Impact of Globalisation and Trade Liberalization on Small Farmers' Food Security in Developing Countries

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INTRODUCTION

Globalization and trade liberalization in the context of developing countries can formulate, implement and assess food security policies. The two tracks are building two sets of alliances and structures that will interact to shape the context in which future actions to promote pro-poor food security policies will have to operate. It is essential therefore to understand the driving forces of globalization. The first track has been described as market-based globalization. It is shaped by market forces, strengthened by financial market liberalization, development of financial instruments, trade liberalization and the information technology revolution. Due to the rapidity of the impacts, it has also been termed "fast-track globalization." The second track has developed as a response to the problems brought about by or aggravated by market-based globalization. Due to the difficulties involved in delivering tangible results, this track has been termed "slow-track globalization."

The agricultural production and trade in the era of globalization and liberalization has been affected by changes in trade and agricultural policies. The trade and agricultural policies have gone through dramatic changes in recent past. The developing countries have shifted from inward-oriented development strategies to greater reliance on free markets and international trade. These new strategies have led policymakers to undertake major domestic agricultural policy reforms. After the policy changes of recent years, such reforms have greatly reduced and in some cases eliminated the bias against agriculture. Although further improvements in trade policies are still needed, the reforms already undertaken provide a better framework for traditional investment policies and projects in the agricultural sector.

Most of the world's poor depend on agriculture for a key part of their livelihoods. The future of small farmers and the poor agricultural labourers in low- and middle-income countries around the world depends upon improved access to well-functioning markets. Food security of the poor is much affected by market and trade reforms in agriculture. Thus, agriculture is a critical sector in which a rules-based global trade system must work to the benefit of the poor. Yet, agriculture has long been treated as an exception to the rules, as a special case left outside the trade-liberalization process. As a result, extensive subsidies and border protection continue to block opportunities for those poor people who can best make their livings from farming and value-added farm products. If the poor remain losers in agricultural trade, then the trade rules adopted cannot be justified and World Trade Organization (WTO) effectiveness and credibility will be impaired. Keeping above in view the main objective of the present paper has been made to assess the ability of globalization and trade liberalization in promoting the food security of the small farmers.

GLOBALIZATION, TRADE LIBERALIZATION AND FOOD SECURITY

In the context of globalization and trade liberalization, the support policies such as price guarantees, income support measures, and input-related and crop insurance subsidies stimulate farm production and cause harm to agriculture in developing countries. These policies also include tariffs and tariff-rate quotas, which restrict market access. Besides, the policies of export subsidies move high-priced farm products into world markets. These have "special and differential treatment" for the rich, not the poor. In developing countries, nearly 33% of the agricultural trade is with other developing countries and this share is growing. But these countries also have substantial trade barriers on agricultural products (Diao, Diaz and Robinson 2003). For instance, India has applied more than 25% of the tariffs to agricultural products. The countries with strong agricultural export potential have called for more open markets (von Braun, Gulati, and Orden 2004).

The gains from agricultural trade liberalization are estimated to be nearly $40 billion annually of their average GDP. The trade liberalization adds an additional $15 billion annually to aggregate agricultural exports in developing countries. The additional gains come primarily because food consumers face lower internal prices as countries' own trade barriers are reduced. Thus, the trade liberalization boosts their overall income and agricultural exports. But it also creates distributional impacts between countries, because the benefits from reduced trade-distorting subsidies will not be universal or evenly distributed among poor countries. The targeted assistance policies will be needed for some countries and population groups, which include the need for attention to price instabilities that may hurt the poor, and phasing out of food aid dependencies. In order to achieve trade-based gains, developing countries that will benefit from more open markets abroad need to be forthcoming in opening their own markets (von Braun, Gulati, and Orden 2004). As trade barriers are reduced, benefits for poor farmers will come not from multilateral trade policy reform by itself, but from complementary domestic investments and policy improvements.

Farmers in developing countries are suspicious of how much production stimulus any support generates. A dollar of income support may have less production stimulus than a dollar of price support. Yet, if the scale of income support is large and increasing, the overall impact on production stimulus may remain substantial. The dirty decoupling of this nature, therefore, has created a political imperative to link subsidy disciplines and trade policy reforms. For instance, the changes in the agricultural trade policies of India since the Uruguay Round illustrate the subsidies/tariffs connection (Gulati and Narayanan 2003). The farm policy in India is similar to that in the United States, but the instruments of policy differ. When the United States began making new direct payments to farmers in the late 1990s period of low prices, India, with fewer fiscal resources to marshal for farm support, resorted to high tariffs and freight subsidies to protect its own farmers and compete with the subsidized exports from OECD countries (von Braun, Gulati, and Orden 2004). Global welfare, development and poverty alleviation will be well served if rules-based, multilateral liberalization of agricultural trade can be achieved. This would bring gains for developing countries not just from new market opportunities created multilaterally, but from trade-based investment and the technological advances these opportunities induce (Kherallah et al 2002). Yet for the poor in developing countries greater international market access is only part of what is needed. More competitive international markets will even bring some distributional adjustment costs. To complement trade policy reforms, public investments are essential, which requires closer coordination among the WTO and development finance organizations, such as the World Bank and regional development banks (von Braun 2003).

The gains for developing countries from strengthening markets will come from simultaneously enhancing their physical and institutional infrastructures for agriculture. In order to turn the market opportunities into concrete gains requires an investment to make markets work and endow the poor with the assets they need to compete. The responsibility lies primarily within the countries themselves, but developed countries and international institutions need to increase their support for these efforts (Diao, Diaz and Robinson 2003). The trade policy reform and international assistance to agriculture in poor countries are complements, not substitutes, in creating benefits for the small farmers who are concentrated in global agriculture.

With trade liberalization, the food industry in developing countries is changing. The globalization has had a more direct influence through foreign direct investment (FDI). Traditionally, countries tended to see foreign investment as an infringement of national sovereignty. With more open policies with respect to foreign investment, FDI inflows have influenced pace and nature of agro-industrialization (Gopinath and Bolling 2000). There is a corresponding (and reinforcing) push factor too at work. With saturation of developed country markets and limits to expansion imposed by regulatory constraints, developed country food businesses see foreign investments as a promising strategy to expand operations. This has been particularly true of wholesaling and retailing firms. While initially transnational investment confined itself to developed countries, developing countries are increasingly seen as promising destinations. FDIs are double-edged, where they are in the form of fresh investments; they serve to generate employment and income to the extent that they do not put domestic firms out of business. Even when they are essentially takeovers of existing firms, they remove capital constraints for domestic agro-industrial firms (Gopinath and Bolling 2000), and result in transfer of technology or in spurring innovation (Wei and Cacho 2000). However, FDIs could also result in concentration of global market power and repatriation of profits.

The assessments of how small farmers might be affected by such concentration depend on the following factors (Reardon and Barrett 2000). First, there may be organizational and institutional structures that explicitly include small farmers' participation. Second, higher capital labour ratios in producing industries may not necessarily augur ill for the small farmers, particularly if access to external or expansion in domestic markets helps large increases in output and thereby employment. Third, in developing countries, where cheap labour is crucial to global competitiveness, agro-industries might choose to maintain high labour-output ratios that have positive impact on employment. With concentration and growing scale of agri-food businesses, small farmers, particularly in high-value agriculture, increasingly regard vertical coordination or integration as key to successful participation. To ensure that these institutional arrangements are indeed beneficial to small farmers, there is need for a referee, a role that can be played by independent regulatory bodies or agencies of the state or civil society. Also, governments could play an important role to foster small farmers' participation in the food industry by providing the necessary asset base, infrastructure etc. to reduce high transactions cost that constrain them alongside an appropriate legislative framework and a credible enforcement mechanism.

SMALL FARMERS AND FOOD SECURITY

Apart from the sheer mass of livelihoods that depend on small farms, small farmers often account for a large share of agricultural production (Dunstan 2001). In India, they account for an increasing proportion of the food basket and agricultural GDP. Farmers with less than 2 hectares were responsible for 41% of total food grain production in 1990-91 as against 34% in 1980-81. It is also interesting that small and marginal farmers in India possessed the highest share of livestock, 59% of cattle, 56% of buffalo, 67% of goats and 73% of the pigs' population in 1998-99. Thus, the welfare of the smallholders has powerful implications for overall agricultural production and therefore for food security as well.

There have been large differences in food security status among developing countries. India is an interesting case. In the past few years, India has emerged as one of the world's top net exporters of agricultural products. If India follows her comparative advantage, international trade should increase employment and wages and help in alleviating poverty. To the extent that poverty is the main cause of food insecurity, international trade opportunities should also help improve food security. The process of globalization can impact small farmers in complex ways, both directly and indirectly. Globalization is a multi-dimensional phenomenon ranging from trade liberalization to cultural and political change. From the point of view of small farmers, however, the globalization and liberalization is likely to have strong repercussions (See Reardon and Barrett 2000).

The direct impact of trade liberalization is usually through change in prices of commodities that have been liberalized or the impact effect. However, it also triggers a whole range of second-round effects through factor prices, income, investment, and employment and demand linkages. In the short run, for small farmers producing primarily the importable commodity, their real income change following a price decline of the importable depends on consumption profile in an extreme case, where they consume only importables it is constant since the effects of price change as consumer and producer counterbalance each other. On the other hand, it falls if they consume some exportables or non-tradables. Conversely, if the household produces primarily exportables then they stand to gain from the price decline for importables, unless they consume only the exportables, in which case their welfare remains unchanged. For those who produce non-tradables alone, the net welfare change depends on the consumption mix (Ingco 2001). Things could get even more complicated if there were simultaneous liberalization of exportables and importables. The effects described above pertain only to the immediate or short-term impact. In the long run, there may be less obvious impacts operating through government transfers influenced by changes in revenue from trade taxes, incentives for investment and innovations, terms of trade changes etc. (Bannister and Thugge 2001).

Apart from trade liberalization, the establishment of Intellectual Property Rights (IPRs) could affect small farmers' access to new technologies or they may face higher prices for critical inputs resulting from more oligopolistic/monopolistic seed industry structures. A similar challenge is posed by the increasingly stringent food safety and quality standards (SPS measures) in developed countries, or similar trends even domestically, which might impinge on small farmers' ability to exploit opportunities for high-value exports to these countries. Also, the liberalization of capital flows is leading to increase in cross-country investment in agri-food industries, leading to, in part, larger scale of operations and growing concentration in the agri-food chain (inputs, processing, retailing, trading etc.). All these have emerged independently rather than in response to specific global drivers, but significantly shape the globalization process itself and hence the small farmers.

TRADE LIBERALIZATION AND ITS IMPACT ON SMALL FARMERS

The most visible aspect of globalization is the impact of trade liberalization on small farmers. If domestic prices are less than export parity prices, liberalization has the effect to pushing up domestic prices. When food prices increase it has adverse effect on rural poverty. On the other hand, if domestic price levels remain higher than import parity prices, liberalization would lead to domestic prices declining to world levels. In this case, liberalization leads to cheap imports, which destroys livelihoods of small farmers (Watkins 1997). The food insecurity due to price increase induces small farmers to increase output possibly through increased application of labour. This is a case of a retreat into subsistence. Somewhat in contrast are findings that the bulk of the poor, rural and self-employed would either benefit from higher farm prices or remain unaffected by hypothetical price changes (Gulati and Kelly 1999).

The other anticipated consequence of trade liberalization is price volatility. The removal of protection exposes domestic agricultural sectors to world prices so that greater fluctuations in world prices consequent to trade liberalization get transmitted to domestic prices. For small farmers with limited means to safeguard against downswings, such volatility could push them to the very brink of destitution (Nayyar and Sen 1994). On the other hand when prices are volatile, there is no indication that they are systematically linked to trade liberalization (Sarris 1997, Valdes and Foster 2002). Therefore, we cannot conclude that liberalization contributes to volatility. Perhaps more than volatility the problem faced by farmers in developing countries is the prolonged periods of low international prices (Valdes and Foster 2002), which may be attributed to developed country policies that offer counter cyclical emergency assistance to farmers when world prices fall. This has the effect of deflecting the downswing in prices back to international markets instead of absorbing them. Under such a situation, small farmers in developing countries have few options to tide over periods of low prices. While there may be feasible solutions for price risk management in the short run, they may not help for prolonged downswings in prices.

Most studies that evaluate the impact effect of trade liberalization tend to assume that price changes at the border are transmitted smoothly right down to the farmer. However, typically in developing countries, there may be a huge difference between the border prices and the prices faced by the small farmer reflecting weak price transmission (Sarris 1997). The extent of price transmission varies depending on a range of factors from domestic and external policies to structural and institutional factors. Weak price transmission could have two very different effects. First, the rural low-income households may be somewhat isolated from the cash economy. The insulation could protect them from adverse impact of price changes at the border. Second, there could be asymmetric price transmission wherein farmers end up paying more for what they buy be it inputs or other importables, but not be able to gain from higher prices for their output (Minot 1998). Another oft-neglected aspect is that small farmers often sell in a buyers market when prices are low and may buy off-season in a sellers market when prices are high. In such a case, it is the traders who benefit and not the small farmers. Thus, when the issue of price transmission is taken into account, the prognosis for the small farmer could be quite different.

The structural and institutional factors that result in high transactions costs often constrain the small farmer from exploiting opportunities opened by trade or intensify the adverse impacts (See Delgado 1999). Disadvantaged households are typically land-poor (and landless) and usually lack access to other productive assets. Under the circumstances, export crop-production per se is unlikely to have substantial benefits for them. On the one hand, transport, marketing and distribution costs could be so high that it insulates a particular region completely from the effects of trade liberalization, so that they continue to remain in subsistence cultivating primarily non-tradables. The access to modern inputs is often a problem for small farmers, particularly those in remote regions. Since, typically the quantities demanded may be small, private marketing channels may be non-existent in these areas. In the absence of the public sector, other institutional innovations would have to be conceived (Gulati and Kelley 1999). There is increasing consensus that credit constraints are at the basis of the poor farmers weak response to trade liberalization. Interestingly, credit constraints also has the effect of keeping small farmers in the labour market in spite of rising cereal prices since wages enabled them to escape the credit constraints (de Janvry et al 1992). Informal sector lending at usurious rates predominates, with formal and timely finance out of reach of most farmers. The poorer farmers rely disproportionately on informal means of finance (World Bank 2002). A particularly important issue that has been raised in the context of liberalized agricultural markets is insurance. Small farmers are particularly vulnerable to two kinds of risks: production risks (represented by crop failure, etc.) and price risks (greater volatility and extraordinary and persisting low prices). The rural households faced with risky environments, often resort to selling their assets to smooth consumption (Rosenzweig and Wolpin 1993), but sometimes even this may not be feasible and there is the need for credible insurance mechanisms.

In the long run, however, the impact effect itself could get dissipated, be overturned or exacerbated by second-round effects operating primarily through linkages between various activities within rural economies although linkages with urban sector are also likely to have some impact (Delgado et al 1998). Other linkages include direct upstream and downstream production linkages, investment linkages and indirect consumption or expenditure linkages (Delgado et al 1998). Of all the linkages, factor earnings have come to be acknowledged as a critical component in assessing welfare impact of trade liberalization and particularly relevant for small farmers. Even if small farmers were to lose in the short run (with benefits cornered by larger farmers), in the long run, they could benefit from farm and non-farm activities through greater employment opportunities. This could happen either through greater aggregate employment or more gainful employment or higher wage earnings, which could come from rural on-farm wages, rural non-farm incomes and also urban earnings. Naturally, this is contingent on the factors that may affect the non-farm sectors quite independently of the agricultural sectors.

POLICY ISSUES

Several developing countries have expressed concern that further trade liberalization could create problems for small farmers. Some observers, however, have argued for maintaining high levels of agricultural protection in developing countries, or even increasing it further, as a way of reducing poverty and promoting food security. Sometimes this suggestion is accompanied by the argument that protection "does not cost money" and is easier to implement than subsidies in developing countries. The landless rural workers, poor urban households, and many poor small farmers tend to be net buyers of food. The problems faced by poor farmers and poor consumers are addressed through policies and investments targeted to them directly. The focus should therefore be on vulnerable groups rather than on crops.

The best approach for developing countries is to eliminate biases against the agricultural sector in their general policy framework and to maintain a neutral trade policy that reduces protection over time. They should use transition periods negotiated in the WTO to increase investments in human capital, land tenure, water access, technology, infrastructure, non-agricultural rural enterprises, organizations of small farmers, and other forms of social capital and political participation for the poor and vulnerable. None of these policies is constrained under the WTO Agreement on Agriculture. The claims that more protection is necessary to shelter small farmers would ring hollow if the current under-investment in rural development and poverty alleviation in developing countries continues.

At the same time, if trade liberalization has to contribute positively to ameliorate the livelihoods of the small farmers, the following suggestions are worth considerations:

- An end to any types of export subsidies
- Reductions in systemically high tariffs that close off market access
- Disciplines on domestic subsidies and bound tariff rates so that beggar-thy-neighbor subsidization and high protection of the late 1990s are not repeated in the event of low world commodity prices
- Ongoing efforts to keep trade open while accommodating legitimate regulatory goals
- Scaled-up investment in development assistance to strengthen agricultural markets in low-income countries.

Progress in reducing agricultural support and protection among the world's wealthy countries would be an important accomplishment for development and strengthening of the multilateral trade system. Developing countries also need to be actively engaged in the multilateral process of agricultural trade liberalization as they have much to gain. There are substantial grounds for agreement about agriculture between advocates of development and poverty reduction and those advocating strengthened agricultural trade opportunities. There is also a compelling need for investments in rural infrastructure and institutions so that the rural poor can participate effectively in local and global market.

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