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Theme 199

GLOBAL FOOD CRISIS

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Theme No. 199 : GLOBAL FOOD CRISIS

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International food prices are on the galloping trend and this has led to violent protests and riots for food in many parts of the world – Haiti, Egypt, Indonesia, and many African and Asian countries. The prices of major food grains like rice, wheat and maize have gone through the roof in most parts of the world in the last few months; global wheat prices rose more than 180 percent, while the overall global food prices increased by 83 percent during the last three years. High food and energy prices have pushed inflation to record highs in both developed and developing countries. The dramatic spike in food prices poses a serious threat to the global economic stability. There are not many solutions and the high prices are here to stay, at least in the short-term.

The statement by the US President, Mr. George W Bush that the current food scarcity and price spiral are owing to the rapid development of China and India incited a spate of criticisms as some of the real reasons for the food crisis can be traced to the policy actions of the developed world. It is alleged by the opponents that the opulent and wasteful lifestyles – excess of nutrition and locomotion - in the advanced economies have taken consumption of food and fuel to unsustainable levels. Over the 1970s and 1980s, wheat exports from the US to the rest of the world almost doubled. Thereafter, there has been a dip of 24 percent in wheat exports from the US. It is reported that the surplus wheat is diverted for producing bio-fuels. But, devoid of the political overtones on the issues, the real reasons for the food crisis may be manifold.

**What are the main reasons for the phenomenon of global food price increase?**

Several factors have contributed to this development: (1) low levels of world stocks, especially for wheat and maize, following two years of below-average harvests in Europe in 2006 and 2007; (2) crop failures in major producing countries like Australia in 2006 and 2007; (3) rapidly growing demand for grain-based bio-fuel production supported by subsidies; (4) gradual changes in agricultural policies of the developed countries, where

reduced levels of subsidies have led to lower rate of growth in production; (5) strong economic growth in developing countries and expanding world population. In addition, agricultural markets are becoming increasingly intertwined with non-agricultural markets - energy, manufacturing, finance, etc. Climate change and resource constraints - water supply in particular - are also influencing overall food supply and demand.

### **What is the role of biofuels in food shortages?**

Biofuels tend to allocate productive resources - land, labour, capital - away from the production of food crops into the production of feedstock for biofuels. Biofuels may reduce the availability of food for nutritional use. The 'effective' demand for grains, sugar or oils and other basic food staples as feedstock for fuel production is able to outbid that for food. This new source of demand has been playing an important role in influencing prices. Among all major food and feed commodities, additional demand for maize - a feedstock for the production of ethanol, and rapeseed - a feedstock for the production of biodiesel, had the strongest impact on prices.

### **Does climate change affect agricultural production and food prices?**

Climate has always played a decisive role in agriculture. Weather can boost production levels but it can also be destructive. In 2007, the United States harvested a record maize crop due to a significant increase in plantings and very favourable climate conditions during the growing season. By contrast, a persistent drought reduced production in Australia for a second consecutive year. Australia is a major grain exporter. While scientists are warning about climate change as a result of global warming, it is not clear whether its effects are already being felt.

### **What is the role of the “Emerging Economies”?**

Emerging economies, particularly China and India, are playing an important role in global demand and supply of agricultural commodities. However, recent high commodity prices do not seem to have originated in these emerging markets. In fact, China continues to export maize while India's wheat imports are relatively small when compared to its total consumption. At the same time, economic growth is often accompanied by strong urbanization, with people moving from rural areas to cities, resulting in migration of rural/agricultural labour to industrial/commercial labour. In addition, rural land is being converted for non-agricultural purposes, i.e. industrial, residential, etc. thereby impacting agricultural production.

### **How do changes in food habits such as increased demand for animal protein affect food availability?**

It is pointed out that the changing dietary habits in fast growing economies like India, China, Gulf nations etc. are responsible for the recent spike in food prices. Rapid economic growth in many developing countries has pushed up consumers' purchasing power and shifted food demand away from traditional staples towards higher-value foods like meat and milk. This dietary shift is leading to increased demand for grains used to feed livestock. Animal protein needs much higher amounts of grain to produce it. Thus more demand for animal protein will require diversion of more food grains for feeding animal population. As incomes rise, overall per capita direct and indirect grain consumption will also go up in the developing countries such as China and India.

### **How do trade restrictions affect food supply?**

The developing countries, especially food exporters, are restricting their exports to protect their local prices of food. The major rice exporters – Thailand, Vietnam, India and China – have already restricted exports. It has raised prices in rice-importing nations. The export restrictions result in hoarding, drive up prices and hurt the poorest people around the world. Moreover, these restrictions give signals to the farmers to limit production. This can create more shortage of food.

### **How do developments in currency and financial markets impact food prices?**

The decline in the value of dollar is also reported to have led to price rise of commodities. Rice in global markets is traded in dollars. So when the dollar declines, it results in increase in dollar value of commodities traded internationally. So some of the increase in global food prices is due to the fact that it was traded in dollars. Also downfall of stock markets across the globe led investors and speculators to pour money into metals and agri-commodities market.

### **Any reversal in the long-term trends in real prices of agricultural commodities?**

After several decades of low prices, international prices of most agricultural commodities have moved to high record price levels. The large subsidies granted to agriculture by OECD countries were the main reason for previous low world prices. A move away from such policies, together with resource

constraints, such as water scarcity and a slower diffusion of existing and new technologies, limited the growth of food supplies. Against this background, it is unlikely that food commodity prices will return to the low levels of the previous periods. Precise short-term price forecasts are difficult to make because world food markets are linked to energy and financial markets. A joint FAO/OECD medium-term outlook for major agricultural commodities projected higher prices for the 2008-2016 period compared to the 1990s.

### **The impact of high world food prices – who benefits and who loses?**

It is evident that, when food prices rise, consumers are the first to suffer. Especially in low-income and food-deficit countries, rising food prices translate into hefty increases of food import bills with negative impacts on the balance of payments. For several years, consumers around the world have benefited from low food prices. In many countries, farmers could grow agricultural crops owing to strong government support. Most developing countries could not afford to continue such support measures. As a result, investment in agriculture has declined and many poorer countries became increasingly dependent on imports to meet their domestic food requirements. The current high prices will have a very positive impact on food production and will convert agriculture into an engine of growth and employment, especially in rural areas.

### **The response of the governments and the international agencies:**

High international prices have prompted major intervention policies by many countries to avert sharp price rises in domestic markets. Food importing countries have reduced import restrictions while many food exporting countries have limited exports to avoid food shortages at home. Some countries have released stocks in order to stabilize prices. Countries with a potential to expand output have raised procurement prices to encourage plantings for the next season. The international agencies such as the UN, especially the FAO, the World Bank, and the IMF along with various national governments are formulating policies for helping farmers boost production through improved access to key inputs such as seeds and fertilizers. The Global Food Summit held in Rome in June 2008 has endorsed resolutions to step up financing programmes for agricultural production and to ensure food security to the increasing global population especially the vulnerable sections in the food importing developing countries.



## FAO Food Price Index

	Food Price Index <sup>1</sup>	Meat <sup>2</sup>	Dairy <sup>3</sup>	Cereals <sup>4</sup>	Oils and Fats <sup>5</sup>	Sugar <sup>6</sup>
2000	92.7	100	106	87	72	105
2001	94.5	100	117	89	72	111
2002	94.1	96	86	97	91	88
2003	102.3	105	105	101	105	91
2004	114.4	118	130	111	117	92
2005	117.3	121	145	106	109	127
2006	127.4	115	138	124	117	190
2007	157.4	121	247	172	174	129
2007 May	143.8	119	222	148	161	121
June	150.6	120	252	157	170	119
July	155.1	120	277	158	175	131
August	160.9	123	287	169	181	126
September	170.7	124	290	192	190	125
October	174.5	122	297	199	202	128
November	179.8	126	302	201	221	130
December	186.4	123	295	221	226	137
2008 January	196.1	126	281	237	250	154
February	215.5	128	278	280	273	173
March	218.1	132	276	279	285	169
April	216.7	136	266	280	276	161
May	217.5	145	265	273	280	155

<sup>1</sup> **Food Price Index:** Consists of the average of 6 commodity group price indices mentioned above weighted with the average export shares of each of the groups for 1998-2000; in total 55 commodity quotations considered by FAO Commodity Specialists as representing the international prices of the food commodities noted are included in the overall index.

<sup>2</sup> **Meat Price Index:** Consists of 3 poultry meat product quotations (the average weighted by assumed fixed trade weights), 4 bovine meat product quotations (average weighted by assumed fixed trade weights), 3 pig meat product quotations (average weighted by assumed fixed trade weights), 1 ovine meat product quotation (average weighted by assumed fixed trade weights); the four meat group average prices are weighted by world average export trade shares for 1998-2000.

<sup>3</sup> **Dairy Price Index:** Consists of butter, SMP, WMP, cheese, casein price quotations; the average is weighted by world average export trade shares for 1998-2000.

<sup>4</sup> **Cereals Price Index:** This index is compiled using the grains and rice price indices weighted by their average trade share for 1998-2000. The grains Price Index consists of International Grains Council (IGC) wheat price index, itself average of 9 different wheat price quotations, and 1 maize export quotation; after expressing the maize price into its index form and converting the base of the IGC index to 1998-2000. The Rice Price Index consists of three components containing average prices of 16 rice quotations: the components are Indica, Japonica and Aromatic rice varieties and the weights for combining the three components are assumed (fixed) trade shares of the three varieties.

<sup>5</sup> **Oils and Fats Price Index:** Consists of an average of 11 different oils (including animal and fish oils) weighted with average export trade shares of each oil product for 1998-2000.

<sup>6</sup> **Sugar Price Index:** Index form of the International Sugar Agreement prices.



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