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Surging Food Prices and Commonwealth Developing Countries

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Since 2003, international prices of a wide range of commodities have surged upwards in dramatic fashion, in many cases more than doubling in the space of a few years or even months. Unlike other commodities, surging food prices are of special concern to the world's poor. Many impoverished people depend on food production for their livelihoods, and all poor people spend large portions of their household budgets on food. There are concerns that millions of people may have been plunged into poverty by this crisis, and that the already poor households suffer further through increased hunger and malnutrition. The 53 members of the Commonwealth comprise a diverse group of high-, middle- and low-income countries, including countries with large populations such as India, Pakistan and Bangladesh; small island states like Antigua and Barbuda, and Seychelles; and net food or oil producers, for example Australia, Canada and Nigeria. This issue of Commonwealth Trade Hot Topics summarises the key findings of a study commissioned by the Commonwealth Secretariat, on the impact of surging food prices on Commonwealth developing countries (CDCs).

Macroeconomic Impacts

The main price rises are in cereals, fuel, fertilisers and minerals, although other food prices may also rise due to, for instance, higher input costs (i.e. fertiliser and oil). If a country is a net exporter of any of these commodities it will derive some benefit from this crisis, but the total benefit will depend on the country's net export position vis-à-vis all the price rises (e.g. whether increased net oil exports in a country like Nigeria exceed the rising cost of net food imports) and on whether macroeconomic benefits/costs translate into microeconomic benefits/costs (e.g. increased oil revenues for oil companies and the government may not trickle down to households). Thus, countries that are macroeconomic winners from surging commodity prices could still experience overall welfare losses.

Impacts on External and Internal Finances

Along with food prices the impact of a surge in oil prices, in particular, will have a pervasive effect on a country's vulnerability to the current crisis. Oil imports cost 2.5 times more than food imports for low-income CDCs and are twice as much for middle-income CDCs, and food-price

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shocks combined with oil-price shocks typically have larger adverse effects than do individual shocks. In this respect, recent International Monetary Fund (IMF) findings of the impact of a further increase in oil and food prices on the current account deficit as a share of gross domestic product (GDP) and on months of imports of international reserves are summarised in Table 1.

Table 1. The impact of oil and food price increases on projected 2009 current accounts and foreign reserves in low- and middle-income CDCs

Country ^a	Before Shock(s)		Oil-price shock		Food-price shock		Combined Shock	
	Current account ^b	Foreign reserves ^c	Current account	Foreign reserves	Current account	Foreign reserves	Current account	Foreign reserves
Group 1 - Low-income CDCs with low reserves after the upward revision in fuel prices								
Grenada*	-32.4	3.2	-34.6	2.4	-33.0	2.9	-35.3	2.1
Kenya*	-3.8	3.0	-5.5	2.0	-4.5	2.6	-6.1	1.7
Sierra Leone	-5.9	3.7	-8.2	2.2
Solomon Islands*	-13.9	3.3	-15.6	2.8	-14.7	3.0	-16.5	2.5
Tanzania*	-10.1	3.8	-12.0	2.7	-10.2	3.7	-12.1	2.6
Zambia*	-3.9	3.3	-5.1	2.5	-3.9	3.2	-5.1	2.5
Group 2 - Low-income CDCs with low reserves before the upward revision in food and fuel prices								
Bangladesh*	-0.7	2.4	-1.7	1.9	-1.1	2.2	-2.0	1.7
Dominica*	-23.9	2.7	-26.4	1.9	-25.0	2.3	-27.5	1.5
Ghana	-7.9	2.1	-10.7	1.2	-7.2	2.4	-10.0	1.4
Guyana	-15.8	2.7	-19.8	1.9	-12.0	3.4	-15.8	2.6
Malawi*	-4.4	1.5	-5.8	0.9	-5.1	1.1	-6.4	0.5
Maldives*	-19.2	-2.3	-22.5	-3.0	-17.4	-1.8	-20.6	-2.5
Pakistan*	-6.1	2.8	-7.4	1.7	-6.5	2.5	-7.8	1.4
Samoa	-17.9	2.2	-20.2	1.5	-19.9	1.5	-22.2	0.9
Sri Lanka*	-23.3	2.2	-24.4	1.8	-24.5	1.8	-25.6	1.4
St. Lucia*	-6.8	2.3	-7.9	1.9
St. Vincent & Grenadines*	-4.9	2.6	-6.6	1.7	-5.4	2.3	-7.2	1.4
Tonga*	-17.2	2.2	-23.4	0.4	-20.9	1.0	-27.1	-0.7
Group 3 - Low-income CDCs with reserves covering more than three months of imports before and after shocks								
Cameroon*	-0.4	6.5	1.7	8.1	-0.6	6.4	1.5	7.9
Gambia*	-10.9	4.0	-11.7	3.6	-11.5	3.7	-12.3	3.3
India	-3.4	10.1	-4.5	8.9	-3.3	10.2	-4.4	9.0
Mozambique*	-10.3	4.5	-11.6	3.8	-11.9	3.7	-13.2	3.1
Nigeria*	5.7	15.5	11.3	19.5	5.2	15.0	10.9	19.1
Papua New Guinea	1.7	6.7	4.6	7.6	2.3	6.9	5.2	7.7
Uganda	-9.3	6.1	-10.1	5.5	-8.6	6.5	-9.4	5.9
Group 4 - Middle-income CDCs with low reserves after the upward revision in fuel prices								
Barbados*	-7.5	3.3	-9.0	2.8	-8.4	3.0	-9.9	2.5
Malta*	-5.8	3.8	-9.6	2.9	-6.6	3.7	-10.4	2.7
South Africa	-7.9	3.4	-9.1	2.7	-7.8	3.4	-8.9	2.8
St. Kitts & Nevis*	-28.3	3.4	-30.0	2.8	-29.9	2.8	-31.6	2.2
Swaziland	-1.6	3.3	-4.8	2.4	-1.1	3.4	-4.3	2.5

Group 5 - Middle-income CDCs with low reserves before the upward revision in food and fuel prices

Antigua & Barbuda*	-14.6	2.1	-16.8	1.4	-15.7	1.7	-17.9	1.1
Bahamas*	-13.8	0.9	-15.5	0.4	-14.8	0.5	-16.5	0.0
Belize	-4.3	2.0	-5.7	1.5	-3.1	2.4	-4.5	2.0
Fiji*	3.9	0.8	1.8	-0.2	3.7	0.7	1.6	-0.3
Jamaica*	-11.9	1.9	-15.3	0.9	-12.7	1.7	-16.1	0.7
Namibia*	10.0	2.6	8.3	1.9	8.9	2.1	7.1	1.4
Seychelles*	-41.4	1.0	-42.2	0.9	-44.4	0.5	-45.3	0.4

Group 6 - CDCs with reserves covering more than three months of imports in goods and services before and after shocks

Botswana*	8.3	27.9	6.8	26.2	7.6	27.5	6.1	25.8
Malaysia	11.1	7.8	11.6	7.8	11.7	7.9	12.2	8.0
Mauritius*	-5.8	4.4	-8.4	3.6	-6.3	4.3	-8.9	3.4
Trinidad & Tobago*	12.5	8.4	17.4	10.7	12.3	8.3	17.2	10.5

The key findings from Table 1 are as follows:

- Generally, fuel prices have larger impacts on external positions than do food prices, except for a few oil exporters (Cameroon and Nigeria), although higher food prices cause external positions to deteriorate in 29 of 41 CDCs.
- Many of the small island developing countries would be worst affected by rising food prices alone, although most of these are middle-income countries.
- Mozambique is the only sizeable low-income CDC to be severely affected by a food-price shock alone, but the external positions of most CDCs deteriorate somewhat as a result of rising food prices (these countries are denoted by an asterisk).

In terms of government finances, many CDCs apply taxes or subsidies to fuel and food, and many have also responded to the crisis by reducing taxes or raising or maintaining subsidies, even though the unit cost of those subsidies is increasing as prices increase (Table 2). Other countries have increased transfer expenditures in order to soften the impacts on consumers. Results suggest that in some cases the increases in budget deficits due to lost revenue or increased outlays are quite large as a share of GDP, for example Bangladesh (1.9%), Cameroon (1.2%), The Gambia (1.4%), Guyana (2.2%), India (1.8%), Malawi (1.2%), Malaysia (1.5%), Maldives (2.7%), Pakistan (2.15%), Seychelles (1.9%) and Sri Lanka (1.1%).

Transmission into Domestic Markets and the Effects on Inflation

Rising prices will primarily affect poor people by increasing the cost of living. The transmission process of rising international prices to domestic costs of living is a complex one and depends on a number of factors such as government's fiscal and trade policies including tariffs, subsidies, exchange rate systems, other price control mechanisms, etc. There is clear evidence to suggest that since 2005, general prices have risen by almost 50 per cent in Ghana, Kenya and Sri Lanka (i.e. around 12% per annum) and by around 40 per cent in Jamaica and Malawi (i.e. 10% per annum). Most other countries have experienced moderate price changes of around 25 per cent (i.e. 6% per annum). With the exception of India, Nigeria, Uganda, United Republic of Tanzania, and Zambia, food prices have risen faster than non-food prices, and for some countries - for example Sri Lanka, Jamaica, Kenya, Lesotho, Pakistan and Bangladesh - by substantial margins (Table 2).

Source: IMF's World Economic Outlook and IMF staff calculations.

Notes: CDC indicates a Commonwealth developing country; severe effects (a drop in reserves superior to 0.5 months of imports) are shown in italic; asterisks indicate the losers from food-price rises.

a. For some countries (e.g. Tonga), projections and data may have changed significantly since the Spring 2008 World Economic Outlook submission.

b. Calculated as share of gross domestic product.

c. Calculated as months of the next year's imports of goods and services

Table 2. Indicators of macroeconomic vulnerability to the food crisis

Country	Cereal imports as a share of total imports, 2000-05 (%)	Net food imports as a share of total imports, 2004/05 (%)	Net agricultural imports as a share of imports, 2004/05 (%)	Average annual CPI inflation, 2005-08 (%)	Changes in food prices relative to non-food prices, 2007-08
Bangladesh	5.7	-6.4	-9.4	7.2	6.5
Belize	2.0	12.1	19.6		2.5
Botswana	1.0	11.2	10.1	8.7	-
Cameroon	8.6	5.9	60.3	3.1	1.3
Dominica	1.0	3.8	2.6	3.0	-
Gambia, The	11.7	-4.6	-4.3	-	-
Ghana	4.9	-3.3	18.4	12.5	-
Grenada	3.6	-5.8	-2.9	4.4	-
Guyana	1.9	5.1	34.1	7.1	4.7
India	0.0	2.3	2.9	4.9	-6.2
Jamaica	3.9	-4.7	-3.4	11.8	13.7
Kenya	4.6	1.8	21.0	13.8	13.1
Lesotho	0.3	-1.7	-3.8	6.1	16.3
Malawi	3.6	-3.3	57.7	10.7	-
Malaysia	1.0	-0.9	1.5	2.5	2.3
Mozambique	7.5	-8.6	-0.2	9.3	9.0
Nigeria	4.2	-5.3	-3.4	8.3	-2.0
Pakistan	1.0	2.7	-2.5	8.3	14.1
Papua New Guinea	-	-	-6.2	-	-5.2
Samoa	0.7	-6.7	-10.0	4.7	-
Sierra Leone	56.0	9.0	-5.1	0.8	36.1
Solomon Islands	1.5	-2.7	114.8	9.7	-
South Africa	1.0	3.2	5.3	5.7	8.4
Swaziland	4.0	-3.2	5.6	13.2	26.5
Sri Lanka	1.2	14.5	111.6		-
Tanzania	6.1	-2.2	28.3	6.8	-16.3
Uganda	6.9	-1.6	15.0	5.7	-19.7
Zambia	2.5	1.0	17.2	9.6	-0.9
Other CDC average	4.3	-0.9	6.4	6.8	8.1

Microeconomic Effects on Poverty

Given that rising food prices have effects on both micro and macroeconomic indicators, analysis was carried out to construct indices of micro- and macro-vulnerability based on some of the variables presented in Tables 2 and 3. The exercise showed countries such as Malawi, Sierra Leone, Bangladesh, Mozambique, Solomon Islands and Sri Lanka to be highly vulnerable both in terms of micro and macroeconomic indicators. Countries like The Gambia, Ghana, Kenya, Kiribati, Vanuatu, Tonga and Tanzania were found to be moderately vulnerable in both dimensions. Among others, Cameroon, India, Jamaica, Lesotho, Maldives, Mauritius, Nigeria, Pakistan, St Kitts and Nevis, Samoa, Seychelles and Zambia were found to be vulnerable in one dimension or the other.

Table 3. Indicators of microeconomic vulnerability to the food crisis

Country	Calories from cereals, 2003 (%)	Hunger index, 2004 (0-100)	Food expenditure as a share of total expenditure (%) ^a	Dietary diversity (0-100)	Dietary diversity (0-100)	Inequality in access to food (CV)	\$1/day poverty as a share of the total population (%)	\$1/day rural poverty as share of the rural population (%)	\$1/day urban poverty as a share of the urban population (%)
Bangladesh	82.0	28.0	57.1	16.0	1,119	32.0	49.8	53.0	36.6
Belize	35.0		59.3	62.0	7,603	25.0			
Botswana	46.0	18.0	39.0	47.0	12,121	25.0			
Cameroon	40.0	19.0	54.8	41.0	2,024	26.0	40.2	49.9	22.1
Dominica	24.0		57.2	66.0	8,951	24.0			
Fiji Islands	40.0	3.0	64.2		4,408				
The Gambia	52.0	19.0	56.2		1,095		57.6	61.0	48
Ghana	29.0	15.0	56.0	28.0	1,207	27.0	39.5	49.9	18.6
Grenada			56.9	72.0	9,125	28.0			
Guyana	46.0	10.0	65.8	50.0	3,437	26.0			
India	59.0	25.0	55.2	39.0	2,393	34.0	28.6	30.2	24.7
Jamaica	34.0	5.0	42.2	59.0	7,333	24.0	18.7	25.1	12.8
Kenya	48.0	21.0	55.7	45.0	1,421	26.0	52.0	53.0	49
Lesotho	78.0	13.0	55.7	18.0	1,395	27.0			
Malawi	60.0	25.0	56.9	24.0	678	32.0	65.3	66.5	54.9
Malaysia	45.0	7.0	36.0	53.0	12,149	22.0			
Mozambique	42.0	28.0	56.8	23.0	716	31	69.4	71.3	62
Nigeria	45.0	19.0	55.5	35.0	1,562	28.0	34.1	36.4	30.4
Pakistan	50.0	23.0	55.3	49.0	2,288	33.0	32.6	35.9	24.2
Papua New Guinea			52.3		1,761	27	37.5	41.3	16.1
Samoa	21.0		63.3	69.0	4,989	24			
Sierra Leone	52.0	35.0	57.0	36.0	610	36	70.2	79.0	56.4
Solomon Islands	35.0		68.3	29.0	1,781	25			
South Africa	54.0		44.2	44.0	8,807	23.0			
Swaziland	45.0	15.0	64.0	50.0	4,526	25			
Sri Lanka	54.0	24.1	53.2	43.0	3,631	28.0	25	27	15
Tanzania, United Republic of	51.0	26.0	56.4		964		35.7	38.7	29.5
Uganda	21.0	19.0	56.6	55.0	865	29.0	37.7	41.7	12.2
Zambia	65.0	31.0	56.0	22.0	1,220	30.0	72.9	83.1	56
Other CDC average	48.5	16.5	52.3	45.8	5,949	26.8	37.8	49.0	27.2

The Impact of Rising Food Prices on Africa's Achievement of MDG 1

In order to meet the United Nations Millennium Development Goal 1 (i.e. to halve poverty and hunger by 2015), it has been shown that in the absence of food price increases African agriculture will need to grow at a rapid rate of 7.5 per cent per annum, on average. This calls for

raising the average government agricultural spending in Sub-Saharan Africa from the current level of US\$2.9 billion to US\$13.7 billion a year, with a majority of countries requiring to scale up their individual spending by 20-30 per cent per annum. The Commonwealth study shows that if one is to take into account the effect of rising food prices, African agriculture needs to grow one percentage point faster for which governments would be required to increase their spending on agriculture to US\$16 billion. Regarding Commonwealth Sub-Saharan African countries specifically, as indicated in Table 4, rising food prices would imply an additional annual investment requirement of US\$1.36 billion. Given that their current spending (measured in 2004) of US\$1.58 billion is short of what is required under normal prices by almost US\$5 billion, the rise in food prices will increase the gap to about US\$6.4 billion.

Table 4. The impact of high food prices on achieving MDG 1

Country/ region	Most recent poverty rate (%)	Required annual agricultural growth under normal food prices: 2008-15 (%)	Additional annual growth required under high food prices: 2008-15 (%)	Agricultural Spending 2004 (US\$ billion, 2008)	Required agricultural spending under normal prices: 2008-15 (US\$ billion, 2008)	Additional spending required under higher food prices: 2008-15 (US\$ billion, 2008)
Cameroon	36.8	3.8	1.1	0.105	0.250	0.068
The Gambia	56.7	6.2	0.9	0.013	0.056	0.012
Ghana	34.2	3.0	1.1	0.196	0.396	0.114
Kenya	55.9	10.0	0.9	0.181	1.826	0.369
Lesotho	34.2	7.2	1.0	0.022	0.021	0.125
Malawi	51.5	6.8	0.8	0.016	0.077	0.015
Mozambique	51.4	3.0	0.9	0.052	0.106	0.026
Nigeria	65.3	5.7	0.6	0.854	3.316	0.507
Uganda	36.4	3.2	1.1	0.087	0.182	0.054
United Republic of Tanzania	56.8	7.6	0.6	0.002	0.014	0.002
Zambia	67.0	7.7	0.9	0.052	0.310	0.069
Total	-	7.5	1.0	1.58	6.55	1.36

Conclusions

The recent surge in food prices has affected poor people in developing countries by increasing their cost of living. Along with a rapid increase in fuel prices, many governments are facing macroeconomic imbalances in their external positions. These outcomes also imply that increased spending on short-term relief including reduced tax revenues are likely to limit government capacity to maintain the levels of investment needed for long-term economic growth and poverty reduction. A large number of CDCs have been severely affected by rising food prices (as well as oil prices), with adverse poverty and welfare consequences. Commonwealth African countries, in particular, now face greater challenges in achieving MDG 1. Therefore, the surge in food prices reinforces the need for greater international assistance and co-operation if these countries are to mitigate the negative impact without comprising their development goals.

International Trade & Regional Co-operation (ITRC) Section at the Commonwealth Secretariat

This Trade Hot Topic is brought out by the International Trade and Regional Cooperation (ITRC) Section of the Economic Affairs Division (EAD) of the Commonwealth Secretariat, which is the main intergovernmental agency of the Commonwealth - an association of 53 independent states, comprising large and small, developed and developing, land-locked and island economies - facilitating consultation and co-operation among member governments and countries in the common interest of their peoples and in the promotion of international consensus building.

ITRC is entrusted with the responsibilities of undertaking policy-oriented research and analysis on trade and development issues and providing informed inputs into the related discourses involving Commonwealth Members. The ITRC approach is to scan the trade and development landscape for areas where orthodox approaches are ineffective or where there are public policy failures or gaps, and to seek heterodox approaches to address those. Its work plan is flexible to enable quick response to emerging issues in the international trading environment that impact particularly on two highly vulnerable Commonwealth constituencies - least developed countries (LDCs) and small states.

ITRC Recent Activities

ITRC's most recent activities focussed on assisting member states in the WTO Doha Round and the Economic Partnership Agreement (EPA) negotiations involving the African, Caribbean and Pacific countries (ACP) and the European Union (EU), undertaking analytical work on a range of trade policy and development issues, and supporting workshops/dialogues for facilitating consensus building on issues of our members' interest, exchange of ideas, and disseminating results from informed analysis.

Selected Recent Meetings/ Workshops supported by ITRC

9-10 September 2008: Meeting on Private Enterprises and EPAs, held in Addis Ababa, Ethiopia

2-3 September 2008: Regional Meeting on Climate Change and Trade, held in Port Louis, Mauritius

28-29 August 2008: Regional Dialogue on ACP-EU Fisheries Relations, held in Windhoek, Namibia

28-30 Aug 2008: 1st South Asian Economic Summit, held in Colombo, Sri Lanka

4-5 August 2008: Business Implications of EPA Negotiations for EAC, held in Kigali, Rwanda

12-13 August 2008: Global Partnership for Development, held in New Delhi

25 July 2008: Seminar on Commonwealth Trade Policy Activities, held in London

8 July 2008: Meeting of Geneva Group of Commonwealth Ambassadors, held in Geneva

7-8 April 2008: Workshop on Economic Partnership Agreements, held in Cape Town, South Africa

24 March 2008: Regional Seminar on Trade Regimes in South Asia, held in Dhaka, Bangladesh

Selected ITRC Publications

Cali, Massimiliano and te Velde, Dirk Willem (2008). "Towards A Quantitative Assessment of Aid for Trade", Economic Paper, London: Commonwealth Secretariat.

Grynber, Roman and Newton, Samantha (eds) (2008). *Commodity Prices and Development*. Oxford University Press.

Milner, Chris (2008). *Trading on Commonwealth Ties: A Review of the Structure of Commonwealth Trade and the Scope for Developing Linkages and Trade in the Commonwealth*. London: Commonwealth Secretariat.

Turner, L. (2008). "Quantifying Aid for Trade: A Case Study of Tanzania". Economic Paper, London: Commonwealth Secretariat.

Qalo, Veniana (ed) (2008). *Bilateralism and Development: Emerging Trade Patterns*. London: Cameron May.

Razzaque, M. A. (ed). (forthcoming) *Trade, Migration and Labour Mobility*. London: Cameron May.

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Grynberg, Roman and Bilal, Sanoussi (eds) (2007). *Navigating New Waters: A Reader on ACP-EU Trade Negotiations*. London: Commonwealth Secretariat.

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Razzaque, Mohammad A. and Laurent, Edwin (eds) (2007). *Global Rice and Agricultural Trade Liberalisation: Poverty and Welfare Implications for South Asia*. London: Commonwealth Secretariat.

Grynberg, Roman (ed) (2006). *WTO at the Margins: Small States and the Multilateral Trading System*. Cambridge: Cambridge University Press.

Stiglitz, Joseph E. (2004). *An Agenda for the Development Round of Trade Negotiations in the Aftermath of Cancun*. London: Commonwealth Secretariat.

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