Shifting Wealth and the Consequences of Rising Food Prices on Social Cohesion:
A Diagnosis and Policy Responses

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2. Shifting Agricultural Potential – and what it means for Food Security
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4. High Food Prices: A Blessing in disguise?
5. Food Crises, Macroeconomic Causes and Effects
6. The Development Potential and Risks of ‘Land grabs’
A path of more inclusive growth also depends on faster agricultural growth and development

- **Large agricultural labour share:**
  - India: 55 % of labour force
  - China: 45%

- **Food insecurity** 33 countries suffer from chronic food insecurity in 2010, 16 of them for a decade or more

- **Decreasing ODA** to agricultural sector as well as the share of total government expenditure

- **Food riots** are not a new phenomenon: food shortages as a persistent cause of social unrest
Global food (in)security

- Biofuels, climate change, underinvestment, low productivity, etc.
- *Shifting Wealth*
  - **Demand side**
    - Rapidly increasing incomes in many emerging markets
    - Raising prices of higher protein foods such as meat and fish
  - **Supply side**
    - In absolute terms, China is by far the largest agricultural producer in the world, followed by India
    - Even at market exchange rates, US agricultural production is only approximately a third as large as that of China
## The World’s Largest Agricultural Producers (2008- blns US$)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Amount</th>
<th>Rank</th>
<th>Country</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>China</td>
<td>489</td>
<td>11</td>
<td>Italy</td>
<td>46</td>
</tr>
<tr>
<td>2</td>
<td>India</td>
<td>202</td>
<td>12</td>
<td>Spain</td>
<td>44</td>
</tr>
<tr>
<td>3</td>
<td>United States</td>
<td>183</td>
<td>13</td>
<td>Mexico</td>
<td>41</td>
</tr>
<tr>
<td>4</td>
<td>Brazil</td>
<td>106</td>
<td>14</td>
<td>Pakistan</td>
<td>33</td>
</tr>
<tr>
<td>5</td>
<td>Russia</td>
<td>84</td>
<td>15</td>
<td>Argentina</td>
<td>32</td>
</tr>
<tr>
<td>6</td>
<td>Indonesia</td>
<td>74</td>
<td>15</td>
<td>Germany</td>
<td>32</td>
</tr>
<tr>
<td>7</td>
<td>Turkey</td>
<td>64</td>
<td>15</td>
<td>Thailand</td>
<td>32</td>
</tr>
<tr>
<td>8</td>
<td>Japan</td>
<td>63</td>
<td>18</td>
<td>Iran</td>
<td>29</td>
</tr>
<tr>
<td>9</td>
<td>France</td>
<td>57</td>
<td>19</td>
<td>Australia</td>
<td>26</td>
</tr>
<tr>
<td>10</td>
<td>Nigeria</td>
<td>54</td>
<td>20</td>
<td>Philippines</td>
<td>25</td>
</tr>
</tbody>
</table>

*Source: The Economist, 2010*
China, India and Brazil are Reshaping Global Food Production and Patterns

Figure 1—Share of global crop production (%), 2008

Source: Food and Agriculture Organization of the United Nations (FAO), FAOSTAT database (Rome, 2010).
### South-South Agricultural Trade

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>% of total trade</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HIC</td>
<td>55.5</td>
<td>49.8</td>
<td>42.7</td>
<td>36.1</td>
</tr>
<tr>
<td>LMIC (excluding LDC)</td>
<td>41.5</td>
<td>45.9</td>
<td>52.8</td>
<td>59.2</td>
</tr>
<tr>
<td>LDC</td>
<td>3.0</td>
<td>4.3</td>
<td>4.6</td>
<td>4.6</td>
</tr>
</tbody>
</table>

**HIC**: High-income countries  
**LMIC**: Low- and-middle income countries  

*Source: COMTRADE (2010)*
How the Asian Giants will Impact on Agriculture in Other Developing Countries

• Impact on global supply and demand, Asian drivers will affect trade flows and flows of FDI to agriculture in other developing countries

• Impact on agricultural sector developments through aid flows and agricultural development cooperation

• Chinese firms have already invested in sugar and tea production in Mali, and recently an Indian IT firm diversified into flower production in Kenya and Ethiopia for the export market to Europe
Increasing Global Food Production per capita

Net per capita food production 1990-2009
(base 1990)

Source: FAOSTAT
And Africa’s Deteriorating Food Balance...

Source: FAOSTAT
Food Prices Reaching New Peaks...

Food Prices, 1990-2010, FAO Price Indexes
Index (100=M1-1990)

Source: FAOSTAT
The Number of Malnourished People is Still High

Note: Figures for 2009 and 2010 are estimated by FAO with input from the United States Department of Agriculture, Economic Research Service. Full details of the methodology are provided in the technical background notes (available at www.fao.org/publication/sofi/en/).
The Global Crisis of 2008/9 hit Asia particularly hard.

Undernourishment by 2010, per region (millions)

- Developed countries: 19
- Near East and North Africa: 37
- Latin America and the Caribbean: 53
- Sub-Saharan Africa: 239
- Asia and the Pacific: 578

Total = 926 million

Source: FAO
Only Few Benefit From Higher Food Prices

Urban/Rural Net Buyers and Sellers of Food Staples

Source: OECD (2010)
Staple Net Benefit from 10%↑ in Food Prices

Bubble size is proportional to the size of the rural population of the countries. Colours are red for values lower than -15%, orange between -15% and -5%, yellow if negative but above -5%, and green if positive.

Source: OECD (2010)
## Nomura’s Food and Vulnerability Index

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>NFVI</th>
<th>GDP per capita (US$)</th>
<th>Household spending on food (% of total consumption)</th>
<th>Net food exports (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Bangladesh</td>
<td>101.5</td>
<td>497</td>
<td>53.8</td>
<td>-3.3</td>
</tr>
<tr>
<td>2</td>
<td>Morocco</td>
<td>101.3</td>
<td>2769</td>
<td>63</td>
<td>-2.1</td>
</tr>
<tr>
<td>3</td>
<td>Algeria</td>
<td>101.3</td>
<td>4845</td>
<td>53</td>
<td>-2.8</td>
</tr>
<tr>
<td>4</td>
<td>Nigeria</td>
<td>101.2</td>
<td>1370</td>
<td>73</td>
<td>-0.9</td>
</tr>
<tr>
<td>5</td>
<td>Lebanon</td>
<td>101.2</td>
<td>6978</td>
<td>34</td>
<td>-3.9</td>
</tr>
<tr>
<td>6</td>
<td>Egypt</td>
<td>101.0</td>
<td>1991</td>
<td>48.1</td>
<td>-2.1</td>
</tr>
<tr>
<td>7</td>
<td>Sri Lanka</td>
<td>101.0</td>
<td>2013</td>
<td>39.6</td>
<td>-2.7</td>
</tr>
<tr>
<td>8</td>
<td>Sudan</td>
<td>100.9</td>
<td>1353</td>
<td>52.9</td>
<td>-1.3</td>
</tr>
</tbody>
</table>

*Source: World Bank, FAO, USDA, CEIC and Nomura Global Economics estimates*
Food Crises, Macroeconomic Causes and Effects

- Exacerbates inflation (food weighting in CPI basket is 10-20% in high income countries, but one third in China, 46% in India, and over 50% in Nigeria, Vietnam and Bangladesh), hence affects monetary policies

- Fiscal balance deteriorates sharply due to interventions, e.g. Indonesia spends 3% of government budget on consumer subsidies, Food Corporation of India (FCI) distributes food through Public Distribution System (PDS) to the poor, food subsidies likely to exceed $12bn 2010

- Exchange rate may weaken in import-dependent countries, leading to higher inflation, deteriorating growth, while strengthening currencies of food exporters, with risk of Dutch-disease effects

- World Bank (2009) estimates that nearly 2/3 of total income spent on food in the poor urban population of the developing world
Pending Questions regarding Land Reform

• Small-holder agriculture can be efficient. A World Bank report on Argentina, Brazil, Chile, Colombia and Ecuador - small farmers were 3 to 14 times more productive per acre than their larger competitors.


• Brazilian case- between 1995 and 2002, 20 million hectares redistributed to 635,000 families. Mixed record. At Pirituba, some farmers income only US$150 per month. The Cardoso administration spent US$7 billion on land reform in his first term alone.
Study of agro-export booms by Carter Barham & Mesbah (1996):

- Chile: exclusionary pattern partly offset by rapid growth in employment on larger farms, but new jobs were mostly seasonal and paid stagnant or declining wages
- Guatemalan highlands smallholders main beneficiaries in boom of winter vegetable crops.
- In Paraguay, soya and wheat exports were exclusionary
In 2009 between 15m and 20m hectares of farmland purchased in poorer countries by foreigners for some $20bn-$30bn since 2006 (IFPRI, 2010)

“These deals will make the rich richer and the poor poorer, creating clear winners who benefit while the losers are denied their livelihoods” Howard Buffet
The Development Potential and Risks of ‘Land grabs’

- Main form of investment: land purchase or long-term lease
- Share of total land assets owned by foreigners is small
- Major investors: Gulf States, China, Republic of Korea
- Main target region: Africa, also Latin America
- Investors: mostly private sector, but governments involved
- Investment partners in host countries: mainly governments
- New focus: production of basic foods and animal feed

Source: FAO From Land Grab to Win-Win

“Investors are targeting countries with weak laws, buying arable land on the cheap, and failing to deliver on promises of jobs and investments”

World Bank 2010: See FT, World Bank warns on ‘farmland grab’ by Javier Blas, July
Conclusions

• Technocratic solutions to resolve the food availability problem are easy –
  • by intensifying production using existing technologies (greater irrigation, more intensive use of fertilisers, pesticides, etc.) or by adopting new technologies (GMCs, or new varieties of crops)
• Distributional questions are far more hard, but the long-term payoff could be large..
• In any case, they have their own ‘raison etre’ – not just a justification on economic grounds.