A Study of the Food Crisis-National and Global Challenges and Fast Food in China

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BACKGROUND

The recent food crisis has captured the imagination of national and international leaders and the common man or woman in both developing and developed nations. Anxiety has dominated the media, and the agenda of politicians and food and development experts. Hence, identification of the possible causes and remedies has centered on the urge to take swift action to feed the hungry and minimize dissent and riot among the poor. This is laudable but it is critical not to panic. A more detached medium-long term approach has to be adopted. This should closely integrate national and global policies. The crux of the problem is a failure of the market-inability of supply to match demand with mounting food deficits, rising prices of major food grains such as wheat and rice, and hence the need to take action to boost food production. Emergency measures such as the ones by the World Food Programme have to be supported but it is essential to investigate the nature, the root causes, and the long term solutions of the food crisis.

FOOD CRISIS

This is encapsulated in the rise in food prices of basic foodstuffs and grains, rising import bills, and the fear of millions of people in developing Asia, Africa and Latin America facing hunger and starvation. Wheat, rice and soybeans prices have increased by 40%, 60% and 40% respectively. The depletion of food stocks marks a 25 year low while food import bills show a rise of 25% in developing countries. The UN estimates that an extra 100 million people face the risk of facing hunger. The WFP, World Food Programme, claims that 20 million of the world’s poorest children may go without food. The rise in world food prices aggravates the mounting commodity and energy (oil) prices and a major slowdown in the US economy. This adversely effects global growth and inflation.

At the regional and the country level, the rise in food prices has sparked riots in Haiti, Egypt and a number of African countries. It is alleged that people have started eating mud pies while in Bangladesh the poor are surviving on one meal a day. There is major focus on the main food producing Asian countries-Thailand and nations such as Vietnam, Indonesia and Cambodia. The US, which traditionally has compensated for global food deficits, has been unable to fulfill its traditional role. This is due to a fall in its own food output. On the more hopeful front the World Grains Council forecasts a 7% increase in global wheat output in 2008.

RESPONSES

The response of countries to the food crisis has centred on safeguarding national food security. International organizations, moreover, including the UN, the WFP, and the World
Bank and the IMF, have hurriedly taken emergency steps to reduce imbalances in global food distribution.

Strategies to overcome the food crisis include curbs on exports of wheat and rice and slashing import duties on such imports coupled with exercising firmer control over the distribution of food grains through the PDS, Public Distribution System. This is exemplified by a number of Asian countries. Thailand, for instance, a major exporter of rice, has curbed its exports. Similarly, other countries, including Indonesia, Cambodia and Vietnam, have also tried to impose controls over exports of rice to increase domestic supplies. Control over food prices is a supporting move. This requires a subsidized public distribution system. Japan, a leading member of the Asian Development Bank, has acknowledged the importance of these mechanisms in the face of rising food prices but is anxious that this may place undue burden on the fiscal budget. Allegations have also been made that the rising demand for food grains from the ‘emerging giants’ China and India, in part from the high income middle classes, has been a major factor behind the food problem. This has been used by President Bush to score a political point - demand for “better nutrition and better food” by middle class Indians was one of the causes for the high food prices. This fails to tackle the critical supply factors behind low food production.

China is a classic example of a nation which has taken immediate action using a range of measures. Thus, it has imposed a ban on the exports of non Basmati rice, and maize and pulses in 2008. Wheat exports had already been banned in 2007. However, countries such as Japan are concerned that export bans may lead to a further rise in food prices. India has also sharply curbed import duties on wheat and vegetable oils. Such steps have been accompanied by offering farmers greater incentives to increase rice production by raising the price per tonne of rice to $1,000. Pledges, too, have been made to exercise stricter controls over the PDS, Public Distribution System, of food grains recognizing that 36% did not reach intended consumers. Moreover, it is the hope that there will be a bumper harvest and adequate procurement of grains from farmers.

China has been taking steps to ban exports of wheat and leasing in land in other countries (Russia) to enable it to produce food for its domestic market. Bangladesh, too, has banned the export of rice to increase supply to its domestic market.

African countries, many of whom are net food and oil importers, face critical problems due to inability to increase their food production in the short run. They require urgent financial help from the IMF to finance their imports. Indeed, many have already approached the IMF to ease their expected burden on the balance of payments.

Developing countries are turning to the USA to compensate for food deficits. Alas, it is unable to respond. It confronts shortfalls in its own food production. However, it could reduce its allocation of grains (wheat) for biofuels. This would increase its domestic supply of grains.

**SOLUTIONS**

The food crisis requires immediate and medium-long term measures.

In the immediate term the focus is on emergency food aid and urgent financial support to meet high food import bill so as not to adversely worsen the balance of payments. Much anxiety has been voiced at various levels and in particular by the UN, the UN World Food Programme, the FAO, the World Bank, and the IMF and also regional bodies such as the Asian Development Bank and the African Development Bank. Alongside, major world leaders, and in particular President Bush, have voiced their deep concern about the crisis. They have held high level discussions with international leaders including the World Bank President Robert Zoellick. The WFP has stated that $755 million is required. The UN has set up a Special Task Force and offered $200 million to farmers in developing countries to boost food production. President Bush has asked US Congress to put up an additional $770 million in urgent food aid. Lester Brown, a leading world authority on food production.
has reiterated the need for the US to reduce the use of grains for biofuels. About 70% of corn output in the US, for instance, is used for biofuels.

Emergency measures are required to meet urgent immediate deficits in food. This is legitimate to combat hunger and starvation. However, it is vital to investigate the roots of inadequate food production and distribution. This could avoid derailing the Millennium Development Goals of halving world poverty by 2015 and integrating poor nations and poor people into globalisation. In the long term rising population is a major factor behind increased demand for food. The current world population is 6.7 billion but UN projections show that there will be an additional 2.5 billion people in the world in the next four decades. This is forecast to exceed 9 billion by 2050. Hence many more mouths have to be fed.

In the medium-long term resolving imbalances in demand and supply of food call for devising policies at the national, the regional and the international level. This is underscored by key forces:

**AGRICULTURAL PRODUCTIVITY**

Increasing agricultural productivity has to be a key goal. This should be based on integrating inputs and outputs-the supply of high yielding varieties of seeds, fertilizers, and irrigation, supported by credit alongside remunerative output prices. A second "green revolution" is essential to stimulate food production in many countries, including India, as in the mid 1960’s and early 1970’s, to increase output and self sufficiency. Indeed, Kofi Annan, the former UN Secretary General, has called for an 'African Green Revolution' to make Africa self sufficient in food. The 'green revolution" experience of India and Asian nations can offer insights into African food production. The UN’s New Food Task Force to confront the needs of vulnerable groups, including children and pregnant women, and boosts food production in the long term through inputs and credit, is encouraging for African countries.

The FAO, too, suggests that Africa may face major problems of access to food. Thus, in 1993-94 the African food import bill was $ 5 billion while the current bill is $ 24 billion. Rising food import bills are likely to worsen Africa’s balance of payments. Increasing food production in most of the continent is based on subsistence farming with marketable surplus being only 20-25% of output. This calls for remunerative output prices, supply of inputs and credit. Public investment, too, in infrastructure (roads, transportation and storage) has to be raised as the private sector is reluctant to invest in such projects.

**INTEGRATED AGRICULTURE**

The role of agriculture has to be closely interlinked with overall national development plans to bring about structural change. Given that a significant proportion of people earn their livelihood from agriculture (60% in China), the contribution of the sector towards meeting growing domestic urban and rural food needs, and the scope of increased rural incomes can furnish finance for investment in agriculture and industry.

**TRADE REFORMS**

It is crucial to ensure that farm and trade policies of developed countries do not artificially reduce the prices of their food grains. This makes it virtually impossible for farmers from developing countries to compete both in their own domestic markets, due to cheap food imports, and also in the international market. This is of paramount importance for African farmers. They are dependent on agriculture for their survival. Revamping developed country policies, including in the EU, the US and Japan, demands executing the promises of the World Trade Organization (WTO) Doha Round (2001). This aimed to curb agricultural subsidies in developed countries and enable access to their markets. India and other developing countries have put pressure on the US to cut the subsidies it pays to its farmers. The deal can be made if US agrees to curb trade distorting agricultural subsidies.
to less than $13 billion-$14 billion. Agricultural subsidies pose the greatest challenge. They involve complex issues of subsidies and sensitivity on market access especially in developing countries with respect to food security and livelihoods of poor farmers. At the same time developing countries should be allowed to adopt temporary measures to protect their agriculture. This has to be reinforced by aid for trade so that poor farmers can have the inputs and infrastructural support to boost output.

**FUTURE**

A combination of technical, economic and political policies have to be shaped to revive the agricultural sector and stimulate long term food production.

First, food productivity has to be emphasised.

Firm links need to be established between the costs of food production and output or support prices, taking into account different socio-economic groups in the rural sector including small, medium and large farmers. Many of the poor are net purchasers of food with heavy debts. Institutional credit has to support the needs of farmers to purchase inputs, the costs of which (such as fertilizers due to high oil prices) are prohibitive and rising. Landless labour, too, comprises a significant proportion of the rural population in Asia and Africa. They should have access to cheap food through special programmes such as food for work schemes.

Second, agriculture has to be given its due importance in overall development. The expenditure on public investment for irrigation, infrastructure and marketing has to be raised.

Re-examination is required of the role of subsidies to ease the purchase of key inputs. This may not comply with the philosophy of markets and hence has to be re-thought. Moreover, though land reform as a policy has been dormant, it needs to be incorporated in a selective form-land consolidation and encouraging small farmers, who have higher productivity per hectare compared to large farmers, to increase food production.

Third, trade policies have to be re-thought to fulfill the promises made by developed countries to curb agricultural subsidies under the WTO. The food crisis may help in persuading developed countries to adopt such policies in their own long term interest. This could minimize disruptions to world food production.

Unquestionably, resolving the food crisis requires integrated national and global policies. This should go beyond laudable pronouncements.

**FAST FOOD IN CHINA**

The world’s second-largest burger chain is gearing up in China. China may boast a 5,000-year-old culinary tradition, but when it comes to fast food, Western-style outlets rule. For this you can thank—or blame—changing consumer tastes, and the breathless expansion plans of chain restaurants, which are eager to grab a bigger slice of the country’s estimated annual 200 billion Yuan ($29 billion) fast-food market.

For two decades the battle for the modern Chinese stomach was fought between two American giants: McDonald’s, the world’s largest fast-food chain; and Yum! Brands, which operates the KFC and Pizza Hut brands in China. Yum! Which first arrived in China in 1987 (three years before McDonald’s), has always stayed ahead of its rival going by both the number of restaurants and consumers’ awareness of the brand. In 2005 the two titans were joined by another American stalwart, Burger King, the world’s second-largest burger chain.

In April Burger King had just 12 outlets on the mainland, including nine in Shanghai. But after this cautious start, the company is pushing ahead with a faster store roll-out: in June it announced plans to open between 250 and 300 outlets in China over the next five years,
including another ten restaurants in Shanghai. As in other markets, 90% of them will be franchised and a tenth owned by Burger King. For comparison, KFC has more than 2,200 outlets in some 450 cities and McDonald's has 950 outlets.

Airport eateries will also be vital. Some 200 of Burger King's 11,500 outlets worldwide are at airports. Catering there has a number of advantages, including steady, captive customers and limited competition. In February Burger King opened its first outlet at Beijing Capital Airport's Terminal 3, and the following month it opened two restaurants at Shanghai Pudong International Airport's Terminal 2. Another ten mainland airports are also on its menu.

One problem for Burger King is that its trademark “Whopper” is made out of beef. Like McDonald's, the chain must cope with the fact that Chinese consumers prefer chicken. McDonald's has launched lots of marketing campaigns to try and convince mainland customers about the health benefits of eating beef (apparently, there are some). This has done much to overcome the traditional indifference of Chinese towards beef, probably saving time and money for Burger King's own marketing campaigns.

BURGERS WITH CHINESE CHARACTERISTICS

Burger King is also adapting its menu for China. It has added chicken dishes and has also added chili to some of its offerings. It has not localised its China menu as much as its rivals have, however. KFC has gone the furthest in tailoring its menu for Chinese tastes, with offerings ranging from pumpkin porridge and Beijing chicken rolls to the Chinese deep-fried twisted dough sticks (youtiao) on its breakfast menu. McDonald’s (and to a lesser extent, KFC) is also ahead of Burger King in making “off-the-menu” innovations. These include “dessert” kiosks selling just sweet pastries and drinks. McDonald’s also runs a 24-hour service at 600 outlets.

With its two American rivals so far ahead, is Burger King likely to be successful in China? There should be demand enough for more than two big American fast-food firms here, analysts reckon, and the company has the resources to finance rapid and sustained expansion into mainland cities. Most important, it is strongly motivated. Burger King is keen to build its business outside America. Four-fifths of the new restaurants to open this year will be outside its home turf, and the company aims to double its Asia-Pacific presence to some 1,400 outlets over the next five years.

In China, Burger King’s strategy is particularly to chase younger, more individualistic diners in the country's big cities. Its idea is that these restaurant-goers will want to set themselves apart from older family members or colleagues by trying the newcomer. If so, the Whopper—sold in China as huangbao, or “Emperor Burger”—may yet dethrone the Big Mac here.

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