RSIS S. RAJARATNAM SCHOOL OF INTERNATIONAL STUDIES
Nanyang Technological University, Singapore

RSIS COMMENTARY

www.rsis.edu.sg

No. 107 – 31 October 2022

International Currency Instability and Food Security: Time to Rebuild "Real Food Economies"?

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SYNOPSIS

Debt-distressed countries are handicapped in riding the rising costs of imported food and farming inputs amidst monetary policy shifts internationally. It is timely to rebuild "real food economies" to improve food availability and affordability, hence averting food crises and ensuing political and social instability.

COMMENTARY

International interest in global food security rose after the 2007-08 food price crisis, when trade disruptions caused a tripling in international prices for staples like rice. Today, global food security is threatened by challenges of a different nature. Rounds of state income support in many countries amid the COVID-19 pandemic have led to significant deterioration in public finances globally, making some developing countries debt-distressed. These have also triggered waves of inflationary and contractionary monetary policies that impact food prices and increase the risk of food insecurity and political instability.

Sri Lanka's economic plight is widely known today. National debt, a currency crisis and a failed state-led agriculture experiment have caused most of its households to face concerns over lack of food, poor health, uncertain livelihoods, and malnutrition. These sparked political instability which led to President Gotabaya Rajapaksa's eventual resignation and replacement.

Notwithstanding policy failures by Rajapaksa's government, Sri Lanka's debt crisis, currency trouble and political crisis may only be the tip of the iceberg. Laos and Mongolia are seeing rising inflation alongside mounting external debt, while the Maldives is suffering a worsening debt-to-GDP ratio. How are the shifting forces of the international economy affecting food prices and supplies, and what coping measures are available to debt-distressed countries?

Money Markets and Food Prices

Since the COVID-19 pandemic began, almost all countries have employed fiscal stimuli to support livelihoods and businesses, totalling US$9 trillion globally by mid-2020 alone. With economic sectors down and many countries short of fiscal reserves, government debt partly financed such stimuli. In the United States, US$2.3 trillion were allocated, including funding from bonds issued by the US Department of Treasury.

As the US dollar is the most widely used currency for international trade, the global monetary system is often impacted by any US move. The issuance of US dollar bonds to spur global economic recovery amid the pandemic led to increased liquidity and inflation, domestically and overseas. Subsequently, rapid food and fuel price inflation led the US Federal Reserve to raise interest rates to tame domestic inflation, with many major economies following suit.

One effect of higher US interest rates is an increase in the international demand for, and hence an appreciation of the US dollar relative to other currencies, which naturally leads other currencies to depreciate. For Singapore, as a small city state importing over 90 per cent of its food consumption, a Singapore dollar depreciation makes food imports more expensive since imports are denominated in the US dollar. In food producing countries, a depreciation of their currency also raises the costs of imported farming inputs such as fertilizers and pesticides. These are then passed on to consumers globally through higher domestic food prices. Such dynamics are well-known among economists as the “exchange-rate-pass-through effect.”

Conundrum for Developing Countries

Singapore has been relatively resilient owing to its robust monetary approaches. The Monetary Authority of Singapore (MAS) has employed several rounds of tightening so that the Singapore dollar is not excessively affected by volatile currency rates, and the domestic inflation stays within manageable levels. For various reasons, such an approach is not available to countries laden with foreign/external debt, as they have insufficient foreign reserves for doing so.

In Bangladesh, for instance, the value of one US dollar in Bangladeshi taka (BDT) has risen *continuously* from approximately BDT85 in October 2021 to a peak of BDT106 in September 2022, a 25 per cent increase. Bangladesh has been hit by rising fuel prices, which raised pumping costs for irrigated crops and increased food prices.

Frequent shifts in international markets present a conundrum to developing countries. On one hand, open trade allows for food from efficient producers to be accessed at lower prices. In 2020, Philippine consumers benefitted from rice imported from Vietnam, whose local producers’ price was at US$292 per tonne, much lower than the Philippines’ US$337 per tonne.

However, the depreciation of debt-distressed countries’ currencies can make imports prohibitively expensive. Some farmers, unable to absorb higher costs for imported farming inputs, have resorted to reducing their production levels. ASEAN member states seeing burgeoning domestic shortages have further turned to banning or controlling the export of certain commodities, including Indonesia (oil palm), Malaysia (chicken), and Vietnam (rice).

Refocusing on "Real Food Economies"

For debt-distressed countries, fixing the macroeconomy and paying off debts will doubtless be an ongoing concern. Yet, the task of ensuring that food supplies are sufficiently affordable and available *cannot wait,* since with each passing day, more families will be eating below their normal levels. As in Sri Lanka, rising hunger levels can spark discontent, leading to widespread instability.

It is timely for these countries – defenceless against shifting international market forces – to redouble efforts in building their "real food economies," measured not in the monetary value of food production but in quantities of food actually produced and consumed. This pivot entails reorganising domestic resources to expand countries' food production base, thereby increasing their resilience amidst international price changes.

The task at hand is therefore to rebuild "real food economies," which are valued for their contributions to domestic food production and consumption besides their contributions to the economy. This involves giving attention and diverting resources towards technologies and practices that can boost food production potential. For instance, drones can reinforce shrinking agricultural workforces in applying fertilizers to crops. Drones can apply fertilizers precisely, increasing crop output per tonne of fertilizer applied and reducing wastage. Biotechnology-enabled flood- and drought-resistant crop varieties can likewise boost resilience against climate impacts. Land redistribution and financial access for smallholder farmers may be included.

Raising Agriculture to National Priority

Pivoting towards the "real food economies" is a broad and overarching project in and of itself. Granted, development of farming sectors has been in the agendas of states. But shifting international market forces are presenting a strong call for governments to raise such sectoral initiatives to the level of national priority. For example, Philippine President Bongbong Marcos' administration, has proposed increasing agriculture spending in next year's budget, despite agriculture's limited contributions (~10 per cent) to national income. For countries like Bangladesh, Laos, the Maldives and Mongolia, such action may just prevent a repeat of the Sri Lankan food crisis.

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