AGRICULTURAL MARKET CRISIS AND GLOBALIZATION – A TOOL FOR SMALL FARMS

PhD Ionela Carmen PIRNEA
pirneacarmen@gmail.com
Constantin Brâncoveanu Univdersity, Piteşti (Romania)
PhD Professor Maurizio LANFRANCHI
mlanfranchi@unime.it
PhD Carlo GIANNETTO
giannettoc@unime.it
Universitaty of Messina (Italy)

Abstract

There are many ways by which globalization has been defined. People around the world are more linked to each other than ever before. Information and money flow more speedily. Goods and services produced in one part of the world are increasingly obtainable in all parts of the world. International travel is more common. International communication is simple and fast. This fact has been termed as "globalization." The positive and negative affects of globalization and the groups that resist and support globalization are many. Some of the impacts of globalization can be seen on small farmers in developed and developing countries. Corporate globalization has impacted the rural communities in several ways. This paper presents impacts globalization on small farms.

Key words: globalization, sustainability, agriculture, small farms

Introduction

Globalization is one of new trend. It is a complex phenomenon. It is a process of integration of global economy. It involves creation of network and activities transcending economic, social and geographical boundaries (Anderson & Babinard, 2001).

Globalization has influence in all branches. We can see the influences of globalization on agriculture having both its negative and positive aspects. With the development and exchange of technology it became more helpful in agriculture field. The new technology and knowledge helps people to introduce high breed seeds and fertilizer. Along with this introduction of new machines, also helps us in agriculture field. With introduction of new machines the agriculture work became easy. We can introduce high breed seeds and plants through tissue culture. It posed increase in production, because of this profit from agriculture field half increased (Reddy, 2007).

Production across the frontier of state and continent also helps us to make profit. Now the production in agriculture field is standardized. At the same time through the phenomenon of globalization there are many negative impact in agriculture filed. Because of the development and introduction of machines there is unemployment also is increasing. It caused many problems the decline of agriculture, badly affect the aggregarian countries like India. With the introduction of new fertilizers it destroyed the fertility of soil. And country faces many great losses from this field. It also causes the increasing prices of food crops through the promotion of the commercial crops. With the removal of Government restrictions through liberalization it became more helpful to developed countries to earn more profit. The highly subsidized agricultural products of USA, European countries and Australia will destroy Indian agriculture and affect the livelihood of million. Now agriculture became expansible than profit.

1. Effects Of Globalization

The issues and perceived effects of globalization excite strong feelings, tempting people to regard it in terms of black and white, when in fact globalization is an extremely complex web of many things. Table 1 presents ten opposing points of view often expressed about globalization.

Globalization has costs and benefits. There have been examples of poorly managed globalization (eg when countries opened their economic borders before they had the capacity to respond well) but there are also examples of well managed engagement with the international community.

Like it or not, globalization is a reality. Many countries have committed themselves to reducing poverty through the Millennium Development Goals (MDGs) and are cooperating together to work out smart ways to manage globalization.

Benefits and problems of globalization

Table 1

Nr. crt.	Benefits of globalisation	Problems of globalisation
1	Economies of countries that engage well with the international economy have consistently grown much faster than those countries that try to protect themselves. Well managed open economies have grown at rates that are on average 2 ½ percentage points higher than the rate of growth in economies closed to the forces of globalization.	There are social and economic costs to globalization. Trade liberalisation rewards competitive industries and penalises uncompetitive ones, and it requires participating countries to undertake economic restructuring and reform. While this will bring benefits in the long term, there are dislocation costs to grapple with in the immediate term, and the social costs for those affected are high.
2	Countries which have had faster economic growth have then been able to improve living standards and reduce poverty. India has cut its poverty rate in half in the past two decades. Cheaper imports also make a wider range of products accessible to more people and, through competition, can help promote efficiency and productivity.	Some countries have been unable to take advantage of globalization and their standards of living are dropping further behind the richest countries.
3	Improved wealth through the economic gains of globalization has led to improved access to health care and clean water which has increased life expectancy. More than 85 percent of the world's population can expect to live for at least sixty years (that's twice as long as the average life expectancy 100 years ago!)	Increased trade and travel have facilitated the spread of human, animal and plant diseases, like HIV/AIDS, SARS and bird flu, across borders. The AIDS crisis has reduced life expectancy in some parts of Africa to less than 33 years and delays in addressing the problems, caused by economic pressures, have exacerbated the situation.
4	Increased global income and reduced investment barriers have led to an increase in foreign direct investment which has accelerated growth in many countries.	The increasing interdependence of countries in a globalised world makes them more vulnerable to economic problems.
5	Improved environmental awareness and accountability has contributed to positive environmental outcomes by encouraging the use of more efficient, less-polluting technologies and facilitating economies' imports of renewable substitutes for use in place of scarce domestic natural resources.	The environment has been harmed as agricultural, forest, mining and fishing industries exploit inadequate environmental codes and corrupt behaviour in developing countries. Agricultural seed companies are destroying the biodiversity of the planet, and depriving subsistence farmers of their livelihood.

6	Increasing interdependence and global institutions like WTO and World Bank, that manage the settlement of government-to-government disputes, have enabled international political and economic tensions to be resolved on a "rules based" approach, rather than which country has the greatest economic or political power. Importantly it has bolstered peace as countries are unlikely to enter conflict with trading partners and poverty reduction helps reduce the breeding ground for terrorism.	The major economic powers have a major influence in the institutions of globalization, like the WTO, and this can work against the interests of the developing world. The level of agricultural protection by rich countries has also been estimated to be around five times what they provide in aid to poor countries
7	Improved technology has dramatically reduced costs and prices changing the way the world communicates, learns, does business and treats illnesses.	Trade liberalisation and technological improvements change the economy of a country, destroying traditional agricultural communities and allowing cheap imports of manufactured goods.
8	Modern communications and the global spread of information have contributed to the toppling of undemocratic regimes and a growth in liberal democracies around the world.	Modern communications have spread an awareness of the differences between countries, and increased the demand for migration to richer countries.
9	The voluntary adoption by global companies of workplace standards for their internationalised production facilities in developing countries has made an important contribution to respect for international labour standards. Wages paid by multinationals in middle- and low-income countries are on average 1.8 to 2.0 times the average wages in those countries.	Globalised competition can force a 'race to the bottom' in wage rates and labour standards. It can also foster a 'brain drain' of skilled workers, where highly educated and qualified professionals, such as doctors, engineers and IT specialists, migrate to developed countries to benefit from the higher wages and greater career and lifestyle prospects.
10	International migration has led to greater recognition of diversity and respect for cultural identities which is improving democracy and access to human rights.	Indigenous and national culture and languages can be eroded by the modern globalised culture.

(Source: made by authors after http://www.ausaid.gov.au/, http://www.worldbank.org/, http://www.undp.org/, 2013)

2. Globalization of agricultural sector

Globalization of agriculture means that every country of the world should have a free access to the markets of other countries as far as agricultural products are concerned.

In the agricultural sector, crop imports could be traded at cheaper prices, and could be exchange for another commodity because of the free trade - as entailed among the provisions of WTO. In this way, countries that rely primarily on agriculture (i.e. the Philippines), could purchase or import crops from another country at cheaper tariff rates, in case of a shortage. However, on the downside, countries that are more progressive agriculturally could just dump their third-rate or low-class products to their third-world trading counterpart. Thus, poor quality products could be received by the "lesser" country. "Quality Control" of the traded products is the main issue.

Arguments in favor of globalization

Figure 1

(made by authors after http://www.preservearticles.com)

The multinational companies operating from outside the country are processing food grains and adding value to them. For this, they have introduced suitable modern packing and transport for their products. This development may help the farmers to some extent. But important of food product creates a danger of charging food habits of the people. It may even alter a part of the culture, as in any nation, cooking traditions and food habits are a result of the natural climate condition and the crops grown locally.

Globalization has eroded the cultures of nations and has made farmers' lives difficult. To meet the growing competition, farmers have begun to buy expensive seeds, synthetic chemical fertilizers, and are using large quantity of water.

The difference between agriculture and industry is that in industry we can measure our profit, stop or start production, increase or decrease it too. But agriculture depends on the rain and natural conditions. The crop is planted according to the season and has to be harvested at the right time. All the produce comes to the market at the same time the price is determined by the market, not the farmer. Under these circumstances, governments all over the world are forced to subsidies farm products.

The implications of market globalization and corporate colonialism are no more acceptable than were the implications of earlier attempts at cultural globalization and political colonialism. But with such powerful economic and political forces promoting globalization, how can we ordinary people expect to stop it. First, we can help people realize that the undeniable existence of a global ecosystem, a global society, and a global economy does not justify market globalization – i.e., the removal of all economic boundaries among nations. Natural boundaries are necessary to ensure ecological integrity. Cultural boundaries are necessary to ensure social responsibility. And economic boundaries are necessary to ensure long run economic viability. Without boundaries, the world will tend toward entropy – toward a world without form, without structure, without order, and without life.

In a global agricultural economy, large farms will continue to displace smaller farm in the global marketplace. Increasingly, the larger farms will be controlled by giant multinational corporations. Many small farms depend on sales of internationally traded commodities to provide cash farm income, in developed as well as less-developed countries. The most important aspect of their farming operation may be its non-cash contributions to their quality of life. In less-developed countries, the major non-cash contribution of farms may be food, clothing, and shelter, while in other countries it may be a healthy environment, privacy and security, and an independent life-style. In both cases, however, the economic viability of the farm may depend on cash income from sales of internationally trade commodities. Under globalization and corporate colonialism, small independent family farms quite simply will not have access to markets for internationally traded commodities. Essentially all such commodities will be produced under comprehensive contracts offered by corporations linked to one of the "global food clusters." Only the larger farming operations will be able to secure such contracts, and in many countries, such operations may be corporately owned and operated.

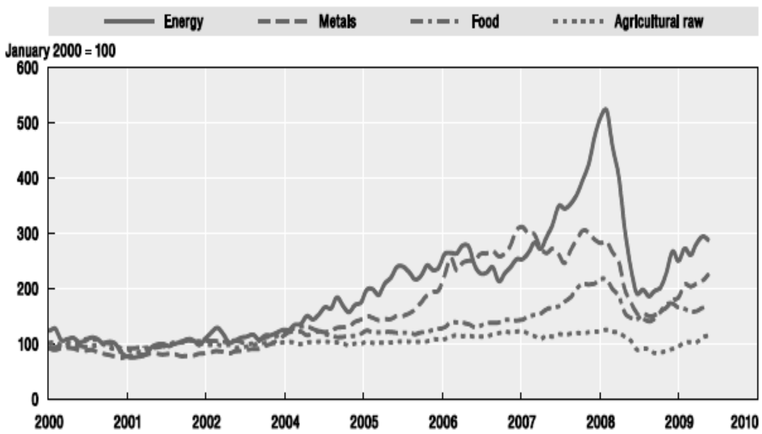
In a global agricultural economy, small farms will be replaced by large farms, which in turn will be controlled by giant multinational corporations. Small farmers quite simply will not be able to compete in a "free market" global economy. Many small farmers of the world rely on horticultural crops for their viability. Thus, the implications of globalization may be even more dramatic for horticulture than for most other agricultural sectors. But even more important, ecological and cultural boundaries are essential to the long run sustainability of agriculture. Thus, if all economic boundaries are removed, human life on earth, at least as we know it, will not be sustainable.

3. Price volatility in food and agriculture, potential developments and impacts

In this period international food commodity prices rose to unprecedented levels in nominal terms, as witnessed by the FAO food commodity price index which reached a peak in June 2008, before retreating back to 2006 levels by early 2009. As shown in Figure 5, this price surge in primary food commodity prices followed what has been described as the longest and largest surge in global commodity prices in over a century. The factors underlying this broad surge appear largely global and macroeconomic in nature, including the rapid economic growth of developing countries during the period, particularly in Asia, but also monetary factors including money supply growth, financial laxity and exchange rate movements (particularly depreciation of the US dollar). Given a substantial co-movement among primary commodity prices during the period, food commodity prices, despite their huge implication for food security, were relatively more restrained than many other commodity prices.

Co-movements of commodity prices, 2000-2010

Figure 2

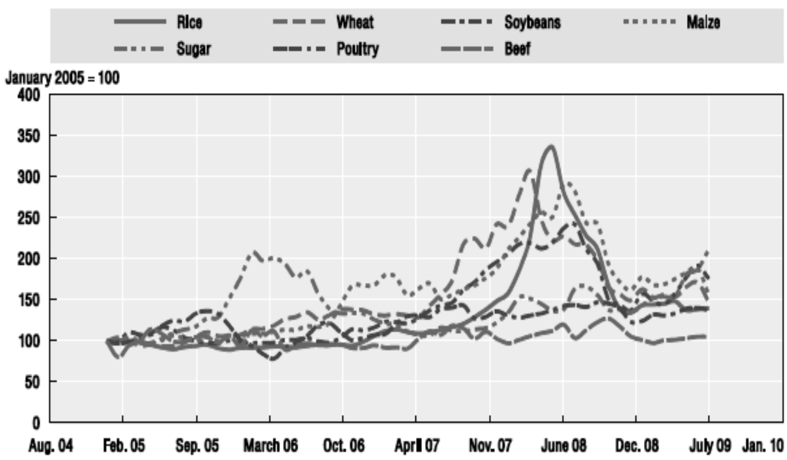


Source: IMF International Financial Statistics (2010)

In the context of the broader commodity price surge, the food price hike was affected by a series of drought-induced crop shortfalls at a time of low stocks. It was also influenced by the increasing integration of agricultural markets to energy markets, and the important impact, both intended and unintended, of government policies. Importantly, energy prices, which experienced the largest price spike, underpinned production costs of agricultural products relying on energy and fertilisers. Coupled to this impact was the emerging demand for feedstocks to support production of biofuels. This impact was largely crop-specific and included maize in the United States, vegetable oils in the EU, and to a lesser extent, sugar in Brazil. Mandated consumption targets for biofuels, and other support policies further re-enforced the links between energy and feedstock prices.

Co-movements of agricultural food crop price

Figure 3



Source: http://www.fao.org/worldfoodsituation/wfs

Additionally, increased production of feedstocks was to the detriment of other crops whose cultivated areas decreased (e.g. wheat and soybeans). Fears about food price inflation incited further policy reaction by food commodity (including rice) exporters and importers alike who were keen to assure food supplies, and in combination put additional upward pressures on prices (Figure 3).

While the energy factor explains an important and controversial part of the increase in agricultural commodity prices, other factors were at play too. Agricultural supply initially exhibited sluggish responsiveness to the increase in demand, not only due weather related production shortfalls and its inherent production lags, but also after having undergone a long period of low investment given the low real prices in the previous decade. Commodity stock levels fell to critically low levels in 2006 and 2007. Macroeconomic factors such as the depreciation of the US dollar and monetary expansion also influenced the crisis, including agriculture. The depreciation of the US dollar improved the purchasing power of many importing countries, causing an increase in prices of commodities which are denominated in dollar terms.

The role of speculation in financial markets encounters vigorous debate. Some analysts argue that low interest rates and low returns in other markets attracted non-commercial investors into agricultural and other commodity markets, fueling higher prices. Of course the causality is debatable - higher prices more likely attracted speculators, rather than the other way round. Anecdotal evidence suggests the number of traders in futures markets increased as prices increased. For example, institutional investment funds, which trade on large, long-term commodity-indices rather than specific markets, may have had a role in rising futures prices. Various studies, such as by Irwin and Saunders (2010) and Gilbert (2009), provide differing conclusions as to whether index funds have caused the 2006-2008 bubble in commodity prices.

Most agricultural commodity markets are characterized by a high degree of volatility. Three major market fundamentals explain why that is the case. First, agricultural output varies from period to period because of natural shocks such as weather and pests. Second, demand elasticities are relatively small with respect to price and supply elasticities are also low, at least in the short run. In order to get supply and demand back into balance after a supply shock, prices therefore have to vary rather strongly, especially if stocks are low. Third, because production takes considerable time in agriculture, supply cannot respond much to price changes in the short term, though it can do so much more once the production cycle is completed. The resulting lagged supply response to price changes can cause cyclical adjustments (such as the often referenced „hog cycle") that add an extra degree of variability to the markets concerned. Business cycle fluctuations in demand for agricultural non-food commodities (such as cotton) from rapidly growing, industrializing economies may also be contributing to increased volatility.

As of Spring 2011, world price levels as reflected in various measures, including the FAO's world food price index, have once again reached the levels of 2007/08, giving rise to concerns that a repeat of the earlier crisis is underway. Several of the same factors known to have contributed to the 2007/08 crisis are also present – weather-related crop losses, export restrictions, high oil prices, and a depreciating US dollar, against a background of a continuing tight supply-demand balance. The debate on the impact of financial investment in commodity markets also continues. On the other hand, the 2010/11 situation differs from the earlier episode in some important respects. Firstly, the 2010 harvests in many food importing countries in Africa were above average or very good, so that prices in the region have been more stable. Stocks were higher at the outset which has also helped to mitigate the price rises.

Finally, the price increases have been differently distributed among commodities. Meats, sugar and dairy products are all affected, and these are commodities that are less important in the food bills of the most vulnerable. It should be noted also that while the index of prices for cereals has come close to its 2008 level on average, and prices of vegetable oils are also very high, contrary to the 2007/08 situation the price rises have not affected rice. As rice is the staple food of many millions of the world's most vulnerable consumers, this means that the incidence of current price increases is somewhat different. Nevertheless, there are serious risks to food security and the situation needs to be kept under close review by national governments, and by international organisations and non-governmental agencies.

4. Conclusions

The district can be an important tool for the revitalization of rural areas.

It is structured by physical capital represented by the territory in which the companies are, belonging to a supply chain, human capital, consisting of the resident population, and the share capital represented by all the relationships and interactions carried out by all those involved. It allows to grasp and enhance social diversity that characterizes the different rural areas and because the district through the instrument can examine the interrelationships between the various stakeholders.

In an international scenario marked by uncertainty and in anticipation of the post-2013 EU gives particular attention to the applying of a territory of efficient policies in response to increasing competition in the markets, and represents a district in this connection an interesting tool for intervention governance in rural development within a defined area with product quality of local material. In this direction for some years now the EU has authorized state aid for the implementation of supply chain contracts and district in order to promote agricultural modernization and technological development of enterprises.

Acknowledgements

This article is a result of the project POSDRU/88/1.5./S/55287 „Doctoral Programme in Economics at European Knowledge Standards (DOESEC)". This project is co-funded by the European Social Fund through The Sectoral Operational Programme for Human Resources Development 2007-2013, coordinated by The Bucharest Academy of Economic Studies in partnership with West University of Timisoara.

The paper is the result of a complete cooperation and it is, therefore, paragraph 4 is attributable to Maurizio Lanfranchi; paragraphs 1,2,3 are attributable to Ionela Carmen Pirnea; ; introduction is attributable to Carlo Giannetto

Bibliography

- Anderson, P.P. & Babinard, J., *Globalization and human nutrition: opportunities and risks for the poor in developing countries,* African Journal of Food and Nutritional Sciences, Volume 1, No. 1, (2001).
- Reddy, D.E., *Inpact of globalization on small farmers worldwide: implications on information transfer,* World Library and Information Congress: 73rd IFLA General Conference and Council, Durban, South Africa, (2007).
- IMF International Financial Statistics, 2010
- http://www.undp.org/, accessed on March 25, 2013
- http://www.preservearticles.com, accessed on March 22, 2013
- http://www.ausaid.gov.au/, accessed on March 22, 2013
- http://www.worldbank.org/, accessed on March 25, 2013
- http://www.fao.org/worldfoodsituation/wfs, accessed on March 25, 2013