Global Limits of Economic Growth

FOOD

- Basing on the extract from "The State of Food Insecurity in the World 2009" (FAO, p.23) think about arguments pro and contra the fact that there is no problem, if a country rely on imports for a significant share of its food consumption.

The extract from "The State of Food Insecurity in the World 2009" (FAO, p.23)

Are food imports necessarily bad?

The global food crisis of 2006–08 prompted many countries to reconsider the virtues of relying on imports for a significant share of their food consumption. Given the high and volatile prices and market turbulence during this period, it is obvious that countries become concerned about excessive reliance on world food markets. But what constitutes "excessive" reliance, and what are the advantages and disadvantages of reducing this reliance?

First, it is important to realize that domestic food prices in many exporting countries also increased sharply during the crisis, e.g. rice prices in Pakistan, Thailand and Viet Nam, and maize prices in South Africa. In other words, importers are not the only countries that are vulnerable to higher prices on world markets; any country that is open to trade can be affected. Second, price surges can also originate from shocks to domestic agricultural production: a simple policy of insulation from world markets (self-sufficiency) exposes the country to substantial weather-related risks. Thus, there is no easy way to eliminate price instability on domestic markets.

Domestic price stabilization in the face of world price surges is easier if the quantity of imports or exports is a relatively small share of consumption or production, because it can be buffered more easily by reasonable levels of stockholdings. If imports account for 50 percent of consumption, it will be difficult to implement an effective stabilization policy that protects against world price surges. The same is true if exports account for half of production.

The merits of reducing the share of trade in consumption or production depend on comparative advantage. If a country has a strong comparative advantage in producing a particular food commodity, reducing production to reduce the importance of trade (exports) will be counterproductive and harm many farmers. Similarly, reducing the quantity of imports when a country does not have a comparative advantage in production will hurt consumers. Moreover, it is often the poorest who are affected most by such a policy, as was shown in *The State of Food Insecurity in the World 2008*. Analysis of household survey data can help determine which groups are hurt most severely with respect to a specific country and specific commodity.

Of course, comparative advantage is not a static concept. If a country lacks comparative advantage in producing a specific commodity, it may be because of underinvestment in agricultural research, rural infrastructure, roads or other public goods. In such cases, the most appropriate solution would be to increase investment in agriculture, not impose trade restrictions. Even in the short term, before the investment can bear fruit, trade restrictions are likely to be damaging if they increase domestic prices to levels well above world prices on a medium-term basis because the high prices will typically hurt most the poorest of the poor. Further, while it may be sensible to allow domestic prices to deviate from world prices in the short run, pursuing such a strategy over several years can be dangerous. Trade restrictions, once implemented, are often difficult to remove, and can fail to provide sufficient market discipline to ensure that governments and the private sector invest their money wisely. Thus, restricting imports simply to avoid reliance on the world market may lead to domestic food prices remaining high all the time, not only when world prices are high. A more effective and lasting solution would be to invest more in agriculture to enhance productivity growth.