Global food price rises: Threat or opportunity for poor farmers?

https://www.e-ir.info/2008/07/12/global-food-price-rises-threat-or-opportunity-for-poor-farmers/

DAVID HALL-MATTHEWS, JUL 12 2008

After thirty years of stability, staple food prices have increased on average by 43% in world markets this year and 80% since 2005. The fastest rising commodity, wheat, was $105 a tonne in 2000 and now costs $481. This has both reflected and caused inflation throughout the world, but is of greatest concern in less developed countries (LDCs). Food riots have broken out across Africa, Asia and the Caribbean and the World Bank has named 33 countries where they fear that hunger could lead to serious social unrest and political instability. With a slightly different emphasis, the UN's Food and Agriculture Organization (FAO) has listed 22 highly vulnerable net food and fuel importing nations in which 30% of the population is already chronically under-nourished. Its World Food Program (WFP), which is responsible for emergency aid, appealed for an extra $500 million in March, having already allocated its 2008 budget of $2.9 billion.

It goes without saying that the poorest households will suffer most from price rises. Many will face what Amartya Sen calls exchange entitlements failure – when the cost of basic needs becomes higher than what you can sell or earn. It has been estimated that every percentage point rise in global food prices pushes 16 million people into chronic hunger. All too recent optimistic predictions that the total number of hungry people would fall from 850 million to 600 million by 2050 have been reversed. On current trends it will be twice that.

Contemporary food security fears are worse even than in the 1970s because of greater pressure on resources (land, water, energy) and urbanisation. For the first time in decades, millions of city dwellers are unable to buy enough food – causing an upsurge of violence. But it should not be forgotten that it is traditionally passive small farmers who are most likely to starve. Even those growing only enough for themselves are forced by indebtedness and lack of storage facilities to sell their harvest when prices are low and buy it back later for more. After a good season, local sale prices drop dramatically – but that is still better than having to buy when scarcity, or external demand, has driven prices up.

Opinion is divided over the causes of global food price hikes – and therefore over the solution. The tripling of ethanol production for biofuel since 2000 – taking up 20% of world maize yields – has rightly been widely condemned, though maize prices have actually risen by less than other cereals. The effects of adverse weather conditions on harvests, notably in Australia, have exacerbated this year's price spike and reduced global grain stocks to dangerously low levels, but few believe them to be the underlying cause. For once, climate change is not the main culprit. The most significant change is not in supply but in demand.

It is well known that the global economy faces a downturn following an over-expansion of credit fuelled by consumer confidence. Such economic cycles are normal, but it is unusual for them to affect the prices of food in particular. The difference this time is that the spending boom was driven, to some extent, by China and India. This meant two things. The low value of the Yuan, in particular, put pressure on the dollar, making imports more expensive not only in America but also in the scores of LDCs whose currencies are pegged to it. Painful, post-Olympics, Chinese revaluation could significantly reduce food and energy prices in the short term. But, more importantly, increased demand has come from new middle classes, whose consumption was low until very recently. In particular, hundreds of millions can now afford meat, leading to huge imports of cereals for livestock feed.

A global redistribution of food wealth must be seen as a good thing as far as it goes. It also raises interesting possibilities. Breathless climate change expert Lester Brown has long predicted that the scramble for food will make the global balance of power shift away from net importers like Japan and Europe, who have had it easy for so long, and towards net exporters such as Russia and Argentina. If true, most LDCs would also suffer. But why is that the case, when most have predominantly agricultural economies? Simply put, poor countries, encouraged by aid donors, have chronically under-invested in agriculture since the 1980s. The only exception is the development of cash crops for export, which has too frequently driven small farmers off their land to make way for commercial estates, as well as reducing local food grain production.

These policies were pursued partly because food prices were so low. Taking account of inflation, they fell 80% from 1974 to 2004 – exactly the amount by which they have risen since. Back in the 1960s, Hans Singer and Raoul Prebisch correctly predicted that profits from agricultural commodities would always be lower than those from industrial production – and development strategies have been based on their thesis ever since. Even the poorest countries have been encouraged – in particular by the World Bank and International Monetary Fund – to focus on whatever profitable enterprise they can run competitively, and use the surpluses generated to buy the food they need. There have been some successes, but it has not led to economic takeoff in sub-Saharan Africa and has often denied countries the option of prioritising local food self-sufficiency. This donor prescription has often been criticised for countries with largely rural populations, for whom global competitiveness is difficult.

Jacques Diouf, the Director-General of FAO, argues that high food prices now present a new opportunity to refocus attention on agriculture in LDCs, thus solving the problem of high import costs and taking advantage of increased demand. In other words, the problem caused by increased global demand for food can be met with a supply-side solution that also enticingly makes a virtue of what has long been held to be a structural weakness for poor countries. Is this feasible? All commentators agree that new investment in agriculture is desirable in both the short and long-term, but there are several issues to be addressed before we can start to hail a bright future for hungry smallholders.

First, for how long will prices stay high? At present they seem likely to settle slightly below current levels for at least a decade – but commodity prices are notoriously volatile and unpredictable. In the event of a drawn-out global recession, they could fall. Both private investors and farmers themselves tend to be risk averse anyway, so may take some time before gambling their money on agricultural improvements. When the British government privatised the commercial investment arm of its Department for International Development recently, the new company, Actis, promptly sold off most of its agricultural portfolio.

Second, if increased global food demand is sustained, it is more likely that supply will be increased from commercially successful farms in North and South America and Central Asia than from Africa, where climate and soil do not lend themselves to high productivity. Indeed there is a risk of a return to the 1970s – when developed economies invested heavily in their own agriculture and dumped surpluses in LDCs, thus removing all incentives for local production.

Third, to take advantage of global food markets, poor farmers would need to gain access to them. This would require very substantial infrastructural development, costing billions of dollars and taking years. Chinais investing significantly in African and Asian infrastructure, but not yet in remote rural areas. Just as important, tariff barriers against agricultural exports would have to be lowered. Precisely because agriculture has always been uncompetitive, all countries have protected it massively with subsidies and import duties. The EU Common Agricultural Policy is perhaps the most notorious scheme, but poor countries also slap extremely high duties on each other's commodities. Given the possibility that genuinely global markets may not open up as much as Diouf hopes, regional trade deals would appear to be the best hope of taking advantage of higher food prices.

Bangladesh, Chile and Vietnam are held up as examples of individual nations that have liberalised agricultural trade and benefited from increased investment and export opportunities. However, food security in Bangladesh in particular has still been badly affected by high prices. In truth, there remains a trade-off between investing in food security and commercial agriculture. Arguments have been made against Diouf's optimism from both directions – some commentators worrying that a return to prioritising agriculture will put paid to all hope of African growth, while others insist that poor countries should insulate themselves from the market and focus on self-sufficiency.

The problem with the latter view is that imposing higher tariffs will, by definition, only exacerbate global food prices. However, if Diouf sees a moment of crisis as an opportunity for change, many governments see it as a time for retrenchment. 29 countries have imposed bans or limits on food exports, and more have sought to control domestic prices (at the expense of their own farmers), despite pleas from a range of international organizations that it will harm the global market. In the long run, incentives for tariff barriers may come down, especially in net importing countries, but they are liable to be replaced by enhanced agricultural subsidies – which are yet to be outlawed by the World Trade Organization because of the collapse of the Doha Round.

This raises the final point. Given that poor farmers are risk averse and have no capital, any policy that relies on commercialisation of food production will pass them by – and thus make them poorer, as happened in India during the Green Revolution in the 1970s. Thus, a strategy to improve food security must start by offering cheap inputs (seeds and fertilizer), advice and credit to poor farmers. Malawi has recently had a great deal of success by introducing a fertilizer subsidy, albeit against donors' wishes. Their success may lead to a change in attitudes towards subsidies – and indeed the World Bank has reallocated resources to solve the food crisis in a package that includes at least short-term input grants and loans.

It is essential that this approach is persevered with. Unless food security is guaranteed first, it is unrealistic to imagine smallholders even attempting to take advantage of market opportunities that history has consistently taught them to regard as, at best, double-edged swords.

***Dr David Hall-Matthews** is a Senior Lecturer in International Development in the School of Politics and International Studies at Leeds University. His main research interest is in famine and food security in both contemporary Africa and nineteenth century India. He has published a number of articles on the subject as well as a book, Peasants, Famine and the State in Colonial Western India (Palgrave Macmillan, 2005). He has also written about governance and democracy in Malawi and is currently researching for a book on Contemporary South Asia, commissioned by Blackwell.*