

# Global Monitoring Report 2012

## Food prices, Nutrition, and the Millennium Development Goals (MDGs)

### Using Trade Policy to Overcome Food Insecurity April 2012

**Trade is an excellent buffer for domestic fluctuations in food supply. There is no global food shortage: the problem is regional or local and one of moving food, often across borders, from surplus production areas to deficit ones coupled with affordability.** World output of a given food commodity is far less variable than output in individual countries. Thus increased trade integration holds considerable potential to stabilize food prices, boost returns to farmers and reduce the prices faced by consumers.

**Trade liberalization protects national food markets against domestic shocks by allowing more food to be imported in times of shortage and exported in periods of plenty.** However, historically – and despite a host of regional trade agreements – most countries have chosen to take the opposite approach by restricting imports of food and discouraging exports in often failed attempts to keep domestic markets isolated from international shocks by ensuring self-sufficiency in food production.

**Self-sufficiency should be weighed against the benefits of cheaper imports. A country that is a natural exporter should not hinder its comparative advantage with export bans.** A country that tends to import food should allow its domestic market to remain linked to the world market. Food security therefore requires encouraging more trade through a more open, rules-based multilateral trade regime, best achieved by concluding the Doha Round of WTO negotiations, and supported by further work towards developing disciplines on export restrictions.

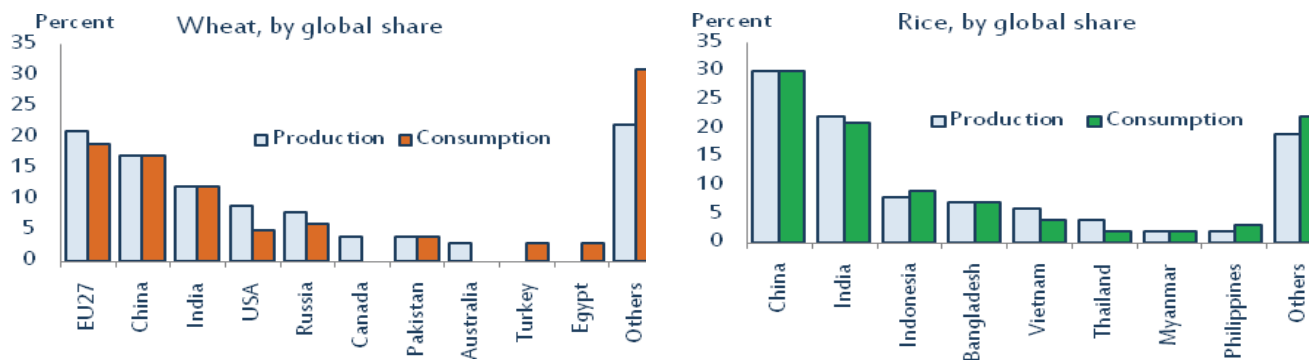
**Efforts to extend trade integration to developing countries should also focus on promoting more effective regional integration among them, including for food products.** Facilitating food trade is also important through increased Aid for Trade to promote frictionless borders and induce a supply response of developing countries, particularly in Sub Saharan Africa.

### Trade in food

**Global production of cereals has almost trebled in the last 50 years, outpacing the twofold rise in world population. Yet over a billion people in the world remain hungry.** Cereals form the staple diet of poor people, and are also their main imported food item. In 2010, 40 percent of Least Developed Country (LDC) imports of food was comprised of cereals. Increasing consumption of vegetables and meat is indicative of growing incomes, and these items typically account for half of the food imports by developed countries.

**Wheat, maize and rice account for the majority of trade in cereals; maize and other coarse grains are consumed not just by humans, but also are used as animal feed in the production of meat, and for the manufacture of biofuels.** Most cereal production is for domestic consumption (figure 1), with just 10 percent of world production traded globally: over the last decade, only one-fifth of all wheat produced globally was traded, while rice trade accounted for 6 percent of global rice production (Kshirsagar and Baffes, 2011).

Figure 1. Most cereal production is consumed domestically and not traded



Source: US Dept. of Agriculture, 2006-10 averages; citation: Kshirsagar and Baffes.



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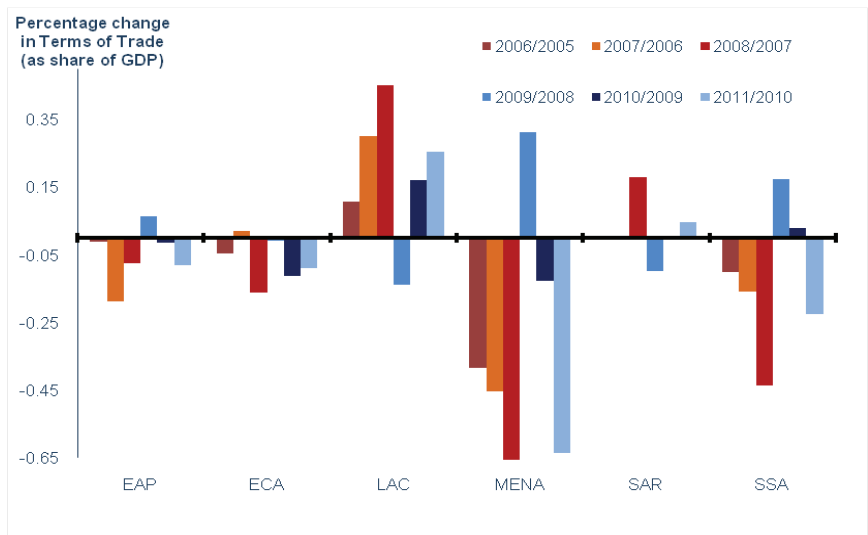
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**In value terms, approximately two-thirds of world food exports go to developed countries, and just under one-third to middle-income ones, with the poorest countries being insignificant in world food trade: the LDC share in world food trade is just 1 percent.** However, food trade forms a higher share of the *total* trade basket of developing countries compared to developed countries. Sub-Saharan Africa, especially the Horn of Africa, also has some of the highest shares of food imports in total imports, compared to other parts of the world. While not all developing countries depend on food imports, how food is moved within and across borders has clear implications for poor farmers and consumers, who spend a large share of their household income on food.

**Food prices remain at historically high levels, contributing to differing terms-of-trade effects across developing countries as well as distributional impacts within them.** The impact of global food inflation on external balances, growth and welfare depend critically on the terms of trade effects of higher food prices. The increase in world food prices implies terms of trade gains for net exporting countries of food products and losses for food deficit, net importing ones (figure 2). For example, net food importing countries in the Horn of Africa such as Somalia, Kenya and Ethiopia currently face drought, famine and humanitarian emergency situations affecting more than 13 million people, with domestic food prices soaring (between 30 and 240 percent for red sorghum and maize in Somalia), while Tanzania and Uganda have gained as they remain net export-

Figure 2. Net food importing regions lose from higher food prices while net exporting regions gain



Note: Terms of Trade changes in food trade, by developing region, y-o-y change as share of GDP; Source: World Bank, Datastream  
Source: US Dept. of Agriculture, 2006-10 averages; citation: Kshirsagar and Baffes, 2011.

*Greater opening of regional markets to trade would promote food security and price stabilization.*

**The potential for faster agricultural growth in many developing countries could be unlocked by deeper regional trade integration to complement multilateral liberalization efforts.** In the absence of a Doha package, increased regional trade can also be a powerful instrument for stabilizing food supply and food prices. The distribution of food crop cultivation between neighboring countries coupled with possibilities, where they exist, for staggered harvesting within the same commodity, offer substantial opportunities for regional trade. Since production variability is not often highly correlated among countries in most regions, integration through regional trade can reduce the effects of small country size on production volatility.

**Examples of regional trade in food, both recorded and unrecorded, are numerous** and include Northern Zambia, where cassava production ensures domestic food security, even in drought years, enabling the region to export maize to DR Congo, Malawi and elsewhere in Zambia; Eastern Uganda where bananas and cassava ensure food security, thereby enhancing maize exports to chronically food deficit Kenya; Northern Mozambique where cassava and Irish potato cultivation provide local food, enabling regular maize exports both north into Kenya and south into Malawi; most of Tanzania where a combination of rice, cassava, bananas and maize enable regular cereal exports both north into Kenya and south into Malawi; and, South Africa where large-scale commercialization and mechanization combined with modern inputs and irrigation enable high yields for the export of cereals northward to Zimbabwe, Southern Mozambique and Malawi (Haggblade, 2008). Indeed there is enormous scope for increased cross-border trade in Africa but various obstacles remain (box 4.6). In East Asia, Thailand - the world's largest producer of cassava - has recently witnessed dramatic increases in its exports of this crop on the back of sales to China for biofuel production.