The Role of Agriculture in the Global Economy

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Let me begin with some observations about commercial agriculture – the part of agriculture that most clearly is operating in the global economy. Fifty years ago, the United States was the largest agricultural exporter, doing about $3 billion in sales per year. Six of its top ten customers were in Western Europe; two more – Japan and Canada – also were developed countries; India, a food aid recipient, and pre-Castro Cuba were the only developing countries that were major markets.

Today, U.S. agricultural exports top $50 billion a year. Six of its top ten customers are developing countries, and three-fourths of U.S. agricultural exports go to Asia and the Americas.

There have been three transforming events during that half-century that reshaped this global agricultural market. The first was the formation of the European Community and the creation of its Common Agricultural Policy (CAP). The CAP's generous farm supports took the EC from a 20-million-ton-per-year net grain importer in the 1960s to a 20-million-ton-per-year net grain exporter by the 1980s.

The second transforming event was the collapse of the centrally planned economies, particularly the former Soviet Union. At their peak, the USSR and the PRC were importing 40-50 million tons of grain per year. Today those countries are net grain exporters.

The third transforming event was the emergence of developing countries as commercial grain importers. They have absorbed the 80-plus million tons of grain imports erased by the other two events. While total world grain trade has grown little in the last few decades, these events have shifted grain trade patterns dramatically. Quite simply, the future for world grain trade depends upon the rate of growth in food demand in the developing world.

This helps explain why agriculture is the linchpin of the Doha Round. Doha can shape for a generation the progress we make in merging agriculture into the rest of the global economy. And that progress will determine to a large extent how far we get in ending hunger and reducing poverty while protecting the environment.

For many of the world's people, agriculture remains a subsistence activity. Ninety percent of the food produced in the world is consumed within the country producing it, and most of that usage lies outside of the commercial system. A company like Cargill only begins to touch the food system as commercial production emerges and agricultural products flow to urban centers and into international markets. But as commercial food trade emerges, new opportunities arise to eliminate hunger and enhance food security.

The first opportunity is to lower food costs. Access to low-cost imports helps keep food costs down, especially for the poor who often spend 70 percent or more of their personal income to eat.

Second, food trade creates choice. Trade offers variety; it also provides access to foods year round that often can be grown locally only on a seasonal basis. And, it provides efficient local farmers new marketing opportunities. The result is higher living standards for those able to participate.

Finally, food trade provides more reliable access to supplies at lower cost. Crops often fluctuate 25 percent from one year to the next within a growing region. Global production, however, typically fluctuates less than three percent annually, as good crops in some places offset poor crops elsewhere. Moreover, storing food typically costs 20 percent or more of its value annually, even ignoring waste, pests, quality losses and the like. Most foods can be shipped halfway around the world for 10 percent of their value, or half the cost of storage.

In other words, food trade lowers costs, widens choices and provides more reliable access to supplies. Each is important in eliminating hunger. But, food trade cannot play this role effectively in the face of large market access barriers. The major problem limiting agriculture's role in the global economy is that agricultural trade barriers on average are ten times higher than industrial trade barriers, and many agricultural barriers are prohibitively restrictive. Unless these barriers are brought down dramatically on all agricultural products in all countries, the global food system needed to end hunger will not develop adequately. We will lose an important opportunity to reduce food insecurity, perhaps for a generation.

Eliminating hunger, however, is not just about cost, choice and access to supplies; it also is about the ability to pay. Reducing poverty is a major key to ending hunger.

Today, about half the world's population – 3 billion people – live in abject poverty. Roughly three-fourths of these poor people live in rural areas dependent upon agriculture. No country that has raised the majority of its people out of poverty has done so without attacking the causes of rural poverty.

In fact, agricultural development is a necessary trigger for broader, sustainable economic development for most countries. Agricultural development stimulates self-sustaining growth in two principal ways. First, through rising productivity it increases the incomes of farmers. Second, it releases labor from subsistence farming that can be employed in manufacturing or service activities.

Agribusiness companies want to bring poverty-reducing tools to farmers in developing countries. We can offer more productive inputs; we can provide practical finance; we can reach out to new market opportunities; we can show farmers ways to lower or manage risks. But we cannot do these things alone. They require public investments in physical infrastructure and well-functioning marketing systems. They also require an economic climate that welcomes investment, as capital flows to where it's needed and wanted. This does not mean "special incentives." Rather, it means creating a predictable, level playing field in which competition through price and service determines success.

Like ending hunger, reducing poverty requires that current high levels of agricultural protection come down. Subsidized competition and trade-distorting domestic supports in developed countries must be curbed. But market access barriers must be brought down everywhere. Forty percent of global agricultural trade already is among developing countries themselves. Most of the future growth in demand will be in developing countries, so they must join in as full partners in the creation of a more open global food system. It is the surest route to reducing poverty in all countries.

Frankly, the proposed Harbinson text on the modalities for the agricultural negotiation is disappointing on this score. It offers developing countries a program of “special and differential treatment” that largely is a series of exceptions to and exemptions from reform. In their own best interests, developing countries should resist this temptation to be excluded from reform. They should insist on disciplining developed-country subsidy practices, and the least developed countries may deserve longer transition periods. But, developing countries refusing to lower their own market access barriers will prove a prescription for perpetuating poverty, not reducing it.

The third area in which agricultural liberalization can help is in protecting fragile environmental resources. The pressures of hunger and poverty often result in agricultural practices in low-income countries that harm the environment in two ways: by exhausting the soil’s productivity rather than replenishing it; and by forcing agriculture to expand to new lands rather than to use the most highly productive lands better.

These pressures will only intensify over time. Food demand will continue to rise as global population increases. Most of that population growth will be concentrated in developing countries. Higher per capita incomes and accelerating urbanization in the developing world will only further intensify agriculture’s use of scarce land and water resources. Unless productivity per acre, per dollar of investment and per hour of work rises, agriculture will continue to expand into more virgin areas, strain limited water resources and exhaust overworked soils.

This again is an area where agribusiness can help, if conditions permit the growth of the commercial sector of agriculture. But, many poor countries currently pursue policies that discourage farmers from increasing their productivity. Examples include: overvalued exchange rates, which limit exports; under investment in rural infrastructure, which raises marketing costs; and uncertain land title and commercial dispute settlement systems, which deter risk taking. It is these policies that could be left unreformed if “special and differential treatment” for developing countries heads down the wrong path.

Feeding a growing and more prosperous global population in a more environmentally sustainable way can only be achieved by adopting productivity- and efficiency-enhancing technologies. And adopting better technologies is directly linked to the opening of trading opportunities that can generate cash for reinvestment and market opportunities for expanded output.

So, from a commercial perspective, the world’s hopes for eliminating hunger, reducing poverty and protecting fragile environments ride in important ways on the success of the Doha Agenda. Is the world ready to create an open food system obeying the same kinds of rules that govern a more open industrial economy?

Progress will require commitments of several kinds. First, developed countries must be prepared to grant greater access to their own markets to all countries, not just a select few. Developed countries also must find less trade-distorting ways to support rural incomes, and they must end the practice of subsidizing their exports. But developing countries need to embrace a similar vision of openness; nearly half of current global food trade, and virtually all of its growth potential, is among developing countries themselves.

Second, the developed world needs to help developing countries build up their capacity to participate in a global economy and to ensure that the poor gain from globalization. Rich countries have pledged to reduce global hunger dramatically. Donor countries and institutions seem prepared to reverse the decline in aid going to rural development. And companies are prepared to invest in creating and expanding commercial opportunities for developing country entrepreneurs. If appropriately supported by agricultural trade liberalization, such investment flows can make the prospects of the poor in Africa and South Asia resemble more closely the gains made by the poor in parts of East Asia over the last 20 years.

Finally, attitudes toward new technologies, especially agricultural biotechnology, need to be reexamined. New technologies can raise agricultural productivity and human nutrition at an affordable cost. It would be unfortunate if developing countries were denied these tools by trade barriers disguised as safety or marketing regulations unsupported by sound science. We already have seen food aid rot on loading docks while millions go malnourished because of such fears. A saner, more responsible path is needed.

Trade, aid and technology are tools that can enlarge agriculture’s role in the global economy. They do so by expanding commerce, increasing productivity and leveling the competitive playing field. But that’s neither the goal nor the payoff. The real benefit from enlarging agriculture’s role in the global economy is the greater food security, economic development and environmental sustainability it will bring to the world’s poor.