APAC Agricultural Policy Analysis Center
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PolicyPennings by Dr. Daryll E. Ray

World Bank studies beginning to acknowledge the elephants in the global living room?

The World Trade Organization Doha Development Round of trade negotiations accepted as part of its agenda the goal of aiding developing countries through trade liberalization-otherwise known as the Doha Development Agenda. A number of studies over the last six years have looked at the impact of trade liberalization on developing countries.

One of the earliest reports, "2003 Global Economic Prospects: Realizing the Development Promise of the Doha Agenda" was put out by the World Bank. In that report the authors suggested that implementation of a "pro-poor scenario" would result in $500 billion in income gain, resulting in lifting 144 million people out of poverty. Of that gain, $358 billion would come from agriculture with over two-thirds of that accruing to developing countries.

Those who raised questions about the agricultural portion of the negotiations were pilloried with accusations of not being concerned about the poor and wanting to consign the 144 million to continued poverty.

We raised questions about the assumptions behind that World Bank study in this column in 2003 and 2004.

Subsequent studies showed ever declining levels of benefits of trade negotiations with some showing benefits more in the range of $100 billion with three-quarters of the benefits accruing to developed countries. Of the benefits projected to go to developing countries, these later studies typically showed lion's share going to Brazil while the poorest of the poor countries in Africa received few to negative benefits.

Even though the Doha negotiations are currently stalled (or dead?), additional studies are being written looking at the role of economic policy and trade negotiations on developing countries.

One of the recent studies is "The Growth Report: Strategies for Sustained Growth and Inclusive Development" (http://www.growthcommission.org/index.php?option=com_content&task=view&id=96&Itemid=169) released by the World Bank on behalf of the Commission on Growth and Development. Michael Spence, recipient of the 2001 Nobel Memorial Prize in Economics, chaired the commission.

The report does not represent a dramatic change in how the World Bank would advise countries on economic policy. Rather, the report could be characterized as incremental in nature. Its analysis provides a more nuanced discussion than is typically found in internally authored World Bank reports.

For example, the report recognizes that development involves more than a one-size-fits-all prescription for development based on trade liberalization, fiscal discipline, privatization, deregulation, and property rights-commonly referred to as the Washington Consensus.

Rather, the Spence Report recognizes that a number of the fastest growing countries in the post-WWII era did not follow the approved prescription. And certainly most did not try to implement all of the policy changes at the same time.

We read the report with an eye on the positions the report took on agricultural policies and their impact on developing countries. One of the issues the report looked at was the current situation of tight grain and oilseed stocks and high prices-a major problem for many consumers in developing countries.

The authors write, "If farmers do eventually produce a much bigger crop, high food prices will subside. But to assume this is a one-time event is probably not a good idea.

"The global system is likely to be vulnerable to such shocks on an ongoing basis. It would therefore be wise to put better systems in place to respond to them…. Reserves and inventories need to be accumulated to relieve temporary shortages, especially since persistent export bans cannot be ruled out. It is more efficient to build these buffer stocks on a multinational basis with suitable assurances of access and availability."

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To us, the most glaring omission in the ongoing "food crisis" discussions is the lack of serious consideration of putting in place a meaningful grain/ food stocks program in the years ahead. In our minds, the establishment of a grain reserve, in addition to enhancing agricultural stability, would go a long way toward preventing a recurrence of the current crisis in the future.

Grain prices will be coming down, perhaps coming down hard in the years ahead. Opportunities to fill such a reserve will occur.

In fact we would suggest the establishment of two reserves-an international humanitarian reserve that could be drawn upon by the World Food Program (WFP), and an international market reserve that would need to be adequately sized to moderate supply and/or demand driven price disturbances.

The International Food Policy Research Institute (IFPRI) has recently suggested the development of "physical and virtual global food reserves to protect the poor and prevent market failure" (http://www.ifpri.org/pubs/bp/bp004.pdf). They start with a modest-sized emergency reserve of 300 million tonnes to be used "exclusively for emergency responses and humanitarian assistance [and]…managed by the World Food Program."

The virtual food reserve would involve estimating "a dynamic price band…based on market fundamentals. If excessive speculation pushed the price above the estimated band a high-level technical commission….would execute a number of silent short sells over a specific period of time…in futures markets around the world at a price lower than the current spot price" in order to bring the price back within the estimated band.

To us, development and use of price bands make a lot of sense, something we have been discussing for many years. However, we have some questions/problems with using a "virtual food reserve" as the mechanism to herd price into the band.

To start with, it sounds both illegal (remember the Hunt brothers and silver) and financially risky for the funding countries. Second this virtual reserve does not make one additional kernel of grain available to the marketplace.

While we disagree with IFPRI's solution to the buffer stock issue, we think the raising of the issue by them and the Spence Report is a positive sign. It also highlights one of the problems with the Doha negotiations.

Nowhere has the Doha negotiators dealt with the need for physical buffer stocks and the attendant policies that make the establishment and management of them possible. In fact they have gone in the opposite direction, marginalizing national policies that would allow for the acquisition and release of buffer stocks.

These policies were originally placed in what was called the "blue box" but in recent years some negotiators have tried to use the blue box as a place to shift some "amber box" payments when they got too large.

Certainly the lack of attention of trade negotiators to issues like food security and the need for policies that will protect farmers on the bottom side and consumers on the high side has contributed to the current impasse.

These "elephants" have always been in the global living room. The food crisis has made them more visible and harder to ignore.

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