

FREE TRADE MEANS HUNGER

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Much of Asia and Africa are today beset with hunger. This is often blamed upon increased consumption of meat by Chinese middle class and drought in Australia. None of these are convincing, however. According to American magazine *Biofuels Digest* the use of grains for production of meat in China increased from 190 million tons in 1995 to 390 million tons in 2007. The consumption of meat is likely to rise from 41 kg per person in 1997 to 85 kg per person in 2030. This seems to indicate that higher consumption of meat by the Chinese may be behind the recent global increases in prices of food grains. But higher consumption of grains does not necessarily translate into higher imports. A study by Amsterdam-based Center of World Food Studies indicates that the increased consumption of grains for production of meat in China will be met mostly from domestic sources and will have little impact on global prices. This will happen despite the reduction in cultivable land area from 135 million hectares to 12.9 million hectares. Results of the study indicated that "between now and 2030 China's agricultural sector will continue to be capable to meet the increased demand for meat, without excessive reliance on imported feeds. With a projected level of feed grain imports of 30 million tons in 2030, still approximately three quarters of China's feed grain demand will be supplied by Chinese farmers." The share of China's imports in world trade of food grains in 2030 will only be a small 10 percent which is not likely to make a decisive difference.

The increase in consumption of grains for production of biofuels in America increased from 10 million tons to 50 million tons between 1995 and 2007. The increase was 40 million tons. In comparison, the increase in consumption of food grains for production of meat in China has increased by 200 million tons in the same period. This indicates that increased consumption of meat by the Chinese is a greater contributor to increase in world prices than production of biofuels by America. But this is deceptive because increase in Chinese consumption, though larger, is coming from domestic sources; while increase in American consumption, though smaller, is eating into exports of food grains by that country. In the result the present increases in prices of food grains are more impacted by production of biofuels in America than by increased consumption of meat in China.

Another explanation offered for the present food crisis is that drought in Australia has led to lower exports from that country. This is not convincing because the global supply remains robust nevertheless. According to the US Department of Agriculture, the global production of wheat was 21,540 million bushels in 1997. It increased to 22,290 bushels in 2007. Similarly, the global production of rice increased from 564 million tons in 1997 to 627 million tons in 2007. The two major food grains show no reduction of supply due to the Australian drought in the last six years. The reduction in supplies from Australia has been more than made up by increased supply from other countries. Of course, the price rise would be less if supplies from Australia were more. But

reduced supplies from Australia are not the reason for present increase in global prices.

There is a more important reason for the present food crisis. Mr Jeffery Sachs, Special Advisor to the United Nations Secretary General has criticized the World Bank for "encouraging developing countries to focus on export goods, thus neglecting agriculture and starting to import most of their food." Conventional wisdom is that trade is good-even in essential commodities like food grains. African countries should produce oranges, which they can produce cheaper, and import wheat, which Australia and America can produce cheaper. Mr Sachs is challenging this conventional wisdom.

Some years ago this writer had occasion to study the impact of development activities on the health of children in a village. An NGO had built a large water lagoon to recharge the ground water. This had led to rise in the level of water in the wells. It was expected that this would lead to increase in agricultural production and improved health of the children. The increase in agricultural production did indeed take place. But the health status of children, inexplicably, declined. It was then found that families had started to sell the milk to the cities. Previously they produced only 250 grams of milk which was given to the children. Now they produced two kilo which was sold for cash. Children were deprived of the nutrition they were getting previously. The health status of non-farmer households like those of carpet weavers did not show such deterioration. They had no well or lands hence also not much milk to sell. Integration of the economy with the market had a negative impact on the well being of the people. The reason was that price of milk, which was produced in the village, was less and price of TVs and other gadgets, which were produced in the cities, was more. Such unequal trade led to transfer of village wealth to the cities.

A similar process seems to be taking place across Asia and Africa today. Most sub-Saharan countries were largely feeding their peoples till the seventies though frugally. They got no oranges but had bread and milk to live by. These countries were advised by the World Bank to embrace the market. They started exporting oranges and importing wheat. In due course the price of wheat increased but that of oranges declined and the exporting countries went into a crisis.

This is the logical result of free trade. Theory says that increase in price of a commodity, say, wheat, will be followed by increase in its production and a new equilibrium will be established between supply and demand at a higher price and quantity. But this will happen only if there is more land lying fallow that can be brought into cultivation. Moreover, it takes time to change the cropping pattern. Farmers who have planted orange trees cannot uproot them as soon as price of orange declines. They would lose the huge investment made over many years. Thus the increase in price is not followed by an increase in production. It is time for the developing countries to give up free trade and instead look inwards to meet their essential requirements of food. The real culprit of present crisis is not meat consumption in China, biofuels in America or drought in Australia. The real culprit is free trade that is unequally balanced. Poor countries export their goods at ever lower prices while importing goods like TVs at ever increasing prices. In the process they become poorer as everyday passes. □□□