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THE STATE OF FOOD AND AGRICULTURE

AGRICULTURAL TRADE AND POVERTY
CAN TRADE WORK FOR THE POOR?

FAO
FIAT PANIS

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Foreword

The State of Food and Agriculture 2005 examines the linkages among agriculture, trade and poverty and asks whether international agricultural trade, and its further reform, can help overcome extreme poverty and hunger.

The global statistics on poverty and hunger are all too familiar. An estimated 1.2 billion people live on less than one dollar a day and FAO's most recent estimates indicate that 852 million people lack sufficient food for an active and healthy life. There is now also an increased awareness that extreme poverty and hunger are largely rural phenomena. Most of the world's poor and hungry people live in rural areas and depend on agriculture for their livelihoods. To the extent that agriculture is affected by trade, trade will necessarily affect the livelihoods and food security of the world's most vulnerable people.

The global economy is becoming increasingly integrated through trade, and agriculture is part of this larger trend. For some countries, agricultural trade expansion – sparked by agricultural and trade policy reforms – has contributed to a period of rapid pro-poor economic growth. Indeed, some of the countries that have been most successful in reducing hunger and extreme poverty have relied on trade in agricultural products, either exports or imports or both, as an essential element of their development strategy.

Many of the poorest countries however, have not had the same positive experience. Rather, they are becoming more marginalized and vulnerable, depending on imports for a rising share of their food needs without being able to expand and diversify their agricultural or non-agricultural exports. FAO believes that the reform process under way must consider the specific circumstances of these countries, particularly their stage of agricultural development and the complementary policies needed to ensure their successful integration into global agricultural markets.

FAO has long recognized that agricultural trade is vital for food security, poverty alleviation and economic growth. Food imports are a fundamental means of supplementing local production in ensuring the provision of minimum supplies of basic foodstuffs in many countries. Agricultural exports are an important source of foreign exchange earnings and rural income in many developing countries. Reducing trade-distorting agricultural subsidies and barriers to agricultural trade can serve as a catalyst for growth as producers worldwide could then compete on the basis of their comparative advantage.

However, international trade in agricultural products is characterized by a number of problems that do not allow competition on the basis of comparative advantage. The markets for many temperate-zone products and basic food commodities are substantially distorted by government subsidies and protection, particularly in Organisation for Economic Co-operation and Development (OECD) countries. Some developed countries continue to subsidize their farmers and, where this leads to market surpluses, even their agricultural exports. For other agricultural products, particularly tropical ones such as coffee, tea, natural fibres, tropical fruits and vegetables, the problems include high as well as complex and seasonal tariffs and significant tariff escalation.

These market distortions tend to lower world market prices for basic foodstuffs and limit market access. This has helped net food-importing low-income countries to keep their food import bills low, but has also sent wrong signals to the governments of developing countries that have sometimes misled them to neglect their own agriculture. Low prices and lack of investment have hindered agricultural and rural development in poor countries. In this context it must be emphasized that it is in the developed countries' interests that developing countries grow faster, not least because such growth would increase the size of markets for developed country non-agricultural exports.

The developing countries too have important decisions to make. Some developing country exporters would benefit from the liberalization of OECD agricultural policies, but benefits for developing countries are also expected to result from liberalization of trade among them. Indeed, many benefits from global agricultural trade liberalization for developing countries would be the result of their own policy reforms. South–South agricultural trade is expanding rapidly as incomes rise, cities grow and lifestyles shift towards more diverse diets. These are the growth markets of the future.

It should be noted, however, that some developing countries may not gain from further agricultural trade liberalization. Some countries that depend on preferential access to protected OECD markets for their agricultural exports would lose if those preferences were eroded. Net food importing countries would also be harmed, especially in the short run, in so far as the removal of OECD subsidies would lead to higher prices of basic foodstuffs on world markets.

Although there seems to be broad consensus that trade liberalization fosters efficiency and economic growth, the immediate results for the poor and food-insecure seem to be mixed in the present situation of distorted agricultural commodity markets. Experience shows that gains and losses and the distribution of winners and losers among individuals and countries are determined by context. In practice, a great deal seems to depend on the existence of complementary factors. International trade and trade liberalization can best promote sustainable reductions in hunger and poverty if appropriate complementary measures are put in place.

These measures include, on the one hand, investments that would enable people to take advantage of the opportunities presented by trade and, on the other hand, social safety nets to ensure that the weakest and most vulnerable members of society are protected from the potential disruptions that arise from trade reform. We must always pay particular attention to the specific difficulties faced by the least-developed countries, the low-income food-deficit countries and other vulnerable groups.

Among the most important of these investments are measures such as reducing the large variations in agricultural production in rain-dependent areas through small-scale water projects implemented at the village and community levels; improving rural roads so that inputs can more easily reach the producers and production the markets; and improving all components of the marketing chain. Especially needed are better storage and packaging facilities at the farm level and throughout the marketing process, as well as market facilities, slaughterhouses and ports. Equally important is investment in capacity building to enable countries to comply with quality and safety standards and with the World Trade Organization Agreements on Sanitary and Phytosanitary Measures and Technical Barriers to Trade; this includes the provision of skills training, equipment and resources, and strengthening of institutions to facilitate countries' active participation in standard-setting bodies.

Such investment in agriculture and rural areas has multiple payoffs, not the least of which is the increased capacity of developing countries to become more effective participants in the international economy. With proper assistance from wealthier countries, trade standards can be transformed from a threat to an opportunity.

FAO's ongoing studies and analyses do provide encouraging lessons and overall policy guidance. Among these many important lessons is the need for policy-makers to consider more carefully than they have in the past how trade policies can be used positively to promote pro-poor growth. This involves actively implementing policies and making investments that complement trade reforms to enable the poor to take advantage of trade-related opportunities, while establishing safety nets to protect vulnerable members of society.

The Millennium Declaration underscores the importance of international trade in the context of development and the elimination of poverty. In the Millennium Declaration, governments committed themselves, *inter alia*, to the creation of an open, equitable, rule-based and non-discriminatory multilateral trading system. Such a system is essential if international agricultural trade is to promote more equitable economic growth and contribute to the goals of poverty alleviation and food security.

Jacques Diouf
FAO DIRECTOR-GENERAL

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Glossary

AMS	aggregate measurement of support
AoA	(Uruguay Round) Agreement on Agriculture
CAP	Common Agricultural Policy
CGE	computable general equilibrium
CSO	civil society organization
CV	coefficient of variation
EAA	external assistance to agriculture
EPA	United States Environmental Protection Agency
EU	European Union
EV	equivalent variation
FDI	foreign direct investment
GATT	General Agreement on Tariffs and Trade
GDP	gross domestic product
GTAP	Global Trade Analysis Project
IMF	International Monetary Fund
IPC	International NGO/CSO Planning Committee for Food Sovereignty
LDC	least developed country
MDG	Millennium Development Goal
MFN	most-favoured nation
NAFTA	North American Free Trade Agreement
NFIDC	net food-importing developing country
NGO	non-governmental organization
NTB	non-tariff barrier
OECD	Organisation for Economic Co-operation and Development
PPP	purchasing power parity

PRSP	Poverty Reduction Strategy Paper
PSE	producer support estimate
ROA	Roles of Agriculture Research Project (FAO)
SSG	special safeguard (mechanism)
STE	state trading enterprise
TRQ	tariff rate quota
UNCLOS	United Nations Convention on the Law of the Sea
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USDA	United States Department of Agriculture
WTO	World Trade Organization

Explanatory note

The statistical information in this issue of *The State of Food and Agriculture* has been prepared from information available to FAO up to November 2005.

Symbols

The following symbols are used:

– = none or negligible (in tables)
... = not available (in tables)
$ = US dollars

Dates and units

The following forms are used to denote years or groups of years:

2003/04 = a crop, marketing or fiscal year running from one calendar year to the next
2003–04 = the average for the two calendar years

Unless otherwise indicated, the metric system is used in this publication.
"Billion" = 1 000 million.

Statistics

Figures in statistical tables may not add up because of rounding. Annual changes and rates of change have been calculated from unrounded figures.

Production indices

The FAO indices of agricultural production show the relative level of the aggregate volume of agricultural production for each year in comparison with the base period 1989–91. They are based on the sum of price-weighted quantities of different agricultural commodities after the quantities used as seed and feed (similarly weighted) have been deducted. The resulting aggregate therefore represents disposable production for any use except seed and feed.

All the indices, whether at the country, regional or world level, are calculated by the Laspeyres formula. Production quantities of each commodity are weighted by 1989–91 average international commodity prices and summed for each year. To obtain the index, the aggregate for a given year is divided by the average aggregate for the base period 1989–91.

Trade indices

The indices of trade in agricultural products are also based on the base period 1989–91. They include all the commodities and countries shown in the *FAO Trade Yearbook*. Indices of total food products include those edible products generally classified as "food".

All indices represent changes in current values of exports (free on board [f.o.b.]), and imports (cost, insurance, freight [c.i.f.]), expressed in US dollars. When countries report imports valued at f.o.b., these are adjusted to approximate c.i.f. values.

Volumes and unit value indices represent the changes in the price-weighted sum of quantities and of the quantity-weighted unit values of products traded between countries. The weights are, respectively, the price and quantity averages of 1989-91 which is the base reference period used for all the index number series currently computed by FAO. The Laspeyres formula is used to construct the index numbers.