The Role of Markets and Trade in Food Security

A Report of the CSIS Global Food Security Project

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INTRODUCTION

By 2050 it is estimated that the world will need to increase food production by 70 percent to feed a larger, more urban, and, it is hoped, wealthier population.[1] It will have to accomplish this in the context of shrinking availability of arable land and water and other environmental constraints. Increased investment in research and development and improvements to production capacity are absolutely vital to increase the *availability* of food. Usually less emphasized but equally crucial for boosting productivity and availability of food is the existence of markets. Markets and trade also contribute to achieving global food security[2] by increasing *access* to food.

This report briefly outlines the food security challenge facing the world and then expands on the often-overlooked role that markets and trade play in achieving food security. Recognizing the important U.S. initiatives under way, the report offers a set of recommendations on how the United States can concretely work to strengthen markets and trade.

The Challenges Ahead

The United Nations Population Division projects the world population to increase from approximately 6.8 billion in 2009 to more than 9.1 billion in 2050. The majority of the growth will take place in developing countries, where population is projected to grow from 5.6 billion in 2009 to 7.9 billion in 2050. Africa's population is expected to double in size between 2009 and 2050.[3]

The world will also undergo rapid urbanization. Between 2007 and 2050, the world urban population is anticipated to increase from 3.3 billion to 6.4 billion. By 2050, it is likely that some 70 percent of the world's population will live in urban areas.

A growing and more urban population will be accompanied by increases in income levels and changing food preferences. As incomes rise from about $2 per day to $10 per day, people prefer more dairy, meat, fruits, and vegetables, requiring an increased production of agricultural commodities, whereas people earning more than $10 per day consume more processed foods, services, packaging, and variety and luxury forms of food, but do not require more agricultural commodi-

1. Food and Agriculture Organization of the United Nations (FAO), "How to Feed the World in 2050," paper presented at the High-Level Expert Forum on How to Feed the World in 2050, Rome, October 12–13, 2009, pp. 5–8.

2. The Food and Agriculture Organization (FAO) defines food security as a condition that exists when all people, at all times, have physical, social, and economic access to sufficient, safe, and nutritious food to meet their dietary needs and food preferences for an active and healthy life. Specifically, food security includes three elements: (1) food availability, (2) access, and (3) utilization. At the November 2009 World Summit on Food Security, the FAO added stability as a fourth element.

3. Data obtained from the United Nations Population Division, World Population Prospects: The 2008 Revision Population Database.

ties.[4] The Food and Agriculture Organization (FAO) of the United Nations projects that annual cereal production will need to rise from 2.1 billion tons today to about 3 billion tons in 2050 and that annual meat production will need to rise by more than 200 million tons to reach 470 million tons.[5]

Arable land and water constraints, combined with the likely impacts of climate change—more severe weather events, an increase in pests, and longer-term changes to agricultural production due to increasing temperatures—pose additional challenges to feeding a larger population. When a potential contribution of CO_2 fertilization is discounted, most crop yields are projected to decline significantly by 2050 as a result of climate change. Moreover, the agricultural sector contributes some 14 percent of total greenhouse gas emissions (which is comparable to emissions from the transport sector) and may be called upon to increase productivity without increasing, or even reducing, greenhouse gas emissions.[6]

Self-sufficiency in food production is not a viable solution for most countries, as it is neither economically nor environmentally sustainable. With daunting challenges on the horizon, countries will need to rely more heavily on trade to be food secure. However, there are persistent trade and market access obstacles—in both high-income and developing countries—that impede efficient distribution of, and access to, food.

The Role of Markets and Trade

In this section, which speaks to the importance of markets and trade in achieving food security, we emphasize the importance of both "hard" and "soft" infrastructure in creating sound markets.

Markets are necessary to boost productivity and availability. Improved access to agricultural input markets—such as seed and fertilizer—is crucial for productivity growth. Moreover, farmers will only increase production if they have access to viable markets for their agricultural outputs.

Markets and trade also play a crucial role in achieving global food security by increasing access to food. At the simplest level, trade allows food to flow from areas of surplus to areas of deficit—in local, regional, and global markets. Well-functioning markets transmit price signals, which allow changes in demand to be met by supply. When demand is greater than supply, producers increase production in response to price signals, and this increased production, in turn, helps to stabilize prices. By transmitting information in this way, markets help to reduce price volatility. As witnessed during the 2007–2008 spike in food prices, it is the poor who suffer the most from volatility, as they spend proportionately a much larger share of their income on food. For example, in Bangladesh, expenditures for rice alone account for 48 percent of total food expenditures and 30 percent of total household expenditures.[7]

In addition to effectively allocating and distributing the world's food supply, improved access to agricultural markets also serves as a powerful tool for economic growth in less-developed countries. In regions like sub-Saharan Africa, where 70 percent of the population relies on agriculture

4. Robert Thompson, "A Daunting Task: Projections of the Challenge to Come" (presentation at the Center for Strategic and International Studies, Washington, D.C., September 22, 2009).

5. FAO, "How to Feed the World in 2050," p. 2.

6. David Fahrenthold, "U.S., 20 other nations team to research greenhouse gas emissions from farms," *Washington Post*, December 17, 2009.

7. Joachim von Braun et al., "High Food Prices: The What, Who, and How of Proposed Policy Actions," International Food Policy Research Institute, *IFPRI Policy Brief* (May 2008), p. 6.

for their livelihood, and 80 percent of all the farms are less than 2 hectares in size, poor smallholder farmers can turn their surpluses into income only if they have the ability to access markets.[8] Increased incomes, in turn, increase food security and help to alleviate poverty.

To enhance existing markets and create new ones requires addressing the serious "supply-side constraints" that face many developing countries. These constraints include missing or inadequate physical infrastructure, such as roads and ports and storage and processing facilities. The lack of rural and regional infrastructure to connect neighboring countries inhibits the ability of rural farmers to receive necessary inputs such as seeds, fertilizer, pesticides, and agricultural equipment and their ability to move their products on to local and regional markets. The increased transaction costs do not allow producers to benefit from economies of scale. Physical infrastructure aside, a weak legal and policy environment can also constrain private sector activity. Governments should seek to provide a sound enabling environment for the private sector that gives utmost importance to establishing the rule of law, including contract enforcement procedures, a sound financial system, and clearly defined property rights.

The initiative for tackling supply-side constraints in developing countries needs to be taken by the governments of those countries, with ongoing input from the private sector. Cross border constraints need to be tackled on a regional level. Developed countries, however, can also play an important role. Not only can they help address supply-side constraints through financial assistance, but they can also help create positive production incentives by reforming the international agricultural trade system and their own domestic policies.

8. International Food Policy Research Institute (IFPRI), "Ending hunger in Africa: Only the small farmer can do it" (Washington, D.C.: IFPRI, 2002).

FOUR PRIORITY AREAS FOR ACTION

The United States and the international community unveiled new food security initiatives following the food price crisis of 2007–2008. The G-8 countries pledged to commit US$20 billion at the July 2009 Summit in L'Aquila, Italy. President Obama pledged US$3.35 billion over five years to global food security, and other G-8 members committed an additional US$16.5 billion. In September 2009, the Obama administration released a bold new plan, the "Global Hunger and Food Security Initiative," which outlines a comprehensive, whole-of-government approach to enhancing food security that focuses on the importance of collaboration with various partners and emphasizes country-led, consultative plans.[9] The proposal acknowledges the important role that trade and market expansion play in enhancing food security and highlights three key areas in which the United States should consider investing: expanding market information; improving post-harvest market infrastructure; and creating a positive investment climate conducive for agribusiness growth. In May 2010, the administration released *Feed the Future Guide,*[10] which describes in greater detail the strategic approach to its food security initiative. Recently, the U.S. Department of the Treasury, the lead U.S. agency charged with engaging with the multilateral development banks (MBDs), in partnership with the World Bank, Canada, Spain, South Korea, and the Bill and Melinda Gates Foundation, announced an $880 million multi-donor trust fund,[11] called the Global Agriculture and Food Security Program, to address low-income countries' food security needs.[12]

This report echoes some of recommendations laid out in these various plans and provides additional suggestions on how the United States can foster the role of trade in achieving food security, with a particular focus on trade capacity building and infrastructure investment, regional integration, international agricultural trade reform, and reform of U.S. trade and domestic policies.

1. Trade Capacity Building and Infrastructure Investment

Trade and development policies must be better coordinated to ensure that they reinforce each other and have the greatest possible impact. Targeted trade programs, such as preferential agreements including the African Growth and Opportunity Act (AGOA), should be better coordinated

9. U.S. State Department, Bureau of Public Affairs, *Global Hunger and Food Security Initiative: Consultation Document* (Washington, D.C.: U.S. Department of State, September 28, 2009).

10. *Feed the Future Guide,* May 2010, http://www.feedthefuture.gov/FTF_Guide.pdf.

11. The United States has committed $475 million ($67 million in FY10 and $408 million in President Obama's FY11 budget request) to strengthen this initiative, and it is part of the broader U.S. food security initiative. Other contributors include Canada ($230 million), Spain ($95 million), South Korea ($50 million), and the Bill & Melinda Gates Foundation ($30 million).

12. U.S. Department of Treasury, "United States, Gates Foundation, Partner Nations Announce Proposed Contributions to Global Food Security Trust Fund," Press Release TG-654, April 22, 2010.

with both development and technical assistance so as to enhance economic opportunities, break down barriers to international trade, and address specific needs.

Trade capacity building measures seek to lower the costs of engaging in trade and to assist countries in taking better advantage of market access. They should prioritize addressing the constraints of lacking or insufficient physical infrastructure such as roads, ports, railroads, airports, storage facilities, water and sanitation, and power. In sub-Saharan Africa, transport costs can be as high as 77 percent the value of exports.[13] According to the Africa Infrastructure Country Diagnostic, only 40 percent of rural Africans live within two kilometers of an all-season road compared with 65 percent in other developing regions. Africa has developed only 4 million hectares of new irrigation in the last 40 years compared with 25 million and 32 million hectares for China and India, respectively. Power shortages are chronic. The combined power generation capacity of all 48 sub-Saharan African countries is 68 gigawatts—about the same as Spain's—and about 25 percent of that capacity is not available because of aging plants. A recent World Bank study estimates that an investment of $93 billion annually for the next ten years is needed to meet Africa's infrastructure needs.[14]

Investments in infrastructure and infrastructure services are central to the economic growth and development of the agriculture sector. The importance of investing in agriculture-related physical infrastructure is underscored by World Bank research showing that typical rates of return on its infrastructure projects are generally higher than for any other type of project it finances.[15] For example, transportation inefficiency and post-harvest loss in developing countries—stemming from exposure to extreme temperatures, rain, drought, and chemical contamination and to damages during harvesting, packaging, loading, and improper storage—impose high costs on producers. The FAO estimates that between 15 and 50 percent of what is produced is lost.[16] Even without any added production, infrastructure improvements, coupled with training and capacity building on food gathering, handling, and transport, could greatly increase the amount of available food.

Trade capacity building assistance also addresses "soft infrastructure" constraints that developing countries face in getting their food to markets, such as insufficient market information and analysis, lack of access to credit, insecure land rights and intellectual property rights, and burdensome custom procedures. Technical assistance and training to enhance countries' competitiveness—i.e., by helping them to comply with food safety standards—are also critical. More broadly, trade capacity building assistance also encompasses policy advice—encouraging developing countries to undertake effective trade policy reform unilaterally and through market-opening trade agreements.

U.S. trade capacity building assistance, or "aid for trade," is primarily provided by the Millennium Challenge Corporation (MCC) and the U.S. Agency for International Development (USAID), including the African Global Competitiveness Initiative (AGCI). On this issue, however,

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13. How to Feed the World 2050, High-Level Expert Forum, Issues Brief: "The Special Challenge for Sub-Saharan Africa," October 12–13, 2009, p. 3, available at http://www.fao.org/fileadmin/templates/wsfs/docs/Issues_papers/HLEF2050_Africa.pdf.

14. Vivien Foster and Cecilia Briceño-Garmendia, *Africa's Infrastructure: A Time for Transformation* (Washington, D.C.: International Bank for Reconstruction and Development/World Bank, 2010).

15. World Bank, *World Development Report 1994: Infrastructure for Development*, table 1.2, p. 17 (New York: Oxford University Press, 1994).

16. Food and Agriculture Organization, "Post-harvest losses aggravate hunger," November 2, 2009, available at http://www.fao.org/news/story/en/item/36844/icode/.

policy coherence across the U.S. government and with multilateral institutions and other donors is still inadequate.

The Obama administration's global hunger and food security initiative lays out key elements for trade capacity building that should be applauded and expanded upon, including a country-led "demand driven" approach, U.S. interagency coordination, and enhanced international donor coordination. Although there is no "one-size-fits-all" approach, these are key areas that should be considered in developing effective policies and programs.

Recommendations

Coordinate U.S. trade and development policies and programs

- The United States should design and employ a mechanism for effectively coordinating trade, foreign assistance, and investment policies and programs through a whole-of-government approach that allows agencies to combine and coordinate their relative strengths to effectively achieve sustainable, market-led development. This approach would build on the model being created by the U.S. food security initiative by facilitating coordination among the various U.S. government agencies and with multilateral institutions and other bilateral donor agencies in order to respond to development priorities determined by countries themselves. This recommendation explicitly includes trade and investment agencies in the whole-of-government process.
- The United States should coordinate trade, foreign assistance, and investment policies and programs at the regional and subregional level, not just bilaterally, to accelerate and deepen regional economic integration.
- The U.S. government should regularly consult with and incorporate input from beneficiary country governments and regional bodies, multilateral lending banks, NGOs, U.S. consumers and importers, local businesses, and other private and public sector organizations.

Target physical infrastructure and other capacity building programs to address strategic priorities at country and regional levels

Investments in infrastructure and infrastructure services, at both the country and regional level, are central to the development of the agricultural sector and overall economic growth and food security.

- Focus future U.S. and international infrastructure investments not just at the country level but also at the regional level to accelerate the development of regionally integrated markets for agriculture and other goods and services. Particular attention should be paid to the development of economically viable Regional Development Corridors[17] to facilitate the development of important agricultural areas and to link them to larger economic units.

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17. "Corridors can be defined as a collection of routes linking several economic centers, countries and ports. While some are only road transport corridors, most of them include more than one mode of transport." Yao Adzibgey, Charles Kunaka, and Tesfamichael Nahusenay Mitiku, "Institutional Arrangements for Transport Corridor Management in Sub-Saharan Africa," Sub-Saharan Africa Transport Policy Program Working Paper No. 86 (Washington, D.C.: World Bank, October 2007), p. 1, available at http://siteresources.worldbank.org/EXTAFRSUBSAHTRA/Resources/SSATPWP86-Corridor-Management.pdf.

- Continue and enhance work to strengthen donor coordination between the U.S. government and other international donors, agencies, and the private sector on infrastructure development. Coordination and priority setting are imperative because infrastructure needs are massive, especially in Africa. The World Bank and the African Development Bank have estimated that it will cost $25 billion dollars per year over the next ten years to develop the rural infrastructure platform in sub-Saharan Africa, including investments in roads, power, water for irrigation and sanitation, and information and communication technology.[18] Multi-donor collaborative investment projects have the potential of funding high-dollar infrastructure investments, while taking advantage of each donor's respective institutional advantages. Building on the principles underlying the Obama administration's food security initiative, coordination of infrastructure investments and priority setting should be led by country and regional entities including, in Africa, the African Development Bank and the regional economic communities, or RECs. The MCC, the World Bank, and other donors should intensify their collaboration with these regional leaders to develop a model for coordinated infrastructure investment and to address needs at both the country and regional levels. Some recent examples of such efforts include the following:
  - In April 2009, in response to the economic and financial crisis, the World Bank launched the Infrastructure Recovery and Assets Platform (INFRA) and the Infrastructure Crisis Facility (ICF), programs aimed at addressing gaps in infrastructure needs, especially in the world's poorest countries. These initiatives are designed to take advantage of the synergies of multi-donor infrastructure investments. INFRA and ICF are slated to provide more than $55 billion in infrastructure lending over the next three years. Thus far, the World Bank has financed $21.6 billion for infrastructure in FY09 and has committed $10.6 billion in FY10, as of April 2010.[19]
  - In 2007, the MCC led a major multi-donor funding package of US$240 million in Mozambique's water and sanitation sector. Funding was provided by the MCC (US$204 million), the World Bank/International Development Association (US$15 million), the Africa Catalytic Growth Fund, or ACGF (US$15 million), and the Global Partnership on Output-based Aid, or GPOBA (US$6 million).[20]
- Focus on commercially sustainable, scalable, and cost-effective ways to improve supply chains, including rural access to centralized agricultural processing facilities, cold storage, warehousing, and market information.
- Promote education and technical training programs to help build the human capacity to take advantage of new trade and investment opportunities.

18. Foster and Briceño-Garmendia, *Africa's Infrastructure*.
19. For more information on the INFRA and ICF programs, see the World Bank Web site at http://go.worldbank.org/31Y6AHZK60.
20. Millennium Challenge Corporation Issue Brief, "MCC-World Bank Group Collaboration in Mozambique Water & Sanitation Sector" (Washington, D.C.: Millennium Challenge Corporation, August 2008), available at http://www.mcc.gov/mcc/bm.doc/mcc-081408-issuebrief-mozwatercollaboration.pdf.

Prioritize programs to enhance policy and regulatory capacity, decrease barriers to trade, and encourage private investment

- U.S. government agencies should work with developing countries to reduce policy and regulatory barriers to encourage private investment. Country-specific programs need to take private sector and farm association priorities into consideration. One example of such interagency coordination that could be expanded is the U.S. Department of Commerce's Commercial Law Development Program (CLDP), which works with various U.S. agencies—including the Department of State and USAID—to improve the climate for business around the world. CLDP "conducts training programs and consultative visits that impart government-to-government expertise on how to harmonize laws, expand trade, increase governance transparency, integrate regional economies, and achieve compliance with international obligations."[21]
- The U.S. Departments of Commerce and Treasury should work to promote greater capacity among African trade ministries, encourage agricultural reforms, and promote trade facilitation measures at the borders.
- The United States should encourage South-South approaches to capacity building and technical cooperation.
- The United States should continue to provide targeted technical assistance to help countries meet sanitary and phytosanitary (SPS) standards, which will facilitate international agricultural trade. The U.S. Department of Agriculture and the Food and Drug Administration should work with farmers and processors to help them understand and comply with U.S. standards.
- At the same time, the United States should examine how it can simplify its food import approval system with a view toward facilitating greater trade flows from developing country producers, while protecting food safety. It could also engage with other major importers in a process to streamline import approval requirements.
- Working with individual countries and regions, the United States could identify specific products with market potential, and design targeted assistance interventions to remove restrictive barriers to trade and compliance with standards in order to promote the trade of such products.
- The United States should work with the private sector whenever possible, cross-leveraging resources, applying best practices, and drawing on models to build capacity in different sectors.

2. Regional Integration

The small size and poor infrastructure of many developing and food insecure countries present development challenges that are not easy to surmount at the national level. In many of these cases, regional integration can lead to improved productivity, expanded trade, and increased competitiveness, leading in turn to higher incomes and a more resilient food supply.

Trade among developing countries is expanding and should be encouraged, since population and income growth in developing countries make these the fastest-growing markets for food and agricultural products. Over the last two decades, overall merchandise exports among developing countries have been increasing, and much of that is intraregional trade. The one exception is

21. For more information on the U.S. Department of Commerce Commercial Law Development Program, see http://www.cldp.doc.gov.

Africa, which exports more to Asia than it does intraregionally. Research by the Organization for Economic Cooperation and Development (OECD) shows that "the potential benefit from freer South-South trade may indeed be at least as large as the gains that developing countries can obtain from better access to rich countries' markets (North-South trade)."[22] Agricultural trade among developing countries is one of the most promising components of future economic growth, and there is room to grow, as the market share of agricultural trade was just 6 percent of the total in 2005.[23] Furthermore, integrated regional markets increase food availability and decrease price volatility. They also provide greater incentives for private sector investment.

However, barriers to regional trade are often much higher than with other trading partners. According to the Office of the U.S. Trade Representative (USTR), average African tariffs are nearly 20 percent, which is significantly higher than the 10 percent for the rest of the developing world and 5 percent for the developed world.[24] Lower tariffs provide improved access to agricultural inputs, increase competitiveness, and attract private sector investment in agriculture while making food imports more affordable. Regional integration will also be enhanced by addressing nontariff barriers, , enhancing cross-border research and technology transfer, improving regional infrastructure, and developing greater access to shared market information. Instituting streamlined and harmonized custom procedures is an often overlooked, but vital component of regional trade integration.

Although the impetus for regional integration must come from the countries themselves, there are important ways in which the United States can play a supporting role.

Recommendations

Support regional integration

- The United States should encourage African countries to lower tariffs vis-à-vis each other, address divergent food standards, and tackle delays at the border. Toward this end, the United States could strengthen its ties with RECs. The United States should encourage regional investment plans and can also request that regional considerations are taken on board when individual country investment plans are drawn up.
- The United States should also undertake trade capacity building at the regional level and encourage other major donors, such as the World Bank, to participate in regional lending operations. This could be done as part of the Enhanced Integrated Framework for Least-Developed Countries (EIF).[25] The EIF is in the process of being established to support LDCs in trade capacity building and integrating trade issues into overall national development strategies.

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22. "South-South Trade: Vital for Development" (Paris: OECD, August 2006), available at http://www.oecd.org/dataoecd/30/50/37400725.pdf.

23. United Nations Conference on Trade and Development, *Development and Globalization: Facts and Figures* (Geneva: United Nations, 2008).

24. Demetrious Marantis, remarks at Makerere University in Kampala, Uganda, February 16, 2010, available at http://www.ustr.gov/about-us/press-office/speeches/transcripts/2010/february/remarks-ambassador-demetrios-marantis-maker.

25. EIF participating multilateral agencies include the IMF, ITC, UNCTAD, UNDP, World Bank, and WTO. WTO ministers at the Hong Kong Ministerial Conference in December 2005 gave their support to this enhancement and to the EIF Task Force. More information on the Enhanced Integrated Framework for Least-Developed Countries can be found at http://www.integratedframework.org/enhanced_if.htm.

- U.S. trade policy and trade capacity building programs can support regional integration, especially in Africa. The United States should pursue a "whole-of-government" approach, examining how trade-related programs offered by different agencies on a bilateral basis might be expanded to a region. The United States can begin by building upon and expanding current programs, for example:
  - USAID, through its Africa Global Competitiveness Initiative (ACGI), has established four regional trade hubs in sub-Saharan Africa, including Ghana and Senegal (for West Africa), Botswana (for South Africa), and Kenya (for East and Central Africa). At these hubs Africans can receive AGOA-related training and technical assistance.
  - The ACGI Knowledge Sharing and Analysis (KSA) project disseminates "trade-led economic growth best practices among African institutions, governments and enterprises, Global Competitiveness Hubs, and other AGCI stakeholders including through knowledge sharing and analysis briefs (KSABs), summaries of applied best practices, conferences, trainings, and presentations." [26]
  - The USTR has negotiated Trade and Investment Framework Agreements (TIFAs) that provide strategic frameworks and principles for dialogue on trade and investment issues. Existing TIFAs provide a foundation for cooperation and establish policy frameworks that should be continued and expanded. [27]
- The United States should support a strong trade facilitation agreement within the WTO. Multilateral negotiations on trade facilitation offer an effective method for accomplishing important reforms in customs procedures across a range of countries and provide a link to capacity building assistance. The trade facilitation negotiations under the Doha Round would be an excellent candidate for an "early harvest" if the Round cannot be completed.

3. International Agricultural Trade Reform

A distorted international agricultural trade system works against the interests of developing country producers and weakens food security. Increased agricultural exports offer the prospect of increased incomes and poverty alleviation and the opportunity to reinvest in productive capacity. Yet it is precisely those agricultural products in which developing countries have a comparative advantage, such as sugar, that are often subject to trade restrictions in OECD countries. There is still an unacceptably high level of tariff peaks on some agricultural products. Tariff escalation—the practice of placing lower tariffs on raw material but higher tariffs on processed goods—discourages value-added production in developing countries. Export subsidies, though outlawed for industrial goods, can still be employed for agricultural goods. Along with high levels of trade-distorting domestic support in OECD countries, which developing countries cannot afford, these subsidies

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26. For more information on ACGI and the KSA project, see http://www.usaid.gov/locations/sub-saharan_africa/initiatives/agci.html.

27. The United States currently has TIFA agreements with 11 African entities, including Angola, COMESA, East African Community, Ghana, Liberia, Mauritius, Mozambique, Nigeria, Rwanda, South Africa, and WAEMU. Additionally, it has 2 TIFA programs in the Americas, 4 in South and Central Asia, 9 in Southeast Asia and the Pacific, and 16 in Europe and the Middle East. For more information, see the USTR Resource Center on Trade and Investment Framework Agreements at http://www.ustr.gov/trade-agreements/trade-investment-framework-agreements.

distort international prices and create a disincentive to invest in developing country agricultural sectors and undermine their ability to compete.

There are also important trade barriers in developing countries, which limit the access of agricultural producers to inputs and discourage investment. Barriers among developing countries impede market access to some of the fastest-growing markets in the world and hinder regional integration.

Whereas agricultural trade reforms can be undertaken unilaterally, multilateral trade negotiations provide the greatest scope for achieving widespread and more ambitious reforms in the agricultural sector, since many countries require trade-offs in other sectors if they are to make concessions in agriculture. If concluded, the Doha Development Round would eliminate export subsidies and lead to substantial reductions of tariffs and trade distorting support. Concessions on domestic support can only be meaningful as part of a multilateral agreement. Such a positive outcome takes on a renewed importance following the global economic slowdown and increased protectionist pressures. Renewed U.S. commitment to the Doha Development Round is an important signal that the United States is serious about improving conditions in developing countries.

During the 2007–2008 food crisis, a large number of countries imposed price controls and export restrictions in an attempt to protect their citizens from high food prices. Such measures, however, contributed to further global price increases and led to a run on staple commodities. Some of the world's largest rice producers, including China, India, and Vietnam, restricted exports, while Argentina, Kazakhstan, and Russia limited wheat exports. According to International Food Policy Research Institute (IFPRI) estimates, eliminating export bans during the crisis would have helped stabilize price fluctuations and reduce price levels by up to 30 percent.[28] Export bans in Tanzania and Uganda between 2008 and 2009 were estimated by the FAO to have reduced maize flows to neighboring Kenya by 46 percent, contributing to a 170 percent increase in the number of food insecure people in Kenya.[29] Furthermore, the long-term impacts of export bans can be detrimental to a country's overall agricultural development, as they decrease incentives for farmers to invest in agriculture.

International agricultural trade rules focus primarily on the rights of exporters, and the United States should redress this imbalance and seek to improve disciplines focusing on greater supply assurances for importing countries. The United States should also address export restrictions through other venues.

Recommendations

Move forward with the Doha Round

- The United States should make the successful conclusion of Doha Development Round a foreign policy priority in its diplomatic relations. This is a golden opportunity for the United States to lead, but it requires a commitment from senior leaders in the U.S. government.

28. von Braun et al., "High Food Prices," p. 8.

29. See Food and Agriculture Organization, *FAO and Emergencies—Consolidated Appeals 2010: Kenya*, available at http://www.fao.org/emergencies/tce-appfund/tce-appeals/consolidated-appeals-2010/kenya10/en/.

- The U.S. administration should work for an ambitious outcome of the Doha Development Round, which would also include improved market access for U.S. exporters in key emerging economies.
- The administration could signal its intention by asking Congress to pass "trade promotion authority"—perhaps limited to WTO negotiations—to provide our trading partners with confidence that any deal reached with U.S. negotiators will be approved by the Congress.
- If the completion of a Doha Round is not likely, the United States should consider how to advance those parts of the negotiations with a particular benefit for developing countries, such as the extension of a duty-free, quota-free regime by all OECD countries and emerging economies to least-developed countries.
- Trade facilitation is another area that could be advanced separately. The United States should also ensure that the "Aid for Trade" initiative, which remains outside of the Doha Round, moves forward.

Impose disciplines on export restrictions

- The United States should urge countries not to impose export restrictions and advise them on more efficient ways to protect vulnerable consumers in periods of high prices.
- The United States should take an active role in creating stronger WTO disciplines on export bans and restrictions, which contribute to increased global food insecurity.
- In the absence of a successfully concluded Doha Round, the United States could seek an exporters' code that would commit major food exporters to self-limit the use of agricultural export restrictions. Such a code could also include a commitment made in the context of the Doha negotiations to phase out the use of all types of export subsidies by 2013.
- The United States and its partners in regional trade agreements and other regional groupings, such as APEC, should be encouraged to forgo the use of export restrictions except in the case of war or when subject to a UN resolution.
- At a minimum, the United States should seek an international agreement that exempts food aid purchases and in-transit goods from export restrictions.
- The United States should encourage renegotiation of the Food Aid Convention to address export bans and subsidies.

4. U.S. Trade and Related Domestic Policies

There are important reforms the United States can pursue outside of trade negotiations to contribute to global food security. The United States already offers a set of generous trade preferences to developing countries, which provide them with enhanced access to the U.S. market. These are important foreign policy and economic development tools, providing increased market access to developing countries with the goal of spurring economic growth. One of the oldest preference systems, the Generalized System of Preferences (GSP) initiated in 1976, gives duty-free treatment for 4,800 products from 131 designated countries and territories. A number of regional programs, including the African Growth and Opportunity Act, or AGOA, provide trade preferences beyond the GSP program.[30] More than 98 percent of AGOA countries' exports enter the United States duty free.

In a February 16, 2010, speech, Deputy U.S. Trade Representative Demetrios Marantis noted that U.S. imports and exports from the AGOA countries have increased by 28 percent, totaling $104.52 billion.[31] Since AGOA was established in 2000, U.S. trade with the 40 eligible sub-Saharan African nations has more than doubled, but most of this increase has taken place in oil and gas products. Considering the important role that agriculture plays as a key driver for poverty alleviation and economic growth, AGOA should seek to address a number of remaining restrictions so as to strengthen the export performance of this important sector.[32]

Despite the benefits provided by the U.S. trade preference programs, significant challenges remain, and there is growing consensus for reform. Although more than two-thirds of all countries and 44 least-developed countries participate in GSP, several least-developed countries have been left out, including Bangladesh, Laos, and Cambodia. The U.S. government should seek to both streamline and enhance its preference programs, with a particular focus on the agricultural sector.

U.S. trade preferences also offer enhanced access of U.S. manufacturers to key inputs for manufacturing and reduce the costs of trade. In 2008, the GSP alone saved U.S. importers nearly $850 million in duties.

A more concerted effort to educate U.S. voters about the benefits of trade should be pursued. Exports account for 10 to 13 percent of U.S. gross domestic product, and export-related jobs pay higher wages.[33] The administration has pledged to double U.S. exports within five years with a view toward creating additional employment. An exclusive focus on expanding U.S. exports, however, is insufficient, since the ability of countries to import U.S. products depends also on their ability to export. The markets of the future lie in emerging economies and developing countries, where the greatest population and income growth is projected. Growth in those markets depends on increased agricultural development and trade, which provide the greatest opportunities for income growth and, in turn, further demands for U.S. imports. It is important that we think in terms of *growing the market share* instead of the traditional approach of *haggling over market share*.

The United States and other biofuel-producing countries with ambitious mandates and generous tax incentives must consider the impact of their policies on food prices. As energy prices rise, demand for biofuels also rises, and farmers respond by shifting cultivation toward biofuels feedstocks. While the exact impact is debated, one study by IFPRI concluded that increased biofuel demand between 2000 and 2007 contributed to 30 percent of the increase in average cereal prices.[34] The recently announced "National Renewable Fuel Standard Program for 2010 and Beyond"

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30. Other regional programs include the Caribbean Basin Economic Recovery Act (CBERA), the Andean Trade Preferences Act/Andean Trade Preferences and Drug Eradication Act (ATPA/ATPDEA), the Haitian Hemispheric Opportunity through Partnership Encouragement (HOPE) Act, and the West Bank/Gaza Strip Qualifying Industrial Zones preferences (QIZs).

31. Demetrious Marantis, remarks at Makerere University.

32. International Food and Agricultural Trade Policy Council and Partnership to Cut Hunger and Poverty in Africa, "AGOA and Agriculture," August 2009, available at http://www.agritrade.org/Publications/documents/PCHPAIPC_JointPolicyBrief_Aug3.pdf.

33. World Bank, *World Development Indicators* (Washington, D.C.: World Bank, 2010).

34. von Braun et al., "High Food Prices," p. 3.

projects significant decreases in U.S. corn and soybean exports, which could have far-reaching implications for food prices.[35] A shift to cellulosic ethanol and biomass-based diesel is expected to decrease the biofuel industry's reliance on first-generation agricultural feedstocks, but so far, technical progress in developing these has been lagging.

As the United States prepares for another round of farm bill negotiations, renewed emphasis should be placed on shifting U.S. domestic support away from trade-distorting to non-distorting or minimally distorting subsidies. Whereas high food prices were a large concern in 2008, historically, developing country producers were negatively impacted by prices driven too low by trade-distorting subsidies, which served to dis-incentivize investment in their agricultural sectors.

In the 2008 farm bill, the United States authorized a small amount of funding for local purchase of food aid. This type of food aid—rather than relying solely on in-kind food aid—should be increased as it strengthens markets in developing countries.

Recommendations

Reform U.S. trade preferences

- Over the next year, the United States should debate and adopt broader reform of its preference programs to make them simpler to use and more permanent for countries classified as LDCs. This would encourage investment in developing countries' agriculture and labor-intensive manufacturing sectors. Some of the reforms should include the following:
    - Establish a single, easy-to-use preference program available to all least-developed countries
    - Simplify and clarify eligibility requirements
    - Lengthen, if not make permanent, the term of preference programs to foster economic development in LDCs and encourage sustained investment by investors who are seeking stable investment climates
    - Simplify rule of origin requirements and allow extended cumulation.
- As part of this reform, the United States should provide duty-free, quota-free access to all UN-designated least-developed countries. This decision need not await the conclusion of the Doha Round, but should be taken now to demonstrate U.S. commitment to the Millennium Development Goals.
- U.S. trade preferences should be expanded to include all agricultural products, including those administered through a tariff rate quota and processed agricultural goods.
- U.S. trade preferences should be accompanied by targeted capacity building to assist beneficiary countries in taking greater advantage of improved market access.

35. EPA Regulatory Announcement, EPA-420-F-10-007, February 2010, available at http://www.epa.gov/otaq/renewablefuels/420f10007.pdf.

Inform U.S. public opinion

- The U.S. administration should engage the Congress and undertake an information campaign about the importance of markets and trade for food security and for U.S. national security and commercial interests.

Reform U.S. biofuels policy

- The United States should consider phasing out mandates and subsidies for the current generation of biofuels produced from agricultural crops.
- The United States should encourage more research and development of the next-generation of fuels that do not compete with food. If such technologies are not forthcoming, biofuels mandates should be lowered rather than met by increased production of first-generation biofuels.
- The United States should work with the European Union and other OECD countries on reforming biofuels policies.

CONCLUSION

Achieving greater global food security is a noble goal and, many would argue, a moral responsibility. It is also squarely in the self-interest of the United States, because hunger causes unrest and instability, which in turn affect U.S. national security and commercial interests. Global food security requires a multi-pronged strategy. Increased agricultural productivity has played and must continue to play a very important role in meeting increased demand. Markets also importantly contribute to increased productivity by providing production incentives. In addition, markets and trade ensure that food is efficiently distributed.

The U.S. commitment to promoting global food security is strong. The Obama administration's food security strategy recognizes the importance of markets and trade and must now be translated into concrete actions. This report has outlined four priority areas in which the United States can seek to strengthen markets and trade—trade capacity building, support for regional integration, and reform of the international agricultural trade system and domestic U.S. policies. In a globalized world, progress in all these areas will be best achieved through international cooperation, and the United States has the opportunity to play an important leadership role in this regard. Progress will also require sustained input from and partnership with the private sector. Given the U.S. focus on food security and increased agricultural development assistance and U.S. leadership within the G-8 and G-20 on these issues, emphasizing the importance of open trade in enhancing global food security is a logical extension of U.S. policy.

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