

TRADE POLICY BRIEFS

TRADE & FOOD SECURITY

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How does agricultural trade impact food security?

The linkages between trade and food security

The links between trade and food security are inherently complex, with several channels of interaction affecting the different dimensions of food security simultaneously.

Figure 1 depicts a simplified representation of the different variables through which trade can affect food security indicators.¹ In essence, trade, influenced by the economic context and sectoral composition of growth, directly affects key domestic variables like food production, prices, employment and government revenues. In the longer run, trade also affects competitiveness, infrastructure development, and the development of marketing channels and distribution networks, as it affects the incentives for public and private investments and new players' entry into markets. These direct effects translate into changes in food security indicators through three main intervening factors: total food supply, household income and government services.

The impacts of trade on food security

Trade can have both positive and negative effects on each of the four dimensions of food security, affecting different economic and social variables in the short, medium and long terms. Market fundamentals – domestic food supply, demand and prices – are affected almost immediately by changes leading to greater or lesser imports and exports. In the very short-term, no factor movement across sectors takes place, and the first-order effects of trade on consumers and producers are through prices of goods produced and consumed in the domestic markets. In the medium term, factor prices adjust, and labour and capital move in response to the changes, shifting the economy towards a new equilibrium in employment, markets, incomes, and other key variables. The dynamic effects of trade on production structure, land use, productivity, dietary patterns and other important determinants may take even longer to materialize, reinforcing or reversing the initial effects in the longer run, as depicted in Table 1.

¹ The State of Commodity Markets 2015-16 maps out in detail, the inter-relationships between each of these variables.

FIGURE 1. TRADE AND THE FOUR PILLARS OF FOOD SECURITY: CHANNELS OF INTERACTION

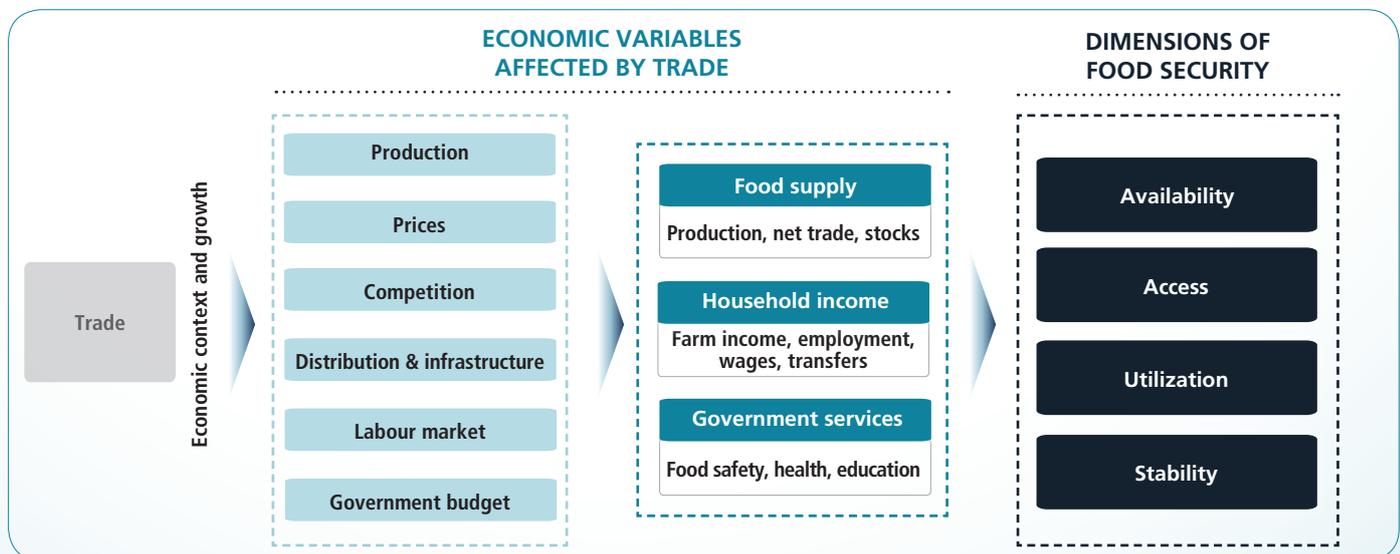


TABLE 1. POSSIBLE SHORT- AND MEDIUM TO LONG-TERM EFFECTS OF TRADE ON THE FOUR DIMENSIONS OF FOOD SECURITY

	SHORT TERM	MEDIUM TO LONG TERM
Availability	• Trade boosts imports and increases the quantity and variety of food available	• Food production may increase due to greater specialization and productivity improvements may be triggered by greater competition.
	• Trade may decrease the domestic availability of crops in net exporting countries	• In net food-exporting countries, domestic availability of staples may decline, as production is diverted toward exports; while in net food importing countries, some producers are likely to curtail production, forgoing the multiplier effects of agricultural activities in rural areas
Access	• Food and input prices are likely to decrease for net food importing countries	• Incomes would rise in competitive sectors, due to greater market access, and growth and employment would be supported by export growth and inflow of FDI
	• Domestic prices of exportable products may increase for net food-exporting countries	• Incomes may decline in import-competing sectors, with some producers transitioning out of agriculture. Also, unequal distribution of grains may occur due to enclave developments in export crops to the detriment of broad-based smallholder food crop production
Utilization	• Greater variety of food available may promote a more balanced diet	• Food safety and quality may improve if international standards are applied more rigorously
	• There may be greater consumption of food that is cheaper, high in calories and low in nutritional value	• Prioritization of commodity exports may divert land and resources from traditional and indigenous foods, which are often superior from a nutritional perspective
Stability	• Imports mitigate likelihood of shortages resulting from local production risks	• Global markets are less prone to policy - or weather-induced shocks
	• Countries may be more vulnerable to changes in trade policy by exporters, such as export bans	• Sectors at earlier stages of development may become more susceptible to price shocks and import surges

Possible positive impact

Possible negative impact

With the short and long-term effects potentially working in different directions, the overall effect of trade on the different pillars of food security can be heterogeneous.

The complexity of the channels of interaction between trade and food security produces great differences in country experiences, making the overall impact largely context-specific. The advantages and disadvantages of greater openness to trade depend to a large extent not only on the resource endowment and comparative advantages of the country, but also on the role of agriculture in the economy and the composition of production at the current level of the country's development. However, the different interpretations of these concepts have contributed to an increasingly polarized debate, with trade being perceived as a threat by some and an opportunity by others.

The State of Commodity Markets 2015-2016 takes the view that **trade is neither an inherent threat to, nor a panacea for, improved food security and nutrition, but it poses challenges and risks that need to be considered in policy decision making.**

The determinants of the impact of trade on food security

A number of underlying factors affect the way in which trade interacts with food security outcomes, ultimately determining whether the impact is positive or negative. These include:

- **The functioning of domestic food markets:** competition issues in agriculture affect all of the major variables that determine the purchasing power of the poor and the level of agricultural production: prices and price transmission; the availability of inputs; volumes of production; and the level of investment in rural infrastructure. The degree of vertical integration and the shares of total value-added captured

by different stakeholders in the value chain also affect the poor's food security. In turn, the structure of value chains, government regulation, entry barriers in the marketing channel, and existence of parastatals or state trading enterprises all affect competition in agricultural market, with substantial implications for consumers and farmers.

- **The ability and willingness of producers to respond to changing incentives:** with the proliferation of supermarkets in developing countries, and the high degree of competition along their supply chains, there is increased pressure on producers to supply higher-quality goods at lower prices. While making the organizational adjustments to meet volume, cost, quality and consistency standards may be challenging for some farmers and processing firms, their successful inclusion in supply chains could play a crucial role in technology transfer, productivity growth and employment creation, with positive direct and indirect implications for food security.
- **The participation of smallholders in markets:** the access of smallholder farmers to evolving agricultural markets, can have significant implications for their food security. Remoteness and insufficient productive resources can make it too costly to participate in modern marketing channels, or may limit the amount of surplus production that smallholders are able or willing to sell. Smallholders are likely to increase their engagement in markets when particular conditions, such as stable prices and availability of credit, efficient infrastructure and extension services are in place, allowing them to sell products that can be absorbed by the market at a reasonable remunerative price.

Trade policy interventions need to take into consideration the various underlying factors that influence the linkages between trade and food security.