



World Food Crisis: Causes, Trends and Strategy

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ABSTRACT

The world is in the midst of a food crisis. The UN Chief Mr. Ban has rightly opined that the steeply rising price of food has developed into a real global crisis. Local manifestations in the shape of food riots and political protests should not obscure the global cause of the problem. Soaring food prices have created inflationary risks not seen in years. Food prices have risen 83 per cent in the last three years, bio-fuels accounting for a 30 per cent price hike. One hundred million live are endangered and 30 million have been dragged down into poverty by bio-fuel prices. Agricultural economists say that unless and until aggressive farm reforms are initiated in developing nations, especially emerging countries, the crisis could get much worse. But the future looks food with better prospects. India may lift restrictions on wheat and rice exports. Good output of rice is expected from India, Thailand and Vietnam. Bumper wheat output from India, Australia, the US and Canada. The United Nations must take immediate action in a concerted manner. Hence, there has been an urgent need to evolve a sound and effective strategy to overcome the crisis.

Keywords : Food Crisis, food riots, bio-fuels, Poverty, farm reforms, tsunami, energy prices, economic growth, terms-of-trade effects. .

1. INTRODUCTION

The world has been experiencing worst food crisis. Rising food prices have developed into a global crisis. This crisis is being called a silent 'tsunami' which is a great threat to an estimated 100 million population spread over in every region of the world. During the global history of 35 years i.e. since 1973, the globe has been hit by a combination of record oil and food prices. Increased food and energy prices have created a formidable challenge to world economic growth and stability. This is because of the rising risk of reversing years of progress in many least developed economies (PNB Monthly 2008).

Global food stock stocks are the lowest opined by FAO. Food riots reported from Egypt, Cameroon, Haiti, and Senegal. Rising food demand from rapidly developing economies in general and emerging economies in particular namely-China and India, the use of crops for bio-fuels, world stocks at 25 year low and market speculation are pushing prices of

* The material presented by the author does not necessarily portray the viewpoint of the editors and the management of the Institute of Business & Technology (BIZTEK) or Dr. Baba Sahib Ammedkar Marathwada University Aurangabad (Maharashtra) India.

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Main Ibrahim Hydri Road, Korangi Creek, Karachi-75190, Pakistan.

staples such as wheat, maize and rice to record high. But the future looks food with better crop prospects. India may lift restrictions on wheat and rice exports. Good output of rice is expected from India, Thailand and Vietnam. Bumper wheat output from India, Australia, the US and Canada is also expected.

The terms-of-trade effects of the combined food and energy price increases since last January 2007 are in excess of 10 per cent of GDP in more than 15 economies (PNB Monthly, 2008). Higher food prices are of great and more immediate concern than higher fuel prices in respect of their impact, implications and consequences in terms of income distribution, inflation and poverty.

The World Bank's plan calls for action on the part of the Japan and China and other countries to release some of their buffer stocks to dampen the price rise situation. There is an urgent need for an agreement among G-8 and the key developing countries to hold global food stocks.

Crisis Response Facility:

2. CAUSES OF CRISIS

In economic terminology, every crisis is the out come of economic or market forces namely demand for and supply of. Food crisis is no exception to this terminology or economic/ market forces. Let us points out these causes.

2.1 Demand based factors

1. Diversion to biofuel.
2. Faster rate of growth in population especially developing and least developing economies.
3. Improved standard of living in Asian and Latin American continents.
4. Noticeable depreciation in currencies.
5. Policy response.
6. Market prices and speculation.

2.2 Supply based reasons

1. Unpredictable weather conditions.
2. Global warming.
3. Increase in energy cost.

2.3 Emerging trends

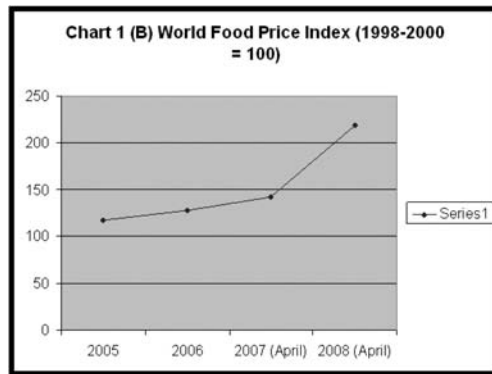
The following are the alarming facts about present world food scene:

- a) Global food stock stocks are the lowest opined by FAO.
- b) Food riots reported fro Egypt, Cameroon, Haiti, and Senegal.
- c) Rising food demand from rapidly developing economies in general and emerging economies in particular namely-China and India, the use of crops for bio-fuels, world stocks at 25 year low and market speculation are pushing prices of staples such as wheat, maize and rice to record high.
- d) But the future looks food with better crop prospects.
- e) India may lift restrictions on wheat and rice exports.
- f) Good output of rice expected from India, Thailand and Vietnam.
- g) Bumper wheat output from India, Australia, the US and Canada.

3. MATTER OF GREAT CONCERN

The rise in food prices world over is hurting the poor the most. This is because the prices

of commodities like wheat, rice, cereals, edible oil and milk have increased drastically during the last one year. Particularly steep has been the rise in prices of wheat, and rice (Chart1). Governments of several food growing nations worried about domestic shortages have imposed export curbs, spooking markets at a time when world inventories are down sharply. Prices of rice, s staple in most of Asia and 50 per cent of the global population, have registered a rise of 68 per cent since the beginning of 2008. US rice futures have gone up to an all-time high.



Source: Prepared by the author from FAO, Data.

Average global food prices will retreat from current peaks but will still be up to 50 per cent higher in the coming decade than in the previous years. High oil prices are the part and parcel of food prices.

3.1 Consequences

The following are the implications and consequences of world food crisis.

1. Nearly 105 million people could be come poor because of rising in food prices especially in developing and least developing countries.
2. African continent in general and countries namely Liberia, Yemen, Honduras and Sierra Leone are worst affected.
3. Increasing trend in inequality among countries, and continents.
4. Serious and damaging effect on child malnutrition programs world over.
5. Inflationary pressures in developing economies adding to their economic problems especially on growth of GDP.

3.2 World Bank's Point of View

The President of World Bank, Robert B Zoellick (Business Line, June 09, 2008), has suggested a 10-point action plan for meeting the present food crisis. The 10-point strategy is as under:

1. The various economies should agree to fund fully the World Food Programme's emergency needs.
2. Calls for support for safety nets namely distribution of food in schools or offering food in return fro works.
3. Availability of more seeds and fertilizer for coming planting session especially in poor nations.
4. To enhance agricultural supply and increase research spending.
5. More emphasis on the need fro investment in agribusiness.

6. Calls for innovative instruments for risk management and crop insurance for small and marginal farmers.
7. To realize the need for the US and EU to ease the effects of subsidies, mandates and tariffs on bio-fuels.
8. Removal of export bans by 28 leading exports of food grains in the world.
9. The plan calls for action on the part of the Japan and China and other countries to release some of their buffer stocks to dampen the price rise situation.
10. There is an urgent need for an agreement among G-8 and the key developing countries to hold global food stocks.

4. CRISIS RESPONSE FACILITY

In order to give sustainability to the World Bank's action plan, the Bank is initiating a 'Global Food Crisis Response Facility'. This facility was put on fast-track action to address immediate needs arising out of the crisis. This includes US \$ 200 million grants, especially to the exposed economies. Assistance would be made available for cheap fertilizers, safety net programs and budget support. Accordingly the Bank would enhance assistance for agriculture and food related operations from US \$ 4 billion to US 4 6 billion over the years. This step is productive and is similar to the one that Henry Kissinger initiated as US Secretary of State by establishing the International Fund for Agriculture and Development in the decade of 1970s.

The quantities of agricultural commodities that could be bought declined as prices rose because most food aid organizations had fixed resources and budgets and little availability to raise more funds. The increase in costs hit non-governmental organizations' food aid operations particularly hard, with a 19 per cent reduction in volumes last year (Brinkman, 2008). Infact, Venezuela has used these projects to provide free or subsidized food to millions of people. Under the said projects, redistribution of 2 million hectares of land has been made among small-scale farmers. Added to this, the Venezuelan Government has raised its spending on agricultural out by huge margin of 728 per cent during the last three years. Similarly, the ALBA States initiated a US \$ 100 million fund for staple foods like maize and rice to ease out the impact of the persisting food crisis and rising food prices on the poor people in these countries.

In order to avoid speculations, these economies have agreed in principle to create a public food distribution network and to regulate the price of food. Unfortunately, the vast majority of other economies in the SOUTH, which do not have progress governments, have largely failed to take similar measures for the benefit of their populations.

For the first time, India would build a strategic food grains reserve of 5 million ton to meet emergency situations. The decision to build the reserve' is a clear indication that the Government is deeply concerned and worried about the possibility of a grain shortage in the event of a calamity (Financial Express, June 15, 2008).

5. MULTILATERAL AGENCIES

The International Monetary Fund (IMF) has suggested in talks with Governments in 10 countries, mostly in Africa, about increasing financial assistance to cover the soaring cost of food.

The World Trade Organization (WTO) should push food-producing economies to maintain exports to prevent a worsening of the international food crisis. WTO needs to exert its pressure and influence to reduce tariffs and thereby encourage trade. It should also got to stand up against export restrictions, export taxes, which too would stop the free flow of trade in food-stuffs and agricultural produce (Yojana, 2008).

The European Union has observed that if we restrict trade, we are simply going to add food scarcity to the already large problems of food shortages that exist in different part of the world.

Japan has announced US \$ 100 million in emergency food aid and World Food Program's opined that that the cost of feeding the world's hungry had spiked nearly 40 per cent amid spiraling food costs and oil prices.

Food Agriculture Organization (FAO) has come out and suggested that there is an urgent need to help developing economies and countries in transition expand agriculture, agri business and rural development, from both public and private sources (South Bulletin, June 16, 2008).

The looming threat to global food security that recent development point to comes not so much from concerns about food production as from the rising prices of crude oil, which are prompting the diversion of vital grains to bio-fuel output. This had adversely distorted the global market of coarse cereal, which occupies a central place in food items as well as feed crop in different parts of the globe.

The adverse impact of the commodity boom on food availability and prices, especially at the retail level, has tended to linger even after international prices have declined back to more reasonable levels. This is borne out by the current situation in the USA and Japan though global prices of wheat, rice, oilseeds and some other goods have already softened.

Besides, the expectation that major producing nations of wheat and rice might lift ban on exports of wheat and rice, the crop prospects look bright in the United States and Australia. While in developing nations namely India, Thailand and Vietnam have better wheat and rice outlook and therefore, it is expected that the crisis would be eased out. But fact is that future look uncertain if economies continue to neglect agriculture as has been the case for decades.

STRATEGY:

The UN Chief Mr. Ban (2008) has rightly opined that 'this steeply rising price of food has developed into a real global crisis'. The United Nations must take immediate action in a concerted manner. Hence, there has been an urgent need to evolve a sound and effective strategy to over the crisis.

The following are the guide-posts for meeting the challenge of global food crisis.

1. To bring the needed improvement in existing trade policies.
2. To concentrate more on safety nets and make them more effective and strengthen.
3. To stimulate agriculture.
4. To foster agriculture supply response.
5. To increase the present level of public investment in rural areas.
6. To introduce and carry out social protection polices and programs.

CONCLUSION:

The things are looking up. Besides the expectation that major producing nations of wheat and rice might lift ban on exports of wheat and rice, the crop prospects look bright in the United States and Australia. While in developing nations namely India, Thailand and Vietnam have better wheat and rice outlook and therefore, it is expected that the crisis would be eased out. But fact is that future look uncertain if economies continue to neglect agriculture as has been the case for decades.

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