

Why trade matters for improving food security, FAO, Rome, 13 April 2005, DG SUPACHAI PANITCHPAKDI, *High-Level Round Table on Agricultural Trade Reform and Food Security*

WTO News

My dear friend Director-General Jacques Diouf, Excellencies, Ladies and Gentlemen, I am very pleased to participate in person at this important meeting and to convey our gratitude to the FAO for its continued support to the WTO's Doha Development Agenda negotiations. I wish to thank my dear friend Jacques for inviting me to join you. FAO is an important partner of the WTO both in terms of our trade-capacity building programmes and in the provision of information and analysis. It is indeed my great pleasure to participate in a discussion on such an important issue as food security, one of the targets of the Millennium Development Goals.

Technology and modern agriculture has transformed the nature of the quest for food security but in one respect there has been no significant change. Despite the impressive material progress that our civilization has made, hunger and starvation have sadly not been eradicated in all parts of the world.

No individual can with good conscience turn a blind eye to the suffering of those starving. No civilized society can accept hunger and malnourishment. No government can survive, nor keep law and order, without ensuring that its people enjoy the regular availability of basic foodstuffs. Revolutions have been sparked off by the price of bread. Wars have been fought over food or the resources to produce food. Food security remains undeniably as important today, as in the past.

Today there is, however, the realisation that a sustainable domestic food supply cannot be ensured by each government acting individually. History has repeatedly shown that protectionism and isolation from world markets have never been the right answer. Food self-sufficiency is not equivalent to food security. The goal of self-sufficiency is illusory in today's world where a vast range of inputs constitute the full production equation. Nor is any country insulated from sudden adverse climatic effects which can dramatically reduce domestic agricultural output.

Past, as well as present, experience shows us that food security is best achieved in an economically integrated and politically interdependent world. In an interdependent world the effects of any deficit or surplus in food production in one country can be spread over a broad range of countries. The burdens of short-term fluctuations and longer-term structural change are thereby reduced. Economic integration also keeps the cost of inputs for production down and ensure that markets will remain open at critical moments.

Different countries have different factor endowments. These differences can be used to judiciously increase domestic production and to benefit from the production of other countries. To my mind, food security is not best achieved by the production in a particular country of a particular foodstuff. Fuels, fertilizers, machinery, capital and other inputs from other countries are needed to improve domestic agricultural production as well as to supplement a country's food stocks. Efficient production, peaceful relations between nations, and efficient storage and distribution, are all vital factors in the world food security equation.

The WTO's contribution to efficient production is obvious and actually requires no elaboration.

What is perhaps less obvious is the WTO's contribution to keeping the peace which is so vital to ensuring that supply channels remain open. Let us not forget that international trade conflicts have historically been a frequent cause of war, which jeopardizes directly people's access to food. The GATT/WTO system has, since 1948, provided a framework for the rule of law, peaceful negotiation and conflict resolution in international trade relations. Moreover, economic integration through trade provides a powerful incentive for political cooperation among nations. If I may quote from Montesquieu: "*Peace is the natural effect of trade*".

It is therefore no coincidence that the multilateral trading system is an essential pillar of the global political system. Stable trading relationships are vital not only for food security but also for global security. It is also no coincidence that more than two-thirds of WTO Members are developing countries. After all clear and strong rules are of particular value to smaller and less powerful nations.

The WTO also contributes in more specific ways to food security. Ensuring efficient production and distribution of food supplies is, however, only part of the food security equation. Hunger and malnutrition are almost always the result of poverty. While many other factors play their role, the vast majority of the hungry and malnourished suffer from inadequate income, not from inadequate food supplies. The poor often lack purchasing power even when food supplies are domestically relatively plentiful or are readily available through world markets. A real lack of food supplies due to war, civil strife or natural disaster is comparatively small.

Seen in this light, one of the most concrete ways which the WTO can contribute to improving food security is by providing the opportunity **to raise income levels** through economic growth. As is recognized in the Rome Declaration and Plan of Action — trade is a key element for food security — as it stimulates economic growth. It permits the efficient transfer of food supplies from surplus to deficit regions. It allows countries to become self-reliant rather than trying to become self-sufficient, regardless of cost.

Since 1948, tariffs in the industrialized world have been cut by more than 80% in 8 successive rounds of negotiation, and a vast range of quantitative restrictions and bureaucratic controls have been removed. Since 1948, trade has grown faster than international output in all but eight years. Trade liberalization has also been an important stimulus for the expansion of knowledge, technology and capital.

We may quibble about the figures and economists can at times produce paradoxical outcomes. Yet, the fact is that stagnant economies cannot generate jobs and raise incomes. The basic equation seems to stand: trade does inspire growth, and growth, to a greater or lesser degree if supported by other policies, will combat poverty. There are no magic solutions or equations to alleviate poverty. Nor can we ignore the adjustments triggered by trade policy reforms, and in particular its immediate effect on the poor. But the appropriate response is often not to abandon trade or the reform process but to provide support and alleviate hardships for the poor.

It is difficult to escape the conclusion that those countries that have chosen to make trade a pillar of economic growth have indeed, grown strongly. We need only look at China and India, countries with a large share of the world's poor. Until the mid-1980s to 90s, these two nations pursued inward-looking policies on investment and trade. They registered low growth rates of exports and also of income. They also failed to make an impact on poverty reduction. The experience of both countries, with the onset of economic reform policies from the mid-1980s

onwards, have shown that they can do much better. In the case of China, for instance, the share of people living on less than \$1 a day declined from 61% in 1981 to 17% in 2001. While careful consideration to the pace and sequencing of reform is required, open economies consistently outperform those that are closed. This is a fact.

As underscored by the UN Millennium Project, *“International trade can be a powerful driver of economic growth and poverty reduction....The poorest countries should pursue open trade and negotiate vigorously for greater market access in the high-income markets. But they should also emphasize, and receive, additional aid to overcome their supply-side production barriers”*.

It is therefore no surprise that the overwhelming majority of developing countries that have embraced agricultural trade liberalization have done so as part of broader domestic reforms to stimulate economic growth and alleviate poverty. These reforms often go significantly beyond the commitments undertaken in the WTO.

But I am not standing before you now just to sing the praises of the WTO, its achievements, and what it represents in terms of economic and international legal principles. My central point is that trade liberalization can be a forceful weapon in the fight against poverty, if accompanied by sound macroeconomic and development policies. And reducing poverty is key to combating hunger and malnourishment.

The other major contribution that the WTO can make is, of course, in terms of the impact of trade policy on **agricultural production**. A common policy for governments seeking to enhance food security via self-sufficiency is to maintain high border protection and high internal prices to encourage domestic production. This, however, has adverse impacts on food security. High internal prices can act as a regressive tax. Poorer consumers tend to be hardest hit by high food prices. Reducing their purchasing power undermines their food security. Subsidies and other measures to induce production may also inadvertently benefit those members of the farming community, particularly rich farmers and landowners for example, who need it the least. It is clear that for these countries the pursuit of self-sufficiency will be an expensive, and arguably less than optimal, route to food security.

The distortion introduced by such policies also affects other countries. Its most direct effect is to curtail the agricultural exports of countries and regions where food can be produced at lower cost. This aspect is particularly important for developing countries. For many of these countries, including the poorest amongst them, how well they do economically depends on how well they do in agriculture. Of course, improvements in agricultural output and export performance depend on a wide range of factors outside the trade policy sphere. But it is widely accepted and understood that a further reduction of trade barriers and trade-distorting subsidies will help boost the economic performance of developing country agricultural producers.

The ongoing Doha Development Agenda round of trade negotiations includes agriculture as a key sector. I will come back to the negotiations later but let me underscore that the Doha Round has the potential to unlock substantial new resource flows to developing countries far greater than those available through official development aid. The Commission for Africa Report, for instance, has concluded that an ambitious Doha Round will *“expand Africa's market opportunities and allow diversification of exports by destination and product, including in higher value-added production”*.

That being said the elimination of subsidies may, in the short-term, have terms-of-trade consequences for net food importing developing countries, as world prices have been kept artificially low for so many years. This is an important consideration and the special problems of net food importing developing countries deserve attention. The WTO provides some mechanisms to help. However, to address this problem in a definitive way we will need a broader response that involves the international development and financial agencies.

The IMF has launched a new trade initiative designed for certain developing countries, in particular LDCs and net food importing developing countries, to deal with a terms of trade shock, the erosion of preferences and loss of tariff revenues. The World Bank is also considering a new programme called "aid for trade initiative". The G-8 also intends to discuss the recent Commission for Africa report and various other proposals for increased aid. These are important initiatives that can help net food importing developing countries, but we should not forget that there is an important allocation effect from the removal of market distortions. By allowing world food markets to fix their own prices, we will be inducing more production globally, including from net food importing developing countries. The allocation effect can only be positive in the long run.

Moreover, addressing tariff peaks, tariff escalation, trade-distorting domestic support and export subsidies would open up trading opportunities not just between developed and developing countries, but also between developing countries. In 2003 about 46 per cent of agricultural exports of developing countries were sold in the markets of other developing countries, up from 32 per cent in 1990.

According to the Commission for Africa there are *“more than 250 agricultural goods for which one or more sub-Saharan African countries have a comparative advantage, a third of which are goods of which other African countries are importers.....increased intra-regional trade could both provide opportunities for the poor rural agricultural producers and assist in partially alleviating Africa's food security problems. For example, Kenya has for the past decade imported grain from Uganda and Tanzania during periods of drought”*. In terms of absolute numbers, the largest growing market for agricultural products are in the developing world. With efficient production in a diversity of regions we will have more food security.

Before concluding, let me turn more specifically to the Doha Round, in particular the agriculture negotiations. The WTO Agreement on Agriculture as concluded by the Uruguay Round established an important framework for further liberalization of the sector. But clearly more needed to be done to allow developing countries to more fully exploit their actual or potential competitiveness in agriculture. The launch of the Doha Round with an agenda that included correcting existing distortions in world agricultural markets was a significant achievement.

From a development perspective, the outcome of the Doha Round must be more ambitious than what was achieved in the Uruguay Round, and we are on track for an ambitious outcome. But I must stress that to reach this outcome we will need meaningful results across the board, but especially in agriculture. All WTO Members will have to show considerable flexibility to reach an outcome which is ambitious and at the same time achieves a balance between import sensitivities and export interests.

Let us not forget that food has always been an important element of trade, with markets integrated to a greater or lesser extent for thousands of years. But during the twentieth century,

trade in basic foodstuffs was subjected to increasingly higher impediments. The Doha Round gives us the opportunity to reverse this trend. We have in the Doha Development Agenda an obligation we must live up to, not only as trade negotiators but also as representatives of governments that have committed themselves to meet the Millennium Development Goals and other vitally important international development initiatives. The longer the reforms are delayed, the longer the development gains are postponed.

I know that there are concerns that trade liberalization somehow poses a "threat" for food security. This really is a misperception. Let me explain why. Firstly, to facilitate their transition to a more liberal trading environment in agriculture, developing countries will have access to a range of special and differential treatment (SDT) provisions. This means lower cuts in tariffs, trade-distorting domestic support and export subsidies, and longer implementation periods. Least-developed countries (LDCs) are not expected to make further market openings. LDCs will not have to reduce their tariff ceilings and will have full access to all SDT provisions.

Secondly, all developing countries, including LDCs, will have access to a range of policy instruments including Sensitive Products, Special Products and the new Special Safeguard Mechanism. In the agriculture negotiations, modalities, including those to protect import-sensitive sectors and farmers, are being fleshed out with the aim to reach a "first approximation" by July; a reality check in preparation for the Hong Kong Ministerial. Moreover, implementation of commitments, when we reach this stage, are to be phased in over a number of years giving farmers time to adjust.

Thirdly, developing countries can also rest assured that most of their development programmes to ensure food security will hardly be affected by the WTO domestic support reforms, to the extent that they are non-trade distorting and are covered by the Green Box of the Agreement on Agriculture. The Green Box covers government services, such as agricultural research, education, infrastructure, public stockholding for food security purposes, domestic food aid, as well as certain direct payments. In addition, developing countries will continue to have a free hand, as far as the WTO Agreement on Agriculture is concerned, to provide input and investment subsidies to their poor farmers. In brief, the flexibility for developing countries to support food security and rural development is well recognised and safeguarded in the WTO policy framework and in the ongoing negotiations.

Fourthly, in addition to agriculture, negotiations on services are also underway. Results here could help to reduce transport, distribution and marketing costs for food and its inputs. Further benefits can also be expected from the negotiations on non-agricultural goods, including agricultural machinery, fertilizers, pesticides and other essential inputs. Overall, the contribution that liberalization of the range of sectors in the Doha Round can make to food security will be very substantial indeed.

In 1980, the Brandt Commission, in a two-year study involving representatives of 17 rich and poor countries, concluded: "*Mankind has never before had such ample technical and financial resources for coping with hunger and poverty. The immense task can be tackled once the necessary collective will is mobilized. What is necessary can be done, and must be done*". In some ways, the Doha Development Agenda, albeit from the stand point of market access, is a test of our collective will.

If I may diverge from food security, let me offer some thoughts on the current state of our negotiations. We now have a high-level of convergence on the need for a substantial

breakthrough by our Hong Kong Ministerial Conference in December this year and to set the stage for the final phase of the Round in 2006. Ministers are engaged, and we have a series of ministerial gatherings in the forthcoming months that can provide the negotiating process with the needed political inputs on key issues. There is, however, an immense amount of progress to be made in a very short time if we are to achieve our objectives for Hong Kong; a daunting task remains to be done.

In our preparations for the Hong Kong Ministerial Conference, July looms large as a marker in our process. By July, if not earlier, we should start to see what some have called a “first approximation” of the package for Hong Kong. There is a high level of activity in the negotiations but I feel we still need to translate this activity into a greater sense of urgency.

The Doha Development Agenda is, without question, one of the most ambitious rounds of trade negotiations ever attempted. Never before have there been so many Members involved; we now have 148 Members compared with less than 120 participants at the end of the Uruguay Round. Never before have there been so many negotiating subjects on the table. And all areas of the negotiations need to be agreed together in final “single undertaking” package. This means that a successful result in agriculture, for example, is contingent upon successful results in services and other areas of the negotiations. These are, of course, all ingredients for a balanced outcome and one that could bring very significant results. The breadth of the negotiations offers opportunities for trade-offs and something of interest to everyone.

Failure to advance the Doha Development Agenda would certainly be a lost opportunity for developing countries to become more fully integrated into the global economy, and to benefit from the economic growth that trade can generate. As well as being a moral imperative, we must all realise that a world where prosperity is more widely spread is in the interests of all. Developing countries are the markets of the future.

Food security is a complex matter. Enhancing food security requires initiatives and policy actions on many fronts, with trade being only one element among others. That being said the successful completion of the Doha Round from a food security perspective can only be viewed as positive. The path to food security is through integration and interdependence, not protection and autarchy.

Thank you.