

Trading Food

Food Security Policies in Latin America, Southeast Asia and Southern Africa and Their Implications for Trade and Regional Integration

Pedro da Motta Veiga

2010

Abstract

This synthesis report draws on three regional policy reports prepared under the scope of the Trade Knowledge Network's project on Food Security and Trade describing and analyzing the policies responses adopted by countries and (less often) regional organizations to deal with the 2006–08 global food prices crisis. These policy responses are assessed in terms of their economic sustainability and impacts on trade and regional integration.

Concerns over food security are not easily dealt with by a trade agenda oriented towards the objective of liberalizing trade and investments flows and reducing distortions caused by protectionist and subsidy-intensive policies.

The presence of extensive production subsidies in the world's richer countries, the lack of mechanisms to reduce food vulnerability in least-developed countries and the sensitivity of agricultural prices to speculative activities in the world commodities exchanges converge to make agriculture a fertile policy arena for the dissemination of unilateral or bilateral initiatives that result in state management of international trade and investment flows.

Reconciling trade and food security depends mainly on negotiations and agreements at the multilateral level, but the regional dimension of cooperation can play a role in reducing the uncertainty and costs faced by developing countries in periods of crisis that challenge economic security in any of its dimensions (food, energy, etc.).

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Trading Food: Food Security Policies in Latin America, Southeast Asia and Southern Africa and Their Implications for Trade and Regional Integration

Pedro da Motta Veiga

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About the Trade Knowledge Network

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The Trade Knowledge Network is a global collaboration of research institutions across Africa, Asia, Europe and the Americas working on issues of trade and sustainable development. Coordinated by the International Institute for Sustainable Development (IISD), the TKN links network members, strengthens capacity and generates new research to assess and address the impact of trade and investment policies on sustainable development.

The overarching aim of the TKN is to help ensure that trade and investment contribute to sustainable development, with social development and the environment equitably addressed in trade and investment policies. The TKN furthers this aim by generating compelling research with clear policy recommendations and communicating those effectively to decision makers nationally, regionally and globally.

The TKN is hosted by the International Institute for Sustainable Development, a Canada-based not-for-profit organization promoting change towards sustainable development. As a policy research institute dedicated to the effective communication of its findings, the Institute engages decision-makers in government, business, NGOs and other sectors in the development and implementation of policies that are simultaneously beneficial to the global economy, the global environment and to social well-being.

This study is part of a larger, multi-region TKN project that seeks to understand better the impacts of trade policy on food security. It includes country case studies and regional analyses from Latin America, Southern Africa and Southeast Asia. It was made possible through the generous support of the Swedish Environment Secretariat for Asia (SENSA) and the Norwegian Agency for Development Cooperation (NORAD). The project outputs are available on the TKN website.

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Abbreviations and acronyms

AERR	ASEAN Emergency Rice Reserve
AIFS	ASEAN Integrated Food Security
ASEAN	Association of Southeast Asian Nations
CAADP	Comprehensive African Agriculture Development Program
FAO	Food and Agriculture Organization of the United Nations
GDP	gross domestic product
LIFDC	low-income food-deficit country
NFRA	National Food Reserve Agency
OECD	Organization for Economic Cooperation and Development
SADC	Southern African Development Community
SPA-FS	Strategic Plan of Action on Food Security
USD	U.S. dollar
WTO	World Trade Organization

Executive summary

This synthesis report draws on three regional reports prepared for the Trade Knowledge Network's project on Food Security and Trade describing the policies responses adopted by countries and (less often) regional organizations to deal with the recent (2006–08) global food crisis. These policy responses are assessed in terms of their economic sustainability and impacts on trade and regional integration.

Even though there is broad consensus on what caused the global food crisis, there is less agreement on how to confront the likelihood that it could happen again in the future. The main concerns are (1) how to obtain a balanced combination of short- and long-term interventions and (2) how to achieve in practical terms a balance among cautious macroeconomic measures, effective compensatory social policies and a lasting supply-side stimulus without distortions.

As far as short-term responses are concerned, a good way of assessing them and their compatibility with longer-term policies is provided by the Latin American policy report in this series (Piñeiro et al., 2010). This report argues that a package of short-term measures may be considered desirable when (1) it has a broad or targeted coverage of the poorest sectors of society; (2) it has a low or even positive fiscal cost; (3) it produces low levels of distortion or generates positive incentives; and (4) it is easily reversible once it has achieved its goal.

Beyond short-term responses, the food crisis should be treated as an opportunity that encourages the continuing implementation of wide-ranging social and agricultural production reforms. Policies that forcefully address the fundamental dimensions of food security can help to overcome food insecurity over the long term. Increasing investment in agriculture, improving the infrastructure needed for the production and commercialization of food, granting subsidies to the production process and the raw materials it requires, increasing credit for the agricultural sector, and improving natural resources management are some of the supply-oriented policies that can address the fundamental dimensions of food security.

While international trade is only one of the many factors affecting food security, its importance to the ability of many countries to achieve their food security objectives is increasing because of the rapid growth of the global food trade. Trade and trade policies not only influence food availability at the global level, but also food production and food imports, including food aid, at the national level (Diaz-Bonilla *et al.*, 2000). Increasingly, world markets are becoming an important source of food for many developing countries. This is particularly true of countries where food production is constrained by natural and other factors.

However, there it is clear that concerns over food security are not easily dealt with by a trade agenda oriented towards the objectives of liberalizing trade and investments flows and reducing distortions caused by protectionist and subsidy-intensive policies.

The very fact that an economic issue (agricultural and food production) and the concept of security have been linked suggests a shift in the way in which this (economic) issue is considered, with the dimension of security being introduced through concerns over the impact of high food prices (or the sheer lack of food) on countries' socioeconomic cohesion and political stability.

If policymakers believe the risk of food insecurity to be associated with international phenomena such as the volatility of global markets, it is highly likely that—attentive to the mood swings of their national constituencies—they will adopt measures to curb these threats that attempt to reduce the interaction

(which occurs mainly through trade and investment flows) between a specific national economy and its external environment.

This behaviour tends to be encouraged when the international mechanisms for the provision of stability and economic predictability as public goods are perceived as incapable of performing their function. Suspicion of mechanisms and institutions that provide economic security internationally leads national policymakers to search for unilateral policies; for example, China is buying land in other developing countries to safeguard its future food supplies and is establishing complex bilateral relationships with African countries to guarantee the provision of minerals and oil to its rapidly growing economy. Food-importing countries have often adopted policies to achieve self-sufficiency, even if these options are less economically and environmentally sustainable.

The presence of extensive production subsidies in the richer countries (often sheltered by the cloak of ‘multifunctionality’), the lack of mechanisms to reduce food vulnerability in least-developed countries, the sensitivity of agricultural prices to speculative activities in the world commodities exchanges and the feebleness of regional cooperation mechanisms in this area make agriculture a fertile policy arena for the dissemination of unilateral or bilateral initiatives that result in state management of international trade and investment flows.

In this sense, what seems to be required in order to develop a method of dealing with the food security issue that is compatible with trade and investment liberalization objectives is a ‘new agricultural deal’ at the global level that promotes fair trade rules, contributes to lower price volatility in the international market and facilitates more investment in agriculture.

From the perspective of the reformulation of trade rules, the basic principle to guide the process requires that ‘the discussion about food security should be limited to the vulnerability of developing countries, using a different terminology for developed countries’ (Diaz-Bonilla *et al.*, 2000). All developed countries, when national food security indices are used as an analytical tool, are safe from this point of view:

... which suggests that the notion of food security used as part of agricultural multifunctionality or, more generally, among none-trade concerns, has a very different meaning in developed and developing countries. In terms of political implications and agricultural negotiations, keeping the same label for two different situations only serves to obscure the issues being negotiated (Diaz-Bonilla *et al.*, 2000).

Reconciling trade and food security depends mainly on negotiations and agreements at the multilateral level, but the regional dimension of cooperation can play a role in reducing uncertainty and costs faced by developing countries in periods of crisis that challenge economic security in any of its dimensions (food, energy, etc.).

The fact that regional (or subregional) agreements in force in the three developing regions discussed in this synthesis report or, more generally, the regional dimension of policy played almost no role in the range of measures taken in response to the food crisis means that these agreements are not perceived by the countries that established them as credible mechanisms for the provision of collective economic security.

Therefore, the institutional strengthening of regional (or subregional) agreements through the setting of rules and the establishment of disciplines that foster cooperative behaviour among developing countries constitutes a prerequisite for granting to these agreements a greater degree of credibility and ensuring that they play a more relevant role as crisis management instruments.

1. Introduction

In the last few decades concerns over food security have provided the rationale for agricultural and trade policies in both developed and developing countries. They have also served as a justification for the national positions of both types of countries in negotiations for the liberalization of agricultural markets in the World Trade Organization (WTO).

The rise in agricultural products prices in the period before the eruption of the 2008–10 global economic crisis and the perception that these prices would continue to rise in the future brought the issue of food security onto the agendas of both countries and international institutions with renewed emphasis.

Most countries responded to the 2006–08 food crisis with similar packages of policies, regardless of their specific agricultural natural resources endowment, their trade situation in relation to their positions as net food exporters or importers, or their capacity to import food. Many of these responses concentrated on short-term policies that attempted to decrease the price of food. As a result, they tended to increase trade barriers and, in some cases, negatively affected intraregional trade.

This synthesis report focuses on the main features of the food security policy issue in three developing regions (Latin America, Southeast Asia and Southern Africa), describing the policy responses adopted by countries and (less often) regional organizations to deal with the recent food crisis. The content of these policies responses is assessed in light of their economic sustainability and impacts on trade and regional integration.

Section 2 briefly describes the ways in which the food security theme has recently gained importance in the national and international political agendas, a process that reached its peak during the 2006–08 food crisis. In the same section, the impacts of the crisis and the policy responses to the rise in prices are summarized and the implications of responses driven by concerns over food security for trade flows and regional integration are discussed. Some aspects of the interactions between food security policies and attempts to deal with global warming are also presented.

In sections 3, 4 and 5 the impact of the food crisis and the policy responses adopted at the national and regional levels—as well as their trade implications—are analyzed in relation to the three developing regions referred to above. The main conclusions and recommendations of the report are presented in section 6.

2. Food security as a (national and international) policy issue

2.1 The emergence of food security as a policy issue

The 2006–08 food crisis was the subject of newspaper headlines and became a priority in the agendas of multilateral institutions, notably the World Bank.

The initial focus, reflecting the global concerns of 1974, was on the volume and stability of food supplies. Food security was defined at the 1974 World Food Summit as the ‘availability at all times of adequate world food supplies of basic foodstuffs to sustain a steady expansion of food consumption and to offset fluctuations in production and prices’ (FAO, 2003a).

In 1983 the Food and Agriculture Organization of the United Nations (FAO) expanded this concept to include securing access by vulnerable people to available supplies, implying that policies should be balanced between the demand and supply side of the food security equation (FAO, 2003a).

In 1986 the World Bank report entitled *Poverty and hunger* focused on the temporal dynamics of food insecurity (World Bank, 1986). It introduced the widely accepted distinction between chronic food insecurity, associated with problems of continuing or structural poverty and low incomes, and transitory food insecurity, which involved periods of intensified pressure caused by natural disasters, economic collapse or conflict.

The 1996 World Food Summit adopted a still more complex definition:

food security, at the individual, household, national, regional and global levels [is achieved] when all people, at all times, have physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life (FAO, 2003a).

The 1996 World Food Summit indicated the following four food-related ‘dimensions’ that should be satisfied worldwide to ensure that no person ever suffers from famine: ‘availability’, ‘access’, ‘utilization’ and ‘stability’. Each of these dimensions, in turn, involves a set of public policies, services and actions intended to help people solve their food access problems.

The discussions about food security have been reinforced recently, especially in light of the international scenario faced by developing economies, since chronic food insecurity remains one of the main challenges to developing countries’ sustainable development.

Addressing the problem is particularly challenging, since food insecurity is the result of the interplay of a range of factors operating at different levels. The root causes of food insecurity include poverty; war and civil conflicts; environmental degradation; and national policies that do not promote agricultural development, the sustainable management of fishery resources and aquaculture production, and equitable access to food by all members of the population.

Other factors operate at the household and community levels (low productivity of crop and livestock systems; limited or insufficient access to food because of poverty, physical barriers and gender inequalities, etc.) and the individual level (low levels of education, poor health, inequitable intra-household distribution of food, etc.).

Beyond the fact that dealing with food security issues raises many challenges in terms of coordination and institutional requirements, it also raises political economy issues. Firstly, the strength of different interest groups—such as urban poor people or rural farmers—is critical in influencing policy choice in this area. For example, because urban consumers are usually better organized than rural net buyers of food, several countries are biased toward urban food subsidies. This implies that even when exogenous factors drive rising food prices and when the country is a net food exporter, the government has an incentive to support urban net food buyers. Also, there is a danger that the government may not be able to eliminate subsidies after a particular shock has passed, i.e. consumer and producer groups may come to believe that food subsidies are their right. The political costs of changing an existing policy may turn out to be higher than the economic benefits, especially in countries where the affected groups are well organized.

2.2 From food security concerns to food crisis

The past few years have been characterized by unprecedented challenges for both developed and developing countries caused by increases in food and fuel prices in 2006–08 and by the 2008–10 global financial crisis and resultant economic slowdown.

The increases in food prices observed especially between 2006 and 2008 marked the reversal of a decades-long trend of declining (real) prices for food on the global market and are likely to lead to a period of greater price volatility for food. These events have also created uncertainty about the efficiency of global markets and triggered speculation in food commodity prices and a new process of large-scale acquisition of farmlands in poorer developing countries in Africa, Latin America, and Central and Southeast Asia by richer food-deficit countries.

The recent increases in the prices of food show some specific characteristics. Firstly, they concern a small group of products that are both very important in the composition of family household consumption and strongly linked to the international market. Secondly, the behaviour of prices shows a greater volatility than before, especially in regard to cereals and oils, causing great uncertainty in the markets.

The long-term trends show a convergence of different forces that affect both the food on offer and demand. On the offer side, these forces are: (1) the deficit in production due to climate conditions; (2) the reduction in stock levels since the mid-1990s; (3) the rise in the price of fuels; (4) a decrease in the extent of agricultural land; and (5) changes in trade policies and subsidies in developed countries. On the demand side, these forces are: (1) the structural change of demand due to the growth of income in important emerging countries, especially China and India; (2) the development of the biofuels market; and (3) increased global meat consumption and its impact on the demand for grains for animal feed.

The 2008–10 economic crisis reduced international prices of agricultural and non-agricultural commodities and attenuated preoccupations with food security. However, it is reasonable to assume that once the economic recession is over, the price of foodstuffs will tend to increase and in the following years reach higher levels than in the past, making food security a priority of governments and the international community once more. A joint Organization for Economic Cooperation and Development (OECD)–FAO report released in June 2010 foresees for the next ten years an average level of prices for agricultural commodities above the one that prevailed in the ten years preceding the price spikes of 2006–08 (OECD & FAO, 2010). According to the report, the main factor behind this trend will be the growth in demand from developing countries, fostered by their high rates of population increase and increasing per capita income.

As developing countries are expected to play an increasingly important role not only as consumers, but also as producers of agricultural commodities, and as the perception of scarcity of agricultural land grows, there will be an increasing interest in the purchase of land by means of transnational investment. Examples of this are the investments by China in some African oil-producing countries and the purchase of large tracts of land in the south of Latin America by citizens of other countries of the region and the world.¹

1 In June 2010 Brazilian newspapers reported the decision of Brazil's president to restrict the acquisition of Brazilian land by foreign investors. The explicit rationale for this decision – which will supposedly be turned into a constitutional amendment – relies on 'the world demand growth for natural resources, the increase in the land prices and the impacts of these evolutions on the access of poor people to land'. Food security arguments have been used to justify this new measure, which was announced following the release of a governmental study showing an impressive growth of land acquisition by foreign investors in Brazil in the last few years (Zanatta, 2010).

2.3 The food crisis: Heterogeneous impacts and policy responses

Even though the food, fuel and financial crises affected developed, developing and least-developed economies alike, impacts varied significantly across regions, countries and population groups. In many countries the spike in food prices fuelled political instability and social unrest, which undoubtedly reignited the significance of food insecurity as a ‘non-traditional’ human security challenge.

The magnitude of the effects of the increase in agricultural prices varied enormously among countries, products and types of household. Hypotheses about the impacts of the rise in agricultural prices in a specific country must consider not only the relation between net exporting and net importing countries, but also the product–country relationship, the structure of costs at the household level, and the possibility of improving the country’s capacity to import food or increase its agricultural production.

Even though the net impact of the increase in commodity prices on poverty and inequality may be neutral, there will always be—in both developing and least-developed countries—a group among the population that will suffer the worst. The negative effect can be a consequence of various factors, although it is worth noting three of them: the fall in households’ purchasing power due to the rise in prices of goods that are an important part of household consumption and for which it is difficult to find cheaper substitutes, as in the case of basic foodstuffs (corn, wheat, rice, etc.); the reduction in the profitability of certain productive activities and its implications for employment and unemployment and for wages and non-wage remunerations; and the decrease in the income of households due to the reduction of subsidies or governmental expenditures that benefit disadvantaged groups or the increase of taxes that affect them negatively. In a situation in which the position of the poor could worsen while at the same time those who previously were not poor could become so, compensatory policies (safety nets) and complementary policies take on a particularly relevant role.

As there is no general consensus on measures and policies that will mitigate and prevent these crises in the future, it is not surprising that uncertainty and divergent national policy preferences have manifested themselves in a wide variety of policies and interventions. These national policies combine both similarities and differences among countries that do not necessarily correspond to the different impacts each one of them suffered in the crisis.

Concern about the consequences of higher food prices on the most vulnerable sectors of society led countries in the developing world to take different types of measures, some designed to restrict the transmission of the increase in international prices and others to compensate for their effects.

In many net food-importing countries, the concern with food security has created favourable political conditions for the introduction of subsidies for domestic production and a search for self-sufficiency in the production of food—an approach that can frequently result in protectionist trade measures.

According to Woolverton *et al.* (2001: 4):

In general, policies implemented (in developing countries) were on behalf of consumers at the expenses of producers in countries where a strong consumer voice prevailed relative to a relatively dispersed agriculture sector. Export restrictions and domestic price ceilings in developing countries were implemented at the expense of exporting domestic producers and consumers in the rest of the world.

The effectiveness of these policies driven by the food security agenda depends on a series of initial conditions, but it is worth noting that some measures can generate a tension between cushioning the adverse effects of prices increase—the short-term goal—and allowing the transmission of incentives that lead to an increase in agricultural production—the longer-term objective.

This is because interventions geared towards preventing or cushioning the price increases diminish the potential income of net food sellers and thus discourage increases in supply. On the other hand, measures that seek to restrict exports can generate protectionist reactions on the part of other countries, besides disincentivizing local production and contributing to the volatility of international markets.

Actual policy interventions by governments around the world emphasized a limited range of easy, fast-acting and cheap measures (especially trade policy measures) to secure food supplies for domestic markets and moderate the cost to consumers. This short-term approach, while entirely understandable in light of the emergency situation, meant that in many cases medium- and longer-term needs to raise production were neglected.

Policy problems are not confined solely to the agriculture and food sectors. High food prices also have macroeconomic impacts. For food importers, these include balance of payments problems resulting from higher food import bills and increased inflationary pressures, because food is such a large element in the consumer's basket of goods. Food exporters enjoying higher earnings from higher food prices on world markets may need to consider how best to manage increased export earnings in order to ensure that they are channelled into productive investments to stimulate long-term growth.

Besides, policies adopted in response to increased food prices are not neutral in relation to concerns with sustainability and the objectives of both policies can conflict. Efforts to increase the domestic supply of food by means of subsidies can have negative environmental and social impacts. Even in net food-exporting countries, the expansion of production in order to benefit from favourable international prices can contribute to deforestation and have other negative effects in terms of climate change.

2.4 Food security, trade and regional integration

Attempts to examine the nexus between international trade and food security are not new. While some studies focus on the implications of multilateral trade agreements for the advancement of food security (Stevens *et al.*, 2000; Aksoy & Beghin, 2005), others emphasize the impacts of preferential trade agreements on food security. Increasingly, the trade–food security nexus is also examined within the framework of global efforts to reduce poverty (Jackson, 2009). While international trade is only one of the factors that affect food security, its absolute significance in terms of the ability of countries to achieve their food security objectives is increasing, most of which is due to the rapid growth of the global food trade. In general, international trade, and agricultural trade in particular, affects food security to the extent that it (1) increases economic growth, creates employment prospects and increases the income-earning capacity of the poor; (2) increases domestic food supplies to meet consumption needs; and (3) reduces overall food supply variability (e.g. by making out-of-season foods available, etc.) (Matthews, 2005).

In terms of trade and trade policies, and as a consequence of different assessments of the risks and opportunities that arise for a country from its reliance on trade openness to tackle food security concerns, the food security policy of a country can be defined in terms of its central objective: food self-sufficiency or food self-reliance (Table 1). While the former emphasizes the *production* of various food

items for domestic consumption, the latter focuses more on the *availability* of food for domestic consumption.

Consequently, countries that pursue food self-sufficiency are reluctant to rely on the (international) marketplace and imports as the source of their food supplies. On the other hand, countries that adopt a policy of food self-reliance principle generally promote market liberalization and export-oriented agriculture supported by a strong local market through improvements in physical infrastructure and credit facilities. Food self-reliance considers international trade as an essential component of a country's food security strategy. A country that pursues a self-reliant approach to food security would generally pursue food imports not only to ensure domestic supplies, but also because certain commodities can be procured cheaper abroad than produced domestically.

Advocates of food self-reliance argue that trade can contribute to the promotion of food security in a number of ways, including augmenting domestic supplies to meet consumption needs, reducing supply variability (although not necessarily price instability), fostering economic growth, using global resources more efficiently, and allowing global production to take place in those regions most suited to it.

Although food self-reliance is a sounder idea in economic terms than self-sufficiency, both have their drawbacks. Given the greater capacity of the world to produce rather than to consume food, the few restrictions imposed on food items in countries that possess excess capacity, and the availability and efficiency of the international transport system, food self-sufficiency, according to its critics, such as Panagariya (2002: 1), makes little economic sense. In fact, as such critics would further argue, countries should use their comparative advantages and focus instead on their ability to generate the foreign exchange earnings needed to import whatever quantities of food they consume over and above what it is efficient for them to produce (FAO, 2003b).

2.5 Climate change and food security

The only general point of consensus among researchers regarding climate change impacts on agriculture and food production seems to be the high level of vulnerability of agriculture to the increased frequency, severity and unpredictability of extreme weather-related events (hurricanes, droughts, floods, sea-level rises, etc.) that will be caused by climate change. At a global level, various models predict a moderate impact in the next two decades. However, all regions will experience increased temperatures and changes in rainfall patterns that will affect agricultural production. Opportunities may arise for producers in some countries, since the 'carbon fertilization effect'² and the expansion of potentially agricultural cropland in temperate areas may produce an increase in the yields of some crops.

Drawing mainly from the fourth Intergovernmental Panel on Climate Change report (IPCC, 2007) and the FAO (2008) study on climate change and food security, research indicates that the tropical regions will be the most negatively affected by climate change. Rising sea levels will affect the livelihoods of the large populations that live in coastal areas, with particularly devastating effects in those coastal regions that produce food, like the greater Mekong Delta, where half of Vietnam's rice is produced. As a consequence, what appears clear is that due to climate change, food security in all of its dimensions may be at great risk in these regions.

2 Higher concentrations of carbon dioxide in the atmosphere can stimulate plant growth, thus generating higher yields. Crops that are posited to benefit are rice, wheat, soybeans, fine grains, legumes and most trees.

Attaining suitable levels of food security in the long term depends on (1) an adequate supply of food; (2) this supply of food being at the disposal of consumers through the food industry and commerce; (3) consumers having effective access to food, determined by its price and consumers' income level; and (4) the food supply being produced in sustainable conditions in terms of the ecological conditions in which the production of food take place and the compatibility of this production with the objective of reducing carbon emissions.

The first two conditions depend on long-term policies that stimulate production, the domestic trade in food, the trade policy that regulates import capacity and the prices at which imported foods reach consumers. In developing countries characterized by high levels of poverty and inequality, the third condition depends on assistance programs for and direct transfers to the poorest sectors of the population.

The fourth condition depends on the capacity to integrate with the concept of food security not only environmental and social criteria, but also the need to combat climate change. The issue of sustainability gains relevance for developing countries insofar as the increasing shortage of natural agricultural resources and the pressure to produce the necessary food at the international level translates into greater pressure to expand the agricultural border and to increase the intensity of use of these countries' land and water resources.

3. The food security issue and policies in Latin America: Implications for trade and integration³

3.1 Impacts of the food crisis and policy responses in the region: Description and assessment

Simulations of the macroeconomic and distributive impacts of the food prices crisis in Latin America (Cuesta & Jaramillo, 2009; Bianchi *et al.*, 2009) capture a first round effect, before any reaction, strategy or change in the trend of the agents takes place, where it is reasonable to assume that in the short term neither agricultural production nor substitution of food for non-food production is substantial. These impacts can be considered as the maximum and immediate effects of the crisis rather than the long-term effects, which will be determined, among other things, by the implementation or non-implementation of longer-term policies.

The effect of food price increases on countries' external accounts will depend on various factors. Specifically, countries that are net food importers will be negatively affected, while net exporters will benefit. However, the magnitude of the impact will depend on whether food has a favourable effect on their terms of trade. In this respect, the Latin American countries have experienced an improvement in their terms of trade. Another factor to take into account is the capacity of agricultural supply to respond rapidly to price changes or by a country's food import capacity (as an indicator of its capacity to finance its food imports, including goods and services), as shown in Table 1.

3 For the purposes of this report, 'Latin America' includes the Caribbean. This section is a summary of the findings of Piñeiro *et al.* (2010).

Table 1: Latin American and Caribbean countries' food import capacity, 2001–05

Food import capacity	Country
High	Argentina, Chile, Costa Rica, Mexico, Panama, Trinidad & Tobago, Venezuela
Medium	Barbados, Bolivia, Brazil, Colombia, Ecuador, Guyana, Paraguay, Peru, Dominican Republic, Uruguay
Low	Belize, Dominica, El Salvador, Grenada, Guatemala, Haiti, Honduras, Nicaragua, Jamaica, St Kitts & Nevis, St Lucia, St Vincent & the Grenadines

Source: Graziano da Silva (2009: 13–14)

These simulations confirm that in all cases there is a deterioration of the trade balance: net imports exceed net exports after the price of six selected products increases: wheat, corn, rice, soybean, sugar and beef. The impact is fairly moderate, however, representing less than one percentage point of gross domestic product (GDP). Not all these foodstuffs have the same importance in the imports and exports of Latin American countries, and some of them are in fact net exporters (South American and Andean countries), while others are net importers (Central American and Caribbean countries).

Lastly, if increases in the oil price are included, the trade situation improves substantially in countries such as Ecuador and Venezuela because the other Andean countries export agricultural products (with the exception of Bolivia), most of whose international prices are now lagging in relation to the significant increase in the price of cereals and oilseeds. Regarding distributive effects, the exercises simulated the effect that food price increases (such as those reported between January 2006 and March 2008) would have had on the different dimensions of poverty in 2006 and in the last year prior to 2006 for which a household income and expenditure survey is available. The longer-term life-cycle and even intergenerational impacts are not included in these simulations.

An increase in food prices represents a reduction in purchasing power, which can also be described as an increase in a country's poverty line. The most significant simulated impact on the incidence of poverty (considering the price increase for the six foods selected) takes place where food prices increase most and food consumption represents a higher percentage of household expenditure, e.g. as in the case of Bolivia.

The great majority of poor rural households in Bolivia (between 60 and 80 percent) are net food producers, so the food price rises in the markets affect a lower proportion of their consumption. For other Andean countries such as Colombia, Peru and Ecuador, whether it is urban or rural areas that experience a greater impact, poverty is determined by the percentage of food expenditure of urban and rural households close to their respective poverty lines. If food expenditure represents a higher percentage of total expenditure among urban households close to the urban poverty line than in rural households in a similar situation, higher prices can be expected to have more impact in urban areas. This is the specific case in Colombia, although the opposite occurs in Ecuador.

The aggregate effect on consumer purchasing power will be mitigated to the extent that households are capable of producing food for sale. In the Andean countries, 15 percent of households are net food producers (in Bolivia this figure reaches 50 percent). In other Latin American and Caribbean countries the figure ranges from 1 percent to 25 percent of households. In all cases, the effect of loss of purchasing power is greater than the effect of higher income, as the price increases result in a loss for the majority of net food consumer households and the benefits for net food producers reach only a minority of households.

In this context, the nature and design of the policy responses and their scope, duration and costs will determine how much of the initial distributive effect is reversed or expanded. Future analysis should consider the possible additional consequences (or second round) of compensatory interventions or individual crisis management strategies.

Faced with rapidly increasing food prices, many countries made policy changes or introduced new policy measures. Rising food prices posed a series of interrelated policy challenges. Most obviously, there was the short-run emergency of ensuring affordable food supplies for poor consumers in order to avoid increased malnutrition. While this can be achieved to some extent at least with available food supplies, there may also be some scope for measures to increase food production and moderate prices even in the short run. However, the main potential for a significant supply response and more stable prices is in the medium to longer term.

National policy responses used by Latin American countries to reduce the impacts of rising food prices varied in nature and effectiveness (Table 2). In many cases governments used existing policy measures already in place. Policy responses are grouped here in three broad categories: consumer, producer and trade oriented. On the other hand, countries have been grouped according to their membership of regional trade agreements and their net trade positions (net food exporters or net food importer). Relatively few longer-term measures were put in place.

Table 2: Policy measures taken by Latin American countries to reduce the impact of soaring food prices

By country: Export or import orientation/by regional trade agreement	Measure type 1: Consumer oriented							Measure type 2: Producer oriented		Measure type 3: Trade oriented	
	Tax	Social			Market			Production support	Market management	Import	Export
By country: Type 1 (*) net food exporters Type 2 (***) net food importers	Taxes/customs	Food assistance	Food subsidies	Safety net & other	Price controls	Release stocks	Food procurement & other	Producer credit & other	Minimum producer prices & other	Import tariff & other	Quantitative export controls
Andean Community											
Bolivia*	X		X							X	X
Colombia*			X			X		X			
Ecuador*			X		X			X		X	X
Peru*/**		X						X		X	
Central American Common Market											
Costa Rica*		X			X			X	X		
El Salvador**	X	X			X			X			
Guatemala*								X		X	
Honduras**				X		X	X	X	X		X
Nicaragua*			X					X			
Southern Common Market (MERCOSUR)											
Argentina*					X						X
Brazil*	X	X				X		X	X	X	X
Paraguay*								X			
Uruguay*					X						
Venezuela**		X	X		X		X			X	
North American Free Trade Area											
Mexico**		X			X					X	
Others											
Chile*								X			
Dominican Republic**		X	X				X	X			

Source: Based on GIEWS/FAO (2008)

Table 2 suggests that many countries intervened to safeguard poor consumers' access to food through a variety of emergency and 'safety net' measures. These included the distribution of basic food staples (grains, bread and milk) and cash to buy food (or food for work) to the most vulnerable groups—the poorest in urban and rural areas, schoolchildren or the sick in hospitals. Consumer price subsidies, especially for the main food staples, were widely used. At the same time, some governments also reduced consumption taxes. Price controls through sales from public stocks at pre-set prices or simply freezing retail prices by decree were also used.

The use of compensatory social interventions like conditional monetary transfers, nutrition programs or mass intervention programs for the specific purpose of tackling the crisis was limited. For example, Bolivia, Colombia and Peru planned to implement or expand their programs, but two potential deficiencies had to be taken into consideration as these programs were expanded. Firstly, they did not reach all who needed them and, secondly, they also reached those who needed them less than others. In Ecuador, for example, the intermediate distribution quintile received 25 percent of the benefits. Moreover, in Colombia only the conditional transfer system was indexed, and it was not yet adjusted annually. In other countries such as Peru, conditional transfers were confined to rural areas, although there were plans to expand them to urban areas.

On the other hand, Table 3 shows that, as regards producer-oriented policies, the most widely used policy to boost production in both low- and middle-income countries was that of reducing producer taxes. Production subsidies, especially on grain production, were used to reinforce incentives, while subsidies on inputs such as fertilizer and seeds were also common. While such subsidies and the distribution of productive inputs (e.g. seeds and fertilizers) can provide a short- or medium-term stimulus to production, these schemes can be costly and may lead to suboptimal use of such inputs, especially if they are provided over a long period of time.

Table 3: Policy measures types 1 and 2

Policy measure	Country
Targeted food for work program	Brazil
Food ration or food stamp program	Argentina, Brazil
School feeding program	Bolivia, Brazil, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Panama, Paraguay, Peru, Uruguay, Venezuela
Conditional cash transfer program	Argentina, Bolivia, Brazil, Chile, Costa Rica, Ecuador, El Salvador, Guatemala, Honduras, Jamaica, Panama, Paraguay, Peru, Uruguay
Consumer price subsidies	Bolivia, Ecuador, Jamaica, Nicaragua
Fertilizer or input subsidies	Bolivia, Guatemala, Haiti, Mexico
Increasing supply using food grain stocks	Ecuador, Honduras
Export ban on food staples	Argentina, Bolivia, Ecuador
Easing restrictions on imports by reducing tariffs and easing non-tariff trade barriers, or government purchase of food abroad to sell at home at controlled prices	Bolivia, Ecuador, El Salvador, Honduras, Mexico, Nicaragua, Paraguay, Venezuela
Food price controls in selected government markets or in all markets	Argentina, Bolivia, Honduras, Mexico, Panama, Paraguay
Bilateral agreements on food or grain imports	Bolivia, El Salvador, Honduras, Mexico, Panama, Venezuela
Reducing value-added tax on food or grain	Venezuela

Source: World Bank (2009)

In spite of a perceived need to secure adequate food supplies, some countries continued to control producer prices, setting the price lower than the free market price.

Table 3 also shows that many countries introduced trade policy measures to curtail price increases and ensure adequate supplies in domestic markets. These included tariff reductions to facilitate imports, export bans, and taxes to divert supplies to domestic markets. In the short term, these trade measures were feasible, cheap and easy to implement. However, they could have adverse effects on incentives to expand food supplies through increased domestic production and on world markets by further restricting supplies and pushing up prices even more. While imposing export taxes raised some additional government revenue, a number of exporting countries reported that export controls and, hence, low output prices coupled with high input prices actually led to decreased planting of cereals. Reducing import tariffs also incurs a loss of tariff revenue, which may make an important contribution to overall budgetary resources for development.

An obvious question is how effective these policies or interventions were in mitigating the effects of the crisis. This can be answered by analyzing the predictable consequences or potential effects of certain policy measures. For example, in the case of compensatory policies, Levy (2008) suggests that conditional cash transfers are preferable to non-targeted subsidies in the context of a food price crisis because they (1) directly increase the purchasing power of the poor; (2) allow households to adapt to relative price changes; (3) do not reduce the income of poor food sellers; (4) diversify diet and prevent a decrease in food spending; and (5) limit the extent of the support because such policies have clear exit strategies and are clearly presented as such.

Another more systematic way of comparing the value of different interventions is to analyze them in terms of a series of dimensions of special interest, as Manzano and Stein (2008) suggest. The dimensions or criteria analyzed relate to the degree of targeting and scope of the measures (coverage), final cost (cost), degree of distortion (efficiency) and reversibility (political economy).

Following these criteria, it is possible to characterize and evaluate the desirability of alternative packages of measures adopted. To do this, Cuesta and Jaramillo (2009) consider how closely the measures taken by Andean countries approximated a package of measures that may be considered 'desirable', i.e. (1) they had broad or targeted coverage of the poorest sectors; (2) they had a low or even positive fiscal cost; (3) they had low levels of distortion or generated positive incentives; and (4) they were easily reversible after achieving their goal. There was also the possibility that the same package could contain measures with both desirable and undesirable characteristics. An important point here is that not necessarily all these actions were generated in direct response to the food price crisis, since some had been planned previously.

Another way to address the effectiveness of the policy responses applied after the increase in food prices is through the division of short-term measures or *emergency packages* and the longer-term measures, or long-lasting measures, which can include policies adopted regionally.

In the region, the policy responses that tried to solve the problem of the level of food prices aiming to stop or at least soften the transfer of the price increase to consumers and those oriented to increasing the availability of food or access to food for the more vulnerable groups were the most powerful impacting measures in the short term.

In comparison, the offer-oriented measures, i.e. those aiming at increasing food production, were considered very limited options to respond to the problem in the short term. In the medium and long term the alternatives widened significantly and included, for instance, subsidies on the production process and raw materials, an increase in credit for the agricultural sector, inversion in the productive

infrastructure (mechanization, irrigation), improvements in natural resources management, and research and development in agricultural, among others.

Short-term measures can generate tensions with medium- and long-term objectives, in some cases exacerbating the factors that push prices, as in the case of big actors in the international food trade. The interventions aimed at stopping or mitigating the rise in prices will decrease the potential net income of food sellers, removing incentives to increase the offer. The measures that tend to restrict exports can generate protectionist actions by other countries, harm food security in net food-importing countries and contribute to the volatility of international markets.

Beyond national policies, the food crisis in 2006–08 fostered an important number of bilateral, subregional and regional initiatives at the highest political level in Latin America and the Caribbean. Although this political activity at a regional level reflected the preoccupation of governments with the issue of food security and with the consequences, in terms of poverty and additional food insecurity brought about by the food crisis, it seems to have had few practical impacts. It is likely that this high-level political activity resulted in more awareness and conviction at the national level and provided intellectual support to the legislative actions and program development activities that took place in individual countries.

3.2 Impacts on regional integration and intraregional trade

It is important to observe whether regional trade patterns were affected by the rising food prices. According to ECLAC (2009), in general terms intraregional trade flows fell slightly more than the world average. The trade flows of each country and/or subregion in Latin America and the Caribbean as a whole recorded huge drops that were similar in size to those recorded by world trade, on average falling by over 30 percent. This pattern was observed in each of the region's four subregional integration schemes, where trade flows displayed pro-cyclical behaviour. For the first time in a long while the pattern was also replicated in intrasubregional trade in Central America, which had tended to be less pro-cyclical in the past.

However, the value of exports of agricultural products decreased less than that of regional exports as a whole. Despite the low prices of basic products, there was an important rise in the volume of exports, softening the effects of the so-called fall.

Extraregional trade also made a contribution, as the good performance of Chinese demand supported the recovery of the exports of basic products from the region, both in price and volume. For instance, in the first quarter of 2009 the volume of Chinese purchases of soy in the world market increased 36 percent in relation to the same period in 2008. This contributed to the increase of Brazilian soy (7.4 percent) and soy flower (5.2 percent) exports in the first three months of the year, during which Brazilian corn sales also increased (28 percent).

Undoubtedly, the concentration of efforts of the countries in the region on short-term policies affected the taking of common positions and the setting up of regional initiatives. On the one hand, regional initiatives in general remained largely rhetoric on the part of governments. On the other hand, regional interventions with long-term objectives remained demanding in political and institutional terms as they incorporated compensation policies among countries, such as aid for trade, cohesion funds and loans, as well as inclusion initiatives and policies dealing with labour standards.

Furthermore, from a regional trade perspective there is no evidence that the discussion on food security led to a more favourable trade environment or that specific actions were taken to improve food availability at national level through regional integration and trade. In fact, the evidence suggests that price increases in 2008 introduced an opposite trend where more protectionist tendencies and new desires to promote national production dominated the scenario.

The issue of the new regional trade environment leads to an additional observation. Dominant approaches to food security in the countries of the region are not totally homogeneous. As has been discussed in a previous section, in a number of countries, mainly those that form the so-called ALBA grouping (Venezuela, Ecuador, Nicaragua and Bolivia), the concept of food security is associated with that of food sovereignty, which is consistent with a strong national production strategy and trade protectionist policies. In addition, a few other countries, like, for example, Argentina and partially Costa Rica, applied policies during the food crisis that discouraged trade.

4. The food security issue and policies in Southeast Asia: Implications for trade and integration⁴

4.1 Impacts of the food crisis and policy responses in the region: Description and assessment

When discussing trade measures for food security, a specific case needs to be made for developing countries with a high percentage of rural poor in their populations. This is the case in mainland Southeast Asia, where, for instance, 60.3 percent of the Cambodian population was employed in the agricultural sector in 2008 (including forestry and fisheries). For Vietnam and Thailand, the respective figures were 55.7 percent and 41.6 percent (ASEAN Secretariat, 2009). In these countries agriculture contributes to food security not only by producing the food people eat, but also by providing the primary source of livelihood.

In a region such as Southeast Asia, which contains some of the world's most important food-producing countries,⁵ the sudden jolt of the food price increases created wide anxiety, while the concurrent slowing of economic activity in the region implied a catastrophic consequence in the long run. In 2009 FAO listed four ASEAN member countries as low-income food-deficit countries (LIFDCs), i.e. Cambodia, Lao People's Democratic Republic, Indonesia and the Philippines.⁶ All of them are net importers of rice.

In its 2009 report, FAO pinpointed LIFDCs as the most vulnerable in a global food crisis, since they do not have sufficient capacity to secure their food supply and stocks. Faced with pressures from both directions, people in such countries may be forced to eat fewer meals or less-nutritious food, or eventually compensate for the burden by cutting expenses in other areas such as health and education, or sell some of their assets (FAO, 2009).

4 This section is a summary of the findings of Chandra and Lontoh (2010).

5 In 2005 FAO ranked five ASEAN member countries (Indonesia, Vietnam, Thailand, Myanmar and the Philippines) among the top 10 world rice producers, while for maize, sugar cane, soybean and cassava, ASEAN contributed at least a country in the top 10 list for each category.

6 <<http://www.fao.org/countryprofiles/lifdc.asp>>.

As in the case in many other parts of the world, the soaring food prices during the period 2006–08 had major impacts on the countries of Southeast Asia. Given the diverse capacity for food production among ASEAN countries, the impacts of the global food crisis were equally diverse in these countries. In food-importing countries, for example, the price of foodstuffs rose to a record high, and this helped to sharply increase the overall consumer price index in 2007 and 2008. In the period between March–July 2007 and March–July 2008, the prices of basic staple food, particularly rice, rose by about 100 percent in Cambodia, while the prices of other foodstuffs, such as meat, fish and vegetables, increased by between 20 and 70 percent (Sophal, 2008).

Meanwhile, Indonesia, which has increasingly become a net rice-importing country in recent years, also saw the price of basic foodstuffs rise by as much as 60 percent. In a country where 76 percent of the poor are net rice buyers, including 72 percent of the rural poor, it was estimated that every 10 percent increase in rice prices would reduce the real value of expenditure of the poorest tenth of the Indonesian population by 2 percent (World Bank, 2006).

Moreover, concerned about the effects of high food prices on political stability in the country, the Philippines, which was the largest net rice-importing country in the world, grew anxious about whether it could secure its food supplies from the international market and was forced to make use of whatever was available in stock to feed its population. Apart from increasing the overall cost of living, the rising oil and food prices at the time also drove nearly four million people back into poverty. On the other hand, in rice-exporting countries such as Thailand and Vietnam, the rise in international food prices was welcomed by those in business. During the first quarter of 2008, contracts on the Thai Agricultural Futures Exchange quadrupled and millers were able to make hefty returns.

Equally, the initial policy responses of Southeast Asian countries to address the adverse effects of the global food crisis were diverse, largely depending on whether the countries in question were net exporters or net importers of food. While the former adopted increased taxes and restrictions on exports, countries in the latter category generally adopted policies to reduce import restrictions and tariffs.

At the time, some of the policy responses commonly used by net rice-exporting countries in the region included the building up of rice reserves or stockpiles and the imposition of export restrictions (Table 4). In some instances, net exporting countries in the region, including Thailand and Vietnam, also liberalized rice imports to ensure steady supplies of rice in both countries. In terms of export restrictions, however, the Cambodian government had initially banned the export of rice in late March 2008, but later decided to scrap the policy in late May that year in order to take advantage of the high international food prices and because little storage capacity was available in the country. At the end of April 2008, in the middle of the rice harvest, the Vietnamese government banned all new rice export contracts.

Typical policy responses of the net rice-importing countries at the time generally involved the reduction of import duties, the building up of extra reserves, the relaxation of import restrictions, price controls through subsidies and, more importantly, the promotion of self-sufficiency. Among the five net rice-importing countries listed in Table 4, only Indonesia imposed export restrictions on rice. In Indonesia, Malaysia and the Philippines policies to control food prices and restrictions on private grain trade were also imposed as an attempt to keep food prices low for consumers. In Indonesia and the Philippines policymakers were wary about the reliability of global food production and food self-sufficiency was thought to be the way forward for these countries to secure their basic needs.

Table 4: Policy responses of selected ASEAN countries to the global food crisis

Policy responses	ASEAN member countries*							
	Cambodia	Indonesia	Malaysia	Myanmar	Philippines	Singapore	Thailand	Vietnam
Import duties reduction		X						
Increase supply using reserves	X	X					X	
Build up reserves/stockpiles	X		X		X	X	X	X
Increase imports/relax restrictions		X			X		X	X
Increase export duties								
Impose export restrictions	X							X
Price controls/consumer subsidies	X	X	X		X		X	
Minimum support prices					X		X	
Minimum export prices								
Subsidy to farmers					X			
Promote self-sufficiency			X	X	X			
Cash transfers						X		
Food rationing		X			X			

* Cambodia, Thailand and Vietnam are considered net food exporting countries, whereas Indonesia, Malaysia, Myanmar, the Philippines and Singapore are net importing countries.

Source: ADB (2008)

As with any crisis that has ever hit the region, regional efforts took a back seat throughout much of the initial phase of the 2006–08 global food crisis. Despite the existence of a regional food security mechanism that pre-dated the food crisis, national economic interests and concerns gave little scope for regional measures to take centre stage as the potential solution to the food crisis in the region. Indeed, ASEAN had actually set up the ASEAN Food Security Reserve as far back as 1979 in order to ensure long-term food security in the region. The initiative also involved the establishment of the ASEAN Emergency Rice Reserve (AERR), which could be used in time of food crisis. Although the scheme had inspired the South Asian Association for Regional Cooperation, another regional grouping in Asia, to adopt the same model in 1987, ASEAN has almost never used this rice reserve throughout its existence. When the 2006–08 global food crisis hit the region, the amount of rice stocked by the AERR scheme stood at a mere 87,000 tons, which was only sufficient to feed the 550 million people of ASEAN for less than half day.⁷

It was not until the 41st ASEAN Ministerial Meeting in Singapore in July 2008 that the countries of Southeast Asia began to look for regional alternatives to address their food security concerns. At the time, ASEAN member countries issued a joint communiqué that emphasized the importance of ‘regional and international efforts to ensure the efficient functioning of market forces, as well as to come up with longer term agricultural solution’ to the food crisis problem. In relation to food, or, more precisely, the rice trade, ASEAN also encouraged all countries in the world to reject price-distorting export subsidies and other forms of protectionism, as well as to provide market access to competitive food exports. At the 14th ASEAN Summit in March 2009, the grouping also adopted the ASEAN Integrated Food Security (AIFS) framework and the Strategic Plan of Action on Food Security (SPA-FS) as a way to

⁷ In fact, the commitments of the five original member countries have never been increased ever since the plan of establishing an AERR was announced in 1979.

address the region's longer-term food security concerns and improve the livelihood of farmers in the region.⁸

In order to achieve these goals, the AIFS and its corresponding SPA-FS were designed to increase food production, reduce post-harvest losses, promote conducive markets and trading systems for agriculture commodities and inputs, ensure food stability, promote the availability of and accessibility to agricultural inputs, and, finally, put into operation the existing regional food emergency relief arrangements. The initial priority commodities covered by the AIFS are rice, maize, soybean, sugar and cassava, while other relevant commodities, especially those considered as alternative crops for staple food, are expected to be identified during the course of the implementation of the AIFS and SPA-FS.

4.2 Impacts on regional integration and intraregional trade

As far as food trade is concerned, it is far from clear whether the global food crisis and the corresponding policy responses of each ASEAN member countries actually hampered regional trade. The most recent statistical data from the ASEAN Secretariat, for example, only shows the increase of value of selected ASEAN agricultural exports and imports, and few details are given of the quantity of agricultural products traded (Table 5). What was clear during the global food crisis, however, is the fact that policy responses made little room for regional initiatives, despite ASEAN's intention to establish an ASEAN Economic Community in 2015.

To start with, as mentioned earlier, export restriction policies pursued by net rice-exporting countries hurt rice consumers in the net rice-importing countries in the region. In Malaysia, for example, the price of Thai rice tripled in the last few months of 2007, which was also partly due to the reluctance of other rice-producing countries in the region, particularly Vietnam, to export rice to Malaysia. The move by rice-producing countries to impose export restrictions on rice had in fact inflamed further panic and encouraged other rice-exporting countries across the globe to pursue similar policies, thus limiting the ability of rice-importing countries in the region to seek alternative sources of rice. Furthermore, attracted by economic gains from the increase in international food prices, net rice-exporting countries preferred to satisfy global food needs instead of fulfilling those of their ASEAN neighbours.

Table 5: Major export and import markets of ASEAN husked and broken rice, 2004–08 (value in USD million; share in %)

	2004		2005		2007		2008	
	Value	Share	Value	Share	Value	Share	Value	Share
Exports								
ASEAN	655.2	21.2	827.7	27.6	1,593.6	35.1	2,588.0	33.0
China	243.2	7.9	204.2	6.8	232.0	5.1	161.4	2.1
South Africa	182.2	5.9	139.5	4.7	166.5	3.7	384.8	4.9
Total	1,080.6	35.0	1,171.4	39.1	1,992.1	43.9	3,134.2	40.0
Imports								
ASEAN	510.5	80.9	798.0	88.7	1,772.0	95.0	2,807.2	90.8
U.S.	36.6	5.8	23.7	2.6	6.4	0.3	89.8	2.9
China	19.6	3.1	22.1	2.5	26.3	1.4	48.2	1.6
Total	566.7	89.8	843.8	93.8	1,804.7	96.7	2,945.2	95.3

Source: ASEAN Secretariat (2009: 210)

⁸ The AIFS framework provides goals, objectives, definitions of terminology, guiding references, principles and components for ASEAN's latest cooperative project in the area of food security, whereas the SPA-FS is meant to support the implementation of the AIFS.

The most troubling development to affect regional economic solidarity in ASEAN during the global food crisis was the announcement by some ASEAN member countries of their intention to establish an Organization of Rice Exporting Countries, which was supposedly a project to organize the 21 major rice-exporting countries around the world into a rice cartel. The project had been discussed since 2002 and was refloated in 2008, at the height of the global food crisis. The revival of the idea to set up such a rice cartel drew mixed reactions both from the international community and those ASEAN member countries that were not expected to be part of the scheme.

5. The food security issue and policies in Southern Africa: Implications for trade and integration⁹

5.1 National and regional policies geared at food security: Description and assessment

The agricultural sector is critical to the Southern African region as it plays a significant role in food security, job creation, poverty reduction, export revenues and rural development. However, the paradigm in the region seems to be that generally speaking countries are in a more or less permanent food security crisis, and policy formulation and response is geared toward this reality on an ongoing basis.

The Southern African response to the global food crisis is thus more of a standard response than might perhaps be the case elsewhere in the world, i.e. more of the same simply exacerbated by the accentuation of these conditions during the global food crisis. In examining the Southern African response, there is thus not a huge divergence between ongoing policies and responses and immediate reactions to the food crisis.

Official reports confirm the notion that the food crisis is simply a spike or peak in a wider pervasive and ongoing food crisis in Southern Africa. They contend that the region experiences ongoing food insecurity, noting that cereal production, a proxy for food security, has stagnated since 1990 while population has grown, and in addition per capita dietary energy supplies have declined.

On top of Southern Africa's chronic food insecurity, the recent increases in the price of food have had a direct and adverse effect on the poor population of the region. Poor people who do not produce their own food are the most severely affected because a larger proportion of their expenditure is allocated to food. Higher food prices limit their ability to obtain not only food, but also other essential goods and services, including education and health care. Most of the urban and landless rural poor are in this position.

Poor farmers, on the other hand, can benefit from higher food prices if they are able to produce more than they consume, thus generating a tradable surplus. This said, many of them lack the resources to do so, however, in part because higher oil prices have raised the cost of fertilizer and access to other inputs such as seed. Overall, higher food prices are expected to push many more people into absolute poverty.

For Southern Africa, the Comprehensive African Agriculture Development Program (CAADP) is the focal point in addressing the impacts of the crisis through a coordinated policy response. The CAADP is a framework and mechanism through which coordination is enhanced and resources mobilized for the effective implementation of priority actions in harmony with national development plans.

⁹ This section is a summary of the findings of Zunckel (2010).

In Southern Africa both the Common Market for Eastern and Southern Africa and the Southern African Development Community (SADC) are highly cognizant of the role that the CAADP plays in regional food security. The SADC approach to the world food crisis is dealt with under its Measures to Address Food Security in the SADC Region (SADC, 2009), and the four grains intended for the physical reserve are white maize, wheat, sorghum and rice. The facility also takes cognizance of the importance of livestock in the region and the linkages between livestock and crop production, and thus includes livestock as a fifth product. It is intended that the reserve will be one of 500,000 tons to be built up over a three-year period from cash and grain contributions by SADC member states. The stock is calculated at three months' consumption for an average number of countries most likely to experience a shortfall in food supplies. The computation of the stock size is based on a five-year average food balance sheet for the region. This is on the assumption that the stock size and the cash component will be periodically reviewed as more experience in managing the reserve is gained. It is further assumed that member states with surplus grain will be expected to hold physical stocks in their countries that are assigned to the regional reserve and managed at a regional level.

Some experts and institutions express the view that in Southern Africa continued attempts to use strategic grain reserves to help stabilize grain prices for both producers and consumers have undermined market incentives for private traders to perform normal trading functions that could otherwise have satisfied governments' food security objectives in most years. As a consequence, small farmers have often been penalized for producing a surplus crop by falling prices and the lack of a market. This has led them to reduce plantings, with subsequent adverse impacts on the overall production and grain availability situation in subsequent years. At the same time, consumers have also faced greater instability in grain markets in terms of both the physical quantities available and price. In most cases, therefore, the experiences with strategic grain reserves in Southern Africa to date have been less satisfactory.

It would seem that countries in the region that have held strategic stocks have indeed had mixed success, and some stocks have been poorly managed. For instance, Malawi's national budget was 'derailed' in 2001, mainly because the government had to rescue the National Food Reserve Agency (NFRA), which had lost control of its loan book and could not repay the commercial loans it had taken out. This apparently cost the treasury 1.5 percent of GDP. In addition, the NFRA had difficulty managing reserve stocks and at one stage ran out of stocks due to its inability to replenish them effectively, because it misread the following season's maize market. South Africa has periodically examined the merits of a strategic stock and decided against it, preferring to allow the market to provide supplies.

The impacts of the high food prices are far reaching in the African context. In net food-importing countries, rising food prices divert limited national resources from development activities to meet urgent food import needs. More immediately, they present a challenge to the stability and security of countries and the nutritional security of citizens, threaten development gains made thus far and make the fight against hunger an uphill struggle.

The SADC Task Force conducted some follow-up analysis as to the progress that selected member states had achieved pursuant to its work and recommendations. The results are summarized in Table 6.

Policy measures available in the short run include the provision of safety nets and social protection to the most vulnerable consumers in both rural and urban areas, as well as the enhancement of the short-term supply response by smallholder farmers. Improved trade policies can also yield important gains, using existing WTO rules.

Table 6: Policy responses of selected Southern African countries to the 2006–08 global food prices crisis

Policy responses	Southern African countries									
	South Africa	Madagascar	Swaziland	Zimbabwe	Mozambique	Malawi	Lesotho	Botswana	Zambia	Tanzania
Suspension or reduction of taxes on food	X	X		X	X		X			
Reduction of tariffs & duties on imports		X								
Export restrictions or bans						X			X	X
Release stocks at subsidized price				X		X			X	
Price controls						X				
Cash transfers or food vouchers	X				X	X	X			
Food distribution		X			X	X				
Immediate product support		X								
Input vouchers for vulnerable farmers					X	X			X	
Input credit for small-scale farmers							X	X		
Input trade fairs			X		X		X			
Low-cost conservation agriculture	X		X	X			X		X	

Source: Zunckel (2010)

What is clear is that in a period of rampant global commodity prices and, more so, a threat of food shortages, the mere presence of domestic production does to some extent have a calming or dampening effect on the domestic market price. For this reason, a trade policy agenda that weans Africans from subsidy-laden food import dependence would be a sound approach.

Furthermore, short-term assistance in the face of a food crisis cannot replace the benefits that a long-term food security strategy and related system could provide under the CAADP. In the Southern African context where the region has been in a long-term food crisis to varying degrees, it is crucial to retain a focus on long-term solutions. In the longer run it will be important to address the fundamentals that increase investment in agriculture, both public and private, and improve the functioning of markets.

5.2 Impacts on regional integration and intraregional trade

When examining Southern Africa in the context of regional trade, it is notable that the SADC Task Force found that regional trade was not seen as a significant solution to address the food crisis and that policymakers were actually suspicious of the wisdom of intraregional dependency. This is an interesting contradiction, as the political dynamic in SADC is firmly committed to deeper integration. This said, the Task Force did recognize that food trade through informal cross-border channels was prevalent, but that its extent was not known. There is, however, data available from the World Food Program that quantifies this trade to some extent at least using its Cross-Border Food Trade Monitoring Initiative, and

it contends that informal cross-border food trade continually helps to mitigate food insecurity by improving access and availability.

The effect of trade liberalization on government revenue has been identified as one of the key concerns for many developing countries and was clearly a concern for SADC in the present analysis when considering tariff reductions on farming inputs.

6. Conclusions and policy recommendations

6.1 Assessing food security policies

Even though there is consensus on what factors caused the global food crisis in 2006–08, there is less agreement on how to confront the likelihood that it could happen again in the future. The main concerns are (1) how to obtain a balanced combination of short- and long-term interventions and (2) how to achieve in practical terms a balance among cautious macroeconomic measures, effective compensatory social policies and a lasting supply-side stimulus without distortions.

Many developing countries and even entire regions analyzed in this research live in an almost permanent situation of food insecurity, and a food crisis is thus no novelty for poor households in these areas. Global food aid supplies have likely been seen as the most evident and recurring short-term responses to food emergencies, but they fall short of addressing the longer-term determinants of food (in)security.

This does not mean that short-term responses to emergency situations are useless. This research stresses that some modalities of short-term responses have proven to be useful in the context of the recent global food crisis, e.g. the provision of safety nets and the adoption of compensatory social measures for the most vulnerable consumers in both rural and urban areas, and initiatives to enhance the short-term supply response by smallholder farmers are among the most successful short-term policy initiatives put in place in the three developing regions under discussion. Putting in place relevant social safety nets and compensatory policies may also be a fundamental step in assuring the social and political sustainability of policies aimed at dealing with food security while simultaneously retaining an open trade regime.

The main warning that arises from this research as far as short-term policies are concerned is that some of these responses could run counter to the goal of addressing the longer-term determinants of food (in)security. Short-term measures can generate tensions with medium- and long-term objectives. For example, interventions aimed at stopping or mitigating the rise in prices will decrease the potential net income of food sellers, removing the incentive to increase production, while the measures that tend to restrict exports can generate protectionist actions by other countries, harm food security in net food-importing countries and possibly contribute to the volatility of international markets.

In the recent food crisis, actual policy interventions by governments around the world have emphasized a limited range of easy, fast-acting and cheap measures (especially trade policy measures) to secure food supplies for domestic markets and moderate the cost to consumers. This short-term approach, while entirely understandable in view of the emergency situation, means that in many cases the medium- and longer-term need to raise production has been neglected.

The exclusive use of compensatory social measures will address one dimension of the problem, but will not tackle its productive or macroeconomic aspects. A combination of responsible and cautious macro policies, on the one hand, and measures that effectively support agricultural diversification and

competitiveness, on the other, must accompany efforts to expand a social protection system that is really effective in dealing with future crises.

The recent crisis should be treated as an opportunity that requires the continuing implementation of wide-ranging social and productive reforms rather than as a passing shock that requires exclusively short-term measures specifically directed at stabilizing prices and/or protecting access to food.

Longer-term policies will forcefully address the supply dimension of food security and specially the fundamentals that increase investment in agriculture, both public and private, and improve infrastructure for the production and commercialization of food, e.g. providing subsidies to the production process and raw materials, providing increased credit for the agricultural sector, inversion in productive infrastructure (mechanization, irrigation), improvements in natural resources management, and research and development in agricultural are some of the offer-oriented policies that can help to overcome a situation of food insecurity in the longer term.

6.2 Trade and food security

While international trade is only one of the factors that affect food security, its absolute significance for the ability of countries to achieve their food security objectives is increasing, mostly because of the rapid growth of the global food trade. There is little doubt that trade and trade policies influence not only food availability at the global level, but also food production and imports, including food aid, at the national level (Diaz-Bonilla *et al.*, 2000). Increasingly, world markets are becoming an important source of food for many developing countries. This is particularly true in countries where food production is often constrained by natural and other factors.

In relation to trade and trade policies and as a consequence of different assessments of the risks and opportunities that arise for a country from its reliance on trade openness to tackle food security concerns, a country's food security policy is normally defined in terms of either food self-sufficiency or food self-reliance. While the former emphasizes the production of various food items for domestic consumption, the latter focusses more on the availability of food for domestic consumption, from whatever source.

Consequently, countries that pursue food self-sufficiency are reluctant to rely on the (international) marketplace and imports as the source of their food supplies. On the other hand, countries promoting food self-reliance generally promote market liberalization and export-oriented agriculture, supported with a strong local market through improvements in physical infrastructure and credit facilities.

This principle generally considers international trade as an essential component of a country's food security strategy. A country that pursues self-reliance would generally pursue food imports not only to ensure domestic supplies, but also because certain commodities can be procured more cheaply abroad than produced domestically. Advocates of this strategy argue that trade could contribute to the promotion of food security in a number of ways, including augmenting domestic supplies to meet consumption needs, reducing supply variability (although not necessarily price instability), fostering economic growth, using global resources more efficiently and allowing global production to take place in those regions most suited to it.

The policy issues raised by the linkages between food security and trade are likely to occupy a priority position in the international agenda of developing regions in the next few years. A joint OECD–FAO

report foresees that developing countries will play an increasingly important role as consumers (the main driver of agricultural prices will be the demand growth from developing countries, fostered by their high rates of population increase and increasing per capita income), but also as producers of agricultural commodities (OECD & FAO, 2010).

In such a scenario, the interests of developing countries as far as the linkage between food security and trade is concerned will become more heterogeneous and, in some cases, divergent. Currently, developing countries' positions on this issue depend mainly on their net foreign trade position for agricultural goods. The degree of food security—as perceived by national governments—is one of the major factors behind the diverse positions held by developing countries and least-developed countries in WTO negotiations on agricultural trade liberalization.

The purchase of land in developing countries and least-developed countries by investors (state or private) from other developing and developed regions will add another element to the already complex relationship among these countries around the linkages between food security and trade/investment linkage. Examples of these investments are China's purchase of large tracts of land in some developing countries and its deals with African oil-producing countries, and the purchases of land in the south of Latin America by citizens of other countries of the region and the world. Some developing countries (e.g. Brazil) are planning to restrict the purchase of land by foreign investors, and food security concerns have been used to justify these decisions.

6.3 Regional integration and food security

In the three regions analyzed for this project, regional or subregional trade and cooperation agreements are in place. As we know, regional agreements can be important instruments to improve economic development by increasing trade and providing better macroeconomic policies, greater economies of scale and stronger intergovernmental cooperation, all of which can contribute, in a general way, to food security.

As far as food security objectives are concerned, regional agreements are likely to result in stronger cooperation among countries in the form of information exchange, analysis of lessons learned regarding food security programs, and the possibility of establishing intergovernmental trade agreements on sensitive agricultural products that may provide some degree of price stability and assurance of a stable supply during the year.

However, this hypothesis did not become a reality during the recent food crisis, at least in the developing regions analyzed for this report. In Southeast Asia, the global food crisis instigated national policies that ran counter to the promotion of solidarity in the region that is supposedly essential to ASEAN's objectives. The crisis further dampened ASEAN's regional solidarity as a result of the emergence of an Organization of Rice Exporting Countries initiative by rice-exporting countries in the region. Although this cartel never materialized, the fact that the idea had emerged in the first place illustrates how fragile ASEAN's regional cooperation has been as a space for policy responses to the food crisis.

There have been extreme discrepancies between policies concerning trade and food security pursued at the national level in nearly all ASEAN member countries. While ASEAN, as a grouping, is still committed to the open regionalism principle, which should translate into the implementation of a food self-reliance strategy to improve the region's food security status, most member countries of the grouping remain adamant that this objective would be better achieved through a food self-sufficiency strategy.

In Latin America, despite an amazing number of high-level summits and intergovernmental meetings, no relevant initiative has been taken to address food security concerns at the regional level, or even at the subregional level, although Latin America has two well-established integration initiatives (the Southern Common Market and the Andean Community). In Latin America, the regional and subregional policy dimension has played no role in the setting of policy responses to food security concerns. National responses have been the only player in this game and they do not seem to have taken into consideration, either in their design or implementation, the existence of regional and subregional trade and cooperation agreements.

6.4 Reconciling trade and food security

There is no doubt that concerns over food security are not easily absorbed by a trade agenda oriented towards the objectives of liberalizing trade and investments flows and reducing the distortions caused by protectionist and subsidy-intensive policies.

In general, these concerns are used as a justification for agriculture to receive special treatment in any multilateral or preferential negotiations. For some developed countries food security is one of agriculture's non-trade functions and the appropriate focus to analyze food security policies is one of 'multifunctionality'.

More broadly, the very fact that an economic issue (agricultural and food production) and the concept of security have been linked suggests a shift in the way in which this (economic) issue is considered, with the dimension of security being linked to this specific economic issue through concerns over the impact of high food prices (or the sheer lack of food) on countries' socioeconomic cohesion and political stability.

The consequence of adopting this approach to security is, on the whole, a distancing of themselves by policymakers from the liberal paradigm of public policies and a resort to policy models that advocate more active state economic intervention through subsidies, trade restrictions, etc. If policymakers believe that the origin of the risk of 'food insecurity' is associated with international phenomena such as economic interdependence, globalization and the volatility of global markets, it is highly likely that—attentive to the mood swings of their national constituencies—they will adopt measures to curb these threats that will attempt to reduce the interaction (which occurs mainly through trade and investment flows) between the national economy and its external environment.

This behaviour tends to be encouraged when international mechanisms for the provision of stability and economic predictability as public goods are perceived as being incapable of performing their function. When this happens, countries reformulate their calculations and assessments relating to their international economic security strategies.

Suspicion of mechanisms and institutions that provide economic security internationally leads national policymakers to search for unilateral substitution policies. China, for example, buys land in other developing countries to safeguard the future provision of food and establishes complex bilateral relationships with African countries to guarantee supplies of minerals and oil to its rapidly growing economy. Food-importing countries have often adopted policies to achieve self-sufficiency, even if these options are less economically and environmentally sustainable.

The presence of strong production subsidies in the world's richer countries (often sheltered by the 'multifunctionality' cloak), the lack of mechanisms to reduce food vulnerability in least-developed

countries, the sensitivity of agricultural prices to speculative activities in world commodity exchanges and the feebleness of regional cooperation mechanisms in this area make agriculture a fertile arena for the dissemination of unilateral or bilateral initiatives that result in the state's management of international trade and investment flows.

In this sense, what seems to be required in order to develop a method of dealing with the food security issue that is compatible with trade and investment liberalization objectives is a 'new agricultural deal' at the global level that promotes fair trade rules, increases food aid, contributes to lower price volatility in the international market and facilitates more investment in agriculture (Clapp, 2009).

From the perspective of the reformulation of trade rules, the basic guiding principle of the process should be that 'the discussion about food security should be limited to the vulnerability of developing countries, using a different terminology for developed countries' (Diaz-Bonilla *et al.*, 2000). All developed countries, when national food security indices are used as an analytical tool, are safe from this point of view,

which suggests that the notion of food security used as part of agricultural multifunctionality or, more generally, among none-trade concerns, has a very different meaning in developed and developing countries. In terms of political implications and agricultural negotiations, keeping the same label for two different situations only serves to obscure the issues being negotiated (Diaz-Bonilla *et al.*, 2000).

Beyond that, 'food insecure' countries should receive similar treatment to least-developed countries in trade negotiations in terms of rights and obligations relating to domestic support of and access to their own markets.

Reconciling trade and food security depends mainly on negotiations and agreements at the multilateral level, but the regional dimension of cooperation can play a role in reducing the uncertainty and costs faced by developing countries in periods of crisis that challenge economic security in any of its dimensions (food, energy, etc.).

The fact that neither regional/subregional agreements in force in the three developing regions discussed in this report nor, more generally, the regional dimension of policy played any real role in the menu of measures taken in response to the food crisis means that these agreements are not perceived by the countries that established them as credible mechanisms for the provision of collective economic security.

Therefore, the institutional strengthening of regional (and subregional) agreements through the setting of rules and the establishment of disciplines that foster cooperative behaviour among developing countries constitutes a prerequisite for making these agreements more credible and ensuring that they play a more relevant role as crisis management instruments.

Despite the relevance of the interface between food security and the trade agenda, food security is a political issue that goes way beyond trade and has a strong domestic policy dimension. Its treatment as a policy (and political) issue includes some kind of trade policy, but also requires agricultural policies to increase supply and foster innovation and productivity in all areas affecting the establishment and maintenance of food security (Diaz-Bonilla *et al.*, 2000).

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