The Social Impact of Improved Market Access and Export Promotion in Agriculture

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Background and Objectives of the Commissioned Study

Multilateral trade liberalisation offers developing countries the prospect of increased access to developed country markets. It is often argued that this will allow many developing countries the opportunity to increase their agricultural exports, with beneficial consequences on economic growth and poverty reduction. These arguments underlie the calls for dramatic improvements in market access for agricultural exports to developed countries as part of the Doha Round of multilateral trade negotiations. This research explores these arguments in greater detail. It assesses:

a) Whether levels of market access in developed countries are an important determinant of agricultural exports from developing countries, and

b) Whether agricultural exports have beneficial impacts on poverty in developing countries.

The research consists of three main components:

- **A clear conceptual framework**, linking domestic and international trade policies, agricultural exports, and poverty reduction in developing countries, This distinguishes between the effects of improved market access (e.g. reductions in most-favoured-nation (MFN) tariffs, preferential tariff reductions, increased export quotas) and domestic export promotion (e.g. reductions in import tariffs and export taxes, export subsidies) on exports. It also distinguishes between their effects on poverty via a) changes in domestic prices of goods and services, b) changes in the market returns to different factors of production, c) changes in government expenditure and/or revenue, and d) longer-term effects on investment and economic growth;
- **Cross-country statistical analysis**, which first shows aggregate trends in agricultural exports from developing to developed countries over the past two decades, by region and in comparison with other goods, then presents evidence on levels of market access and domestic export promotion among different groups of developing countries, and finally tests whether developing countries which have greater access to developed country markets, or which have less restrictive trade policies, have higher agricultural exports;
- **Case-study analysis** of three sectors and three countries which achieved a significant increase in exports to developed countries during the 1990s, namely the fruit and vegetable sector in Kenya, the frozen shrimp sector in Bangladesh, and the cut-flower sector in Ecuador. In each case, both the factors underlying the increase in exports, and the impact of those exports on poverty, are documented and assessed.

Research Findings

- Agricultural exports from developing to developed countries have stagnated over the past two decades, in marked contrast to manufactured exports.
- Nevertheless, some developing countries, particularly in Asia and Latin America, achieved significant increases in agricultural exports during the 1990s, particularly in Asia (e.g. China, Thailand, Malaysia) and Latin America (e.g. Chile, Mexico, Ecuador).
- There is clear evidence that domestic trade policies have a significant impact on developing countries' agricultural exports. There is also evidence that increased market access has a positive impact on agricultural exports, notably for exports from ACP countries to the EU, and from ATPA and CBI countries to the US. There is however little evidence to suggest that improved market access has increased exports from Least Developed Countries.
- The three export success stories all benefited to some extent from high and/or preferential market access to developed country markets. More important, however, were compelentary domestic initiatives to increase export competitiveness. In Bangladesh, for example, there are initiatives designed to assist with technological upgrading, quality control, and to address concerns about the negative environmental and/or socio-economic impacts of the expansion of shrimp farming, embodied in the National Fisheries Policy.
- Increased exports in each of the three cases had beneficial macroeconomic effects. Nevertheless, it had little direct impact on the poorest households, since barriers to participating in each sector are high. In Kenya, for example, horticulture production typically requires irrigation equipment, which is often beyond those with without savings or access to credit.
- There was also relatively little redistribution of the gains from increased exports in each country, through taxes and transfers. Instead, the most significant impacts of increased exports on poor households came via their tendency to raise agricultural real wages and employment opportunities. In Ecuador, it is estimated that the cut flower sector also generates, directly and indirectly, approximately 500,000 jobs, the majority of which are for workers with elementary education only.

Main Conclusions

- There are two main policy implications arising from the study. The first is that developed country governments need to implement measures complementary to improved market access if the poorest developing countries are to gain significantly from that access.
- Such measures include greater official development assistance for investments in improved transport and communications infrastructure, technological upgrading and quality control (for meeting product standards set by developed countries), and so on.
- The second main policy implication is that, developing country governments typically need to implement measures complementary to export promotion if increased exports are to make a significant contribution to poverty reduction.
- Such measures include the expansion of government spending in social sectors, including social security and welfare, basic health and education, and an increase in domestic tax collection to finance this expansion.

For further information on this research project, please visit:

EC-PREP website: www.ec-prep.org
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