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Introduction and overview

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This chapter is divided into two sections. The first introduces the FAO project that contributed to this volume covering the rationale, objectives, implementation and the outputs generated. The second part introduces this volume, focussing on the three synthesis chapters covering the key components of the project.

1. The FAO project on trade policy articulation and mainstreaming

The context in which the FAO project that contributed to this volume of papers was conceived is the emerging environment within which developing countries will be formulating and implementing agricultural trade policies and trade-related support measures (TRSMs). First, trade policy is becoming complex due to multiple and overlapping trade agreements, which include bilateral, regional, preferential and multilateral agreements. Second, global competitive pressures as well as the drive to get the most out of the new trade agreements will draw increasing attention to support measures, notably supply-side capacity-building and infrastructure. One challenge in this regard is to identify and prioritize support measures that are articulated from within development policy frameworks. This includes operationalizing the new global initiative on Aid for Trade (AfT). Third, processes are underway in many countries to integrate or mainstream trade and other policies into national development strategies and plans such as the Poverty Reduction Strategy Papers (PRSPs). The experience to date is that agricultural trade policies and support measures have not been adequately mainstreamed into these processes. Indeed, there is also a lack of clarity with the concept of mainstreaming itself.

Recent evaluations of PRSPs and similar policies and plans have noted that these frameworks need to give much more attention and focus to agriculture in view of the sector's crucial role in economic growth and poverty reduction, greater sensitivity to the implications of trade liberalization, and the relative weaknesses in infrastructures and supply-side capability. It has also been stressed that trade policies are not well mainstreamed into the PRSP, thus resulting in confusing or

contradictory guidance on appropriate trade policies. Attempts to mainstream trade policies in the PRSPs have been ongoing in many developing countries. This process is also important for articulating better approaches to mobilize additional resources promised in the global initiative on AfT.

These topics and issues – appropriate agricultural trade policy, trade support measures, the AfT initiative, and mainstreaming these in the national development framework – are high on the policy agenda of most developing countries. These are also high-profile topics in the global development agenda. There is a high demand for information, analyses and advice on best approaches to undertaking these tasks effectively.

It was in this context that the FAO project was conceived. Its three main objectives were to contribute to: i) the process of articulating appropriate trade policies consistent with overall development objectives; ii) the process of articulating appropriate trade support measures; and iii) better approaches to mainstreaming these policies and support measures into development frameworks.

The approach taken for this work was to analyse how the above processes have proceeded for a sample of countries. Five countries were identified: Bangladesh, Nepal and Sri Lanka in South Asia and Ghana and Tanzania in Africa.

In each case study country, the work comprised of a series of analytical and consultative activities, including an important component on capacity-building and training. The country activities were led by the following national institutions:

- Bangladesh - Bureau of Socioeconomic Research & Training (BSERT), Bangladesh Agricultural University (BAU), Mymensingh.
- Ghana - The Institute of Economic Affairs (IEA), Accra.
- Nepal - Institute for Integrated Development Studies (IIDS), Kathmandu.
- Sri Lanka - Institute of Policy Studies of Sri Lanka (IPS), Colombo.
- Tanzania - Economic Research Bureau (ERB), University of Dar es Salaam, Dar-es-Salaam.

For each case study, a team of analysts was constituted. The project budget envisaged supporting for each case study about 22 person-months of senior researchers and about 10 person-months of assistants. The number of senior analysts who contributed was as follows: Bangladesh - 14 of which 2 were from the government; Ghana – 8 of which 4 from government; Nepal – 9 of which 7 were from the government; Sri Lanka – 10 of which 2 from government; and Tanzania – 11 of which 3 from the government. On the whole for the five case studies together, there were 52 senior researchers of which 18 were from the government. Most of the government officers were from the ministries of agriculture and trade, with others from ministry of finance and planning commissions. In addition, 2 to 3 research assistants worked on each case study.

The analytical work consisted of background studies on the following four inter-related clusters of topics.

1. Analysis of agricultural trade policies and the process of policy formulation.
2. The process of identifying and prioritising TRSMs in agriculture, including agro-industry.
3. The process of mainstreaming trade policies in PRSP and other policy frameworks.
4. Using sound evidence for trade policy formulation, including through stakeholder consultations.

The Terms of Reference (ToR) for the background works were as follows: For (1): review the evolution of agricultural trade policies including prominent alternative views and positions in societies; examine current trade policies from the standpoint of completeness in their coverage of all important issues; and analyse the process of policy articulation. For (2): discuss and define the scope of TRSMs, including the AfT; and review TRSM statistics and policy documents in trade and agriculture with a view to analysing the current process and practice of articulating, identifying and prioritizing TRSMs. For (3): organize expert and stakeholder meetings in order to discuss and define the concept of trade “mainstreaming”; review all important policy documents – notably the PRSP and related policy frameworks (trade, agriculture, food security and industry) – to critically examine consistencies and synergies on key positions in these documents; and suggest approaches for improving trade policy mainstreaming. And for (4): review the current practices on trade policy formulation with a view to understanding the extent to which evidence based on sound economic analyses is generated and used for policy making; review the quality of stakeholder consultations held for this purpose; suggest how these processes can be improved.

Capacity-building and training activities were also integral parts of the Project ToRs. These took various forms. One was through learning by doing – by directly involving government officials in the analytical work, as lead or joint analysts of the various background papers. Eighteen of the 52 senior researchers were government officials actually involved in the processes addressed by the studies. Another mode of capacity-building was brainstorming sessions among the Project analysts and between them and current and past government officials and outside experts. Many such meetings were organized in all case study countries. Then there were wider stakeholder consultations also involving the private sector and CSOs. And finally, there were dissemination training programmes or workshops, such as the four rounds of training programmes in Bangladesh for professors and students from agricultural economics and other related departments in Bangladesh. Some of the collaborating national institutions have indicated that they intend to continue this process using methods and materials developed through the project.

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2. Introduction to this volume

The Project outputs form the basis of this book. For each of the five countries, papers on the following three topics are included:

1. Agricultural trade policy issues.
2. Mainstreaming trade policies.
3. Trade-related support measures.

And for each of the three topics, synthesis chapters have been developed. What follows provides a brief introduction to each of the three synthesis chapters.

Synthesis of country case studies on articulating appropriate agricultural trade policy

Chapter 2 summarizes the findings from the five case studies. Key trade policy issues are synthesized under five themes: i) evolutions in trade policy regimes and aggregate taxation; ii) trade and related policy in support of exportables; iii) trade and related policy in support of food staples; iv) implications of regional trade agreements; and v) link between domestic support and trade policy regimes. In addition to raising a series of issues that need to be considered in the articulation of trade policy regimes and associated policy instruments, the review highlights the importance of balancing the views of different stakeholders and of taking a more holistic value chain approach to policy formulation.

On the first theme, the review finds that although the level of aggregate taxation due to trade and pricing policies has fallen markedly, trade policy is still a critically important instrument in pursuit of goals related to agriculture-based development. On the second theme, the taxation of traditional export crops has been significantly reduced, but supply response has been weak due in large part to the widespread occurrence of market failures and high transaction costs. As regards the third theme, the pursuit of self sufficiency in food staples remains strong, more so following the 2007-08 global food price crisis. But there are some interesting differences in interpretation and viewpoints on this, and the instruments used are often implemented in an *ad hoc* manner, increasing uncertainly for the private sector and undermining the achievement of the objective. The fourth theme illustrates how bilateral and regional trade relationships are exerting crucial influences on the shape of national trade policies, and the fifth theme shows that the effectiveness of trade policy is linked to overcoming behind-the-border constraints.

The third sub-section of Chapter 2 is titled, *articulating appropriate trade policy – issues for consideration*. The discussion is organized under three parts, identified on the basis of the debates and divisiveness of policies in the case studies : i) balancing export promotion and import substitution; ii) facilitating export promotion; and iii) promoting import substitution – when, why and how? On the first point, although many countries have explicit objectives of export-led development, the majority also use trade policy instruments to allow domestic producers some level of support and/or protection against competition from imported products. This has triggered a debate between an extreme form of export-orientation (i.e. no role whatsoever for import protection) versus some role for import protection. It is argued that this is a false choice and that policy packages are likely to include elements of both, with appropriate trade policy regimes taking account of the extent to which the sector produces exportable product, import substitutes and non tradables. This becomes clearer when this discussion incorporates into the analysis the differential needs of trade policy for agriculture at different stages of development.

The third part of this sub-section, *promoting import substitution – when, why and how?*, covers a number of topics being debated currently. These include food self sufficiency – is import substitution feasible? - domestic markets and import substitution, what policy instruments in support of import substitution?, and a link to domestic support. The last section concludes by arguing that structural transformation is a dynamic process and the role of trade policy – especially the instruments used – will need to change. The challenge for policy makers is to lead this process, and not follow. There has been insufficient research into both the policies that may be appropriate at different stages of transformation and the extent to which current, or potential, agreements might constrain their use.

Synthesis of country case studies on mainstreaming trade policies and support measures

Chapter 3 summarizes the synthesis of the five country case studies on the topic of mainstreaming trade policy in the PRSPs. The chapter has three sections. Section 1 notes that there is a considerable amount of confusion in the literature over the concept and meaning of the term “trade mainstreaming” in the context of the PRSPs. This lack of clarity is one reason why PRSP evaluation studies have found that trade mainstreaming has been fairly weak so far. The section reviews some definitions and explains the approach taken in the case studies. Section 2.2 then summarizes some prominent observations in evaluation studies on trade mainstreaming. The weaknesses include: sparse coverage of trade policy issues in the PRSPs; even less coverage for agricultural trade issues despite the importance of the sector for growth and poverty reduction; poor evidence that the PRSPs have considered alternative views and options on trade policy; very weak analysis of trade-poverty linkages; and poor quality of stakeholder consultations. These are some of the issues addressed in the case studies.

Section 3 introduces the five studies. The analytical approach taken in the case studies was to review all relevant policy documents, notably the PRSP and trade and agricultural policies, with a view to identifying synergies/consistencies as well as gaps and contradictions. The case studies show some important differences on the design and content of the PRSPs and other policies. The key issue is mainstreaming. On this, it is noted that of the five cases, Ghana's policy frameworks demonstrate a fairly high degree of consistency on policy positions. This is attributed to a large extent to the focus given in the PRSP to one substantive strategy, "agriculture-led growth", and its coverage in a balanced manner, with parallel strategies of export-led growth on the one hand and domestic market-led industrialization based on import competition on the other. Because of this, trade policy is also consistent with agriculture and agro-industry policies. By contrast, in the countries where the PRSPs, and especially the trade policies, have focussed exclusively on exports and thus are imbalanced, one finds inconsistencies, especially with agriculture and agro-industry policies. One other important finding common to all case studies is inconsistency on the strategy and policies related to the identification and listing of priority products/sub-sectors for special treatment.

Section 4 concludes with some suggestions for improving the process of mainstreaming. Two substantive issues addressed are mainstreaming and trade content in PRSPs. On the former, a sequential approach is suggested for policy formulation. Noting that inconsistencies are largely found where the trade policy itself tries to articulate a more trade-focussed policy position and prioritization of products/sub-sectors, it is suggested that when it comes to formulating such policies for productive sectors (agriculture and agro-industry), the process should begin with the formulation of these sectoral policies and only then should trade policy come into the picture as support to those processes. Inconsistencies are also common when the PRSP itself does not articulate development and trade positions clearly, leaving subsidiary policies to interpret the positions.

The second substantive issue discussed is trade content in a PRSP. The PRSPs differ considerably in terms of the space or wordage devoted to trade issues. But the current weakness, more than the wordage, lies on the quality of the messages given. It is generally agreed that a PRSP should provide clear guidance on trade strategies and policies and leave the details to national trade policy. In order to prevent policy reversals, it is important to explain why certain positions have been taken on divisive policy issues. A PRSP also needs to be balanced in covering the trade support needs of both the exportables and importables. As a minimum, it also needs to be convincing that its positions are based on sound analyses on trade-poverty linkages. Lastly, current PRSPs need considerable improvement on incorporating in national policies the influences of regional policies.

That section also provides some suggestions on three additional cross-cutting issues: improving the process of targeting strategic or priority products/sub-

sectors for special treatment; effective stakeholder consultations for formulating mainstreamed policies; and the need for clarifying terminologies used in various national policy papers.

Synthesis of country case studies on articulating trade-related support measures

Chapter 4 summarizes the findings from the five case studies on articulating TRSMs. It begins by explaining why the case studies chose to use the term TRSM instead of the more popular term AfT. Two reasons are given. One is that the AfT is limited to external funding, while the case studies cover issues that apply to all sources of support (external and internal). The other reason is that the scope of the case studies is all products and sub-sectors, including importables, whereas AfT is often seen as a support to exports only, although this is not clear from the report of the WTO Task Force on AfT. In that report, there are a number of places where it is explicitly said that AfT is for exports. Aside from these points, there is really no difference between the two terms.

Section 3 introduces the five case study chapters. Although they had the same ToR, the individual case studies differ in some respects for reasons such as the availability of statistics on TRSMs, materials for review and analysis, and the outcomes of stakeholder consultations. The fundamental goal is common, which is to review the current *process* of articulating and prioritizing TRSMs. The emphasis is on the process rather than quantification of the flows. Accordingly, the papers make good use of various policy documents for their guidance on TRSMs.

Section 4 synthesizes key suggestions made in the country case studies. These are meant to contribute to improving the current process of articulating TRSMs so that these are adequately mainstreamed within the trade and development policy frameworks. These observations also respond to some of the weaknesses identified in the literature on AfT. The discussion is organized under the following eight points: i) addressing the challenge of mainstreaming TRSMs in the PRSP and other policy frameworks; ii) ensuring that the TRSMs are channelled to both exportables and importables in a balanced manner; iii) the right balance between investment and subsidy; iv) articulating effective “incentives” measures; v) articulating support measures within a value chain framework for a balanced identification of TRSMs; vi) stepping up of bilateral and regional projects and programmes; vii) effective stakeholder consultations for articulating TRSMs; and ix) quantifying TRSMs or AfT for the purpose of prioritization and monitoring progress

On mainstreaming, the key conclusion drawn is that the process of identifying priorities and associated TRSMs should follow a sequence that begins with sectoral policies (e.g. agriculture, agro-industry), based on the guidance from the PRSP itself, and ending with the formulation of support measures in the national trade policy.

The appropriate framework for undertaking this work is product value chain. Noting that trade policies and the DTIS in particular tend to disproportionately focus on exports, and which is not consistent with the PRSPs, it is suggested that the needs of the import-competing agriculture and agro-industry should also be covered by the TRSMs. In addition to these two substantive points, suggestions are also made for striking the right balance between investment and subsidies, and in the choice of various incentive measures for production and trade promotion. A product value chain is again the most appropriate framework for identifying trade-offs and complementarities between different forms of interventions (investments, incentives, etc) for a given goal such reducing marketing cost by a certain percentage. Effective stakeholder consultations at both the macro and micro levels are also essential for articulating balanced TRSMs. Lastly, some suggestions are made on the issue of quantifying TRSMs or AfT for the purpose of TRSM prioritization and monitoring progress.

