



Short Article

Crisis and Agriculture: The Importance of a Long-term Perspective

During the last year or so our newspapers and electronic media have been flooded with news of a crises. Within less than a year the price of oil rose from US\$ 50 a barrel to almost US\$ 140 a barrel. In parallel with this we were also informed about a food crisis, where the prices of some important agricultural commodities and food rose sharply; some were even doubled. During the last several months another crisis that haunted us was the world financial crisis.

Within a week, near its peak, the price of oil rose by more than US\$ 40 a barrel. Now only within the last month we have witness a sharp drop in the price of oil from US\$ 140 to the pre-crisis price of US\$ 50 a barrel. This seemingly abnormal fluctuation in price can hardly be a reflection of the power of real supply and demand. How can this be explained? There is a general consensus that the main mechanism behind this phenomenon is not the real supply and demand, but speculation, facilitated by weak oil market regulations.

The food crisis as manifested in the rise in food prices was partly as a result of the rise in oil prices, and partly the prolonged drought in many parts of the world. Notwithstanding this rise, the recent decline in some agricultural commodity prices has been partly as a result of the sharp decline in oil prices and this year's relatively good harvest of some cereals. In other words, the food crisis could be indirectly related to speculation in the world economy. In fact some believe that speculation in commodity markets contributed to this crisis.

The financial crisis is also believed to have been influenced by speculation in complicated and sophisticated global markets. It was not until the world economy deteriorated that it was realized that some weak spots have gone unchecked by regulation. It is estimated that the market value of these speculative financial markets and derivatives, could go up to ten times the real value. At a macro level, many countries are now starting to go into recession. The direct impact of the crisis is that investments are slowing down. Companies are having difficulties financing their operations and beginning to lay off employees. General prices are rising, purchasing powers are declining, and in turn, consumption declines. This overall decline in aggregate demand will reduce demand for agricultural products and hence might depress prices of agricultural products even further.

What have we learned from these crises? First, they are all

speculation-related phenomenon. Second, like any speculation-related fluctuation in the market, they last for a short period of time, with the exception of the financial crisis which some people believe could last longer through a deep and long recession. But then again, data indicate that since the great depression of the 1930s, for every business cycle recessions have been of shorter and shorter periods with a longer period of expansion. Thanks to the science of macro economic policy.

It is important to note the somewhat reactive responses of some countries to price changes could hurt farmers. During the sharp oil price increase, many countries in the world devised programmes and policies to promote expansion of biofuel crops such as palm oil, jathropa and other sources of gasohol crops. Following programmes and incentives by the government, we also witnessed some private companies considering venturing in this direction. This is true for developing and developed countries. For example the Bush Administration devised programmes to increase production of corn for conversion to gasohol. Indonesia observed government programmes involving many small farmers to increase production of cassava and jathropa. The decline in both oil and commodities prices within a one-year period, will now inevitably have an adverse effect on the farmers in the coming years, in particular small subsistence farmers.

How should countries respond, then, in terms of agricultural policies? Agriculture is a long-term investment. Its long gestation period and bulky and perishable nature necessitates policies to minimize uncertainties. For many developing countries agriculture's role as defender of food security, a source of livelihood for the majority of the population, the sector that hosts the majority of the poor, and as an economic powerhouse, calls for long-term planning and strategy for agriculture. This includes attention to land and water constraints, low investments in rural infrastructure and agricultural research, expensive agricultural inputs relative to farm-gate prices, and better adaptation to climate change.

To conclude, it is important to avoid short-term reactive responses to sudden changes in any economic variable. Instead, agricultural development needs a long-term perspective. ■

Written by Togar Alam Napitupulu, Senior Economist, UNESCAP-CAPSA, Bogor, Indonesia.

Flash **BREAKING****UN Urges ASEAN to Ensure Food Access for Poor**

UN FAO official said buffer stocks of rice, corn and wheat, along with recent sharp drops in oil prices, should further ease food prices that rose alarmingly earlier this year. The financial crisis faced by the world's wealthiest nations will likely hurt South-East Asia's exports and spark considerable layoffs, potentially deepening poverty in a region of more than half a billion people. Countries should develop job-creation projects, food stamp programmes and other livelihood initiatives to help the poor gain better access to food. Rice has bright harvest prospects in Thailand, Viet Nam, Indonesia and Cambodia. But soaring food prices, triggered by growing demand, rising fuel costs and cuts in agriculture funding have set off fresh concerns over food security in South-East Asia.

Gomez, J, 2008. UN Urges ASEAN to Ensure Food Access for Poor. Taiwan News, <http://www.etaiwannews.com/> (12 November 2008).

Battle Against Hunger Lies in a Seed

A Filipino Agricultural scientist, Dr. Calixto Protacio wrote recently that salvation from hunger comes in the form of biotech seed. He argued that improved seed through biotechnology is a weapon against hunger that reaches farmers. They do not need to be trained in improved technology to benefit from the crops. Biotechnology has the potential to bring science to the countryside even without extension workers, just by improved seed. If we can incorporate into a seed all that science has to offer, then the fruit of technology will have reached the farmers. While there has been enormous success in propagating BT corn (a technologically improved corn) in the country, improved seeds developed by biotechnology still have to make their mark in rice and other crops.

SEAMEO SEARCA BIC, 2008. Battle Against Hunger Lies in a Seed, <http://www.bic.searca.org/> (5 November 2008).

ICRISAT Advocates Rescue Plan for Dry Land Farmers

Amid the current financial crisis where governments are bailing out banks and insurance companies, ICRISAT is advocating a rescue plan for dryland farmers in developing countries. According to the Director of the Institute, it is not just Wall Street that needs bailing out, but also the 'side streets', where poor farmers across the world need policy, institutional and financial bail out. One billion of the world's 6.6 billion people are utterly poor and most of them live in dry land areas. The current food crisis and unabated rise in food prices are affecting the common person, who also has a right to substantial assistance from governments.

ICRISAT, 2008. ICRISAT Advocates Rescue Plan for Dryland Farmers, <http://www.icrisat.org/> (24 October 2008).

World Food Day 2008

This year's World Food Day 2008 focussed on climate change, bioenergy and the effects on the poor. The International Federation of Agricultural Producers (IFAP) has called upon governments and international organizations to support farmers in adapting to climate change and to increase global food security while assisting them to benefit from opportunities offered by sustainable bioenergy production. Agriculture is at the forefront of the impacts and solutions to climate change. The production of sustainable bioenergy, besides being an alternative source of income for farmers, constitutes one of the responses to climate change mitigation through carbon sequestration and anaerobic digestion. Sustainable bioenergy represents a new market opportunity that helps farmers diversify risk, provides energy security and promotes rural development.

IFAP, 2008. World Food Day 2008: Climate Change, Bioenergy and Effects on the Poor, <http://www.ifap.org/> (16 October 2008).

Food Security in Today's Changing World

During the first three months of 2008, international nominal prices of all major food commodities reached their highest levels. Food prices are likely to remain high in the next few years. Developing countries will certainly suffer the most. Climate change is believed to be one of the causes of the global food crisis. Every temperature increase of 2 degrees Celsius will cause China's and Bangladesh's food production to drop by about 30 per cent. Biofuel is also worsening the food problem. The soaring price of fuel and the need to react to climate change has favoured the development of biofuel. In the Indonesian context, rice policy has to be prioritized. There are several steps that need to be considered. First, infrastructure has to be built and maintained. In the past decade, no new irrigation systems have been built. Second, the target for increasing agricultural production must be in line with the target to reduce poverty. Land reform, consequently, must be the main focus of agricultural revitalization. Viet Nam's success in becoming one of the rice export giants is a good example. Land reform in that country successfully reduced the number of landless farmers to 2 per cent, compared with other Asian countries, including Indonesia, where the number stands at about 20 per cent. Inviting investors to invest in the Indonesian agricultural sector, such as the rice estate concept, is not a bad approach. Third, the food export target has to be integrated with the domestic food security target. ■

Based on Yansen, 2008. Food Security in Today's Changing World. The Jakarta Post, <http://old.thejakartapost.com/> (31 October 2008).

Food Crises, Booming Agricultural Markets and Development Policy

The demand for food has increased dramatically in recent years. However, there are limits to the extent that food production can be increased, especially by smallholder farms in developing countries. Expansion of agricultural production is currently being limited in many regions by three factors: (i) mounting scarcity of natural resources, aggravated by climate change; (ii) limited capacities of rural households due to rural-urban migration and the consequent multi-local rural livelihood systems, and (iii) institutional deficits. Wherever increasing demand comes up against limited resources, intensification is called for. In cases where smallholders and institutions are not able to take advantage of new opportunities and to intensify production, increasing demand will either lead to depletion of natural resources or to displacing smallholders from their production basis. Intensification is often associated with images from the 'Green Revolution': high-yielding varieties, mineral fertilizers, pesticides, irrigation, mechanization, and the requisite extension and credit systems. Not only has this type of intensification become more expensive because of drastically higher oil prices, but neither can it be implemented by the majority of poorer rural households with their limited resources and weak rural institutions. Intensification can also mean replacing fallow land with crop rotation systems that integrate legumes, using appropriate soil management techniques to increase the soil's water absorption and storage capacity, planting fruit trees at the margins of fields, saving rainwater for a vegetable garden, or gathering marketable herbs and spices in communal forests. In other words: it is possible to expand production with little capital outlay. ■

Based on Rauch, T, 2008. Food Crises and Booming Agricultural Markets – How Can Development Policy Best Respond? Rural 21, edition 05/2008, <http://www.rural21.com/> (2008).

Twin Crises of Finance

The current food-fuel-financial crisis has the potential to be far worse than the Great Depression of the 1930s, the Black October of 1987 or the Asian Economic Collapse of 1997. The reasons are high food prices and food shortages, and the steady erosion of agriculture and rural economies. Although there have been some price drops for certain food commodities in the past months, average prices are still much higher than normal, and the international markets remain volatile. The role of food security in wider events should not be underestimated. World leaders have been aware of the growing threats to food security for several years. In June 2008, more than US\$ 11 billion was pledged at the Rome Food Security Summit. This is not just a problem of poor farmers in developing countries. In the modern world few, if any, nations are self-sufficient when it comes to food security. For food prices to come down, food supplies have to increase via an infusion of investment in agriculture. Governments of developing countries must also do their part. Investment to improve infrastructure and boost productivity must come from the developing countries themselves. But this requires partnerships, and donors must neither slow nor renege on official development assistance and other political commitments. We must not be placed in a position of having to choose between bankers and farmers when it comes to resources. We must not short-change those engaged in agriculture. For our own sake, we must provide them with the tools for achievement and the seeds for success. ■

Based on Changchui, H, 2008. Twin Crises of Finance, Food May Prove Catastrophic. Bangkok Post, <http://www.bangkokpost.com/> (28 October 2008).

World Food Prices Collapsing: Were Biofuel Critics Wrong?

The correlation between the rapid decline of oil prices, which fell from a record \$147 to below \$65 today, and crashing agricultural commodity prices is obvious. The price movements of all the internationally traded grains were part of a bigger speculative commodity boom, tied to oil, which itself fluctuated alongside the value of the dollar. Biofuels output rose only very gradually over the course of the past two years, whereas prices for feedstocks jumped and then crashed. Today, the same amount of biofuel is being produced as before the food price crash, and people are not eating less. But prices of feedstocks and food are in free-fall. It seems that those who blamed biofuels for pushing up prices of major grains made a mistake. The more cautious experts - like the Wageningen University's agro-commodity specialists - were correct when they said biofuels played a 'marginal' role at best. They even dared to write calmly that world food prices would continue to decline. The European Commission's agro-commodity analysts also claimed that biofuel was responsible for only 1 to 2 per cent of the total rise in food prices. They put the blame elsewhere, mainly on the doorstep of commodity speculation and high oil prices. With this important knowledge in mind, a new cycle of discussions can now begin. Smart and sustainable biofuels can actually help lower food prices and they could become a strong instrument in the fight against rural poverty and hunger. ■

Based on Biopact, 2008. World Food Prices Collapsing: Were Biofuel Critics Wrong? <http://biopact.com/> (27 October 2008).

Flash EVENTS



World Tapioca Conference 2009

15-16 January 2009

IMPACT Exhibition and Conference Center
Bangkok, Thailand

Info:

<http://www.world-tapiocaconference.com/generalinformation.html>

ICAFNS 2009: International Conference on Agricultural, Food and Nutritional Sciences

28-30 January 2009

Dubai, United Arab Emirates

Info:

<http://www.waset.org/wcset09/dubai/icafn/>

ICABE 2009: International Conference on Agricultural and Biological Engineering

28-30 January 2009

Dubai, United Arab Emirates

Info:

<http://www.waset.org/wcset09/dubai/icabe/>

4th World Congress on Conservation Agriculture: Innovations for Improving Efficiency, Equity and Environment

4-7 February 2009

New Delhi, India

Info:

<http://www.icar.org.in/wccagri/index.html>

International Conference on Grain Legumes: Quality Improvement, Value Addition and Trade

14-16 February 2009

Kanpur, India

Info:

<http://www.iipr.res.in/internconfleg.pdf>

Book Review

Soaring Food Prices: Response to the Crisis

Asian Development Bank, 2008, ISBN: 041908.

The world has witnessed in recent months, a serious food crisis characterized by high and rising food prices. The crisis has caused serious concerns around the world, especially in developing countries. What are the causes of the food crisis? What are its impacts? How can we respond to the crisis? These are the questions this book tries to answer.

The book is divided into five parts. Part I titled, 'The Spike in Global Prices', exposes the crisis. Through graphs and tables, the book shows how rapidly food grain prices increased in early 2008. Since 2000, food prices rose with a sharp upturn in mid-2007. Between April 2007 and March 2008, the export prices increased by 130 per cent for wheat, 98 per cent for rice, and 38 per cent for maize. These figures show the magnitude of the crisis.

Part II titled, 'The Underlying Causes of High Food Prices', makes distinction between the cyclical and structural causes of the crisis. Both factors impact on prices by influencing the world demand and supply of food. Among the cyclical or short-term factors are unfavourable weather conditions that have reduced food production in key producing countries. Droughts in Australia, pest infestation and flooding in parts of South Asia and cold weather in Viet Nam have led to poor harvests. Precautionary demand for food stocks in many countries put pressure on global markets and led to prices increases. The depreciation of the US dollar has also contributed because commodities prices are denominated in the US dollar. Rice exporting-countries including China, Pakistan, Viet Nam and India responded to the crisis by export bans and price controls. These measures have reduced supplies in the world markets and increased uncertainty about future supplies, contributing to prices increase; and speculations on commodity futures markets have caused prices to surge.

Among the structural or long-term factors, is the fact that agriculture has become more energy intensive. Rising energy prices and intensity of the agricultural sector have increased production costs and consequently commodities prices. Another factor is the use of cereal to produce biofuel, which has diverted farmlands and food grain supply away from use for human consumption. Furthermore, a low rate of capital accumulation in the agricultural sector has led to low productivity. At the same time, rising income in Asia has significantly driven up the quantity and quality of food consumption. The demand for meat, milk, eggs and livestock products has increased significantly. As a consequence, food grain consumption through animal feed in the livestock industry has also

increased. Climate changes also play an important role in the crisis because adverse weather events have increased in frequency and intensity.

Part III presents the impacts of the crisis. High food prices are undermining the gains in poverty reduction efforts in Asia; compromising the achievement of the MDGs. Higher expenditures on food reduce expenditures on health, education and in agricultural inputs to expand production. The number of absolute poor has increased. At the macroeconomic level, many governments in Asia experienced worsening fiscal deficits and inflation. Saving and investment have decreased. All of these effects will slow down aggregate demand and economic growth.

The 'ADB's response' to the crisis has been presented in Part IV. Short-term responses include interventions to protect the food entitlements of the most vulnerable groups as well as income and livelihood programmes for the poor to mitigate the immediate impacts of the crisis. Hardest-hit countries receive budget support to alleviate the fiscal pressure and assist imports of food and agricultural inputs. In the medium to long term, ADB's assistance will focus on investment in agriculture and infrastructure, enhancing productivity and growth, promoting biodiversity, facilitating the rural poor and farmers' access to credit, improving access to markets, information and technology, strengthening institutions, enhancing income diversification and policy reform to ensure free trade, and promoting good governance.

Part V of the book concludes. High food prices have hit the poor hard. The purchasing power of over a billion poor in Asia has been eroded, increasing their food deprivation and undermining the global fight against poverty. This well-structured report will be of great importance to policymakers and researchers. It provides a good presentation of the crisis and steps forward to mitigate its impacts in Asia and the Pacific. Outside the region, this book will be useful for further analysis at global level and policy implications to avoid a similar crisis in the future. ■

Reviewed by Agbessi Komla Amewoa, Associate Expert, UNESCAP-CAPSA, Bogor, Indonesia.