



# NTS ALERT

## *Paying the Price of Food Insecurity (I)*

*Food security is no longer just a developing world issue. The lack of food, which would conventionally be seen as a poor man's issue, is becoming increasingly problematic for countries worldwide no matter what their level of development is. This edition of NTS Alert takes a look at how and why food insecurity has become more severe in recent times.*

### The Global State of Food Security

The price of basic food commodities worldwide have increased exponentially over the past months. Global food prices, based on United Nations records, rose 35% in the last year, escalating a trend that began in 2002. Since then, prices have risen 65%. According to the U.N. Food and Agriculture Organization's world food index in 2007, dairy prices and grain prices rose nearly 80% and 42% respectively.

According to Bloomberg, between March 2007 and March 2008, the price of basic commodities in the UK, such as corn, soya and wheat have shot up tremendously by 31%, 87% and 130% respectively. Such prices increases are said to be at their highest rate for more than a decade. According to the UK's Office of National

Statistics (ONS) the increased wheat, dairy, meat and vegetable prices mean that food factories have to pay six per cent more for their raw ingredients than a year ago - the highest annual rate since 1993. The surging costs will be passed on to consumers, who are experiencing the highest food bills for years and could end up paying almost £1,000 extra on their annual food bill than a year ago. Meeting these higher food prices, becomes even more taxing as families struggle to cope with the effects of the credit crunch. Petrol prices exceed £1 for a litre of unleaded fuel, while mortgage payments and credit card fees are also rising.

The situation is significantly more adverse in developing countries. The soaring cost of rice and other basic food in Asia has raised security concerns across many Asian countries. The World Bank warned in a press release that food and fuel prices that have soared in recent years have become a pressing problem for governments in Asia. Since 2003, oil and many other commodity prices have doubled or tripled. Higher fuel costs, with crude soaring above US \$100 a barrel and threatening to stay that way, have been a major factor in the crisis, making fertilizer more expensive and increasing transport costs.

In China, food prices have been rising at double-digit annual rates since mid-2007, due mostly to shortages of pork and grain. Food prices in 2007

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rose by 12.3% for the full year, while the cost of pork, China's staple meat, rose 48.3%, according to the government. Communist leaders are worried about possible political tensions because the rises have hit China's poor majority the most.

According to a report in the Manila Times, it cites World Bank statistics, which note that food comprises a larger share of the consumption basket of the population in most developing East Asian economies. In the US, the share of food in the consumption basket of the average household is 15%, while in East Asia it ranges between 31% and 50%. In Malaysia, it accounts for about 31%; China, 34% ; Thailand, 36%; Indonesia, 40%; Vietnam, 43%; and the Philippines, 50%. According to a report by Pakistan's Daily Times, the proportion for poor households in Bangladesh is nearly 70%. As such, food plays a critical role to an the average Asian consumer's survival.

With existing issues of poverty and human security, the rising food prices will only make the availability of food even scarcer to these vulnerable communities and also cause more people to slip into poverty. A survey conducted by WFP demonstrates that by the end of 2007, 37 nations in the world had fallen into food crises, while 20 other countries had been imposing measures to control food prices.

This has also affected aid organisations such as the United Nations' World Food Program (WFP). According to Paul Risely, WFP's regional spokesman, "As prices go up in the world market, many millions of people across Asia will face food shortages and possible starvation. Every day we are battling to procure food; and everyday millions of people in Asia are in greater danger of going hungry". WFP estimates that at present prices it would take more than another 700 million dollars to maintain current programme commitments. Furthermore, Risely adds that there is a potential for a significant humanitarian crisis as cases of unrest have been witnessed in areas where rice prices have affected people. Without sufficient funds, WFP would have to reduce the size of the rations it provides, or reduce their frequency.

Other vulnerable communities include refugees. According to Jack Dunford, Director of Thailand Burma Border Consortium (TBBC), thousands of Burmese refugees, who have fled across the border into Thailand to escape from the military government, are now facing another danger – starvation. The TBBC, which is a consortium of agencies that provide food, shelter and other aid to more than 140,000 ethnic minority refugees, along the border with Thailand, has appealed to its donors for more funds, but already is seriously considering reducing the meagre rations they provide the refugees. "This is a very vulnerable group of people."

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### **What Threatens Food Security?**

A combination of various factors has resulted in the global food price inflation and its effects.

#### ***Climate related disasters***

Climate Change has without a doubt had a hand of driving food prices up. A series of climate related disasters such as floods and droughts have resulted in reduced global supply of food crops. The increasing scarcity of water critically retards the production of food. According to the UN's Food and Agriculture Organisation (FAO), 1000-2000kg of water is needed to produce 1 kg of wheat.

This is evident in Australia, which has suffered its worst drought in a century. Though located in a remote corner of the planet, the fields of Australia's food bowl are central to the worldwide

price of wheat. After America, Australia is normally the second largest exporter of grain, and in a good year it would hope to harvest about 25 million tonnes. However, thanks to the drought, the country's 2006 crop yielded only 9.8m tonnes. For many farmers, this means only about a sixth to a third of their average annual harvest.

This has severe economic implications in terms of trying to recoup the costs of planting and nurturing the acreage. Many farmers are also forced into greater debt at a time when interest rates in Australia are at a 12-year high. The only hope would be to have a bumper harvest, which proves to be tempting for farmers to borrow more in their hope that their gamble pays off. Yet, with such climatic uncertainty, the odds seem to be against the farmers.

In Asia, disease, pests and an unparalleled 45-day cold snap that extended from China to Vietnam in the first two months of 2008 have also hurt harvests. Flooding in the Philippines, Vietnam and Bangladesh has added to the growing crisis. In 2007, annual food inflation in Bangladesh reached 16 percent in December after massive floods in July and August, and Cyclone Sidr in November, which devastated rice and other crops. The military-backed government, which came to power in January 2007, said the country would need to import more than three million tonnes in the current financial year ending June because of the crop damages.

### *Growing Economies and Populations*

Emerging economies such as China and India have also contributed to this food shortage phenomenon as their expanding urban population and income growth is altering spending and consumer preferences. Global food demand is shifting from grains and other staple crops to processed food and high-value agricultural products, such as vegetables, fruits, meat, and dairy. By 2025, the UN estimates that world population would reach 8 billion while in 2050 the number would rise to 9.2 billion, thereby having more mouths to feed. In addition to this, consumption patterns are also rising. According to the FAO, 10,000 to 13,000 litres of water are needed to produce just 1 kg of beef. Yet China's

meat consumption per capita continues to rise from just 20kg in 1980 to 50 kg in 2007.

The growing populations in developing countries may also serve to neutralize any increase in crop production. The United Nations Food and Agriculture Organization estimates that, assuming normal weather conditions, global rice production is expected to increase by 1.8 per cent – or 12 million tonnes – in 2008 this year, easing a tight supply situation in key cultivating countries. Sizable production increases are expected in all the major Asian rice-producing countries – Bangladesh, China, India, Indonesia, Myanmar, the Philippines and Thailand, where supply and demand are currently rather stretched. Yet, according to Philippines President Gloria Arroyo, although Filipino rice production for 2008 has increased by 7% due to the expanding use of high-yielding rice variety and irrigation facilities, the country's population has also increased by 6%.

### *Production of Biofuels*

There still remains the issue of meeting the increasing demand for biofuels as alternative sources of fuel, in a bid to reduce carbon emissions. According to the UN's annual assessment of farming trends in 2007, Brazil and China grew the crops on nearly 20m hectares of land and this area could double by 2016 and thereby reduce the amount of arable land available to grow food crops. Although there have been technological advancements in producing biofuel more sustainably (as covered in NTS Alert edition March 2008/1), such technology has yet to penetrate into the markets of developing countries, who are the most in need of energy as well as food resources.

In its report entitled "The World Food Situation: New Driving Forces and Required Actions, International Food Policy Research Institute (IFPRI) projected the possible price effects of biofuels for two potential scenarios up to the year 2020 with the use of state-of-the-art computer modeling. The first scenario, which is based on the actual biofuel investment plans of several countries and the assumption that high-potential countries will expand their production of





bioenergy, maize prices would increase by 26 percent and oilseed prices would rise by 18 percent. Under scenario two, which assumes that the production of biofuels would expand greatly, to twice the level of scenario one, maize prices would increase by 72 percent and oilseeds by 44 percent. In both scenarios, rises in crop prices would lead to decreases in food availability and calorie consumption in all regions of the world, with Sub-Saharan Africa suffering the most. As biofuels become increasingly profitable, more land, water, and capital will be diverted to their production, and the world will face more trade-offs between food and fuel.

### *Speculations and Domestic Stock-up*

In an attempt to stabilize their own domestic economies, leading rice exporters, such as Egypt, India and Pakistan, have halted almost all exports of rice, while China and Vietnam have drastically reduced their exports. The regional ripple effects prove to be near disastrous as many countries have lost their prime source of staple food crops. According to Sumitr Boca, a policy officer with the Food and Agriculture Organisation's regional headquarters in Bangkok, such action only serves to "export the instability abroad". India's ban on

### **High Prices Fuel Unrest**

The old saying "A hungry man is an angry man" certainly is a reality given the incidents of social unrest as a result of high food as well as fuel costs. This segment takes a look at some of the incidences across the world. Surging food prices due to global supply concerns and heady world futures markets have posed a particular risk to poor economies, especially in Africa, where food makes up a disproportionately large part of household spending and imports. While not many incidents have been officially reported in Asia, it is worth noting that such incidences could possibly be a reality.

In **Burkina Faso**, the government announced a reduction in customs duties on basic foodstuffs in February 2008 after several towns were hit by protests in which over 300 were arrested although most were discharged by the courts.

In **Cameroon**, President Paul Biya raised state salaries by 15 percent and suspended custom duties on basic foodstuffs like fish, rice and cooking oil to ease discontent over high prices after days of rioting. The government put the death toll from the clashes at 24, although human rights activists put it at over 100 and said most of the victims were shot dead by police in the commercial capital Douala. The government said 1,671 people were also arrested.

In **Mauritania**, violent protests against food price increases spread in November 2007 to the capital Nouakchott, where police tried to disperse about 1,000 demonstrators. The unrest was triggered by sharp rises in the prices of grains and other basic foodstuffs.

In late March 2008, police in **Senegal** raided a private television station after it repeatedly transmitted images of police beating demonstrators during an illegal protest over high food prices. Riots swept the normally tranquil capital Dakar in Nov. 2007, with stone-throwing protesters complaining about widespread unemployment and rising prices at a time when the government is building luxury hotels and four-lane highways.

In **Argentina**, Argentine farmers blocked highways with tractors in an anti-government protest that paralyzed the country's main grain market in April. -- The country's four leading farming associations called the strike after the government introduced a new system of sliding-scale export taxes on grains and oilseeds, which significantly raised levies on soy and sunseed products.

In **Indonesia**, soaring soybean prices have cut into the earnings of thousands of tempeh makers and vendors in Indonesia. Tempeh is Indonesia's traditional soybean cake and is a source of livelihood for millions. This has sparked protests among producers and consumers already struggling to cope with surging prices for many basic food items such as cooking oil. In addition to this, about 500 protesters, from the Muslim group Hizbut Tahrir Indonesia, took to the streets of the capital Jakarta in mid-March 2008 to demand the government bring down food prices after media reported of cases of starvation

#### **Source**

Clashes over food prices trouble political leaders, Reuters, 1 Apr 2008



exports has thrown neighbouring Bangladesh into crisis as its own crop was destroyed by a cyclone in December 2007.

In East Asia, rice prices have soared even higher due to the restrictions on exports. A sense of panic and instability has also set-in in some countries. There has also been a spat of panic buying as consumers stock up as much as they can in fear of further price hikes. Ironically, such a reaction only serves to drive the price up further. Government officials in Hong Kong, for instance, have called for calm amongst consumers.

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### What are governments doing about it?

In January 2008, **China** unveiled new steps Friday to cool rapidly rising food prices, by boosting farm subsidies and curbing industrial use of corn after data showed inflation at near decade-high levels despite a slew of earlier measures. According to the country's National Development and Reform Commission, the government would also try to boost grain production by paying more for wheat and rice.

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In **Egypt**, desperate to keep bread prices low, the government has subsidised *baladi* (country-side) bread for which millions of Egyptian queue up patiently every day. At less than one US cent a loaf, it is a key element of the national diet. Baladi bread of a slightly better quality sold at market prices in the wealthier suburbs of Cairo can go up to 13 cents a loaf. To keep the price of subsidised bread low for Egypt's 80 million people, the national budget has had to spend an extra US \$850m on wheat.

According to figures cited by the World Bank in a 2005 study, a fifth of the country's population live below the poverty line. Another 13% are just above it and for them, any wobble in consumer prices means they go under. No-one has yet worked out the impact of the latest price rises on poverty, but it is clear the government believes it needs to intervene to absorb some of the increases by allowing up to 15 million new names to be added to the register of people eligible to receive subsidised oil, sugar, rice and tea.

In **Indonesia**, the high cost of staple foods is hurting the poor and raising fears of social unrest. According to government statistics, in the past year cooking oil has risen nearly 40%, rice is up 25% and tofu, a staple of the Indonesian diet, has gone up by 50%. Bayu Krisnamurti, Indonesia's deputy minister for agriculture, notes the government's concern that the high prices may fuel social unrest, similar to the 1965 coup that led to the rise of the dictator Suharto and the 1998 protests that toppled the former president.

Sensitive to price-related unrest, the government continues to spend about 35% of its entire budget on fuel and electricity subsidies to keep those commodities affordable for the poor. In January 2008, the government was forced to cut import taxes for soybeans after thousands of people took to the streets in protest over rising costs.

In the **Philippines**, police have been ordered to arrest rice hoarders and illegal traders as the country struggles to cope with rising prices. Officials from the Philippines' National Food Authority (NFA) are also mobilised to escort the





transport of imported rice to the accredited outlets. The move aims to rectify allegations that NFA rice bags do not reach the accredited outlets as they are sold along the way. Critics have blamed the situation on the government's policies of importing most of the country's rice supplies rather than relying on domestic production.

Philippines is also in talks with its ASEAN neighbours to obtain additional rice supplies. It has so far made a purchase agreement with Vietnam. Both countries have signed a memorandum of agreement, in which the Philippines would import 1.5 million metric tons of Vietnamese white rice. However, according to Xu Xuan Troung, Vietnam's ambassador to the Philippines, the Philippines is not guaranteed to get the full supply, given Vietnam's domestic production difficulties due to a pest outbreak. Nonetheless, Hanoi would try its best to supply the rice to the Philippines.

As for **Bangladesh**, it aims to import will import 400,000 tonnes of rice from India by the end of May 2008 to sell below cost on the open market. The move comes amid reports that people have begun stockpiling rice due to rocketing prices, which have doubled in the past year and prompted ex-finance secretary Akbar Ali Khan to warn of a 'silent famine' in the south Asian country.

According to food secretary Molla Wahiduzzaman, Bangladesh will pay \$430 per tonne for delivery of the rice from India in the next two months. The shipments will boost the total amount of subsidised rice available at

government-run shops to 120,000 tonnes in April — nearly triple what had been on offer before. Government outlets sell rice at 25 taka (36 cents) a kilogramme, around 40 percent less than the market rate.

Yet, critics such as independent economist Zaid Bakht, suggest that the government's intervention was "too little, too late" as people have started to hoard rice fearing further price hikes. Moreover, although the government expresses that it has enough stocks for the next three months, queues in front of government open-market sales centres seem endless. What's worse, poor people have had to cut their daily food intake or are going hungry, as the food prices in the market are beyond their reach.

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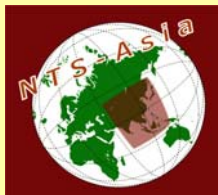
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**NTS- Asia Coordinator**  
Mely Caballero Anthony

**NTS-Asia Research  
Analyst / Webmaster**  
Sofiah Jamil



**NTS Alert Team**  
Mely Caballero Anthony  
Sofiah Jamil  
Mohamed Yasir

**Website**  
[www.rsis-ntsasia.org](http://www.rsis-ntsasia.org)  
[webmaster@rsis-ntsasia.org](mailto:webmaster@rsis-ntsasia.org)

