

# International trade and global poverty

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**I**n the light of the extent of global poverty and the challenge presented by the Millennium Development Goals for its reduction, this article analyzes one of the clearest and most effective ways of reducing poverty: trade liberalization —especially agricultural trade— by the industrialized countries. 75 percent of all the poor worldwide are in the rural sector of the developing countries, and the agricultural products that these countries could sell face protectionist barriers —tariffs, non-tariff measures, subsidies— imposed by the industrialized countries. This article examines the topic in detail, both globally and as to specific products, and presents —based on several studies— the benefits that trade liberalization in industrialized countries would bring to developing countries, emphasizing the great impact that this liberalization could have on poverty reduction.

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# I

## Introduction

For a reader not versed in economic matters, the title of this article could raise more than one question: what is the relation between international trade and poverty and marginalization in the developing world? What is the connection between the images of products being loaded and unloaded in ports and airports, or the crossing of frontiers by trucks and freight trains, and the vast poverty-stricken rural areas in Africa, Latin America, Eastern Europe and Asia? We hope that these pages will shed some light on the close link between global poverty and the rules currently governing international trade.

This article begins by addressing poverty-related topics: the Millennium Development Goals, the recent evolution of global poverty and its main characteristic: its rural dimension. It then deals with international trade issues, such as agricultural subsidies in the industrialized countries and several agricultural products which are severely affected by the protectionism imposed by these countries. Finally, it presents estimates as to the impact that the eradication of the main protectionist measures in agriculture would have on the reduction of global poverty. These estimates are the work of several specialized institutions, mainly the World Bank.

# II

## The Millennium Development Goals

In September 2001, the United Nations presented a road map for the implementation of the Millennium Declaration adopted by its 189 member States a year earlier, in order that globalization could be fully inclusive and equitable. This plan involved a commitment by governments and the United Nations, including the institutions arising from the Bretton Woods Conference (the International Monetary Fund (IMF) and the World Bank) and the World Trade Organization (WTO), among others, to work toward those goals. It was based on the Millennium Development Goals and sought to achieve sustainable development through the eradication of poverty and the improvement of a number of social indicators.

The Millennium Development Goals are as follows:

1. Eradicate extreme poverty and hunger
2. Achieve universal primary education
3. Promote gender equality

4. Reduce child mortality
5. Improve maternal health
6. Combat HIV/AIDS, malaria, and other diseases
7. Ensure environmental sustainability
8. Develop a global partnership for development.

Each of these goals is associated with the attainment of a specific target and includes the definition of measurement indicators to monitor and assess the results. Thus, the goal of eradicating extreme poverty involves halving, the number of poor people, defined as those whose income is less than one dollar a day, between 1990 and 2015.

We will focus the analysis on this first goal, since it is somehow a prerequisite for the attainment of the other goals, and we will answer the following two questions: What have been the poverty trends between 1990 and 2000?; and How is poverty expected to evolve toward 2015?

### III

## Poverty trends in the developing countries

Poverty trends between 1990 and 2001 vary according to the definition of poverty applied. If the poor are considered to be those living on less than one dollar a day—that is to say, those in a situation of extreme poverty—then during that period there was a significant reduction in the number of poor: from 1,219 million to 1,101 million. On the other hand, if the poor are considered to be those living on less than two dollars a day, then the number increased from 2,689 million to 2,733 million over that period (World Bank, 2004a).

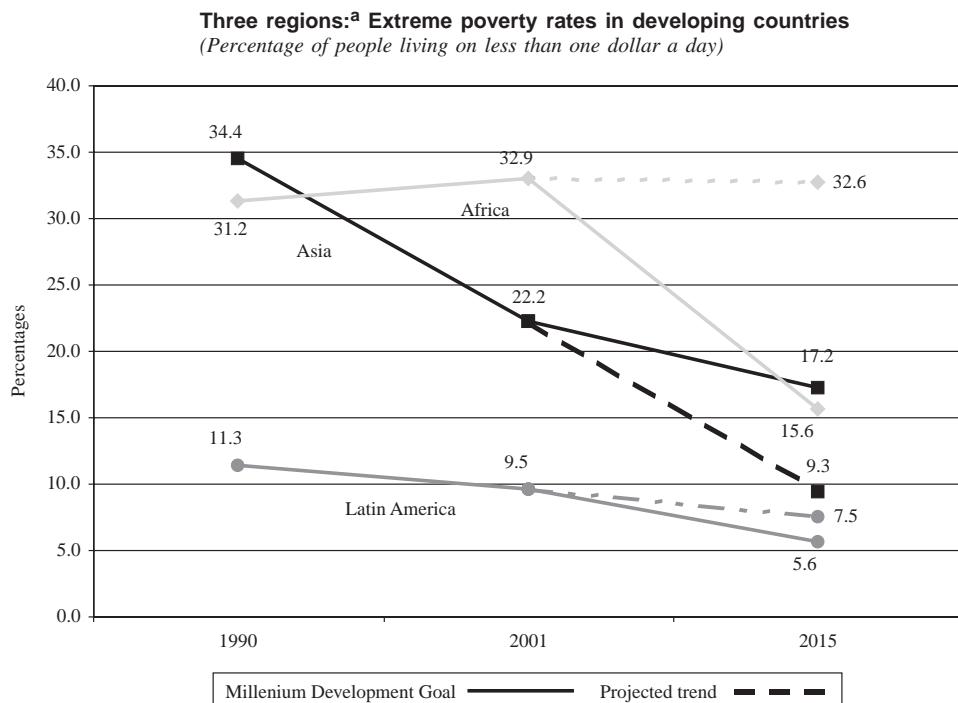
Even more important is that fact that under both these definitions of poverty the regional dispersion is rather significant. The only region in which poverty went down was Asia; in the other regions the number of poor increased. Thus, under the definition based on an income of less than one dollar a day, the number of poor in Asia went down from 934 to 712 million

between 1990 and 2001, whereas in Africa it rose from 233 to 321 million over the same period, and in Latin America it went up, albeit only slightly, from 49 to 50 million. If we consider the people with an income of less than two dollars a day, over the same period the number of poor in Asia went down from 2,075 to 1,927 million, while in Latin America it increased from 125 to 128 million.

Poverty rates show better results. Thus, the percentage of poor in the developing countries fell from 27.9% in 1990 to 21.3% in 2001, considering the definition of an income of less than one dollar a day, and from 61.6% to 52.8% under the definition of less than two dollars a day.

Figure 1 shows that poverty rates are not only falling in Asia but also in Latin America. In 2001 it was estimated that 22.2% of the population received less than one dollar a day in Asia, which represented

FIGURE 1



Source: World Bank (2004a and 2004b).

<sup>a</sup> For the purposes of this analysis, Africa includes Sub-Saharan Africa, the Middle East and North Africa.

a significant reduction compared with 1990; however, this rate was higher than the 9.5% registered in Latin America, where poverty had gone down slightly from 11.3%. Over the same period, the percentage of the population in extreme poverty rose from 0.5% to 3.7% in Eastern Europe and from 31.2% to 32.9% in Africa.

It is interesting to consider the levels of poverty rates expected in 2015. The number of poor worldwide would continue to fall, reaching 809 million in the case of those with less than one dollar a day and to 2,320 million in the case of those with less than two dollars. It is estimated that the number of poor will continue to fall rapidly in Asia and to increase in Africa. In Latin America and Eastern Africa, the number would fall from the 2001 levels, although only slightly in the Latin American region.

According to these projections, the rate of extreme poverty worldwide in 2015 would be 13.3%, which would mean achieving the goal of halving the number of poor from the 1990 level (27.9%).<sup>1</sup> By regions, extreme poverty rates would be 32.6% in Africa, 9.3% in Asia, 7.5% in Latin America and 1.4% in Eastern Europe. Only Asia would reach the Millennium goal, with a rate equivalent to almost a quarter of that registered in 1990. As noted, Latin America would not manage to reduce its extreme poverty rate to 5.6%, which is the sought-for target.

Table 1 shows the number of poor over the whole period considered, i.e., from 1990 to 2015.

TABLE 1  
**Developing countries: Evolution of poverty, 1990-2015**  
(Variations, in millions of people)

	People living on one dollar a day	People living on two dollars a day
<i>Total</i>	-410	-369
Asia	-590	-597
China	-304	-611
Rest of the world	180	228
Latin America	-2	-8
Eastern Europe	5	-13
Africa	177	249

Source: World Bank (2004a and 2004b).

We can note that in the 25 years from 1990 to 2015, extreme poverty in Asia would fall by 590 million people (over half of them Chinese), but it would grow still further in Africa whereas in Latin America it would hardly fall.

In 1990, for every poor African or Latin American there were over three poor Asians. In 2001 this ratio went down to 1.8. By 2015 there will be only 0.74 Asians in extreme poverty for every poor person in the rest of the world. In 1990, eight out of ten in extreme poverty worldwide were Asians; by 2015 there will be only four. In other words, poverty is increasingly an African and Latin American phenomenon and less and less an Asian problem.

## IV

### The rural dimension of global poverty

An essential characteristic of global poverty is that three out of four poor live in rural areas (World Bank Institute, 2004). Consequently, we can only win or lose the war against poverty in the rural area.

Based on the data available on urban and rural income, we see that 63% of the population and 73% of the poor live in rural areas. This ratio is common to

all regions. The level of rural poverty is high in all the developing countries, regardless of the income level. Most of the population in low-income countries is poor; however, in the least developed countries the poverty rate in rural households is almost 82%. The share of rural households in the total of poor households is falling due to urbanization, but it will still not fall below 50% before 2035 (World Bank, 2003).

A sustained rise in agricultural productivity in the developing countries is needed in order to reduce rural poverty. However, achieving this sustained rise is not only the developing countries' exclusive responsibility. On the contrary, for this to be possible it is essential

<sup>1</sup> In World Bank (2004c) a more optimistic situation is presented for 2015 in which the global goal would be more comfortably reached, with an extreme poverty rate of 12.5%. This projection is based on the assumption of an annual growth rate of GDP of 4.7% between 2004 and 2015.

to open up the agricultural markets of the industrialized countries, which are currently closed.

Without exception, all the industrialized countries block the free access of products from the developing countries and, in addition, in most of the cases, they distort world markets with subsidies to agricultural production and exports. Since rural poverty is the most endemic and painful form of poverty in the world, the barriers to free agricultural trade are essentially regressive. Consequently, there will be no appreciable reduction in global poverty unless economic growth of the developing countries is facilitated, but for many of them—especially the poorest countries—there will be no growth without technological advances in their agriculture.

As the poor mainly produce agricultural goods, along with other products that are labour-intensive (tex-

tiles, for example), it is obvious that the global trade order is biased against them. According to recent estimates, equitable global liberalization of trade could reduce the number of poor in the world by over 300 million people: that is to say, it would contribute with an additional 60% to what is projected in the 25 years ending in 2015 (World Bank, 2001a).

An end to protectionism has repeatedly been called for at the biennial meetings of the International Monetary Fund and the World Bank. For example, the final communiqué of the ministerial meeting of the Development Committee of April 2003 clearly stated that “It is essential for developed countries to do more to liberalize their markets and eliminate trade-distorting subsidies, including in the areas of agriculture, textiles and clothing, which are of particular importance for developing countries” (Development Committee, 2003).

## V

### Agricultural subsidies in the industrialized countries

The analysis of global trade protectionism is too broad a topic to be dealt with adequately in a few pages; therefore, in this article we will only present some of the vast evidence available on the unfair practices currently prevailing.

One of the most important inequalities observed in the world trade system, and that seriously impedes growth of the developing countries' exports, is the high level of agricultural subsidies applied by the industrialized countries.

The Organization for Economic Cooperation and Development (OECD) estimates that farmers in its member countries received State support equivalent to 31% of their income in the period 2000-2002. The highest agricultural subsidies are those given in Switzerland (73% of farmers' total income), Norway (68%), South Korea (66%) and Iceland (63%). Farmers in Japan receive 59% of their income in the form of subsidies, and in the European Union, 35%. United States farmers are below the average, receiving subsidies equivalent to 21% of their total income (OECD, 2003).

Table 2 shows subsidies as a percentage of farmers' total income in the industrialized countries for their main exports. Those with the highest subsidies are rice, sugar, dairy products and meat.

TABLE 2

**Industrialized countries: Subsidies on agricultural exports, 2000-2002**  
(*As a percentage of producer's income*)

Maize	27%
Beef and veal	33%
Wheat	37%
Other cereals	41%
Mutton and lamb	45%
Milk	46%
Sugar	47%
Rice	81%

Source: OECD (2003).

These subsidies do not only have an impact within the industrialized countries; but also beyond their frontiers, depressing the income of poor farmers in the developing countries who produce these goods efficiently.

Agricultural subsidies in the OECD countries totaled more than US\$ 300 billion per year in 1999-2001: that is to say, they represented more than six times the total direct aid given by the industrialized countries to poor countries. This amount includes both direct and indirect subsidies, and it is precisely the latter —restrictive “on

the border” measures—that account for most of the total subsidies.

The volume of agricultural support was as follows: European Union, US\$ 112.7 billion; United States, US\$ 95.5 billion; Japan, US\$ 64.8 billion; and

the other OECD countries, US\$ 56.6 billion. The main products benefiting from this support were meat (US\$ 47.3 billion), milk (US\$ 42.1 billion), rice (US\$ 26.4 billion), wheat (US\$ 17.4 billion), and maize (US\$ 12.9 billion).

## VI

### The protectionist fortress

With regard to import duties or customs tariffs, the industrialized countries have built a real “protectionist fortress”, levying taxes more heavily on the goods produced by the poor countries (agricultural products and textiles), as well as imposing numerous non-tariff barriers (quotas, import licences, anti-dumping duties and technical requirements) that in many cases are more burdensome than the tariffs themselves. In the case of tariffs, for example, the average customs tariffs on agricultural imports applied by the European Union is 20%, and 9% in the case of the United States.<sup>2</sup> In the case of textiles and clothing, the average tariff in the United States is 8.9%, while in the European Union it is 7.9% (Oxfam International, 2002). These figures contrast starkly with the average tariff of only 1% applied on imports by these countries reciprocally (*The Economist*, 2003).

The International Food Policy Research Institute (IFPRI) recently estimated the effects of that protectionist fortress on the exports of the poor countries. According to those estimates, the developing countries lose around US\$ 40 billion per year due to the lower exports as a result of the agricultural protectionism of the industrialized countries. This means that, if those protectionist barriers did not exist, the agricultural exports of the developing countries would be three times higher.

The largest share of this loss corresponds to Latin America, which currently exports some US\$ 32 billion dollars to the industrialized countries but could export more than US\$ 46 billion. In other words, the annual loss to the region is over US\$ 14 billion.

If we consider potential income from exports not materialized because of trade barriers, the developing

countries lose a net income of around US\$ 24 billion per year as a result of the agricultural protectionism of the industrialized countries: over half of this loss is due to the Common Agricultural Policy (CAP) of the European Union. The region most affected is Latin America, with an annual income loss estimated at US\$ 8.3 billion (IFPRI, 2003). A pathetic example is that of the milk subsidies, shown in table 3).

If the total subsidies are divided by the number of cows, the annual subsidy per cow is almost US\$ 1,000 in the European Union and over US\$ 4,000 in Japan. This means that in the European Union each cow is subsidized at a rate of US\$ 2.67 per day, while in Japan the rate is US\$ 11.86 per day. These figures contrast sharply with the poverty levels in Sub-Saharan Africa, where 48% of the population lives on less than one dollar a day and 77% on less than two dollars. This contrast between the milk subsidies in the industrialized world and the poverty in the Third World is truly overwhelming.

A sad anecdote: the Netherlands Government—one of the most generous countries in the world in terms of international cooperation—has been supporting Tanzanian dairy products for over 20 years. Yet, at the same time, the European Union exports powder milk that is subsidized at three times the rate of the Dutch aid, thus further impoverishing this African nation.

TABLE 3

#### “I’ve got a milk cow ... but not just any milk cow”

	Number of cows (millions)	Subsidy per cow (dollars)	
		Per year	Per day
European Union	33.8	975	2.67
Japan	1.6	4 328	11.86

Source: Estimates based on data from OECD. This type of comparison was not our idea; for example, a similar exercise can be found in Stern (2002).

<sup>2</sup> This figure conceals great tariff dispersion, with maximum levels of as much as 350%. For more information, see ECLAC (2003) and World Bank (2003).

The levels of protectionism faced by exporters from the industrialized countries and those from developing countries are extremely disparate, which further exacerbates the unfairness of global trade. As shown in table 4, Latin American agricultural goods accessing the markets of industrialized countries face an average tariff of 20.4%.<sup>3</sup> In contrast, the industrialized countries' exports of non-agricultural goods face an average tariff of 8.5% when entering the Latin American markets.

Thus, the main exports of the two groups of countries in question are subject to tariffs which differ by a factor of 2.4.

TABLE 4

**Latin America and the industrialized countries: Disparity between average tariffs  
(Levels of protection faced by exporters in each region)**

Exporting region	Importing region	
	Latin America	Industrialized countries
<i>Agricultural goods</i>		
Latin America		20.4%
<i>Non-agricultural goods</i>		
Industrialized countries		8.5%

Source: World Bank (2003).

## VII

### The poor face the highest tariffs

Table 4 shows that the exports by the poor of the developing countries—in this particular case, Latin America—to the industrialized countries face higher tariffs than those imposed by the developing countries on their imports from the industrialized nations. The liberalization of domestic trade generally benefits the poor because it facilitates the shifting of resources from capital-intensive to labor-intensive sectors.

The industrialized countries reciprocally apply tariffs of 1% on their manufactured goods but impose tariffs of 5% on similar imports from East Asia, 6% on those from the Middle East, and 8% on those from South Asia. Mongolia, for example, pays in tariffs to the United States a similar amount to that paid by Norway, even though it sells only 3% of what Norway exports to the United States. Can anyone claim that this

system allows the poor to exploit their development potential?

Some comparisons made by Oxfam International, a British charitable organization, are very telling. The tariffs levied by the United States on imports from the developing countries can be as much as 20 times higher than those applied on imports from other rich developed countries. Last year, the average United States tariff on imports from Bangladesh was 14%, a total of US\$ 301 million, although that country supplied only 0.1% of total United States imports. This amount was only slightly less than the total duties paid on imports from France, which were subject to a tariff of only 1% and represented 2.4% of total United States imports (Oxfam International, 2003).

The tariffs of the European Union severely discriminate against the developing countries. Its duties on imports from India were almost four times higher than those on imports from the United States and were more than eight times higher than those from Sri Lanka and Uruguay.<sup>4</sup>

<sup>3</sup> It cannot be denied that the developing countries also sometimes apply significant tariffs to agricultural goods. Thus, for example, the agricultural exports of Latin America pay tariffs of 42.1% in East Asia and 24.7% in Sub-Saharan Africa. For more information in this respect, see World Bank (2003).

<sup>4</sup> Oxfam International (2003).

## VIII

### The tariff scaling of the industrialized countries

One of the features of the tariff structure of the industrialized countries is that it strongly discourages production with higher value added, as seen in table 5.

This situation, which prevails in the European Union, the United States and Japan, also exists in the other industrialized countries. Canada's tariffs on processed food products, for example, are 12 times higher than those applied to products in the primary stage of processing.

The European Union's tariff is less than 4% on imports of yarn, but 14% on clothing.

The United States and the European Union apply zero tariffs on imports of cocoa beans, but up to 30.6% on processed products such as cocoa paste and chocolate. As a result, the developing countries produce over 90% of all cocoa beans but less than 5% of world chocolate production.

TABLE 5

**Tariffs applied by the industrialized countries:  
The developing countries are condemned to  
export goods without value added  
(Percentages)**

Exports		Tariff applied by:		
		European Union	United State	Japan
Coffee	As raw material	7.3	0.1	6.0
	Processed	12.1	10.0	18.8
Cocoa	As raw material	0.0	0.0	0.0
	Processed	30.6	15.5	22.0
Sugar	As raw material	18.9	2.0	25.0
	Processed	36.4	17.7	a
Fruit	As raw material	9.2	4.6	8.7
	Processed	22.5	10.7	16.7

Source: World Bank (2003).

a Specific tariffs.

## IX

### The richest receive the biggest subsidies

#### 1. Inequitable distribution of agricultural subsidies

The industrialized countries would benefit from the reduction of protectionism and agricultural subsidies, most of which go to large-scale farmers who earn more than the average family in the European Union, Japan and the United States. Protectionism and subsidies cost the average family US\$ 1,000 per year in those regions because of the higher cost of food.

In many industrialized countries the average income of farmers is higher than the average national income: 250% in the Netherlands, 175% in Denmark, 160% in France and 110% in the United States and Japan.

The OECD estimates that only a quarter of every dollar spent on support ends up in the farmers' pockets: the rest goes to suppliers of inputs and owners of other factors of production. The most important result of

these support programmes is that they inflate land prices.

A recent study (Environmental Working Group, 2003) reveals data that illustrate this inequitable distribution of agricultural subsidies. In the United States, the large farms are mainly responsible for the increase in the agricultural surpluses that are exported, getting therefore an even bigger share of the support. In 1995 the big received US\$ 4 billion (55% of all federal agricultural subsidies), while in 2002 their share rose to US\$ 7.8 billion (65%).

In the United States, 25% of the largest farms receive 89% of the subsidies, while the remaining 1.6 million farms in the country receive little support. In 2001, David Rockefeller and Ted Turner were among the recipients of agricultural subsidies.

In the European Union the way the support is distributed is not much different. The biggest farmers receive nearly 75% of the total support (OECD, 2003),

while 4% of the farmers with the biggest farms receive 21% of the total. The farms following in size generate 17% of the agricultural production and receive 19% of the subsidies. The remaining two million farms produce little and receive only minimal support.

In Japan and Canada 25% of the largest farms receive 68% and 70% of the total support, respectively.

## 2. Anti-dumping measures

With regard to the impact of anti-dumping measures —another source of inequalities— box 1 provides an example concerning Vietnam, based on information from the World Bank (2003).

Because of the potential harm resulting from anti-dumping measures, as the one mentioned in the last paragraph of box 1, some countries have bilaterally agreed not to apply these measures. This was the case, for example, of the Free Trade Treaty signed between Chile and Canada in 1996.

## 3. Some protectionist measures that affect important agricultural products

Following is a brief account of some protectionist measures that affect the trade of agricultural goods that are of key importance in global production.<sup>5</sup>

### a) Cotton

The world trade in cotton is severely distorted due to the policies applied. The world's biggest cotton

<sup>5</sup> Much of the information presented is from the World Bank (2003).

producer, the United States, faces much higher production costs than African producers such as Mali or Burkina Faso.

The United States is the country that provides the greatest support to its cotton producers. Its 25,000 producers receive US\$ 4 billion in government subsidies to produce cotton at a commercial value of only US\$ 3 billion. Such subsidies depress the global market of this good, causing harm, among others, to the 11 million producers in West Africa. In 2001-2002 producer prices in the United States were 91% higher than in the world market.

Meanwhile, the European Union provides support in the amount of US\$ 600 million per year to its own cotton producers, which shows that the price projections and exports of the developing countries —especially of Africa— would substantially improve if the industrialized countries reduced or eliminated their support to producers.

### b) Sugar

Sugar is one of the most politically distorted commodities worldwide. Most of the OECD support to sugar producers is given in the European Union, Japan and the United States: US\$ 6.4 billion, which almost equals the value of the total exports of the developing countries.

High import duties, together with subsidies, keep domestic prices of this product in the United States and the European Union at levels almost twice as much as those prevailing in the global markets.

The high domestic prices of sugar in the European Union, Japan, and the United States have encouraged

### Box 1 A VIETNAMESE STORY

After embarking on a vigorous programme of non-Marxist reforms, Vietnam was one of the most successful examples of globalization in the 1990s. After having been an importer of rice, this country became the world second largest exporter of that product, as well as an actor in the world coffee trade.

After only a few years, half a million Vietnamese were estimated to live on catfish trade, promoted by private entrepreneurs. Vietnam captured 20% of the market for frozen catfish fillets in the United States, causing prices to fall and giving rise to concern in the Mississippi Farm Bureau.

As a result, the United States Department of Trade recently imposed tariffs of between 37% and 64% on Vietnamese catfish. The United States International Trade Commission gave its final verdict on 23 July 2000: it ruled that the unfair competition caused by Vietnamese dumping harmed the United States catfish industry and, therefore, the tariffs became permanent.

Something similar happened two years ago with Argentine honey.

The mere possibility of a country imposing anti-dumping measures causes a drop in exports to the countries applying such measures, even when the tariff applied is low. Thus, the mere threat of an anti-dumping duty may deter the export of goods to those markets.

high costs, inefficient local production, and the use of sugar substitutes. At the same time, they have reduced local consumption and made these countries, after being importers of almost half of the global sugar exports in the 1970s, become exporters in the 1990s.

The European Union subsidies make it economically feasible to produce sugar beet in Finland, which affects the poor but efficient sugar producers in tropical countries, who can hardly survive.

World sugar prices are now below the costs of the most efficient producers. The world sugar market has shrunk to a residual trade, with 80% of the global production sold at high prices in protected markets.

#### c) *Wheat*

A similar situation is observed in the wheat markets of the European Union, where high domestic prices have encouraged production. These countries have thus changed from being net importers of nearly five million tons per year in the 1970s to net exporters of 20 million tons in the early 1990s.

The subsidized wheat exports of the European Union continue to depress world prices. Wheat, which is one of the most heavily protected products in the EU, received production support averaging almost US\$ 10 billion per year in 1999-2001, corresponding to a rate of protection of almost 50%.

#### d) *Peanuts*

Peanuts are one of the main oleaginous products. They are extensively cultivated in both the developing and industrialized countries, and provide subsistence and income to many poor peasants in the developing world, especially in Africa and Asia. It is estimated that in Senegal, for example, one million people (10% of the population) are engaged in their production and processing.

United States policy on peanuts, which was heavily distorted by high subsidies and prohibitive tariffs between 1930 and 2001, has been recently reformed, but it still maintains high and redundant tariffs.

The liberalization of peanut prices would bring significant net improvements in welfare for small agricultural economies such as those of Malawi and other West African countries.

The liberalization of the markets for products with value added—oil and food products—would translate into improvements in well-being in a number of African countries (Gambia, Malawi, Nigeria, Senegal, South Africa).

#### e) *Rice*

Rice is the most important food grain in the entire world. Its production and consumption are concentrated in China, India, and Indonesia.

#### Box 2

##### BRAZIL'S EPIC STRUGGLE

Although the international dispute settlement mechanisms must still be improved, they can—as they stand today—provide answers to situations of unfair competition in international trade. Such is the case of Brazil's struggle against United States' subsidies to its cotton producers.

In March 2003 the Brazilian Government complained against the United States before the World Trade Organization (wto), arguing that the subsidies given by that country to its cotton producers—which totaled US\$ 13.1 billion between 1999 and 2003—had caused severe harm to Brazil because of the drop in international cotton prices.

In April 2004, after considering the case for more than a year, a wto dispute settlement panel concluded that the United States regularly exceeded the limit declared to the wto for its cotton subsidies. In particular, the panel found that:

- The United States had used concealed export subsidies to evade its commitment to the wto to reduce the subsidies, and
- The United States' domestic support subsidies for cotton in the trade year 2002/2003 had a significant depressive effect on prices, thus seriously prejudicing Brazil's exports. This means that the United States will have to reform its current practices. In the final verdict, announced in June 2004, the panel's preliminary findings were ratified.

*Source:* Based on data from Oxfam International (2004) and international organizations.

The support given to rice production amounts to over US\$ 26 billion per year in the OECD, and to an astounding 700% of production costs in Japan (at world prices). Tariff scaling (from paddy to milled rice) is common practice in many countries, including those of the European Union, where the tariff on milled rice is prohibitive, except for small preferential import quotas guaranteed to a few countries. For example, the tariff applied to imports of milled rice in the European Union is 80%, compared with 46% for brown rice.

If global reforms were applied—elimination of all import barriers and all support measures—there would be a price increase of about 33%, and 90% in the case

of medium and short grain rice. The producers in Cambodia, China and Vietnam would be the main beneficiaries, together with rice consumers in the high-income Asian countries.

Since the main rice producers are small farmers, the gains would also benefit the poor greatly.

#### **4. Dispute settlement**

Dispute settlement mechanisms are a means of correcting the above-mentioned inequalities. Box 2 gives an example of how to respond to unfair competition in international trade.

## X

### **The geography of rural poverty**

With trade liberalization, there would be a marginal displacement of agricultural production from north to south, and the seriously depressed world prices of many commodities would increase: by 10-20% for cotton, 20-40% for dairy products, 10-20% for peanuts, 33-90% for rice, and 20-40% for sugar (World Bank, 2003).

Four countries —Bangladesh, China, India and Indonesia— account for 75% of world rural poverty. It is in Asia, therefore, that the increase in rural income would have the biggest impact on poverty.

It is in the hands of the main industrialized countries which make up the Group of Seven to decide if the world will move toward equitable globalization.

## XI

### **Protectionism and deterioration of the environment**

Economic progress is indispensable to defeat poverty, but this progress must acknowledge that natural resources and bio-diversity are assets that must be preserved. Poverty will not be reduced unless the sustainability of the ecosystems is ensured, especially when increased production exerts more and more pressure on the environment and on resources that are not renewable.

It is a great contradiction that the industrialized countries, which usually lead the way in advocating such protection of the environment, are not consistent with this approach when it comes to the sustainability

of their own rural economies, since they overload their already depleted croplands and demand a higher agricultural production out of it.

In this respect, it is worth mentioning the following quote from an article in the Financial Times: "...Subsidies for agriculture foster over-loading of croplands, leading to erosion of topsoil, pollution from synthetic fertilizers and pesticides, and release of greenhouse gases..."<sup>6</sup>

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<sup>6</sup> Myers and Tickell (2003).

## XII

### The gains from trade liberalization

The World Bank has consistently pointed out the distortions in world markets caused by protectionism and has shown the benefits that trade liberalization would bring to exports, production, and above all, to the reduction of poverty.

About two years ago, the Bank carried out a simulation exercise intended to determine the benefits resulting from a Doha Round that eliminated import duties, export subsidies, and subsidies to domestic production, following a timetable to be completed by the year 2015 (World Bank, 2001a). According to the estimates (figure 2), the potential global gains from such an agreement would amount to more than US\$ 800 billion a year, of which over two-third would be associated with agricultural liberalization; these gains would benefit both the developing and the industrialized countries, with the latter receiving approximately 40% of the gains.

Figure 3 shows the reduction in the number of poor that such liberalization would bring, further to the reduction as a result of the projected growth of the global economy without the elimination of import barriers.

The number of people living in extreme poverty in the developing world would be reduced by 110 million: i.e., by approximately 15% of the number of people living on less than a dollar a day estimated for

FIGURE 2

**Potential gains from a Doha Round that eliminates tariff barriers toward 2015**  
(Billions of dollars per year)

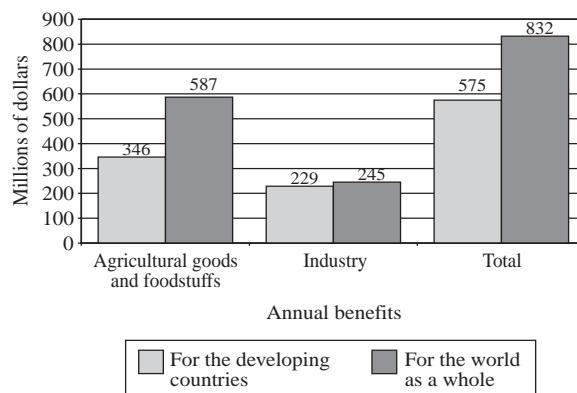
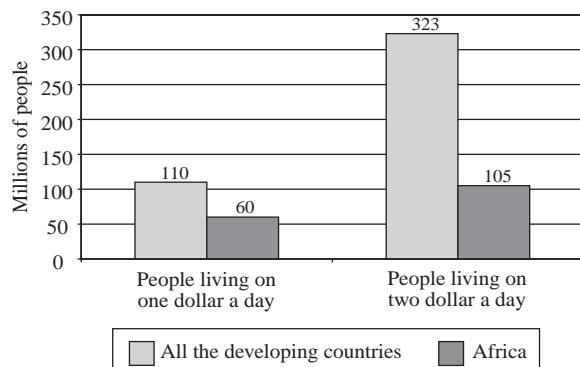


FIGURE 3

**Developing countries: Trade liberalization – a powerful force for reducing world poverty (Reduction in the number of poor, in millions of people)**



2015. The number of poor with an income of less than two dollars a day would go down by more than 300 million.

The report entitled *Global Economic Prospects and the Developing Countries, 2004* (World Bank, 2003) includes an exercise based on a less optimistic estimate of the benefits from the Doha Round negotiations. The exercise aims to lower the "tariff ceilings" by setting maximum tariffs for agricultural products of 10% in the industrialized countries and 15% in the developing countries, while the ceilings for manufactured goods in industrialized and developing countries would be 5% and 10%, respectively.

This program, combined with the elimination of agricultural subsidies and quotas, could generate two-thirds of the gains resulting from a trade liberalization. If it were implemented gradually over a period of five years and there were a positive response in terms of investments, in 2015 it would generate an additional income of nearly US\$ 350 billion for the developing countries. In turn, the industrialized countries would receive gains of US\$ 170 billion.

As we can see, the benefits would be very considerable and the gains for the developing countries would be seven times greater than the concessional aid currently provided by the industrialized countries.

TABLE 6

**Developing countries: Potential impact of liberalization of the agricultural trade of the industrialized countries**  
*(In billions of dollars)*

Region	Level of trade balance (exports less imports, or net exports) in 1997	Level of agricultural trade balance after trade liberalization of industrialized countries	Percentage increase in net agricultural exports (negative value corresponds to a reduction in net agricultural imports)
Africa South of the Sahara	7.4	10.7	45
Asia	12.3	22.8	85
Latin America and the Caribbean	31.7	46.4	47
Other developing countries	-31.0	-19.1	-38
All developing countries	20.4	60.8	198

Source: Data of the International Food Policy Research Institute (IFPRI, 2003).

The program in question would reduce world poverty by 8%, i.e., by 61 million people in extreme poverty and 144 million in the case of those currently living on less than two dollars a day.

Some analysts have expressed their concern over the imbalances among countries that could result from a trade liberalization that increased the international prices of agricultural goods and, in particular, they have stressed the negative impact this would have on countries that are net food importers.

Several studies have dispelled this concern. For example, the International Food Policy Research Institute (IFPRI, 2003) concludes that the elimination of protectionism and agricultural subsidies in the industrialized countries would bring about a threefold increase in the positive trade balance of the

developing countries, with a favorable effect on all types of countries. Thus, table 6 shows that the net exporters of agricultural goods would increase their trade surpluses, while the countries which are net importers of such goods would reduce their trade deficits.

What is true is that the possibility of countries increasing their agricultural exports is indeed only “potential”, and that it needs to be complemented with domestic supply-related measures, such as the improvement of the export sector infrastructure (roads, ports, customs facilities, etc.), and demand-related measures that consider modern marketing practices and the higher sophistication of consumers in the industrialized countries, who may tend to “differentiate” products according to their origin.<sup>7</sup>

## XIII

### Conclusions

We hope that this article, and in particular the figures presented on the benefits of trade liberalization, will clearly show the link between international trade and global poverty, which was not evident at first. We trust that the increasingly widespread acknowledgment of the damage done by protectionism will translate into concrete actions that will overcome the failure of the Ministerial Conference in Cancun in 2003 and unfreeze the Doha Round, paving the way toward a fairer relationship among the countries engaged in global trade.

We will conclude with a quote from the *New York Times*, one of the newspapers with the greatest impact on global public opinion: “Continuing on the present perverse course will feed social instability and environmental devastation throughout the developing world. It will mean increased illegal migration to fill agricultural and other jobs in richer countries, instead

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<sup>7</sup> See, in this respect, the experience of Mexico, in World Bank (2001b).

of increased jobs and incomes in the third world. Any serious effort to combat extreme poverty, promote third world development must begin with a radical

assault on agricultural subsidies. It must begin now...".<sup>8</sup>

(Original: Spanish)

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<sup>8</sup> New York Times (2002).