

OCCASIONAL PAPERS 4

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**Business as Usual:  
Responses within ASEAN  
to the Food Crisis**

**A Report for Focus on the Global South**

**by Randall Arnst**



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## **Focus on the Global South**

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## What Crisis?

We live, it would seem, in the age of crises. Myriad and urgent issues grab for our attention and feed our individual and collective angst. On top of local, national and regional crises, there are the global energy crisis, the global environmental crisis, the global security crisis, and the global food crisis. Most recently, the financial cum credit cum economic crisis threatens to eclipse them all.

Perhaps this is somewhat a result of a 'crisis culture' fostered by instant information, CNN breaking news, and the attention gained from crying wolf. Perhaps it is fed by what might be called 'crisis capitalism,' or the money to be made from discussing, defining, detailing, and ostensibly dealing with the calamities. Or perhaps the end is truly nigh.

But what are we to make of the 'Global Food Crisis,' the surging cost of food, and particularly staple grains such as rice, corn and wheat, that began in late 2007 and has been grabbing headlines through much of 2008?

In 2007, the world's farmers produced 2.13 billion tons of grain. This included record or near record levels of rice, wheat and corn.<sup>1</sup> This year, production is expected to be even higher.

Also in 2007, Archer Daniels Midland, the world's second largest agricultural trader, enjoyed a 77 percent increase in profits, and 25 more percent in the first half of 2008. Cargill, the largest grain trader, saw its commodity trading profits for the first quarter of 2008 up 86 percent. Thailand's Charoen Pokphand, which deals in a wide variety of agricultural enterprises, is projecting a 237 percent increase for this year alone.<sup>2</sup>

Further, a great many of the world's people face chronic food shortages. Many would not

have enough to eat even if prices fell. These populations would surely date the onset of a crisis well before the media, money and market pundits raised the flag earlier in the year.

At the other end of the spectrum, the number of obese and overweight people worldwide is now estimated at some one billion.<sup>3</sup> This number is rapidly growing, and social health implications are significant. Although sedentary lifestyles and improper diets account for part of this phenomena, the fact remains that many are simply getting too much food.

And what are we to make of the world's subsistence farmers? Although dwindling in numbers, there remain many who are not—or not yet fully—integrated into monetary economies and globalised markets. These world citizens are often targeted as the most 'undeveloped' group of all. But to the degree they remain so 'undeveloped,' many may not have noticed a food crisis at all.

At the same time, if one spends one-half to four-fifths of one's income on food—as many do—and the cost of basic necessities increases by more than half or even doubles in the space of one year—as many have—then an advanced degree in mathematics or economics is not needed to see a very significant problem. In the months of April and May of this year, people in Bangladesh, Indonesia, the Philippines, Haiti, Ivory Coast, Egypt, Mozambique and other counties took to the streets in protest. Upon learning that Americans and Europeans had found a way to turn food into fuel, a Cambodian farmer expressed it would be better if they could turn fuel into food.<sup>4</sup>

The United Nations estimates that the number of people worldwide who suffer from chronic food shortages might now exceed one billion. That skyrocketing prices of food in general, and basic staple foods in particular, are a significant problem is evident. **That this is a transient problem, a mere blip on the charts, or just a market correction in an otherwise fundamentally sound system is much more open to question.**

## What Caused It?

What has come to be known as the 'global food crisis' has been attributed to a wide range of factors, combinations of factors, and occasionally a 'perfect storm' of factors. Much dust has been raised, and there is no doubt that a complete description of the debate and analysis of the causes could fill several volumes.

*Climate Change* Global warming, some argue, is leading to more droughts, floods and other natural disasters. This in turn leads to decreased production of basic foods, and therefore higher prices. Australia, for example, has experienced over six years of drought, causing its rice production to virtually collapse, while wheat yields have fallen shapely. Total world food production has been generally increasing in past years, however. Hence, although climate



change may lead to future--and far more severe--problems, and will likely affect some areas more than others, the case that it is a primary factor in the more recent crisis is weak.

*Decreasing Productivity* Rapid urbanisation and industrialisation are displacing much of the planet's richest agricultural land, because cities historically tend to grow in just such areas. For example, it is said the most productive rice paddy in Thailand is now under the shopping centres and condominiums of Sukhumvit Road in Bangkok. In the densely populated island of Java in Indonesia, it is estimated that over past decades some two percent of rice land has been lost each year.<sup>5</sup> The loss of soil fertility due to over-intensive production—or of the soil itself due to erosion—as well as decreased government expenditures in support of agriculture are other factors given for lessening productivity.

*Population Growth* While not often cited as the primary cause, the world's burgeoning population is often listed as a contributing factor. While the rate of population growth has decreased in recent decades, the total population does continue to grow. The production of food and cereal grains in particular has generally grown faster than the population, but the gap has narrowed in recent years. This has brought a significant decline in global grain stocks in the past decade, with 2006 reserves in reaching their lowest level since the early 1970s.<sup>6</sup>

*Rising Middle Class Affluence* This argument is that the rapid growth of the middle classes, particularly in Asia, is bringing increased consumerism and consumption. This is putting additional strain on the world's food resources through demands for 'higher value' foods, which require greater inputs. For example, as much as seven kilograms of grain are required to produce one kilogram of meat. More exotic foods also cost more to produce and transport, and processed convenience foods often result in higher waste. Assertions to this effect directed at India and China first from US Secretary of State Condoleezza Rice and then President George Bush in May of this year drew sharp reactions from both countries, and this argument has been subsequently refuted by a range of analysts.<sup>7</sup>

*Increased Production Costs* In some cases the cost of fertilisers has doubled--or more--in the last year. The primary reason behind this is the skyrocketing cost of the petroleum needed to produce the fertiliser, although increased demand and limited supplies of other essential ingredients such as potassium and phosphorous have also contributed. Fuel costs affect food production costs on many other levels as well. The production of most pesticides is heavily dependent on petroleum, and fuel is needed to ship these inputs to farmers, to power increasingly mechanised agricultural methods, as well as to ship the crops to increasingly distant markets. In sum, except perhaps for those most 'undeveloped' of farmers mentioned above, the energy crisis and the costs of growing food are tightly linked.

*Agro-fuels* Also with rising petroleum prices, the demand for and investment in alternatives has also increased. Undoubtedly the most contentious of these alternatives is agro-fuels. In recent years, some five percent of the world's cereal grains have been diverted—quite literally—from the kitchen to the garage, and land dedicated to biofuel production has risen some 25-fold this decade. Estimates regarding the portion of rising grain prices attributable to agro-fuel production vary widely, from under three percent by the United States

government, up to an astounding 75 percent. This upper figure comes from a report based on extensive analysis by the World Bank. The report was suppressed, among other decidedly non-scientific agenda, because “it would put the bank in a political hot spot with the White House”.<sup>8</sup>

*Speculation and Trade* Corn was taken from tortillas and made into biofuels because, quite simply, it was more profitable. As the housing bubble in the US collapsed, and financial markets looked increasingly bleak, many investors went looking for greater profits, and commodities and commodity futures looked very good. In 2003, US institutional investors had US \$13 billion invested in commodity futures. By March of 2008, this had increased twenty-fold to US \$260 billion. Testifying before the US Congress, a hedge fund manager explained that “...commodities futures prices are the benchmark for the prices of actual physical commodities, so when... speculators drive futures prices higher, the effects are felt immediately in...the real economy.”<sup>9</sup> Put more bluntly, “...it's called the 'commodities super-cycle' on Wall Street, and it is likely to cause starvation on an epic scale.”<sup>10</sup>

Such speculative trade stretched from these futures traders, to international food giants such as Cargill cited above, to governments scrambling to ban exports or replenish depleted national food stocks, to local traders betting on even further price increases and/or shortages, to consumers who stormed local markets to stock up for much the same reasons. The argument, in a nutshell, is that speculative trade begat panic and hoarding which begat more market speculation and opportunism in a cycle of psychology largely un-rooted in traditional and physical factors of supply and demand.<sup>11</sup>

Again, the above is certainly not a comprehensive listing of all possible factors. Nor is there wide consensus on which factors or combination was the primary cause. Whereas those listed first above, such as climate change, decreasing productivity and population growth, may indeed bring much more serious difficulties in the intermediate term, it is unlikely they played a primary role in the sudden spike in prices. Those listed next may also prove more problematic over time, but to place direct causality with rising production costs assumes an unrealistic power of producers to determine prices. While the roles of agro-fuel, international trade in general, and speculation in particular have been articulated by many individuals, civil sector organisations and networks, they are perhaps more notable in the extent they have been ignored, downplayed or even censored by the major players on the global stage.

## Multilateral Responses

With little clarity on the most primary causes of the crisis, it might be assumed that little certainty in the way of solutions might emerge. This, however, has most certainly not been the case, with a plethora of quite uniform and largely unilateral responses coming from the multilateral institutions.

*“While many have advocated a fundamental rethinking of the status quo, the responses from the major players appear to be remarkably homogenous.”*

In early June, the United Nations Food and Agriculture Organisation held the “High Level Conference on World Food Security: The Challenges of Climate Change and Bioenergy,” in which issues of climate change and bioenergy were largely usurped by the unfolding food crisis.<sup>12</sup> After recommitting to earlier declarations and plans, the conference expressed the likelihood food prices would remain high, and that urgent measures were needed to increase food production in response.

Emergency food assistance and safety net programs were given immediate priority, as were balance of payments support and a review of debt-servicing regimes for food-importing countries. Secondly, priority should be given to support increased agricultural production through the provision of inputs such as seed, fertilisers and technical assistance. Support was also called for in expanding trade through the further integration of local, regional and international markets, as was help for countries to develop their food stock capacities.

Countries already within the World Trade Organisation reconfirmed their commitment to the Doha development agenda, whereas those yet to join should be given additional assistance in improving their trading capacity. It was asserted that restrictive trade measures be minimised in order to enhance trade policies conducive to food security for all. Robert Zoellick put it more succinctly in his presentation for the World Bank, that the solution rested on the three pillars of safety net support, increased production and fewer trade restrictions.

In line with the above, FAO also launched the “Initiative on Soaring Food Prices” to provide immediate relief in the form of seeds, fertilisers and other inputs. Cambodia and the Philippines are among 54 countries slated for assistance under initiative.<sup>13</sup>

Quickly following the FAO conference, the United Nation’s High Level Task Force on the Food Crisis released a “Comprehensive Framework for Action” in July, 2008.<sup>14</sup> Through a menu of options, this framework largely follows the conclusions of the earlier gathering, advocating initial emergency responses followed by efforts to enhance agricultural productivity, with a focus on small-holder farmers. The framework also advocates urgent measures toward the development of domestic and international markets, including minimising trade restrictions while reducing market volatility. As a global phenomena, action and co-ordination at and among all levels is called for, as is substantially increased financial commitments and flexibility from both the public and private sectors, while not diverting resources from other critical social sectors. In brief, the framework calls not so much for any reconsideration of strategies, but more urgent measures to address the first Millennium Development Goal of eradicating extreme poverty and hunger.

The World Bank initiated its own Global Food Response Program to provide immediate relief, outlined in its “ten point plan.” The first four points virtually mirroring the emergency response, support for social safety nets, inputs for small-holder farmers, and boosting agricultural productivity outlined above.<sup>15</sup> The next three points go on to advocate more investment in private sector agribusiness across the value-chain from production to trade finance, the development of risk management and crop insurance instruments including weather derivatives, and the easing of agricultural subsidies in the United States and Europe.

Points eight and nine repeat calls for the immediate removal of all export bans and the completion of the Doha agenda. The final point advocates greater collective action, including the possibility of global goods stocks for developing countries.

Recommendations from the Asian Development Bank also followed suit, with short-term measures of strengthening targeted safety net programmes, and the provision of seeds and fertilisers targeted toward small-holder farmers. Longer-term measures include increasing agricultural productivity through infrastructure projects (roads, electrification, irrigation, markets, etc.), and access to credit.<sup>16</sup>

Likewise, the International Monetary Fund advocated immediate food assistance and stronger safety nets, and condemned trade restrictions and price controls. It promised its assistance through “policy advice, technical assistance, and lending,” primarily through its Poverty Reduction and Growth Facility. Earlier promised reform in reducing the conditionalities of its Exogenous Shocks Facility was delayed to September, consequently was not utilised during the peak months of the crisis, and the resulting changes have been criticised as far too little.<sup>17</sup>

Finally, although many would attribute the workings of the World Trade Organisation as a major cause of the crisis, the WTO said it could do nothing to help alleviate the impact in the short-term. In the longer-term, however, Pascal Lamy asserted that the successful completion of the Doha round negotiations would lead to “...less distortion in world markets and increased international trade, leading to more rapid and efficient adjustment by supply to changes in demand.”<sup>18</sup>

Calls, exhortations and recommendations from many other agencies, governments and organisations are far too numerous to summarise here. While many have advocated a fundamental rethinking of the status quo, the responses from the major players appear to be remarkably homogenous. Other than a bit of first aid for the victims, the thrust of most of these recommendations appears largely to be 'stay the course,' but to increase the speed.

## Country Responses

Responses from various ASEAN governments have been mixed. In those countries exporting agricultural products, particularly rice, such as Thailand and Vietnam, many stood to gain from the price rises, while the Philippines, an importer, scrambled to meet its domestic needs. Indonesia saw income from palm oil exports skyrocket, while its outlays for buying rice also increased. Many, such as Cambodia, saw it as an opportunity to increase rice exports, even while domestic populations faced shortages.

It is difficult to differentiate between new or specific actions taken by governments in response to rising food and commodity prices on one hand, and minor and/or temporary adjustments to on-going programmes on the other. At a seminar held in Manila in early October, for example, 'responses' ranged from “increased efforts” to boost agricultural production to making some buses in the capital city free.<sup>19</sup> There have also been numerous

announcements or recommendations about what should be done, but little evidence of concrete follow up, either due to lack of political agreement, or perhaps the fact that commodity prices are falling again.



*Cambodia* In Siem Reap, one can visit the magnificent Angkor temples, luxurious five-star hotels, and incredibly poor villages, all in the space of a few hours. It is a microcosm of the jumbled historic glory, remarkable and growing wealth, and widespread and deepening poverty that comprise the Kingdom of Cambodia today.

Cambodia has clocked economic growth of over ten percent in past years, but this largely reflects the more 'visible' economy centred in the capital of Phnom Penh. Nearly 60 percent of the population is engaged in agriculture, and six out of ten of these persons are either land-less, or own less than one hectare. Excepting occasional handouts most often made to win support in the run up to elections, agricultural development programs are almost entirely foreign-funded.

For those who are struggling with debt or simply to feed themselves, such initiatives are often little more than wishful thinking. Secondary sources of food from rivers, wetlands, and forests are also disappearing through extensive sales and/or concessions—by business elites living in faraway places. On top of this has been an inflation rate of ten percent or higher, largely driven by the economic boom—also occurring in faraway place. The inflation rate reached nearly 20 percent in January, 2008, after which the “Consumer Price Index Bulletin” has not been published.<sup>20</sup>

Between May of 2007 and 2008, the price of most foods increased between 20 and 70 percent, with the basic Cambodian staple food of rice doubling according to research conducted by the Cambodian Development Research Council.<sup>21</sup> When the poorest 40 percent of the population already spends some 70 percent of their income on food, such spikes are disastrous.

The CDRI research also found that most interviewed believed the increased cost of rice was due to “trade factors,” although whether this was world markets, local speculators, or other factors was not identified. The second reason cited was higher input costs, particularly for fertiliser and fuel. Cambodia imports all of its fuel and fertiliser, there are no subsidies, and some argue that trade in these are becoming increasingly controlled by a small number of the above-mentioned elite.

Not surprisingly, the research also concluded that those being hit the hardest by cost increases are the poorest, predominantly those in the rural areas. Their expenses are rising the most, as are their debts. They are downgrading both the quantity and the quality of their diets to a greater extent, and their children are dropping out of school faster.

The Royal Cambodian Government banned the export of rice in late March, but then lifted it in late May in order to take advantage of high international prices, as well as a lack of local milling and storage capacity.<sup>22</sup> Most rice exports are to neighbouring Vietnam and Thailand,

themselves the world's two largest rice exporters. Anecdotal reports are this ban tempered sharply rising prices overall, with slight decreases noted in some areas and for some varieties.

In response to overall inflation, the government increased the reserve requirement on commercial banks from eight to 16 percent, and also raised government base salaries by 20 percent. Given the relatively high inflation rate, and the fact that those salaries average only some US \$30 to 40 dollars a month, this increase is not expected to have significant effect, except as an gesture of good will.

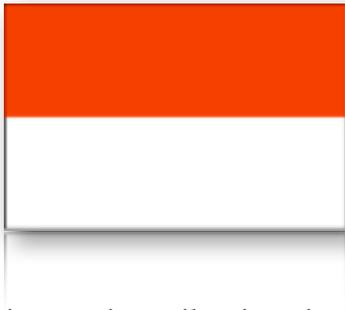
The government-owned Rural Development Bank released US \$10 million in soft loans to the government company Green Trade and private sector rice millers to promote their increasing stocks of paddy rice. In turn, Green Trade sold some 300 tons of rice to local markets at approximately 70 percent of market prices. Finally, the government is considering exempting agricultural inputs from import and value-added taxes in hopes of boosting production.

In June, the United Nations in Cambodia reaffirmed its commitment to assisting the Royal Government of Cambodia in a co-ordinated response to rising food costs. Priorities include monitoring the most vulnerable populations, responding to immediate needs, supporting the development of more suitable macro-economic policies, and boosting agricultural productivity. A listing of activities addressing the crisis posted on the Cambodian United Nations website points to a primary focus on monitoring, with 24 out of 36 activities listed being surveys, rapid assessments, censuses, or missions.

In October, the Asian Development Bank announced US \$35 million in a loan and aid package to Cambodia. The first phase of this project consisted of emergency food aid intended for the poorest fifth of families in some 200 communes in provinces surrounding the Tonle Sap Lake.<sup>23</sup> Even in its infancy, the project has come under sustained criticism from both government officials and activists who allege the rice distribution was undertaken too hastily, with most ending up in the hands of well-to-do families.<sup>24</sup> The next phase of the assistance program will include distribution of seed and fertilisers at subsidised prices, and food-for-work activities.

Many see a silver lining in the crisis. The Minister of Commerce voiced that it may provide the impetus for turning Cambodia into another rice bowl, stating that "...we now see rice as gold."<sup>25</sup> Others also express that farmers will now be motivated to produce more, and that all will better realise the importance of the agricultural sector, and invest accordingly.

The bottom line in such arguments is often the belief the country will be able to export its way out of poverty. But if the price of rice continues to drop, those farmers who saw promise in the increased prices--and had the means to invest more heavily --may well not be able to cover their outlays, and go further into debt. But if the weather is good, and rice prices rebound, perhaps it will be a good year. It all depends on the mysterious workings of the fickle gods of the sky and the market.



*Indonesia* With 17,508 islands and nearly 240 million people, Indonesia has withstood more than its share of political, economic and environmental turmoil in recent decades. In the 1960s, up to one million of its citizens died at the hands of its military, with first covert and then overt support from the United States. In 1968, Suharto became President, a position he held for three decades. The country enjoyed economic, if not political, growth due largely to increasing oil prices in the 1970s, and foreign investment in the following decades. This came to an abrupt halt in 1997-98, when the country suffered the worst of the Asian financial crisis. The currency nose-dived and the country came under severe austerity measures from the World Bank and International Monetary Fund. These, in part, led to public protests and Suharto's being forced out of office in 1998.

Although agriculture represents a relatively small portion of Indonesia's monetary economy, it provides livelihood to nearly half of its people, ranging from smallholder farmers who mostly grow rice, to employment on the nearly 2,000 private estates. These latter account for much of the agricultural exports, which include rubber, tobacco, sugar and increasingly palm oil.

The country has struggled to achieve food self-sufficiency, often at considerable economic and environmental costs. As such, social unrest is often linked to fluctuations in the cost and availability of basic staple foods. Early in 2008, tempeh and tofu vendors held a rally in front of the Presidential Palace to protest rising prices.<sup>26</sup> These foods, both popular in large parts of the country, derive from soybeans, a crop for which the country was self-sufficient some 15 years ago. Today, with market liberalisation and cheap imports for the United States, over half is imported.<sup>27</sup>

With the costs of other basic foods rising as much as 60 percent percent in the past year, and fearing wider unrest, the government revised its annual budget, increasing its allocation for consumer food supports by US \$290 million, bringing the overall budget for fuel, electricity and food subsidies to some US \$20 billion.<sup>28</sup> It also lowered the import duties on rice in January, and then temporarily cancelled the five percent import duty on wheat, as well reduced the value added taxes for wheat and wheat flour the following month.<sup>29</sup> Tariffs on soybeans were first reduced from ten to five percent, and then abolished altogether.

The ten year-old *Raskin* programme provides lower-cost rice, cooking oil, soybeans, wheat flour, sugar and kerosene to poorer families. This programme was stepped up in 2008, and plans were revised to increase the national rice stocks to as much as 3.8 million tons.<sup>30</sup> Expectations for subsidised rice distribution were also increased by nearly one million tons over 2007, with a target of some 2.8 million tons for 19 million families.<sup>31</sup>

In April, the government announced export curbs on the most widely-consumed medium-grade rice varieties, with the state agency being allowed to export only when national stocks exceed three million tones, and domestic prices are below the government's target price.<sup>32</sup> These measures resulted from strong opposition by local movements and groups when the government earlier signalled its intention to export more rice to take advantage of rising

international prices. Finally, the government announced plans to provide some US \$650 million in rice seeds, including hybrid varieties, as well as over US one billion in fertiliser subsidies in 2008.<sup>33</sup> These actions were taken both to meet domestic demand, as well as in hopes of boosting future production and exports.

Reports are that the immediate measures above had positive effect in preventing further price increases, and were even lauded by the World Bank's country office.<sup>34</sup> Others agree on the short-term benefits for poorer consumers, but counter that these were gained at the cost of increasing imports and food-aid dependency, while generating undue profits for traders and speculators. Charges are that, rather than buying directly from domestic producers, the government preferred to lower tariffs and increase imports, with the result that domestic farm gate prices for many products stayed the same, or in some cases even decreased.



*Lao PDR* While most reports about the Lao People's Democratic Republic describe it as a landlocked nation, situated among neighbouring Myanmar, China, Vietnam, Cambodia and Thailand, perhaps 'loan-locked' might be a more appropriate term. The country is overwhelmingly and increasingly dependent on foreign aid, investment and loans. While details are most often difficult to come by and questionable in their accuracy, it is estimated that over four fifths of public investment comes from foreign aid, and this is expected to increase in the next years.<sup>35</sup>

Hence, a 20 percent drop in public expenditure on agriculture since 2005 closely reflects a nearly identical drop in foreign aid for this sector. This, however, does not mean that interest in rural areas is dropping. Much of the once biodiversity-rich countryside has been given over to such a plethora of concessionary agreements—ranging from rubber plantations to copper mining, and signed by various ministries and at various levels—that even senior government officials have apparently lost track. Rough estimates are that two to three million hectares, or as much as 15 percent of the country's land, has been pledged in agreements lasting up to 70 years. Reports are also that a government moratorium on larger concessions announce in May is largely being ignored, and negotiations are underway with officials from China, Kuwait and other nations to lease rice land as well.<sup>36</sup>

The government is also placing great hope in its hydropower potential to rid itself of its 'Least Developed Country' status by 2020. Concerns are, however, that corruption and lack of regulatory capacity will mean much of the income from these projects and concessions will not make it into public coffers, and that which does will largely be needed to service the burgeoning foreign debt.

That the often-labelled 'communist' government has hitched its future to foreign aid, investment and the globalised market is clear. That this will benefit the majority of the population, or in particular the 80 percent of the population who depend on agriculture, is not. As is often the case, those in rural areas, and particularly those in more remote rural areas, appear to be getting the short end of the stick.

In more remote provinces, where the geography is more mountainous and staple foods harder to grow, food price hikes were felt when the costs for importing from neighbouring provinces rose. At the same time, even producers in areas with more abundant paddy fields felt the pinch of increased fuel and fertiliser costs.<sup>37</sup>

Although the costs of agriculture inputs and food began rising dramatically in the early months of 2008, specific government responses came only by mid year. In late June, the Ministry of Industry and Commerce banned the export of rice, even though local traders claimed sufficient supplies.<sup>38</sup> The long and porous borders with both Thailand and Vietnam, combined with lax control even at official checkpoints, most probably made this ban relatively ineffective.

In late July, the Cabinet agreed to allocate funding for the creation of a national rice bank, raising concerns among many that farmers would be forced to sell their rice at below market rates. At the same meeting, the Cabinet agreed to further “...open doors to domestic and foreign investment in rice and cereal crop cultivation...”<sup>39</sup> Although reported that the amount of funding, as well as the principles, regulations and management were agreed in the earlier meeting, by October, funding had apparently not yet been allocated for the 60,000 ton stock, and the government encouraged the private sector to help in the stockpiling of rice as well.<sup>40</sup> In December, the government announced it would create a stockpile “...only to supply some government sectors.”<sup>41</sup> This usually means party members, a practice that has been underway for some time. Apparently, the public will have to depend on the private sector to set up a stockpile for them.

In other actions, the World Bank has prepared the “Rice Productivity and Improvement Project,” which is currently under consideration by the government. Even though the country is second only to India in the number of indigenous rice varieties, the three-year, US three million dollar loan project will fund local seed centres in the propagation of 'improved' rice seeds. Anecdotal reports are also that the United Nations Development Programme is studying the impact of fluctuating rice prices, and the Food and Agricultural Organisation is undertaking a study on rice production.



*The Philippines* The programme's title was 'Masagana 99.' *Masagana* translates as 'bountiful harvest,' and the '99' signified the production goal of 99 *cavans*, or about five tons, of unhusked rice per hectare. Launched by the Marcos government in 1973 to render the country self-sufficient in rice, the initiative included packaged technologies of hybrid seed, fertilisers and pesticides, a massive agricultural extension programme, a slick communications media and materials campaign, and lots of easy credit. It was billed as a model exemplar of the green revolution and can-do development, was widely acclaimed in the press—which just so happened to be tightly controlled at that time—as well as in numerous case studies on agriculture and development.

The country did export rice for a few years late in that decade, but the rural banking system

also collapsed due to an over 50 percent default rate on the loans, most of which were granted to the politically-connected.<sup>42</sup> The cronyism for which the Marcos government is now famous also reached something of an acme through the massive programme procurements.

Corruption aside, some government support did reach the countryside, but even this dwindled rapidly under the tutelage of the World Bank and International Monetary Fund. By the end of the 1980s, government investment in agriculture had dropped by well over half, while the portion of the national budget given to international debt servicing quadrupled. With the descent of the agriculture sector, and the ascent to the World Trade Organisation and other free-trade agreements, rice imports rose steadily through the 1990s, while other sectors such as corn and poultry have been hit even harder.<sup>43</sup>

The Philippines now holds the dubious distinction of being the world's largest rice importer. Rice is also its largest agricultural import, with requirements of an estimated 2.2 million additional tons this year. The country also has negative agricultural trade balances with nearly all ASEAN countries, mostly involving products which are also produced locally.

In April and May, the spotlight shone brightly on the country's primary staple of rice. President Gloria Macapagal-Arroyo asked people to eat less, and threatened prison terms for traders found hoarding.<sup>44</sup> Due to rising prices or decreasing demand, fast food restaurants began offering half-portions of the staple.<sup>45</sup> Long queues of people waited to buy subsidised rice from the government, which is itself scrambling to refill its stocks through import contracts primarily from Vietnam, Thailand and the United States--at twice the cost of a year earlier.<sup>46</sup>

The National Food Authority buys unpolished rice from farmers at rates higher than market price, while providing it to consumers at subsidised prices.<sup>47</sup> Criticisms are that most distribution occurs in central areas, with little reaching the poor in more rural localities. In addition, the agency apparently panicked in buying rice from international sources to fill its buffer stocks in mid-year, and was therefore unable to make purchases from the local harvest later in the year. This constituted yet another punch to the many farmers who had invested more heavily in expectation of continuing high prices, although farm-gate prices dropped to their earlier levels.

At a National Food Summit in April, the government unveiled a nearly US one billion dollar plan to triple the land area planted to hybrid rice varieties, and to achieve self-sufficiency by the year 2010. Apparently extending from the Accelerated Hunger Mitigation Plan announced the previous year, the programme's snappy acronym FIELDS is derived from the more cumbersome yet revealing 'Fertiliser, Irrigation, Education and training for farmers and fisher folk, Loans, Dryers and other post-harvest facilities, and Seeds of the high-yielding, hybrid varieties.' Developed in conjunction with the International Rice Research Institute, a Memorandum of Understanding in support of this effort was inked between the government and the institute shortly thereafter.

Although calls for more government support for agriculture in general have been made for some time, the initiative has come under strong criticism. Nearly one-fifth of the budget will

go toward the provision of hybrid seeds, notwithstanding rather dismal results coming from similar efforts in the past. Questions also are arising about the sustainability of providing such heavy subsidies for hybrids, and that the main beneficiaries will be the companies providing them.<sup>48</sup> With its focus on short-term technical fixes, and with the singular aim of boosting production by any means, some analysts have been led to conclude “...the package is no different from those that have turned us into the world's biggest rice importer.”<sup>49</sup>

In late May, the government announced a two-year suspension of the processing and approval of all rice land conversion applications.<sup>50</sup> Reports, however, are that this was for rhetorical purposes only, and is not being enforced. In an almost unbelievable twist of irony even for today's globalising world, while world oil prices skyrocketed, and some 60 percent of Filipino farmers have no land of their own, the government was negotiating with that of Bahrain. The issue being for the later to invest in rice land in the Philippines in order to boost its own food security.<sup>51</sup>



*Thailand* Capitalising on the global popularity of its cuisine and its rich agricultural resources, the Kingdom of Thailand has in recent years promoted itself as the 'kitchen to the world.' As the world's leading exporter of rice for many years running, a major exporter of fish, sea-foods, cassava and sugar, a growing processed food competitor, and with over 20,000 restaurants worldwide, it has a substantial basis on which to lay this claim.

In its capital city of Bangkok, signs of globalised opulence are everywhere, from Greek colonnaded mansions in high-rent districts to a plethora of high-end shopping centres containing virtually every luxury brand the world offers. Consumerism is rampant. Thai people value social tolerance, but when recent anti-government protests blocked access to a major shopping mall, many vocal cries were they had gone too far.

A current running through much of the recent political unrest is a growing urban-rural—some might argue a class--divide. Chic Bangkok youth disparage less fashionable peers with labels of *ban nawk* or 'country bumpkin.' In rural areas, on the other hand, there appears to be a growing distaste for be-suited politicians speaking technical legalese. This dissatisfaction has been a factor in recent elections, making some groups question whether the country is ready for democracy.

Amid the on-going turmoil, many in Thailand welcomed soaring world food prices with jubilation. As the country exports some ten million tons of rice each year, this was extremely good news for many of those in the business. Contracts on the Agricultural Futures Exchange of Thailand almost quadrupled in the first quarter of the year.<sup>52</sup> Some millers were able to treble their returns and, along with local distributors who also have storage capacity, were able to sell their previously procured stocks at vastly higher prices. Most exporting firms do not stock the physical commodity, and some lost in early speculation, but over time most were able to glean hefty returns, with some increasing their margins from two to seven percent.<sup>53</sup> Caught up in the frenzy, one trader even took the extraordinary measure of stealing

the rice from his own warehouse.<sup>54</sup>

The government's rice policies and mortgaging programme has been thrown into disarray as well. Government pledges in May to buy record-high amounts of paddy at record-high prices were met with record-high farmer interest, but also questions about the need for such government intervention at a time of such high prices, as well as the fact that responsibility was put solely with the Bank for Agriculture and Agriculture Co-operatives, excluding the Ministry of Commerce.<sup>55</sup> More recently, and with a new government, the Ministry of Finance has been brought in, along private sector loans, to handle the increased obligations.<sup>56</sup> This is raising concerns that the government will incur massive debt because of falling international prices.

Thailand was often praised internationally for adhering to free-market principles and not restricting exports like India, Vietnam and Cambodia. Domestically, consumer prices for rice as much as tripled in some markets, and in response the Government announced plans in early April to release 650,000 of its 2.1 million ton stocks for local sale. Deteriorated-quality rice was selected for the program in order, it was claimed, to maximise consumer savings.<sup>57</sup> There have also been reports the stocks were released only in late May and at locations not readily available to poorer consumers.

With farm gate prices doubling in April from those one year prior, many assume that farmers were sharing in the bounty, and this would be the solution to their decades of growing debt. But with virtually no storage capacity, most are forced to sell their paddy at the time of harvest. For those growing only one annual crop, most had sold well before the market peaked. There have also been many claims that local rice traders and millers have been discounting rice quality much more than usual in an effort to further increase their own profit margin.

In the central plains where irrigation allows multiple crops, farmer leaders report that even those who could sell at the highest prices often saw their profits swallowed by fertiliser, fuel, pesticide and labour bills on which their intensive farming practices depend, and the costs of which had increased even more. As this year's wet season closes, many are watching the political chaos along with rice prices falling much faster than input costs, and with the possibility many may face even more debt in this time of market bounty.

As the 'kitchen to the world,' it appears the primary concern is on pleasing the clients, and predominant policies remain almost exclusively export-oriented. To extend the analogy, it appears that big business are the restaurant's owners, politicians serve as maitre d's, government officials work in the kitchen, and farmers, in large, are ending up with the dirty dishes.



*Vietnam* The Socialist Republic of Vietnam's victory over United States aggression came at a heavy price. In addition to the millions killed, injured and orphaned, the country's agriculture base was decimated. Millions of hectares of forest and farmland were destroyed by defoliants, millions more were strewn with unexploded ordinance, and most of the country's irrigation infrastructure lay in ruins or was heavily damaged. Early attempts to build collectivist agriculture were not highly successful, and well into the 1980s and the introduction of the *Doi Moi* reform measures, the country remained a net food importer.

Since that time, the country has seen strong economic growth of about seven to eight percent annually through the mid 1990s. This dipped somewhat during the Asian financial crisis later in that decade, although Vietnam weathered the storm better than most. Today, it is one of Asia's fastest growing economies, and the world's second largest exporter of rice, annually sending four to five million tons abroad in past years.

This remarkable growth has had adverse effects. According to data gathered by the Ministry of Natural Resources and the Environment, from 2001 to 2007 over 500,000 hectares of farmland was lost to urbanisation, industrial zones, golf courses, and the like. Currently, the loss rate is more than 73,000 hectares a year, with 80 percent of that area being rice land.<sup>58</sup> For each hectare of land lost, an estimated 13 to 15 people lose their agricultural livelihoods, and projections are that nearly two and one-half million people will do just that in the second half of this decade alone.

Vietnam joined the World Trade Organisation at the end of 2006, and since that time inflation been a dark cloud shading the sunny economic outlook. Prices rose over 12 percent in 2007, and exceeded 20 percent in the first half of 2008. Domestic cereals rose nearly 75 percent, with rice doubling in some locations, and once again, analysis shows that the brunt of these increases are being felt by the poor.<sup>59</sup> While the price of exported rice has almost doubled since 2007, farm-gate prices have risen much less, and the costs of inputs have increased between 40 and 100 percent.

Sudden price rises and media coverage caused panic in late April when television stations showed clips of even foreigners stockpiling rice, and a newspaper ran a front-page picture of a 'no rice for sale' sign in a large supermarket.<sup>60</sup> This prompted and unprecedented, four-hour live television broadcast by the Prime Minister and city leaders to calm fears.<sup>61</sup>

In March, the Vietnamese Government banned the signing of all new rice export contracts, and limitations on total 2008 exports were set at 3.5 to 4 million tons, as compared to 4.5 million tons in 2007.<sup>62</sup> Due partially to objections from farm and trader groups, however, the ban was lifted in June, and the export target was raised to 4.5 million tons.<sup>63</sup>

The Ministry of Agriculture and Rural Development has also been tasked with the development of a strategy for land use management. The plan will include the use of remote sensing to map current agricultural land use. First priority will be given to the most productive irrigated paddy land, which will be made off-limits for conversion to other uses. Further

classifications will be made for less productive and non-irrigated rice land, other crops, and perhaps for highland cropping. All plans for land conversion would need to be approved by the Prime Minister's Office under clearly defined criteria, rather than at the provincial or city level as is currently practised.

This effort is one of the few regional efforts aimed at securing longer-term, sustainable agricultural productivity. Whether it will be effectively and equitably implemented, however, remains to be seen.



never been used.<sup>65</sup>

*Regional* The ASEAN Food Security Reserve was formed in 1979 with an initial volume of 50,000 tons of rice earmarked from each of the five member countries.<sup>64</sup> As the organisation has expanded, the pledged volume has also increased, although there are questions whether physical stocks are earmarked solely for the reserve. Its current level of 87,000 tons constitutes only a half-day's supply for all of ASEAN populations, and the reserve itself has reportedly

Extending from this reserve, the East Asian Emergency Rice Reserve was first proposed by Japan, and a pilot phase was adopted in 2003. The expanded mechanism includes ASEAN plus China, Japan and Korea, and is designed to include both earmarked stocks like the ASEAN Food Security Reserve above, as well as physical stockpiles for use in emergency situations.<sup>66</sup> While the reserve has positioned stockpiles in the Philippines and Cambodia, it apparently has not been used either.<sup>67</sup> The reserve is intended to operate within the ASEAN Integrated Food Security Framework and the longer-term ASEAN Strategic Plan of Action on ASEAN Food Security, which was to be considered for adoption at the 14th ASEAN Summit slated for December.<sup>68</sup>

In late April, then Prime Minister of Thailand Samak Dundaravej, proposed the formation of a rice cartel among Thailand, Vietnam, Myanmar, Laos and Cambodia. Initial reactions were mixed, but the idea was soon dropped due to strong reactions against attempts to fix international prices, as well as to expected difficulties in achieving harmony and controlling rice production.<sup>69</sup>

At the UN High Level Conference on World Food Security held in Rome in June, the Philippines' Secretary of Agriculture called for the establishment of a food reserve "...to match the current supplies of food inventories held by food producers, to the demand of demand of net food importers.<sup>70</sup> To de-politicise the process, it was suggested the reserve be managed by an independent body, such as the World Food Programme.

Finally, in October, ASEAN also adopted a ten-year rice action plan prepared and submitted by the International Rice Research Institute.<sup>71</sup> The US \$15 million a year programme will further support IRRI's current focus on the development and extension of higher yielding varieties and other production technologies.

## So... What's the Solution?

The responses outlined above, particularly those from the multilateral institutions, might be summarised into three groups.

*First Aid* These include the provision of emergency relief in the form of food and agricultural inputs such as seed and fertiliser. However, just as first aid is not a solution to traffic accidents, immediate relief actions will not solve the issues underlying the food crisis. While such measures may indeed be the only response to immediate hunger, they are not without problems.

When food prices go up, food aid goes down. When the costs of food and shipping began rising in 2007, global food aid reached its lowest level since records began in 1961.<sup>72</sup> On the other hand, when the costs of basic commodities fall, food aid and the outright dumping of surplus production increases. This benefits producers as well as trading and shipping companies in the donor countries, while hurting farmers in the recipient nations by undercutting prices.

Even with extensive surveys and rapid appraisals, that emergency food aid does not often reach the neediest has been well-documented, most recently in the Asian Development Bank programme in Cambodia cited above<sup>73</sup>. Both the urgency of the situation, as well as the powerlessness of the intended beneficiaries, makes such efforts particularly attractive prey for opportunists at all levels. And unless stocks are close at hand, and effective systems already in place, delays mean deliveries come too late, and can depress local prices during a period of recovery.

Further, the provision of agricultural inputs such as seeds and fertilisers is prone to many of the same pitfalls, inequities and corruption as food relief.<sup>74</sup> There are also questions of the appropriateness of the inputs that may be provided. In all too many cases, such 'assistance' is more akin to the dumping of substandard, inappropriately-labelled products that may be past their expiration date or even banned in the country of origin. In other cases, it can promote or perpetuate debt or dependency among local producers.

Again, this is not to condemn emergency across the board. But it should not be taken as an

integral part of a sustainable solution, but rather a symptom of a deeper illness.

*Green Revolution Redux* With the 'moral clarity' of George W. Bush and the 'supply side economics' of Ronald W. Reagan, calls to increase food production have come from far and wide. Many have bolstered their case with ominous warnings about the threats of global population growth and global warming, although these had little role in the immediate crisis. The classical premise that high prices stem largely or wholly from insufficient supply is taken for granted. Indeed, the terms 'food crisis' and 'food shortage' are often used interchangeably.

Following suit, Jeffery Sachs, writing for *Time* magazine, attributes the food crisis firstly to the persistently low productivity of farmers in poor countries.<sup>75</sup> In the parallel publication of *Newsweek* a week earlier, however, food analyst Raj Patel asserts "...the global food crisis is less about food shortages than about bad policy."<sup>76</sup>

Who is correct? Although depleted grain stocks may have had some impact on the sudden price increases, at least in Asia this was more likely psychological than direct. As noted above, speculative traders likely increased stocks in anticipation of further increases, and supermarket shelves were cleared by panicked consumers, prompting many leaders to make assurances of sufficient supply. For the most part, however, Asian farmers are feeding burgeoning urban populations, and in many cases producing a surplus for export.

One is reminded of the neo-liberal maxim of 'growth is good,' as well as the adage 'if all you have is a hammer, everything looks like a nail.' Since its inception, the mass of agricultural research, development and extension have placed such single-minded focus on increased yields that all other factors have largely fallen by the wayside. Perhaps an analogy can be drawn with the Bush administration's approach to the 'energy crisis.' The environment, conservation, alternatives, or any question of who is most benefiting has been drowned out by chants of--in the words of the neo-con debutante Sarah Palin--'drill, baby, drill.'

If producer profits are falling and debts are rising, if they are increasingly becoming betrothed to agribusiness, if the soil, local ecosystems and broader environment are failing, and even if the product is more dangerous, less nutritious or worse tasting, these are subordinated to the holy grail of tons per hectare.

Fundamentalism thrives on crisis, and those public and private institutions who both backed and benefited from the 'green revolution' are calling for a return to tradition. The specifics may have evolved--now including newer hybrids, genetic engineering, 'climate ready' varieties, and the like--but the the basics of top-down, technology-driven and corporate-friendly packages appear largely both unchanged and unchallenged.

*The Spirit of Doha* 'Free trade' is not free. There are enormous amounts of money involved, and those with the money want to make more. Returning to the analogy to traffic safety above, if emergency relief measures are to render first aid after the fact, and increasing agricultural production might be akin to putting more and bigger cars on the road, then the argument for even further liberalisation of food markets and trade is to do away with any remaining speed limits, traffic signs and police.

Yet that is precisely what many advocate. From a return to and successful completion of the Doha agenda, to the enhancement of markets and value chains, to the immediate removal of all trade barriers, to the development of risk insurance and weather derivatives, the thrust is to put even greater faith in the wondrous workings of the invisible hand. At the UN Food and Agriculture Organisation's Conference on Food Security, Ed Schafer, the United States Secretary of Agriculture advised that "We can all play a part by advancing a food market that allows agricultural products and food production technologies to circle the globe freely and efficiently."

But while capital and commodity futures travel the world over fiber-optic cables quite literally at the speed of light, our food and the farmers who produce it must still depend on the rising and setting of the sun and the slower changing of the increasingly whimsical seasons.

Food is different.<sup>77</sup> It is not simply a sub-sector of a nation's economic growth strategy. It is too fundamental to come and go with the projected profit ratios of futures traders and hedge-fund managers. Perhaps potato chips and beluga caviar can be left to the vagaries and opportunities of unbridled markets, or the increasingly monopolistic control of global agribusiness, but basic staples and the food humanity depends on each day are not—in the market parlance—an option.

In a remarkable turn of irony, on the same October day that Alan Greenspan, the one-time champion of capital markets, expressed his shocked disbelief at events unfolding in the US economy, Bill Clinton, the one-time champion of NAFTA and unfettered international trade, admonished that the world should stop "...treating food like it was a colour television set...Food is not a commodity like others...We should go back to a policy of maximum food self-sufficiency."<sup>78</sup>

Yet when governments such as Vietnam and Cambodia took action to curb food exports to insure their own stocks and hold down domestic prices, there followed a concerted outcry that this caused shortages and higher prices for their food-importing neighbours. Although no doubt true, Frances Moore Lappe asked "...where does responsible government end and hoarding begin? ...It is not an easy question to answer, which suggests that it might be a perfect time to ask how countries got into this no-win, export-or-not quandary to begin with."<sup>79</sup>

As supermarkets become plusher, and condominiums taller, there is a tendency to forget that food comes from agriculture, agriculture depends on farmers, and they all depend on the environment. As such, the 'global food crisis' is not an isolated problem, and it cannot be rectified by packaged technology, repackaged development strategies, or transient policy tweaks. It is not so much a 'food crisis,' as a crisis of agriculture, of globalisation, and perhaps most fundamentally, of legitimacy.

One final quote is offered from a presentation to delegates attending the UN Food and Agriculture Organisation's Conference on Food Security. These words come from a quite different source--Henry Saragih, an Indonesian farmer and head of Via Campesina, a growing global movement of peasant and small-holder farmers who are articulating, advocating and

fighting to enact their common vision toward food sovereignty.

*...The world sees people suffering from hunger everywhere and children who are malnourished... These are the results of the policies that you are responsible for. These are the results of the liberalisation of food and agriculture markets... Policies which force farmers to produce for export and push the government to import basic foodstuffs. The industrial model of agriculture has brought agriculture under the control of trans-national agribusiness corporations. Many who have benefited enormously from the current crisis... We should evaluate the policies that have been implemented. You have to admit you were wrong.*

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