

## **FOOD CRISIS IN SOUTHEAST ASIA: THE POLITICAL-ECONOMIC IMPACT OF THE RISE OF COMMODITY PRICES.**

The devastating presence of food crisis in this millennium has undoubtedly shocked all walks of life, from policy-makers to housewives in all areas of the globe. Unexpectedly, an unimaginable catastrophic chain of complex elements have propelled millions of people into hunger and malnourishment. Despite all the advancement in technology in food production, increase affluence in many nations worldwide and increase trade facilitation to ease exchange of products among countries through the World Trade Organization manifesto, food inflation has rattled every nation.

The devastating impact of the current food crisis scenario had put leaders of the world, particularly in developing and least developed countries, to re-evaluate their domestic and international policies on food security and trade. The concern over the food crisis had subjected the Association of Southeast Asian Nations (ASEAN) Trade Ministers' meeting in Bali Indonesia in May 2008 to pay due attention and regionalize efforts to mitigate the critical situation that has seized the region. The current food crisis scenario has undoubtedly grown to a worrying level that the UN Secretary-General Mr. Ban Ki-Moon has acknowledged that the situation will “escalate and pose real threats to economic growth, social progress, and even political security”.<sup>1</sup> To date, the world has witnessed various disturbing episodes that the increase in food prices have catastrophically inflicted on over 2.6 billion people around the world who live on less than US\$2 a day. Many unfortunate poor spend between sixty to eighty percent

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<sup>1</sup> BBC News. April 28, 2008. “UN Meeting to Address Food Crisis”.

of their incomes on food. Hence, during this competitive and capitalistic era, it is not uncommon that hundreds of millions of people cannot afford to eat (Angus 2008).

### **Global Food Revolution**

In the 1960s and 1970s, capitalist country like the U.S poured money and technical support into agricultural development in developing countries, especially in Southeast Asian, in an effort to counter discontented peasant. The “green revolution” was promoted by throwing incentives in the forms of new seeds (hybrids), fertilizers, pesticides, agricultural techniques and infrastructure. This had sparked spectacular increase in food production, particularly rice. Yield per hectare was reportedly expanding until the 1990s.

Unfortunately, the 1970s also marked the end of the “green revolution” when food production became increasingly globalized and concentrated. The richest countries in the world, aided by the international agencies and corporations, have systematically undermined the poorest countries’ ability to feed their populations. Since then, a handful of countries have dominated the global trade in staple foods. Eighty percent of wheat has since come from six exporting countries. Eighty five percent of world rice supply has also been dominated by six exporters. This has ultimately driven the world’s poorest countries to be the ones that must import food to survive, at the mercy of economic trends and policies in those few exporting companies. Untowardly, the poor always has to pay the price when the global food trade system stops to deliver.

Interestingly, food prices had experienced historic lows by the end of the 1990s. However, after the turn of the millennium, prices began to increase (Wahlberg, 2008). And since 2006, food

prices have escalated dramatically, raising fears of a global food crisis. The price hike has affected virtually all major commodities. Prices of dairy and many cereals more than doubled in 2007, reaching all-time record highest (Wahlberg, 2008).

### **The Causing Factors of the Food Crisis**

To a great extent, the increase in food prices has obviously been attributed to global markets. Global markets have now played an important role in determining local prices since more often various food are made available by importing from far away. Prices of imported food prices could therefore be subjected to any increase in fuel prices. Additionally, modern food production also relies on petroleum-based product such as fertilizers or petroleum-dependent technology such as farm equipment and transportation.

Shortages and soaring prices for edible oil such as palm oil, soybean oil and many other types of vegetable oils have also made food more costly. Corporate farming has also exerted enormous impact on food availability when conversion of cropland from food production to growing raw materials, such as corn, for ethanol production takes place. The biofuel craze driven by high profitability has taken arable land away from food production that ultimately results in increase food prices. On one hand, farmers who grew rice and other food staples have also switched switching to more profitable cash crops or driven to sell off agricultural land for other money-making uses.

Indeed, there are many factors and reasons that contribute to the underlying cause of the current food crisis. In Haiti and Egypt, for example, no scarcity in food was reported. However, it has been the high prices that made the food in accessible to the masses. On the contrary, the

Philippines faced food shortages that were partially due to less domestic food cultivation. In such a case, global warming and climate change has been blamed for poor performance in food production.

The effect on commodity markets has been more intense recently due to the crisis in the U.S. financial market. Speculations on the financial market, including futures trading, have exacerbated the energy and food crisis by inflating prices in spite of a global economic slowdown. Food and energy prices were expected to rise for years ahead due to increasing demand and shrinking outputs. Food such as rice, soybean, wheat, and corn futures are traded on various American stock exchanges, including the Chicago Board of Trade and New York Mercantile Exchange, rubber on the Singapore Stock Exchange and palm oil on the Malaysian Stock Exchange.

In January 2008, the International Monetary Fund (IMF) predicted world economic growth slowing to 4.1 percent for the year, down from 4.9 percent in 2007. The U.S. economic growth was predicted to slow to 1.5 percent in 2008.<sup>2</sup> In the same report, IMF predicted that Asia would also experience a reduction in its economic growth rates. China, however, predicted rapid growth but a slightly slower pace with a forecast rate reduced from 11.4 percent (2007) to 10 percent for 2008. Accordingly, the deepening credit crunch of the U.S and the weakened Wall Street trading has negatively affected the trading and the economies of developing countries. The domino effects of the U.S economy, coupled with the high oil and commodity prices, have directly rattled the global food emergency situation, bringing hunger and political instability in

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<sup>2</sup> Apostille US. January 2008. [http://apostille.us/news/imf\\_sees\\_slowing\\_world\\_economy\\_in\\_2008.shtml](http://apostille.us/news/imf_sees_slowing_world_economy_in_2008.shtml)

various countries worldwide as reported in Haiti, Bangladesh, Africa, the Philippines and Indonesia (Van Auken 2008).

### **Political-Economic Impact of Food Crisis in Southeast Asia**

The crisis over the rising cost of food has prompted various responses with myriad objectives serving different interests. The rice crisis situation was thought to present a good opportunity for Thailand, and other rice exporting countries such as Vietnam and Cambodia. These countries produce more than enough rice to feed its millions and have a surplus of many food items for export.

The public announcement by Thailand's Prime Minister Samak Sundaravej on the 30th April 2008 to form the Organization of Rice Exporting Countries (OREC) was seen as a political threat to the region (Romero, 2008). The proposed OREC could have challenged the spirits of ASEAN. The proposal to form a rice exporting cartel in the midst of the critical period of rice crisis was received negatively, particularly by major rice importing countries such as the Philippines. The region was reminded of the agreed provision for ASEAN Food Security Reserves with rice stocks. Among others, it was "to realise effective cross-supply arrangements of food, especially rice, from food surplus countries, or other member countries to food deficit countries during normal conditions and in times of emergencies".

The project which was prompted by Thailand, Vietnam, Cambodia, Laos and Myanmar was suspected to only "worsen food security" and contradicted the objectives of ASEAN Free Trade Agreement (AFTA). For Cambodia, on the other hand, the food crisis provided an opportunity for the country to transform itself into one of the world's rice bowls. Rice has since been

regarded as “gold” (Nette, 2008). Fortunately, the idea of OREC was scrapped, eliminating potential threat to ASEAN solidarity.

Due to a weak political climate that inflicted some developing countries in recent times, such as Thailand, Malaysia and the Philippines, a stagnant bureaucracy and a distorted market mechanism could only transform rising food prices towards a liability, become a national crisis (Hengkietisak 2008). The public generally always blamed their governments for any increase in prices of goods and services.

Thailand's position as a major producer and exporter of food may present proportionally greater opportunities for the traders and exporters, as opposed to the farmers. During the first quarter this year, food exports brought in around 715 billion baht. Thai rice exports had increased from about 700,000-800,000 tonnes a month to about one million tonnes a month, with the value rising 96%. Offsetting the increase in export earning, Director of the Food Institute, Yutthasak Supphasorn, predicted that within the next 10 years food prices would rise 20-50 times (Hengkietisak, 2008). The consequence could be devastating for about 6.1 million people classified as poor, or about 9.5% of its 63.4 million population of Thailand. The average income of a Thai family is 14,215 baht a month, with 29.6%, or 4,204 baht, going for food. Families classified as poor on average earn 3,897 baht a month, with food accounting for 1,980 baht, or 50.8%, of the family revenue. The food crisis epitomized by price crisis has caused the most popular grade of Thailand rice sold for \$198 a tonne five years ago and \$323 a tonne a year ago. On April 24, the price hit \$1,000. In Thailand, armed soldiers have been deployed to prevent the poor from seizing food from fields and warehouses. (Agence France-Presse, April 13).

Similarly, in the Philippines, armed soldiers were deployed as security escorts during rice distribution watch a large crowd of residents waiting to buy cheap government rice outside the National Food Authority warehouse in Manila on April 11, 2008. Police officers and soldiers were mobilized to supply the poorest Filipinos with subsidized rice. The rice, much of which was imported from Vietnam, sold for 18.25 pesos a kilogram, or 20 cents a pound, half the price of the cheapest commercially sold rice in the Philippines. By March 2008, the average retail price of rice in the Philippines was recorded 72 US cents a kilo, from 60 US cents in 2007.

In Vietnam, the panic over shortage of rice supplies in April 2008 had prompted the government to ban speculation in the market after a "chaotic" buying due to the growing global fears about food security. Speculators triggered a doubling of rice prices in Vietnam's markets. Supplies of rice disappeared from many shop shelves, and the country faced its biggest food crisis in 20 years, even though it is the world's second-biggest rice exporter. Vietnam has been obliged to cut its projected rate of economic growth this year because its inflation rate has jumped to a record 18 percent (York, 2008). In April 2008, Vietnam extended a ban on rice sales to help stabilize domestic food prices as it tries to tame double-digit inflation. The export restriction, however, was primarily designed to limit company-based contracts and to protect state-backed companies that join tenders in the Philippines (Reuters, 3 April 2008).

In Indonesia, rising food prices helped push up annual inflation to 8.17 percent in March 2008, the highest since September 2006 which was at 14.6 percent (IRIN News 2008). Soaring soybean prices had affected the livelihoods of makers and vendors of tempeh, Indonesia's traditional soybean cake. The rising prices of food had provoked protests in parts of Indonesia. In mid-January 2008, some 10,000 tofu and tempeh (fermented soybean cake) producers and vendors

rallied at the State Palace, Jakarta, demanding the government to lower soybean prices and discontinue the free trade policy that has allowed private companies to control prices (Jakarta Post, 2008). In another incidence, about 500 people took to the streets of Jakarta in March to demand the government bring down prices following media reports of cases of starvation that led to the deaths of a school-boy and a pregnant mother (IRIN News 11 April 2008). To calm the situations, the government of Indonesia announced that it would subsidize the price of soybean for six months (Wulandari, 2008). Disturbed with the adverse impact of the food crisis, the public blamed domestic mismanagement of agriculture policy and international pressures to liberalize trade in food for causing food insecurity.

In Malaysia, the issue of rising food prices was used as one of the vote baiting strategies by opposition parties to generate doubt on the ruling party during the March 2008 general election (Roberts, 2008). The ruling party was depicted as the culprit that had allowed the increase in food prices. In February 2008, prices of popular grades of rice in Malaysia had increased substantially whereby the price of a local brand increased by 26 percent compared the previous week (Agence France-Presse, 5 February 2008).

The continuous rises in prices of food in the global market in 2008 has prompted the Malaysian government to implement the National Policy on Food Security Malaysia with an allocation of 2.49 billion ringgit (778 million dollars) to increase food production and at the same time to boost the public confidence on the re-elected government (Agence France-Presse, 5 February 2008). Additionally, more than 1.0 billion ringgit had been allocated to increase the rice buffer stock to ensure a three-month supply of the grain.



The food crisis or the food price crisis in Malaysia eventually called for a review on its agricultural and food security policies. Questions and criticisms were thrown as to highlight the failure of Malaysia to be self-sufficient in rice, producing around 1.6 million tonnes of rice, which roughly meets 70 percent of domestic consumption. Ultimately, together with Indonesia and Brazil, Malaysia was criticized for encouraging companies to slash thousands of hectares of rain forests to cultivate palm oil or sugarcane for biofuel production, instead of for food. At the same time, BERNAS, the sole rice importer of Malaysia was also put on scrutiny. The monopolistic power given to BERNAS to ensure supply and availability of rice, which is positioned under National Security, was seen to be politically driven, causing uneasiness among the public.

## **Conclusion**

Domestically, the effects of rising prices hit harder at those with less disposable income. The most disadvantaged groups see their purchasing power drop. When people go hungry, political, economic and social instability often result. Food riots have occurred in certain poor countries. Some richer countries have made available subsidized cheap food to prevent possible protests.

Nonetheless, the global system of agricultural production and trade, which currently favors large corporate agriculture and export-oriented crops, discriminating against small-scale farmers must be reformed. The developed economies like the EU and the US must cut all subsidies for biofuel to discourage production that competes with food.

Currently, despite the weakened US economy, the capitalist market with the intrinsic drive for profits has continued to triumph. A long-term solution for world hunger seems illusive as long as the controlling economies and currencies continue to reign over humanity's needs. It has always been the primary goal of capitalist production to sell food for profit, even when people are starving. Food, unfortunately, is a commodity to be traded like everything else. Thus, it would not be uncommon to witness high prices and large warehouses of grain co- exist side by side with starvation when people are too poor to buy food (Durkin 2008)

Thus, it is understandably apt for the Venezuelan President Hugo Chavez to describe the current global food crisis as "the greatest demonstration of the historical failure of the capitalist model."<sup>3</sup>

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<sup>3</sup> During an extraordinary summit of the Bolivarian Alternative of the Americas (ALBA), held on 23 April 2008, adopted a plan addressing the impact of rising food prices on Latin America's poor.

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