

FOOD SECURITY AND SUSTAINABLE AGRICULTURE

BRIEF 2: Global food security and market stability: the role and concerns of large net food importers and exporters

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Abstract

During the last two decades agricultural trade has increased substantially. One consequence of this is that almost 20 percent of all calories consumed worldwide are provided by traded food. A number of emerging economies and newly developed countries are now main actors in world trade. Some countries like China, Korea and Saudi Arabia have become large net importers as a consequence of the rapid increase of consumption resulting from economic growth and a growing middle class. Others like Brazil, Argentina and Thailand have modernized their agricultures, improved the use of their ample natural resources, increased exponentially their production and are now main net exporters. The end result of these processes is that five countries (China, Korea, Japan, Russia and Saudi Arabia) are responsible for about 40% of food net imports and seven countries (Argentina, Australia, Brazil, Canada, New Zealand, Thailand and USA) account for about 55% of total food net exports. The impact of these main players on the international market stability and prices is enormous. In the context of the present difficulties to progress in multilateral trade negotiations, it is suggested that a special group composed by major food net importing and exporting countries should be formed within the WTO to promote dialogue, exchange of information and possible agreements and commitments between themselves. It is argued that it would contribute to global market stability.

Challenge

1. Importance of trade to achieve food security

Trade is a central element for global food security. During the last two decades agricultural trade has nearly tripled surpassing USD 1.5 trillion. Furthermore, between 1995 and 2015 the share of globally consumed calories crossing an international border increased from 16.1 percent to 19.1 percent (Deason and Laborde, 2015). Much of this expansion in food trade and food consumption based on imports has come from developing countries. In addition, a large proportion of net exports are provided by a small number of net exporting emerging economies.

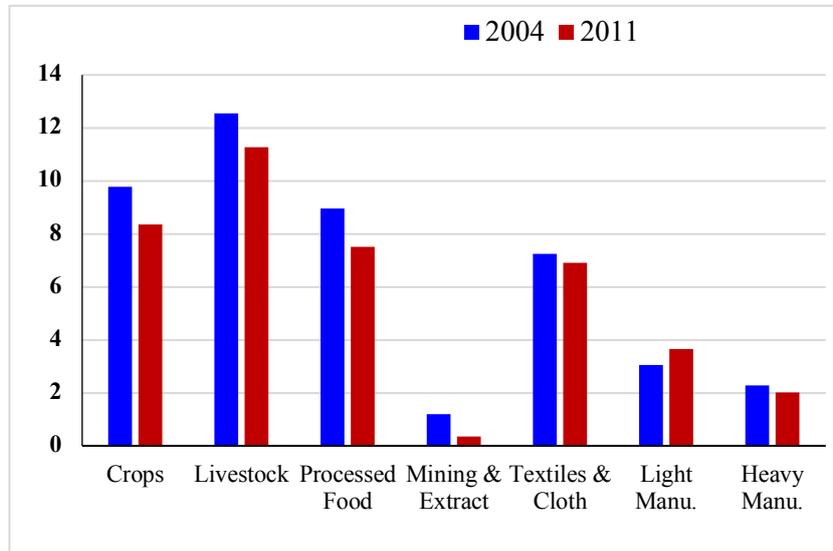
2. The international market for agricultural products

In spite of this important role played by food trade in attaining food security, there are many substantial barriers to trade. Regardless of some improvements that were achieved in the two decades prior to the global financial crisis, very significant tariff barriers remain and are higher in agricultural products than any other product group, affecting price stability at the global level, increasing the cost of food in the countries applying those



restrictions, and leading to a misallocation of resources that reduces world welfare (Figure 1).

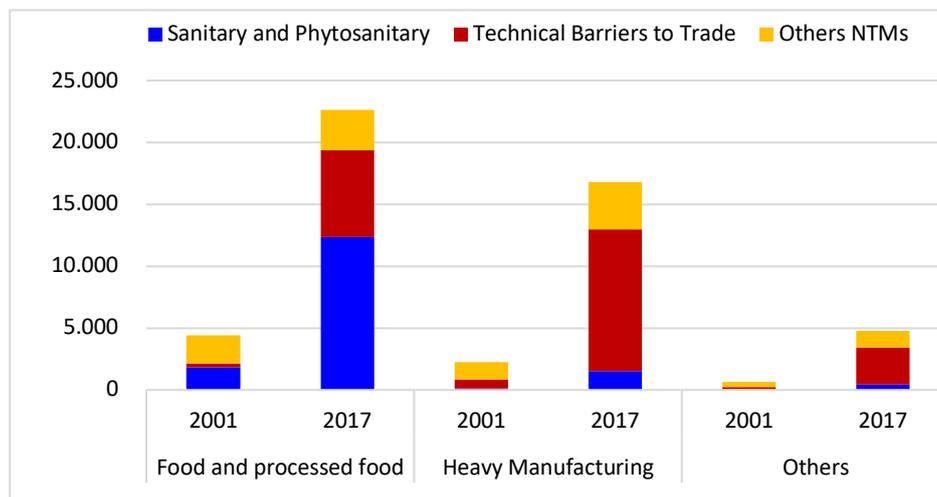
Figure 1. Trade barriers: tariffs in agricultural and other sectors



Source: FTAP V9 database

In addition, non-tariff measures (NTMs) have recently greatly increased in numbers, especially for food products (Figure 2). These include sanitary and phytosanitary measures, various technical barriers to trade and many other NTMS. While some of these NTMs in food trade were traditionally used by the developed countries for food safety consideration, they have increasingly been used, since the early 2000, by major net food importing countries as trade barriers

Figure 2. Number of non-tariff measures (NTMs) initiated or in force in 2001 and 2017



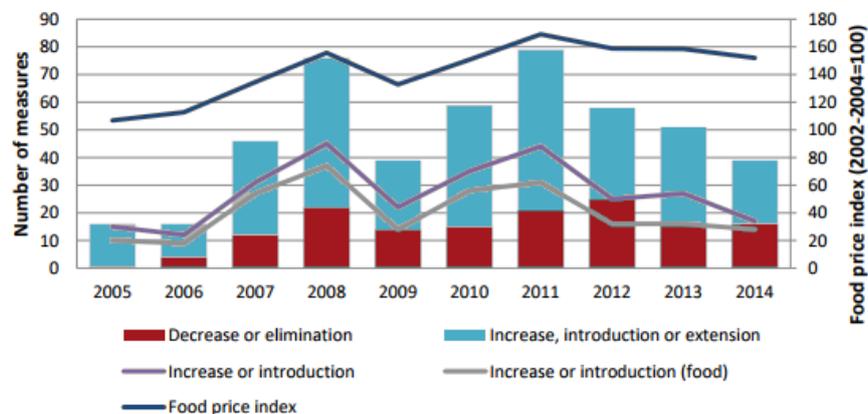
Source: WTO World Tariff Profiles, 2017



These tariffs and non-tariff measures are a source of concern for food exporting countries that face increasingly uncertain and volatile international markets a situation that weakens the incentives to place agricultural production as a priority and a major source of economic growth and development. A direct consequence of this, has been lower levels of direct agricultural investments on infrastructure and innovations, which could result in lower and more unstable levels of production and exports.

This trade environment, the application by many mayor importing countries of tariff escalation policies, and domestic macroeconomic difficulties have also contributed to some exporting countries implementing export restrictions policies which are highly damaging to the stability of food supply and prices (Figure 3).

Figure 3. Export Restriction measures.



Source: Estrades et al., 2017

The possibility of unstable markets and the potential unreliable behavior of exporters in general, and of large net exporters in particular, is a significant menace for importing countries. At least four main concerns feed into the potential sense of insecurity by net importing countries:

1. Unstable and volatile markets as a consequence of climate change and unpredictable behavior of key players. Two examples of this are: a) export restriction imposed by major net exporters; and b) unpredictable variations in public stockholdings.
2. Discretionary use of domestic support and its lack of transparency, which causes distortions on production, land use and trade.
3. High dependence on supplies from a few large net exporters.
4. The always-present possibility of trade embargoes by some of these important suppliers.



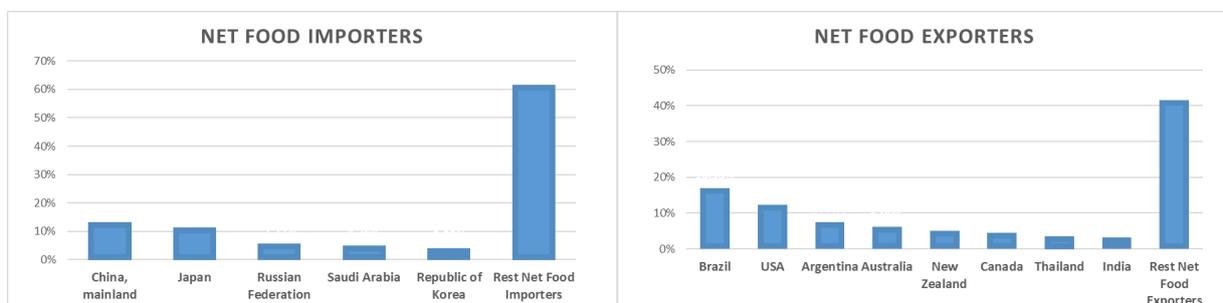
Given these uncertain conditions in international agricultural markets, large food net importing countries could pursue global investment strategies to gain more control of world food systems, or implement policies that could further destabilize the international market.

In a world where multilateral trade agreements and adherence to trade rules seem to be weakening, the impact of key net importing and exporting countries will increase. It is crucial to advance mechanisms by which the production and market behavior of these big players can be stabilized and made more predictable, so that net importing countries feel more secure in their reliance on imported food and net exporters can have confidence in their access to international markets.

3. The Main Players

A number of emerging economies and newly developed countries are now main actors in world trade. Some like China, Korea and Saudi Arabia have become large net importers as a consequence of the rapid increase of consumption resulting from economic growth and a growing middle class. Others like Brazil, Argentina and Thailand have modernized their agricultures, increased exponentially their production and have thus become main net exporters. The end result of these processes is that five countries (China, Korea, Japan, Russia and Saudi Arabia) are responsible for about 40% of food net imports and seven countries (Argentina, Australia, Brazil, Canada, New Zealand, Thailand and USA) account for about 55% of food net exports (Figure 4) The impact of these countries that are main players on the international markets is very large and their dominance is expected to increase.

Figure 4. Shares Net Food excluding fish Importers and Exporters.



Source: author's calculations based on FAOSTAT



Consequently, the production and consumption behavior of this small number of countries has great influence on international food prices and market stability. Any one of them could have substantial influence on the stability of the market and the price level of all major food commodities. This influence is compounded by a few other countries, like India, which is already a large food trader and could become even larger in the near future although it is uncertain if as a large net exporter or a large net importer. Given this situation it would seem that the development of special agreements between these large players would result in a more stable and balanced trade environment, which will benefit not only to these large players but also all other countries, especially less developing countries.

Proposal

1. Proposal

That the subgroup of thirteen countries identified in the text be given a special participation in the Agricultural Markets Information System (AMIS) to encourage the dialog and promote the flow of timely information among them. That AMIS be provided with resources to work towards the better harmonization of supply (including crop production estimates) and demand information between these countries for maize, wheat, rice and soybeans¹ with a focus on enhancing stocks data and the timely delivery of all relevant information. All this should be done in coordination with the Group on Earth Observations Global Agricultural Monitoring (GEOGLAM)², a G20 initiative, which now is being more closely coordinated with AMIS.

2. Proposal

That the G20 promotes and facilitates: a) the organization of a Special Group of countries (composed by Argentina, Australia, Brazil, Canada, New Zealand, Thailand and USA, as net exporters; China, Korea, Japan, Russia and Saudi Arabia as main net importers; and India as a top trader, b) that, within the institutional space in WTO, a permanent Secretariat is established to convene the Group for the purpose of dialogue, exchange of information and progress in special trading arrangements to facilitate a freer global trade in food among them and a greater market stability worldwide.



References

¹ These four commodities -soybeans, wheat, rice and maize- account for 75% of the calories that people consume. Either directly or indirectly when used as feedstock to livestock. See Schlenker 2017.

² The GEOGLAM initiative coordinates satellite monitoring observation systems in different regions of the world.

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