



TRADE AND FOOD SECURITY: A GLOBAL PERSPECTIVE

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Main message: open markets can improve food security

- Low incomes and poverty are the main cause of food insecurity
- In order to raise agricultural & rural incomes it is essential to improve productivity and invest in agriculture's enabling environment
- Social protection and risk management tools can eliminate the need for border measures
- Food self-sufficiency, when pursued through trade protection, is likely to be counter-productive in the long term



Aspects of food security

1. **Availability** – at global, national, local levels
2. **Access** – affordability, lack of availability resolved through higher prices & diminished access
3. **Utilisation** – non-income determinants of nutritional outcomes
4. **Stability / resilience** – ability to withstand shocks and manage risk (cuts across 1, 2 and 3)

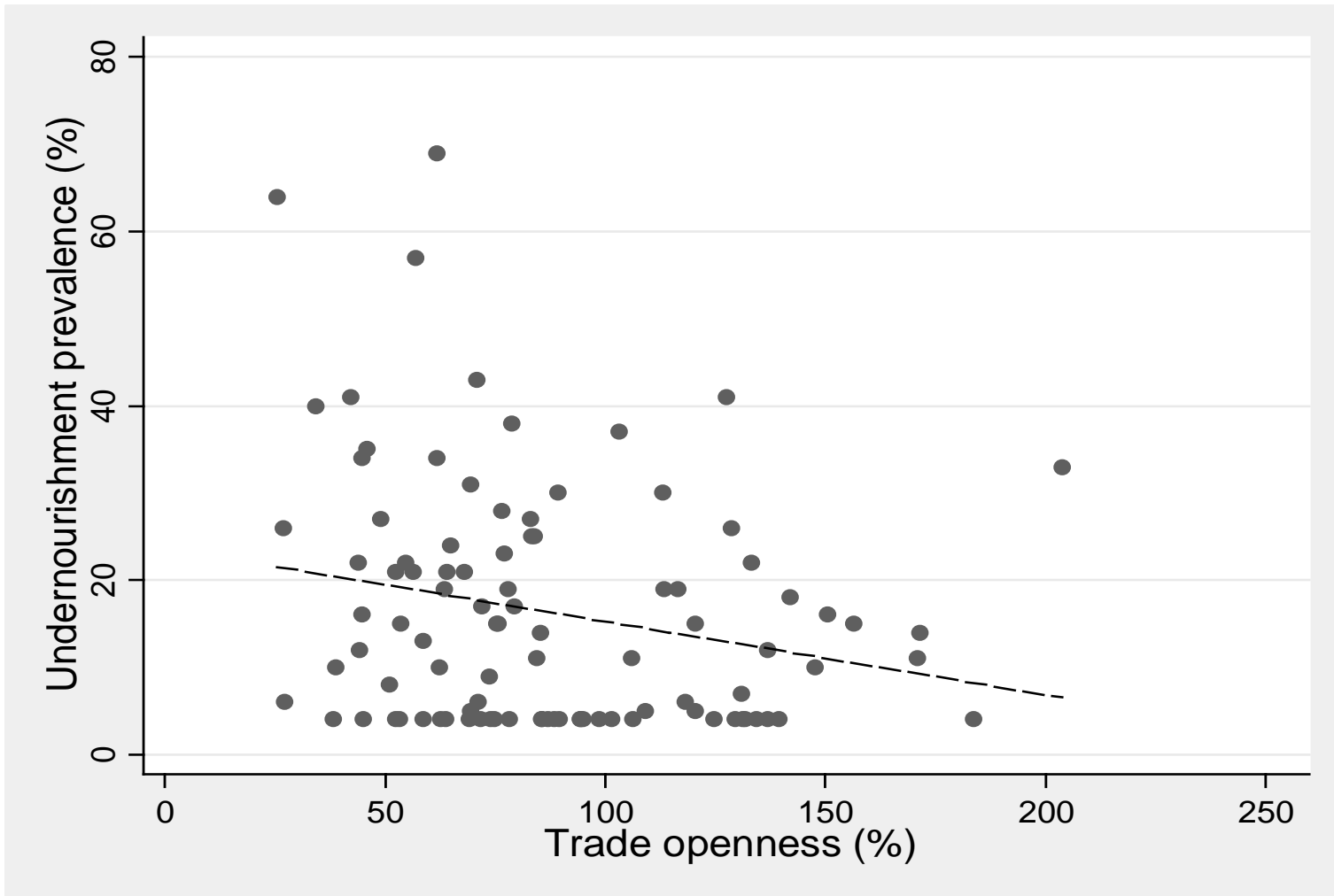


Benefits of open markets

- **Availability and access:**
 - Efficient resource use in line with comparative advantage (may be better to buy some staples)
 - Balancing supply and demand
 - Higher incomes for exporters, lower costs for importers
 - A positive link between openness and growth



Trade openness & undernourishment in developing countries

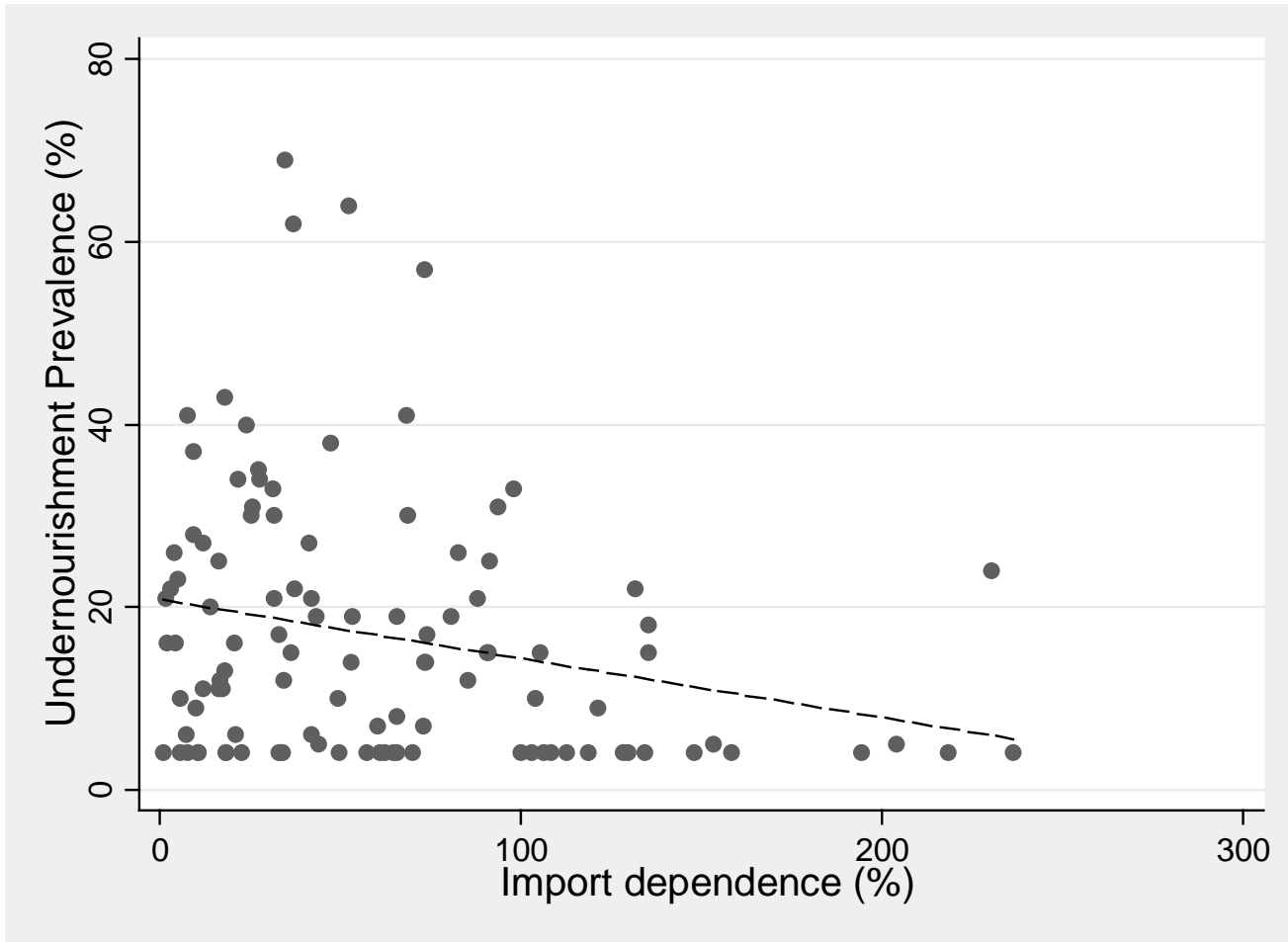


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Sources: The prevalence of undernourishment is taken from FAO (2011), the trade openness index (measured as total imports plus total exports divided by GDP) is from FAOSTAT for 2008.



Food import dependence & undernourishment in developing countries



Sources: Prevalence of undernourishment (FAO, 2011), cereal imports/domestic supply (FAOSTAT)

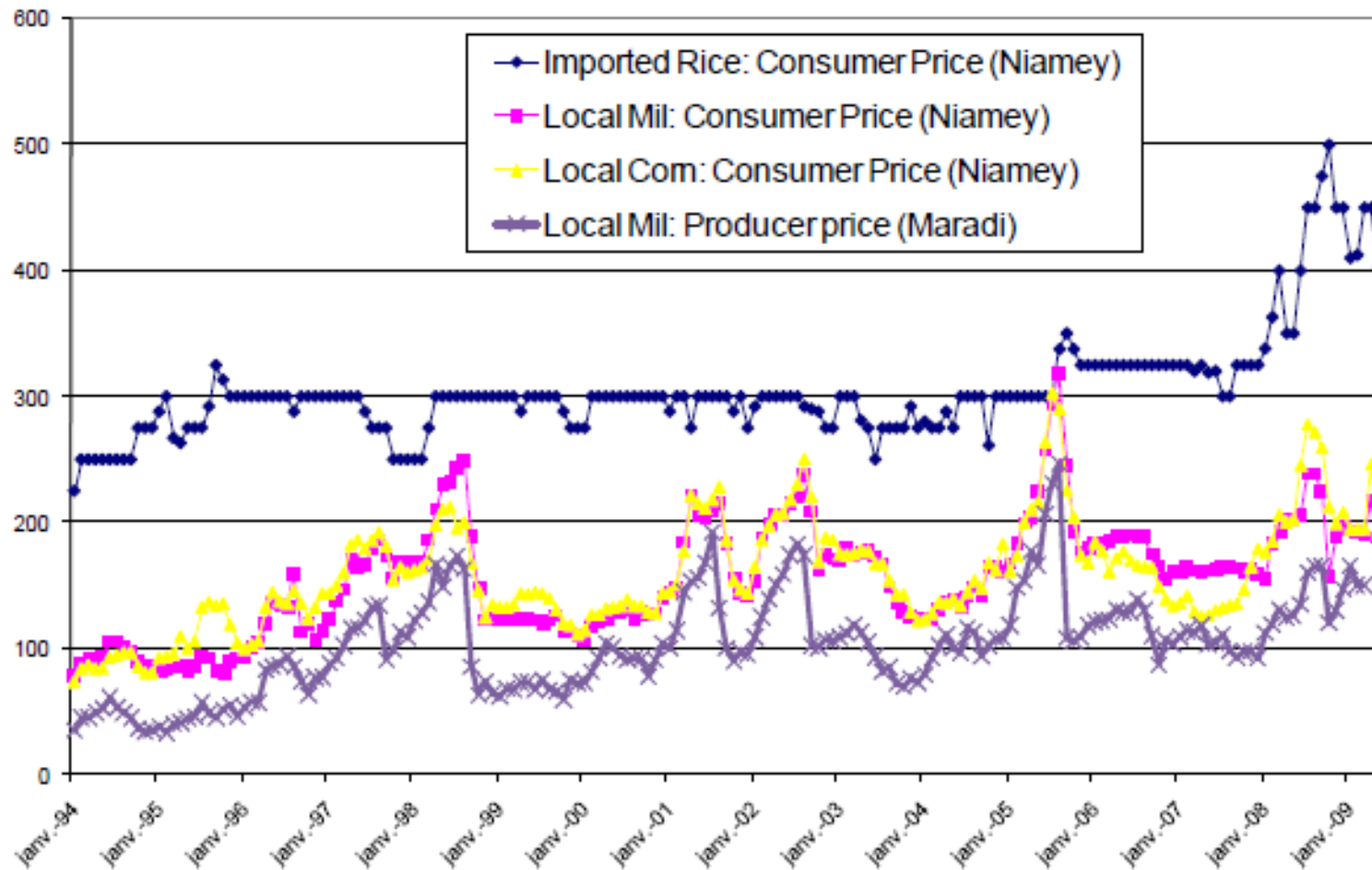


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 - A positive link between openness and growth
- **Utilization**
 - Higher incomes, cheaper food, more varied diets
- **Stability**
 - International prices less volatile than autarky domestic prices



Niger, consumer prices for food staples



Source: Daviron *et al.* (2008)

A blue sky with scattered white clouds. The text is overlaid on the sky.

Free trade is like heaven

We all want to go there:
just not yet!



Arguments for trade protection...

- Adverse terms of trade movements: farmers at a structural disadvantage
- African farmers cannot compete
- Unfair competition from subsidized production in OECD countries
- Rising import bills
- Stable domestic prices are needed to encourage investment
- Consumers need to be protected (i.e. exports restricted)
- Can't trust the world market



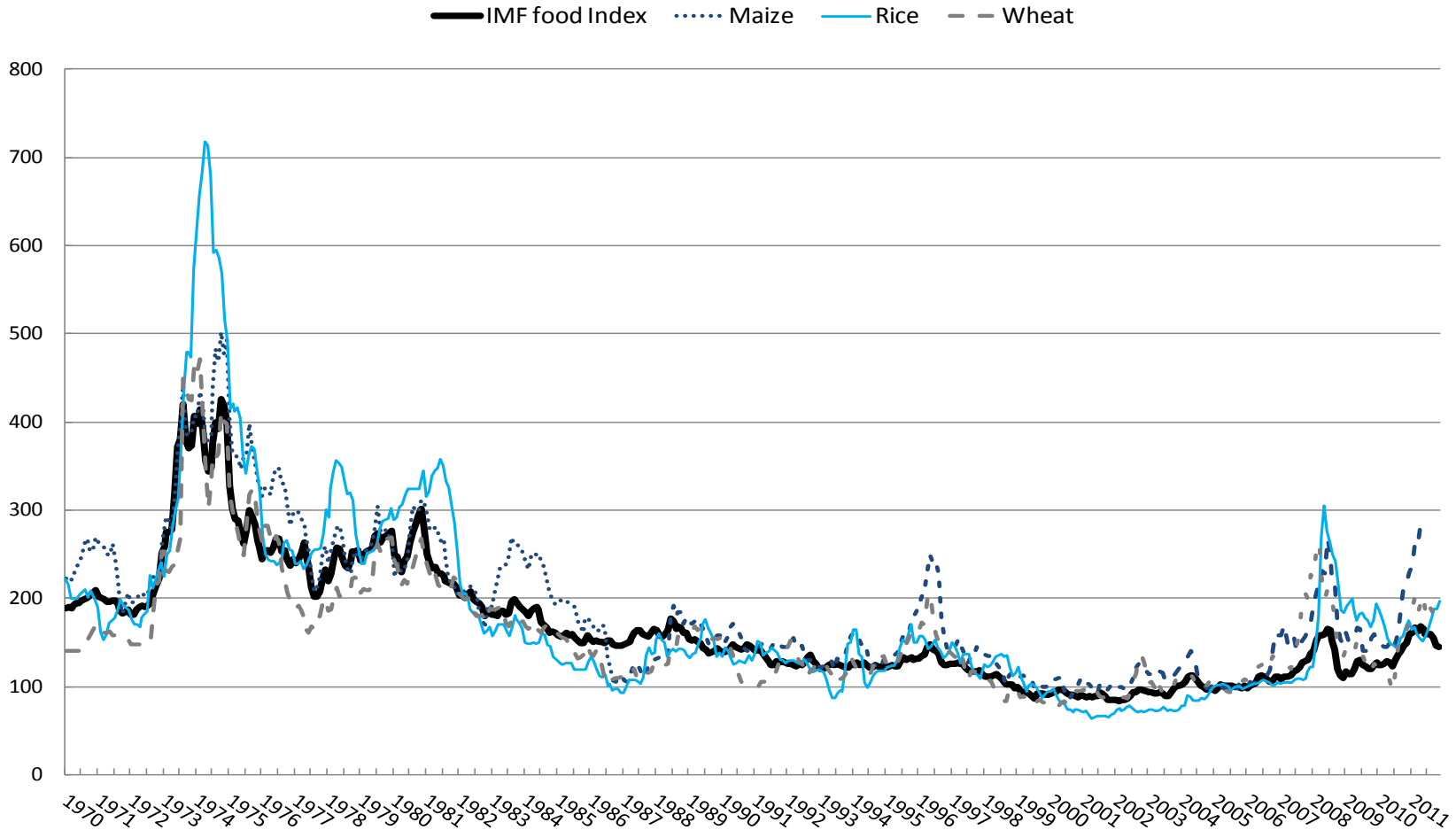
Agriculture's terms of trade

- Declining real agricultural prices through to early 2000s
- Three price spikes since 2007



Three price shocks since 2007

Real prices, 2005=100





Agriculture's terms of trade

- Declining real agricultural prices through to early 2000s
- Three price spikes since 2007
- OECD-FAO Outlook suggests prices will be structurally higher over next 10 years
- Likelihood that prices will be more volatile
- Lower prices were not a problem for those whose productivity gains pushed prices lower – but they were for farmers who did not adjust
- Higher prices are an opportunity for developing country farmers



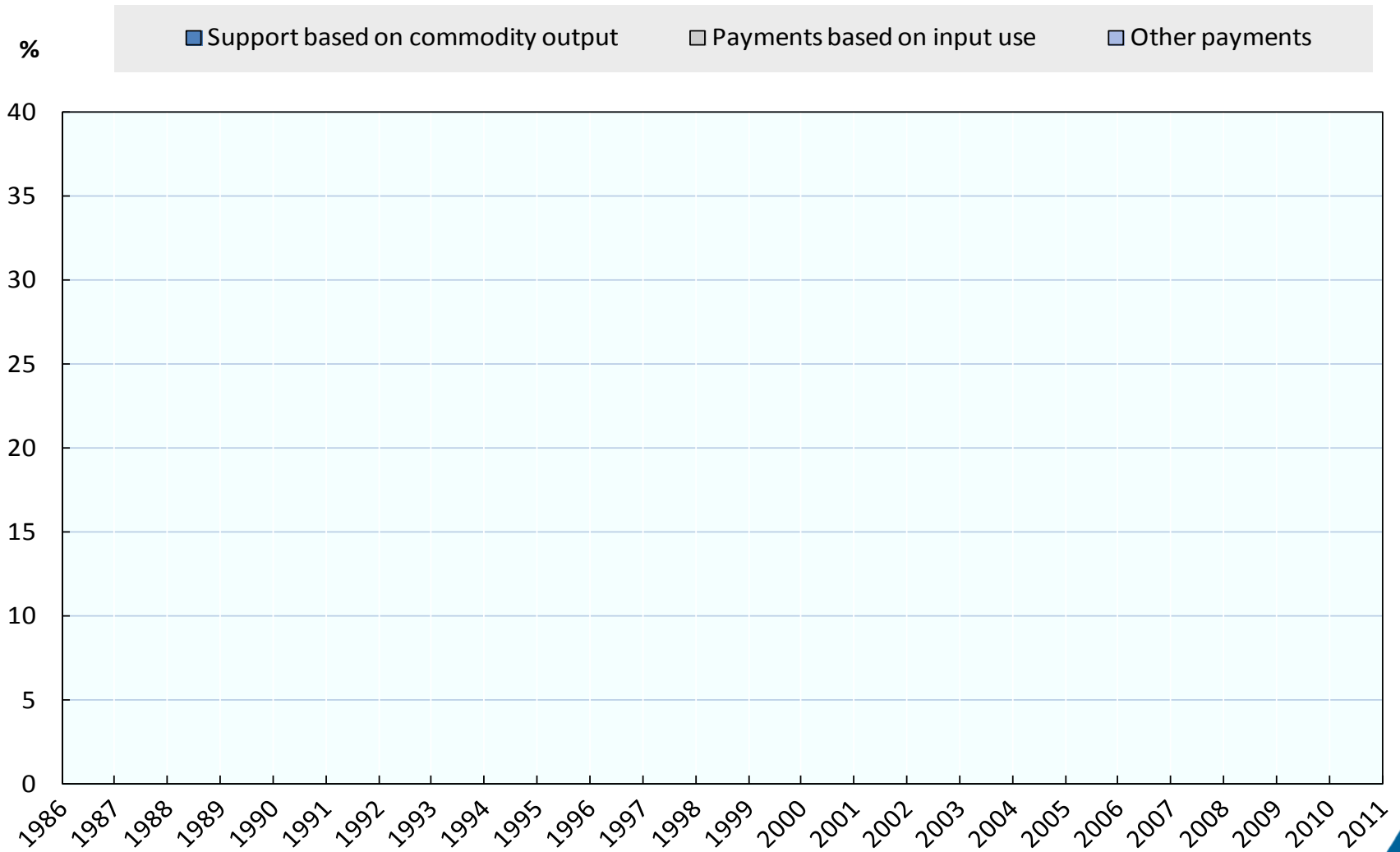
Unfair competition from OECD countries

- High support and protection for agriculture
 - Price support and tariffs
 - Trade distorting subsidies
- Nuances: trade preferences, non-competing products, winners & losers
- But still did more harm than good!
- Significant reforms: lower support and use of less distorting instruments
- Reforms facilitated by high agricultural prices
- New policy issues: biofuel mandates, export restrictions, “land grabs”
- Emerging economies (e.g. Brazil, China) now major players – esp on these new issues



Composition of producer support, 1986-2011

% share of gross farm receipts



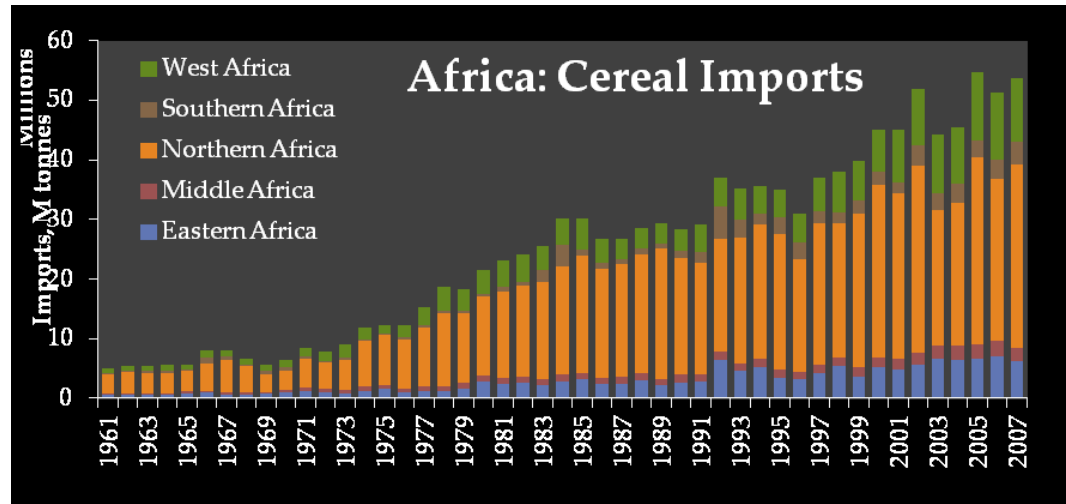
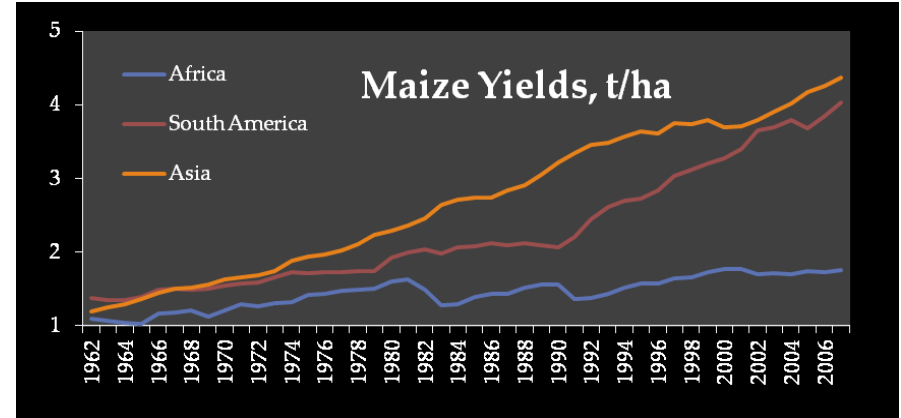
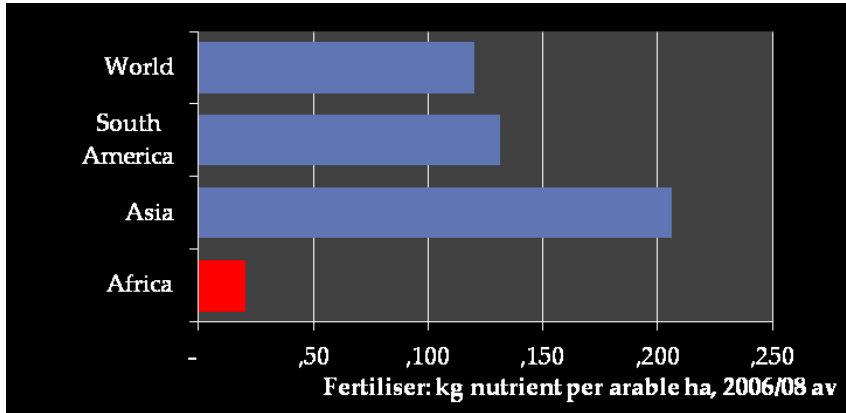


Rising import bills

- Africa's food imports have been rising
- Not necessarily a problem, if resources are put to more productive uses than food production
- But in some SSA countries, rising imports seem to reflect a lack of agricultural development
- Better to treat the causes than the symptoms:
 - Raise agricultural productivity growth, not control trade



Low fertiliser use, low yields, rising imports





Can African farmers compete?

Yes, but need the right incentives

- **Great scope to improve productivity, and land and labour costs are low**
- **Investments in infrastructure let exports flow out also make it easier for imports to flow in**
 - **building a road is like reducing tariffs**
- **Subsidizing import sectors taxes export sectors**



Improving productivity

- **Need for innovation**
 - high returns to research and extension
- **Under-investment in rural public goods**
 - e.g. infrastructure
- **Urban bias in key expenditures**
 - education, health
- **Still a net tendency to tax African farmers**
- **Market failures that need to be addressed**
 - lack of credit, tools for managing risk



“Farmers need stable prices”

Economic and social arguments:

- Economic (market failures): Private markets do not provide adequate mechanisms for risk management
- Social: Difficult to provide rich country forms of social protection for when incomes suffer

Price is an easy lever! Seen as the only way of responding to events such as the 2007-8 price spike.



Price stabilisation: problems

- Net buyers & net sellers among the poor
- Moral hazard: farmers fail to manage risk; programmes become a blanket subsidy
- Budgetary sustainability: linked to the capture of rents
- Exports instability
- Government failure can make things worse



Conclusions

- Open and reliable markets can play a key role in improving food security
- Many challenges in getting markets to work properly
- Need for government intervention in building social protection and insuring farmers against risk
- Trade protection should be a last resort



For more information



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