agriculture. So that's been a negative from their own country policy point of view.

But there's been the additional negative that Ann mentioned, of rich country subsidies and protectionism, which has depressed the process in international markets for food products. So those two things together have been bad.

But a third thing that's been unfortunate is that both rich and poor countries have insulated their domestic markets from international markets. And when each country does that, it makes it harder for the next country, for remaining countries, to engage internationally because those markets get thinner, they get more volatile.

So there's those three elements that have been a concern. But there is good news.

The last couple of decades have seen reforms in both rich and poor countries. Rich countries have somewhat reduced their subsidies, reinstrumented their support for farmers to less trade-distorting measures. And developing countries themselves have got rid of a lot of their export taxes. So that's been good news, but there's a couple of remaining concerns.

One is the fact that there's still a big dispersion of distortion rates across industries within the agricultural sector of many countries, both rich and poor. And that adds to the welfare costs of those policies, the bigger that dispersion is.

And the second thing is, this insulation activity is still alive and well, and that is keeping markets, international markets, volatile. We've certainly seen that this year.

But there's one other concern, I think, that we need to be aware of. And that is that, while export taxation has declined in developing countries, import protectionism in developing countries for agricultural products has been steadily growing. And the new concern is something that was raised 50 years ago by the Haberler Report to the GATT contracting parties when his committee warned of the potential growth of agricultural protection as countries became more affluent.

Well, we've now got a new set of data on about 55 developing countries and transition economies that gives a new look, a more elaborate look, at the extent to which that concern might be happening. This project involved about 90 consultants from all over the world, and the 75 countries that we look at, including rich countries, cover about 90 percent of world agriculture.

So out of that we've got four books forthcoming. Two have already come out, one on Latin America, one on Europe's transition economies, and next March there will be two more on Africa and Asia, and then by midyear a global overview book, which we've just sent to the publisher. But you can access all of those country case studies at that website there at the World Bank, and next month you'll also be able to access the complete database if you're interested in doing your own analysis.

But the simplest measure that we looked at there was simply the nominal rate of assistance to farmers; that is, the extent to which the price they received was above or below the price for the same type of product in international markets. And this is a quick summary of the results over these 75 countries. The lower line is the rate of distortion to prices in developing countries, and you can see that over the '60s and '70s, those prices were about 25 percent below international levels. This is the average over all industries, both export- and import-competing.

But the good news – you can see there, from the late '70s, there started to be a diminution in that taxation of agriculture, and by the '90s, the late '90s, they were actually getting slightly positive assistance to farmers, on average, across all of those developing countries.

The rich countries, on the other hand, started off back in the '50s with about a 20-percent rate of assistance; it rose to nearly 60 percent during the export-subsidy war years of the late '80s. And then it's come back somewhat since then, although as you see, a bit less so if you include the decoupled payments in that dotted line.

So these gave subsidy equivalents to farmers that were highly positive in rich countries. We're looking at well over $10,000 per farmer in rich countries compared with, in developing countries, almost nothing. But that "almost nothing" was not nothing to those farmers back in the '80s – $140 a year was a lot when a huge proportion of those farmers were living on less than $360, or $1 a day.

When you break down, though, the developing-country assistance to agriculture as between exporting industries and import-competing industries, the story is a bit more sobering. The lower line, you can see, is the reduction in export-industry taxation, so they were getting in the '60s and '70s only half of what they would get if markets were free for those exports, but that export taxation has virtually disappeared over the past two decades.

On the other hand, import-competing parts of agriculture in these countries have been positive right through this period, and it's been growing. More than that, it's been growing at about the same rate as import-competing protectionism in rich countries. So it does suggest, as Haberler foretold 50 years ago, that there is this connection between becoming more affluent and assisting your agriculture. So the worry is whether this might continue and what role Doha might play in reducing that.

Also, dispersion in nominal rates across the agricultural sector has increased. It's increased within countries, across products, and it's very much still there across countries. That means resources that we're using in agriculture globally are very inefficiently allocated. They're inefficiently allocated across countries, across regions, and even within countries. That's the spread of these nominal rates in the last few years across countries, with Zimbabwe on the very left there and Norway and Switzerland on the very right.

And if you look at it by product, you can see there's a very wide dispersion in these rates across products as well – the developing-country average on the left, the rich-country average on the right, and the rice pudding ingredients top both of those lists – rice, milk, and sugar.

The other feature I mentioned is insulation. And insulation in world food markets persists. In fact, we've seen it very markedly this year. And that means the volatility of international food prices continues. That's a worry as we move further into climate change, because we're expecting greater volatility in physical yields and so on in years to come. And if that's going to be the case, then this aspect of policy is going to accentuate, unless we do something about it. So it does raise questions about whether there should be some more discipline, perhaps through WTO, on what happens to export policies.

This graph is just one summary, just showing the effect, for example, in South Asia, of this insulation policy on rice. The rice nominal rate of assistance there for the aggregate for South Asia is the pink line, and the blue line, you can see, is very strongly negatively correlated, and that's the world price of rice. So this region obviously is just holding domestic prices relatively constant, and as the world price moves around, it just switches from exporting to importing, for example, and exacerbates that world-price oscillation.

The reform picture that I mentioned; the good news story is even stronger if we look at relative rates of assistance; that is, the rate of assistance to agriculture relative to nonagricultural tradables. This graph summarizes the developing-country picture here. So the middle line there, the one that starts around minus twenty, is the number, the line we saw before – that's the average for developing countries' rates of assistance to agriculture.

The top line is the rate of assistance to nonagricultural tradables in developing countries, that is, manufacturing protection, mainly, but also what's going on in other primary sectors. And each of these lines incorporates exchange-rate distortions.

So when you take both of those facts into account, the increase in assistance, or the reduction in negative assistance to agriculture and the decrease in assistance to nonagricultural sectors, you get that bottom line there, the dotted line. And what that's suggesting is that back in the '60s and '70s developing country farmers were getting, in relative terms, about half the price they should have been getting if there were free markets in those countries. And that has gone from a relative tax level of 50 percent to basically zero over this period. A phenomenal change in the history of trade policy in the world.

If you break it down by region, the steepest line there is the Asian one – that's where the most reform has taken place, from minus 60 percent up to zero over these two, what is it, three or four decades. The least reform has been in Africa, although nonetheless, it has moved in the right direction towards that zero line.

Within Asia, obviously China and India dominate, and the pattern in both those countries is very similar. In India there was more assistance to agriculture, or less taxation, but the trend in nonagriculture is the same in both of these countries: remarkable reform in nonagricultural trade policy and a consequent improvement in incentives for investing in agriculture in both of these countries.

How far have reforms reduced the disarray in overall world agricultural markets as a consequence of all this? We did some modeling, using the World Bank's model of the world economy, to quickly look at this. We looked at what had happened since the early '80s until this first decade of the current century, and then compared that with what was left to be done as of 2004, that is, what's the role of Doha in trying to move us further forward.

And those numbers, if you'd take either a welfare or a trade measure, suggests that we're about halfway towards that free-market setting. And that's a pretty remarkable change in just a quarter of a century, I think. If we could come back to this meeting in another quarter of a century and say we've finished that project of getting rid of those distortions, we'd be pretty pleased, I think.

But the distortions in non-ag have reduced much more than the distortions in agricultural markets. And so agriculture in a welfare stance still accounts for about 60 percent of the welfare cost of goods market distortions around the world.

One of the questions that many people ask is, "Will the growth of these emerging economies – and India and China have obviously been leading the pack in recent times – will that growth push up, and has it been pushing up, international food prices?"

There is no question that it has been, that China's growth has been pushing up minerals' and energy raw-material prices. But because of this big increase we have just seen in the relative rate of assistance to agriculture, those countries have remained more or less self-sufficient in farm products throughout their very rapid industrialization, and that's a remarkable achievement, especially for China when everybody anticipated that, like Korea and Taiwan, it would have to import a lot more food as it industrialized.

But now the question is: If both of those countries have relative rates of assistance to agriculture of basically zero, will they stay there at zero? If so, there won't be this increasing incentive for farmers over time anymore. That won't be happening if that's their choice in policy. And so it may be that they will become more import-dependent and push prices.

On the other hand, if they were to follow Korea and Taiwan into agricultural-protection growth, then we have ourselves another problem: we have a problem of increasing distortions from those two countries. That's the part that Korea and Taiwan followed over the – if you put their rates of assistance, relative rates of assistance, on a real per-capita income basis, they grew their protection to agriculture in a similar way to Japan in an earlier few decades.

And if you put India and China on that same graph, you see that they're following pretty much the same sort of path. It's just that they're at zero-point now. The question is, will they keep on going up that path, or will they remain relatively open and undistorted?

So this has important implications for WTO negotiations, among other things. First of all, I think it's going to be very important that we cut bound tariffs and subsidies, so as to reduce prospects both of agricultural-protection growth in these emerging economies as their incomes rise and, secondly, to reduce this risk of continuing fluctuations around trend in international food prices because of variable levies, and so on, on imports.

And likewise on exports – there's a question of what discipline there ought to be there. Getting rid of export subsidies would be a great achievement for WTO, but one also thinks simultaneously about export restrictions as countries have adopted them this last year and worried importers about reliance on international markets.

But one last note is to just reflect on the special-products demands and the special-safeguard-mechanism demands of developing countries. And if you think of it in the context of what we've just been seeing, that will add to agricultural-protection growth. It will add to a dispersion in relative rates assistance within agricultural sectors within individual countries. And it will add to international food-price volatility.

So I think the things that have been talked about in this World Food Prize symposium these last two days are really important because they can provide alternative ways of assisting these farmers to move out of poverty in a developing country than just providing price and trade support. And the obvious things are supporting things like agricultural R&D, rural education, and infrastructure. And maybe aid-for-trade is one of the ways we could contribute through WTO. Thanks, Ann.

Ann Tutwiler

Thanks, Kym, for an excellent overview. I had talked to you, I think, at the beginning of this research endeavor, so it's nice to see the end of it. And when we come to questions, I want to ask you about Africa and what you all have learned.

If I could ask Pedro Camargo to come up. Pedro is a member of the IPC, and he is probably most well-known recently as serving as the Secretary of Production and Trade in Brazil's Ministry of Agriculture and for leading the charge on the cotton case against the United States, which, despite what we heard today at breakfast, has yet to be implemented.

Pedro de Camargo Neto
President, Brazilian Association of Pork Producers and Exporters

Thank you, Ann. It's a pleasure to be here, talking with such a distinguished group. And the question that was put to me was, how did Brazil become this agricultural trading powerhouse?

In the past years, yes, Brazil became a major exporter of a number of products, and this is what I will try to do in the 10 minutes.

Brazil is a large country, has been a large country forever, so it's not only the availability of land that made us this. Land, sun, water – we have the conditions there; we have 5 biomes. The big happening in Brazilian agriculture was the entering into production of the Cerrado, or savanna, which was considered up to 40-50 years ago nearly useless; it became a very productive [area], very high productivity, particularly in soybeans.

And the World Food Prize here has given recognition to this with inviting our former minister, Alysson Paolinelli, to be one of the Laureates here two years ago. And Paolinelli, thank you for your presence. He's a leader in Brazilian agriculture, our professor, our leader – I'm very glad to have you here.

So we have the area, but what happened? I'll be talking about what happened in the past 20 years, and, of course, what happened has more to do [with] more time – it's not only what happened in the 20 years; agricultural research has been done there for many decades. And so we harvested in these 20 years investments of the past.

But I will be talking about the 20 years, which have a lot to do what we heard by Kym just beforehand. I think we changed a number of policies biased against agriculture, and this is what [gave] us the opportunity to grow.

I'll start with talking about our exports. But Brazil is a large population. We have a very large domestic market. I always say is the strongest accent, of Brazilian agriculture, is our domestic market. But the visibility that we have is in exports. And also, for a product which enters the international market, [there] has been always in all of them a vector of transformation. You increase productivity, you increase quality, and this export market has produced revolutions in each product, by product, when they reach the international market.

And the fact that you have a large domestic market and you export a portion of it, gives you a flexibility to grow very fast in certain periods and not grow[in others]. So sometimes you grow your exports, one year from the other, 20 percent and say, "How come? How can you grow 20 percent?" We say, "Well, no, but we produce a lot of it – we're exporting 20 percent, 25 percent, 30 percent." Very few products we export more than 50 percent. So the ability to have this doubling of large domestic market and also the export market has been very flexible for Brazilian increase in production.

Well, let's talk about the political scenario of these 20 years. We'll start – President Lula has still two years to go on his second term. We had two terms of President Cardoso with four and a half years, and we had four years of President Collor, which will always be remembered by the impeachment process on corruption charges two and a half years later, followed by his Vice President Itamar Franco.

But it was on President Collor's first day that a major structural economic transformation happened, in one day. Only President Collor, with his boldness or his irresponsibility, or whatever, could have done it in one day. Now, after 20 years we talk about the positive side of that, but it was very difficult to live the negative side of that huge transformation in one day.

But it was a liberalization, deregulation, extinction of commodity authorities, just in one day. He had a good victory against President Lula, who was his opposition at that time. And he, on March 16th, he made a major transformation. We'll see what will happen.

Well, President Cardoso continued. There were better permitted improvements on ports. There was going to be a law there that was a major tax reform. Brazilian agriculture, we eliminated our export tax. We had a value-added tax on primary products that was an export tax, and that was eliminated there, and that increased competitiveness also very much, on the day that we approved it.

But there have been years of a hectic macroeconomic environment. High interest, very high, outrageous interest rates, it has not been easy. There have been also currency problems. Sometimes the farmers plant with one currency, harvest with the other – or the other way around. It has been very, very difficult with macroeconomic policy.

But look at what liberalization made. Kym presented in an academic way; here's what happened with fertilizer prices when you lower the tariffs [from] very high, agrochemicals and everything else. Farmers who were paying more, started paying less with this liberalization. So this was a major push forward for Brazilian agriculture.

Well, this is not presented [to say] that if you spend less on agricultural policy, you get more production – no, absolutely not. But it is to say that, even if you spend less, you can have agricultural production. The other side of the coin is, then, when you don't have these agricultural policies, which are enormous safety nets, the small farmer gets less protected. And I think that's the side of what happened in Brazil that we're not proud of. There has been concentration, yes, but we have more or less nearly forgotten the small farmer. But production has increased through a very hectic macroeconomic environment, so that to survive you have to be very, very strong.

Port improvements. This was a bottleneck, and it still is, but the bottleneck was worked out. We need new ports, but on the existing ports we worked more. We improved port facilities for exports of sugar, for soybeans, container terminals for meats, so this all improved, which not only increased competitiveness, the cost of pork was lowered, and a bottleneck was worked out. Now we're in this new-generation bottleneck, which we'll need new ports.

Starting with sugar. Sugar is our first product since colonial days. And what happened with sugar was, suddenly we became number one. If you look at March 1990 with the extinction of the Sugar and Ethanol Institute that had very good work on varieties of sugarcane, very good, but had the monopoly of exports and it completely planned sugarcane production. That was eliminated in one day.

But that also had – by law, Brazil could only export sugar that was produced in the northeast of Brazil. So Sao Paulo state, which is the most efficient agricultural region of the world in sugarcane production was prohibited to export, because we have this monopoly of exports and this authority. That was eliminated in one day. Sao Paulo started to produce and export. We are number one.

So if people sometimes argue, "We should be subsidizing, we'll grow so fast" – no, no. We used to be prohibited by our own law. And this happens in developing countries. It's not the only case in Brazil. You will find it in other places.

So you see, also, of course, always, always in every product, a consistent increase in productivity, agronomical productivities. You have it in sugarcane. This here also includes the industrial productivity of ethanol, which has made us decrease our price of ethanol every year – productivity, productivity, productivity.

Go to poultry – our exports increased like this. You go to beef – our exports increased like this. You go to pork – our exports increased like this.

This is not only – if you look at the meats, what happened [in addition to] structural change? We gained new markets due to progress on sanitary issues. If you look at foot-and-mouth disease progress, we started 10 years ago, you had 2,000 outbreaks. Now you have an outbreak year, an outbreak another year, skips a year. It's still too many outbreaks, but from 2,000 to .5 [each] year is a lot of progress, which made us gain.

And now we go also to this second generation of progress. We now have to stop vaccinating, eradicating foot-and-mouth. And we started [with] a small region of Brazil, Santa Catarina State, but very important in pork production. This second generation of progress on sanitary issues, this happened, this was permitted us.

Go to soybean also. You have to look at what happened when we eliminated our export tax on grains, the increase in production we have. Of course, also China started buying, but it started buying [when] Brazil was prepared to export and we could compete. Our farmers did not pay that tax, which is very usual in developing countries, as has been presented. It was worse, right? We slowed the numbers that were worse, but it still exists.

So here you are, and look at the growth, with growth in production of 190 percent. [Growth] in area is 79 percent; the rest is agronomical productivity.

Well, last but not least, there was a strong migration process – the farmer. The farmer. You can have research, you can have macroeconomic policy; but if you don't have the farmer, you don't have agricultural production. And what happened in Brazil was this very strong migration – not only in 20 years; it has been growing for a century – in the Cerrados area, which was the new west that we broke in. It was very strong migrations of farmers, small farmers from Rio Grande do Sul, from Sao Paulo, entrepreneurs from Sao Paulo that moved west and became the farmers.

And if you go to Mato Grosso, a area of a very high soybean production, and you try to find a farmer originally from Mato Grosso – you will, because exceptions always exist – but in general they came from outside. They came from Rio Grande do Sul, they came from Parana; his grandparent is there still. They were landowners. They had the culture in farming, they had the education, they had entrepreneurship.

That's what permitted Brazil to grow so fast, was this migration process. If we did not have the migration process, if we had tried to produce soybeans in Mato Grosso only with the man from Mato Grosso that was there – there were few, but they were there – we wouldn't have had this success. It was this migration process that I think was the essential element, the man, the farmer, that cannot be ignored, cannot be forgotten – or you don't have agriculture.

Well, what's happening now? Corn, we're becoming a corn exporter; we used to be an importer. Dairy, we're coming to be an exporter finally. I think it was the high prices of the food crisis that are permitting Brazil to reach international markets with these two products.

What is the future? I think we are getting more of the same. We need more tax reform. We need more port improvements, we need new ports. We need consolidation of sanitary issues. We have to eradicate food-and-mouth and whatever. We need and continue to need research. We will need more research. We'll need research to prepare Brazil for the climate change that will happen. This is always a necessity but it's not all.

If there is a lesson to be learned from Brazil of the positive aspects, [there is also] the negative, also. We have a lot to learn [from] what we did wrong, and what we did right. This bias against agriculture that was mentioned here by Kym – I became president of the Sociedade Rural Brasileira on March 19, fifteen days before President Collor. In my speech there, I remember, I pinpointed bias against agriculture. So it was price controls, export taxes. I don't know – I had 10 examples of bias against agriculture that we complained about. Those biases more or less disappeared.

And it's very difficult to swim against the flow of the river. You waste your energy, and you don't get anywhere. And it's very easy to swim on the flow of the river with subsidies. And developing countries will not have money for subsidies. If they have money, they will have to spend it in education, infrastructure. So market subsidies, forget it. But if at least you swim in a lake, you have a chance of getting to the other side.

Thank you.

Ann Tutwiler

Thank you, Pedro. I think it's very appropriate, actually, the order that we put our speakers in, because the factors that Pedro mentioned, including the large domestic market that Brazil has and the challenges that they faced with the small farmers, are certainly factors that are facing Africa right now.

So I'd like to call up Rhoda Tumusiime, who is newly elected as the Commissioner for Agriculture for the African Union, and formerly served as the Commissioner for Agriculture Planning and Development for Uganda. And I have to say, I wondered after hearing our presidential debate and the conversation about Joe the Plumber, whether she knows the woman who was mentioned by Judith Rodin in her speech who's from Uganda?

Rhoda Peace Tumusiime
Commissioner for Rural Economy and Agriculture, the African Union

Thank you, and I'm glad to be here in this city of soybeans and beef; I've been happy since I arrived three days ago.

Now, two days ago I made a presentation on agriculture and trade, and this is quite related to this one as well. So I did highlight the role of the African Union and how it implements its policies through regional economic communities and also its member states. It is championed still by the regional economic communities. So I'm not going to go into that one, since we have limited time.

Then my presentation still, which is close to what I did two days ago, is on how our agricultural development program on the continent has championed agriculture and trade. And as I was sitting in this morning, I noted that quite a lot was covered, a lot of ground, in which case I should be able to leave those which have been talked about and then be able to brush through some of those which haven't been talked about.

My presentation was on, the outline was on the development program of Africa that is CAADP; I was going to look at why we have it in place, and then I was going to look at its implementation and processes, and then performance of the program on the continent.

This shows just – not that I'm in nutrition, but because agriculture is reflected on the ground by how much food is available and how the population is faring – so this is just to remind us of what is happening on the continent, which is not really good.

Now, why was this put in place? The principle of this was to have a real focus on agriculture on the continent, and the principle was to have 6 percent growth. [This] morning President Chissano talked about it. But very importantly, it should have dynamic agricultural markets functioning through the regional economic groupings, and then the farmers should be able to be integrated in the market economy. And this one, we hope that it should be able to have a distribution effect at the lower level, including food security, and, of course, with the gender perspective in that.

Now, what is important in this is that it has focuses mainly on four areas. The first area, the sustainable land and water management, is very important and was talked about. Then the second one, which is closely related and which is the most important we are discussing now, is the rural infrastructure and trade capacities, which facilitate market access on the continent and also internationally.

The other pillars which are important are increased food security and reduced hunger, and, the fourth pillar, agricultural research and technology dissemination and adoption. But I will focus more on the rural infrastructure and trade.

But before that I would like to look at, why did we put it in place? I think it didn't come out very well. We did put that program in place at the African Union level to provide leadership for African agriculture. And if this was implemented, definitely it would champion the Great Revolution on the continent.

Then the implementation of this program at the country level is pushed always, led by, regional economic groupings and supported by one of the programs, that is, the New Partnership for Agricultural Development, NEPAD. And here what we see is that there's a lot of country-level engagement. The partners must come together, and an agreement has to be reached, and then the priorities have to [be] set. The other part is that the private sector must participate and the farmers have to participate in this process. And then the outcome – what we call a CAADP compact – is an agreement where everybody is supposed to have agreed upon what should be done in that country. This is not at the level of the African Union, but I wanted you to know how CAADP is implemented in the member states of the African Union.

Now, at the moment most of our partners have rallied behind this CAADP framework, and all of them have developed an agreed agenda to implement agriculture on the continent through CAADP.

Now, looking at Africa's agricultural trade, the share of Africa's agricultural trade globally is very, very small, and African countries, as you know, depend on traditional primary commodities for exports – that's coffee, cotton, and whatever. And over the years there has been increased production, but of course the prices have been low, and the competitive advantage hasn't been really right.

Africa's agricultural exports to the world decreased from 5.4 percent in 1985 to 3.2 percent in 2006; this is in real terms. The quantity has been going up, but the real terms have been going down. And, of course, this is because of lesser value of primary commodities on the global market.

Now, during the period of 2000-2005, there was no [African] country which was among the world's 20 leading exporters of processed products. And this is where resources [are] important. And for South Africa, which is the largest exporter of products to the global market, its share is less than 1 percent, and that one is already very, very low. Although a few countries have made progress in horticultural products, which are very important, like Kenya and also recently Uganda is also exporting some flowers, and also West Africa exports some horticultural products, you find that still it is nothing to write home about.

Morocco, also; its share has gone down, although at one point it was amongst the top 20 exporters globally.

Now, the difference in Africa's share in world agricultural exports reflects the lack of structural transformation in the sector. Therefore, I think Africa has to move toward the production of high-value export commodities. And value addition is extremely important.

Maybe what one needs to note is that the flow of ODA, as the previous speaker has indicated, has not been quite positive on our part. Also, public investment has been going down in real terms. Perhaps this is a reflection of the poor performance on the continent.

Now, as I indicated earlier on, Pillar 2 of CAADP, of the program for agriculture for the African Union, is rural infrastructure and trade-related capacities for market access. Here we promote raising competitiveness and seizing opportunities, both in domestic, regional and international markets. Definitely, intra-Africa trade still is not big enough, and yet there is potential.

At the moment the continent imports the equivalent about $20 billion, and if this amount was to be sourced within the continent, then you find that the intra-continental trade would be growing. So this is something which we hope would be harnessed as we move forward.

Then, on international markets, there are many difficulties and challenges which African governments face. And here I must say that the trade and negotiations on the Doha development agenda haven't moved quite far. When we are discussing or negotiating, say, with the EU or even with the USA, you find that market access is a key challenge for the continent.

While some commodities could find their way to the European market or to the USA, the trade barriers are still there. And you find that although they say it's open, under the SPS mechanism it is very difficult to fare.

If I could take an example of the LDCs, which have got what they call [inaudible], they access the market [for] export of EBAs – that's "Everything But Arms" – you find that although that is an open envelope for us, when value addition is done, then that one ceases to be EBAs, that is, [Everything] But Arms. Now, what does that mean? It means that we should continue to export primary commodities where there is no value at all in real terms.

Then at the negotiating table you find that although the African Union is very, very key and has been harnessing the countries' leaders to come together, and they have been negotiating as a team, then our hands are somehow tied. Because if we are not in the global market or in the global development negotiations, Africa is extremely incapacitated, because decisions are not made in favor of the smallest, the small economies, given that we have 53 countries, which are at all different levels of development.

So in essence, what I'm saying is that we need to have an internal market develop on the continent. We need to add value to our products. And we need to have sustainable financial services support investment in agriculture and with agroprocessing. There are many, of course, many challenges which relate to credit, which relate to other inputs, like seeds and fertilizer, as indicated earlier on – all those lead to incapacities on the continent.

Now, looking at – these two maps just indicate the growth of agriculture by different countries. Although you can see that a country like Ethiopia has moved ahead in growth, the difference is not that big, although investment has gone beyond the 10-percent principle that was stated by the African leadership. However, problems still pertain because of a number of factors. But there are other countries where agriculture has grown and where investment has been really increasing.

So if the partners also, as they have indicated, can come up and join hands with Africa, I am sure agriculture would do much, much better.

Now, what do we want to see? We'd like to see the countries committing themselves to a 10-percent, a minimum 10-percent budget allocation of their GDP to agriculture. I'd like to see increased participation of the private sector in agriculture. And if the flow of development assistance also can increase, then maybe it would be better.

But finally, I think the importance of having a good trade arrangement with Africa, our international community, and especially our key partners, that is, the EU and also USA – this I think will also give the farmer enough incentive to produce more.

I thank you.

Ann Tutwiler

I think one of the most important things about CAADP is the fact that it provides a framework for all of the donors and foundations like the Hewlett Foundation to align our activities with African priorities, rather than pursuing our own priorities, which is something foundations often want to do.

Let me call up Bob Thompson for the final presentation, and Bob, as many of you know, is the former chairman of the IPC and was head of agriculture and rural development at the World Bank at a time when I think he was instrumental in convincing the World Bank to start turning around its level of commitment to agriculture.

So, Bob, if I can ask you to draw all of this together in a few words.

Robert Thompson
Gardner Chair in Agricultural Policy, University of Illinois

Thanks, Ann. And I appreciate your mentioning the time I was at the World Bank, but I had two disappointments while I was there. The first was not getting an issue of the World Development Report dedicated to agriculture. I lobbied for it for four years, although I have to admit I was delighted to see it finally come out last year, even though I couldn't take credit for it.

The other great disappointment was not succeeding in luring Kym Anderson to the Bank to start this project, that he reported today, about two years earlier. But Kym's family was at an age when high-school kids took appropriate priority over a move to Washington.

I am delighted to see this study coming out, because it's definitely worth looking at, this study of 55 countries – for one, the extent to which it documents that net taxation of agriculture as a result of developing countries' own policies continues in a number of parts of the world. Albeit less than previously, but it still is an important issue, because basically, governments are tying the hands of their own farmers, and when farmers represent 75 percent of the extreme poverty in the world, turning the terms of trade against agriculture in those countries really depresses the earning potential of the already-lowest income members of global society. So when we're concerned about reducing poverty in the world, this is certainly an issue we have to address.

But my topic today is really more related to the relationships between trade and the untapped economic potential in developing countries. And we know that high-income country agricultural policies and protection policies tend to be greatest in exactly the commodities in which low-income countries have the greatest comparative advantage: labor-intensive manufacturers like textiles and footwear; agricultural commodities that do well in the tropics, like sugar, rice, cotton, not to mention other tropical crops.

But specifically, these are products which developing countries, at this stage of their development, with their relatively low wage rates, have a comparative advantage in. And if we want to see trade-promoting development occur, we in the high-income countries have got to be willing to import the products in which they have a comparative advantage at this point in time. And we know – it's been demonstrated over and over again – that trade is a vastly more powerful engine of economic growth than foreign aid. But again, if we won't buy what they've got a comparative advantage in at this point in their development, they can't reap those benefits.

Trade-distorting domestic support in the high-income countries has been severely criticized in this round of trade negotiations, in the Doha Round. And Kym hit the critical issue very directly that the commodity-specific forms of support across commodities vary greatly.

Among commodities, consistently across the OECD countries, rice, cotton, sugar and dairy are the most subsidized or the most protected commodities. And it's the fact that we have the distortion of relative incentives to produce different commodities that results in the great distortion or inefficiency of allocation of agricultural resources.

Now, we've been pushing hard to move support away from trade-distorting forms of support, or support that's linked to the production of specific commodities, more in the direction of decoupled support, or green-box support. There's debate on to how great an extent this is completely decoupled from production of specific commodities.

But the one thing we do know is the total support to agriculture determines the total investment in the sector as a whole, vis-à-vis the other sectors of the economy. So there's no question that, even if you have large green-box support, you're going to induce larger investment in the sector as a whole.

On the other hand, the fact that, at the end of the day, most agricultural support gets capitalized into the price of farmland means that, over time, you're raising your long-term cost of production and agriculture and undercutting your long-term competitiveness. So in that sense, I suppose, countries in the rest of the world shouldn't be as concerned because the high-income countries are cutting their own throat over time in terms of their ability to compete if they overprice the most important capital asset or capital investment in their agricultural sectors.

Kym has shown us how a number of countries in the developing world have reduced their support that's linked to the production of specific commodities. But what he didn't get into much was the extent to which green-box investments need to be made in developing countries. And I would argue that what we've seen throughout the developing world is an underinvestment in investments in green-box measures, not so much the decoupled income transfers but the investments in public goods – infrastructure, research, etc.

And I was disappointed in Pedro's presentation – I think there was a very critical factor that helped to set the stage for this whole development in Brazil, and that was the decision at the end of the '60s and early '70s to create EMBRAPA, the Brazilian Agricultural Research Corporation, which basically made it possible to open up that entire central west part of the country – in the Cerrado – with soil-science research and soybean breeding. I think that illustrates the power of investments in public goods, that when the public policies got aligned right, the basic technology that enabled that land to be opened up was available and ready to adopt.

Developing countries through this round of trade negotiations have been actively demanding "policy space," quote-unquote, in the trade negotiations – the ability to increase protection in the future. I think Kym made a very important point, that one of the most important potential benefits of the trade negotiations is the bindings that we would negotiate, that even if they're not actually binding today, they would be in place to limit backsliding in the future.

Now, as we've come through this round of trade negotiations, we seem to be almost stuck in a time warp. In Ann's introductory comments, she pointed out that, when we began the negotiations, the concern was all about the high-income countries' policies that induced larger production that, when pushed out into the world market, depressed world market prices, reducing the earnings to low-income farmers in low-income countries – to which the WTO cotton case agreed, and agreed appropriately, in my estimation.

But today, in a much higher-price environment and with projections that those prices should stay significantly above the levels that they were over the last 5-10 years, we seem to be in a brave new world, but yet we're still negotiating over the price-depressing effect of high-income country agricultural policies.

And, in fact, I think a lot of confusion enters the debate because [of] the models that predicted that, if we remove those distortions in high-income countries, we would see international market prices increase. Well, certainly the base prices on which those models were validated are totally different than the reality in which we are today and the reality which appears to be in place in the future. So I don't think we've done a good enough job of communicating the basis of those models, and the basis of their projections that if we remove those high-income country policies that we'd have an increase in price.

Also, we've had the effect of the subsidies that have expanded biofuels-feedstock use in both Europe and in North America, particularly the United States – a new form of price support that's now on the horizon, price support created through demand expansion rather than artificially supporting the price to producers. But producers certainly have responded with higher production to those higher prices, at least in the high-income countries.

But because of the fact that we've expanded demand faster than the growth in production in the United States, we're basically opening up export opportunities for other countries – including developing countries that make the necessary investments in the enabling environment, in the infrastructure, in the research, in human-capital development, and get their public-policy environment right, so that they can take advantage of the trade-creating opportunities that have resulted from the biofuels-industry development that is likely over, at least the next several years, to create far more trade opportunities for developing countries than the Doha Round would likely have [done] in the same period of time, and certainly than the Doha Round appears likely to have as a result of its stagnation and likelihood of staying stagnant for at least a whole year into the future.

But my great concern today on trade issues is now the erosion of trust, or the erosion of confidence, that occurred over the last two years as a result of the policy decisions taken by about 40 developing countries. Everything from embargoing exports of commodities, to taxing exports to subsidizing imports, to putting price ceilings on agricultural-commodity prices domestically – a whole set of policies that have undercut the confidence that net food-importing developing countries have in the world market's ability to ensure their food security.

Now, Saudi Arabia achieved food self-sufficiency by supporting the price of wheat at $1000 dollars a ton during a period when the international price of wheat was about $100 dollars a ton. They achieved self-sufficiency, but at great natural-resource cost, and they're in the process of unwinding that economically inefficient and environmentally unsustainable self-sufficiency strategy that they had in the past.

Personally, I think that Africa has the potential to be far more self-sufficient in agriculture than it has been in the past, probably even to emulate the performance of Brazil as an agricultural export powerhouse, and do it in a manner that would be both economically efficient and environmentally sustainable.

I think sometimes in our discussions we get all confused about – are we advocating self-sufficiency for self-sufficiency's sake? But basically, the problem here is that we've had decades of underinvestment in creating the enabling environment through infrastructure investment, research investments, getting the business-friendly public-policy environment, of protecting property rights, of ensuring that contract sanctity is protected. But with the appropriate legal and public-policy enabling environment with these green-box investments, there's no excuse why Africa shouldn't be self-sufficient in a manner that's economically efficient and environmentally sustainable.

And if we could only succeed in getting the Doha Round done, even if we don't have much absolute reduction in tariff rates or absolute reduction in trade-distorting forms of subsidies, we'd have significant protection against backsliding in the future.

Thank you.

QUESTION AND ANSWER SESSION

Tutwiler Thank you, all, and thank you all the more for staying on time. We'll take questions, observations, comments from the floor – is that Michel?

Question [Michel Petit, Institut Agronomique Méditerranéen] I have two – one comment and one question, really. The first comment is to Kym, and I would like his reaction, of course. I think you went a little too fast on the impact on price volatility. Of course, I knew the arguments, the political arguments, leading to the conclusion that trade distortions lead to world price instability. The more the world price is the result of the very small fraction of total supply and demand, the more instability – and that's essentially your argument.

However, I think even though we economists make that argument, often we are not credible, because we don't have the counterfactual evidence. And there are good reasons to believe that, even if trade was fully liberalized, prices would remain extremely volatile – maybe less or more than world price, but prices received by producers would be very volatile.

And I think the challenge then for policies, because the volatility has serious repercussions, the challenge which I feel you have not outlined enough is, what kind of public policies could be put in place to reduce that volatility, or to cope with the volatility?

I am not advocating protection, national protection, which in a sense, as your graph on rice for Asia was so – well, your negative correlation between world price and the relative rate of assistance is very telling. It shows that, indeed, the governments have tried to isolate, to insulate, their producers from price instability. That may not be, it's probably not a good solution. But do we have an alternative?

So trade liberalization will not produce stable prices – that's my contention – and so what do we do about it? That's my comment and question to Kym.

Now, if I may, to the commissioner, I don't know which name I should use, since you have three names on the book. But coming specifically to the theme of this seminar this afternoon, the relationship between trade and development – my sense is that even though a lot of interest is given to Africa in the seminar (and not only on

Africa), my own perception is that there is not much today in the Doha Round being negotiated – I'm sure it's being negotiated – if there is any continuing negotiation, there is not much for Africa, not much at stake for sub-Saharan Africa. So I would like your first comment on that.

However, there is a lot a stake in the bilateral – well, I'm not sure we should call them bilateral – but in the negotiation with the European Union on the economic partnership agreements, I understood from one comment you made that the African Union per se is not negotiating; it is the regional economic groupings. This negotiation seems to be very difficult, even though the agenda is to bring about trade liberalization but promoting – and the way the European Commission in the name of the European Union has been negotiating, with the regional economic community – promoting, at least, regional trade. But there are many obstacles to those, and requesting concession in terms of access to African markets, which seem to be very, which African governments seem to be very reluctant to grant.

So I would be very happy to get your assessment within that context of the link indeed between the trade and development topic. Thank you for those two long questions.

Tutwiler We can collect a couple of questions before we let the panel answer. Oh, I'm sorry – if you can let the gentleman in the back go first?

Question Pat Binns, with Washington State University. My principal question is for Commissioner Tumusiime. By looking at the trade and market issues, I see four levels. First and foremost, in terms of next steps, is broader local-market access and trade within 50-100 kilometers of the small-farmer communities. And then the second step would be trade within the domestic country itself. Third would be trade across borders within your African region. And fourth and final would be the large, multinational trading, which we see is kind of stagnated with WTO and Doha problems.

I'm interested in what kinds of infrastructure and policy options do you see are most attractive for stimulating local, larger-scale trade and market access for value-added processed goods, whether it be dairy goods, canned goods, dried cassava chips, soap made from vegetable oils? Because it seems to me those are the areas that are immediately within your control to take some actions on. And there's always issues of quality control, of creating consumer-preference attitudes about locally produced goods.

And then the whole question of economies of scale, which affect production costs and therefore wholesale and retail prices. And I'd just be interested in some of your thoughts on, how can you stimulate bringing down more into rural sectors value-added processing enterprises that would be sustainable?

Question I'm Dean Kleckner, an Iowa farmer. I've been listening the last two years, I guess, to my fellow farmers say, "We're in a new price range," or the new paradigm out there with the biofuels now – "We're never going to go back to the previous prices." My internal reaction has been, I've heard it all. I'm old enough, I've heard it all before, and frankly I don't believe it. But maybe it'll happen; I don't know.

And my question is – particularly for our two world-renowned economists on stage, Kym and Bob, but for any of you – Are there price charts out there with a trend line included for the last 30, 40, probably 50 years showing prices with their fluctuations, both nominal prices and with inflation-removed prices? If there are, I'd like to know where I could get it, where I could go on the Internet and get it. And if you know that there are offhand, and you know what it'll show, I'd be interested in your reaction to that.

Tutwiler Okay. We'll take Charlotte and the gentleman behind and then turn to the panel.

Question [Charlotte Hebebrand, IPC]. I have a question for Pedro and Commissioner Tumusiime. It's about smallholders. Pedro, you told us about the incredible story of Brazil, but you did mention the story of the smallholders, and that overall story is not a very good one. Could Brazil have done what it did through using more of the smallholders or increasing their participation in this increased productivity?

And then for you, Commissioner, do you see a problem in terms of focusing on smallholders and reaching these kinds of levels of productivity? How do we get the right balance here? It seems like Brazil has done very well but maybe hasn't focused much on the smallholders. So what does that mean for Africa?

Question Nicolas Imboden from IDEAS Centre in Geneva. I just wanted to follow up and ask Mr. Bob Thompson about the question of the credibility of the international system and belief in free trade. Because I think we are underestimating, you know, that this belief has received quite a beating these last two years in many developing countries.

We had a forum in Switzerland with the least-developed countries, and it was very clear that what has happened in July in Geneva has [had] a very, very disillusioning effect. We had there, for 10 days, ministers from developing countries who were not even asked to say what they had to say. I mean, they were basically waiting in front of the doors for 10 days while the subjects that were of interest for them – and for the 90 countries, the least-developed countries, there are really basically two subjects; that is cotton and preferential options – were not even discussed.

So [it is] clear – there is no longer a belief that actually the system is addressing their issues. And I think that's very dangerous.

The second beating that I think that free trade got is with the food crisis. I mean, we had a caucus on food security in West Africa on the basis of a study of 13 African countries, West African countries, by the University of Michigan that clearly showed that there was a reverse globalization going on in the agricultural policies in that region. And the reason was very simple. Because when the prices went up, the export bans went up also within the region, not only from outside the region-into the region – so that everybody actually is talking again about self-sufficiency.

And I do believe, and we were discussing – several people have mentioned, I think, also Kym, the necessity to have stronger disciplines against export bans in the WTO. But, you know, nobody believes that, because we all know that if you are a minister in a country and food becomes short or increases by 100 percent in your country, there's no way you're not going to impose an export ban, whatever WTO says or not – because you won't be a minister anymore if you do.

So export bans cannot be avoided, I think, if there is a shortage in food. And people know that, and they do not believe that the international market will actually give them. That's the first issue. So we need some system of stockage within the country store to assure politically that fact.

And the second point is the question of prices. You know, if prices go up 100 percent, even if there is plenty of food available, I mean, many of those countries are not able anymore to buy the food. So if you don't have an international system that guarantees that people do have access also financially to those resources – without that, it will not be possible to keep the markets open, I think, in those countries. Which will be a catastrophe.

The third element why I think international cooperation in trade got a beating are the European partnership agreements. I was absolutely impressed by the fact of the way they are interpreted in Africa. They are clearly considered as an old system of colonialism where Europe is trying again to come up with a way of exploiting Africa. I know that the European Commission does not share that view and doesn't believe it. And I also believe that they actually do not see it that way, but that doesn't matter.

The fact is that those countries have the feeling that they did not get anything in WTO and that now the European Union is coming and trying to get bilaterally the opening up [that] they didn't get in WTO. And I can assure you I don't see very good news. And I would really have – I think we need to make some confidence-building measures. And I would like to hear what you think – what are the confidence-building measures that we can give to those countries in this situation? Thank you.

Question [H.S. Dillon, Centre for Agricultural Policy Studies for Governance Reform in Indonesia] I've been hearing so many things that I don't like over the last three days that I can't keep my silence any longer. Bob, you have been saying so many things and I've been hearing all this. Why is nobody trying to connect these dots and to see the causality?

I don't want to talk too long. But I think what you guys in developed countries have been doing, you have been preaching food security, but you have been practicing food sovereignty. All right? That's what I accuse you.

Let's not just talk about escalation of tariffs. You are talking about the green box not happening? It's you guys in the World Bank. You closed the Agricultural and Rural Development Office. I went up there to Washington to talk. What did they say?

"Oh, the food – you just import, okay? Your farmers are not food consumers." And then they say, "Oh, prices are too low. You cannot invest; otherwise it's too low."

So what is this? You have directly contributed. What happened to us in 1997, and the crisis? Only agriculture was still growing. But the World Bank comes in with the IMF and says, "Oh, open up your rice market" – and Kym tells those guys the same thing, too. Why is nobody talking about what you are doing with your own farmers? Agriculture for development? Your agriculture is against development of the world.

Tutwiler On that note… Thank you, Lali. Why don't we start in the order in which people presented.

Anderson Thanks, Ann; we can always rely on Dillon, I think, to be controversial at the end.

There was a question about price series, long-term price series, for food products in nominal terms and relative to other products. There is such a series at the World Bank. It goes back to 1900. And you can see this long-run trend in the 20th century was a downward one in real terms of about .8 percent per year but with some very large fluctuations around that. And so the price spike we've seen this year is not unprecedented, of course. We can remember in our own lifetime the 1974 price hike, but there have been others before that.

Historically, this is not always the case, and a recent paper by Jeff Williamson at Harvard looked at the 18th and 19th century in terms of trade for developing countries. And generally those terms of trade went in favor of developing countries. But it had great volatility in those two centuries as well. And his econometric work suggested that the growth of developing countries was hampered by that volatility, even though the terms of trade were improving for them over those centuries. So the 20th century was especially bad for developing countries, in the sense that the prices were both declining on a long-run trend, as well as oscillating a lot.

The projections for the next half-century are somewhat more positive if you look at the IFPRI, OECD, and FAO projections; whether that will happen, we'll see. But I suspect that volatility will continue. It'll continue partly for the reasons I mentioned about the way countries are insulating their domestic markets through varying their board of measures. And it'll be partly because of climate change. And so we can anticipate that into the future. But anyway, that series is available publicly.

To go to Michel's point about, is there anything that could be done about this? I think the last price spike of 1973-74 was followed by, I think, one of Gale Johnson's best pieces of analysis in 1975. And he looked at the profitability there would be for people to store, in various markets, grain with and without the insulation policies that were in place. And he found that if you got rid of those insulation policies over that mid-1970s period, there would have been almost no incentive for people to store, because there would have been so much reduction in the volatility of international trade prices. So I think there is that sort of counterfactual evidence there to draw on.

More recently, looking at the time series we've just put together for the world – we've started to look at this issue, we haven't done proper statistical analysis yet – but the preliminary piece looked at Africa and looked at the domestic food prices in Africa where lots of this insulation activity was going on, compared that instability with the instability in international markets for the same products.

And one would have hoped that the governments there, if they were practicing insulating policies, would have been successful in reducing instability substantially compared with what was out there in the international market. But that preliminary evidence suggests that in fact they were more unstable domestically – so bad were the government policies aiming at trying to do that stability, were so out of sync with the timing and so on, [they] actually made things worse rather than better.

So I don't see that governments are necessarily great at this. I think if you look at India, they have been successful in keeping fairly stable domestic prices. The most successful people that have done this, of course, are the Europeans that have just had flat prices, set prices, and they just ignore the rest of the world, and the rest of the world has to adjust. And that is a bigger-than-our-neighbor policy that the Europeans impose on the rest of the world. And the suggestion here is that we try and get some less of that sort of activity for the future.

Perhaps I should give somebody else a chance.

de Camargo Answering Charlotte – Yes, of course, we could have had policies for the small farmer. First, I talked about 20 years, so I did not forget EMBRAPA, Bob; I did mention that I was going to talk about the 20 years, and not everything that happened in the 20 years – there was more to it. Even Paolinelli, the father of EMBRAPA, was here, and of course it's not only EMBRAPA. We have had agricultural research for a long, long time ago. Even on coffee we were very strong in the institutions. We have this culture, and I hope…

Now we are having less. There's less money for research, which is a preoccupation. But it was savage years. President Collor changed that in one day, those savage years – it has been and it will be, this crop will be very difficult because of the financial crisis.

And it's kind of – in a savage period, you survive by yourself, and I think the small farmer, yes, was forgotten in the process. And extension services were eliminated by President Collor. And now you can say you don't have, at least – you don't have public extension service like once you had. And the large farmer has his own agronomist; the average-size farmer does it with his neighbor and…

On this piece of increase in productivity, that we all [need] to live, it requires permanent technological advancement. You don't increase 1-2 percent a year in productivity without a permanent preoccupation to be on the spot with technology – because your neighbor will do that, and that will be your loss if you don't follow your neighbor. What about the small farmer? Again, forgotten.

So it has been a bad year, and why, why was this? Just – unfortunately, the social movement in Brazil decided that their agenda, their priority, would be property rights. So we have had 20 years of challenges of property rights, and it failed, instead of going after the subsidy – that's what we call a safety net, subsidy – or public policy for the small farmer. And with the organization they had, they would have obtained, and we could have research and public policy for them, which I think we need.

But there was a huge challenge on property rights, and then the small farmers were not organized enough to have a separate agenda. And he was forgotten in the process. And we could have done much better.

I think that's the part of this success story of exports that – I mean, we're here to talk about the good and the bad. And I think Brazil has examples of things that should not be done, and one of them is this.

And now we still have to develop new instruments. And I see now that with this financial crisis, what I hear in Brazil now, and people started calling back –"Oh, we have to go back. You know, we need the minimum price again. We need the deficiency payment again." And I'm saying, "Hey, we need new instruments." Which still have to be developed; we are not there yet.

And are we going to leave a very savage crop that you're going to plant with a currency – you don't know what the currency you're going to harvest. Hedging instruments are there for the large [farmers]. Many average-size farmers don't do the hedge – absolutely no climatic insurance at all. So how can you…? We still do not have a minimum, decent system of climatic insurance, so the risk is always on the top of the farmer. The small [farmer] ends up suffering more.

So I think there's a lot that could be done, could have been done, and will have to be done; because this process of consolidation cannot continue. But they have been very savage years.

Tumusiime Two first questions. One was, given the current situation, maybe he didn't go into detail, but I assume that it is on the shortages of food commodities on the market – Is there any need for Africa to pursue the Doha development agenda or the WTO negotiations? And the second one was on EPAs.

On WTO, I would say yes. I think there is still need for a fair play on the market so the Doha development agenda needs to be continued and concluded.

Now, on negotiations with the EU on the economic partnership agreement, although I did say that negotiations go on as the REGs level, but at the African Union level, that's where harmonization takes place. And if the EU negotiates with the one regional economic grouping and then another, then another, you will find that then the agreement are not the same.

And the concerns in EPAs mainly relate, run around the development bit, component, of the EPAs, which have not been agreed to. So at the African Union level, it is important that [there be] a harmonized approach to concluding the EPAs, which I believe we didn't really work on so much, given the fact that they just concluded ACP also, we didn't really get so much a part from the LDCs.

Now, another question was on market access, and I think this one is more or less the same, apart from the policy harmonization, which I said, and the SPS. The example was given of cassava and why not go into where we have a comparative advantage? And I think that one I do agree.

But what we do really is to ensure that the countries – first of all, within a country – then the regional economic community, and then also the African Union. So there's a need for a harmonized approach in trading arrangements so that commodities can be able to move from one area to another without restriction.

But no matter what goes on, it takes time before rounds are concluded, and then you find that there are some incapacities, or maybe trade is being incapacitated given the fact that certain aspects have not been concluded.

If you take like, say, SADC, or COMESA, or East African community, or ECOWAS, you find that they are all trying to move towards a free-market area. But to move into that one, there are many stages you have to go through, and negotiations have to go on, because some countries lose out, the studies have to be undertaken to ensure that the losses are covered in the agreements, which would be reached.

Then another question was on, how can we stimulate, I think, a value addition, or added value in agroprocessing? I think it was related [to] something like that. I believe agroprocessing or value addition is encouraged by legal frameworks. The private sector has to invest in that. And what we do at the African Union Commission is to encourage or maybe to – We have some trading agreements on how the private sector can be encouraged and also through the regional economic communities up to the member states' level.

There are certain conditionalities which are put into place, some of which are incentives, incentive packages to attract the private sector to invest in agroprocessing. Because we believe this is not a public good but a private-sector undertaking.

However, there are certain things which the public sector has to do, like utilities which have to be put in place, and those are normally in the policy frameworks of member states, not at the African Union Commission level.

Apart from financing, which we have been looking at some, we negotiate with multilaterals and also we use the African Development Bank in supporting investment in member states.

Another question was slated around the smallholder. How do we support, what policies can be put in place to support, that smallholder?

Well, coming from above ground, from a country where the WFP – that is U.N. WFP – the United Nations World Food Program purchases the highest from Uganda, and that's where I come from. I believe that it is possible to support increased investment to the smallholder but extremely difficult, also. There are many challenges.

First of all, the smallholders have to be together, and this can be through farm organizations or even around a lead farmer. But then the issues of quality and quantity, then infrastructure, then storage and transportation, all those have been a big challenge in facilitating increased investment or increased attention to the farmer. But the governments have tried to put in place – to provide backup support in terms of extension and also in terms of farmer support. But in most of this the private sector has been a bit reluctant, apart from the farmers' organizations, which are closer and which can negotiate contracts with the big buyers.

But, however, with increasing prices now, I wouldn't say that the farmers have reaped a lot, because given the poor marketing infrastructure in place in most of our countries, you find that still the gulf between the farm-gate price and the market price is still big. There are packages, I know. USAID has supported, some other bilaterals also have supported, market information, marketing arrangements, consolidation of quantities – I know that. Commodity exchanges have been put in place.

But still it is cumbersome to get increased investment, increased attention to the small-scale farmer, because they produce in small, small quantities, and it's very difficult to consolidate what they produce. But since they are the majority, still we have to increase our attention at the small-scale farmers. I've taken a lot of time on that one, because they are an important constituency on the continent.

Thompson Okay, thanks very much. Starting with Michel's question, you know, this point that people keep making about the thin markets, and particularly the rice market, really annoy me because I think they invert cause and effect.

The international rice market is thin because rice is the single-most protected commodity in the world. It has more barriers to trade. We in the high-income countries artificially stimulate more production than we ever should be producing of it. And that if we didn't have the quantitative restrictions at the borders to cut the link between domestic and international prices, I don't have much doubt but that there would be smaller price variability.

A couple of my grad students worked on that in the '70s after D. Gale Johnson – the study that Kym cited – and found results completely consistent with that. And that's why we did tariffication. Unfortunately, we got dirty tariffication in the Uruguay round, and we got a system of TRQs that bound up the world market just as much as any quantitative restrictions before; and as long as you're up against binding TRQs, you don't get price transmission and you don't get sharing of adjustment.

But the critical issue is: Are domestic prices linked to world market prices, or not? Not where the trade liberalization occurs.

On Dean's question about prices: I think there are two fundamental questions, Dean, on whether we're on a new higher plateau, whether we're going to reverse the 150-year downward trend in real prices or have a rising trend.

And the first is, how far and how long are we going to go with ethanol and biofuels that use food crops as the raw materials, that compete for land with food crops? Or will we be using some other alternative feedstocks that can be produced on inferior soils?

The second point there, though, is fundamentally, how fast and how long do we invest in research that raises productivity? The reason we had a 150-year downward trend, contrary to the projections of Malthus, was that we had productivity-enhancing research that increased productivity faster than demand grew. But now we've got this big jump in demand as a result of biofuels. And will the research generate productivity growth fast enough?

And I think we should not forget the fact that a significant contributor to growth and demand in recent years was income growth – purchasing-power growth. And in low-income countries where people are spending more than half their income on food and you have a doubling of food price, those people are in trouble. There is going to be a significant reduction in demand.

And I think we're probably underestimating the likely demand-depressing effect of those price increases of food in the next decade, as we underestimated the contrary in the last decade. We underestimated growth and demand because we didn't take the income effect into account sufficiently in the last decade, and I think we're probably going to see smaller total demand than we've been anticipating because of the big cutback in low-income people who no longer can afford as much food or edible oils, in particular.

Charlotte, smallholders' poverty – just one point we have to keep in mind, and that is, no country in the world has solved the problem of rural poverty and agriculture alone. Every country that successfully solved the problem of rural poverty did raise productivity in agriculture, but they created non-farm jobs so that the smallholders could either exit agriculture completely – particularly easier between generations than within – or they've made it possible for smallholders to become part-time farmers. That's what happened in Europe, North America, and Japan.

There's no country that's ever solved the problem without creating non-farm employment. You cannot lift all the people who are trying to eke out a living in agriculture out of poverty by leaving them in agriculture with no other income source.

The credibility of the international system – I assume you mean the WTO. And it's entirely understandable that there's been a great deal of erosion in confidence of the

WTO as a negotiating body. But you're still operating with a system where 153 countries have to have unanimous agreement on any decision coming out, so that any country can block it.

I think we do have to look seriously at institutional innovation of – what is an effective WTO of the future going to look like? What is the architecture of an effective WTO of the future?

But the critical thing is that we have a rules-based international trading system, and we have to keep our eye on that target. How we set those rules and reform them over time is the issue, not whether or not we need the rules-based trading system.

Okay, Dillon – People wouldn't believe that Lali and I really are good friends. But a couple of things. First, the World Bank certainly did reduce the availability or the encouragement to developing countries to borrow for agriculture. So did every high-income country ODA program – official development assistance – and developing countries themselves.

Bob Zoellick is using a line in every speech these days that has three numbers: 75, 4, and 4. 75 percent of the poverty is in rural areas; 4 percent of national budgets of developing countries is going to rural and agricultural development; and 4 percent of official development assistance. And one of his targets is to get those two 4s elevated to some significantly higher level, if we're going to really seriously address long-term food security as well as the rural poverty problem.

But the other point about World Bank that a lot of people forget about is there are two signatures on every loan document – the borrowing country's and the World Bank's. And the borrowing country has to ask for a loan in a given area. While I was at the Bank, we decentralized; we moved the country directors out to capitals to get closer to the clients. More and more of the staff were moved out to capitals, and in those capitals the country director's opposite number was the minister of finance. And in very, very few developing countries did the minister of finance put the priority to one of the next four or five loans that the country might receive on agriculture, land, or rural development.

So the developing countries have got to be willing to put more of their own money, their own investment money in agriculture, and they also need to be asking the international lending institutions and foreign aid–granting institutions to put more in rural development and agriculture.

Last point, the U.S. agricultural policy being against development. You know I've never been a strong defender of U.S. farm policy. I do believe it contributed, along with the European Union and Japan's policies, to depressing world market prices lower than they would have been, particularly for commodities that do well in the tropics. And I'm particularly embarrassed that we didn't take the opportunity in 2008 to reform farm policy when we had the best chance we'll have in decades, I expect.

But the last point I want to make, and tie it back to ethanol, is: American farmers have developed a love-hate relation with exporters. There are several times in the past where they have expanded production in order to meet the growing demand for exports, only to have the export demand drop, build up again, export demands drop.

And basically a lot of farm groups have decided that a steady demand for ethanol production is a bird in the hand. The possibility of further growth in exports in the future is a bird in the bush, and we'll take a bird in the hand today, thank you, rather than the uncertain bird in the bush in the future.

Tutwiler Can everyone join me in thanking our panel? And I'm sure they may be other questions, which we can follow up on after the formal session. Thank you.