Overcoming Supply Side Constraints: Making the Agricultural Sector a Priority

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Changing Development Priorities

• Infrastructure investments were development priorities in the 1950s and 1960s, but went out of vogue by the 1970s.

• Agriculture and rural development were high on international development agenda until sometime in 1980s, when knocked off by hot new priorities, e.g. environment, HIV/AIDS, gender, democratization, etc.

• It’s time to bring both infrastructure and agriculture back onto the agenda!
Need to Make Agriculture and Rural Development a Priority

- Majority of poverty is in rural areas
- The poor spend largest fraction of their incomes on food
- Agriculture can and should play leading role in national economic development
- There is a world of opportunity for African agriculture from growing global demand for agricultural products.
Rurality of Poverty

• 75% of Africa’s population live on less than $2/day, of which over 70% is rural.
• Increasing agricultural productivity is essential to solving rural poverty.
• Creating non-farm rural employment opportunities is also necessary to solving rural poverty problem.
Agriculture Needs to be a Leading Sector in National Development

• When agriculture bulks large in the national GDP, employs a large fraction of the work force, and generates significant foreign exchange earnings, failure to treat it as a leading sector will put a brake on national economic growth and poverty reduction.

• Rural people spend a larger fraction of increments to their incomes on domestically produced goods than do urban people, who spend more of their increments on imports.

• Because the poor spend the largest fraction of their incomes on food, successful agricultural development, which reduces the cost of food, raises the real incomes of the poor.
Africa’s Challenge and Opportunity in Agricultural Development

• Africa’s per capita food production has been declining for four decades, and its population is projected to more than double by 2050.
• Africa has 11% of the world’s population and 11% of the arable land.
• African agriculture is underperforming relative to what would be economically efficient and environmentally sustainable.
• Africa has difficult soils and climates, but...
Africa’s Agricultural Potential

• There is no reason Africa should not be at least self-sufficient in food. (Recall Brazil experience)
• Sub-Saharan Africa is one of only two regions with additional land that can be brought into production.
• There are a few success stories of high-value exports from Africa to Europe, but the high income countries of Europe and Japan are shrinking and aging.
• U.S. ag exports shrinking due to biofuels craze.
• There is large market growth potential in developing countries where population AND per capita incomes are rising, i.e. South-South trade.
The International Context

• High income countries’ food demand shrinking
  – Declining populations
    • Europe’s population projected to fall by 10% by 2050
    • Japan’s population projected to fall by 22% by 2050
    • Russia’s population projected to fall by 24% by 2050
  – Aging populations (Older people eat less.)
  – High income consumers don’t eat more when their incomes rise further.

• The only potential growth markets are in the developing countries.
### Projected Population Growth
(U.N. medium projections)

<table>
<thead>
<tr>
<th>Region</th>
<th>2005</th>
<th>2050</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>6,465</td>
<td>9,076</td>
<td>+ 40%</td>
</tr>
<tr>
<td>High Income</td>
<td>1,211</td>
<td>1,236</td>
<td>+ 2%</td>
</tr>
<tr>
<td>Low Income</td>
<td>5,253</td>
<td>7,840</td>
<td>+ 49%</td>
</tr>
<tr>
<td>Africa</td>
<td>906</td>
<td>1,937</td>
<td>+114%</td>
</tr>
<tr>
<td>Asia</td>
<td>3,905</td>
<td>5,217</td>
<td>+ 33%</td>
</tr>
<tr>
<td>Latin America</td>
<td>561</td>
<td>783</td>
<td>+ 40%</td>
</tr>
<tr>
<td>North America</td>
<td>331</td>
<td>438</td>
<td>+ 32%</td>
</tr>
<tr>
<td>Europe</td>
<td>728</td>
<td>653</td>
<td>-10%</td>
</tr>
</tbody>
</table>
### Huge Market Growth Potential from Poverty Reduction

<table>
<thead>
<tr>
<th>Country</th>
<th>Population</th>
<th>% &lt; $1/day</th>
<th>% &lt; $2/day</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1298.8</td>
<td>16.6</td>
<td>46.7</td>
</tr>
<tr>
<td>India</td>
<td>1065.1</td>
<td>34.7</td>
<td>79.9</td>
</tr>
<tr>
<td>Indonesia</td>
<td>238.5</td>
<td>7.5</td>
<td>52.4</td>
</tr>
<tr>
<td>Brazil</td>
<td>184.1</td>
<td>8.2</td>
<td>22.4</td>
</tr>
<tr>
<td>Pakistan</td>
<td>159.2</td>
<td>13.4</td>
<td>65.6</td>
</tr>
<tr>
<td>Russia</td>
<td>144.0</td>
<td>6.1</td>
<td>23.8</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>141.3</td>
<td>36.0</td>
<td>82.8</td>
</tr>
<tr>
<td>Nigeria</td>
<td>125.8</td>
<td>70.2</td>
<td>90.8</td>
</tr>
<tr>
<td>Mexico</td>
<td>105.0</td>
<td>9.9</td>
<td>26.3</td>
</tr>
</tbody>
</table>

Source: World Bank. [World Development Indicators](https://data.worldbank.org) database
The World’s Arable Land (left) Is Distributed Very Differently than Its Population (right)
Potential Growth in World Food Demand

• World food demand could double by 2050
  – 50% increase from world population growth – all in developing countries
  – 50% increase possible if low income countries achieve broad-based economic growth

• How many presently low income consumers are lifted out of poverty will be the *most important* determinant of the future food demand.

• This, together with growth in biofuels production from agricultural feedstocks, will determine future global demand for agricultural products.
Underinvestment in Necessary Enabling Environment

• Rule of law
  – Commercial code; contract sanctity
  – Property rights
• Invest in rural people
  – Education for boys AND girls
  – Health
• Rural infrastructure
  – Roads
  – Communications
Need Public Investments to Develop African Agriculture

All the above, plus:

• “Recapitalize” African soil fertility

• Improve technology
  – Invest in adaptive agricultural research
  – Reject anti-technology advice from transnat’l. NGOs

• Supportive Public Policy
  – End government policies that turn terms of trade against farmers
  – ODA and int’l. banks must stop their anti-rural bias in development assistance and lending if they really want to help meet the Millennium Development Goals.
What Developing Countries Need from OECD Countries

• Real market access for goods in which they have a comparative advantage
• Eliminate import barriers and domestic and export subsidies that depress world market prices and increase their variance
• Foreign aid and lending for rural investment in necessary infrastructure, technology, education, health and to help adjust (including aid for trade)
• Foreign direct investment
Thank you.