Does trade make hunger?

Global trade with agricultural products

Schools Act Globally

Teacher Trainer Training

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Marita Wiggerthale, www.fairer-agrarhandel.de

Structure of presentation

- Agricultural trade: facts & figures, who is trading?
- Hunger in developing countries: scale, who is suffering from hunger?
- Relation between trade and hunger:
  - Does trade make hunger?
  - Forced liberalisation via IMF/Worldbank, WTO, FTAs
  - Undermining poor people's access to services (example of financial services)
  - The Commodity issue
  - Dependence on food imports
  - Increasing exports to reduce hunger?
- Conclusions

World agricultural trade

	Value 2005 in bn US$	Share 2005 in %
Total merchandise	10,159	100,0
Agricultural products	**852**	**8,4**
Fuels and mining products	1748	17,2
Manufactures	7312	72

Source: WTO 2006

Share in world exports

2000-2001	Developing countries	Developed countries
Agriculture	**36.1**	**63.9**
in developing countries	13.7	15.6
in developed countries	22.4	48.3
Industrial goods	**33.4**	**66.6**
in developing countries	12.3	19.0
in developed countries	21.1	47.6

Source: Worldbank 2005

World Agricultural Exports

Developing and developed country shares in exports of primary and processed agricultural products, 1981–90 to 1991–2000

Developed countries increased their share in world exports of processed agricultural products from 73 to 75 percent over the past 20 years. Developing countries saw their share shrink from 27 to 25 percent.

Source: FAO

Who is trading?: food companies

- Multinational companies are trading food and agricultural products
- **Top 100 food companies** control 2/3 of the global food and beverage sales (Etc group 2005)
- There are only **4 out of the Top 100** food companies originating in developing countries: South Africa, Brazil, Mexico, Panama (Food Engineering, 2004)
- **Top 10**: Nestlé, ADM, Altria Group, PepsiCo, Unilever, Tyson Foods, Cargill, Coca-Cola, Mars, Danone
- **Top 10 control 24%** of the estimated $ 1,250 billion global market for packaged food
- **Top 10 account for 36% of the revenues** earned by the Top 100 food and beverage firms.

Who is trading?: retailers
Top 10 Grocery Retailers Worldwide

Company	Country of Origin	Retail Banner Sales 2005 (USD mn)	Market Share (%)	Net Sales 2005 (USD mn)	Grocery Sales (%)	Domestic Sales (%)	Foreign Sales (%)
1 Wal-Mart	USA	338,744	6.1	312,427	44.9	77.6	22.4
2 Carrefour	France	117,175	2.1	92,597	74.1	47.6	52.4
3 Metro Group	Germany	83,237	1.5	69,260	47.4	48.3	51.7
4 Tesco (1)	UK	77,171	1.4	69,631	73.4	76.9	23.1
5 Ahold	Neth.	76,774	1.4	55,307	84.0	18.0	82.0
6 Seven & I (2)	Japan	69,237	1.2	35,324	72.0	66.0	34.0
7 Kroger	USA	63,702	1.1	60,553	70.5	100.0	0.0
8 Sears	USA	61,952	1.1	49,124	12.7	88.1	11.9
9 Rewe	Germany	56,527	1.0	51,832	76.4	69.5	30.5
10 Costco	USA	56,456	1.0	52,935	60.2	79.5	20.5

Source: Bill Vorley, IIED

Hungry people living in rural areas (2/3)

Hungry= less than 1900 kcal per day (FAO)	2005, rural population (world: 50,8%)	Undernourished population, 2000-2003 (world: 854 millions)	Women‘s share in domestic food production
Latin America and Carribean	22,4 %	52	40%
Asia	60,1%	525 (China: 150, India: 212)	50%
Africa	60,3%	206 Sub-Sahara 65 Near East, North	80%

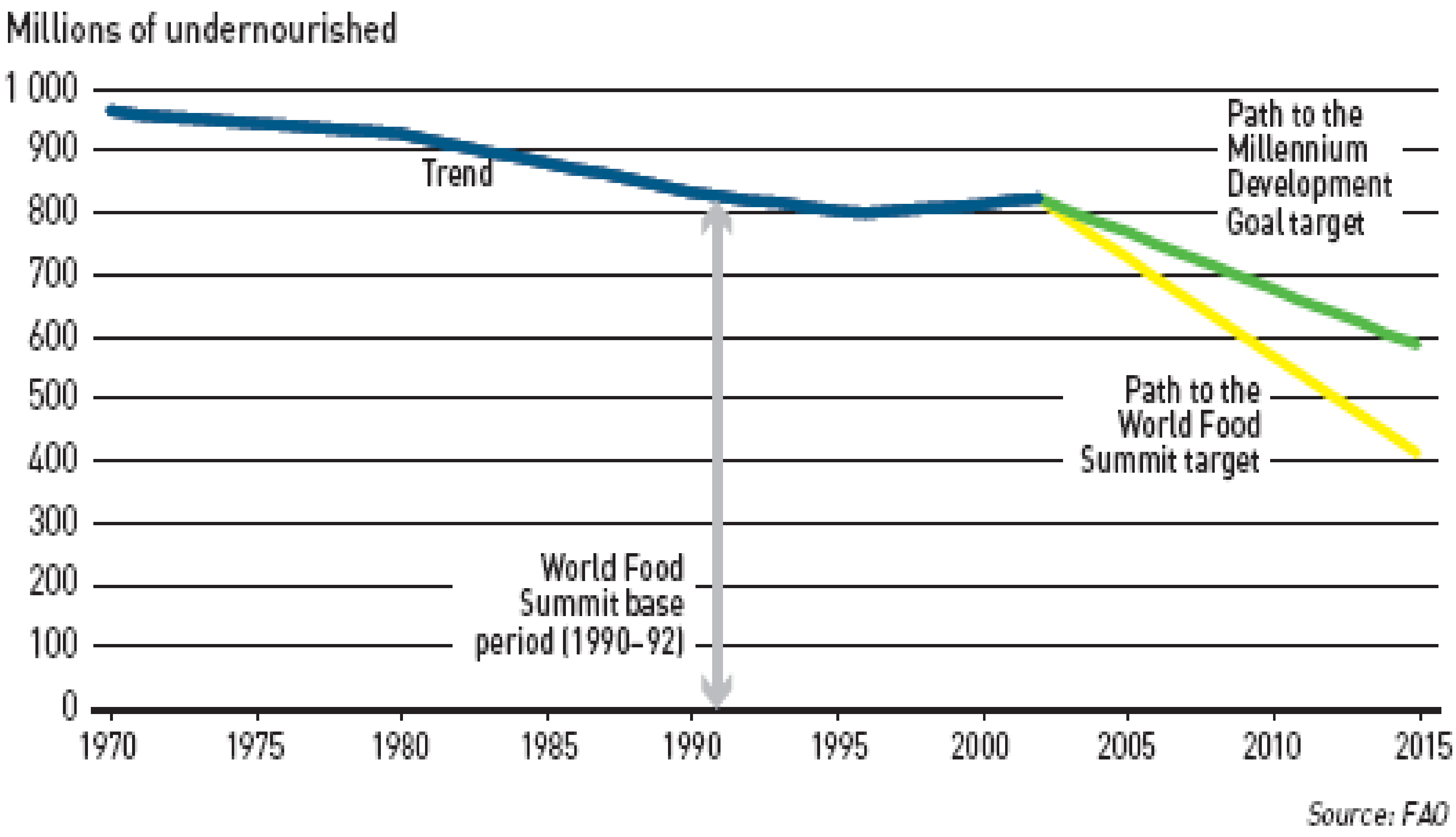
Source: FAO: SOFA, SOFI 2006 and OECD/FAO: Agricultural Outlook 2006-2015

Trends in undernourishment

(Millions)	1996-1998 **(1996 WFS)**	1999-2001	2001-2003
Latin America & Carribean	55	53	52
Asia	515 (China: 140, India: 208)	505 (China: 135, India: 214)	525 (China: 150, India: 212)
Africa	186 Sub-Sahara 36 Near East, North Africa	198 Sub-Sahara 41 Near East, North Africa	206 Sub-Sahara 65 Near East, North Africa
Total DCs (World)	792 (826)	798 **(+6)** (842) **(+ 16)**	820 **(+22)** (854) **(+ 12)**

FAO: SOFI 2000, 2003, 2006

Number of undernourished people in the developing world



Who is suffering from hunger?

- **820 million people in developing countries suffer from hunger (2001-2003)**
- Out of 820 million hungry people....
  - 50% are small farmers
  - 20% are landless people
  - 8 % are people living directly from the use of natural resources (fishery, forestry, pastures)

(see Millennium Projekt Task Force on Hunger (2005): Halving hunger it can be done)

Does trade make hunger? I

- ✓ Yes, it does!
- ✓ But, trade could contribute to the eradication of hunger,...

(1) if developing countries had **the right to determine their agricultural and trade policies according to their development needs** (policy space !): appropriate use of tariffs and quotas, investment regulation, service regulation (finance, veterinary, retailers), targeted support for small farmers, marketing support etc.

NOTE: the local market is by far the most important outlet

for the majority of small farmers!

(2) if DCs had the right and were able to **built up their own food industry** (value addition!)

Does trade make hunger? II

- But, trade could contribute to the eradication of hunger,...
  - (3) if farmers received **remunerative prices for their produce** (fair prices, decent income!)
  - (4) if **industrialised countries stopped dumping** (shift in support towards socially and environmentally qualified subsidies!)
  - (5) if **market access** for their raw materials and processed food (!) in developed countries **was improved** (but only about 10% of world agricultural production is traded internationally, caution: do not harm family farmers in developed countries)
- Where some of these conditions are in place trade can play a positive role.

Forced liberalisation: IMF/Worldbank

- **% of votes at IMF:** 16,8% (US), 6 % (Jap), 5,9% (D), 4,9% (F), 4,9% (UK)
- **Structural adjustment programmes** in the 1980ies and 1990ies
- Credits attached to **conditionalities**:
  - Liberalisation and deregulation of markets (reduction of tariffs and quotas), privatisation of state enterprises, restrictive fiscal policies (cut of subsidies, reduction of public support for essential services)
- Despite changes in rhetoric: the **habits are still the same**
  - 1) IMF credits are in the case of 23 out of 40 poor countries still attached to liberalisation and privatisation (study of Norwegian government in 2006)
  - 2) Worldbank survey in 2005: 50% of the interviewed public servants responded, that the elements introduced by the Worldbank were not part of the country programme.
- **IMF/Worldbank policies are a door opener** for further liberalisation and deregulation in the context of the WTO: e.g. privatisation of services is a precondition for liberalisation of services in the framework of the GATS/WTO

Forced liberalisation: WTO I

- **WTO founded in 1994, 150 members**
- Agreements important for the agricultural sector: **AoA** (Agreement on agriculture), **GATS** (General Agreement on trade and services), **TRIPs** (Trade related intellectual property rights), **GATT** (General Agreement on Tariffs and Trade), **TRIMs** (Trade related investment measures)
- **Objectives of WTO**: “ to establish a fair market-oriented agricultural trading system”, BUT in reality the WTO is pushing for the liberalisation and deregulation of markets serving the interests of global players
- **Agreement on Agriculture:**
  - **preamble does mention food security** and the conservation of the environment as Non-trade concerns (NTCs)
  - Subsidies: Art. 6.2. allows for input subsidies and investment subsidies for **low income and resource poor farmers** (= small farmers)
  - **No exemption existing for tariffs** allowing for the protection of staple food and processed food!!

Forced liberalisation: WTO II

- **Serious problems with the WTO**: 1) look-in effect; 2) practically irreversible reforms; 3) reach far into domestic policies; 4) neo-liberal corporate agenda; 5) neglect of development concerns; 6) environment subordinated vis-à-vis trade; 7) undemocratic, intransparent decision making
- **Few positive aspects** of the WTO: a) most-favoured nation principle; b) one country, one vote; c) multilateral framework; d) dispute settlement to attack trade distorting subsidies in developed countries (if they are not in conformity with AoA or subsidy regime), e) special treatment for LDCs
- **Conclusion:** as long as development and environmental concerns are not fully taken into account, the conclusion of the current trade negotiations is not desirable ("no deal is better than a bad deal"), social movements ask for "Agriculture out of the WTO"

Forced liberalisation: FTAs

- **„Global Europe – competing in the world“** (October 2006): new EU trade strategy introducing a „new generation“ of free trade agreements
- **Objectives of Global Europe**:
  - Removal of trade barriers (incl. NTBs)
  - Secure access to raw materials and energy
  - Stricter rules on intellectual property rights (IPR)
  - Accelerated opening of services markets
  - Enforcement of unhindered freedom of establishment (investment)
  - Liberalisation of government procurement markets for EU exporters
  - Introduction of competition policies in third countries, where they can be useful for supporting European companies's market access

➔ **"Not a plan for competitiveness, but a plan for exporting inequality and poverty"** (Oxfam International)

➔ "New generation FTAs" with ASEAN, India, South Korea, Andean Community, Central America in process

FTAs: a serious threat to Development

- **Tariff liberalisation in agriculture**: small farmers are driven out of business, not possible to develop food industry in future, food insecurity!
- **Strict IPR rules**: reduce poor people‘s access to live-saving medicines, push prices of seeds and farming inputs beyond reach of small farmers and reduce technology transfer in DCs
- **Liberalisation in services**: threaten to drive local firms out of business, reduce competition, extend monopoly power of large companies and limit access to essential services
- **Liberalisation in investment**: prevent DCs from requiring foreign companies to transfer technology, train local workers, or <u>source inputs locally</u> ➔ investment then fails to build national linkages, create decent employment, or increase wages (instead inequality exacerbates)

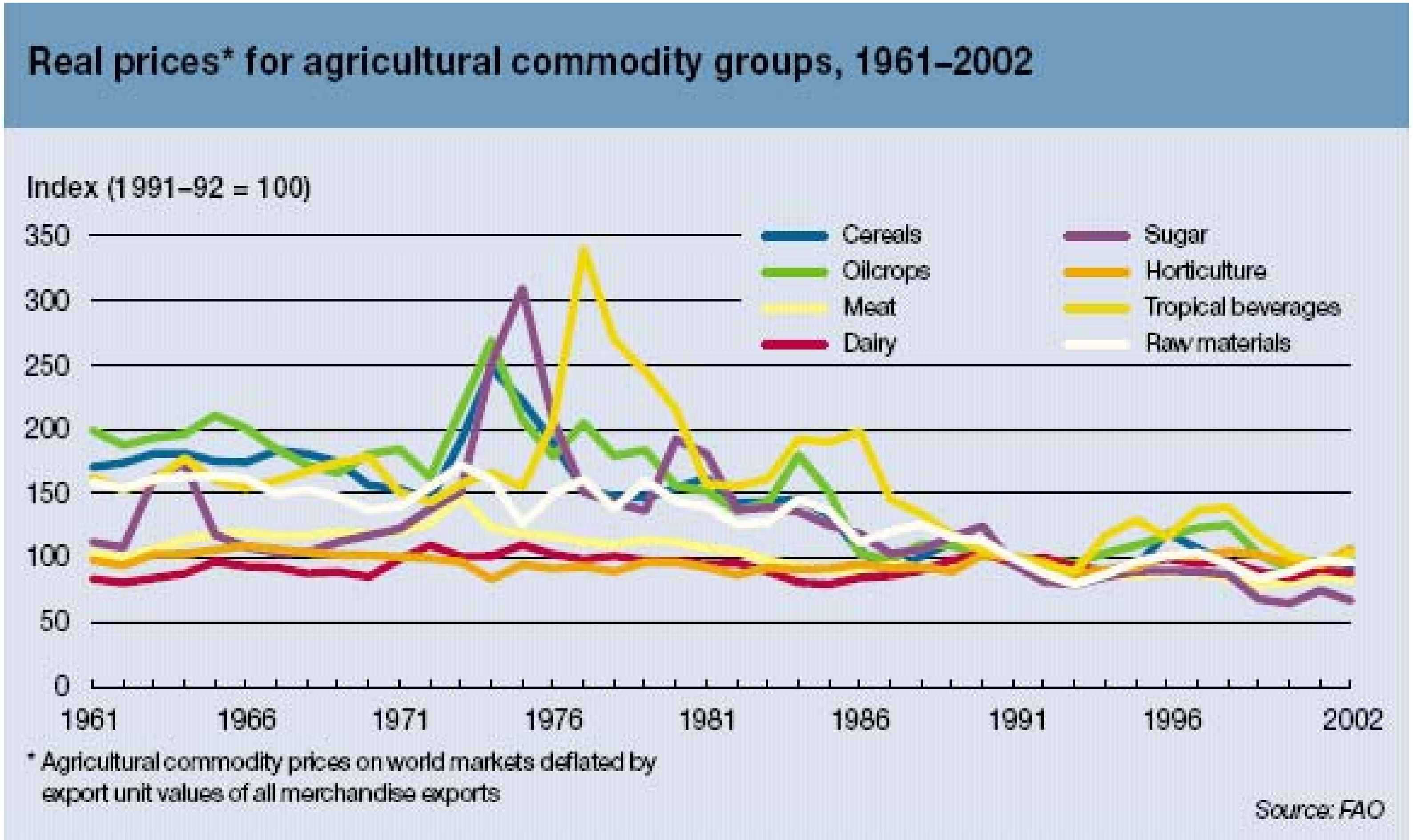
Undermining poor people‘s access to services

- **Example: financial services**
- IMF and UN studies: opening up the banking sector leads foreign banks to „cherry pick“ only the most lucrative customers, leaving the poorer and higher-risk customers for local banks
- Consequence:

  a) Local banks are driven out of business

  b) Small and medium sized businesses and many of the poorest people are left without access to finance
- **Example: Mexico (liberalisation in 1993)**
  - Foreign ownership increased to 85%, but lending to Mexican businesses dropped from 19% GDP to 0,3% in 2000
  - Southern Mexico: access of small farms with access to credit halved, if lending at exorbitant rates
  - State of Sonora: lack of access to finance drove 70% of community farmers to sell out to large-scale commercial enterprises

The Commodity issue



Commodity exporters

- **43 DCs:** one export product = more than 20% of the revenues out of the export of goods
  - **14/43:** Dependence on commodities increased (from 1986-88 to 1997-99)
  - **7/43:** Dependence on commodities decreased
- **„Single commodity exporters“** (SCE) are vulnerable to price volatility and price falls in the world market
- **Example cotton in 1990ies**: SCE cotton exporting DCs:

➔ production + 40%, revenues: - 4%

Export specialisation and poverty

Table 31. Distribution of the poor amongst LDCs grouped according to export specialization,[a] 1981–1983 to 1997–1999

	Primary commodity exporters		Manufactures and/or services exporters		All LDCs	
	1981–1983	*1997–1999*	*1981–1983*	*1997–1999*	*1981–1983*	*1997–1999*
Population *(millions)*	230	365	189	263	419	628
Population *(% of LDC total)*	55	58	45	41	100	100
Number of poor[b] *(millions)*						
People living on less than \$1 per day	146	251	57	67	203	318[c]
People living on less than \$2 per day	201	324	142	183	343	507[c]
Distribution of poor amongst LDCs *(% of total number of poor in LDCs)*						
People living on less than \$1 per day	72	79	28	21	100	100
People living on less than \$2 per day	59	64	41	36	100	100

Source: UNCTAD secretariat estimates.

a The countries are grouped according to their export composition in the late 1990s. For country classification, see annex table 2.

FAO: „Hunger is not only a consequence, but also a cause of poverty“

Dependence on food imports

- **Food imports > food exports** in the case of 11/14 analysed DCs

  ➔ food bill ↑, dependence on imports ↑ (1995-1998 compared to 1990-1994 i.e. after implementation of AoA/WTO, see FAO 2000: Agriculture, Trade and Food Security, Vol. II)
- **Example of the Philippines:**
  - 1993-2000 imports ↑ from 1.6 bn US$ to 2.7 bn US$
  - Exports remained stable at 1.9 bn US$
  - Promise before the creation of the WTO, that there would be 500,000 new jobs created, was broken
  - Instead: job losses! Reduction of jobs from 11.29 Mio. in 1994 down to 10.85 Mio. in 2001

Increasing exports to reduce hunger?

- Liberalisation does **not lead necessarily to a net increase of exports** (instead food imports > food exports): wrong recipe?!
- Increasing exports do **not mean necessarily higher revenues** (see commodity issue, world market price volatility)
- Increasing exports do **not necessarily benefit the poor**: who benefits from trade? Internal distribution of benefits?
- BUT increasing exports **can contribute to hunger eradication**, when...:
  - tariff escalation in developed countries is eliminated
  - DCs are able to built up an own food industry
  - unilateral preferences for poor countries are maintained and supply side constraints are addressed
  - small farmers are not displaced and driven out of business (see soy)
  - domestic food production is kept as a priority
  - producers receive fair prices and workers get a decent income
- **Positive example: „Fair Trade“ products**

Conclusions

- **neo-liberal policies** put in place via IMF/Worldbank, WTO and FTAs **make hunger**
- developing countries need to have **the right to determine their agricultural and trade policies according to their development needs** (policy space !)
- Developing countries need to have the policy space to **build up an own food industry**
- **Priority has to be given to domestic food production**
- **Achieving fair prices for producers** means involving the whole supply chain incl. retailers
- Need to **address policies beyond tariff protection** in order to contribute to the eradication of hunger (e.g. investment, services, IPR)
- **Fair trade is a positive example** showing how exports can maintain the livelihoods of people living in rural areas