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## **Food Prices: A Double-edged Sword**

*By Jose Ma. Luis P. Montesclaros and Mely Caballero-Anthony*

### **Synopsis**

*The recent phenomenon of food prices declining over the past five years is like a double-edged sword to food consumers globally.*

### **Commentary**

SOME PROGRESS has been made over the past 25 years in eradicating poverty and hunger – an overarching development goal of many countries globally. In ASEAN, malnutrition has been reduced to just 7.6% of the total population. In line with the Millennium Development Goals, six ASEAN countries - Laos, Malaysia, Myanmar, the Philippines, Thailand and Vietnam - have already halved hunger from 1990 levels. Other countries are following suit. Looking forward, an even more ambitious goal has been set in the 2030 Sustainable Development Goals (SDG): zero percent hunger, globally. The challenge, however, will not be so easy to meet.

The common notion nowadays is that future food scarcity is imminent, given trends of growing food demand, and declining food production yields as a result of climate change. We posit here that these are not the only key determinants of food security outcomes. Rather, market dynamics have an important part to play too.

### **A double-edged sword**

IMF statistics show that food prices have declined over the past five years; for instance, rice is now worth roughly 60% of its 2012 values. This works like a double-edged sword that benefits consumers in the short-term, but poses risks in the long-term.

In the short-term, lower food prices address the problem of low economic access to food, especially among poorer populations. According to United States Department of Agriculture (USDA) statistics on Indonesia, Malaysia, the Philippines, Thailand and Vietnam, the average individual in ASEAN spends a third of total income on food. Lower prices would thus ideally contribute to the achievement of the second agenda item of the UN SDGs of ending hunger by 2030, as more people can afford to buy food.

It likewise helps the goal of further reducing poverty: it allows younger people to go to school rather than spend all their time working to meet their immediate needs. In the best case, this could also help them save for the future.

The other side of the story is on long-term supply. Lower food prices mean lower returns to farmers, as well as lower returns on investments in food. This only exacerbates the current trend of individuals already migrating away from food-related industries to industries like information technology and services because of higher wages in the latter.

Similarly, economies in the process of industrialisation are already allocating less land for food production in order to grow higher value-adding industries. Individuals in the farming sector may allocate larger portions of their land to producing commodities which bring in higher incomes, such as cotton, or to medicinal and blackmarket crops such as cannabis, cocaine and opium. Lower food prices therefore reduce the incentive to participate in food production.

### **Putting Cart Before the Horse**

Given the present context of lower food prices, incentives to invest in certain food-producing technologies have been reduced. Data from AgFunder, an online investment platform that seeks to contribute to feeding 10 billion people by 2050, shows that private venture capital investments in soil and crop technology have declined by close to half (47%) from 2014 to 2015.

In contrast, one can find massive increase of 300% in distribution-related investments, specifically, food e-commerce. Of the total US\$4.6 billion invested in agriculture technology globally in 2015, 36% (US\$1.6 billion) went into this sector.

As a consequence, there could be insufficient production from reduced investments in soil and crop technologies, and this would mean that there may not be enough food to trade or distribute in the first place. According to Mark Rosegrant, an expert from the International Food Policy Research Institute's (IFPRI), this trend is counter-intuitive, like "putting the cart before the horse".

### **Knowing When to Act: Two Indicators**

Given uncertainties on world food production outcomes and market reactions, we provide here two indicators that policy makers can use to assess prospects for ensuring food security in their respective countries, and craft appropriate policies in advance.

*Food sector profits:* Profits in agriculture determine the incentive to work or invest in the food sector. The first imperative is therefore to understand how profits are shaping up. As noted earlier, food price declines are reducing profits in food; on the other hand, lower production costs (such as declining fertilizer prices since 2011) could increase profits. The first indicator to track will therefore be agriculture profits, accounting for both factors. A possible metric is the ratio of the price for a specific food item (representing revenues) relative to prices of production inputs (representing costs). Positive growth trends in said ratio indicate larger incentives for domestic food production.

*Wage growth:* The second indicator to track is wage growth and its impact on future food prices. While prices normally reflect scarcity, economists have also linked food price declines to stagnating global wages - after-effects of the 2007/08 global economic crisis. Wage growth therefore is a key indicator since it reflects consumers' tolerance for price increases.

Responding to production slowdowns, higher wage growth countries may have faster recovery of prices, and production could bounce back up sooner. In contrast, stagnating countries may face slower recovery in prices and potential domestic production shortages in meeting consumption needs.

Overall, declines in global food prices pose a double-edged sword to consumers globally, as the impact on food availability ultimately depends on how complex market dynamics are managed. What should be avoided is the case where technologies for improving food distribution such as food e-commerce are prioritised over those that enhance production such as crop and soil technologies.

Governments will do well to strike a balance between the factors that affect pricing and production at the national, regional and global levels. This will go a long way in anticipating future declines and crafting appropriate policies to ensure better food security outcomes ahead.

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*Jose Ma. Luis P. Montesclaros is Associate Research Fellow at the Centre for Non-Traditional Security (NTS) Studies at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University and Mely Caballero-Anthony is Associate Professor at RSIS and Head of the NTS Centre.*

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