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EXPERIENCES AND POLICY LESSONS FROM THE REGON IN DEALING WITH THE GLOBAL FOOD AND FINANCIAL CRISES

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I. Introduction

1. From 2006 to the early summer of 2008, commodity and food prices in international markets rose to levels not seen since the early 1970s. Domestic consumer and producer prices rose in response – though generally not to the same extent as international prices – and the number of food-insecure people increased sharply. Although international commodity prices have declined since then, domestic prices of staple foods remain high in many countries of the Asia-Pacific region. The OECD-FAO Agricultural Outlook 2009-18 forecasts that agricultural prices will remain at higher average levels over the medium term than in the past decade, even though they are generally lower than their peaks in 2008.

2. Food prices had barely begun to recede from their peaks when the region was hit by shocks from the global financial and economic crisis (GFEC) that began in September 2008. There were widespread fears that economic growth would slow down drastically, resulting in increasing un- and under-employment, pressure on real wages, a reverse flow of workers from the cities to the countryside, and ultimately an increase in food insecurity and poverty. These fears have not been fully borne out, partly because the region's governments had learned from their experience with the Asian economic crisis in the late 1990s and responded forcefully with stimulus packages, and partly because exports rebounded strongly.

3. There have been clear signs of revival in the region's economies with gross domestic product (GDP) growth rates increasing in 2009 and early 2010. However, the medium-term global macroeconomic outlook remains uncertain and there is no room for complacency.

4. This discussion paper presents the findings and conclusions from an analytical study conducted by FAORAP in 2009-10 covering nine countries in the Asia-Pacific region, as well as other studies conducted recently by FAO and other international organizations. This paper highlights the global context and the impact of the twin crises on these countries, describes the policy responses, including FAO's response, and attempts to draw policy lessons and provide recommendations to address such crises in the future.

II. The impacts of the food price and economic crises on seleted Asian countries

The food price crisis: origins and impact on food security

5. The food price crisis of 2006-08 came after a long period during which food prices in real terms on international markets generally declined from their peak in 1974, reaching a historic low in 1999. This decline played an important role in promoting food security by making food more affordable for the poor. Then, beginning from 2003, food prices began to increase and rates of increase accelerated sharply from 2006.[1] From 2006 to June 2008, the FAO food price index (nominal) increased by 175 percent. A noteworthy feature of this crisis was that prices of all major food groups, including oils and fats, cereals, dairy products, meat and sugar, increased sharply, although the timing of the increases differed across commodities. The benchmark international rice price in nominal terms, for example, peaked in late May 2008 at over USD 1 000 per tonne, more than three times its level in May 2006.

6. While arguments still continue over the causes of the food price crisis of 2006-08, the most plausible explanation is that it was the result of a "perfect storm", i.e. that there was no

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[1] FAO (2008). Soaring Food Prices: Facts, Perspectives, Impacts and Actions Required. Paper prepared for High-Level Conference on World Food Security: The Challenges of Climate Change and Bioenergy. Rome, 3 - 5 June 2008. HLC/08/INF/1

single factor underlying the price rise, but rather a confluence of factors,[2] together with some national and international policy decisions that had spill-over effects on other countries. Export bans, for example, probably exacerbated food price increases for other countries. Recent research has also confirmed that long-term real price volatility has risen for most major crops in recent years and that this is related to global macroeconomic volatility.[3]

7. The root cause was that from 2000 onwards, except in 2004, 2005 and 2008, cereal production failed to keep pace with cereal utilization, i.e. cereal use for food, feed and industrial uses. To some extent this was because demand for cereals began to grow more rapidly after 2006 as a result of growing demand for biofuels, but a major reason for the failure of cereal supply to grow as rapidly as cereal demand was that investment in agriculture had been neglected by national governments and the international community. This was exacerbated by supply shocks, most notably the prolonged, once-in-a-century drought in Australia that severely reduced wheat production in the first decade of this century.

8. As a consequence of the failure of supply to keep pace with demand, the stock-to-use ratio for cereals worldwide fell to its lowest level in decades. As a result, commodity markets became jittery and tended to react sharply to unexpected developments. Among the most important of these in the spring of 2008 were the simultaneous rice export bans imposed by Cambodia, China, India and Viet Nam, which probably caused rice markets to panic and the price of benchmark Thai rice to rise briefly above USD 1 000 per tonne in late May 2008.

9. At the same time, strong economic growth meant that oil prices and commodity prices generally were rising strongly, thus cutting into farm profits by driving up agricultural production costs, especially for fertilizer and diesel. Rising oil prices also drove up transport costs and thus raised cif[4] prices for foodgrains.

10. The weight of the evidence is that though speculation may have played a role, it is unlikely to have been a major cause of the price rise, for reasons spelled out in detail in Headey and Fan (2008).

11. Another commonly heard explanation for the price increases – that they were due to rapidly rising demand for food from India and China – can be dismissed. If this explanation were correct, cereal demand for all uses (food, feed, industrial use, etc.) by China and India should have grown faster than cereal demand in the rest of the world. However, the evidence shows that from 1995 cereal utilization grew faster in the rest of the world than in China and India combined. Therefore demand from China and India cannot be said to have caused cereal prices to rise.[5]

12. For all these reasons, food prices in international markets rose sharply from 2006 to the early summer of 2008. Changes in international prices have an impact on production and consumption only to the extent that they are passed through to domestic prices: households, including farm households, respond to domestic prices, not international ones. Therefore it is important to ascertain the extent to which international price increases were passed through to domestic prices. A comprehensive answer to this question covering all commodities cannot be given, but some evidence is available for cereals.

[2] See e.g. Headey, D. and S. Fan (2008). Anatomy of a crisis: the causes and consequences of surging food prices. Agricultural Economics 39 (2008) supplement 375–391; or Alexandratos, N. (2008). Food Price Surges: Possible Causes, Past Experience, and Longer Term Relevance. Population Dev Rev 34(4) 663-69

[3] See e.g. IMF (2009). World Economic Outlook October 2009: Sustaining the Recovery 61-63

[4] CIF stands for cost, insurance and freight, i.e. the landed price at a port of entry, including goods, cargo and insurance, as well as all transportation charges.

[5] However, one logical possibility remains: that some of the growth in cereal use in the rest of the world is for animal feed used to produce meat for export to China and India. To settle this question, it is sufficient to demonstrate that the two countries are net exporters of meat and meat products. The evidence shows that they are.

13. If one focuses on the rice market, the two countries that were most successful in preventing high international prices from affecting domestic prices were China and India. In these two countries, no jump in domestic rice prices in response to the trebling of international rice prices can be discerned in the data. Domestic rice prices increased from 20 to 30 percent from May 2006 to May 2008.

14. Cambodia, Thailand, and Viet Nam represent the other extreme, given their status as significant rice exporters. Between May 2006 and May 2008, domestic rice prices in Cambodia and Thailand increased two and a half times, while in Viet Nam they doubled.

15. Where the other study countries were concerned, between May 2006 and May 2008 domestic rice prices in Sri Lanka more than doubled, increased by about 80 percent in Bangladesh, nearly 50 percent in the Philippines and nearly 30 percent in Kathmandu (Nepal).

16. The conclusion is that international price increases were passed through to domestic prices, but not fully.[6] This was partly because most Asian currencies strengthened against the dollar over this period, implying that prices denominated in domestic currencies did not increase by the same percentage as dollar prices. Another reason was that most Asian countries explicitly pursued policies to stabilize prices of domestic food staples at levels below international price levels, e.g. through bans on exports of essential staples, as in China, India, and even Cambodia from March 2008 to July 2008.

17. It should be noted that domestic producer prices also rose by roughly the same percentage as consumer prices in response to an increase in international prices, as shown in another FAO study[7] of 46 developing countries from around the world.

18. Having established that international price increases did lead to increases in domestic consumer and producer prices, it is necessary to estimate the impact of higher food prices on household welfare. The impact depends on whether households are net buyers or sellers of food. Net buyers lose from higher market prices (provided their money incomes do not change), while net sellers of food gain. Self-sufficient farm households neither gain nor lose. In the developing countries of Asia, large segments of the population are net buyers of food. City dwellers certainly are, but even among the rural population, landless workers and small farmers often are.

19. The extent of the loss to net buyers from a food price increase depends on the proportion of household income spent on food[8]; the extent to which the poor can substitute cheaper varieties or foods for more expensive ones; and whether social safety net programmes exist to provide food to the poor at subsidized prices or to support their incomes.

20. The extent of the gain to net sellers from a food price increase is small if farmers do not receive the higher price or if the prices of production inputs such as fertilizer and fuel costs rise in step with food prices. In that case there is little or no net benefit and hence little incentive to produce more. But even if there is an incentive, it may not lead to increased output unless the production and marketing infrastructure required to allow a sustained increase in production exists. For example, the Cambodia case study points out that “well-known constraints bar yield

[6] The same general pattern of international prices being passed through to domestic prices but not fully also held for commodities other than rice.

[7] Dawe, David and Cristian Morales-Opazo (2009): How Much Did Developing Country Domestic Staple Food Prices Increase During the World Food Crisis? How Much Have They Declined? ESA Working Paper No. 09-09. Agricultural Development Economics Division, Food and Agriculture Organization of the United Nations

[8] This had declined markedly by 2008 since the food crisis of the mid 1970s, but even so, in Cambodia the poorest fifth of the population still spends about two-thirds of its income on food. This proportion is lower in countries like Indonesia, Thailand and Viet Nam, implying that there is some scope for protecting food consumption by cutting back on perhaps less essential expenditures.

improvements in Cambodia, includ[ing] low mechanization, poor fertilizer use, inadequate irrigation and poor infrastructure."

21. The study shows that the food price crisis of 2006-08 had a negative impact on the majority of households in all nine countries, as they tended to be net buyers of food and had to cut back on food expenditure. For example, the Sri Lanka country study shows that total household expenditure on food declined, yet expenditure on staples increased by nearly 60 percent. This was at the expense of livestock products, expenditure on which declined by nearly 20 percent. Households curtailed their consumption of staples very slightly, and their consumption of livestock products more sharply, thus adversely affecting the quality of the diet.

22. The relative shift in consumption towards food staples observed in Sri Lanka highlights an important aspect of coping strategies that households use in response to a price increase: reducing consumption of livestock, fishery and horticultural products and shifting consumption towards less preferred or less expensive foods. Reducing consumption of staples is usually a last resort. Similar coping strategies appear to have been used in other countries, but up-to-date hard evidence is not available.

23. In those countries where international food price increases were not passed through to domestic prices, the impact was more muted. The Chinese government's successful efforts to contain domestic price increases limited the damage to domestic consumers. As the government also took measures to prevent fertilizer prices from increasing, the final impact on net sellers of food is likely to have been small.

24. The Viet Nam case study illustrates the importance of differentiating between the impact of a food price increase on the national economy as a whole from the impact on households. Viet Nam is one of the largest exporters of rice in the world. Almost 60 percent of all *farmers* were net sellers of food in 2006 and therefore gained from higher food prices. High food prices nevertheless made the majority of households worse off, even in the Mekong river delta, which is the country's largest and most productive rice-producing region! This is because the majority of households (including non-farm households) in the delta do not grow any rice. Yet, it can be argued that rice prices are good for the country as a whole as the "gainers" from high prices gain more than the losers lose.

25. It is unclear what the long-run impact on consumption was, as the available evidence indicates that nominal wages do adjust to higher staple food prices over time. Evidence from the Bangladesh study indicates, for example, that the nominal daily wage of agricultural labourers increased in response to higher food prices. Then, when food prices fell after the GFEC, the "rice wage" rose so sharply that with one day's wages an agricultural labourer could buy nearly 8 kg of rice in May 2009 as opposed to about 4 kg a year earlier.[9]

26. Similarly, in Sri Lanka the country study shows that real wages rose for employees in the agricultural, industrial and commercial sectors and for employees covered by Wage Boards, but generally fell where government employees were concerned, though the link between food price and wage increases cannot be established with any certainty.

27. It is important to note that the critical issue for food security during a crisis is whether earnings adjust rapidly enough to maintain food purchasing power because people need to satisfy their need for food on a daily basis and cannot postpone it.

The global economic crisis: review of the macroeconomic impacts

28. From September 2008 the eruption of the global financial crisis and consequent slide of the global economy into recession raised fears that the world economy would plunge into another

[9] However, without evidence on the number of days worked, it is difficult to determine whether agricultural labourers had higher incomes after the crisis.

Great Depression. For the developing countries of this region, since their financial sectors were not affected, the economic crisis came as an outside shock. This affected the national incomes of these countries through: i) lower earnings from commodity exports; ii) lower flows of foreign direct investment (FDI) and portfolio investment into these countries; iii) lower earnings from such sectors as tourism; and iv) reduced international remittances (though there is evidence that these held up rather well).[10]

29. The study countries can be divided into two groups: those where there was a sharp slowdown in GDP growth or even a decline in GDP; and those where there was only some slackening of GDP growth.

30. Two countries in the study had negative growth in 2009P: Cambodia and Thailand. The case of Cambodia is instructive. The country had enjoyed very strong growth in real GDP of 9.7 percent per year from 2001-07. This declined sharply to 6.7 percent in 2008 and is estimated to have been negative in 2009, mainly because its principal export, garments, declined sharply in response to the recession in its biggest market, the USA. At the same time FDI inflows declined sharply, particularly in 2009. However, official development assistance continued to be strong and cushioned the blow to a large extent.

31. In the three fast-growing Asian economies, China, India and Viet Nam, real GDP growth rates in 2008 and 2009 were 1 to 2 percentage points below the average growth rates for 2001-07. The other economies, Bangladesh, Indonesia, Nepal and Sri Lanka, had been growing more slowly before the crisis. Their growth rates also declined slightly in 2008 and 2009. An interesting aspect of their experience is that their real GDP growth rates for 2008 were generally higher than the rates for 2001-07, with the exception of Indonesia. This was possibly due to country-specific factors that tended to offset the negative effects of the global crisis, such as the cessation of violent internal conflicts in Nepal and Sri Lanka.

32. Consistent with the nature of the crisis as an external shock, growth contractions in the study countries were caused by sharp declines in exports, often exacerbated by declining inflows of FDI. Remittances, tourism, etc. were not large enough to matter in most countries. Exports, however, recovered quickly and contributed to the economic recovery of these countries.

33. The case of China is also instructive. Between October 2008 and March 2009, the value of its monthly exports declined by over 50 percent. As its export-to-GDP ratio was over 40 percent in 2007, a sharp contraction of this sort would be expected to have an impact on GDP. FDI, however, only declined marginally. Exports rebounded strongly from the spring of 2009 and had almost returned to their October 2008 level by December 2009. India's experience was similar, although its export-to-GDP ratio – 24 percent – was much smaller than China's.

34. The economic stimulus packages implemented by the region's governments played an equally important role in promoting economic recovery. The biggest such package was that announced by the Chinese government, equivalent to USD 586 billion for 2009 and 2010. This was supplemented by a set of stimulus packages implemented by local governments, the sum of which was larger than the central government's package. This package focused on investment, including agricultural investment.

35. In India, the stimulus package took the form mainly of tax cuts and rebates, amounting to about 3.5 percent of GDP. There were no special provisions for promoting agricultural investment.

36. In Viet Nam, a stimulus package equivalent to 12 percent of GDP was announced in 2008, with 70 percent earmarked for infrastructure and development projects and the other 30 percent for tax breaks and welfare payments.

[10] There was also a terms of trade shock, but this aspect is not discussed in this paper to keep the discussion focused.

37. In Bangladesh, Cambodia, Indonesia, Nepal, Sri Lanka and Thailand, stimulus packages were much smaller than the Chinese package as a proportion of GDP, and generally took the form of tax cuts and subsidies, perhaps because they lacked the capacity to undertake such measures in the absence of comparable external reserves and a similarly comfortable fiscal situation. But certain other developments, such as the cessation of internal conflicts in Nepal and Sri Lanka, produced a favourable growth effect.

38. As a result of these stimulus policies – in conjunction with policies that insulated domestic prices from high international prices – the ultimate impact on poverty and undernourishment was not as severe as had initially been feared. For example, the massive Chinese stimulus package, amounting in total (central plus local governments) to perhaps a quarter of annual Chinese GDP, had an immediate impact on the economy. The China study uses a unique data set on rural households to show that though some 49 million rural workers working in urban areas lost their jobs in the immediate aftermath of the crisis and had to return to their home villages, the implementation of the stimulus package as well as the export rebound in early 2009 meant that the vast majority had been rehired by August 2009. This meant that the final impact of the GFEC on rural poverty was small by Chinese standards: perhaps 550 000 to 830 000 more people in poverty in 2008 and possibly another 830 000 to 1.1 million in 2009.

39. In India the 2008 and 2009 real GDP growth rates were at most one percentage point below the average growth rate for 2001-07, again partly due the government stimulus package. Given that the number of people in poverty tends to be higher by 0.65[11] percent if per-capita GDP is one percent lower, a simple calculation shows that there were at most 2 million more people living in poverty in 2008 and 1 million more in 2009 as a result of slower growth.[12]

40. While data limitations do not permit a definite statement on the impact of the stimulus package in Viet Nam, there does appear to be a consensus that it promoted economic recovery, albeit at the cost of higher inflation and possibly a property price “bubble” in the real estate sector. However, the stimulus measures had only a small direct impact on agriculture, as the majority of farmers were ineligible for subsidized loans.

41. The Indonesia country study shows through a series of simulations that as a result of the GFEC there were 3 percent more food-insecure people than there would have been if there had been no crisis. The government stimulus package helped, as in its absence there would have been 4 percent more food-insecure people.

42. Household food security was obviously more severely affected in those countries where the initial impact of the GFEC was large and the stimulus package small relative to the economy. In Cambodia, for example, evidence on the food security impact of the GFEC is available from a household survey. There was a major impact on food consumption, as would be expected. Rice consumption declined by 31 percent between September 2008 and September 2009, while pork and beef consumption declined by over 50 percent. It is important to note that the deterioration in food security would have been even worse if domestic food prices had not been lower as a result of the GFEC.

43. Where the impact on producers is concerned, results from another study[13] commissioned by FAO show that the crisis had a uniformly negative impact on the incomes of small farmers in

[11] Besley, T., R. Burgess and B. Esteve-Volart (2005): Operationalising Pro-Poor Growth: India Case Study. World Bank, Processed.

[12] There were 240 to 300 million people in poverty in India in 2004-05, depending on the method used for measuring poverty.

[13] Begg, M., A.Gurney, P. Newton, B. Fisher and A. Matysek (2010). Implications of the economic and financial crisis on agriculture and small farmers in the Asia Pacific region. Report prepared for the Food and Agriculture Organization by BAEconomics. Processed.

Bangladesh, Indonesia, Pakistan and Viet Nam. The magnitude of the impact varied from 1.9 percent to 4.7 percent of total gross income. Both gross agricultural income and non-agricultural wage income declined. The main reason for the former was that agricultural prices declined because of the GFEC, but quantities demanded did not increase. As agricultural production changed only slightly, there was a correspondingly small change in labour demand.

III. Implications and policy lessons

44. A key fact from the preceding discussion is that the Asian region seems to have weathered the two crises well, unlike its experience with the Asian financial crisis of 1997-99. In most countries, the impacts of the two crises were relatively weak and short-lived. It is important to understand why so that lessons can be drawn for the future.

45. Unlike during the Asian financial crisis of 1997-99, the financial and banking systems of the Asian economies themselves were not a cause of the economic crisis. Rather, the Asian region suffered from the impact of a crisis that originated elsewhere. A sharp contraction in exports accompanied by a slowdown in FDI inflows was the proximate cause of the crisis in most Asian countries.

46. The stimulus packages implemented by the region's governments played a critical role in attenuating the impact of the crisis, as shown above. Another key factor was the swift recovery of exports in most countries. For example, China's exports had regained their pre-crisis levels by December 2009. In India, however, exports began growing only from November 2009 and have yet to regain their pre-crisis levels. In the other countries also, exports had either stopped falling or had started growing by the fourth quarter of 2009. In Indonesia, merchandise exports increased sharply from January 2010, and for the full year its exports are forecast to rise by about 11 percent. In Thailand, exports to China and India were not much affected by the economic crisis and its exports to the industrialized countries began to increase from November 2009 onwards. Export growth has been strongly positive since then.

47. This has implications for the sustainability of the recovery packages as it implies that from now on export growth can provide a stimulus to GDP growth, and government stimulus spending can be gradually reduced, especially those parts that focus on export subsidies. *Governments can gradually start phasing out export subsidies, duty rebates and other measures to stimulate exports provided strong export growth continues, something that depends on a global economic recovery happening in the near future.*

48. Did the rural sector act as a buffer against economic shocks? The answer to this question varies across countries, depending on the extent of the shock. As pointed out above, in China, which suffered from a sharp contraction in exports, approximately 49 million workers were laid off. As they were classified as rural residents under the Chinese Household Registration System, they had to return to their home villages. However, as it turned out, they did not have to stay there for very long. Therefore the question whether the rural sector could have absorbed them if they had been compelled to stay for a long time was never put to the test.

49. In the other two countries where GDP contracted, Cambodia and Thailand, there is scant evidence of laid-off workers returning home to their villages in large numbers. A plausible explanation is that these workers did not wish to return home until they were very sure they would not be able to find a job in the cities, i.e. until they had been unemployed for a long time. As it happened, unemployment spells were relatively short in this economic crisis, so there was no need for them to return home. In no other country did large-scale migration take place. No evidence on urban-rural migration is available for the other countries in the study.

50. Where the composition of the stimulus packages is concerned, there is something of a divide between those countries that stressed investment and those that stressed consumption support.

51. Leading the former group is China**,** where the investment-to-GDP ratio rose to nearly 46 percent and investment in agriculture rose by nearly 50 percent.[14] In Thailand, the second of two stimulus packages – equivalent to about 5 percent of GDP for each of three years – focused on public infrastructure investment[15]. Similarly, the stimulus package announced by the government of Viet Nam**,** which amounted to 12 percent of GDP, earmarked 70 percent for infrastructure and development projects.

52. The other countries in the region seem to have stressed consumption support through tax cuts, subsidies, tariff reductions and so forth. For example, the Government of India's Economic Survey 2009-10 states that "... it now appears that [the] moderation in the decline in [the] GDP growth rate, in the second half of 2008-09, was primarily a result of the boost provided by the fiscal stimulus to consumption demand, ... rather than the continued buoyancy in investment growth...". Indonesia and Bangladesh both earmarked over 80 percent of their fiscal stimulus packages for incentives, tax breaks and subsidies to support exports, agriculture, social safety nets, etc., with the rest left over for infrastructure investment. The Cambodia and Sri Lanka investment packages contained little or nothing for infrastructure, while in Nepal there was no specific stimulus package.

53. Learning from the lessons of the Asian financial crisis, the governments of this region have done well in containing the impact of the economic crisis. However, it would have been helpful if more stimulus packages had included allocations for rural roads, irrigation, marketing infrastructure, agricultural research etc., as the lack of such investment was one of the key causes of the food price crisis of 2006-08. Investments in these areas would not only have helped cushion the blow of the economic crisis, but would also have reduced the likelihood of another food price crisis.

54. Are the stimulus packages sustainable over the medium term? Beginning with those countries that focused on public investments to enhance agricultural productivity, the answer to this question would appear to be positive in at least one country, China. The Chinese central government's fiscal deficit was equivalent to only 2.8 percent of GDP, while the debt/GDP ratio was about 30 percent (including foreign and domestic debt)[16]. However, in Viet Nam, the fiscal deficit was about 12 percent of GDP in 2009 and inflation was a serious problem. If the enhanced productive capacity created by the stimulus package should bring about strong economic growth, then the deficit should decline as a proportion of GDP.

55. Turning to the countries which placed more stress on measures to stimulate consumption in their stimulus packages, the picture is more mixed. In India, the consolidated general government deficit[17] in financial year 2009 is expected to be about 10 percent of GDP, which is relatively high, as is the central government's debt-GDP ratio, which is about 57 percent, with 90 percent of the liabilities being domestic. Similarly, in Sri Lanka, the fiscal deficit for 2009 was over 10 percent of GDP and its debt-GDP ratio touched 86 percent, while in Cambodia the overall budget deficit was estimated at about 6 percent of GDP in 2009. The situation was much better in Indonesia, where the fiscal deficit in 2009 was barely 2 percent of GDP and the debt-GDP ratio was about 28 percent.

56. To sum up, it appears that in the short-term sustainability is not an issue. However, should the global economy slip into another recession – something that cannot be ruled out – it is an open

[14] Asian Development Bank (2010). Asian Development Outlook 2010

[15] It should be mentioned that the Government of Thailand also made a one time payment of Thai Baht 2 000 (approximately US$60) to each of about 9 million people whose income was less than Thai Baht 15 000 per month.

[16] It is unclear what these ratios would be if the liabilities of the provincial governments were also included.

[17] This includes off-budget liabilities for subsidies and the deficits of state governments.

question whether large-scale stimulus packages can be sustained over a longer time horizon, particularly in countries with large debt-GDP ratios and relatively slow GDP growth.

FAO's response

57. Since 2008, FAO has taken the lead in drawing attention to the impact of the two crises on food security and in attempting to coordinate international efforts to increase the flow of resources for agriculture, rural development and food security. The effort started with FAO's launch of the worldwide Initiative on Soaring Food Prices (ISFP) in December 2007. The main aim of the ISFP was to alleviate the impact of soaring food prices on vulnerable groups through a rapid increase in food availability and accessibility by providing seeds, fertilizer and small farm implements. The ISFP was implemented in 17 countries in the Asia-Pacific region and has now been replaced by funding from the European Union Food Facility in six countries in the region.

58. The UN Secretary-General established the High-Level Task Force on the Global Food Security Crisis of the United Nations in April 2008 to provide a unified response to the soaring food crisis. The Task Force prepared a Comprehensive Framework for Action (CFA). The Director-General of FAO is the Vice Chair of the Task Force and FAO played an active role in the formulation of the CFA.

59. FAO convened a High-Level Conference on World Food Security in June 2008 in response to concerns about rising food prices and the emerging issues of climate change and bio-energy. At the Conference, donors pledged USD 21 billion.

60. Several initiatives have been launched recently to increase the flow of resources to agriculture, food security and rural development. These include: i) the L'Aquila Food Security Initiative announced by the G8+ in July 2009: ii) the Global Agriculture and Food Security Program (GAFSP), which is a multilateral trust fund set up at the World Bank to operationalize the L'Aquila commitments by scaling up agricultural assistance to low-income countries;[18] iii) the European Union Food Facility: and iv) the US Global Food Security Initiative.

61. In the context of these initiatives, mention should be made of the Investment Forum for Food Security in Asia and the Pacific, organized by the Asian Development Bank (ADB), FAO and the International Fund for Agricultural Development (IFAD), from 7 to 9 July 2010 in Manila. This Forum aims to find innovative mechanisms for stepping up investments for food security in the Asia-Pacific region. These activities are taking place against a background of heightened interest in food security in the region as demonstrated, for example, by the Association of South East Asian Nations (ASEAN) Integrated Food Security (AIFS) Framework, or the Colombo declaration on food security by the South Asian Association for Regional Cooperation (SAARC) at the 15th SAARC Summit. The 14th ASEAN Summit held in March 2009 adopted the AIFS Framework and the Strategic Plan of Action on Food Security (SPA-FS), issued a "Statement on Food Security in the ASEAN Region" and provided an assurance that the resources required to undertake the Strategic Plan of Action would be made available.

62. FAO has also provided assistance to SAARC in formulating regional strategies and programmes for food security which were endorsed by the 15th SAARC Summit held in August 2008. FAO collaborated with the ASEAN secretariat during the formulation of the AIFS Framework and the SPA-FS.

IV. Conclusions and recommendations

63. This review of the impact of and responses to the food price crisis of 2006-08 and the GFEC that began in 2008 confirms that the governments of this region responded effectively to

[18] The United States of America, Canada, Spain and Republic of Korea are the major donors, joined by the Bill and Melinda Gates Foundation.

the challenges posed by the twin crises and managed to protect their populations from serious harm. Countries with social safety net programmes proved better able to protect the consumption of the poor than countries that did not have such programmes.

64. A major reason for the relatively weak impact of the GFEC in particular was that the countries of this region, learning from the lessons of the Asian financial crisis, had strengthened their financial systems, built up comfortable foreign exchange reserves and avoided fiscal profligacy. These features proved immensely helpful in dealing with the effects of the twin crises.

65. *Considering that the majority of the poor and hungry in the region still depend on agriculture for their livelihoods, the Conference may wish to recommend to member countries that they should assign high priority to agricultural investment by setting higher targets for such investment, particularly in any future stimulus packages that may prove necessary, as the decline in such investment was one of the critical factors in creating the international food price crisis of 2006-08.*

66. *As there is still a chance that the world economy may experience instability and difficult times for a considerably longer time than previously anticipated, the Conference may wish to recommend to the region's governments that they should continue to monitor the fiscal situation carefully in order to preserve some room for manoeuvre.*

67. An important lesson from the food price crisis was that the uncoordinated responses of some member countries to restrict rice exports in the spring of 2008 had a strong impact on international rice prices. *Without in any way claiming that export restrictions are contrary to international trade rules, or attempting to detract from the right of member governments to stabilize domestic prices, the Conference may wish to recommend that member countries and FAO work with the WTO to develop a more stable global trading system for food which can ensure that global food markets remain open in times of shocks and crises.*

68. *The Conference may also wish to recommend to member countries to strengthen social safety net programmes as a means of protecting the consumption of the poor during crises.* Social safety nets allow governments to let producer prices rise and bring about a supply response, while protecting the food security of the poor in crises and thus reduce the otherwise pressing need to stabilize food prices.

69. There is also a need to strengthen strategic coordination through appropriate regional forums, e.g. ASEAN and SAARC. Some of this work has already begun, e.g. the updating of the ASEAN-UN convergence matrix matching actions under the SPA-FS in the ASEAN region with the CFA prepared by the High-Level Task Force on Global Food Security Crisis, which was done with assistance from FAO. Accordingly, *the Conference may wish to recommend that FAO work with ASEAN, SAARC and other sub-regional organizations to foster coordination at national, regional and global levels.*

70. *The Conference may also wish to recommend to member governments that they should take measures to enhance the effectiveness of regional food banks in order to ensure that food will be available for governments to provide to the poor in the event of a future crisis.*