The Australian

Food crisis looms as new global threat

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- From: **The Australian**
- November 02, 2011 12:00AM

Widespread floods across Asia have compounded worsening food shortages and forced food prices up, which could tip millions of people into poverty. Picture: AFP
Source: AFP

CATASTROPHIC flooding and crop losses in Thailand, the world's leading rice exporter, are raising concerns that another food crisis may be in the offing. Even more disquieting is the possibility that the world may have already entered a new era where persistently high food prices are the "new normal".

At a time when policymakers are grappling with a host of thorny economic issues, the possibility may be unwelcome, but must not be ignored.

Although volatility in commodity markets is nothing new, there are worrying signs that food prices are fluctuating much more than ever before. Even when prices dip they remain high by historic standards, and when prices rise it's enough to put a serious dent in families' budgets.

For Asia's poor, who already spend 60 per cent of their household budget on food, even the smallest fluctuation in food prices forces unenviable choices about where best to devote their scant resources. More money for food means less for healthcare, education or other important expenditures. It also means that those striving to escape poverty are less likely to do so, while millions more risk falling below the $1.25 a day poverty line.

The Asian Development Bank estimates that a 10 per cent rise in domestic food prices in developing Asia threatens to push an additional 64 million people into poverty.

With food price inflation in many Asian economies averaging 11 per cent in the first half of 2011 alone, the growing numbers of families facing the scourge of dire poverty is staggering.

Much of the sharp increase in the region's food prices is due to production shortfalls caused by extreme weather events such as droughts and floods and subsequent export bans by some food-producing countries. Growing appetites for grains, oil, seeds, sugar and livestock in emerging economies such as China and India are exerting further upward pressure on supply.

There has also been a growing trend over the past decade to "financialise" commodities, turning food into an important tradeable asset class, just like stocks, bonds, currencies or real estate.

As a result, movement in one major asset -- say, real estate prices in the US -- can drive food prices in other parts of the world to levels well above what real supply and demand might dictate.

The current super-easy money policy in industrial countries may be driving the financialisation of commodities.

And then of course there's the weakness of the US dollar, in which most food commodities are denominated, as well as high oil prices, which raise costs at almost every step of the food supply chain -- from fertiliser and animal feed to fuel for bringing food from the farm to kitchen table.

With a "new normal" of persistently high and volatile food prices here to stay, what are policymakers to do?

There are no easy solutions, but when faced with bouts of soaring food prices, governments must be both pragmatic and flexible.

Tightening monetary policy by raising interest rates is a standard tool to combat inflation and cool overheated economies. But it is a fairly ineffective tool if the inflationary pressure is supply-side and relatively blunt instrument if price movements are volatile. Rate hikes take months to show results, and if overblown can tighten the economic leash until it chokes growth, especially for small and medium businesses.

Inflation targeting is also of questionable value if the public does not view the measures as credible. Consumers need to know what to expect. With food price inflation on the rise, social programs that protect the most vulnerable members of society from the effects of higher commodity prices can be used where budgets allow. This measure is less costly for the economy as a whole compared with tightening monetary policy.

There are other levers policymakers can pull, including a broad range of supply-side policies that can reduce bottlenecks in commodity-based industries, improving access to global markets and increasing productivity. The further reduction of trade barriers between countries -- to counter local food shortages through imports from surplus producers -- should be pursued through regional co-operation and other forums.

Global markets where commodity-based financial derivatives are traded and priced should be regulated and closely supervised to avoid excessive volatility, or the formation of price bubbles. They also can be used effectively as a hedging tool to manage risk.

In large countries overall food supply may not be a problem, yet there are still serious problems in some sub-national regions. In such instances, improved distribution channels to ensure a more reliable supply of commodities to remote and isolated areas can play a critical role.

Taken together, it is clear that a global approach is needed to effectively address food price inflation. Countries normally address their own needs as they see best, but the demands of rapid economic growth and development increasingly cross borders. While acting nationally, policymakers will need to think globally and co-ordinate regionally. Only then can we be assured enough resources will be available to keep growing appetites satisfied at reasonable costs.

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