

# THE STATE OF FOOD AND AGRICULTURE 2005

## Agricultural trade and poverty: can trade work for the poor?

- What are the economic linkages among agriculture, trade and poverty?
- How do poor households adapt to trade reform?
- How does agricultural trade reform affect countries at different levels of development?
- How does trade affect food security?
- What is the unfinished agenda for agricultural trade policy reform?
- How can trade work for the poor?



# THE STATE OF FOOD AND AGRICULTURE



## Agricultural trade and poverty

### Can trade work for the poor?

*The State of Food and Agriculture 2005* analyses the linkages between agriculture, trade, poverty and food insecurity. It examines how the poor are affected by agricultural trade and how they respond to trade policy changes. The report outlines a twin-track approach of social investments and safety nets that enable the poor to benefit from trade.

#### Key lessons from the report:

- Trade and trade liberalization can unlock the potential of the agriculture sector to promote pro-poor growth and food security, but the gains are neither automatic nor universal.
- Reforming Organisation for Economic Co-operation and Development (OECD) agricultural policies is important, but the greatest potential gains for developing countries arise from reform of their own trade policies.
- The timing and sequencing of reforms is crucial. Opening up markets to international competition prematurely can undermine the agriculture sector with long-term negative consequences for poverty and food security.
- Consistent and sustained policies are required to provide appropriate signals for pro-poor,

pro-growth outcomes. "Stop-and-go" reforms are particularly damaging.

- The most valuable asset owned by the poor is their own labour. Priority should be given to policies and investments that enable the poor to make the most of their labour. Investments in health, sanitation and education for rural people are essential.
- Safety nets are needed both to protect vulnerable groups from trade-related shocks and to allow the poor to take advantage of the economic opportunities arising from trade.

#### How does trade affect the poor?

Does trade promote growth and reduce poverty? Or does it benefit only the rich while marginalizing the poor? The current debate over agricultural trade and trade reform is often couched in such simplistic terms.

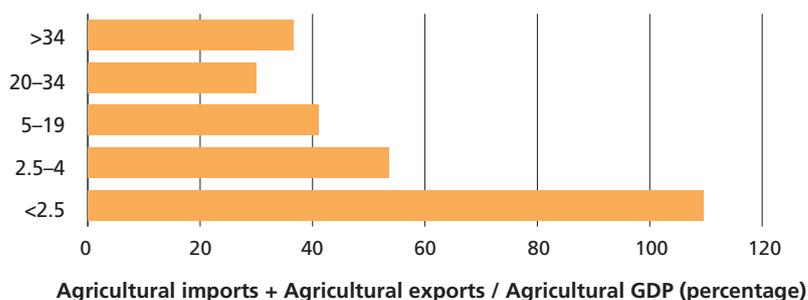
*The State of Food and Agriculture 2005* provides a more nuanced analysis that carefully considers who the poor are, how they earn their livelihoods and how they respond to the opportunities and challenges created by trade.

The current agricultural trade policy landscape is highly distorted and does not serve the interests of the poor. Neither does isolation from international markets support food security, as illustrated in the figure below.

The report considers alternatives for reducing these distortions while retaining the policy flexibility needed by the poorest countries and protecting the most vulnerable people from trade-related shocks.

### Agricultural integration and undernourishment

Percentage undernourished



Source: FAO and World Bank.

### What do the economic models predict?

The latest model-based analyses of trade reform in agriculture predict economic benefits at the global level and for most – but not all – participating countries. Scenarios that involve all sectors and all regions generate higher benefits than scenarios in which some sectors or regions are excluded.

The largest absolute gains accrue to the developed countries where agricultural markets are most distorted. Consumers in OECD countries where import barriers are currently high and exporters in other OECD countries gain the most.

Developing countries gain more as a share of GDP because agriculture is more important in their economies. Some exporters of temperate-zone agricultural products gain from OECD liberalization, but the biggest gains for developing countries derive from their own liberalization.

The benefits of trade liberalization go well beyond the immediate impact on producers and consumers. Trade liberalization in agriculture and other sectors contributes significantly to raising the wages of unskilled workers in developing countries, who are often among the poorest of the poor.

Some developing countries, particularly net food-importing developing countries and countries currently receiving preferential access to OECD markets, lose from the OECD liberalization – even in the long run. The special circumstances of these countries must be taken into consideration.

### What does experience show?

FAO has conducted a large number of case studies of developing countries that have undertaken significant policy reforms in agriculture. These and other *ex post* studies surveyed in the report provide a rich narrative of the complex ways in which the poor succeed – and fail – to take advantage of the opportunities offered by trade and trade reform in agriculture.

The case studies show that reforms can be conducive to poverty reduction and improved food security if they are designed and implemented within an explicit pro-poor strategy. They also highlight the need for transitional compensatory measures targeted at the poor.

### How can trade work for the poor?

*The State of Food and Agriculture 2005* recommends a twin-track approach of complementary measures to ensure that the poor can benefit from trade. This involves (i) investing in human capital, institutions and infrastructure and (ii) establishing safety nets to protect vulnerable people during the transition to freer trade.

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#### Also in *The State of Food and Agriculture 2005*

##### **World and regional review: facts and figures**

The report contains an overview of the current global agricultural situation, with the latest data on food aid and emergencies, commodity production and prices and other indicators. Summary data for the fisheries and forestry sectors are also provided.

##### **Statistical annex and CD-ROM**

A statistical annex provides country-level data for a range of key indicators. A mini CD-ROM of the *FAO Statistical Yearbook: Abridged FAOSTAT CD* is also included.





2005

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Can trade work for the poor? *The State of Food and Agriculture 2005* examines the many ways in which trade and trade liberalization affect the poor and food-insecure. It is found that trade can be a catalyst for change, promoting conditions that enable the poor to raise their incomes and live longer, healthier and more productive lives. But because the poor often survive on a narrow margin, they are particularly vulnerable in any reform process, especially in the short run as productive sectors and labour markets adjust. Opening national agricultural markets to international competition – especially from subsidized competitors – before basic market institutions and infrastructure are in place can undermine the agriculture sector with long-term negative consequences for poverty and food security. Among the many important lessons from this analysis is the need for policy-makers to consider carefully how trade and complementary policies can be used to promote pro-poor growth. The report recommends a twin-track approach: investing in human capital, institutions and infrastructure to enable the poor to take advantage of trade-related opportunities, while establishing safety nets to protect vulnerable members of society.

#### FURTHER INFORMATION

*The State of Food and Agriculture 2005* is published by the Agricultural and Development Economics Division (ESA) on behalf of the Economics and Social Department, Food and Agriculture Organization of the United Nations. The full report, together with ESA Working Papers and other publications of the Division, is available electronically at [www.fao.org/es/esa](http://www.fao.org/es/esa).

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