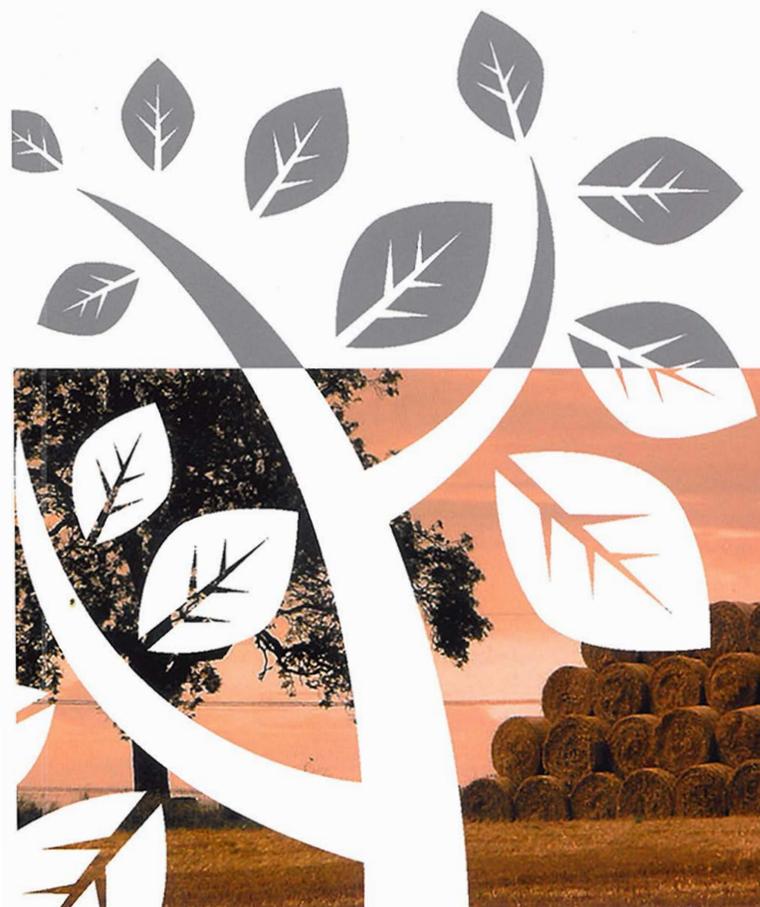


The Outlook for Agriculture and Rural Development in the Americas: A Perspective on Latin America and the Caribbean

Executive Summary

2010





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The economic crisis of 2008-2009 had a major impact on Latin America and the Caribbean. Under the combined weight of a 1.8% reduction in GDP for 2009 and the intense price volatility experienced by agricultural products, food security in the region regressed to levels not seen since 1990-1992, with close to 52 million people undernourished. However, a generally favorable macroeconomic situation and the application of counter-cyclical policies have allowed the region to respond more quickly. We are starting to see the first signs of economic recovery as international trade begins to bounce back, especially on the level of exports to Asian emerging economies, and as labor markets revive.

However, the fundamental challenge facing Latin America and the Caribbean is how to consolidate the recovery with medium- and long-term economic development. ECLAC, FAO and IICA concur that the key to improving well-being is understanding that the agricultural sector is a complex system integrated into both international and local economies, dependent on climate change, linked through production chains with other economic sectors and boasting considerable poverty-reduction potential. By basing rural development policies on an integral view of the countryside and agriculture, these can achieve the hoped for socioeconomic impact, while contributing to the recovery and promoting economic development.

In order to address this complex scenario, this report is divided into four sections: the first deals with the main macroeconomic trends affecting the sector's performance; the second summarizes the structure, outlook and policy recommendations for the agricultural sector's four major sub-sectors: agriculture, livestock, forests and fishing/aquaculture; the third chapter discusses subjects related to rural well-being and

agricultural institutions; and finally, the fourth section discusses agricultural trade in the region, including recent trends and challenges, which is a topic of current importance and wide relevance for the sector.

Section I – Macroeconomic context

In 2009, the effects of the crisis were strongly felt by Latin American and Caribbean economies, interrupting several years of relatively high rates of growth. The impact of the crisis on the region was most apparent in real economic indicators such as exports, unemployment and poverty. But the recent crisis appears to have had less of an effect than seen in previous crises and, despite the major export contraction observed in early 2009, a strong export recovery began to take place in the third quarter, powered by growing Asian demand for the region's products.

The region has started to emerge from the crisis faster than anticipated largely thanks to the macroeconomic reforms undertaken by countries in previous years and the renewed expansion of international demand. Nevertheless, given that international trade was the most important mechanism through which the crisis was transmitted to Latin America and the Caribbean, exporters in the region are understandably concerned about what will happen once the main importing countries begin withdrawing government stimulus. Other sources of uncertainty include foreign exchange rate volatility, the performance of international commodity markets and the sustainability of internal countercyclical policies.

Section II–Sector analysis

Sector context. The economic crisis in LAC has had an uneven effect on the agricultural sector due to, among other factors, the impact of income-elasticity on demand, the varied effects on producers of higher prices for oil and petroleum derivatives and for agricultural commodities. The impact of the crisis from country to country also depends on sector-specific policies, the type of product, location and form of production. Due to the increased demand for raw materials, especially on the part of Asian economies, their prices are expected to remain above historical averages in the medium term. In this context of uncertainty, the sector's development depends on the definition of policies capable of regulating speculation and acting in a counter-cyclical fashion in times of instability.

Agriculture. A regional survey conducted in preparation for this report showed that 2009 agricultural production grew in 24 out of the 34 countries polled, while output fell in seven and was unchanged in three. The outlook for 2010 points to a major recovery in the agricultural output of most of the countries of the region, an expansion that is increasingly subject to climate factors, the performance of global demand (still affected by the recession), and, to a lesser extent, international prices. The weakening in 2009 of prices for the region's main agricultural commodities does not appear to have had an adverse effect on the 2010 production cycle. The combination of countercyclical policies and a recovery in prices that began in 2009 drove increased production that is expected to extend into 2010. Furthermore, the pace of expansion in the developed (slower) and developing (faster) economies raises expectations that LAC agriculture will resume the expansion achieved between 2000 and 2007.

Livestock. The region's livestock sector has grown by an annual average of close to 4% in recent years, twice the world average. Despite that expansion and excellent economic numbers, the region must respond simultaneously to three main challenges: the sector's enormous market

potential and ability to help satisfy growing global demand for meat and dairy products; the great environmental challenges that threaten supplies of natural resources needed for production; and, lastly, the acceleration of internal economic growth and the region's expanding development needs. The growth of the Latin American livestock industry has been export based, but domestic demand for products of animal origin is also expected to grow. Demand for beef, pork and poultry is projected to increase as the regional economy recovers and trade flows revive. The technology exists to increase productivity without degrading existing lands, but the rate of adoption is low because of the absence in many countries of policies for facilitating investment in the livestock sector.

In the near term, small-scale farmers need programs to help them survive the economic crisis or many will be forced into bankruptcy. Small-scale livestock production provides work and food security to millions of people in the region, but it needs to be strengthened. In order to increase productivity in a sustainable manner, producers need policies and stimulus that favor sustainable land use, and conservation of both water and biodiversity such as emissions reductions and improved animal health as a way to prevent zoonosis. The sector can perform a key role in climate change mitigation through improved productivity, but that entails overcoming policy and market deficiencies, as well as applying the right incentives. Although the livestock sector greatly contributes to food security and poverty mitigation, major policy and institutional reforms are needed in addition to public and private investment in order for small-scale farmers to take advantage of the opportunities posed by the sector's growth. The Latin American livestock industry has the opportunity to grow by satisfying internal markets and worldwide demand, but this increase in productivity must not come at the expense of the environment.

Fishing and aquaculture Industrial and artisanal capture fishing in the region has already reached or surpassed sustainable production levels for the main fish species. For that reason, increased catches are not expected in the near future.

Nevertheless, commercial and rural aquaculture retain their potential to satisfy growing demand for fishing products, which is concentrated primarily in Chile, Brazil, Ecuador and Mexico, and in select species such as salmon, shrimp, tilapia and carp. Most production, however, is for export.

In order to take full advantage of the region's excellent environmental conditions for cultivating hydrobiological species, there is a need to strengthen institutions, information, research, control, oversight, and monitoring systems as well as the protection of ecosystems and their resources. Recent approaches to managing fishing and aquaculture suggest the need to adopt integrated and eco-systemic policies so as to properly take into account the various factors that affect fishing and aquaculture performance. They also suggest the need to begin immediately strengthening local management capacities at all levels including environmental, social, economic and institutional aspects, among others.

Forests. The promotion of sustainable forest management and the establishment of forestry plantations are key to reversing the deforestation trend. Non-wood forest products and the environmental services provided by forests are important factors in the fight against rural poverty. The linking of forests into national economies as well as the demands of climate change mitigation, biodiversity conservation and poverty reduction have magnified the strategic value of forests for countries of the region. Forestry policies and institutions need to be strengthened in ways that afford the sector greater possibilities for contributing to the fight against climate change and rural poverty while also benefiting from new initiatives and financing mechanisms that seek to stop deforestation and stimulate biodiversity conservation.

Section III– Rural well-being and institutional framework

Rural well-being. Poverty indicators for the region show that the effects of the crisis have been

most severe in rural areas. That trend began to emerge in 2008 and deepened in 2009. The effects are mixed on the level of rural employment. In countries with a greater percentage of employment in non-agricultural activities the effects tend to be adverse, while the impact on those with considerable agricultural employment depends on how the agricultural sector evolved during the crisis. An analysis of rural households and their income composition in various countries of the region produced three notable results: first, the importance of wages, especially from non-agricultural sources both for household income and poverty reduction; secondly, the importance of the diversification of production activities that broaden the rural population's job opportunities, especially in terms of payroll jobs; and, thirdly, the importance of transfers to poor people, including those from agricultural households, as a means to limit poverty rates.

Institutional framework. This chapter analyses some of the trade measures recently adopted in the region and discusses the main policy challenges. The downward trend in food prices since mid-2008 prompted many governments to loosen export restrictions imposed earlier. At the same time, the policy focus shifted from emergency measures to actions aimed at stimulating production in the agricultural sector and the consolidation of access to export markets. Policies to facilitate trade have also been reinforced especially with regard to inter-regional trade. Given the lack of progress in the WTO's Doha Round, some countries have focused their attention on negotiating Free Trade Agreements. Colombia and Peru finalized their negotiations with the EU in March 2010, and Central American countries are close to reaching a similar accord.

Despite the delays in the Doha Round, the multilateral trade system has proven to be of great value to participating countries, allowing them to adopt contingency measures and offering them a space for consultations that can help resolve conflicts. One of the main trade policy challenges today is to address all facets of food security without falling into protectionism or lowering incentives

for local producers. Solutions include lowering trade barriers, facilitating interregional trade and improving the workings of national markets.

Section IV–Agricultural trade

Trade. This section analyses the dynamics of agricultural trade since 2005, a period marked by rising prices for basic products and their subsequent decline. The region's agricultural export revenues grew rapidly between 2006 and 2008. However, in quantitative terms agricultural exports grew only modestly and in some countries fell in response to a combination of adverse climate conditions and export restrictions. In 2009, the agricultural exports of most countries of the region decreased in both volume and value owing to lower prices and a

weakening of global demand even though agriculture performed better than other economic sectors.

Agriculture in the region continues to be based on a select group of basic products as a stable source of export income. Even so, there are some countries, especially in Central America and the Caribbean, that reduced their economic concentration and diversified their exports while others remain dependent on a few basic products, such as exporters of cereals and oil seeds. In order to reduce this dependence and take advantage of new trading opportunities, government support, investment and policies to promote innovation are required. For example, the public sector could assist agricultural exporters by establishing quality and safety certification systems for food products, developing market intelligence mechanisms and modernizing customs agencies.