

Short Article

Agricultural Trade Liberalization, Food Security and Poverty Reduction

During the last two decades, globalization and increasing trade liberalization have fostered economic growth and poverty reduction in developing countries. This occurred mostly in the manufacturing sector, where trade liberalization has spurred the production of goods along with employment opportunities and brought about structural changes and poverty alleviation. On the light of the example of the manufacturing sector, one might ask if the agricultural sector is also benefiting from globalization. What is the state of agricultural trade liberalization? In what extent is globalization benefiting to agriculture?

In 2008, the world poor earning fewer than two dollars a day amounts 2.1 billions, of which 3 out of 4 live in rural areas and make their living from agriculture as producers or workers. Agriculture and agro-processing account for 30 to 60 per cent of developing countries' gross domestic product (GDP), and an even larger share of their workforce. Agriculture occupies nearly 70 per cent of developing countries' workforce (Maxwell, 2001); and it is estimated that more than 50 per cent of the poor will be in rural areas and depend on agriculture in 2035 despite the growing urbanization (Nash, 2005). These figures show that the agricultural sector is the sector of the poor. It is the key sector for poverty alleviation.

However, barriers to trade kept the agricultural sector aside of the benefits of globalization. Three poor out of 4 -- nearly 1.5 billion people worldwide -- are not benefiting from globalization as they could, because of barriers to agricultural trade. On average, tariffs on agricultural goods are five times higher than manufactures tariffs globally (Braga, 2005). Non-tariff barriers which include import or export bans, rules of origin, product-specific quota and quota shares, restrictive licenses, price controlling, complex regulatory environment, etc. commonly applied to agricultural goods more than any other product. The situation of agricultural trade has worsened since the beginning of the recent food crisis. In fact, when the crisis started, many countries (China, India, Egypt, Bolivia, etc.) imposed higher tariffs and restrictions on food exports as a coping strategy.

Governments usually adopt protectionist policies on agricultural products to protect their domestic producers and to ensure food self-sufficiency. By doing so, they would rather hurt agricultural production, rural development and the poor who rely on farming for their living. In fact, tariffs and non-tariff barriers to agricultural trade restrict farmers' access to the world market. In this context, farmers are confronted to narrow

domestic markets which limit the demand of agricultural products. Feeble demand and limited expansion opportunities in the agricultural sector lessen the benefit from economy of scale and reduce the investment incentive in the agricultural sector. High tariff on agricultural commodities and other trade distortion policies couple with poor rural infrastructure drive up the market price of food items at a level the poor cannot necessarily afford. Food accessibility for the poor is threatened. In the case food production falls in a country as a consequence of natural disasters like drought or flood, barriers to trade annihilate the supply response from the world market. This situation threatens food security in this age of global warming. Hunger, undernourishment and malnourishment are all affected. The losers of protectionist measures on agricultural products are the poor, especially smallholder farmers who make their livelihoods from agriculture.

Agricultural trade liberalization is important for food security and poverty reduction; especially rural poverty. Having access to global market will create big opportunities for farmers and agro-processors. If farmers and agribusiness entrepreneurs are given opportunities to produce and export freely, they will be more willing to invest in agribusiness, especially in rural areas where the labour cost is cheaper. Foreign investment flows to developing countries will increase as well as food production, opportunities for rural employment and agricultural economic growth. Investment increase in the agricultural sector will facilitate transfer of new technologies and spur productivity rise in the agricultural sector. Liberalizing trade of agricultural products will expand high-value primary and processed products such as fruits, vegetables, meat, dairy and fish product for which farmers in developing countries have a comparative advantage. Agricultural and non-farm growth in rural areas will be fostered, boosting incomes and creating jobs.

The impact of globalization on poverty reduction depends on the extent to which the poor are able to participate in the global market. Yet, the agricultural sector is kept behind tariffs and non-tariff barriers to trade. Protectionist measures on agricultural products unable a vast majority of the poor to take advantage of globalization. It is important to shift over food self-sufficiency measures to food security policies by removing the barriers on agricultural products. Agricultural trade liberalization is important for poverty reduction. ■

Written by Agbessi Komla Amewoa, Associate Expert, UNESCAP-CAPSA, Bogor, Indonesia.

Breaking News

Economic Crisis Threatens "Potato Boom"

A new FAO report warned that booming potato production in the developing world could falter as the global economic slow-down reduces investment, trade and potato farmers' access to credit. The threat comes at a time when potatoes have become an important staple food and a lucrative cash crop in many developing countries. To strengthen potato farming in developing countries, FAO and the International Potato Center have called for "potato science at the service of the poor" to provide potato growers with better quality planting material, varieties that are more resistant to pests, diseases, drought and climate change as well as farming systems that make more sustainable use of natural resources.

FAO Newsroom, 2008. Economic Crisis Threatens "Potato Boom": Expansion of World Potato Production is Vital to Food Security, <http://www.fao.org/> (15 December 2008).

Commodity Exchange Market

According to a study of Dhaka University's Bureau of Economic Research, Bangladesh needs to have a commodity exchange market to keep prices and supplies of essential goods stable, protecting the consumers from retail market volatility and ensuring fair prices to growers. Commodity exchange market would facilitate future trade in farm produces. It would protect farmers from abrupt price falls and consumers from unusual jumps in prices. Farmers will be able to make decisions when they will sell their produces and at what prices. The study report made several recommendations, including enhancement of capacity of government's warehouses and framing of necessary regulations. It also suggests setting up of a regulatory commission to monitor commodity exchange.

The New Nation, 2008. Commodity Exchange Market, <http://nation.ittefaq.com/> (18 December 2008).

Events

International Scientific Congress on Climate Change: Global Risk, Challenges and Decisions

10-12 March 2009
Copenhagen, Denmark
<http://climatecongress.ku.dk/>

2nd International Conference on Water and Flood Management (ICWFM 2009)

15-17 March 2009
Dhaka, Bangladesh
<http://teacher.buet.ac.bd/icwfm2009/>

ADB Backs Formal Regional Network to Share Knowledge on Poverty Reduction

The Asian Development Bank (ADB) has approved a project to support a regional network of research institutions and policymakers in Asia and the Pacific to share knowledge on poverty reduction and inclusive growth. Swapping information on poverty has been hampered by a lack of available material in readily shareable form, as well as limited, or inadequate, channels for exchanging it. The three-year technical assistance will enable quick and cost-effective dissemination of poverty studies and inclusive growth, policy briefs and working papers by using websites, e-newsletters, virtual seminars, and other technology. The project hopes to work closer with regional bodies such as the ASEAN Secretariat and raise relevant poverty and inclusive growth discussions back to back with high-level meetings.

ADB, 2008. ADB Backs Formal Regional Network to Share Knowledge on Poverty Reduction, <http://www.adb.org/> (10 December 2008).

The Organic Green Revolution

An Organic Green Revolution, using integrated farming practices such as cover crops, organic no-till and composting, not only substantially improves yields but it also protects and restores soil and environmental health. According to the Rodale Institute, a study covering 286 farms in 57 countries finds that small farmers increase their crop yields by an average of 79 per cent by using environmentally sustainable techniques, including organic farming and crop rotation. It is another kind of challenging the popular myth that organic agriculture cannot increase agricultural productivity. Another study of UN Environmental Programme (UNEP) reported that organic or near-organic practices resulted in a yield increase of more than 100 per cent.

LaSalle, T., *et al.*, 2008. Organic Green Revolution. Rodale Institute, <http://www.rodaleinstitute.org/> (December 2008).

7th World Potato Congress

22-25 March 2009
Christchurch, New Zealand
<http://www.wpcnz.org.nz/>

9th Agricultural Science Congress: Technological and Institutional Innovations for Enhancing Agricultural Income

22-24 June 2009
Srinagar, Jammu & Kashmir, India
http://www.skuastkashmir.ac.in/agri_sci_cong.htm

Food Security the Key, Not Self-sufficiency

A recently completed project of ACIAR which examined the effects of China's accession to the World Trade Organization (WTO) on Chinese agriculture reveals that the focus of food policy should be food security, not food self-sufficiency. Food security policies consider whether people have sufficient income to get a reasonable diet, irrespective of whether the food is imported or produced domestically. Barriers that hinder market integration should therefore be removed. By modelling the Chinese economy, the project, undertaken by researchers from the Australian National University (ANU), the China Center for Economic Research and the Center for Chinese Agricultural Policy, has demonstrated the high cost of policies that focus on food self-sufficiency. The project examined policy issues at the regional, village and household levels. It demonstrated that as incomes increase, agriculture's share of the economy shrinks. Consequently, China is likely to become less self-sufficient in many commodities. The results of the study show that, as a consequence of WTO accession, China's agricultural sector will have to make substantial adjustments, in particular moving out of land-intensive activities, such as grain production into labour-intensive activities, such as horticultural products and agricultural product processing where it has a comparative advantage. These structural adjustments will inevitably benefit some households, but disadvantage others. However, by taking an economy-wide approach, rural poverty should be alleviated by households earning off-farm income. ■

Based on Taylor, R., 2008. Food Security the Key, Not Self-sufficiency. ACIAR, <http://www.aciar.gov.au/> (November 2008 - February 2009).

Helping Some Farmers Get out of Agriculture

Population growth, declining size of farms, and economic development create an inescapable logic for farmers in developing countries. Trend towards smaller farms coincides with an expansion of large farms. With land and labour pressures, it is unlikely that agricultural advances alone are enough to absorb so many workers in developing countries. People have already moved out of agriculture to improve their well-being. About 575 million people migrated from rural to urban areas in developing countries over the past 25 years. Non-agricultural rural sectors can offer attractive and rewarding alternatives to agricultural employment. For the rural population, returns to off-farm labour are constrained by their low levels of education. Policymakers are paying more attention to upgrading the skills of the rural population, but many challenges remain for the current generation. As agriculture intensifies and diversifies, and economies develop, well-functioning rural labour markets and migration are crucial in reducing rural poverty and reducing rural-urban income disparities. So far, little policy attention has been given to the structure, conduct, and performance of rural labour markets and how they can facilitate successful transitions out of agriculture. These markets need to be deeply studied to identify their strengths and weaknesses and develop policy interventions. Effective preparedness of those who choose to leave agriculture is a critical part of an overall strategy to mobilize agriculture for development. ■

Based on Macours, K. and Sadoulet, E., 2008. Managing the Exodus: Helping Some Farmers Get out of Agriculture. World Bank Institute, <http://www1.worldbank.org/> (October 2008).

Year of Hungry: One Billion Afflicted

The UN estimates that in 2009, for the first time in human history, the number of people who suffer from hunger around the globe will pass one billion. This shocking landmark will be exceeded despite a second record harvest worldwide in a row; because people are becoming too destitute to buy the food they need. Some 963 million people are now undernourished worldwide, according to the most recent survey of the FAO. With the recession, the situation is expected to worsen in 2009. The main reason of the growth in hunger is that high food prices have priced the poor out of the food market. Food items remain very expensive in developing countries because their farmers are unable to afford expensive fertilizers and seeds. Consequently, their domestic food supplies remain scarce, keeping prices in local markets at record levels. In addition, as rich countries' economies slump, they are importing fewer commodities and goods from the developing world; driving national incomes down and increasing unemployment and poverty. Moreover, because employment falls in the West, Third World immigrants are losing their jobs and are no longer able to send back the money they save from their wages in remittances to their families, a financial boost that is often crucial in keeping them out of dire poverty. ■

Based on Lean, G., 2008. Year of the Hungry: 1,000,000,000 Afflicted. The Independent, <http://www.independent.co.uk/> (28 December 2008).

Agriculture's Special Powers in Reducing Poverty

The large and persistent gap between agriculture's share in GDP and its share in employment suggests that poverty is concentrated in agriculture and rural areas. This implies that, as non agricultural growth accelerates in some countries, much of the rural population remains poor, resulting in widening rural-urban income disparities. Since agriculture is the main source of livelihood for about 2.5 billion people, including 1.3 billion smallholders and landless workers, it is clear that a more dynamic and inclusive agricultural sector could have a dramatic impact on rural poverty. Broad based growth in the rural economy is therefore essential to reduce both absolute and relative poverty. But the contribution of agriculture to poverty reduction differs according to country types. In agriculture-based countries, where large proportions of the population still depend directly on farming, a productivity revolution in smallholder farming is required. In transforming countries, as in China and India, a comprehensive approach that offers rural populations multiple pathways out of poverty is needed. Encouraging shifts to high value agriculture, decentralizing non-farm economic activities to rural areas, and providing assistance to help people move out of poverty are important. In urbanized countries where agriculture has a smaller share of the economy, but where deep pockets of rural poverty remain, agriculture can help reduce the remaining rural poverty if smallholders become direct suppliers in modern food markets. ■

Based on Savanti, P. and Sadoulet, E., 2008. Agriculture's Special Powers in Reducing Poverty. World Bank Institute, <http://www1.worldbank.org/> (October 2008).

The State of Food and Agriculture 2008 Biofuels: Prospects, Risks and Opportunities

Food and Agriculture Organization of the United Nations, Rome, 2008.

The focus of this book is derived from the High-Level Conference on “World Food Security: the Challenges of Climate Change and Bioenergy” held at FAO in June 2008. Since the report presents some key messages particularly in relation to biofuel development, the book is worth reading especially for policymakers, research workers, and NGO. The report consists of two parts. The first part is devoted to discuss the prospects, risks and opportunities of biofuels; while the second part is a review of world food and agriculture in general.

The messages relating to biofuel development presented in the report can be presented as follows: (1) Rapidly growing demand for biofuel feedstocks has contributed to higher food prices, which pose an immediate threat to food security for poor net food buyers; (2) In the longer term, expanded demand and increased prices for agricultural commodities may represent opportunities for agricultural and rural development; (3) The impact of biofuels on greenhouse gas emissions – one of the key motivations underlying support to the biofuel sector – differs according to feedstock, location, agricultural practice and conversion technology; (4) Harmonized approaches for assessing greenhouse gas balances and other environmental impacts of biofuel production are needed to achieve desirable outcomes; (5) Liquid biofuels are likely to replace only a small share of global energy supplies and cannot alone eliminate our dependence on fossil fuels; (6) Production of liquid biofuels in many countries is not currently economically viable without subsidies, given existing agricultural production and biofuel processing technologies and recent relative prices of commodity feedstocks and crude oil; (7) Policy interventions, especially in the form of subsidies and mandated blending of biofuels with fossil fuels, are driving the rush to liquid biofuels; and (8) Ensuring environmentally, economically and socially sustainable biofuel production requires policy action in the following broad areas: protecting the poor and food-insecure, taking advantage of opportunities for agricultural and rural development, ensuring environmental sustainability, reviewing existing biofuel policies, and making the international system supportive of sustainable biofuel development.

Looking ahead, the report predicts that biofuels will remain a significant source of increased demand for agricultural commodities – and for the resources used to produce them – and that the growth in income and consumption levels in

developing countries will continue and spread. On the supply side, the report concludes that the incidence of both short-term yield shocks and longer-term climate change remain uncertain, indicating the persistence of price volatility given low levels of stocks.

The report also concludes that effective action must be undertaken to ensure that biofuels provide a positive contribution to the reduction of greenhouse gas emissions while minimizing other negative environmental impacts. There is a need, especially, for a much better understanding of the effects of biofuels on land-use change, from which the most significant impacts on greenhouse gas emissions and other environmental impacts will be derived. Criteria for sustainable production of biofuels can help ensure environmental sustainability. However, it is critical that such criteria be carefully assessed and applied only to global public goods, and they must be designed in such a way as to avoid the creation of additional trade barriers and posing undue constraints on developing countries wishing to take advantage of the opportunities offered by biofuels.

When we look to the longer run, demand for biofuels leads to a continued upward pressure on prices for agricultural commodities. We must be able to reap the opportunities for agricultural development and poverty alleviation. The emergence of biofuels as a new source of demand for agricultural commodities enhanced investment, and increased levels of development assistance directed to the agriculture sector and rural areas.

The report also recommends an urgent need to provide immediate relief and assistance to the net food-importing developing countries most affected by higher food prices, as well as providing safety nets to poor net food-buying households in developing countries. This is a shared responsibility of national governments and the international community. However, it is advisable to avoid policies such as export bans and direct price controls, which may in fact worsen and prolong the crisis by blocking price incentives for farmers and preventing them from increasing output. Therefore, there is an urgent need to review current policies supporting, subsidizing and mandating biofuel production and use. ■

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