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Linking Trade and Sustainable Development: Keynote Address

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LINKING TRADE AND SUSTAINABLE DEVELOPMENT: KEYNOTE ADDRESS*

EMMY B. SIMMONS

INTRODUCTION ............................................ 1271
I. NTIA AND COFFEE ....................................... 1275
II. NON-TRADITIONAL AGRICULTURAL EXPORTS AND ADAPTATION ............................................ 1283
III. OIL AND DUTCH DISEASE IN THE MANUFACTURING SECTOR ............................ 1288
CONCLUSION ................................................ 1295
QUESTION AND ANSWER SESSION ......................... 1296

INTRODUCTION

MR. FANDL: Good afternoon. I hope you all are enjoying your lunch and you enjoyed our first two panels this morning. Welcome again, and my name is Kevin Fandl. I am one of the Assistant Coordinators here for this conference today, and I am going to introduce our keynote speaker.

Our keynote speaker was sworn in on April 2nd of 2002 as the Assistant Administrator for Economic Growth, Agriculture and Trade at the United States Agency for International Development ["USAID"]). She is a member of the Senior Foreign Service and has more than thirty years of experience in international agriculture and

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economic development.

She has served as a USAID Deputy Assistant Administrator in the former Bureau for Global Programs, Research and Field Support, where she headed the Center for Economic Growth and Agricultural Development. She was the Senior Program Officer for USAID’s mission in Moscow, where she oversaw an aid portfolio of more than one billion dollars. She has also served in the USAID Regional Office for East and Southern Africa as the Supervisory Program Economist. She has served as a Supervisory Agricultural Officer for Mali and as a Regional Agriculture Advisor for West Africa.

Additionally, our keynote speaker was a Peace Corps volunteer in the Philippines in the 1960's. And she has also held a number of agriculture, research and nutrition positions both in Nigeria and in Liberia. She joined USAID as an Agricultural Economist in 1978.

Our keynote speaker is a graduate of the University of Wisconsin, Milwaukee and holds her Master’s degree in agricultural economics from Cornell University, where she was awarded the prestigious American Association of Agricultural Economics Award for the Best Master’s thesis.

Her speech today will be transcribed, as will other speeches, such as the roundtable, and some papers that were submitted on earlier panels will be published in an upcoming edition of the International Law Review. Subscription sheets are available in your conference packets.

I hope you will all welcome Ms. Emmy B. Simmons, from the United States Agency for International Development as our keynote speaker. Thank you.

MS. SIMMONS: Thank you, Kevin, for that kind introduction. It is such a pleasure and such an honor for the U.S. Agency for International Development to be asked to be represented at this conference.

The issues that you are dealing with on the panels are issues that are very close to the kinds of programs that we are supporting around the world. And I hope my little talk today will illustrate some of the ways in which the concepts of intellectual property rights, the concepts of law, are being integrated into our programs around the world, because these are certainly issues that I think about, work
with, and try to ensure that aid is addressing appropriately on a daily basis.

I would also like to introduce my colleague, Ann Simmons Benton, who is sitting in the front row here, who is a lawyer who worked with me in Russia and is currently serving on our Trade and Investment staff in Washington. Right now, one of our initiatives is supporting the bilateral free trade negotiations that are going on with Central America, with Morocco and with the Southern Africa Customs Union, and we will be taking off on Sunday for Central America to provide some support there.

Of the more than eighty countries in which USAID works,1 approximately one-third of these countries earn more than fifty percent of their foreign exchange through the exports of primary commodities. The approximately $60 billion dollars that they earn each year from these exports are clearly important as a source of national and personal incomes in these countries. But this dependence, more than fifty percent on primary, unprocessed commodities, also signal these economies' vulnerability to price shifts and external market factors.

Our experience in USAID tells us that without greater movement to the export process in manufactured commodities as well as services, countries are not going to be moving up the income ladder very soon or integrating themselves more fully into the global economy. So with the continued reliance on primary commodity exports, they are looking forward, in fact, to a bleak future, occupying an increasingly non-competitive position in world markets, and are likely to have poor prospects for long-term growth.

USAID has recently articulated its strategy for building trade capacity in the developing world, and I am pleased to say that we have managed to skim off the top of the press run fifty copies of our newly published trade strategy. This is literally hot off the press thanks to Ann's work with the printer.

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The copies are on the table outside, and you are free to grab one. And if you get there too late, because we only got fifty, please contact me or contact Kevin and I am sure we will be able to follow up with you.

The United States Agency for International Development is, among all bilateral donors, the one providing the greatest volume of support to this goal. In the last four years alone, we have programmed more than $1.5 billion of your U.S. taxpayer money towards strengthening the ability of our partner countries to do three things.2

First, to join the [World Trade Organization] ("WTO") and to participate actively in the WTO negotiating processes.3 Secondly, to comply with the WTO requirements in the way that they conduct trade.4 And, thirdly, and most importantly—and this is where the bulk of our assistance at USAID goes—to help them position their economies, both in the private and in the public sectors, to respond to the opportunities and challenges that world markets offer to them.5

Overall, the U.S. government, with other agencies, as well as USAID, provides almost forty percent of all worldwide assistance for trade capacity building.6 USAID provides about seventy percent of the U.S. Government total,7 but still more assistance is needed for the


4. See id. (stating the second goal associated with USAID’s trade strategy).

5. See id. (discussing the USAID strategy for aiding countries release economic potential in the world market place).

6. See Trade Capacity, supra note 2 (stating that the United States is the largest provider of trade capacity building assistance in the world).

7. See id. (showing the amount of money the United States has contributed to the trade capacity building assistance and the amount of that money which has come from USAID).
poorest countries, the forty-nine least developed countries, to begin to participate actively and successfully in global markets.\textsuperscript{8} The decade of the Nineties was not kind to the least developed countries. They, in fact, lost market share and they lost export income.

I would like to share with you at this keynote address time three stories that illustrate how USAID works with commodity producers and countries that are reliant—and I would say overly reliant—on the export of a single dominant commodity. So I am going to tell three stories. The first story is the coffee story. The second story broadens the scope to what are called “non-traditional agriculture exports,” or as we in the bureaucracy like to call them, “NTAE’s.” And the third plot deals with oil.

\section*{II. NTIA AND COFFEE}

So let me start with coffee. In the last decade, the decade of the Nineties, developing countries exported, marketed about five million tons of coffee each year.\textsuperscript{9} And in 2002, inflation adjusted coffee prices plummeted to a 100 year low. The effects were particularly hard felt in Central America. Producing countries in this region lost, between 2000 and 2002, over $1 billion in expected export earnings.\textsuperscript{10} This affected the employment of hundreds of thousands of people involved in both the production side, as well as the processing.\textsuperscript{11} Across the Americas, in Africa and in Asia, both large

\begin{itemize}
  \item \textsuperscript{8} See \textit{Capacity Strategy}, supra note 3 (noting how the forty-nine least developed countries account for just two percent of the developing countries exports and 0.5 percent of global exports).
  \item \textsuperscript{9} See \textit{Coffee—The Money is Spinning Seed}, Economy \& Business News (explaining the importance of the coffee in the world market and charting its growth through the 1980s and 1990s), \textit{at http://www.omodunbi.com/SOURCE/Busnews.html} (last visited June 22, 2003).
  \item \textsuperscript{11} See United States Agency for International Development, \textit{Coffee Price Crisis Response} (Draft, Jan. 31, 2002) [hereafter Response] (noting how the coffee crisis affected the workers in developing countries), \textit{at
and small scale coffee growers were unable to cover their cost of production. 12

While the situation has been called a crisis, and there have even been articles in the Washington Post about the Guatemalan coffee farmers, for example, to us, the changes in the coffee market appear to be structural in nature, and there is little hope, in our view, for price recovery in the near term. A number of factors have come into play: shifts in production locations and technologies, the introduction of new processing technologies, and stagnant demand. This is the real life of coffee.

Coffee is a perennial crop and it requires three to four years to come into full production, so the decision making context for coffee is actually a multi-year context that requires a certain amount of forethought. 13 There are two basic types of coffee, you all know it. I am sure most of you are coffee drinkers, robusta and arabica. The robustas command a lower price as the plants are more prolific and the quality is lower. 14 The arabicas are higher quality, priced higher and more scarce. 15 Guess what you drink in Starbucks: arabicas.

It is estimated that about 125 million people in the developing countries depend directly on coffee enterprises for their livelihoods. 16 That is what, half of the population, less than half the population, of the United States? While plantation coffee still dominates some parts of Latin America, most coffee farmers worldwide are rural small holders who work less than ten hectares of land. They often live in isolated rural areas. They farm on steep hillsides because coffee quality is improved the higher you go. Coffee producers or workers


12. See Press Release Response, supra note 10 (listing the developing countries that were affected by the coffee crisis).

13. See Response, supra note 11 (discussing the planting and maturing process for coffee plants).

14. See id. (explaining the difference between Arabica coffee and Robusta coffee).

15. See id. (stating why Arabicas are the better quality coffee bean).

16. See Press Release Response, supra note 10 (stating relevant coffee facts, including that coffee is a $10 billion industry employing over twenty-five million people worldwide).
often have few other economic options and they rely heavily on the coffee revenue to pay for critical needs: health care, food, [and] school fees.

But the current chapter of the story, the plummeting to low prices story, starts in 1995 with a frost in Brazil. This frost reduced global coffee stocks and it temporarily buoyed coffee prices. Even though it is three to four years, people had the feeling that this blip in coffee prices was going to last, and they increased planting and they undertook other measures to increase production in their nations.

In Vietnam, coffee production soared by 1,400 percent. It catapulted Vietnam as a nation from a minor player in the world coffee market to the position of the number two coffee producer in the world by the end of the nineties.

Simultaneously, recovery from the ‘95 frost, combined with policy and technology changes, led to expanded coffee planting in Brazil itself. So, by 2002, greater Brazilian production began to reach the market. Brazil and Vietnam now dominate the market because of their ability to produce large quantities of coffee at very low cost.

Innovations in processing and other technologies have also transformed the coffee industry, and this is why we are talking about a structural shift. The advent of steam processing allows roasters to

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18. See Response, supra note 11 (explaining some of the reasons for the glut in coffee prices).


21. See Response, supra note 11 (noting that Brazil and Vietnam are the largest producers of coffee and therefore they have the ability to set the market price for coffee very low).
moderate the bitterness of robusta coffee. Higher proportion of robusta beans can be blended without negatively affecting taste, and thereby reduces dependence on the more expensive arabica beans.

Changes in the processing sector also affected the industry as a whole. Roasters began to work with smaller stocks and they became more agile with short-term shifts between coffee types, increasing the volatility of prices even more. The Nineties also saw a shortening of the supply chain and consolidation of the coffee market to a few major traders.22

Finally, despite vibrant growth in the special coffee arena, the specialty coffees being Starbucks and—what do you call it—Seattle’s Best and that sort of thing, overall demand for coffee remained stagnant. Inventories were accumulated in both producing and consuming countries, and in 2002, coffee production exceeded consumption by about ten million bags, a half a million tons.23 That is a lot of coffee. Current USDA projections forecast a record global coffee harvest for this season, 2002-2003, and this will further widen the gap between demand and supply.

So where are we? Many coffee growers have very limited understanding of the global coffee market and they base their production plans, that three to four year plan, as well as the technology to invest in fertilizer, to undertake weeding and that sort of thing, on information that is communicated by the local coffee buyer with whom they have a personal relationship. Many farmers do not realize that they could receive a much higher return on their effort if their coffee met certain quality requirements or consumer preferences that were valued at the other end of the supply chain—here in Washington, D.C.

As price takers, therefore, most coffee farmers’ livelihoods are highly vulnerable to price declines such as those we have seen in the

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22. See id. (remarking how mid-sized traders of coffee suffered huge losses in the coffee crisis resulting in market concentration in the hands of a few larger traders and roasters).

last couple of years. Oxfam has documented some of the devastating effects in coffee growing communities around the world.

In Uganda, children are dropping out of school when their families, without a coffee harvest, can no longer pay school fees. In Ethiopia, falling coffee exports are affecting the government’s ability to address the HIV-AIDS crisis which is growing in that country. In Peru, Colombia and Brazil and Bolivia—sorry, not Brazil. In Bolivia, record low coffee prices are increasing the attraction of coca production and threatening years of investment in coca substitution programs.

Coffee producing countries have also been affected by the loss of foreign exchange from coffee revenues. Between 2001 and 2002, Central American countries lost forty-four percent of their coffee export revenues. Imagine if the U.S. export earnings this year dropped by forty-four percent.

Some compare the economic impact of the coffee crisis in Central America with the devastation and loss brought by Hurricane Mitch. Ethiopian coffee exports, to put a number on the data that I mentioned before, dropped from 257 million in 1999-2000 to 149 million in 2000-2001. That is $110 million of income not received. Decreased exports negatively impact balance of payments, threaten the financial sector, and weaken the overall economy in countries that are heavily relied on coffee exports.

So what do we do? USAID; your representative in the development arena abroad. We support coffee activities in over twenty-five countries in Latin America, the Caribbean, Africa, and

24. See Oxfam, Education Charges a Tax on Human Development (stating that the collapse of the international coffee prices mean that the cost of education is too great for many families to meet in northern Tanzania), at http://www.oxfam.org/eng/pdfs/pp011112_Education_changes.pdf (last visited June 24, 2003).


26. See Response, supra note 11 (stating that Central American countries have witnessed a drop in revenue from coffee exports of $1 billion over the past two years).
Asia, and we have a two-fold approach. First, we try to help non-competitive farmers move out of the coffee sector.\textsuperscript{27} Second, we try to work with competitive farmers to improve the quality and marketing of their coffee to ensure that they capture the highest possible price for their product.\textsuperscript{28}

But given the structural changes within the coffee sector, it is clear that a large number of farmers are never, never going to be able to effectively compete in the transformed market. So we have to undertake education of new farmers about the new reality of the market, and at the same time, work with them to identify other crops, other opportunities that will bring them a higher income. New projects are being implemented that specifically target rural diversification, moving farmers away from coffee production.

In Central America, in Mexico alone, USAID is investing $30 million to promote new opportunities for trade, investment, and rural economic prosperity by promoting agricultural diversification and off-farm employment for the region’s poorest inhabitants. I had the good fortune to be in Guatemala about three weeks ago and visited with a number of the farmers’ cooperatives and the agribusiness companies that are promoting exports of sugar peas, snow peas, zucchini—one other product—eggplant, I think, was coming down the line, and that is part of this diversification effort.

A significant number of coffee farmers will, however, be able to compete in the sector. And so we are supporting those small and medium producers to improve their coffee quality and their marketing by facilitating the formation of new business linkages and securing long-term contracts with the specialty coffee industry.\textsuperscript{29}

\textsuperscript{27} See id. (announcing the objectives of USAID’s proposed coffee strategy).

\textsuperscript{28} See id. (explaining how USAID wants to improve the competitive situation by strengthening the supply chain for coffee production).

We are teaching farmers how to properly process and grade their coffee to ensure that beans retain their high quality characteristics, establishing coffee labs, and training local cuppers to identify taste characteristics that will attract premium prices from foreign buyers.

How many of you have ever tasted Nescafe, the freeze-dried Nescafe that comes in little cartons? In many coffee producing countries, that is the only coffee the coffee producers have ever tasted. They have never tasted a latte at Starbucks. So Appalachian systems, such as those used for French wines, are being established so that coffees from distinct geographic areas can be tracked and marketed in much the same way as fine wines.30

Finally, new market information systems are providing local producers with critical information on coffee pricing. In Rwanda, USAID helped a coffee cooperative improve their processing to produce a high-quality bean and establish purchasing agreements with community coffee and union coffee, two gourmet roasters based in the [United States] and the [United Kingdom]. The 250 Rwandan families that now produce Maraba Brubil coffee have tripled the price that they receive for their coffee.31 Imagine what this does for their family income. At the same time, gourmet coffee drinkers in North America and Europe have the satisfaction of knowing that they are supporting Rwandan coffee families, because it is branded, through their purchasing decisions.

Increasingly, USAID is partnering with the private sector and foundations, in addition to working with its more traditional development partners. These new partnerships are called “alliances” or “development alliances,” and they bring resources and the knowledge of all partners to bear in addressing issues of common interest. Several coffee alliances have formed in reaction to the coffee crisis, and we have already, at USAID, signed memoranda of understanding with Green Mountain Coffee Roasters and the


31. See id. (noting how USAID is working to ensure market access and high quality of “Maraba Blue” coffee in Rwanda).
Neuman Caf, Groupa (phonetic) in Germany to explore common activities within the sector.32

We have also established a Coffee Corps and partnership with the Coffee Quality Institute ("CQI") and intend to recruit highly-qualified professionals from within the industry who will act as volunteers, volunteering their time and their expertise to assist coffee producers in cooperatives in this arena.33 They will provide a range of technical support and, hopefully, boost specialization and sales of the high value coffee market.

USAID bilateral missions in these countries around the world, and especially the twenty-five in which we have coffee activity, are also pursuing local development alliances. And in Mexico, for example, Starbucks, which you all know, and the NGO Conservation International and USAID are working together to promote environmentally friendly shade coffee and provide farmers the technical assistance and credit they need to make it work.34

In Nepal, we are working with Winrock International, as well as the Nepal Highland Coffee Promotion Company, a local producers' association and a major European coffee buyer, to improve their quality processing and marketing opportunities.35


33. See Coffee Corps Press Release, supra note 1 (announcing the partnership between Coffee Quality Institute and USAID to form this new volunteer program to help developing countries with their coffee production).


So the coffee story is a story of transformation. It is a story in which it is not all win; some people are going to lose. And we are working with the losers, those who are likely to lose as the structural shift takes place, as well as enabling those that we feel can be winners to really secure their place in that contest.

But let me turn to another story, also in agriculture, but a lot more complicated, the NTAE, non-traditional agricultural export story.

III. NON-TRADITIONAL AGRICULTURAL EXPORTS AND ADAPTATION

The coffee story, as I have implied, is concentrated in a relatively small number of producing countries, but the ability of many developing countries to generate rapid economic growth, create jobs, and reduce poverty depends heavily on the competitiveness of their agricultural sectors. It is still where seventy to eighty percent of the people work, at least part-time, and it is an area in which they have the most natural resources.

But, the subsistence farm that many people think of as characteristic of developing country agriculture is not a competitive enterprise for a globalized world. So for countries to build a competitive agricultural sector, farms need to be transformed as well.

Farms need to move toward being more efficient, to being more specialized in the production of commodities suited either to mass markets, and, thus, produced at a low cost: corn, rice, or to niche markets where cost may be less important than quality or other characteristics, somewhat like the specialty coffee. The horticultural markets, fruits, vegetables, flowers and nuts, have been documented in many, many analyses as the fastest growing segments of the economy for many developing countries, especially in Latin America and Africa.

The ability to sell high valued products into both local urban markets and into industrialized countries, the U.S. $13 trillion economy, is one that many USAID partner countries are looking to acquire. But, developing countries often require multi-faceted

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36. See CIA, World Factbook 2002 (stating that the since 2001, United States has maintained an economy of over $10 trillion), available at
assistance if they are to be able to tap these more lucrative niche product markets. That means helping farmers and agribusinesses understand government and consumer driven quality requirements.

They need to understand how markets operate, what the legislative and regulatory environments are like, and sometimes the idea of business clusters, a concept that has been introduced by Michael Porter at Harvard Business School, which is increasingly being applied, as you will hear. Emerging food retail trends also mean that industrial country food safety, variety, and competitiveness standards are being brought closer and closer to the small farm gate by supermarket expansion.

But let me tell you a story of one specific niche market product, strawberries. In Morocco, strawberries are a crop that is produced under irrigation and exported to Europe. A study that was undertaken in 1993 showed that Morocco had a comparative advantage in strawberry production and export to the European markets.37

Unfortunately, poor product quality, overly expensive planting material, constrained export profitability and growth, and the farmers were having a hard time making it. So, analysis was done. The problem laid with planting material quality, the plants that actually produce the strawberries.

The Spanish suppliers who provided the planting material refused to pay royalties to improved plant variety protection patent holders. You all know about plant variety protection, right? Intellectual property that is claimed by folks who do the breeding of different new crop varieties.

As a result, the Spanish input suppliers provided Moroccan producers with second quality stock. The technical assistance that had been supported by USAID, consulting with the farmers, talking


37. See Omar Aloui, UNCTAD, Performance in the Agro-Exports’ Sector: Tomatoes and Strawberries in Morocco 24 (stating that Morocco has a very strong position in the strawberry market because it has a large comparative advantage in this area), available at http://r0.unctad.org/infocomm/Diversification/nariobi/morocco.pdf (last visited June 24, 2003).
with the input suppliers, discovered this aversion to risking or paying
the royalties for plant variety protection.

So they put Moroccan producer and export associations in the
agricultural ministry staff into contact with high quality plant
material suppliers in California and Florida. After developing
commercial planting material import agreements, USAID Technical
Assistance developed pre-shipment quality control procedures and
lined up export financing for the U.S. suppliers.

The first shipment of 5 million strawberry plants arrived with near
100 percent survival, and Morocco was on its way to increasing
production and improving quality. Additional USAID-supplied
marketing assistance identified seven new European fresh strawberry
outlets. Improved quality and productivity advanced varietal access
and marketing assistance moved Morocco from next to zero export
market share to major player status in the European fresh strawberry
market.

So fresh strawberries from Morocco are produced from late
October to November through early March, and they hit Europe’s
high value, fresh product winter window perfectly. So is it a great
story? Is everybody a winner? Yeah, but only fifty to sixty percent of
Morocco’s fresh strawberries were suitable for export. So what do
you do with the other forty to fifty percent?

Firms and farms did exactly what you would expect, that in order
to manage that excess supply that they could not export fresh, they
began to figure out how to do frozen strawberries, and they began to
export frozen strawberries and to increase sales in the local market.
Frozen strawberry sales have actually increased as production has
increased, but a new problem quickly cropped up.

Quality inspection requirements at the processing plant and
customs inspection at the port slowed export flow and hurt quality.
Think about it: Frozen strawberries stopped twice for inspection.
Morocco is a warm country. They thawed. They froze. They thawed.
They froze. They were not terrific.

The port had no freezer inspection capacity, so USAID Technical
Assistance suggested, again, successfully, that multiple inspections
be combined at the freezer plant packing stations, and that the
inspected product be sealed for export, thereby avoiding the damage
caused by opening containers, defrosting the strawberries and
refreezing them. A technical fix, an organizational fix, an institutional fix.

But there were other fixes that needed to be made by the government of Morocco for the strawberries story to be a real and lasting success, because the lack of improved planting material demonstrated that Morocco's lack of plant variety protection laws put Morocco four to seven years behind major European and southern hemisphere strawberry and fruit tree competitors. So to enable Moroccan producers to access the improved California and Florida planting material, the government needed to pass plant variety protection legislation.

Parliament passed this legislation unanimously. More importantly, the legislation was implemented and it set the stage for the U.S.-Morocco joint nursery production venture in the Atlas Mountains and consistent supplies of high quality planting material for farmers.

The food inspection process developed for the frozen strawberry exports also galvanized changes in other export inspection processes, spreading to more inland processing facilities and increasing export competitiveness overall. Longer term USAID work with the Morocco export control and coordination agency has supported achievement of this broader impact, and, hopefully, as we move forward with the bilateral negotiation for the U.S.-Morocco free trade agreement, a number of other issues are going to be addressed.

Medfly control, because Morocco is very competitive in the production of mandarin oranges, but because it is a Moslem country, has been subjected to—what do they call it—mandatory detention at ports, which is actually in the United States, and that has actually had a negative effect on the quality of their mandarins. So, clearly, that is going to be another issue that is going to be coming up.

I am not going to take the time now to tell the supermarket story. It is a great story. Supermarkets are growing in eastern, southern Africa and in Latin America so fast that you cannot believe it. Chinese supermarket growth is the most rapid growth anyone has ever seen in the transformation of a whole economic segment. And what that means is that supermarkets, the market, is increasingly determining and setting the quality standards that farmers must meet in order to be able to market their produce.
In Latin America, Brazil, Mexico, Central America, supermarkets now market more than half of the food supply that people buy. In South Africa, I think the number is about the same, and it is growing rapidly everywhere.

But, at USAID, we are taking on this challenge of helping small farmers and their communities to connect to the markets for their commodities. We will be investing in some tried and true, but also new development interventions as we move through the next couple of years. We are going to continue investing in producer organization development, the community level collaboration among farmers to share this challenge. Producer organizations speed farmer education; they foster supply aggregation, they facilitate technology and financial access, and they help with contract enforcement.

They can also set the stage for trans-boundary producer alliances to achieve the volumes, quality and supply necessary to win regional contracts led by multi-national supermarket chains. Farming alliances between producer organizations and supermarkets and other buyers will also help farmers to understand and respond to the specific needs of supermarkets and wholesalers.

Second generation policy reform, such as the implementation of commercial laws and regulations governing contracts, are a big issue. People take a contract, say, “Yes. We will deliver on March 30th so many tons of snow peas.” They find another better buyer meanwhile. They do not deliver. Guess what that does to contracts, because these things will reduce supply and patent uncertainty both for the suppliers and the buyers?

Finally, science and technology must be embedded in everyday agribusiness and producer organization decision making. An array of technological upgrades will be needed on an ongoing basis. Drip irrigation, production calendars, certified seed, greenhouses, post-harvest techniques, market information, packaging, food safety

equipment—all of these are essential in satisfying ever more stringent sanitary and phytosanitary requirements.

IV. OIL AND DUTCH DISEASE IN THE MANUFACTURING SECTOR

So the non-traditional agricultural exports story is a story of growth. It is a story of adaptation. It is a story of transformation, but it is a story which is much more diverse, much more spread out around the world than the coffee story.

And I am going to turn to another commodity story, another commodity and community story which is even less spread out around the world than the coffee story, but is one that is much more devastating yet in impact, and it is the story of oil.

In many long-term studies of growth and development, a paradox emerges. Countries that are richly endowed with national resources often do not achieve as rapid economic growth as countries where such resources are relatively scarce.

Look at Singapore and look at Nigeria. Nigeria has a bucket of oil. Singapore has zero. Okay. Look at the contrast. One explanation of this paradox is known as “Dutch disease.”39 How many of you are familiar with this disease? I can tell you are all lawyers and not economists. Okay. Well, let me tell the story of Dutch disease, then, because it is an incredibly useful concept to understand this paradox.

The Dutch disease was first noted in the case of Netherlands. That is why it is called “Dutch,” right, because the Netherlands starts to export natural gas more than four decades ago, based upon a major strike in the North Sea. New technologies and higher prices for natural gas enabled the Dutch to extract and export these large gas reserves in its coastal region. It was kind of interesting because, psychologically, this was a change for the Dutch because the sea, to them, had always been a threat. Remember the guy with his finger in his dike?

All of a sudden, the sea, that same threatening sea, began generating billion of dollars in export revenue each year, and these export revenues put upward pressure on the exchange rate, and it made many Dutch manufacturing products uncompetitive. Eventually, the price and exchange rate changes associated with the natural gas boom got back to more sustainable levels, and the economy finally got through that transformation and leveled off.

But while the Dutch economy was not continuing to get increasing revenues from natural gas, it was still stuck with manufacturing industries that were no longer competitive. A similar sad story can be told in other countries, in addition to natural gas, the Dutch disease boom can be caused by oil, as in Ecuador and Brenai, diamonds, as in Botswana, or even sugar, as in Jamaica.

And some analysts have referred to the Dutch [Disease] as the “resource curse thesis,” or by the less judgmental phrase, “the booming sector model.” Actually, I had not heard of that until one of Ann’s colleagues suggested that this was a more polite term, “the booming sector model.”

But the ways in which a commodity boom can have a deleterious effect on the manufacturing sector, and on economic development in the larger sense, takes several forms. The exchange rate effect, I have already mentioned; it is the most obvious. The large inflows of revenues from one commodity lead to a stronger local currency, and they diminish the export competitiveness of everything else.

Analysts have also noted a resource movement effect. What this means is the capital and labor move in to the booming commodity sector, and they go there relatively quickly, starving off the rest of the economy. And they do not move. They only move back to the rest of the economy fairly slowly, as the booming production reaches kind of certain maturity and sustainability.

40. See Richard Heeks, Inst. for Dev. Pol’y & Mgmt, Small Enterprise Development and the ‘Dutch Disease’ in a Small Economy: The Case of Brunei, I.D.P.M. Discussion Paper No. 56 8 (Univ. of Manchester 1998) (distinguishing the resource cure thesis, which “hypothesizes a wider set of costs to be associated with a booming minerals sector,” from the booming sector model, which concerned the costs to a particular sector, initially manufacturing but now also applied to agriculture), available at http://idpm.man.ac.uk/wp/dp/dp_wp56.htm (last visited June 16, 2003).
There is also a financial constraint effect in some cases. The oil industry, for example, typically has ready access to international financial resources: Angola. Could Angola borrow for anything other than oil? Probably not. Credit or diamonds? Probably not.

Credit for domestic manufacturing firms, however, is often not available from those international sectors, and this relates somewhat to what is called the "enclave effect." And this is particularly notable in the case of oil extraction, but it also applies to some other minerals because, unlike most other industries, the oil industry has relatively less of a tendency to generate positive externalities or to build up transferrable skills outside of that sector itself. It is so highly specialized.

By contrast, a boom in a particular manufacturing sector, textiles, electronics, typically can be more easily broadened into other sectors. For example, if the country achieves success in textiles, there are natural synergies with clothing, footwear, marketing, and machine goods industries. International buyers that gain knowledge of the potential suppliers in one sector can be quick to notice quality improvements in the other sectors.

There is also the trade barrier differential effect. Oils and minerals exports face relatively few trade barriers as they cross national boundaries. The cost of what barriers exist to these exports are typically borne by the importer, the United States, Europe, whatever.

By contrast, trade in textiles and other manufactured products, as well as agriculture products, the strawberries, the coffee, face relatively more barriers. The burden of the cost of those barriers does not, and indeed in the agriculture sector, rarely falls on the importer. It almost always falls on the producer. So the oil and diamonds, in those sectors, the importer assumes the cost of overcoming barriers to trade. In other sectors, not.

So then there is also the cost of information effect. In the commodity markets, potential exporters have ready access to price and other information. By contrast, marketing information for manufactured goods is typically less available. If you are producing

41. See id. (concluding that despite infusing large sums of foreign capital and technology, the Brunei Hydrocarbon industry has produced few direct externalities).
T-shirts in Mauritius, you have to know prices in a whole lot of different markets—very, very carefully differentiated by quality, by type, by style, by color, all that stuff. So not only is information in other sectors other than the oil sectors available, it is also more vital for the export of manufactured goods.

So while product differentiation exists in the commodity sector, it is of a smaller degree than the industrial sector. We all know about crude and low sulphur oil, but the differentiation is still much lower. People generalize very quickly on how much oil is selling for per barrel.

Do people equally quickly say how much a yard of goods or a meter of goods, yard goods, are selling for? A T-shirt? No. An investor in the oil industry there can base decisions on expected trends in the various binge marketplaces for crude oil. An investor in electronics or textiles understands that the ultimate price to be gotten for the exports that they make is simply less predictable.

So there is some truth to the old television commercial where the cranky driver tells his passengers, "Motor oil is motor oil." Anyhow, I do not remember seeing that one, but, again, I was told that that was actually true.

One way to sum up the problems for development is that economies respond quickly to price changes in the commodity sector, but respond less quickly to changes in the industrial sector. If a country begins to export commodities such as oil and diamonds, the wheels of foreign investment, international creditors, turn quickly. Workers from the oil exporting country will gain employment in the new sector, but the key roles that demand the most experience can be quickly filled by foreign workers. There is a reason why there are enclave communities located next to virtually every mining and oil operation worldwide.

By contrast, a country that is beginning to build up its competitiveness in the textile or other industrial sector requires more time to win over skeptical foreign investors or bankers. The burden of acquiring or possessing the skills to be competitive falls on the local work force. So based on all this research and experience, you can imagine the hypothetical scene in a small developing country twelve years ago.
Remember, I lived in Nigeria exactly at the time the oil boom started. The Economic Minister meets with the Prime Minister. "Sir," he says, "I have got some good news and bad news." The Prime Minister asks for the good news first and is told that the country has just discovered vast reserves of petroleum. The Prime Minister is happy. He says, "Well, this is great. We can accelerate income growth in this country. What could the bad news possibly be," he asks his Economic Minister.

The reply is, "The bad news is that we have just discovered vast reserves of petroleum."

So we do have this underlying problem of Dutch disease, and it is the problem of commodity market adjustment. For manufacturing products, for agriculture products, the adjustments simply are not as quick. The stories of strawberries, the stories of coffee are stories that are going to be told again and again and again for the next fifteen to twenty years.

So what are the futures of economies that can mitigate the problem, and, therefore, what are we and USAID doing to help mitigate the problem of Dutch disease?

We work in Nigeria.\(^42\) We work in Angola.\(^43\) We work in Botswana.\(^44\) How can the adjustments be accelerated so that sustainable participation in world trade be achieved?

\(^{42}\) See generally United States Agency for International Development, Nigeria Overview (naming four objectives for the USAID program in Nigeria), at http://www.usaid.gov/pubs/cbj2003/afr/ng/ (last visited June 19, 2003). These objectives are: the sustaining of "Nigeria’s transition to [a] democratic civilian government," the strengthening of "the country’s capacity to undertake key economic reforms and revive growth in the agricultural sector," the development of "a foundation for education reform," and the increasing of "the use of family planning, HIV/AIDS prevention, and child survival services." Id.

\(^{43}\) See generally United States Agency for International Development, Angola Overview (listing three programs in Angola for which USAID requested funds in fiscal year 2003: "improving maternal and child health and decreasing HIV incidence; improving food security with a focus on smallholder agriculture; and strengthening civil society"), at http://www.usaid.gov/pubs/cbj2003/afr/ao/ (last visited June 19, 2003).

\(^{44}\) See generally United States Agency for International Development, USAID Leland Initiative: Africa Global Information Infrastructure Project, Botswana Country Page (commenting on the existence of a USAID Regional Center for
One of the things we are doing is lowering the cost of market information. Developing economies that are vulnerable to Dutch disease benefit enormously when export information and marketing savvy are more readily available.

USAID and other donors have taken several steps in this area. One is called the "Leland Initiative."45 Some of you may have heard about this named for Micky Leland, who died while on a humanitarian assistance flight in Ethiopia about a decade ago, I think it was, and it has focused on opening up the telecom’s markets in Africa.

A new one just announced is called the "Digital Freedom Initiative," again where we are working with the private sector in the United States, Cisco, and HP.46 And we have successively put African economies online, and we are looking to increase that connectivity with more business information, more rapidly disseminated.

The global technology and trade network has also placed dozens of agents in developing economies, hoping to identify business leads for buyers and suppliers in those economies. In Bangladesh, we have sponsored a project called, "Jobs, Opportunities and Business Support."47


47. See Judith E. Payne, Bangladesh Shoe Industry Uses e-Commerce Tools to Prosper (noting that the JOBS Program was a three year plan and began in 1998),
The acronym is JOBS, and we are trying to increase the export of shoes to Japan by supporting marketing research, e-commerce tools, and industry fairs. To ensure that foreign buyers are aware of the high quality of shoes being produced in Bangladesh shoe factories, the JOBS program produce CD-ROM’s with virtual factory tours for potential buyers.

Remember, Bangladeshi factories are often accused of flouting labor laws, and by providing these virtual tours, buyers who do not visit Bangladesh can actually see for themselves the conditions inside the factories. The JOBS program needed less than three years to triple the number of shoe exporting companies in Bangladesh and raise the total annual value of exports to Japan from less than $4 million to more than $20 million.48

A second step that we have take at USAID to mitigate the possible effects of Dutch disease is to reduce the trade barriers for manufactured and agricultural products. USAID, along with several other agencies in the government has provided technical assistance to numerous countries as they accede to and participate in the World Trade Organization and various agreements associated with that.

We have helped countries craft regional trading agreements. And as I said before, we are providing support for the countries which are trying to negotiate bilateral trade agreements with the U.S.

A third area of activity is improving the functioning of financial markets to address that issue of Dutch disease where the exporting—the commodity exporting sector—grabs all the credit and the other sectors have none. And we are working with that around the world.

A team of economists working in Russia noted at a conference four months ago that financial sector reforms belong to the set of reforms which must be given priority in order to reduce the dependence on primary commodities and sustain adequate rates of

48. See Payne, supra note 47 (listing the annual value of shoe exports to Japan before the JOBS Program began as being $2.6 million).
economic growth against a possible backdrop of lower oil prices. We have been working in India on this, a project called FIRE has been exceedingly successful, providing more than a decade’s worth of support to the government and revamping its capital markets.

We are also focusing on fostering prudent exchange rate and monetary policies; working with the Department of Treasury. There is a whole bunch of countries, way too many to list and I am not going to do it. Because we feel that advisory teams working on the ground with the bankers, private sector and public sector, can play a key role in enabling capacity building in that developing country to maximize the developmental benefits of a commodity boom and to protect against the Dutch disease effect.

CONCLUSION

Finally, as the strawberry and coffee stories as well as this story have implied, a key overall role for USAID and other donors is supporting diversification of the economy and improving the underpinnings of competitiveness in those economies. We have


designed a number of technical assistance programs to help us do this and we work directly, in many cases, with the private sector to do it, unlike some of our other bilateral donors which still prefer to work with the governments for a reason we have not been able yet to discern.

But we have the feeling that given our experience, given our commitment, given the understanding that we have gained so far, we can now imagine a hypothetical scene in a small country, small developing country, today that notes that it has the capacity for a commodity boom. And we think that this hypothetical scene might just have a little bit of a different outcome than that earlier story. So let us do it.

The economics minister is again meeting with the prime minister; tells her that she has some good news and bad news. The prime minister of today asks for the bad news first. The bad news is that we have discovered vast reserves of oil, she is told. The prime minister, who has earned a graduate degree at Leiden and knows about Dutch disease, is gravely concerned and quickly asks, “What could the good news possibly be?” And the reply is, “The good news is that your next meeting is with some great people from USAID, and they are here to help.”

So thank you and I will be glad to entertain questions if you have any.

QUESTION AND ANSWER SESSION

MR. LOVE: I was wondering if you could explain a little bit more about how your agency develops its policy in terms of its technical advice on the intellectual property rights issues? We were contacted recently from groups in Nigeria that said that there was advice (inaudible) that USAID. And we have heard the same thing from Uganda and other countries, on patent issues—in some cases, recommending criminalization of patent infringement, which is not something that is the case in this country.

And nobody that knows anything about patents would really think that criminalizing patent infringement would be a very good idea. I know that in Nigeria it was considered a problem, because it was—
the idea of spending time in a Nigerian jail was thought to be a fairly severe deterrent to a generic drug company that might import a drug.

But there is a sense that Eurasians used to become very involved in Africa, and I do not know where else, in advising countries on their patent and copyright laws. To what extent do you vet your positions with the general public to see if they reflect what is widely considered to be appropriate laws for developing countries?

MS. SIMMONS: I am surprised to hear that, thank you for the feedback, because clearly that is not consistent with our policy. We have to rely on partners that we hire, that we enter into agreements with to provide technical assistance and sound technical advice. We have to rely on feedback, such as that which you just gave, to do that. But we also work with our staff. Ann Simmons-Benton, who is sitting in the front row, is a lawyer. And one of the areas that she is working on and backstopping is the area of intellectual property rights. Yeah. And so, I do not know. Ann, do you actually have a more specific case or do you want to just take this under advisement? Because, this is surprising.

MS. SIMMONS-BENTON: That is surprising. We would be very interested in more information on this. And in general, we work with U.S. Patent and Trademark organizations and Copyright Office, and so tend to give policy that is very well vetted. So we would be interested in seeing the information about that.

MS. SIMMONS: And we have your—you have our coordinates. Kevin can give them to you. Thanks.

MS. THOMAS: Chantal Thomas. That was really great, and it was so great to hear all the stories about diversification of the economy, which I agree and most of us would, is a crucial issue. And I was sitting here kind of sympathizing with the position of USAID in the context of ongoing trade negotiations, which is the subject of the conference, and the focus on subsidies in industrialized countries and thinking about the numbers, right, that no matter how hard USAID works, if the percentage, you know, if the size of what USAID does is less than ten percent of the total subsidies that, at least according to the OECD, the U.S. government provides for agricultural businesses
in the United States.\textsuperscript{52} So it is upwards of $100 billion according to OECD, and the total amount of U.S. foreign aid is much less than ten percent of that.\textsuperscript{53}

One can see the scale and the disparity between kind of the impact you can have on the aid side and what is going on on the trade side. If the subsidies are going to agribusinesses it clearly is going to severely deter the ability of developing countries to diversify away from primary products because a lot of these agribusinesses are focused on staple products and produce, and areas, you know, like strawberries or even basic grains like rice and so on that agricultural producers in developing countries are going to have a problem being competitive in.

Even without the subsidies in the industrialized world, but certainly with them it becomes very difficult not only in industrialized country markets, but in their own markets as well. And so viewed from the perspective even a small decrease in subsidies to an industrialized country agricultural producers would probably have, you know, a very significant impact on just this question of diversification of production.

And so I was wondering whether there was any collaboration between USAID and the trade representative [("USTR")] or through the other bodies of the U.S. government in the context of ongoing negotiations on this in Doha to try to eliminate from the development side how important a reduction in subsidies is to this project of diversification of production?

MS. SIMMONS: Yes. There are—we do work very closely with USTR. We, of course, feel that our partners, the developing


countries, the developing and transition countries, are our key area of focus. And so we find ourselves somewhat situated between the U.S. negotiation aspects and the developing country aspects. But I think we have been able to play that intermediary role to some effect.

The issue that you are raising, particularly with regard to agricultural subsidies in the United States, is an issue which has come up again and again. And I do make a somewhat of a differentiation and it is probably useful not to compare the total agriculture subsidy package to the United States—to the assistance that we are doing, but to really focus in on the trade distorting subsidies, which is about $19-20 billion a year. I think we are capped. We are actually within our WTO level, which is 19.4 billion a year, I believe.

The comparable statistic for the European Union, European Union, is about sixty billion in trade distorting subsidies, and the comparable number for Japan is about thirty billion. So compared to the rest of the developing world we are not as focused on trade distorting subsidies as other countries.

That said, it is still an important issue. I particularly feel in the cotton area that we are—on the one hand, we have provided the African Growth and Opportunity Act incentives to African countries to produce fabrics and textiles and to spin. But on the other hand,

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54. See Office of International Information Programs, United States Department of State, Bush Administration Unveils Comprehensive U.S. Trade Proposal (July 25, 2002) (discussing how the U.S. support to its farmers is limited to less than ten percent of the value of its production while the European Union “can support its farmers at a rate that is approximately 25 percent of the value of its agricultural production”), at http://usinfo.state.gov/topical/econ/wto/02072525.htm (last visited June 16, 2003).

55. See Office of International Information Programs, United States Department of State, USTR Zoellick Supports Aggressive Stance on Agriculture Trade (July 22, 2002) (commenting that the U.S.’s average tariff on agriculture products, much like its production-related subsidies, is lower than the world average including other developed nations such as Japan and the European Union), at http://usinfo.state.gov/topical/econ/wto/02072201.htm (last visited June 16, 2003).

our own trade distorting subsidies in the cotton area are making it a very tricky equation for them to compete.

On the other hand, I would recommend that you have a look at the USTR, the U.S. Trade Representative’s, Web site because last summer, Bob Zoellick, our trade representative, made a very bold proposal in the context of the Doha development agenda negotiations and basically challenged our fellow OECD countries to reduce to zero all export and trade distorting subsidies with—starting in 2005, and I think completing it in something like 2010.57

The Europeans initially were horrified. They said you will never get that through. You will never get that through, you know, your own legislature. But indeed if you think about the $60 billion, $30 billion, $19 billion, right, U.S. producers actually do see that that challenge which the U.S. trade representative has put forward is a good one, because it means that the U.S. producers and exporters will actually be more competitive because they will be facing a world in which Japanese and European barriers will be lowered.

So it is an issue. It is an issue that we have to deal with. And it is specific—it is important in a couple of specific countries, cotton-producing countries particularly; to some extent, rice-producing countries.

But it is—you know, it is real life. One just has to negotiate through it. And we feel that there are so many other opportunities for developing countries that they do not have to just say, oh, my gosh, this is so terrible. But that there are positive programs that we can focus on: The African Growth and Opportunity Act; market access, which has been supplied to Africa, for example; and some of these bilateral free trade agreements, which I think will support diversification in the countries which will negotiate them. Thank you.

Other questions? Nope? You can tell this is not a communications student crowd, right? I do not think it is on yet.

MR. COHEN: My name is David Cohen. I am an attorney with the law firm Sandler, Travis & Rosenberg. We are a customs and

international trade firm. My question is could you expand a little bit on the role USAID has in—you mentioned in particular the CAFTA, the Central American Free Trade?58 What is your role? Are you advocating on behalf of the Central American countries? Are you simply just an intermediary? I did not realize you had a role in that and I was kind of interested if you could expand upon that.

MS. SIMMONS: Let me just start off and then I am going to turn to Ann because she is going down to CAFTA. She is going down to Salvador on Saturday to address this issue and she can discuss her scope of work more precisely. But in general, in these bilateral trade agreements what we are trying to do is to support the capacity of the developing countries to negotiate agreements, A, that they can live with us; B, that are beneficial to them; and C, offer a chance for a real positive partnership between the U.S. and those countries.

So in many cases, it has to do with things like working with the countries to understand what it is the U.S. negotiators are looking for. And indeed, Morocco just asked us for something which was surprising to me. They asked us to send out a small team to meet with their negotiators to help them understand the negotiating approach, not the actual negotiating points, but the negotiating approach that the U.S. was going to take so that they could understand how to prepare themselves and what they needed to do analytically and in terms of consultation on their side to be able to come to the table.

It is my firm belief that if we enter into an agreement in which the developing countryside feels that they have actually negotiated the agreement as opposed to having had an agreement thrust upon them, that it will be both more stable, more satisfactory, and it will provide a platform for real positive growth, an economic partnership over the coming years.

So in philosophical terms, that is what we are trying to do. In every case there are always some little tweaks. I mean, obviously if USTR has a specific negotiating position, as you were saying,

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something that perhaps in the developing countryside does not make a lot of sense, we have to be sensitive to that fact and try not to get in the middle because that is not our job.

We are not trade—we do not make trade policy. So what we are trying to do is to facilitate successful negotiations and successful outcomes from both sides. But I think we see our primary client as our developing country partners. But Ann, I do not know, again, if you would like to add any specifics.

MS. SIMMONS-BENTON: You can see why I brought her along. She is invaluable.

I believe Emmy has just addressed the real process and what AID believes its role is. But as lawyers, I think some of the interesting things that the needs are is just understanding perhaps some of the actual terms of the agreements. So perhaps the developing country needs some help on sanitary—FTAA\textsuperscript{59} sanitary standards or they need to understand our Customs law or what do we really mean by some of the intellectual property laws and what are the requirements.

So those are sort of the areas that if the developing countries ask for that sort of assistance to the extent that we have programs in those areas already set up there is a trade capacity-building workshop that draws on the expertise of USAID plus other U.S. Government agencies. And so it is really a collaboration of sorts where USAID helps in the area that it has expertise in.

MS. SIMMONS: And we try not to criminalize that intellectual property. Okay? Thank you. You have been a great audience.

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\textsuperscript{59} FTAA is the acronym for the Free Trade Area of the Americas. More information about the FTAA ongoing negotiations can be accessed at the United States Trade Representative’s website, http://www.ustr.gov/regions/whemisphere/ftaa.shtml or the Free Trade Area of the Americas’s official home page, http://www.ftaa-alca.org/alca_e.asp.