Trade Agreements and Economic Development: Some Observations

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INTRODUCTION

This chapter is a brief essay 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 of 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, or place. We do not spend much time evaluating the reasons why a particular approach has worked.

I would argue that our practical approach is the way most development is done – starting in Europe and the US 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 violate that practical approach have led to trivial, or negative results, and continue to do so (e.g., the precautionary Luddism 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 is to 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. 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 the Indian Maiden logo 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. We currently have a number of development experts with substantial experience in development programs worldwide. Our International Development Division dates from 1981, and 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, apply economic discipline to improve and control quality throughout the marketing chain, and 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 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 commodities at every step and convey benefits to all participants along the way. In more primitive systems, the chain often is neither effective nor efficient. Marketing costs can be so large 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. In some situations, the additional amount of value-added is quite significant. With 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 is now 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 completed and we now are engaging in ever more challenging situations. 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. The US Agency for International Development (USAID) requested Land O'Lakes' assistance to reorganize the dairy production base, which was defined by ultra-low productivity.

The initial effort to engage the sector was relatively crude, but involved more than 8,000 smallholders (both men and women) in intensive programs of education and outreach. Producers were organized into working associations of some 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. Instituting a "Seal of Quality" program has effectively implemented 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 a far more cohesive group 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.

Development Principles

The foregoing description of the Albanian experience demonstrates 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 low productivity, and 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 are more easily integrated into commercial sectors. Independent, small producers frequently lack the scale and capacity to control costs or expand markets, but their associations/cooperatives are often able to improve their market positions. A variety of methods for improving producers' commercial viability are used, 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 group, and provide 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 chapter.

Competition and Development

One objective of this chapter is to describe the interactions between competition and development, which become increasingly important once basic productivity is strengthened and the worst bottlenecks are removed from the marketing chain. I want to address the myth that competition undercuts primitive, low-productivity agricultural systems. Our experience is that fair competition created within developing countries or from imports can help build markets and promote development, even in very poor communities.

Our experience has shown that trade is singularly important for the success of development programs, 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 and saving;
- Supports better technology;
- Attracts more capital from domestic and foreign sources;
- Increases competition and efficient use of resources; and
- Promotes economic growth and development.

Trade reforms mean there will be both winners and losers, and appropriate policies are needed to insure that losers' needs receive consideration. As a result, it is essential to work toward more open markets at the same time as 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 early trade negotiations that have been undertaken since World War II. There have been eight

Table 6.1: Trade negotiating rounds since World War II.

Year	Place/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 and 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 the WTO	123
2002-04	Geneva/Doha	All goods and services, tariffs, non-tariff measures, anti-dumping and subsidies, regional trade agreements, intellectual property, environment, dispute settlement	144

Source: WTO.

multilateral negotiating rounds during that time, with the first seven almost exclusively focused on non-agricultural markets. The Uruguay Round (1986 to 1994) was the first to specifically include agricultural issues (Table 6.1).

Without going into all of the 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 figures provide examples of producer supports for selected countries, and of the high levels of bound tariffs that remain for many agrifood commodities in most of the world's regions.

The Organization for Economic Cooperation and Development (OECD) estimates producer support levels for each member country, including most of the world's major economies. The very high producer supports that exist in key developed countries (i.e., Korea, Japan, the EU, and the US) can be seen in Figure 6.1.

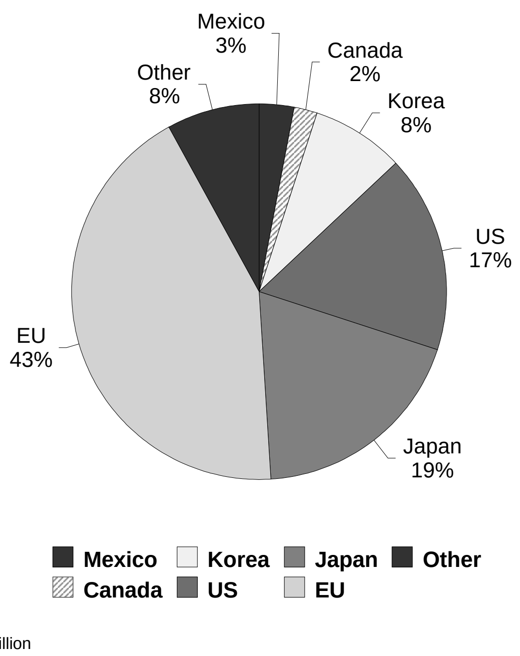
For most developing countries (India, especially), high tariffs are the principal means of producer protection. Table 6.2 presents bound agrifood tariffs by selected commodity and region. In many cases, the tariff rate on specific products is prohibitively high. Clearly, import duties as large as those applied by many countries diminish the demand for agricultural products significantly. In addition, they discriminate against high value products such as fresh and frozen meats, among others. Agreement to

Table 6.2: Average WTO bound tariffs, by region and commodity group.

Region	All Products	Grains	Oilcakes	Oilseed Oils	Fresh Beef, Pork, Poultry	Dairy	Sweeteners
North America	24.5	24.7	13.3	17.5	49.4	83.2	50.4
Central America	54.1	55.3	44.7	72.1	68.2	68.0	65.3
Caribbean	85.7	85.5	85.5	79.3	90.8	86.7	86.0
South America	39.4	46.0	39.7	38.7	43.0	42.6	39.0
EU 15	30.1	52.5	2.9	12.5	40.5	87.5	58.8
Western Europe	103.5	99.7	80.6	94.9	273.7	221.2	82.5
Eastern Europe	49.2	47.1	8.8	33.9	89.9	83.9	73.0
Middle East	48.2	40.0	39.0	37.9	62.4	64.9	41.6
North Africa	71.4	84.2	78.3	106.5	93.5	74.2	143.4
Sub-Saharan Africa	75.0	75.0	75.0	75.0	75.0	75.0	75.0
Southern Africa	39.2	36.8	33.0	81.0	95.0	23.3	22.0
Asia Pacific Rim	34.0	60.0	22.0	24.3	32.1	70.7	37.5
South Asia	113.2	103.3	111.9	134.5	112.7	104.3	121.2

Source: ERSb.
Notes: Averages are computed using the commodity average for each country in a particular region.

Figure 6.1: Share of total OECD producer subsidy equivalent expenditure, 2002.



Source: OECDa.

Table 6.3: Value of Agricultural Exports for Major Trading Blocs, 2001.

Trading Bloc	Total Trade	Intra-Regional Trade	External Trade	Intra-Regional Trade Share
		Billion US$		Percent
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

Source: UN Trade Statistics and US Bureau of Census Statistics.

reform and liberalize these trade barriers should be among the highest priorities of the ongoing Doha Round.

Regional and Bilateral Agreements In an effort to continue to expand markets after progress toward agreement on the Doha trade talks bogged down in September 2003, the US Administration has increased its focus on regional and bilateral free trade agreements as it said it would from the Round's beginning.

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

It is difficult to overstate the importance of RTAs in today's world (Table 6.3). For example, the three major trading blocs, the EU-25, NAFTA and MERCOSUR engaged in just over US$356 billion in agricultural trade (i.e., agriculture, 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. MERCOSUR is very small by comparison, less than one-fifth the size of the EU and two-fifths the size of NAFTA. While NAFTA and MERCOSUR depend primarily on external markets, the EU is primarily an internal trading bloc with nearly 76 percent of its agricultural trade taking place between member countries.

[1] 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.

Table 6.4: US Regional Trade Agreements and US Exports, 2003.

	Agricultural Products	Fishery Products	Forestry Products	Total
		Billion US$		
Signed RTA				
NAFTA	17.2	0.7	2.2	20.1
Israel	0.4	0	0	0.4
Jordan	0.1	0	0	0.1
Chile	0.1	0	0	0.2
Singapore	0.3	0	0	0.3
RTA Negotiated				
CAFTA	1.1	0	0	1.2
Com Republic	0.4	0	0	0.5
Australia	0.6	0	0	0.7
Morocco	0.1	0	0	0.1
RTA Negotiating				
FTAA	21.6	0.7	2.3	24.6
Thailand	0.7	0	0	0.7
Bahrain	0	0	0	0
SACU	0.2	0	0	0.2
Total US Exports to Target Regions	24.7	1.5	4.7	30.9
Total US Exports	53.1	3	5	61
		% of US Total Exports		
Signed RTA share	34.2	23.5	44.7	
Negotiated RTA share	4.4	1.1	1.7	
Negotiating RTA share	6.5	2.2	2.7	
Target Region Share	45.1	26.8	49.1	44.5

Source: US Bureau of Census.

The US now has six Free Trade Agreement partners including mega-partners such as Canada and Mexico, but also Israel, Jordan, Chile, and Singapore. It also has a number of other agreements in the pipeline (Table 6.4). Unlike the EU, the US will depend on world markets for the bulk of its trade even if it completes all of the agreements now contemplated, about 44 percent of the US total. Beyond the agreements now on the table, those awaiting consideration are with smaller markets, including an ASEAN initiative, and the US-Middle East Free Trade Area which depends 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. However, by 2008, nearly all tariffs for both agriculture and non-agricultural commodities will be eliminated under NAFTA, for example. The agreements with Chile and Singapore, and the recently concluded agreements with Australia, Morocco, and Central American countries include extensive agricultural provisions, but offer exceptions for sensitive products such as sugar under the Central America Free Trade Agreement (CAFTA).

Table 6.5: World Population and Income Growth Patterns, 2003-2013.

	Population			GDP			
	Millions of People	Average Annual Growth Rate (%)		Global Share of GDP (%)	Average Annual Growth Rate (%)		
	2003	2004-2008	2009-2013	2000	2000-2003	2004-2008	2009-2013
World	6,302	1.1	1.1	100	2.3	3.3	3.3
Developed Nations	868	0.5	0.4	75.2	1.9	2.6	2.6
Transition Economies	411	0	0.1	2.4	4.4	4.3	4.2
Developing Nations	5,025	1.3	1.2	22.3	3.5	5.1	5
Asia	3,372	1.1	1.1	10.8	5.5	6	5.9
China	1,287	0.6	0.7	3.8	7.9	7.3	7
India	1,050	1.4	1.3	1.6	5	5.7	5.8
Latin America	546	1.3	1.1	6.1	1.4	3.8	4
Middle East	257	1.9	1.8	3.8	1.6	4.9	4
Africa	850	2	1.7	1.7	3.3	4.3	4.1

Source: USDA.

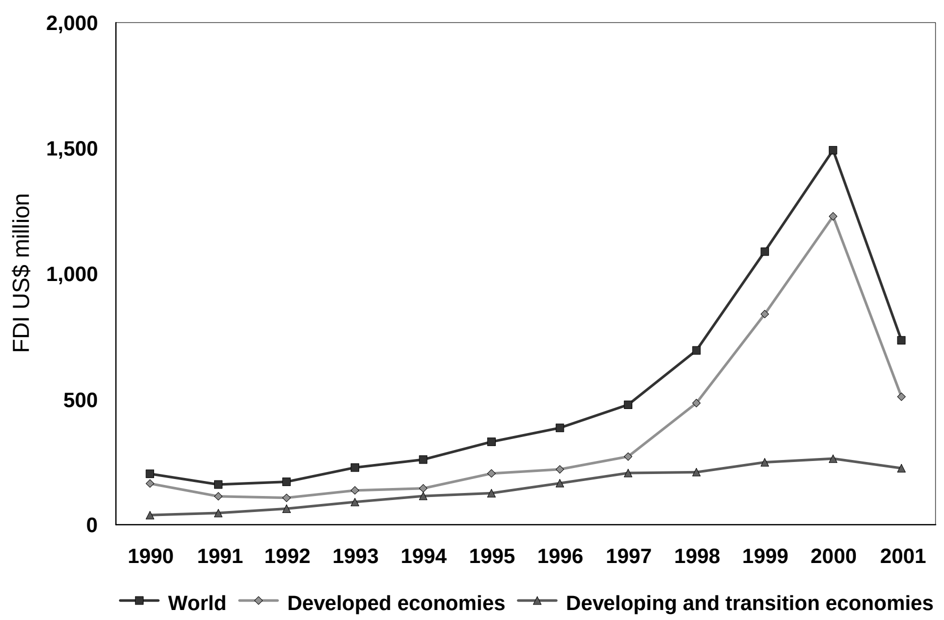
Trade and Developing Countries

The world's developed countries (e.g., Europe, Canada, Japan, Australia, and the US) have less than 900 million people and are growing very slowly – below replacement rates, in many cases (Table 6.5). Nevertheless, they have more than three quarters of the world's wealth. Developing countries, by contrast, have nearly 80 percent 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.

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 (Figure 6.2). During the eleven years 1990 to

Figure 6.2: FDI Flow, Selected Regions, 1990-2001.



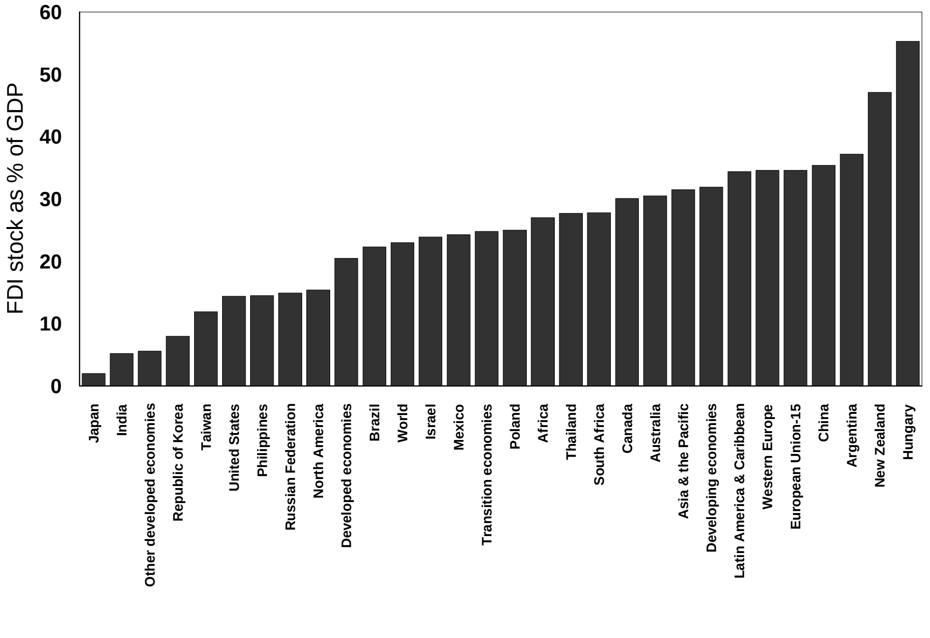
Source: United Nations Conference on Trade and Development.

2000, world FDI grew from US$203 billion to US$1.49 trillion, with most of the growth after the Asian economic crisis in 1997-1998. In general, the world's rapid growth in FDI was driven by developed countries investing in other developed countries, although investment in developing countries increased significantly. In 2000, the peak investment year, more than 80 percent of FDI was in developed countries.

While the flow of FDI to developed countries is far larger than that to developing countries, the FDI flows are important to developing nations. By 2002, the stock of FDI in a number of countries and regions had become very large; more than 30 percent in Canada, Western Europe and the EU-15 (Figure 6.3). For developed countries, the average was just over 20 percent; for developing countries, the average was nearly 32 percent. Japan and India have the lowest FDI among major countries, two percent for Japan and 5.2 percent for India. For a number of countries, adverse currency trends have both constrained their GDP and inflated the ratio of FDI to GDP, so that Malaysia and Hungary, for example have a stock of FDI that is very high, more than 55 percent in relation to GDP.

In general, world population and basic food needs are growing slowly. While population growth in the early post-World War II period was

Figure 6.3: FDI Stock as Share of GDP, Selected Countries and Regions, 2002.



Source: OECDb.

upwards of two percent 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 one percent. As a consequence, it is the expanding economies, and not the growing populations that have become the engine of growth. US Department of Agriculture baseline projections predict that economic growth is expected to expand four to five percent annually through the coming decade (ERSa). 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, food consumption per person of wheat, rice, and coarse grains 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 likely to become much stronger in the future.

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. To promote development in such diverse environments requires a range of development tools that are effective in both 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:

- **Adding Value and Consumer Marketing in Uganda**. 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 overseen new product investment by seven processors. These investments have stimulated growth of per capita consumption (up by 15 percent).
- **Access to Services in Montenegro**. This project created a country-wide 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).
- **Productivity through Breeding Services in Malawi**. 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 who were the first female technicians in Malawi. The technicians have established 15 private profitable artificial insemination units.

- **Quality Control and Market Share Improvement in Macedonia**. 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 products (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. But, even in such cases, efforts to build cooperative associations to increase productivity, increase marketing efficiency, add value, and to shorten marketing chains can enhance producers' incomes.

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. In many such situations, 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.

In such situations, Land O'Lakes has developed a unique "Seal of Quality" (SOQ) approach to build on its basic productivity-enhancement efforts – a concentrated program of technical assistance focused on a few important bottlenecks in the marketing chain in order 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, although we are finding at least limited application in a large number of situations in other countries. The SOQ approach is more complex than other important development tools, but 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 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 of this approach is its relentless consumer focus, and the recognition that consumers are universally price sensitive, but value other quality attributes including food safety, freshness, and taste even above price in some settings.

The SOQ symbol is a trademark or brand, awarded exclusively to firms who comply with superior quality standards, measured 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, 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.

Trade and Rural Development

Land O'Lakes was recently contracted by the Ministry of Agriculture, Livestock and Fisheries (MAEP) in Madagascar to assist in the design of a Master Plan for Rural Development to be led by MAEP. During January 2004, a joint Land O'Lakes/MAEP team conducted on-site field assessments across Madagascar's agriculture, livestock, and traditional fisheries systems. The team identified strengths and existing capacities of the targeted systems that could support additional investment to overcome gaps or weaknesses that now limit profitability and growth throughout the sector. The team applied practical, tested (rather than academic) assessment measures, but included reviews of a large number of existing documents. This practical market and business-oriented process focused on identifying how investments in rural development can best "jump-start" economic growth and generate the greatest, most sustainable return.

Agriculture is especially important in Madagascar, where more than 80 percent of its 16 million people live in rural areas and depend on production of crops, livestock and fishing. A large majority of these people live below the poverty line (with access to less than 2,133 calories daily) and struggle to provide adequate household food supplies. This dependence on subsistence agriculture makes it difficult to create commercially viable agricultural systems and attract investment. Both the farms and the businesses that serve them are fragmented and disorganized. Critical links between production, processing and marketing are weak. Farmers and their groups are constrained by low productivity and lack commercial marketing techniques, business management skills, and a market-orientation. Systems that supply inputs, extension, technical and financial services all are weak.

The team's assessment provided the analytical foundation for a practical, market-driven, business-based "Master Plan for Rural Development" which has been approved by the MAEP to accelerate the growth of the rural economy, and to cut rural poverty in half. The Plan is built around an overarching perspective and action strategy for other efforts and plans already devised and underway. The Plan will not replace programs now in place, but will supplement them with a clearly defined resource management approach. Its purpose is to maximize the market-oriented efforts essential to advance rural development quickly and sustainably. The Plan hopes to accomplish at least two objectives, each critical to agricultural reform: first, to lift 700,000 rural households (3.5 million people) from their current poverty to a food secure environment; and second to engage 350,000 households (1.75 million people) in a more effective, formal, market-based food system where they will be able to double their household revenue (incomes up 100 percent).

Supporting activities also will permit a broad range of important, measurable results by the end of the initial five year plan's implementation:

- Establish or expand 1,000 profitable small, medium, and large agribusinesses, creating 10,000 new opportunities for gainful employment;

- Establish 350 new, profitable cooperatives (17,500 people) and strengthen 500 existing associations (5,000 people) which will give producers more organized, direct access to markets, inputs, and services;
- Attract US$50 million in new capital investment into the domestic food, agriculture and agribusiness systems, thereby achieving sustainability and continued growth well beyond the five year period of this plan;
- Create a Task Force for Extension and Applied Research Excellence to improve the delivery of technical support provided by non-governmental organizations (NGOs) and the private sector to over 500,000 households;
- Implement at least five key policy reforms that will significantly contribute to an enabling environment for rural development; and
- Develop a number of effective partnerships and alliances with NGOs, donors, and the private sector which will leverage at least US$50 million of critical resources and business transactions that contribute to the Master Plan actions.

Efforts under the Plan will build MAEP's capacity to alleviate poverty by expanding markets, creating linkages between farmers and buyers, and improving productivity. This approach will enhance the significant potential of the country's agriculture, livestock and traditional fisheries to generate: 1) increased local food production and sales, and sales of production inputs; 2) profits for emerging agribusinesses; and 3) greater productivity, efficiency, production, and profits for many individual farm families.

The Master Plan is not a *project* but a strategy to better guide development initiatives, allocate resources, promote collaboration driven by market opportunities, make business development sustainable, and increase the profitability of all stakeholders in agriculture, livestock, and traditional fisheries systems.

The core of the five year Master Plan is a series of concrete initiatives that will contribute significantly to efforts to alleviate poverty in rural Madagascar. Its implementation will be mainly the responsibility of the Department of Inter-Regional Rural Development, with supervision and guidance provided by the Secretary General and Minister of MAEP. The plan proposes four principal areas, which are intertwined and mutually supportive:

1) Develop market-driven agriculture, livestock, and traditional fisheries systems. All activities should be oriented to specific, tangible, and reachable markets to convert commodity production

into sales. Physical infrastructure, services and capacity building should enable the flow of product from farm to value-adding enterprises, or an end market. The market linkages for selected commodities, especially perishable products must be strengthened. There should be a major focus on greatly improving the marketing and business acumen of associations and cooperatives. Engaging model farmers and entrepreneurs to share their experiences and lessons learned with others will be an important key to success. Capacity building in marketing, business, cooperatives, and productivity improving skills, plus a shift in mind-set towards self-determination and pro-activeness must be incorporated into all activities supporting rural development;

2) Focus extension and applied research on market-driven approaches, and increase this support. It is critical over the next five years to focus intensively on orienting training, extension, and applied research on clear market opportunities, solid business decision-making, and practical productivity practices so that farmers maximize benefits of clearly identified markets. The establishment of a Task Force for Extension and Applied Research Excellence, led by the Ministry, should bring together a cross-section of members representing models of excellence in extension and research to develop and implement a campaign to significantly augment their competence. Training and extension should be strengthened to include an emphasis on market orientation, business planning, and proven, market-driven productivity practices made available by the Task Force. The private sector will be strongly encouraged to assist in enabling, on a commercial basis, replication and distribution of new varieties and genetics of productive inputs to support the objectives of this initiative;

3) Establish a more enabling environment for rapid and sustainable rural development. The MAEP is responsible for fostering an environment that is conducive to enabling rural development to prosper. A number of key policy steps can break the chain of poverty in Madagascar and set the stage for significant increases in food security, household income, profitable agribusinesses, job creation, and capital investment in the food and agriculture systems. These need to be identified clearly and assigned meaningful priorities. MAEP will seek successful collaboration with other ministries to improve policy initiatives dealing with security, roads, land, rural development, child nutrition, and quality controls to ensure the environment crucial to rural development and poverty reduction is in place; and

4) Create alliances to leverage resources and business opportunities for rural development. The Master Plan recognizes the important role that business and Public-Private Partnerships (PPP) can play in effective rural development. The aim is to ensure both profits

> and broad distribution of benefits so that everyone "wins." Alliances are a means of bringing stakeholders together, through formal or informal methods. They draw upon the contributions that the various parties can make, and are aimed at goals that represent common interests. Alliances for rural development need to be established to mobilize the capabilities and interests of the various stakeholders, in order to seek out and take advantage of market opportunities and more demand-driven production. Actors and interests brought together may include: central and provincial government administrations, private sector entrepreneurs, NGOs and religious groups, civil society, external technical and financial partners, local government organizations and associations, and universities. The PPP approach of the Government of Madagascar places great importance on alliances and collaborations. The MAEP will use this approach to guide resource allocations and collaboration with others. Alliances will create linkages among potential stakeholders, encourage capacity-building, and facilitate match-making for marketing and investment.

The Master Plan for Rural Development defines a workable strategy for use by the Ministry to build internal capacities including marketing, agribusiness and cooperative development, guiding resource allocation, and influencing others to join together in efforts to be more oriented towards market opportunities, sustainable business development, and efficient production of commodities by farmers and farmer groups. Securing collaboration especially with international NGOs, donors, and directly with local and international businesses is a top priority for the Ministry, and is critical to successful dissemination of market-oriented solutions, and enabling of investments to the rural population engaged in agriculture, livestock, and fisheries.

ADDITIONAL THOUGHTS ABOUT TRADE AND DEVELOPMENT

Trade reforms mainly target 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.

In developing countries, the number of people who fall into these categories is very large. For example, 1.25 billion people live on less than US$1 per day, and 70 percent of those are rural with most depending 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, when more are threatened. This poverty also is the result of a lack of education, health resources, and economic capital.

Some 3 billion people (half the global population) live on less than US$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: 1) economic and political tensions; 2) cultural, racial, and sexual tensions; 3) a fundamental lack of resource quality as a result of the existing climate, soils, geology, surface features, and latitude; 4) cultural aversion to resource mobility; and 5) inter-generational commitment to low-return enterprises, including low capital, high labor systems, and low or no value-added agriculture. The worst example of this being slash and burn farming.

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 as fundamentally important to development as they are to market expansion; necessary, if not sufficient conditions. Much more direct development support is necessary to help these economies, and organization and support for community based, locally focused, and commercially oriented ventures are the most extensively tested development tools in use by Land O'Lakes 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 and improve capacity to invest in individual and community wealth.

The Land O'Lakes approach to the business of food, farming, and people is to cooperate to increase farm productivity and efficiency, reduce investment constraints, add value, enhance quality, build markets, reward stakeholders, build practical business solutions, focus on consumers' needs, and reward stakeholders. We know through this process that cooperation equals strength in the market place.

I want to leave with you some observations: First, most isolated, low-productivity 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. Also, 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 local entities. There is no effective shield for local economies from this development pressure but the SOQ program practiced by Land O'Lakes offers an effective approach in at least some such situations. Also I wish to emphasize that trade capacity building of stakeholders is critical. Finally, sustainable rural and agriculture development always involves sound business principles, including market orientation, information systems, consumer orientation, competition to improve efficiency, building or strengthening technology, a strong marketing chain that adds value throughout, and supportive government policies (investing in human resources, infrastructure, and 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 more than enough to meet family requirements and must be commercial to be sustained;
- Economies of capital investment are not just large, they are dominant;
- Labor intensive agriculture insures poverty for most workers, even with extensive protection;
- Land O'Lakes' strategy for the longer-term is to help small, poor producers increase the 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 the same tools; and
- Trade stimulates change and growth, and helps attract the longer-term investment essential to development.

Lastly, I'd like to reiterate the importance of trade capacity building among the targeted population that is being "left behind." Capacity building is not just physical but *human* infrastructure, and to do it well, there must be strong government commitment for change and funding, absolute coordination of foreign assistance focused on mutual strategy and goals, and real engagement of the private sector in efforts to develop the necessary linkages from the farm to the market to ensure economic benefits for all stakeholders of trade.

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