

Food self-reliance of developing countries and trade-distorting subsidies

SUMMARY

- ▶ *Low-income food-deficit countries (LIFDCs) import more food each year, increasing their exposure to world markets.*
- ▶ *Subsidies and protectionism by developed countries remain significant. They undermine domestic production in developing countries.*
- ▶ *The Doha Declaration calls for substantive reform, to redress policy imbalances that hinder food security and development.*

At national level, food security can be enhanced by increased national production and increased imports. Since the 1990s, food imports by developing countries have been rising sharply: 5.6 percent per annum for developing countries and by 6.9 percent for the LIFDCs (Table 1). Projections indicate that this trend will continue.

High food import trends need not be a negative development when associated with increased ability to pay for imports through export earnings. However, for many developing countries, particularly the LIFDCs, increased food imports could pose a problem for two reasons:

- ▶ high import growth may undermine otherwise viable domestic production, with few opportunities for alternative uses of productive resources; and/or

- ▶ growth in export earnings and incomes may be inadequate to sustain food imports if prices rise significantly.

IN ADDITION TO HIGH IMPORT TRENDS, SURGES IN FOOD IMPORTS HAVE INCREASED SINCE THE MID-1990s. ■ Surges in import volumes,¹ together with depressed import prices, often tend to disrupt local markets and reduce local production. An FAO report has shown that the incidence of import surges in developing countries was high during 1984-2000. The product groups involved include meat, cereals, vegetable oils and dairy products. Although several reports have shown the link between import surges and lower production, further analysis is required.

¹ An import surge is defined as a 20 percent positive deviation from a 5 year moving average of import volume of a particular commodity.

Table 1: Growth rate trend of food imports (percent per annum, 1990-2000) *

| Food grouping | DEVELOPING COUNTRIES (DCs) | | | | Developed | World |
|---------------------------|----------------------------|--------|------------|------|-----------|-------|
| | All DCs | LIFDCs | Non-LIFDCs | LDCs | | |
| Cereals and preparations | 3.9 | 2.1 | 5.5 | 3.7 | -3.3 | 1.4 |
| Oilseeds and oils | 10.0 | 12.4 | 7.4 | 8.6 | 2.6 | 6.0 |
| Dairy products | 3.0 | 4.6 | 2.0 | 0.2 | 3.7 | 3.2 |
| Meat and meat prep. | 8.5 | 14.1 | 3.9 | 6.6 | 5.3 | 6.6 |
| Fruit and vegetables | 4.8 | 7.1 | 3.3 | 4.7 | 1.8 | 2.6 |
| Sugar, total (raw equiv.) | 4.7 | 8.0 | 1.3 | 10.0 | 1.3 | 3.0 |
| Total | 5.6 | 6.9 | 4.5 | 5.2 | 1.9 | 3.6 |

* Individual products in volume terms; aggregate food in 1989-91 constant prices.

Source: Document CCP 03/10, March 2003, FAO.

TRADE DISTORTIONS CONTRIBUTE TO ADVERSE IMPORT TRENDS AND SURGES. ■ Subsidies and protectionist policies distort agricultural trade in several ways:

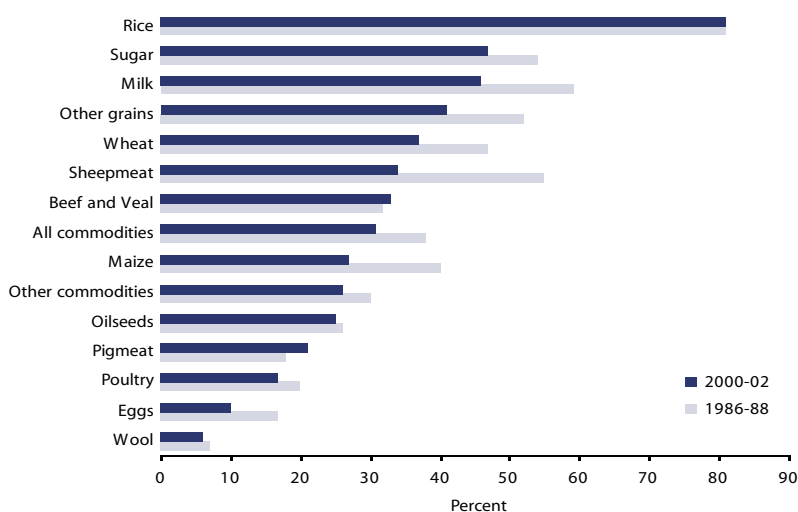
- ▶ lower imports by subsidizing countries;
- ▶ reduced exports by non-subsidising countries;
- ▶ depressed and more volatile world prices;
- ▶ decreased food production incentives in non-subsidising importing countries.

Although in the short-run domestic and export subsidies tend to reduce the food import bills of importing countries, in the long run subsidized imports ultimately undermine incentives for investment in food production in non-subsidising importing countries. This can also lead governments of such countries (particularly developing countries) to neglect their domestic agricultural sector.

DESPITE THE URUGUAY ROUND REFORMS, SUBSIDIES AND PROTECTION REMAIN SUBSTANTIAL. ■ OECD countries account for over 90 percent of trade-distorting domestic support and export subsidies notified to the WTO. Since 1986-88, there have been few significant reductions in the producer support estimate (PSE) for various commodities in OECD countries (Figure 1); in total this support was US\$235 billion in 2002. Most basic foodstuffs continue to face significant support in the form of subsidies and market price support (including tariff protection).

THE DOHA ROUND OFFERS THE BEST CHANCE FOR SIGNIFICANTLY REDUCING DISTORTIONS. ■ In the area of agriculture, the Doha Declaration calls for “substantial improvement in market access, reduction of, with a view to phasing out, all forms of export subsidies and substantial reduction in trade-distorting domestic support”. The Declaration also states that special treatment for developing countries will be an integral part of the negotiations in order to enable them to effectively take account of their development needs, including food security and rural development.

Figure 1: Producer Support Estimate (PSE) in OECD countries, by commodity
(OECD average as % of value of gross farm receipts)



Source: Agricultural policies in OECD countries: monitoring and evaluation 2003: Highlights, OECD Paris.

KEY CHALLENGES

- ▶ To meet fully the challenge of policy reform as expressed in the Doha Declaration;
- ▶ To cope with adverse consequences that may arise from an increasing dependence on food imports, particularly for LIFDCs;
- ▶ To provide instruments that enable countries to protect markets from surges in imports that result from policy distortions.