

Agricultural Incentives, Growth and Poverty in Latin America and the Caribbean

William Foster

Alberto Valdés

This study investigates the relationship between trade policy interventions that affect agricultural incentives and their influence on farm sector growth and poverty alleviation. The study places emphasis on Latin America, although much of the analysis will make use of information for several countries, developing and developed, throughout the world. The first question to address is, does the trade regime influence sectoral growth? And if it does so, the second question is, does the trade sectoral growth influence national or rural poverty levels? The analysis focuses on an empirical examination of the relationship between national and sector growth, poverty rates and agricultural protection in Latin America and the Caribbean. The empirical examination takes advantage of cross-country panel data from several sources, covering many developing countries in Africa, Asia and the LAC region. The LAC countries are Argentina, Brazil, Chile, Colombia, Dominican Republic, Ecuador, Mexico, and Nicaragua.

What are the channels by which interventions affect agricultural incentives and thereby impact poverty? Based on previous studies on these issues, we present below a discussion of the conceptual links and a synthesis of the results from the few empirical investigations available. There is a body of literature that links the growth of the agricultural sector to poverty alleviation, especially in rural areas, but there is less evidence for the link between the incentive structures, particularly as determined by trade policy, and agricultural growth.

With regard to the practical quantification of agricultural trade regimes, there have been few analytical efforts to estimate, in a form comparable across countries, policy-induced distortions to incentives in developing countries, including Latin America and the Caribbean. In this present study, we present the historical patterns of agricultural price interventions in various regions, including the eight countries in the LAC region. The quantitative evidence presented regarding the evolution of the level of price-related interventions for exportables, importables and agricultural sectoral averages are based mainly on the recent Anderson and Valdes (2008) study. Special attention is focused on the period 1985 to 2005, but detailed information is also available from previous studies for 1960 to 1985 (Krueger, Schiff and Valdes, 1992) and for 1985 to 1995 (Valdes, 1996). Although the focus of the study will be on the LAC region, econometric analysis will also make use of a broader sample of developing countries. Data are available for eight countries in the region and about 30 non-LAC countries.

One contribution of this study is the pulling together and comparison of data on protection measure from three sources. It is interesting to observe that differing methodologies, although each defensible in practical terms, yield different conclusions with regard to the level of protection given to agriculture. One purpose of this study is to establish a better basis for deriving lessons for future policy development and for offering general implications of pro-growth policy options to governments in Latin America and the Caribbean in their formulation of trade-related strategies. Several countries in the region have much to gain from a more-neutral trade regime, because their agricultural exports are still taxed (e.g., Nicaragua, Dominican Republic and Mexico, during 2000-2004). On the other hand, there are several countries with significant agricultural sectors oriented toward import-competing products, and with high levels of support (e.g., Mexico, Nicaragua, Ecuador, and Colombia). With trade policy adjustments toward a more-neutral trade regime, the consequences for losers raise the importance of complementary social policies (safety nets, training, reducing friction in labor markets). For example, the impact of FTA implementation (e.g., CAFTA) on import-competing sectors (especially small farmers) will have to be addressed by complementary policies to ease the transition of sectors currently enjoying high levels of support.