

Impact of rising food and fuel prices



Abstract

In this century, rising food and fuel have become the important problems in the global. From these impacts have effects to many countries, especially in poor and developing countries. This article analysis the causes of the rising international food and fuel prices crisis with direct and indirect situations, the impact to householders and the economic in their countries, especially the organization appropriate policy response to support the agricultural products. In conclusion, is to brief about what we learn from this crisis and what will it happen in the future.

Introduction

International prices of food and fuel have been uncertain since 2003 and continued rising in every year. From sharply increasing price in agricultural commodity has been the major of problems to concern and consciousness in developing countries. The causes of this impact are reinforcing factors, low stocks for wholegrain products, rising oil prices, and import and export rates and depreciation of U. S. dollars.

Most concern is rising the price of food in the developing countries. All poor people will spend much money on cost of living. From dramatically rising prices, the developing countries will increase millions of hunger and malnutrition people, therefore, the government and organization will solve this crisis effectively. Moreover, rising fuel price will affect to the world economy and economic growth especially in developing countries.

In the first article is to explain the potential problem of increasing food and oil price. Next article is to provide the potential consequences on the poor

with direct and indirect conditions. The analysis on rising oil price can effect automatically to food price. Finally, the government and organization such as UN, IMF, and World Bank will support the policy responses this crisis. In addition, this article will recommend solutions and expect trends in the future.

Impact on the rising food price

The costs of agricultural import, particularly fuel, have been rising.

Nowadays, global farming structure has change more than ever happen before because of many factors with directly (e. g. shipping, agriculture, refrigeration, and distribution) and indirectly (e. g. pesticides the price of urea, and product of fertilizers) (Currie, 2007). Furthermore, oil prices are rising much more than happened and affect to agriculture cost in long term, that's mean there are linkage between food and fuel prices (Column, 2008).

In this paper has identified the factors which can be caused of high food price (Abbott, 2008). The current impact is become a global phenomenon and can cause many problems. The price of food had panic since the 1950s; therefore, the government had the green revolution policy to improve the agriculture product such as cereals, corn and rice and to reduce food price and reductions in poverty. However, food prices have been increasing since 2000s and especially in 2006. For example, the wheat price per ton rose from US \$105 in January 2000 to US \$481 in March 2008 (IMF Primary Commodity Prices, 2008). In the next ten years, IMF predicts that the price of wheat will continue increasing because of economic crisis.

As figure 1, the percentage of staple crops prices had highly changed around 148. 4% from 1970 to 1974 because of food crisis. However, their prices had slightly changed about 101. 9% between 2004 and 2008. All energy prices had been increasing by 80-120% that were metals and minerals. The depreciation of the dollars involved to low interest rates and property bubble (Headey&Fan, 2008).

The rising food prices are critical situations in developing countries, particularly, poor people in urban areas have directly face on rising food prices. Therefore, the high prices of oil produce an effect to the costs of agriculture and production. The demand of oil is increasing because agriculture production has become to use more energy than in the part decade. For example, in the period on January 2007 to June 2008, the price of nitrogen-based fertilizer rose from US\$ 277 to US\$ 450 per ton , potash-based fertilizers increased from US\$ 172 to US\$ 500 per ton, and diammonium phosphate dramatically increased from US\$ 250 to US\$ 1, 230 per ton (Vidal, 2008).

Furthermore, bad weather affected to products the short term. The experience in Australia had the worst drought since 2002; resulting agriculturists lost grain products and dropped exports. The Russian Federation got experienced a couple year of drought in 2005. The global average agricultural had impacted seriously because of uncontrolled situation. On the other short term from 2007 to 2008, the export restriction related to domestic markets from the effects of increasing international prices. India, Viet Nam, and Cambodia were banned the rice export.

Indonesia and Malaysia forced higher export taxes on palm oil products.

Oilseed and vegetable oils were banned exports by Kazakhstan.

China first got rid of the value added taxes on exported grains and grain products (Ronald, 2008). All these situations provided to approaching the international grain prices, in particular the case of rice.

Impact on the rising fuel price

Oil is the major part of farming production and in industrialized countries where have mechanized and highly exporting demand. Rising oil prices has directly affected the transport cost, domestic agricultural market. When oil prices was US\$ 60 per barrel, people would diversify using biofuels for reduce the cost of production (Schmidhuber, 2006). Using biofuels will impact on raising the raw materials cost, for example, wheat, soy, and palm oil by encouraging government.

In the future, the demand of using biofuels will be increasing for transport and over 95% will request for transportation (Fulton, Howes, & Hardy, 2004). However, the International Food Policy Research Institute (IFPRI) provided the International Model for Policy Analysis of Agricultural Commodities and Trade model (IMPACT) for developing food demand, supply, and security until 2020 (Rosegrant, 2008). This agricultural model is to control quality and prices of products such as meats, soybeans, oilseeds and others in 115 countries. The biofuels production and price are control by this model

Rising oil prices are increasing cost of fertilizers, transport and machine operation. Oil prices have been continuing to increase more than food price and fertilizers price. In current, oil prices are over US\$ 100 a barrel and will

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be increasing over and over in every year because fossil oil is limited resources but the demand of using oil has more increase than past.

There are several causes of high oil prices can impact farming product markets. The cost of farming productions were exclusively increasing such as pesticides and fertilizers, definitely would become the long term problems, however, the prices of productions depends on the cost of fuel. Likewise, fuel was significant element of the cost of transporting and procedure farming production. In addition, in Middle East countries have increased the demand of production and substitute product as biofuels (Dewbre, Giner&Thompson, 2008).

Rising international food cost has affect in two ways; firstly, direct way affects to consumers, and producers because of increasing cost of living. Next, impact on economic growth is indirect way. When the price of food is high, people will pay less or reduce their food consumption. According to IMF world economic, explained the percentage of GDP growth in the global has the negative way except China and India economic, however, forecast for 2010 will get better as in the figure 2. China and India are still increasing of GDP because they offer the low cost of cheap labor. However, IMF predicted that GDP in 2010 at Germany is remain negative rate of -0, 6.

In developing countries, in the particular, faced domestic food price inflation in countries such as Sri Lanka (34%), Egypt (13. 5%), and Costa Rica (21%) because of depreciation of the US dollar, domestic infrastructure, and price stabilization (Alam, 2008). From these effects, the inflationary pressure was main major broken on economic growth.

Furthermore, poor countries had slower the percentage of export rate than import rate, while the opposite happened in developed countries.

Most of poor countries would export the agriculture products, which had small amount of country's income. High transport costs would push up the import products cost, for example, in several years ago, the maize price was US\$ 25 a tone but in 2008, price was up to US\$ 125. That's increased the cost of goods and exporters got less benefit from their products (ODI, 2008).

Economic has rapidly grown in developing countries and the demand of agricultural products, particularly, food and dairy products that are increasing more than expectation. Focusing on Indian, China, and South Africa, the economic growth has been developed and widespread in the global. The result shows that the unstable of food prices involves the rate of growth in GDP (Abbott, 2008).

Impact on U. S. dollar exchange rates

The influence of exchange rate can drive the agriculture price increasing. Part of food prices are controlled by U. S. dollars, for example, when the dollar drops, it will happened during rising goods prices. But on the other hand, if dollar prices increase, prices of other currencies decrease. This solution will happen when the dollar appreciates. Therefore, the products in developing countries will link to multinational market and a strong U. S. dollar rate. The result shows that the demand of import and export of agricultural products will depend on world prices in U. S. dollar (Abbott, 2008).

The cause of food commodity prices is the exchange rate in the developing countries. The currencies of the Thailand, China, and Philippines appreciated 10% or more against the United States dollar on the domestic market food prices. In the opposite way, Pakistan and the Republic of Korea, whose exchange rates depreciated 15% or more against the United State dollar.

Policy responses

The IMF expected the fiscal cost on food and fuel that their average taxes and subsidies transfer cost would rise and put extra cost on budget deficits at least one percentage on agriculture investment. IMF gave the recommendation on appropriate monetary and fiscal policies such as financial assistance.

- IMF concerned about the commodity price boom and impact increasing price for poor countries.
- In the short term, IMF helped countries be accommodative such as temporary and targeted subsidies.
- IMF provided financial support to those countries where got the effect on these crisis.
- IMF also supported multi companies to open new market or to increase factories.
- IMF helped low-income countries by augmenting the resources with the PRGF arrangement.

The World Bank had the policy to decrease the net taxation of agriculture goods and the cost of transmission. In the long term, the World Bank estimates that demand of consumption will dramatically increase by 50 per cent by 2030, as well as, rising of the population growth. To solve these

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crises, the World Bank suggests that encourage a revolution and massive investments policies in agriculture products in developing countries (Evans, 2008).

High prices of food problem are challenge for governments to solve this problem efficiently. Today, donation is become part of the policy to help poor people. President Bob Zoellick from World Bank introduced “ new deal” on food that has transferred money and food for poor countries, in particular, offering special food prices across the global economic (Guhao&Politi, 2008). There is main focus to support poor countries to develop the quality of life.

Suggestion

The multilateral policies efforts have to support the international free trade in global. Having restrictive trade policies will help the low-income countries on exporting, restrict importing barriers and maintain free trade on fostering incentives for goods such as targeted cash transfers. Moreover, less ambitious and more reasonable on biofuels trade in the EU and The United State will decrease pressure on food prices crisis. However, every policy initiatives have to be informed by assessment that reflect not just changes in the world prices of trade goods, but also local price effects and ability of buying products (Dewbre, Giner, Thompson, 2008).

Learning from part and expectations in the future

Food prices have been increasing faster than another expectation. That’s mean many poor people has faced to these problem from the past, particular, the government will support and solve these problem in the global. Although food prices have probably reached to the peak in the real term but their prices will have more increase in the future (USDA, 2008),

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especially if oil prices still rise and prices of production cost will increase more and more. Follow the case in 1974, the crisis happened from the weaknesses of the international food cost and process of investment. New institutions were introduced in 1974, for instant, the WFP, CGIAR, IFAD and GEIWS which have influence to encourage food security and develop agricultural processes (Headey&Raszap, 2008).

However, the global policymakers have failed to address the most fundamental deficiencies of the international food system, including agricultural investment and aid (Bezemer&Headey, 2008). About the global policy organization has an obligation and has renewed over 30 years to complete these issues (Braun, 2008), particularly with concern suppliers and market trades.

The adapting ups and down of universal market, make affect thoroughly even the country where is the agriculture exporting countries like Thailand. The expansion goes up of the poorness is the important factor. The poor lose primarily because of the increase in the prices of staple foods. The main beneficiaries of the food price increases are not the poor, but the owners of agricultural land and the wholesale dealer. Unskilled wages rise in real terms, as agricultural production expands in response to the increase in farm level prices, but this effect is not strong enough to outweigh the negative effect on the poor of the increase in staple food prices. If this outcome occurs in Thailand, a large agricultural exporter, it would seem likely that it occurs in virtually all countries. That is, examples of countries where poverty incidence declines as a result of food price increases may be very hard to find. The literature has been right to emphasize the danger that international

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food price increases may threaten the sustainability of continued poverty reduction.

Conclusions

In this paper will concern what increasing food and fuel prices mean for poor people and developing countries. Sharply rising food and fuel prices have major problems in global and will be a challenges for the government and many organizations to develop or encourage the policies, especially, in developing country. The prices on food traded on international markets and consumers in countries are increasing more than last a couple years. In developing countries deteriorated with the number of imports and GDP growth. Therefore, the cost of food prices rising have not been optimistic for the middle class income countries as well.

In additional, rising fuel prices will add cost on agricultural production and effect to import and export markets. The multiple developments in supply and demand sections cause the world impact because its increase of foods trade will increase the fuel production and prices which depend on the developments in energy and crude oil prices.

It is essential to receive the supporting policies from IMF, EU and the World Bank which have influence these issues. Today, high costs of agricultural and fuel are become the global crisis.

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