

# How Freer Trade Can Help Feed the Poor

**An agenda for easing hunger worldwide by reducing trade protectionism**

*John Nash and Donald Mitchell*

**T**RADER POLICY may not, at first glance, seem like the ideal tool for combating hunger. But eradicating costly protectionist barriers may be one of the best ways to put food on the tables of the poor. The world produces more than enough food to feed everyone. Yet about 840 million people, or almost one-sixth of the world's population, still suffer from undernourishment. The overwhelming majority of these—about 92 percent—suffer from chronic undernutrition, rather than the acute hunger that grabs headlines in periods of man-made or natural disasters.

Part of the problem is the obsession in both developed and developing countries with the idea that increasing national food crop production, rather than raising incomes, is the best way to achieve food security. This preoccupation in developing countries has been exacerbated by the inordinately high support for agricultural production in industrialized countries, which causes huge distortions in global food markets (see "Picture This," *F&D*, September 2004). It has been a costly distraction both in countries' own policies and in negotiations in the World Trade Organization's (WTO) Doha Round trade talks.

Global trade liberalization is only one weapon in the arsenal to fight hunger, but it can make an important contribution by delivering cheaper food in protectionist countries and boosting the global economy, helping to lift millions out of poverty. This is one reason why it is essential that the Doha Round agreement lower barriers to trade in food



products in rich and poor countries. This article examines how trade policy can be harnessed to help reduce poverty and alleviate hunger and outlines an agenda to reduce food insecurity in developing countries.

## Production rising

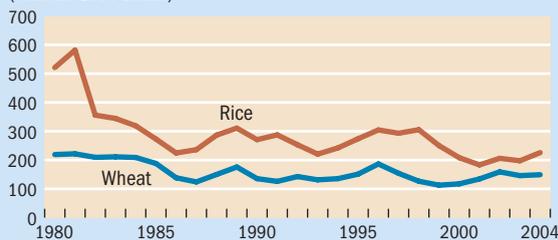
Food production, stocks, and exporting capacity are not at the root of the problem of undernutrition. Grain prices have been falling over the past 25 years thanks to global surpluses. Despite a reduction in global cropland used for grain production, particularly in the five largest exporting areas—the United States, the European Union (EU), Canada, Australia,

Chart 1

### Cheaper food

Real grain prices have declined sharply since 1980.

(constant 1990 dollars)



Source: Development Prospects Group, World Bank.



Rice silos in Brazil.

increased spending on rural education, infrastructure, research, and technical assistance. It keeps them from investing in efficient food distribution systems that would improve their ability to respond quickly to food emergencies. Simulations have shown that replacing the implicit tax on consumption that results from protectionism with an equivalent explicit tax and investing the revenue in agricultural research can be enormously beneficial for increasing employment, income, and consumption, particularly of food (Diaz-Bonilla and others, 2003).

Protectionism also indirectly encourages farmers to continue planting low-value food crops instead of diversifying into high-value nontraditional exports that would be a better way of raising income and escaping poverty. In turn, the lack of export production reduces the country's ability to earn foreign exchange and undermines its structural capacity to import food and other products. And when many developing countries protect their food crops by imposing import tariffs, they are effectively creating high barriers to South-South trade. Thus, although there is a case to be made for temporary limited safeguard measures for developing countries with low import tariffs, in general, trade barriers on food make poor consumers less food secure, and even the temporary benefits to producers are debased in the longer run as the protectionism undermines more productive use of public and private investment resources and provokes reactive protection in other countries.

Apart from chronic food insecurity, there is a legitimate concern over temporary food supply disruptions caused by man-made or natural disasters, and this is sometimes used to justify protectionist measures to stimulate domestic food production. However, the impact of these disruptions could be mitigated through other measures, such as stockpiling of moderate reserves in cash or in kind, improving distribution

and Argentina—real prices for wheat have fallen by about 34 percent and for rice by almost 60 percent (see Chart 1). The 2004/05 crop year is expected to see world grain production increase by 8 percent, the biggest year-on-year increase in 26 years, as a result of higher yields and better growing conditions in regions plagued by several years of drought. With consumption projected to increase by only 2 percent, the boost in production should lead to higher grain stocks.

In spite of adequate global supplies, and in part thanks to relatively low world prices, many countries impose import tariffs on food to encourage and protect higher-cost domestic production. While this is true of both industrialized and developing countries, the latter bear the brunt of much of the cost of both their own protectionist policies and those of the richer countries. Food protectionism results in higher domestic food prices, which mostly hurt poor consumers as they spend disproportionately on food. Protectionism does not benefit the rural poor equally as it leaves out two large groups: those who do not own farmland, but have to pay higher prices as consumers; and those who own farmland, but do not produce for commercial purposes. And even commercial farmers, who may see a short-term increase in their income, will not experience long-term benefits such as a significant narrowing of the income gap with nonfarmers; this will come only from measures that raise agricultural productivity and facilitate the movement of labor.

Policymakers often view protectionism as a substitute for more productive methods in support of agriculture, such as

Chart 2

### Closing the doors

Major exporting countries have sometimes imposed export controls in periods of global food price spikes.

(nominal U.S. wheat prices in U.S. dollars per ton)



Sources: United States Department of Agriculture and World Bank.

channels, and reforming food aid, which would be more effective and less costly than efforts to stimulate food production. To the extent that disruptions stem from exporting countries restraining exports in times of high world prices (see Chart 2), developing countries should act through the WTO to seek to constrain such behavior in the Doha agreement.

### Focus on raising income

Because chronic food insecurity comes mainly from insufficient purchasing power of the poor, the real question is how the poor can be provided with opportunities to earn sufficient income so they can meet their consumption needs, regardless of whether they do so through food produced at home or abroad. Here, trade liberalization can have a major impact, as it would open markets for producers in developing countries not only to sell their products at higher prices, but also to buy better production technology, which in turn would help boost their productivity and raise their incomes. But this requires strong commitment from developing and industrialized countries to sweeping liberalization in the Doha trade negotiations. A successful Doha Round could produce huge benefits for the developing world and lift millions out of poverty (World Bank, 2003). However, in the Doha talks, discussions of food security continue to center on domestic production, which is reflected in negotiating positions calling for more flexibility for developing countries—or some subset such as net food importing countries—to be exempted from the general obligations, so they can maintain high import barriers to food products under the rubric of “special products” or as a component of the “development box.”

The focus on domestic production may be a holdover from the past, when the global food distribution system was less developed, food imports were primarily the responsibility of often inefficient state enterprises, and poor macroeconomic policies created the specter of foreign exchange shortages at times when food imports were most needed. But under current conditions, the strategy should aim at reducing poverty, not increasing domestic food production. While a comprehensive strategy to fight hunger needs to have many components, including nutritional education, health infrastructure, safety nets, and more, the main determinant of undernutrition is income (see Chart 3). Whereas it is difficult to find an example of a country where large numbers of people were lifted out of poverty but are still going hungry because of a lack of locally produced food, there are prominent cases of countries that are food self-sufficient at a national level—even holding large surplus stocks—but where large numbers of poor people continue to go hungry.

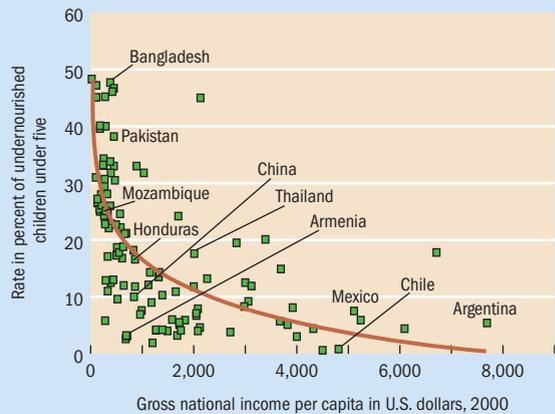
### How trade liberalization can help

Clearly, when considering food security, the Doha trade liberalization talks need to shift the focus from how the trading system can be used to increase the degree of self-sufficiency to how it can help raise the incomes of the poor. In addition, to take advantage of the historic opportunity presented by the Round, the level of ambition in the negotiations needs to be

Chart 3

### Fewer hungry mouths

Countries with higher average incomes have fewer undernourished children.



Sources: UNICEF and World Bank staff estimates.

ratcheted up. Developing countries can also take some unilateral steps that do not depend on the Round. The agenda should focus on these components, in rough order of priority:

- In a Doha Round agreement, all countries—rich and developing—should commit to lowering bound (ceiling) rates on food and other agricultural products to significantly reduce applied tariffs. This should be combined with a special safeguard or contingent protection mechanism for developing countries, which they can invoke in periods of exceptionally low world prices or import surges (see box).
- Individual developing countries should enhance household food security by lowering applied tariffs on food product imports. To mitigate adverse effects on small producers who have limited resources to adjust, safety nets or transitional assistance schemes may be needed. While in principle such reforms are desirable even in the absence of multilateral negotiations, in practice they will be politically much easier if a successful agreement exists that calls for industrialized countries to reduce their own subsidies and border protection.
- Rural development strategies should focus policy, as well as productivity-enhancing investments and support services, on raising rural incomes and improving the environment for agricultural production in general (including exports), not on increasing food production. In many developing countries, agricultural investment needs to be increased, but in a way that creates a level playing field in which farmers can make unbiased production decisions.
- The practice of export taxation or controls by food-exporting countries in periods of high world prices should be restricted under the Doha Round agreement.
- Rich countries’ dumping of surplus production, billed as food aid, in developing countries in periods of global gluts should also be disciplined in the agreement, as it undermines local food production and marketing channels.



### A case for safe-guarding food production

Although part of the solution to food security is to eradicate import barriers, in periods of exceptionally low world prices, developing countries that agree to significantly lower WTO-bound tariffs should be allowed to invoke special temporary measures to protect production. While rich countries protect their producers from the high volatility in agricultural markets through safety nets of various kinds, the poorer countries cannot afford to do so. Thus, developing countries will be looking for other ways to protect producers of import-substitute crops.

Ideally, this should be done by direct payments not linked to how much input is used or how much output is produced, rather than an increase in import tariffs. But taking into consideration fiscal realities, it is likely that protection would have to come from tariffs. However, any tariff increases under this special mechanism should be time-bound, moderate in magnitude, and invoked only on rare occasions. Such constraints will at least minimize the inherent bias against exports that is created by protection. And this relatively neutral trade policy with no or modest protection for import substitutes would not hurt food production. In many countries, farmers traditionally follow a mixed-crop strategy, and the production of cash crops improves their ability to buy modern components for their food production. Hence, a positive empirical correlation exists between cash crop income and food production. This relationship is stronger in poorer countries, where nonfarm income is more limited.

- Developing countries should unilaterally lower regulatory and border barriers to trade in agricultural inputs such as seeds, fertilizers, chemicals, and equipment.
- Independently of the Doha Round, developing countries should lower barriers to cross-border regional trade in food products and invest in reducing the costs of this trade. Since shocks to the food supply are not perfectly correlated across neighboring countries, regional trade flows can help stabilize supplies and prices.
- Sweeping global trade liberalization could lead to a structural increase in global food prices, which could negatively impact poor consumers. However, there should be

ample time for adjustment, as structural effects will appear gradually as agreements are implemented. In countries that currently impose tariffs on food imports, the domestic effect of higher world market prices can be offset by lowering tariffs. In other countries, safety nets may be needed to protect the most vulnerable. In addition, world prices will become less volatile (Tyers and Anderson, 1992), helping producers and consumers manage risks better. Nevertheless, a WTO panel is currently exploring ways to help poor consumers deal with potentially higher prices.

The international trading system can clearly play a role in alleviating hunger, but governments and negotiators need to look beyond the short-term effects of protectionist barriers and work toward an open system that allows all people physical and economic access to sufficient, safe, and nutritious food. ■

*John Nash is Advisor for Commodities and Trade in the World Bank's Rural Development Department, and Donald Mitchell is Lead Economist in the Bank's Development Prospects Group.*

---

#### References:

- Bruinsma, Jelle (ed.), 2003, "World Agriculture: Towards 2015/2030" (Rome: Food and Agriculture Organization).
- Diaz-Bonilla, Eugenio, Xinshen Diao, and Sherman Robinson, 2003, "Thinking Inside the Boxes: Protection and Investments in the Development and Food Security Boxes," contributed paper to international conference "Agricultural Policy Reform and the WTO: Where Are We Headed?" Capri, June 23–26, 2003.
- Gisselquist, David, Carl Pray, and John Nash, 2002, "Deregulating the Transfer of Agricultural Technology," World Bank Research Observer, Vol. 17, No. 2, pp. 237–65.
- Organization for Economic Cooperation and Development, 2004, "Agricultural Outlook 2004–2013" (Paris).
- Tyers, Rodney, and Kym Anderson (eds.), 1992, "Disarray in World Food Markets: A Quantitative Assessment" (Oxford: Cambridge University Press).
- United States Department of Agriculture, Foreign Agricultural Services, 2004, "Grain: World Markets and Trade" (Washington).
- World Bank, 2003, "Global Economic Prospects 2004: Realizing the Development Promise of the Doha Agenda" (Washington).

# IMF Survey

## FUND-TRACKER?

Keep up-to-date with the IMF and global economic and financial developments through the *IMF Survey*.

Published online at [www.imf.org/imfsurvey](http://www.imf.org/imfsurvey)