

**Markets, Policies, and Institutions in NTTP Trade:
Nothing is Perfect**

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ABSTRACT

New tree varieties and related technological innovations require years to affect smallholders' profits. But policies affecting trade in non-timber tree products (NTTPs) can have immediate effects that are transmitted through markets to prices at the forest or the farmgate. These trade policies also affect incentives to adopt innovations. There have been few studies of the political economy of trade in NTTPs, but a substantial literature from development economics and agricultural economics contains relevant insights. The development economics literature of the 1950s and 1960s placed great faith in public institutions to implement policies that addressed market failures and imperfections. In contrast, the "new political economy" that emerged in the 1970s and 1980s pointed out that policies were a product of political processes that often favour individuals with wealth and power. In this view, "bad" policy (from an economic perspective) is not a mistake but a product of self-serving influence. Characteristics of NTTPs and their markets make them susceptible to failures in markets, policies, and institutions. Although much can be gained from improving basic understanding of these markets, it is naive to think that better information is a panacea.

INTRODUCTION

New tree varieties and related technological innovations require years before their potential is expressed in smallholders' profits. In contrast, effects of trade policies are transmitted quickly through markets to prices at the forest or the farmgate. Thus, trade policies can have immediate, powerful effects (for good or ill) on incentives to make the long-term choice to plant and maintain trees. Most devastating are trade restrictions that lead to collapse of farmgate prices, thereby destroying incentives necessary for domestication and commercialization of non-timber forest products in agroforestry systems.

There have been few studies of specific features of NTTP trade. However, a substantial literature from agricultural economics, development economics, and other social sciences contains some relevant insights. The basic framework of market failures and market imperfections, which provide the textbook rationale for policy intervention, is examined first and is followed by a review of the "new" political economy perspective, the theoretical basis for a radical reinterpretation of the causes of "bad" policy. Institutional perspectives that are especially relevant to implementation of policy in developing countries are then discussed. The political economy and institutional perspectives provide a pessimistic picture regarding prospects that trade policy intervention can achieve its formal objectives. The relevance of these general insights to the specific case of NTTPs is assessed in each section. These are framed as hypotheses for further research because of scant NTTP-specific evidence.