

# **Food Crisis: Causes, Consequences, and Responses \***

**Opening Address by:**

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**at**

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Goods and Private Markets”**

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\* The views expressed here are those of the author and do not necessarily reflect the views of the Asian Development Bank (ADB) or ADB's Board of Governors or the countries they represent.

# Food for Thought

- At a recent US congressional hearing on the food crisis, some respected food experts repeated a saying, that “there are only *seven* meals between civilization and anarchy”
- MI5, the British Security Service, did one better. They have a maxim that society is only “*four* meals away from anarchy”
- And a recent blog on anarchy in April was even more dire, that “every government is only *two* meals away from a revolution.”

No wonder that on 1 July—just prior to the G8 meeting in Japan—World Bank President Robert Zoellick warned that “we are entering a danger zone.”

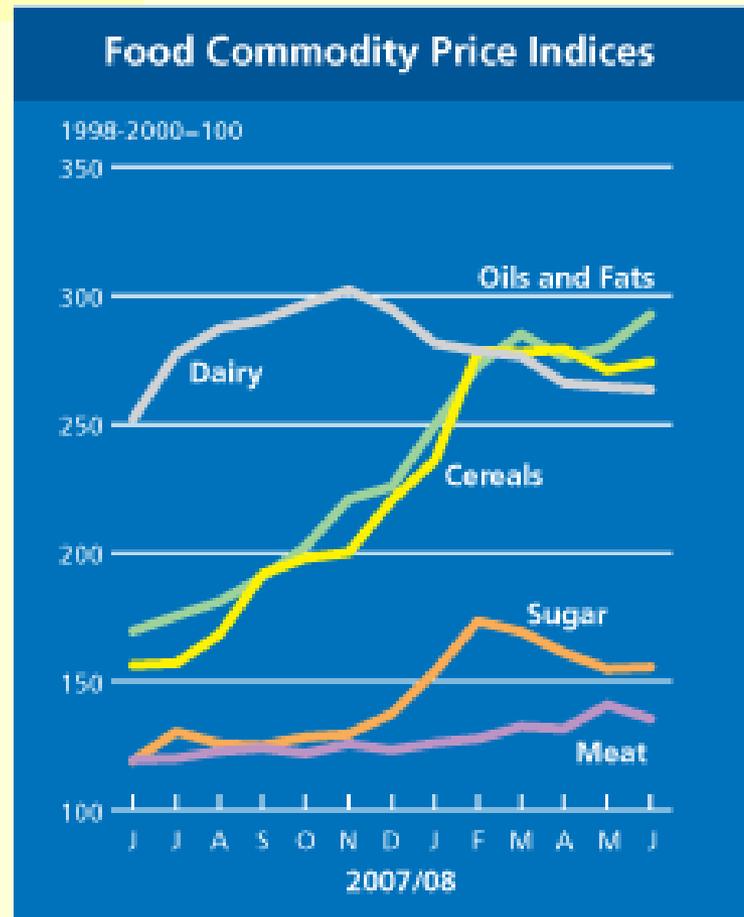
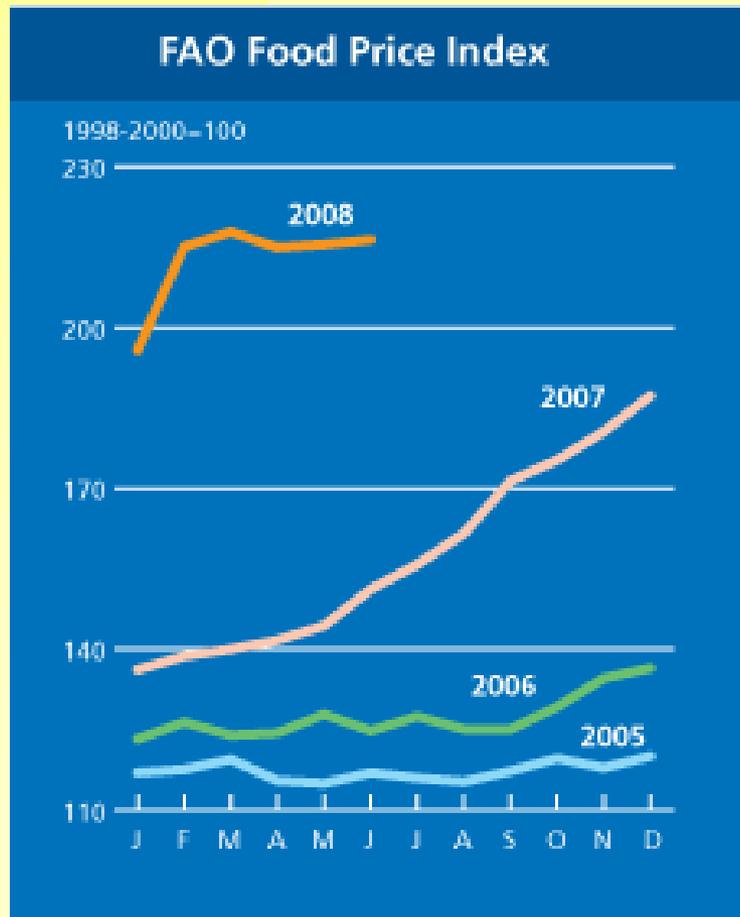
# The Food Crisis

- What happened?
- Why did it happen?
- What's the outlook and the consequences?
- What needs to be done?  
...especially since food security is a regional as well as a global public good
- How can ADB help?

# What happened?

- For 30 years, demand up, agricultural productivity also up, real food prices down
- From 2006, demand up, productivity stagnates, prices rise
- Since Jan 2008, confluence of cyclical events and policies, rice price nearly triples

# After the spike, prices are leveling, but remain high



Source: FAO, World Food Situation, July 2008

# Why Did it Happen?

## Demand-Supply Imbalance Heightened

- Demand side factors:
  - Global grain demand increases 1.3% annually 2000–2007
  - Grain use-increase for livestock production
- Supply side factors:
  - Yields stagnating
  - Declining global stocks (US and EU buffer stock policies change)
  - Infrastructural neglect
  - Export restrictions from surplus producers
  - Diversion to biofuel production (cereals and veg oils)

# Other factors contributed too...

- Others
  - Weather in Australia, floods in South Asia, planthoppers in Viet Nam
  - High input costs (energy and fertilizer)
  - US dollar depreciation
  - Commodity speculators

# What is the outlook?

- Record rice, wheat, corn, oilseed production forecast for 2008 and 2009
- Impact on price expected to be only gradual
- Stocks continue to decline this year
- Prices may begin to ease in 2009, yet would remain elevated for some time

# Index of projected real food crop prices

	2007	2008	2009	2010	2015
Maize	138	182	197	194	148
Wheat	144	201	179	156	131
Rice	128	231	208	155	160
Soybeans	119	156	149	142	115
Soybean oil	136	187	173	160	110
Sugar	133	157	167	176	182

Source: World Bank, Development Prospects Group, July 2008

# ...and the consequences

## On Poverty:

- Most vulnerable—1.2 billion in Asia spend 60%+ of their income on food
- Dramatic impact on poor:
  - Philippines: 10% food price rise=3 million more poor
  - Pakistan: 10% food price rise=7 million additional poor

## On Macroeconomic Stability:

- Balance of Payments effect for net importers of food *and* fuel
- Inflation and monetary tightening response reduces growth

# What Needs to Be Done?

Need to develop a clear strategy

- Short-term relief for the most vulnerable and impoverished
- Medium-term rebalancing of the supply/demand equation
- Long-term: channel new resources to revitalize agriculture research and technology

# Short-term Relief

- Safety-nets — Fiscal support
- Remove export restrictions; reduce import taxes
- Augment supply from existing stocks
- Establish cooperative mechanisms to ensure supply stability (e.g. move forward on the 2003 East Asia Emergency Rice Reserve—based on the 1979 ASEAN Food Security Reserve)

# Is it Time for Reviving a Regional Food Security Reserve?

- The ASEAN Food Security Reserve—signed by original 5 members October 1979
  - ASEAN Emergency Rice Reserve: 50,000 tons, never used
- ASEAN+3 agriculture ministers approve study for rice reserve for East Asia—October 2001
- JICA-financed study proposes 3-year Pilot Project—proposal submitted October 2003

# Medium-term Rebalancing of Demand/Supply Equation

- Structural reforms in agriculture
- Upgrade post-harvest facilities
- Collective action from WTO to remove production & trade distortions
- Reassess directing food for fuel
- Invest in agriculture-related facilities

# Long-term Revitalization of Agriculture

- Re-prioritize agriculture in the global development agenda
- Rally resources for agricultural research
  - Support for Institutions such as International Rice Research Institute
- Build an enabling environment for greater private sector participation in agriculture-related infrastructure development

# Food Security as a Regional and Global Public Good

- Regional forums focus on the food crisis
  - ASEAN+3 Finance Ministers discuss food crisis in May 2008
  - APEC finance officials address the issue in July 2008, and place food crisis on the agenda for Ministerial Meeting in November 2008
  - 22 July Indonesia calls for an ASEAN Food Summit to be held in December 2008
- Global actions to galvanize support
  - “Food Crisis is Global Security Risk,” German Chancellor Angela Merkel at the July G8 summit
  - World Bank—A New Deal for Global Food Policy: a 10-Point Plan endorsed by 150 countries
  - UN-sponsored Rome Food Security Summit in June
  - UN World Food Programme 4-year strategic plan

# How Can ADB Help?

- Short-term measures—\$500 million
  - Safety net programs: cash transfers, food-for-work, food stamps, school feeding programs
  - Support urgent government programs ensuring smallholders critical inputs (seeds and fertilizer)
- Medium- and Long-term—Strategy 2020
  - Target farm productivity and profitability via improved infrastructure and services
  - Access to rural finance and information
  - Enhanced market infrastructure
  - \$2 billion for agricultural support in 2009

**Thank you**

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