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Trade Agreements and Economic Development: Some Observations

North American Agrifood Market Integration: Current Situation and Perspectives

Cancun, Mexico

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Trade Agreements and Economic Development: Some Observations

Partnerships for Prosperity Conference,
Cancun, Mexico

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This is a brief paper by a person who does not usually write papers--we at Land O'Lakes spend far more time refining a well-tested set of development tools than in describing the theories and concepts that led to the approaches we now use—not that investment in concepts is not important, or that we probably should do more or it. It is mainly that our base concepts do not change much in the intermediate term.

Also, I would admit at the outset that our "conceptualizing" is heavily "retro-engineered," in that we primarily test approaches in the real world, apply what works best and refine that approach to better suit the conditions we encounter at any given moment, and place—and then attempt to wonder why.

To compound this crime, I argue that our practical approach is the way most development is done—starting in Europe and the United States two centuries ago, in Asia a century later and elsewhere today. It is now the way the transition economies are attempting to come to grips with their new realities. In fact, the power of commercial experience is far greater than theoretical constructs, at least in its early stages.

Some would add that many of the conceptual approaches to development that violated that approach have led to trivial, or negative results, and continue to do so (e.g., the precautionary ludditism that is holding back investment in technology and development in parts of the world today, to say nothing of the conceptual advances expected from central planning since 1848 and that we are still working to correct today—and others.

My purpose here introduce a few Land O'Lakes development concepts, describe some of the most important trade concepts that guide our work in an increasingly interconnected world, describe in more detail our approach to development and some of the key tools we use, and then offer some observations about links between trade liberalization, competition and development. And, actually, I want to emphasize the important overlap between development and trade reforms and an exciting tool we use to build on the increased competition implicit in trade reform.

Who We Are

Land O'Lakes is an integrated, diversified national cooperative with 300,000 US farmer-members in 1,400 local cooperatives. The company is a national leader in deli cheeses, premium butter, eggs, feeds, seeds, plant foods and crop protection products, among

other products and inputs. Consumers link its name and Indian Maiden logo firmly to high quality and traditional taste standards, and have confidence in our products. The result is substantial national market shares in a number of important product lines.

Land O'Lakes' international development strategy is to share and build upon members' experience and expertise. However, we now offer a number of development experts with substantial experience with development programs worldwide.

Land O'Lakes International Development Division dates only from 1981, but now manages a multi-million dollar portfolio in 30 countries. While the company was seen largely as a source of technical assistance for milk production and marketing 23 years ago, we now offer a unique, highly focused economic development approach that builds upon intense training and technical assistance delivered to, and through, producer groups, processors and marketing organizations of varying sizes and degrees of sophistication, reflecting the initial conditions in each target country.

A major development tool is our expertise in the organization and support of cooperative activities. These associations have demonstrated capacity to help producers increase their efficiency, and to apply economic discipline to improve and control quality throughout the marketing chain, and to develop new products and services tailored to consumers' needs. They also offer customized support for producers in the context of the economic and social problems limiting investment and income growth of the smallholder livestock producers—shorthand for a broad range of family concerns (including, in some cases, health care, women's issues, rural development issues, and many others).

Land O'Lakes' strategic, practical business solutions are all designed to facilitate the increased flow of products from production to consumption, with commensurate increases in producer income as a result. This system focuses on investments of many kinds (technical assistance, production inputs, capital and many others) and can enhance the current value of producer resources, no matter how small the beginning resource base—a working definition of development in many low-end productivity situations.

In developed economies, marketing chains add value to raw commodity materials at every step and convey benefits to all participants along the way. In more primitive systems, the chain often is neither effective nor efficient—and, marketing costs are so great and the flow of information about consumer preferences so weak that incentives to invest at any point are severely diminished. Still, removal of a modest number of bottlenecks often boosts productivity and efficiency throughout the chain—so, we usually begin by identifying steps that can be taken by producers and processors to strengthen linkages with each other and throughout the chain.

As described in subsequent sections, our contribution in both low-productivity and modest-productivity development situations depends on capacity to add value through the chain—and, in some situations, the additional amount of value added is quite significant, indeed. By adding this emphasis on adding value, we have been able to build a solid link with trade reforms as an aspect of development, even in some isolated rural areas.

Agricultural Development Experience

Land O'Lakes most comprehensive (and mature) application of its dairy and livestock development tools now is in Albania, which continues to serve as a promising model for other parts of the world. Before Albania, we worked on the privatization and revitalization of formerly state-owned enterprises (and, the farms they supported) in Poland and across Central Europe, but that task is largely done there and we are engaging in ever-more challenging situations now. The Albania case is instructive.

During the post-World War II era, Albanian dairy operations were collectivized and severely neglected—and, the collectives were largely destroyed during the transition in the early 1990s. USAID requested Land O'Lakes' assistance to re-organize the dairy production base, which was definitely defined by ultra-low-productivity.

Its initial effort was relatively crude, but engaged more than 8,000 smallholders—both men and women -- in intensive programs of education and outreach. Producers were organized into working associations in 400 group-business units of 15 to 20 families each, which received regular "productivity training" from a team of 20 locally recruited and trained female extension agents. The team, together with local producers, was able to facilitate access to input supplies, breeding and financial services and other inputs.

The program then built on this base to establish service centers around milk collection sites (locally owned and managed) to deliver additional services. Thirty livestock service centers now provide access to, inputs and other supplies (including credit) and information and serve as conduits for product marketing activities. And, a Seal of Quality program is effectively implementing industry-promoted quality standards to help expand domestic markets and compete with imports.

These efforts continue today, with increasingly dramatic sector-wide results. Local livestock producers have become far more cohesive and are generating some of their own investment capital, which is going into better technology to increase efficiency and expand markets—with high returns. It has significantly improved smallholders' business concepts, and their incomes. Land O'Lakes learned very important lessons about designing, packaging and delivering effective development systems.

Development Principles

The foregoing description of the Albanian experience was presented as a demonstration of the capacity of well-designed development programs to increase productivity and market linkages for low-productivity producers. To sustain economic growth, three basic principles deserve special mention, especially in dealing with for low productivity, more isolated producers. These include:

- **Making Small Producers More Commercial.** Land O'Lakes approaches are relentlessly profit-oriented and owned by the small producers they include, and so

are able to be better integrated into commercial sectors. Independent, small producers frequently lack the scale and capacity to control costs or expand markets, but their associations/cooperatives often are able to improve their market position. A variety of methods for improving producers' commercial viability are used—those discussed above, and success in this area has been quite high in a number of environments.

- **Smallholder Services through Associations.** Associations regularly demonstrate their effectiveness in helping producers both improve their efficiency and strengthen their civil society—a characteristic desired by many donors and governments, alike. Still, many associations are formed to operate top-down, dominated by a small elite, and providing minimal services. Land O'Lakes insists on a fundamentally different approach, building on grassroots members' interests, economic incentives, and capacities to create local associations that often coalesce into regional or national associations to pursue producer interests at those levels.

- **Focus on Quality.** Increasingly, development situations include producers with substantial resources but markets limited by the low quality products that are produced. This situation describes a very large share of developing country producers, and is described in greater detail later in this paper.

Competition and Development

A key purpose of this paper is to describe the interactions between competition and development, which begin to become important after basic productivity is strengthened and the worst bottlenecks removed from the marketing chain. And, I want to address the myth that competition necessarily undercuts primitive, low-productivity agricultural systems. Our experience is that fair competition created within developing countries or from imports from abroad can help build markets and promote development, even from very poor communities.

Experience has shown us, through our development programs that trade is singularly important, both for the markets it provides and for the external competition it insures. In general, trade benefits all participants—although not uniformly. It:

- Widens market access and stimulates investment
- Supports increased scale and efficiency of production
- Stimulates specialization and increased productivity
- Provides access to wider variety and lower cost goods for consumers
- Supports higher real income & saving
- Supports better technology
- Attracts more capital (both from domestic and foreign sources
- Increases competition and efficient use of resources.
- Promotes economic growth and development

But, trade reforms mean both winners and losers, and appropriate policies are needed to insure losers receive consideration. As a result, it is essential to work toward more open markets at the same time we work to enhance the resources of low-productivity producers.

Opening Markets

Agriculture remains the most protected sector globally, in part because it was not significantly included in the major trade negotiations since World War II. There have been eight multilateral negotiating rounds during that time, with the first seven almost exclusively focused on non-agricultural markets. The Uruguay Round (1986-94) was the first to specifically include agricultural issues (Table 1).

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Table 1. Trade Negotiating Rounds Since World War II

Year	Name	Coverage	Countries
1947	**Geneva**	Tariffs	12
1949	**Annecy**	Tariffs	13
1951	**Torquay**	Tariffs	38
1956	**Geneva**	Tariffs	26
1960-61	**Geneva (Dillon)**	Tariffs	26
1964-67	**Geneva (Kennedy)**	Tariffs & Anti-dumping	62
1973-79	**Geneva (Tokyo)**	Tariffs, Non-tariff measures, framework agreement	102
1986-94	**Geneva (Uruguay)**	Tariffs, non-tariff measures, rules, services, intellectual property, dispute settlement, textiles, agriculture, creation of WTO	123
2002-2004	**Doha**	All goods and services, tariffs, non-tariff measures, antidumping and subsidies, regional trade agreements, intellectual property, environment, dispute settlement	144

Without going into all of the available evidence, I want to make the point that we have just scratched the surface in our efforts to liberalize trade and that huge barriers remain. The following charts provide examples of producer supports for selected countries, and of the high levels of bound tariffs that remain for most commodities and in most of the world's regions.

OECD estimates Producer Support levels for each member country, including most of the world's major economies. The very high producer supports in key developed countries (Korea, Japan, EU and the United States) can be seen in the following charts. (Chart 1). In addition, Chart 3 indicates the PSE costs of major trading partners.

Chart 1. Producer Support Estimates, Percent, 2002

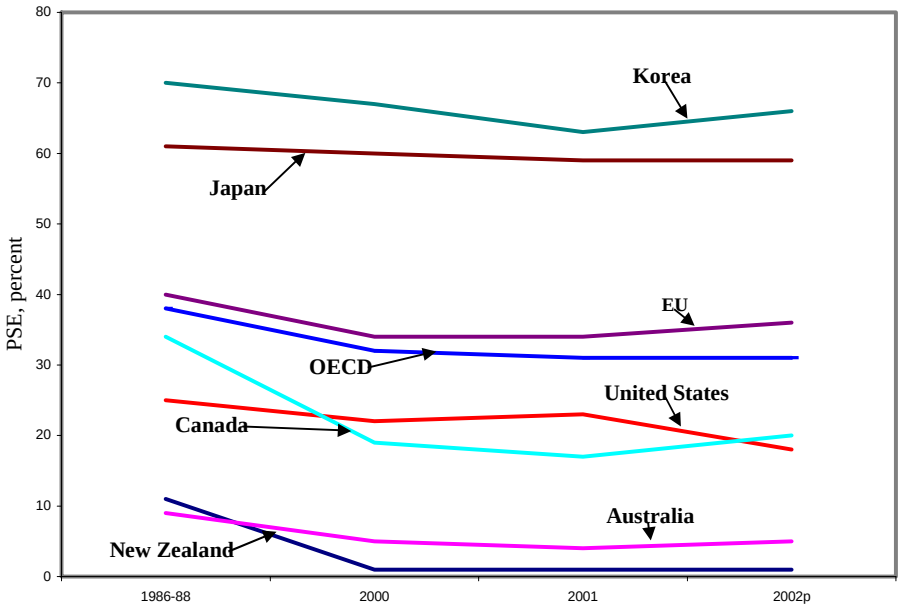
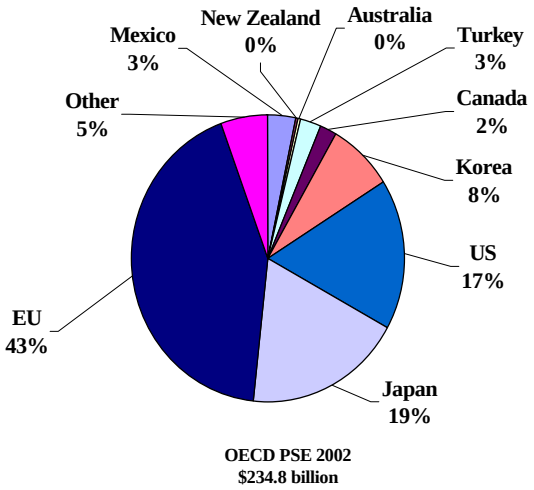


Chart 2. Producer Support Estimates, Dollars, 2002



For most developing countries (India, especially), high tariffs are the principal means of producer protection. In many cases, these are prohibitively high, and are indicated in the following charts by commodity group and region.

Chart 3. WTO Tariff Rates, by Region—Grains

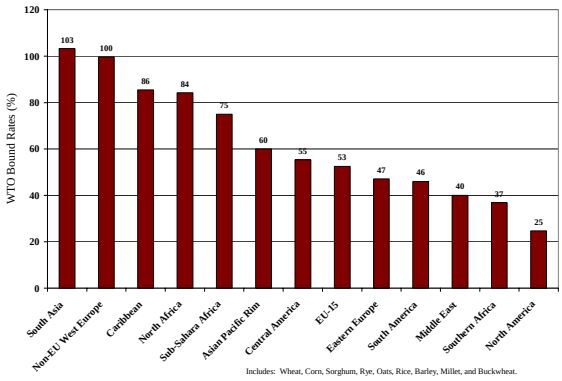


Chart 4. WTO Tariff Rates, by Region—Oilcake

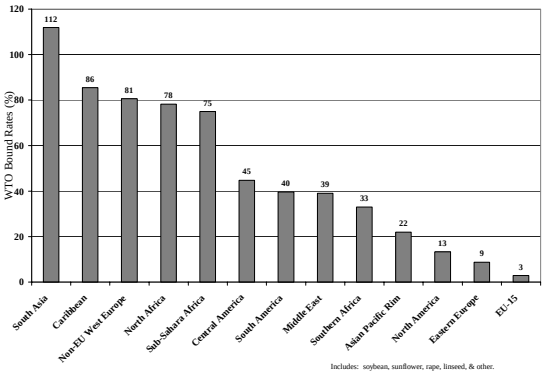


Chart 5. WTO Tariff Rates, by Region—Vegetable Oils

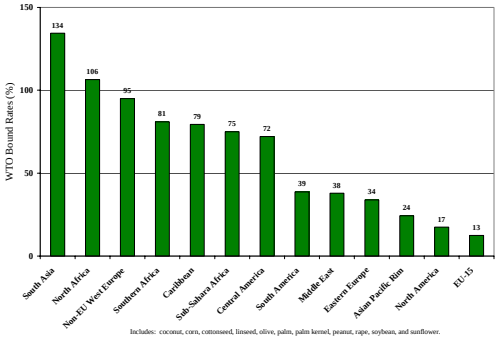


Chart 6 WTO Tariff Rates, by Region—Sweeteners

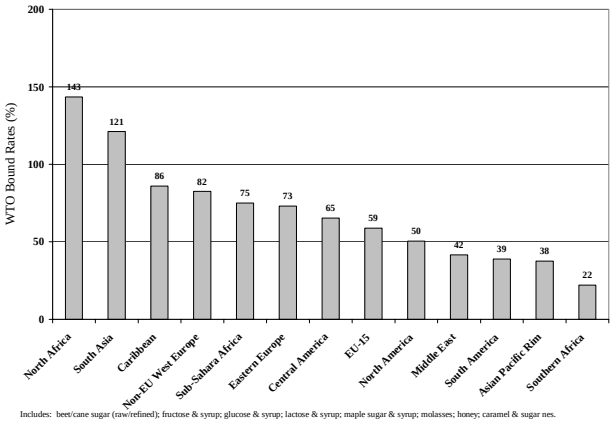


Chart 7. WTO Tariff Rates, by Region—Dairy

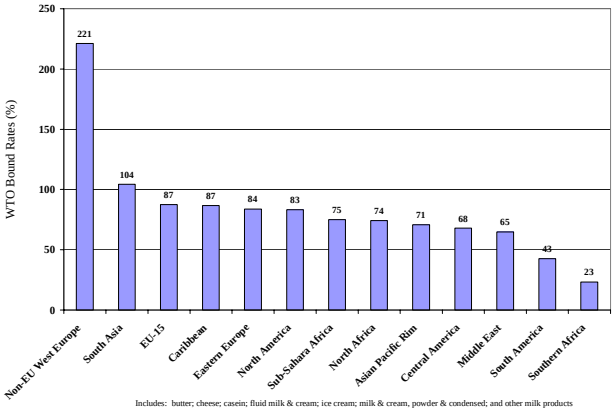
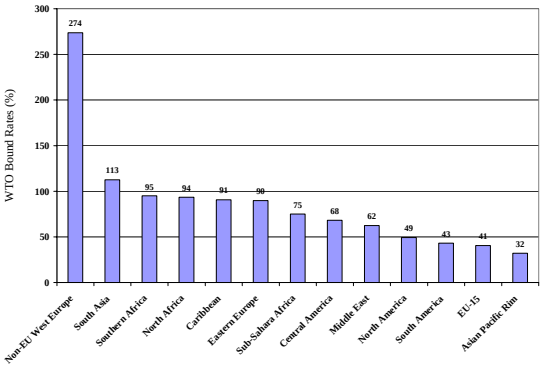


Chart 8. WTO Tariff Rates, by Region, Fresh Beef, Pork or Poultry



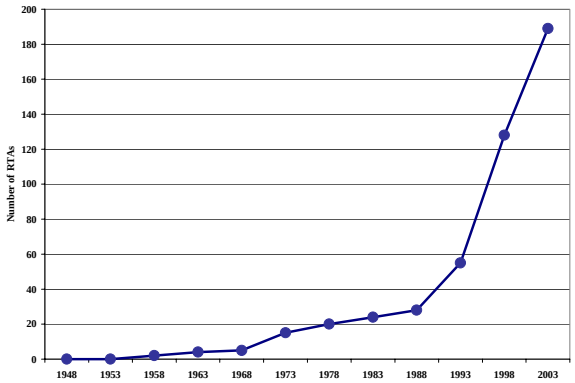
Clearly, import duties—taxes on imports—as heavy as those applied by many US trading partners diminish demand for agricultural products very significantly. And, they discriminate against high value products such as fresh and frozen meats, among others. Agreement to reform and liberalize these trade barriers should be among the highest priorities of the ongoing Doha Round.

Regional and Bi-Lateral Agreements

In an effort to continue to expand markets after progress toward agreement on the Doha trade talks bogged down last September, the administration has increased its focus on regional and bi-lateral free trade agreements—as it said it would from the Round's beginning.

Regional trade agreements (RTA) traditionally were little used, but have become much more important in recent years.[1],[2],[3],[4] By 2003, 187 RTAs were in operation, with most implemented after 1995 (Chart 9).[5] Today, RTAs cover 43% of world trade—a share expected to grow to 55% by 2005 as agreements currently in the pipeline come into force.

Chart 9: Regional Trade Agreements by Date of Implementation



Source: WTO Secretariat

It is difficult to overstate the importance of Regional Trade agreements in today's world (Table 2). For example, the three major trading blocs, the EU-25, NAFTA and MERCOSUR engaged in just over $356 billion in agricultural trade (agricultural, forestry and fisheries) in 2001. The new EU-25 is by far the largest of these, with more than twice the exports reported for NAFTA. And, MERCOSUR is very small by comparison, less than one-fifth the size of the EU and two-

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[1] "Regionalism and the Multilateral Trading System", OECD Policy Brief, August 2003.

[2] RTAs are accepted under the WTO. In general, the WTO mandates each member accord Most Favored Nation (MFN) status to all other WTO members. But the WTO allows an exception for regional trade initiatives that extend different terms of trade to participating countries, as long as an RTA complies with the following two main requirements outlined in the GATT Article XXIV: (1.) the agreement lowers barriers within the regional groups, and (2.) the agreement can't raise trade barriers for non-participating members

[3] A Customs Union is an FTA but all members have a common external tariff against non-member countries.

[4] An FTA removes tariffs against members, but each member keeps its own barriers against non-members. Rules of origin are used to determine which goods qualify for duty-free access within the FTA.

[5] Includes 131 Free Trade Agreements, 17 Preferential Arrangement Agreements, 14 Customs Union Agreements, and 27 Service Agreements. See Appendix A for list of agreements.

fifths the size of NAFTA. And, while NAFTA and MERCOSUR depend primarily on external markets, the EU is primarily an internal trading bloc with nearly 76% of its agricultural trade between member countries.

Table 2. Major Trade Blocks Trade, 2001

	Total	IntraTrade	External	Share % Intra
		bil $		%
EU-25	215.4	161.4	54.0	74.9
NAFTA	102.4	49.0	53.4	47.8
MERCOSUR	38.2	4.6	33.6	12.1

The RTA Thrust

The United States now has six Free Trade Agreement partners mega-partners such as Canada and Mexico, but also Israel, Jordan, Chile, and Singapore. And, it also has a number of other agreements in the pipeline (Table 3). Unlike the EU, the United States will depend on world markets for the bulk of its trade even if it completes all of the agreements now contemplated, about 44% of the US total. Beyond the agreements now on the table, those awaiting consideration also would include modest markets:

- An ASEAN Initiative with ASEAN countries; and
- US--Middle East Free Trade Area that will depend on the development of more stable political conditions in the region, but is contemplated “within the decade”.

Most US RTAs include agricultural trade, and most have exceptions for some products. By 2008, nearly all tariffs for both agriculture and non-agriculture will be eliminated under NAFTA, for example (Table 4). The effective agreements with Chile and Singapore and the recently concluded agreements with Australia, Morocco, and CAFTA countries include extensive agricultural provisions, but offer exceptions for sensitive products such as sugar under CAFTA.

Table 4. US Regional Trade Agreements, and US Exports, 2003

	Ag Prod	Fish Prod	Forest Prod	Total RTA
		bil $		
Signed RTA				
NAFTA	17.2	0.7	2.2	20.1
Israel	0.4	0.0	0.0	0.4
Jordan	0.1	0.0	0.0	0.1
Chile	0.1	0.0	0.0	0.2
Singapore	0.3	0.0	0.0	0.3
Sub	18.1	0.7	2.2	21.1
RTA Negotiated				
CAFTA	1.1	0.0	0.0	1.2
Com Republic	0.4	0.0	0.0	0.5
Australia	0.6	0.0	0.0	0.7
Morocco	0.1	0.0	0.0	0.1
Sub	2.3	0.0	0.1	2.4
RTA Negotiating				
FTAA	21.6	0.7	2.3	24.6
Thailand	0.7	0.0	0.0	0.7
Bahrain	0.0	0.0	0.0	0.0
SACU	0.2	0.0	0.0	0.2
Sub	22.4	0.8	2.4	25.6
Total--Target Countries	24.7	1.5	4.7	30.9
Total US Exports	53.1	3.0	5.0	61.0
		% of US Total Exports		
Signed RTA share	34.2	23.5	44.7	102.4
Negotiated share	4.4	1.1	1.7	7.3
Negotiating share	6.5	2.2	2.7	6.0
Target Country share	45.1	26.8	49.1	44.5

Trade and Developing Countries

The world's developed countries (Europe, Canada, Japan, Australia and the United States) have less than 900 million people and are growing very slowly—below replacement rates, in many cases (Table 5). Nevertheless, they have more than three-quarters of the world's wealth. Developing countries, by contrast, have nearly 80 % of the people but less than one-quarter of the wealth. However, they are growing rapidly—population growth there is nearly three times as fast as in developed countries, and income growth is projected to be nearly twice as fast over the next decade. Both trends emphasize the importance of developing country markets for agricultural producers.

Table 5. World Population and Income, 2003-2013

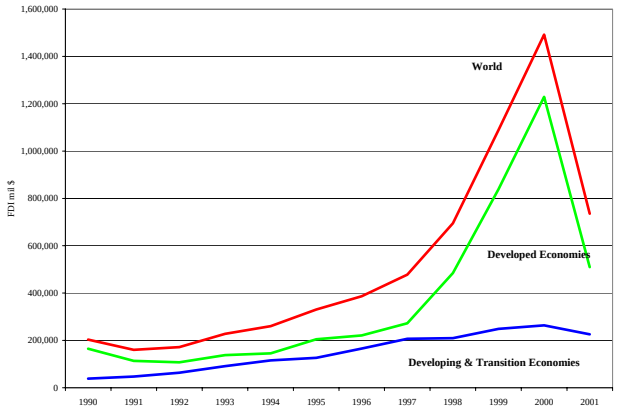
	Population				GDP				
	Number *million* 2003	Share %	Growth % Average Annual 2004-2008	2009-2013	Share 2000 %	Growth 2003 %	Growth % Average Annual 2000-2003	2004-2008	2009-2013
World	6,302	100.0	1.1	1.1	100.0	2.3	2.3	3.3	3.3
Developed Nations	868	13.8	0.5	0.4	75.2	1.8	1.9	2.6	2.6
Transition	411	6.5	0.0	0.1	2.4	4.1	4.4	4.3	4.2
Developing	5,025	79.7	1.3	1.2	22.3	3.6	3.5	5.1	5.0
Asia	3,372	53.5	1.1	1.1	10.8	5.5	5.5	6.0	5.9
China	1,287	20.4	0.6	0.7	3.8	5.6	7.9	7.3	7.0
India	1,050	16.7	1.4	1.3	1.6	5.3	5.0	5.7	5.8
Latin America	546	8.7	1.3	1.1	6.1	2.6	1.4	3.8	4.0
Middle East	257	4.1	1.9	1.8	3.8	-0.4	1.6	4.9	4.0
Africa	850	13.5	2.0	1.7	1.7	3.2	3.3	4.3	4.1

Source: USDA Baseline, February 2004

And, developing countries have turned increasingly to foreign investment to finance economic growth and to provide additional sources of food. As the world has become more interconnected, a number of developing countries have designed their economic policies to promote rapid growth, focusing on export sales to developed country markets and working to attract direct foreign investment on the basis of their rapid economic growth.

The direct foreign investment phenomenon virtually exploded across the world in the late 1990s. During the eleven years 1990-2000, world FDI grew from $203 billion in 1990 to $1.49 trillion in 2000, with most of the growth after the Asian economic crisis in 1997 and 1998 (Chart 10). In general, the world's rapid growth in FDI was driven by developed countries investing in developed countries, although investment in developing countries increased significantly, as well. In 2000, the peak investment year, more than 80% of FDI was in developed countries.

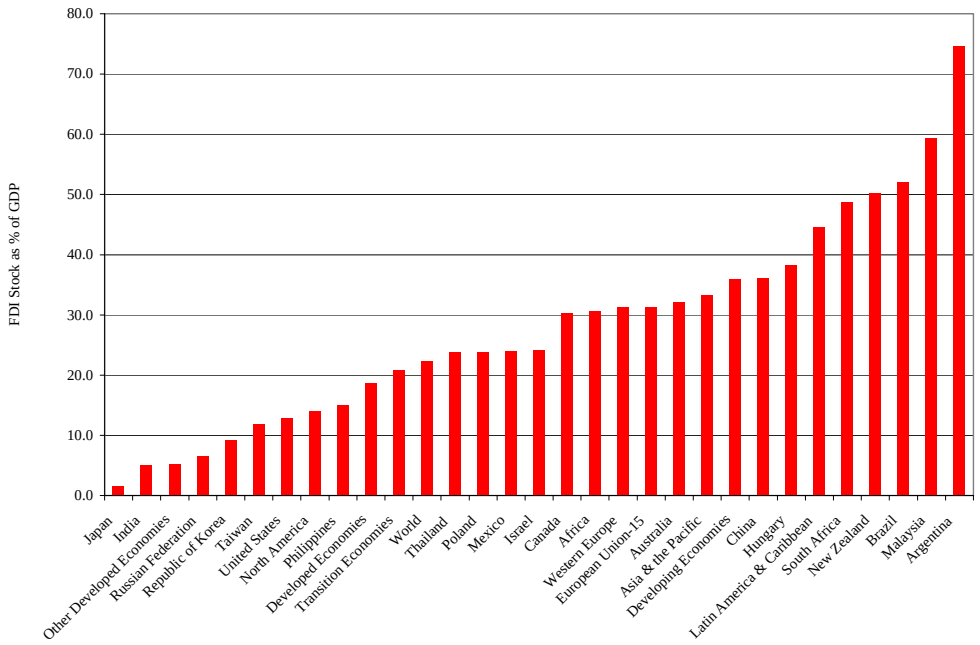
Chart 10 . FDI Flow, Selected Regions, 1990-2001



While the flow of FDI to developed countries is far larger than that to developing countries, the FDI flows are much more important to developing nations. By 2001, the stock of FDI in a

number of countries and regions had become very large; more than 30% in Canada, Western Europe and the EU-15 (Chart 11). For developed countries, the average was just under 20%; for developing countries, it was more than 35%. Japan and India have the lowest FDI among major countries, 1.5% for Japan and 5.1% for India. And, for a number of countries adverse currency trends have both constrained their GDP and inflated the ratio of FDI to GDP, so that Argentina, for example has a stock of FDI that is a very high 74%.

Chart 11. FDI Stock as Share of GDP, 2001, by Country and Region



In general, world population and basic food needs are growing slowly now. While population growth in the early post-World War II period was upwards of 2% annually (and, in Africa and the Middle East is still well above the world average), growth today throughout Asia and Latin America is just over 1%. By contrast, it is the expanding economies, not the growing populations that have become the engine of growth—and, is expected to expand more than 3.5% annually through the coming decade, and to average 5% for the latter part of the period. Such a pace clearly indicates substantial increases in food demand, and in the types of food consumed, as well.

This pattern has been established for some time, and is leading to expectations that in the coming decade, wheat, rice and coarse grain as food consumption per person likely will flatten or even decline, while high value-added foods and feed uses of grain and meal will increase significantly, along with vegetable oils. Economic growth capable of supporting such trends is relatively new, established over the past decade, but appears even stronger in the coming years. Food demand is driven primarily by growth in population and income, although other factors can be important, as well. In addition, changes in income distribution can shift consumption, as well.

Supporting Development in an Economic and Trade Growth Environment

The range of economic and development environments in which Land O'Lakes is active provides a good measure of the varying challenges it faces. And, to promote development in such a wide range of economic conditions requires a range of development tools that are effective in a broad range of economic and social environments, ranging from the most isolated, almost totally non-commercial situations (such as Albania when Land O'Lakes first began work there) to those with substantial existing market linkages but poor current terms of trade because of important bottlenecks (such as Macedonia). Examples of such situations include:

- **Uganda - Value-adding and Consumer Marketing**. In Uganda, Land O'Lakes has successfully organized milk production and processing systems (80 producer cooperatives established), improved quality control practices at the farm- and plant-levels, and new product investment by seven processors. These investments have stimulated growth of per capita consumption (up by 15 percent);

- **Montenegro - Access to Services**. This project created a countrywide network of 33 rural producer associations representing more than 9,000 members. These associations effectively solved feed distribution issues by forming a Producer Trade Association to purchase feed inputs directly from suppliers (sales to members of US$1 million in the first year);

- **Malawi – Productivity through Breeding Services**. In Malawi, Land O'Lakes has assisted more than 18 Milk Bulking Groups to organize and provide productivity training to more than 2,000 dairy producers. In partnership with World Wide Sires, 54 artificial insemination technicians have been trained including nine women that were the first female technicians in Malawi. The technicians have established 15 private profitable AI units; and

- **Macedonia - Quality Control and Market Share Improvement**. In addition to a number of technical assistance projects to improve crop and livestock productivity, especially by the newly private, very small farmers, Land O'Lakes focused heavily on developing and maintaining product quality and value throughout the marketing chain. The Land O'Lakes Macedonia activity (a five-year USAID program) supported dairy and meat processing enterprises, especially, and sheep producers of special "mountain" cheese. The program's quality improvement and brand development strategy effectively developed high quality—comparable with that of imports from western Europe—for Macedonian consumers and encouraged processors to comply with ISO 2001 and HACCP quality standards.

"Seal of Quality" and Competition

There are many reasons why agricultural sectors have trouble taking advantage of the growth opportunities that come from trade reforms, but not all are equally difficult. Some come from profound, continued market isolation—weak market links, or no links at all, and even in such cases, efforts to build cooperative associations to increase productivity, increase marketing efficiency and add value and to shorten marketing chains can enhance producers' incomes.

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However, there are other, very interesting situations that are not well understood and are very common. In many developing countries, there are abundant natural resources and significant currently underutilized facilities, as well as surplus human resources, but where former policy failures have led to a degraded system that is minimal in almost every respect—low industrial capacity utilization, low productivity for farms and livestock, minimal value-added to products, poor product quality, and minimal information from markets and consumers. Often, such markets have been highly protected from international competition, but sometimes imports have captured much of the high-end local market.

For such situations, Land O'Lakes has developed a unique "Seal of Quality" approach to build on its basic productivity enhancement efforts—a concentrated program of technical assistance focused on a few very important bottlenecks in the marketing chain so as to quickly move local producers into more competitive positions in local markets, and, in a few cases, move them effectively into export markets.

Macedonia was our "laboratory" for this concept, and it is still our test situation—but, we are finding at least limited applications in a large number of situations in other countries. The "Seal of Quality" approach is more complex than other important development tools, but it effectively serves as a development link between the efforts focused on the lowest-productivity producers and communities and those with much higher potential productivity, but who are performing badly (and, where competition from imports is large and growing). The SOQ approach can generate very positive impacts all along the food marketing chain from producers and processors to retailers and consumers. It seems to be generally and intuitively understood by producers and processors, who then join cooperatively to impose the standards and build the brands they use to expand markets.

The central characteristic (and much of its power) of this approach is its relentless consumer focus (and, its lack of price domination), recognizing that consumers are universally price sensitive, but value other quality attributes also are important, including food safety, freshness, and taste even above price in some settings.

The "Seal of Quality" symbol is a sort of trademark or brand, awarded exclusively to firms who comply with superior quality standards, measures scientifically and systematically through a transparent process. The Seal, and the process for awarding it, are the property (and under the control) of producers and processors. Through a complex communications development plan, the Seal rather quickly becomes well recognized in the marketplace, and SOQ products increase their market share by filling unmet demand for safe, healthy products that meet superior quality standards, and are independently tested. They also have been able to expand market shares in competition with imports in some cases, and even in a few export markets.

The key variables in this process are related to the existing market constraints—the degree of sophistication and understanding of consumer demand (and market conditions in the target country), the availability of unused production and processing capacity to respond efficiently to market growth and the capacity to control quality through production processes, and the

availability of at least relatively strong commercial protections to permit effective control through the process, etc.

Additional Thoughts about Trade and Development

Trade reforms mainly targeted at policy protections, and their primary objective is to increase the degree of market access and competition across markets as they identify and schedule reductions in policy protections. These benefits are extremely important to economies, but often have little impact on groups that have weak market links and lack capacity to position their operations to take advantage of market growth, especially growth that requires tailored products or services.

And, in developing countries, the numbers that fall into these categories is very large—For example:

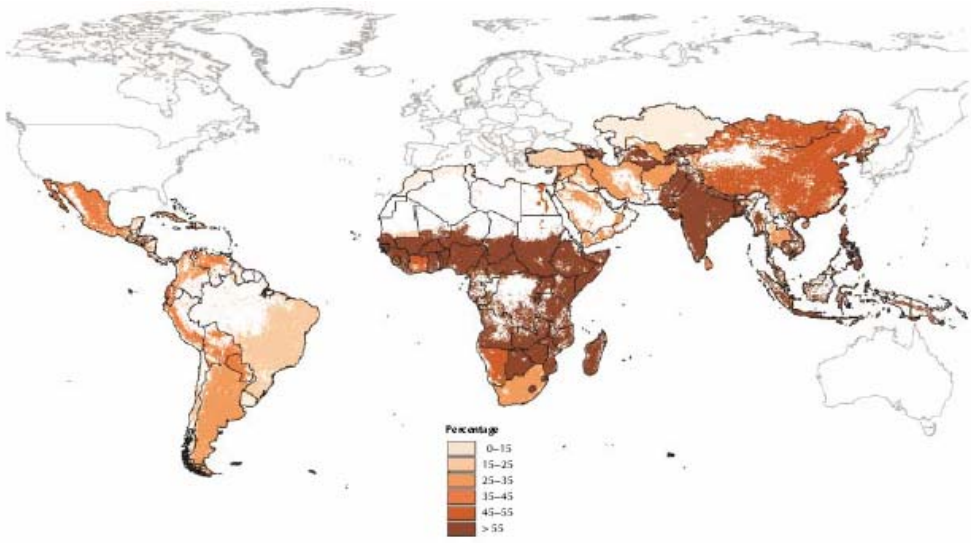
- 1.25 billion people live on less than $1 per day, 70% of those rural;
- most depend on farming, forestry or fishing;
- Of these, 841 million people suffer under-nutrition or hunger--mainly due to lack of resources except in times of war, natural disaster or politically-imposed famine; and
- This poverty also is the result of the lack education, health resources, and economic capital.

And, some 3 billion people (half the global population) live on less than $2 per day. These people and the regions where they are concentrated are Land O'Lakes development targets.

It is important to recognize that trade expansion and economic growth work only slowly to extend development to the fringes of each economy, and cannot quickly overcome low resource values that result from non-economic forces including:

- Economic and political tensions;
- Cultural, racial, and sexual tensions;
- Fundamental lack of resource quality as a result of climate, soils, geology, surface features, latitude, etc.;
- Cultural aversion to resource mobility; and
- Inter-generational commitment to low-return enterprises, including low capital, high labor systems and low or no value-added agriculture. The worst example is slash and burn farming.

Living on $2 or less Each Day



Thus, while freer trade can help deal with a broad range of economic problems, it is also important to recognize competition from any direction is often threatening for low-productivity groups with weak market links. While globalization can bring economies closer together and provide general economic benefits, it has no magic solution for many key economic stress factors. Still, it is important to recognize, as Land O'Lakes does that benefits from trade—larger markets, greater competition, and many more are fundamentally important to development as they are to market expansion—necessary, if not sufficient. Much more direct development support is necessary to help these economies, and organization and support for community based, locally focused and commercially oriented is the most extensively tested development tool in use today.

Closing Observations

Even recognizing the growth constraints described above, well designed development systems have demonstrated capacity to enhance resource values. They can effectively:

- Improve productivity and production;
- Increase incomes;
- Strengthen market linkages; and
- Expand/improve capacity to invest, individual and community wealth.

The Land O'Lakes Approach to The Business of Food, Farming and People is to cooperate to:

- increase farm productivity & efficiency;
- reduce investment constraints—invest and grow;
- add value;
- enhance quality;
- build markets;
- reward stakeholders;

- build practical business solutions;
- Focus on consumers;
- Reward stakeholders; and
- Cooperation=Strength.

And, I want to leave with you some modest observations:

- In general, most, isolated, low-productivity isolated groups are threatened by all development processes, not just trade. At a minimum, they must become more mobile and competitive to have any chance to escape their poverty.
- Trade agreements and trade don't damage isolated producers, but they will build around them to fill markets that could have been supplied by better organized locals. There is no effective shield for local economies from this development pressure. The SOQ program offers an effective approach in at least some such situations.
- Many/most primitive economic systems include high prices. Trade systems will move into such markets, and create still others.
- Sustainable development always involves sound business principles, including, at least:
    - Market orientation;
    - Information systems;
    - Consumer orientation;
    - Competition to improve efficiency;
    - Building/strengthening technology;
    - A strong marketing chain that adds value throughout; and
    - Supportive government policies (investing in human resources, infrastructure, sound macroeconomics, among others).

With regard to the trade-development nexus, trade supports development and is essential for sustained development, in part because:

- Modern agriculture rewards capital much more than labor, and capital based agriculture produces far more than enough to meet family requirements and must be commercial to be sustained;
- Economies of capital investment not just large, they are dominant;
- Labor intensive agriculture insures poverty for most workers, even with extensive protections;
- Land O'Lakes strategy for the longer-term is to help small, poor producers increase value of their resources through technical assistance, stronger market linkages, reinvestment of their own capital and development of new capital sources, and to help them invest in human capital that is mobile. Creating capital in resources and mobilizing resources depend on many of same tools; and
- Trade stimulates change and growth, and helps attract longer-term investment essential to development.

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