

The Food Crisis Is Not Over Yet

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Although agricultural protectionism is a major obstacle to development in some Southern countries, it cannot be blamed for the food crisis of 2007-2008. Growing trade liberalisation in the agricultural sector had an ambiguous effect: it facilitated the development of countries with a comparative advantage in the sector, but it also led to a rise in agricultural prices and therefore harmed developing countries that are net importers of food products.

The last food crisis, which lasted from early 2007 to mid-2008, caused world food prices to soar (particularly rice, wheat and corn) and had a profound impact on the economies of developing countries.

This food crisis has had short-term consequences: the annual figure for those living in “absolute poverty” (with a real income of less than one dollar a day) has risen due to the increase in world prices of primary foodstuffs, especially in large cities; and the annual figure for those suffering or dying from malnutrition has also risen. Furthermore, every famine has long-term consequences for the affected regions: the loss of human capital linked to a direct rise in mortality rates, an increase in malnutrition causing a persistent reduction in cognitive capacity, and a loss of real estate and animal capital, when the poorest people do not have the income flow needed to withstand the crisis and are forced to sell their productive capital.

The food crisis is not yet over. According to new estimates published a few months ago by the Food and Agricultural Organisation, world hunger reached historic levels in 2009: there

are now 1.2 billion victims of hunger worldwide. The declining economic situation faced by the poor in developing countries is not due to a rise in consumer prices of primary goods but, rather, to a loss of income linked to weak exports and a fall in direct foreign investment and unilateral transfers (public and private).

This article aims to determine whether or not government interventions in the area of trade policy (protectionist tariffs; technical, sanitary and plant protection barriers) are responsible for this food crisis and its persistence.

Geographical disparities in agricultural protectionism

We shall begin by looking at some statistics outlining agricultural trade policies¹, in which customs protectionism is concentrated. While the overall rate of protectionism worldwide was 4.6% in 2004, it was 16.4% in the agricultural sector and 3.9% in the industrial sector. Within the agricultural sector, tariff protectionism focused on a number of products: meat (38.5% rate of overall protection), dairy products (37.4%), sugar and derivatives (48.5%), tobacco and derivatives (30.1%), but also products of the milling industry (27.4%), cereals (25.4%) and drinks and spirits (23.6%).

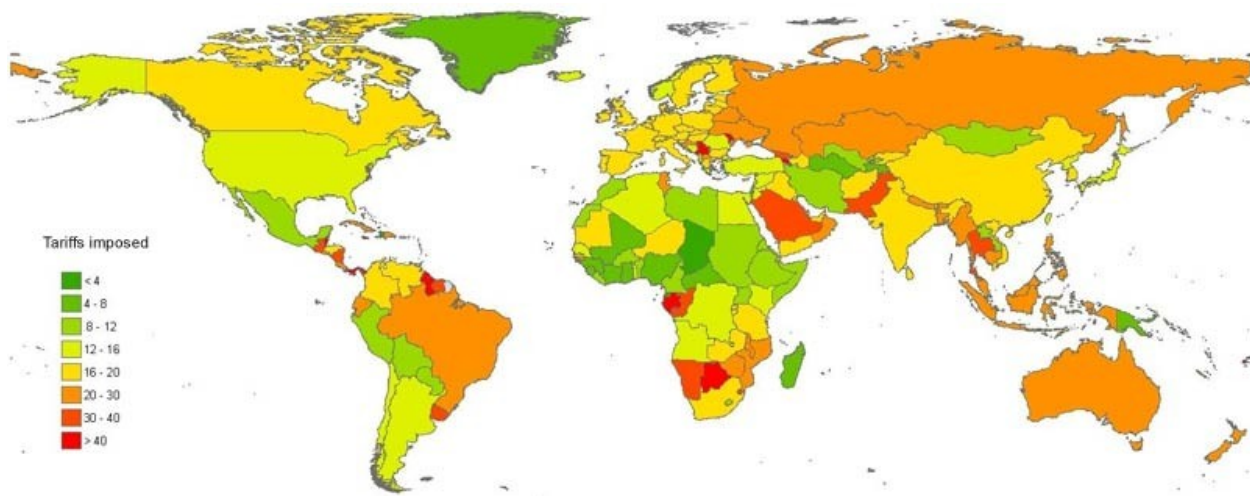
From a geographical standpoint, agricultural protectionism is also highly heterogeneous. The most protectionist countries (of significant size) in the agricultural sector include Norway (with a 65.8% rate of protection in agriculture), India (62%), Iceland (56.1%), Tunisia (47.7%) and Switzerland (48.2%). Agricultural protectionism is not the sole preserve of rich countries. Nevertheless, protectionism in Europe or Japan restricts the richest countries' worldwide demand and therefore constitutes a potentially greater distortion.

If we look at the exporting countries most affected by agricultural protectionism, the differences are even more marked: in 2004, Guyana bore an average tariff of 81.6% for its agricultural exports, followed by Fiji (56.3%), Armenia (52.7%), Saint Kitts and Nevis (50.8%) and Swaziland (50.6%). The seventy countries most severely punished by worldwide agricultural protectionism are all developing countries. When a country has a comparative advantage in meat,

¹ Source MAcMapHS6, version 2.1. See also David Laborde, "Un panorama mondial des politiques commerciales", *La Lettre du Cepii*, 2007, n° 267.

sugar, dairy products or tobacco it is not easy to specialise and benefit from the international division of labour.

Illustration 1
Protection rates imposed on exporting countries' agricultural exports



Source: Authors' calculations, MAcMapHS6v2.1

Illustration 1 gives an overview of the protection rates imposed on different countries when they export agricultural products. We can clearly see the disparity between different African countries and the burden borne by farmers in Latin America and Central Asia.

The difficulties these countries face when exporting their agricultural products do not end with tariffs. Technical, sanitary, and plant health barriers regulate this sector to such a degree that in 2004, only four agricultural products out of 690 were not subject to any such restriction. This kind of 'protectionism' is also highly inequitable given that a country must have a consistent level of development in order to satisfy the requirements imposed by these regulations. A recent

study² showed that while imposing sanitary or plant health regulations has a positive impact on international trade in agricultural products between rich countries (since it gives consumers information on the quality of imported products), it obstructs agricultural imports by rich countries from poor countries (because these countries lack the capacity to satisfy the increased regulations).

As a result, international trade in agricultural products is growing far more slowly than trade in industrial and mining products. Between 1990 and 2006, world exports of agricultural products have increased 2.3 times in value, whereas those of manufactured products have increased 3.5 times. Although global demand for essential commodities tends to decline as per capita income increases, this does not fully explain the different rates: the liberalisation of world trade mainly affects the industrial sector, and the proliferation of trade barriers in the agricultural sector prevents the expansion of international trade in this sector.

Protectionism is not to blame for soaring prices

Thus, agricultural protectionism certainly damages the interests of poor countries with a comparative advantage in the sector. Is it therefore to blame for the recent surge in world prices of agricultural products? And for the difficulty poor countries have coping? As far as the rise in agricultural prices is concerned, the answer is no. The first thing to note is that agricultural protectionism is a long-established fact. The rise in agricultural prices is a recent, temporary phenomenon, although prices have not yet returned to 2005 levels.

Furthermore, agricultural protectionism by no means helps to keep prices high. On the contrary, it exerts a downward pressure on agricultural prices. These policies mostly consist of tariffs, import quotas and production subsidies. In general, all these tools of economic policy result in a reduction in demand for agricultural products and/or a rise in production, compared with a situation of complete free trade.

Imports of meat, for example, are heavily taxed in Europe. Production costs and consumer prices for meat are therefore very high. Local production is higher (local producers are

² Anne-Celia Disdier, Lionel Fontagné, Mondher Mimouni, “The Impact of Regulations on Agricultural Trade: Evidence from SPS and TBT Agreements”, Working Papers 2007-04, CEPII research center.

encouraged to produce more) and local demand is weaker (consumers choose to substitute meat with other food) than in a free trade situation. The protection of the meat industry in Europe therefore helps to reduce demand for, and increase supply of, meat from European countries on the global market. Europe is a large market, and this, all things being equal, tends to bring down the world price of meat. Protectionist policies therefore tend to bring down world agricultural prices, especially when these are driven by large countries, which have a greater impact on international markets.

On the other hand, a series of government interventions has caused world agricultural prices to rise. Policies intended to support the development of the biofuels industry are an example of this: they have led to a situation in which limited production resources are used for non-food purposes. Obviously the price of these limited resources is then forced up, which affects the costs of agricultural production. Taxes on agricultural exports or export bans have the same effect: they help to reduce the supply of agricultural products on world markets and therefore cause prices to rise.

While agricultural protectionism does not, therefore, seem to be responsible for the recent rise in world prices, it has long been a burden on development and growth in some developing countries, particularly those that are unable to fully exploit their agricultural potential: Argentina, Brazil, Namibia, Botswana, Belize, Panama, Zimbabwe, Thailand, etc. This list includes very poor countries, but also emerging countries, which are experiencing high growth rates but where poverty rates are still high.

Agricultural liberalisation: a partial response

Nevertheless, even though agricultural liberalisation may help the developing countries mentioned earlier, it also has a negative impact on other developing countries that are net importers of agricultural products and foodstuffs. These countries are very heterogeneous. In Africa, for example, out of forty-four countries for which data is available, twenty are net importers of food and twenty-four are net exporters. African countries lie at either end of the global ranking of countries according to their net agricultural trade balance, expressed as a percentage of their GDP; -3.1% for Djibouti and +1.8% for Côte d'Ivoire. Seven countries are

major net importers with an index below -0.5% : Djibouti, Eritrea, Mauritania, Seychelles, Senegal, Angola and Togo. Seven countries are 'large' net exporters of agricultural products with an index above $+0.5\%$: Côte d'Ivoire, São Tomé and Príncipe, Malawi, Zimbabwe, the Comoros, Gambia and Guinea Bissau. Overall, Africa has a slight trade deficit, whereas Asia has a very high deficit and the Pacific and America have a highly favourable trade balance.

Moreover, multilateral trade liberalisation could have zero or even negative benefits for countries that currently have preferential access to rich nations, such as the Least Developed Countries (LDCs) have to the European Union (under the Everything But Arms agreement).

It is important to highlight that agricultural protectionism is not the only cause of underdevelopment: institutions that are badly adapted or of low quality, mediocre transport or telecommunications infrastructures, and flawed macroeconomic policies are major factors in underdevelopment. Overall underdevelopment makes countries particularly vulnerable to fluctuations in the price of foodstuffs. In that sense, it is the incapacity of certain countries and certain populations to withstand the rising prices of agricultural products – rather than the rise itself – that is alarming, all the more so given that if climate change continues, world agricultural markets could again be subject to major turbulence in years to come.

Can we envisage a reasonable scenario in which developing countries could exercise their comparative advantage on world agricultural markets without suffering from the rise in agricultural prices? There are several points that can guide us on this issue. In the event of multilateral liberalisation in the coming months (the signing of a Doha Development Agenda), the liberalisation of agriculture will only be partial. If the international community aims to help the poorest countries to exercise their comparative advantage on these markets, it will have to use its imagination, creating new preferences (a policy of free access for LDCs to all the rich countries' markets, as well as some emerging nations) and increasing international aid, particularly through the Aid for Trade programme. Finally, while we may be concerned that the volatility of the world agricultural markets will increase in the future as a result of climate change, we can try not to aggravate it with destabilising policies such as subsidies for biofuels or

export restrictions. Achieving these goals would already be a major accomplishment for the international community.

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