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seems to indicate that the observed gains in stature and longevity are responsible for some portion of modern economic growth, both in developing countries and in industrialized countries. Nevertheless, research on this topic has not yet reached a stage that would allow for detailed quantitative assessments. Further research on long-run changes in adult height as a determinant of labor productivity promises high rewards, especially for developing countries.

Taken together, substantial statistical improvements seem to be necessary before the role of human capital can be appropriately evaluated at the

macroeconomic level. International differences in the quality of schooling, the experience of the workforce, the nutritional status, and the health status all point to possible measurement errors that are likely to arise when only the quantity of formal education is used as a proxy for human capital. The results of a number of recent econometric studies based on such inferior estimates of human capital indicate that there is ample room for improvement of the empirical estimates. In the meantime, economic theory has to carry the bulk of the argument which favors the view that human capital formation is one of the most important determinants of economic development.

Evita Schmieg\*

## Coherence between Development Policy and Agricultural Policy

*The practical shaping of the EU's common agricultural policy and the instruments used to pursue its goals are often in conflict with the development policy goal of a trade regime which offers developing countries open markets as a contribution, in the long term, to reducing the poverty gap between nations. What are the possible areas of conflict between agricultural policy and development policy? How can these policies be made more coherent?*

In recent years, increased attention has been paid to the reciprocal interplay of development policy and other policy areas and to the impact they have on each other. In part as a result of the Maastricht Treaty, but also as a reflection of the chronic budgetary problems of the industrialised nations, there is an increasing need to ensure that the formulation of policies in diverse areas should be coherent and that the impact of political instruments should not be contradictory. In this context, there is a particularly strong relationship and interaction between trade, environment, financial and agricultural policy on the one hand and development policy on the other. The aim of this paper is to undertake a closer examination of the connection, the interaction and the possible areas of conflict between agricultural and development policy.

Any consideration of the interrelationship of agricultural and development policy must be undertaken at a European level as well as in the

national German context. The Common Agricultural Policy (CAP) was among the first of the common policy areas of the European Union. It is also the one in which integration is most advanced. The goals and the functioning of agricultural policy are defined mainly at a Europe-wide level. German development policy, on the other hand, is an independent area of policy under national responsibility which is supplemented by a European Union development policy implemented by the European Commission. The joint goals of European development policy were defined for the first time in the Maastricht Treaty of 1992.

Consideration of the relationship between development and agricultural policies must therefore take into account the fact that decisions are made at various levels for which different decision-makers are responsible.

### Goals and Instruments

The EC Treaty sets out the objectives of the Common Agricultural Policy in Art. 39. They are:

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- a) ... to increase agricultural productivity ...
- b) ... to ensure a fair standard of living for the agricultural community...
- c) ... to stabilise markets...
- d) ... to assure the availability of supplies ...
- e) ... to ensure supplies reach consumers at reasonable prices ...

To achieve the objectives of the EC agricultural policy, a system of market regulations was created covering some 90% of the community's agricultural production.<sup>1</sup> Central to these market regulations are support prices. Generally above world market levels, these EU prices are safeguarded externally by import duties which have been bound in GATT since the GATT Uruguay Round. Exports are made possible through a system of export rebates which pay exporters the difference between the world market price and the higher internal EU price.

The Federal Government's concept for development policy defines as its aim "to improve the living conditions of people particularly of the poorer sections of the population in our partner countries." According to the Basic Outlines of Development Policy (*Grundlinien der Entwicklungspolitik*) the Federal Government therefore "... promotes regional co-operation and the integration of developing countries into the international economy."

The EU Treaty (Art. 130u) defines the goals of development cooperation as economic and social development, the campaign against poverty and "the smooth and gradual integration of the developing countries into the world economy."

The most significant instruments for achieving these goals are as follows: policy dialogue along with credits and grants for projects and programmes undertaken by developing countries; at a European level the granting of trade preferences (the Lomé Convention and the Generalised System of Preferences); the stabilisation of export receipts (STABEX) and support for structural adjustment measures.

What points of contact can be derived from the objectives of these two policy areas? The objectives of agricultural policy are primarily internal ones, directed towards the Federal Republic of Germany and the European Union. The objectives of development policy encompass, on the one hand, national concerns of the developing countries and, on the other hand, world economic interests. These in turn impinge, albeit indirectly, on national economic concerns.

The goals of agricultural policy, as they are defined in the EC Treaty, need not *per se* conflict with the goals of development policy. Equally, the scope of agricultural and development policy are, *a priori*, different. However, the practical shaping of the common agricultural policy and the instruments used to pursue its goals – in particular the principle of community preference which is inherent in European agricultural policy – are often in conflict with the development policy goal of a trade regime which offers developing countries open markets as a contribution, in the long term, to reducing the poverty gap between nations.

It was the Maastricht government conference which for the first time acknowledged the links between development policy and other policy areas and which emphasised that the development policy goals should be respected in the formulation of policy. This is, above all, reflected in Art. 130v of the EC, the so-called coherency clause: "The Community shall take account of the objectives referred to in Article 130u in the policies it implements which are likely to affect developing countries."

### The EU and World Agricultural Markets

The instruments of the Common Agricultural Policy were remarkably successful in implementing the objectives of raising agricultural productivity and production. Since the beginning of the eighties, the EU has become self-sufficient or has moved into surplus in a number of major products. The degree of self-sufficiency was still rising into the early nineties. To name some examples, in the years 1991-92, the Community produced 129% of the cereals it consumed, 123% of its sugar and 115% of beef and veal consumption.<sup>2</sup>

Over the same period, the EU transformed itself in world markets from net importer to net exporter of many agricultural products. For example, the EU share of world grain exports rose from 7% to 22% in the period 1971-90; its share of beef exports rose from virtually zero to 25%, making the EU the largest beef exporter in the world. Its share of world sugar exports rose from approx. 9% in the sixties to over 20% in the eighties.<sup>3</sup>

<sup>1</sup> Walter Schug: Agrarpolitik der Europäischen Union und Dritte Welt, in: Aus Politik und Zeitgeschichte, Beilage zur Wochenzeitung Das Parlament, B 33-34/95, p. 34.

<sup>2</sup> Agrarbericht der Bundesregierung 1995, Table 137.

The result of these developments was not just to curb sales opportunities for developing countries in the EU market. Traditional developing country exporters were even pushed out of third markets; taking one example, Uruguay as a beef supplier was pushed out of the Egyptian market.<sup>4</sup> Furthermore, local products were driven out of local markets by imported foodstuffs, inhibiting the development of agricultural regions and economies based on agricultural production. It should be noted, however, that some of the responsibility for these developments must be laid at the door of the domestic economic and monetary policies of many developing countries favouring urban populations at the cost of rural society (e.g. through currency overvaluation and/or low controlled food prices) and discriminating against the agricultural sector. Such policies, it should be said, have in most cases been revised in recent years, under the auspices of structural adjustment programmes. For many countries, it was, however, impossible for a number of reasons (such as smuggling from neighbouring countries) to counteract the growth of such imports and the resulting squeeze on local production by levying protective customs duties or through other external protection measures.

The above trends were checked but not reversed by the reform of the Common Agricultural Policy and the conclusion of the GATT Uruguay Round. By 1994/95, self-sufficiency in cereals had fallen to 113% and in beef to 103%. As a result of the Uruguay Round, export rebates were to be reduced by 36% over six years and the quantity of subsidised exports by 21%. All price adjustment levies must be converted into customs duties and (for industrialised countries) reduced by 36% over six years. Minimum market access for each agricultural product is to be raised from an initial 3% of domestic consumption to at least 5% by the end of the year 2000.

For those developing countries which are net importers of foodstuffs and which, by virtue of the structure of their exports, cannot take advantage of the better export opportunities thus provided, the Uruguay Round represents an additional burden on their trade balances. (This applies in particular to the countries of sub-Saharan Africa.) Those countries which are not in a position to cover their food needs through domestic production – irrespective of world

market conditions – were clear beneficiaries of subsidised exports. For such countries, there are plans to offset any disadvantage with food aid, credits for commercial food imports and through technical cooperation aid designed to increase the productivity of their agricultural sectors.

For the majority of developing countries which produce food for domestic consumption or for export, the new rules are advantageous. Agricultural exporters among the developing countries which sell beef or sugar (e.g. Argentina, Brazil, Burkina Faso, Mali, Niger, Thailand, Uruguay, Zimbabwe), will again be given the opportunity to raise their exports to the European Union and other industrialised nations – albeit from a very low base. The Uruguay Round should also help relieve the competitive situation in third markets where it has been artificially distorted by export subsidies. However, available data regrettably provide little hope of a general reversal of trends in world agricultural trade. GATT and the OECD, however, estimate a general boost to food prices of 2 to 3% as a result of these decisions with larger increases for individual products such as cereals, beef, sugar and milk products. These increases should stimulate domestic production in developing countries and thus contribute to rural development.

Developments in recent years – the reform of European agricultural policy and the conclusion of the GATT Uruguay Round – should thus contribute to generally reducing current conflicts between agricultural and development policy concerns. But they will not solve the fundamental problems of contradictory interests and policy instruments.

### **Trade Preferences and Development Policy**

Development co-operation supports the developing countries in their efforts to promote their economic and social development through integration into the world economy. This is achieved on the one hand through projects and programmes and, on the other hand, in the context of the European Union, through the granting of trade preferences which provide developing countries with privileged access to the European market. The most far-reaching trade preferences are granted to the ACP countries in the Lomé Convention under which all their manufactured goods enjoy total exemption from customs duties. Agricultural products, on the other hand, benefit only from reduced duties; and fruits and vegetables are in many cases granted these benefits only during those months of the year in which there is no domestic

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<sup>3</sup> Jenny Pryke and David Woodward: *The GATT agreement on agriculture: Will it help developing countries?* CIIR seminar background paper, London 1994, p.1.

<sup>4</sup> GATT: *The international markets for meat*, Geneva 1985, p.33.

European production. On an autonomous basis, the Generalised System of Preferences grants trade preferences to all other developing countries, but also with significant exceptions when it comes to agriculture.

The granting of trade preferences, and the exceptions made for the agricultural sector, highlight the fundamental conflict between the formulation of agricultural policy ("community preference" and "external protection"), on the one hand, and, on the other, the facilitation of market access for developing countries with the objective of securing their integration into the world economy on the basis of their comparative advantage in the agricultural sector.

### Selected areas

*Beef:* Western European non-governmental organisations made a media splash in 1993/94 of the problems arising out of subsidies for beef exports to West Africa and their impact on local production, describing them as a particularly crass example of contradictory policy. These beef exports, which were made possible by export rebates, rose sharply in the period to the early nineties – from 25,000 to 35,000 tons per annum in 1986-90 to over 50,000 tons p.a. in 1991 and 1992.<sup>5</sup> European exports did not merely present a significant obstacle to the development of local beef production, made evident, among other things, by their negative impact on a cattle fattening project in the Ivory Coast which had been established in the early eighties with German development funds. They also had a damaging effect on regional trade, i.e. on beef imports from Mali and Burkina Faso. At the very least, subsidised European beef exports thus resulted in the failure of a German development scheme, but they also impeded development policy goals in a wider sense. Due to political pressure, the European Commission has lowered export rebates for beef exports to West Africa by around 30%.

The Ivory Coast's domestic agricultural and monetary policies – no external protection and an overvaluation of the CFA Franc – exacerbated the situation. After the CFA franc was devalued by 50% in the spring of 1994 and the EU reduced its export

rebates, imports of EU frozen meat fell by 80% while imports of live animals from the Sahel rose by 62%. The impact of these policy changes shows that here was a clear case of policy "incoherence" which was diminished by just a few, decisive policy moves.

These are, regretfully, indications that the problem of subsidised EU beef exports is intensifying again as a consequence of reduced domestic demand following the discussions on the contagiousness of mad-cow disease (BSE). Non-governmental organisations report that exports to South Africa have increased dramatically, threatening domestic South African beef production as well as Namibia's exports to the country.

*Sugar:* In the framework of the EU-ACP Sugar Protocol, a fixed quantity of sugar is imported from the ACP countries (Fiji, Guyana, Jamaica, Mauritius, Swaziland and Trinidad and Tobago) at a guaranteed price corresponding to the EU intervention price, which lies substantially above the world market price. The purpose of this regulation was to ensure that the access enjoyed by traditional cane-sugar processing industries in the European Union to their traditional raw material suppliers would be maintained after the EU sugar market regulation was introduced and external barriers were erected with the objective of self-sufficiency in the EU. Today, the sugar protocol has the following impact. Even though the EU is now self-sufficient, sugar continues to be bought in at subsidised prices – i.e. in far larger quantities than would be economic for the supplier countries at world market conditions. These imports increase community surpluses which then, in part with export rebates, have to be sold back on to the world market.

Not only does this cost the European tax-payer money; the development policy effects of the sugar protocol are highly controversial. The developing countries and regions which profit from the protocol regard it as an instrument for the transfer of income and foreign exchange. Critics of the protocol point out, on the other hand, that its price and volume guarantees represent an obstacle to the diversification of the economies of the countries affected – in that it sustains economically unprofitable production. Moreover, they argue that the transfers can in no way be justified by reference to development objectives.<sup>6</sup>

Doubtless, the development policy impact of the protocol can be judged, in the final analysis, only from case to case. Aside from the point that the protocol directly hinders the diversification of these countries' economies, account must be taken, *inter alia*, of the

<sup>5</sup> For a complete case study, see Hartmut Brandt: Auswirkungen von Exporterstattungen der Europäischen Union auf die Rindfleisch-sektoren westafrikanischer Länder, Deutsches Institut für Entwicklungspolitik, Berlin 1995.

<sup>6</sup> See R. Wolfram and K. Beckers: Das AKP-Zuckerabkommen, Frankfurt/M. 1989; Stellungnahme des Wissenschaftlichen Beirats beim Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung, BMZ Aktuell, September 1994.

indirect effects arising out of the use of the foreign exchange earned thereby.

The Economic Advisory Councils of the Federal Ministry for Economic Co-operation and Development and of the Federal Ministry for Food, Agriculture and Forests have spoken out in favour of a fundamental reform of the ACP Sugar Protocol, which should include price reductions. Apart from the political differences in the European Union about the value of the Sugar Protocol, such reform would also meet agricultural trade policy objections: the conclusion of the GATT Uruguay Round envisages an extension of market access for agricultural products (see above). A reduction of the volumes bought under the Sugar Protocol would thus create new problems in the sphere of agricultural trade policy. The opposite has already taken place: in the context of the enlargement of the EU on 1 January 1995, the European Union increased the volumes in the Sugar Protocol.

*Bananas:* In the framework of the completion of an internal market in the European Union, a common regulation had to be found for the import of bananas to replace the eight different import regimes then in force. Some members of the EU (France, Greece and Spain) have their own banana production. They have a vital national interest in protecting their own production just as others (France and the UK) have in special treatment for traditional ACP suppliers. The banana market regulation, in force since July 1993, established to accompany the creation of the European internal market envisages a system of import and export licenses which are intended to protect the position of both EU members' own production and that of ACP suppliers, while limiting the import of so-called "dollar-bananas" to 2.2 million metric tons a year. This happens at the cost of the market position of Latin American suppliers who produce lower-cost "dollar-bananas" and whose exports to most EU countries have previously been unconstrained by volume limits.

The beneficiaries of the market regulation compared to a liberalisation of market access are in this case the EU producers along with those ACP countries which can lay claim to a development policy argument to support their interests: they produce at higher cost with a structure of smallholdings whereas in Latin America production is overwhelmingly on large plantations owned by multinational corporations. As a result of the quota system, the ACP producers have not only been able to expand their production but also to increase their income

through trading in export licenses required for the export of "dollar-bananas".<sup>7</sup>

The example of bananas is less an example of the conflict between agricultural and development policy than a graphic portrayal of the complexities involved in weighing the balance of interests that need to be taken into account in the formulation of policy. A large number of different interests are involved which evaluate the impact of the current import regime from widely divergent points of view. These include the different developing countries as suppliers, a variety of importing countries with varying evaluations of the foreign policy aspects as well as of their consumer interests, and the companies involved in the import of bananas. Which interests and groups should be viewed as in need of protection depends in a case of this complexity more on subjective evaluation than on factually based analyses, which are inherently incapable of encompassing all aspects of reality.

Independent of any overall evaluation of the development policy effects, concerns are unavoidable, with the introduction of a complicated quota and licensing system which additionally invites fraud, that there is no sensible relationship between costs and benefits. According to a recent study, the market regulation costs the European consumer \$ 2 billion a year while EU banana producers benefit only to the tune of \$ 151 million. It must, however, be noted that trading margins are now twice as high in the EU as they are in the USA.<sup>8</sup>

*Fishery:* Fish is an important food source in many developing countries where it covers the majority of the protein needs of the population. It is becoming apparent, however, that world fish stocks have reached their replacement limits: the FAO has estimated that two thirds of all maritime fisheries are either fully stretched or are overfished. To avoid jeopardising sustained development and resource utilisation, on the one hand, and access to fish resources, on the other – goals which are in the long-term interests of both the developing countries and the EU – it is important to pursue fishing in a way which protects resources.

Numerous developing countries are concluding fishing agreements with industrialised nations which give the latter fishing rights in their waters. It seems clear that these agreements are frequently not

<sup>7</sup> See also: Quote und Subvention machen die Euro-Banane fett, in: Süddeutsche Zeitung, No. 149 of 01.07.1996, p. 10.

<sup>8</sup> Andreas Oldag: Krumm und dumm, a commentary on a study by Brent Borrell, in: Süddeutsche Zeitung of 09.08.1996.

consistent with the objectives of long-term resource management. On the one hand, there is a lack in most developing countries of basic fishing statistics and biological analysis which would provide the basis for a sustainable fishing industry and which could be used to establish the size of catches which could be incorporated into international agreements.<sup>9</sup> This raises the basic problem of defining the size of fish catches which would be consistent with sustainable management of fish stocks and thus also in the interests of development policy.

On the other hand, surveillance and monitoring of fishing grounds in developing countries are mostly poorly organised. This raises the problem of enforcing effective controls and sanctions against fishermen in the context of any agreements concluded.

A development co-operation project in Mauritania shows up the nature of the problem. A project to support the monitoring of fishing grounds has long indicated that the relevant fishery regulations are being breached, amongst others, by EU fishermen. This is jeopardising the objectives of this development policy project which is intended to contribute, through its support of fishery surveillance, to the sustainable utilisation of resources.

This is a classic case of incoherence. A description of events, however, shows that incoherence often arises not only through the formulation of policy in donor countries but is promoted by the actions of aid recipients. During the recently completed renegotiation of the EU fishery agreement, the EU side suggested that a proportion of the compensation payments, granted to Mauritania under the treaty in respect of fishing rights it ceded, should be designated for the improvement of fishery controls. The proposal was not taken up by the Mauritians. This need not mean, per se, that the Mauritanian government's evaluation of the issue differs basically from that of German development policy. In view of the difficult budget situation, it is entirely possible that there are other priorities for state spending. This fact once again underlines that it is essential that we meet our obligation of ensuring a coherent formulation of our own development and fishery policies.

*Food Aid:* The fundamental problem of food aid is analogous with that of commercial food exports. Delayed and ill-assessed deliveries can distort local

and regional markets, driving out home production which has resumed after a catastrophe. Deliveries of foodstuffs which are not produced in the country or local region can change the eating habits of people in developing countries. They can reduce the demand for domestically produced products and create import dependency on products which are not produced locally, thus proving negative for development.

A large part of German food aid for developing countries is now bought in local and regional markets: since 1991, local purchases of cereals have been raised from 35% to 72%. In 1994, about 67% of non-cereals food aid was acquired in developing countries.

Since the seventies, EU food aid has also seen significant qualitative changes. It has lost the element of finding a use for surpluses and been transformed into a development policy tool of ensuring adequate nourishment and of combating poverty. The notions of "access to food", creation of purchasing power, promotion of regional trade and provision for crisis have been given greater prominence.

### The Outlook

The case studies described here make it clear that the lack of coherence between agricultural policy and development policy can often have several causes. These include differing interests and yardsticks as well as insufficient transparency and a mutual lack of information among participants.

Important measures to ensure an objective balance between the two policy areas are a better exchange of information and more intensive consultation between participants, i.e. national specialist ministries as well as the European Commission. This would at least resolve those problems which result from ignorance. Non-governmental organisations, too, play an important role in identifying existing examples of incoherence and as spokesmen for concerned sectors of the public.

But, above all, consideration should be given to how decisions should be reached where genuine conflicts of interest and objectives arise between the two areas of policy. Coherent policy formulation requires the willingness to set priorities and take decisions, including some which may be unpopular. This does not necessarily mean giving priority to development policy, but it does require a clear determination of objectives and priorities for our overall policy, against which individual policies should be orientated.

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<sup>9</sup> See also Hartmut Brandt: Perspektiven der Entwicklungszusammenarbeit in der Fischereiwirtschaft, Deutsches Institut für Entwicklungspolitik, Berichte und Gutachten 13/1995, Berlin 1995.