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Agriculture in the Twenty-first Century: Challenges and responses

The challenges in store for Agriculture in 2005

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griculture's fate in 2005 depends on events on the international stage: the U.S. fiscal and current account deficits and the country's growing neo-protectionism, China's prolonged economic growth and the relentless rise in oil prices.

All these issues are interrelated, and a failure to keep any one of them in check would plunge the world economic system into chaos. Even a major change in regard to any of them would send shockwaves through all the world's economies. Due to these combined factors, the world's stability hangs in the balance, with the dollar continuing to lose value, inflation high worldwide and interest rates on the rise.

The collapse of the dollar, the growth of the U.S. fiscal deficit, the rise in oil prices, which reached

over US\$50 a barrel, and China's inability to slow its economic growth, have sparked currents of protectionism. All of this comes at a time when the negotiations under the aegis of the World Trade Organization (WTO) continue, bilateral agreements have mushroomed and there is an impasse in the negotiations for the Free Trade Area of the Americas.

The state of the U.S. economy gives food for thought and must be monitored constantly to anticipate the potential impacts of any adjustments throughout the world economic system. The current account deficit reached a record high of US\$600 billion, equivalent to over five per cent of current Gross Domestic Product (GDP). Projections suggest that this figure will rise sharply in 2010 if there is no change in the current conditions.

U.S. imports are now twice its exports. Higher productivity or a stronger dollar would be needed to reverse this situation and change the direction of the trade flows between Europe, Japan and the USA.

To prevent a major downturn in the growth rate of the world as a whole, and the United States in particular, a further increase in the U.S. fiscal deficit is likely, to drive the expansion of domestic demand.

The stability of world money markets depends, in part, on the confidence generated by institutions and the people who run them. In the United States, rumors of changes in the leadership of the Federal Reserve and the Treasury have led to interest rate hikes and falls on stock markets.

In the international economic arena, China has contributed 20% of growth in world trade. Investment rates in China are half the country's GDP. Analysts agree that the economic growth rate must fall but government policies have failed to slow economic growth, much less spark a rise in the value of the nation's currency.



World economic growth would stimulate the growth of trade

While the above developments dominate international economic affairs, agriculture's relative share of GDP has declined, despite the fact that the relative importance of the expanded agricultural sector in the economy is much greater. The sector's budget allocation has also been declining as a percentage of GDP. Some functions of the ministries of agriculture have also been transferred to the new portfolios of science and technology, environment, fisheries, etc., along with their respective budgets.

Other challenges facing the sector in 2005 include areas such as nutritional and food security, environmental conservation and poverty alleviation which have acquired greater importance but are no longer in the purview of the ministries of agriculture. All of these areas now require the involvement of other portfolios such as environment, education, health, finance, and foreign affairs.

Today, the most important decisions are taken in cabinets dealing with social and economic issues where the ministers of agriculture neither have the leverage nor the traditional policy instruments. At best, sectoral issues are elevated to form part of sustainable rural development strategies where, again, the ministries in charge of the sector must coordinate actions with their counterparts at education, health, communications, transportation, etc.

Under the new model, interministerial partnerships involving agriculture, foreign affairs, finance, home affairs, etc., will be essential for designing actions to address the negative effects of changes in the world economy that could produce more extreme poverty, degrade the environment, undermine health and education, and limit rural development.

Another challenge facing agriculture in the hemisphere is a potential increase in migration to the USA if there is a fall in the remittances that immigrants send home due to an economic downturn. A slowdown in the world economy would also fuel more migration from rural to urban areas in the countries of the region.

Accordingly, the main challenges for Latin America and the Caribbean are to alleviate the extreme poverty of 200 million people and achieve a higher level of food security.

World economic growth would stimulate trade and generate higher levels of aggregate employment if, of course, there is no overheating of the economy. The fear at the moment is whether the world economy can sustain growth rates of over five per cent for much longer. The International Monetary Fund (IMF) predicted growth rates of five per cent for this year, which would be driven by two international factors: consumer spending in the United States and the boom in corporate investment in China.

The upturn in the Japanese economy has been stronger than expected and the European market has also been growing. The economic growth rate of the emerging economies, as a group, is the highest it has been in 25 years. The question is: when will the world economy slow down?

Faced with this world outlook, nearly all of the countries in Latin America have pinned their hopes on securing a bigger share of regional trade by signing bilateral free trade agreements. At the same time, they have intensified regional integration efforts.

For this strategy to work and help raise the levels of well-being, the countries must design policies that will make their economies more competitive and improve the business climate. They will also have to adapt their legal framework to be able to operate under ad hoc economic incentives and thereby achieve more and better integration into world markets, especially the United States' market.

For its part, IICA must develop the ability to make rapid adjustments to its technical cooperation model. With regard to policies and trade, the Institute anticipated the signing of trade treaties and began to systematize regional experiences related to the administration of trade treaties and the design of policies to take advantage of the new opportunities.

The Institute is facilitating the countries' efforts to become more competitive and participate in the new trade treaties by identifying real options for small- and medium-sized agricultural producers through the certification of traditional processes, geographic identification and denomination of origin. This enables producers to engage in alternative forms of agricultural production, obtain a bigger return on traditional products in world markets and seek new niches.