



## WHAT DRIVES HIGHER FOOD PRICES: EXAMPLES FROM CENTRAL ASIA

Food prices are one of the most important indicators, which play an important role in economic and political stability. Food prices depend on a variety of factors, including growth in demand (mainly from Asian countries), financial market speculations, export restrictions, weather shocks, productivity slowdown, currency depreciation, rising oil prices, biofuels demand, and decline of stocks. The recent pandemic became one of the most challenging factors for the global food market and substantially affected food prices. As the Food and Agriculture Organization of the United Nations (FAO) food price index indicates that we have seen the highest levels in the last decade which ranged between 91.9 to 120.9. If we go in detail the index points sharply increased in 2011 to 131.9 from 106.7 in 2010 then it gradually fell to 93.1 in 2015, later on it did not pass 100 until 2020 and skyrocketed again to 120.9 points in 2021. According to data from the FAO, the Food Price Index averaged 127.4 points in August 2021, up 3.9 points (3.1%) from July and 31.5 points (32.9%) from the same period last year. The rebound of the index in August after two consecutive months of decline was led by strong gains in the sugar, vegetable oils, and cereal sub-indices.

From April 2020, international food (producer) prices have increased by 47.2% attaining their highest (real) levels in May 2021 since 2014. However, food prices started to increase before the pandemic because of several important factors, including African swine fever and trade disputes between the United States and China. Increasing transport and shipping costs also contributed to the growth of prices. For instance, ocean freight rates have increased around 2-3 times in the last 12 months while higher gasoline prices and truck driver shortages in some regions are pushing up the cost of road transport services. It is important to note that as the location of ships and containers goes through the slow process of realigning with supply and demand, the cost of moving grain between major markets has more than doubled from pre-pandemic levels putting food import-dependent countries at risk. Moreover, local supply chain breaks, lockdowns, and quarantine measures affected the informal sector, including sellers, traders, and shop owners. According to estimates, the prices of food increased by more than 10% in 15 developing countries in the first quarter of 2020. At the same time, due to climate shocks, many countries expect a significant reduction in output and crop yields, which will result in a decrease in supply pushing food prices up.

The pandemic, rising rates of global poverty and inequality, and the escalating climate and

biodiversity crises together contribute to increasing hunger, as well as growing food and nutrition insecurity. This situation creates significant risks for many developing and low-income countries. Data shows that between 720 million and 811 million people, or about 10% of the world's population, remain hungry. Moreover, at least 2.4 billion lack access to a healthy and nutritious diet.

Central Asian agriculture has several important features. Countries of the region significantly depend on food imports. This situation is associated with higher macroeconomic risks. For instance, following the depreciation of national currencies the prices of imported agricultural and food products can increase. The second feature of Central Asian agriculture is the prevalence of smallholders and subsistence farming. This fact complicates the distribution and allocation of support measures including compensations. Despite the climate, risks remain one of the most important threats, the reaction from the regional governments is insufficient. Central Asia lacks climate adaptation and management strategies even ignoring ongoing climate-related changes in regional agriculture. For instance, in 2021, almost all regions of Kazakhstan experienced drought. This weather shock led to a decrease in the yield of major crops in both food and forage segments. Instead of the projected 15 centners (1 centner 100 kilograms) per hectare, agrarians collect 5-7 centners per hectare. Higher input prices also contributed to the growth in food prices. In Kazakhstan, fuel, lubricants, fertilizers, plant protection products, spare parts, agricultural machinery, and other necessary materials have risen by 20-30% compared to the last year. The current situation, as well as similar dry conditions in the Central Asian countries – the main consumers of Kazakh wheat and flour - have led to an increased demand for grain products. By the end of July 2021, the price of importers for wheat of the 3rd class increased by \$15-20 per 1 ton and now stands at \$260-265 per ton. Similarly, the domestic price of wheat increased – from 93-95 thousand tenge/ton (219-223\$) to 103-105 thousand tenge/ton (242-247\$).

Poultry breeders predict growth in product prices to survive the winter safely and not lose livestock, Kazakhstani poultry farmers need over 600 thousand tons of feed. The Union of Poultry Breeders speaks of the need to create a forage fund to reduce the cost of feed. The businessmen turned to the government with such a proposal. According to the forecasts with the current feed prices, by winter, chicken eggs may rise in price by at least 7%. The wholesale cost of a kilogram of poultry meat

will exceed 1,000 tenge where the industry is under a high risk of bankruptcy. Moreover due to current circumstances four poultry farms have already suspended their activities.

Understanding these challenges, the President of Kazakhstan Kassym-Jomart Tokayev in his September 2021 Address devoted a significant part of his speech to agricultural and food issues. The President proposed special measures to develop the country's agriculture and stabilize the food market. In particular, the Head of State mentioned the importance of creating a network of wholesale distribution centers and unified control over prices along the chain from producer to consumer. According to the President, it is necessary to expand the area of cultivation of fodder crops and to strengthen control over the observance of crop rotation, and improve the sphere of veterinary medicine. He noted that about 90% of the technologies used in the agro-industrial complex are completely outdated and in need of modernization. The President instructed the government to revise and stabilize the mechanism of subsidies. The President mentioned that more than 2 trillion tenge (\$4.71 billion) had been allocated for subsidies. At the same time, more than half of the criminal cases in the agro-industrial complex are related to the theft of subsidies.

The situation in Kazakhstan creates challenges and risks for the remaining Central Asian countries, as it remains a key supplier of wheat products. For instance, changes in Kazakhstan's trade policy, in particular, export duties or restrictions can lead to food shortage and higher inflation in other Central Asian countries. Central Asian countries may respond with their restrictive measures. For instance, Kyrgyzstan imposed livestock export restrictions. These counterproductive policies may further accelerate an increase in prices. It is important to note that the economies of Central Asian countries are experiencing one of the downturns, which have social implications. According to the recent data, around 1.7 million people (25.3% of the total population) in Kyrgyzstan lived below the poverty line in 2020, having increased by 5.2 percentage points compared to the previous year. Higher food prices may worsen the existing situation and cause social instability.

Therefore, the regional countries should coordinate their policies, which should focus on reducing trade costs. They need to reconsider trade liberalization for agricultural and food products and strengthen their cooperation in transport and transit services. These measures can increase the volume of agricultural and food trade in the region, stabilize prices and improve food security.

## Politics, Foreign Affairs, and Security

- The President of Kazakhstan Kassym-Jomart Tokayev had a meeting with his Iranian counterpart Ebrahim Raisi. President Tokayev congratulated Ebrahim Raisi on his victory in the recent presidential elections and highly appreciated the state of cooperation between the two countries. The Presidents noted positive trends in the development of bilateral trade this year and reaffirmed their readiness to make efforts to increase it. They also agreed to strengthen cooperation in transport, logistics, and agricultural sectors (Kazinform, 17.09.2021).
- The President of Uzbekistan Shavkat Mirziyoyev had a meeting with his Tajik counterpart Emomali Rahmon in Dushanbe. The leaders discussed issues of bilateral and regional cooperation. In particular, the Presidents paid special attention to the current situation in Afghanistan. The Heads of States also emphasized the importance of continuing active contacts and exchanges for the practical implementation of cooperation projects in economic sectors in accordance with the agreements reached at the highest level (UzReport, 16.09.2021).
- According to the Russian Deputy Prime Minister Yuri Borisov, the Collective Security Treaty Organization member-states will have a joint budget for R&D activities in the military sector. He explained that the organization shifted from simple verbal coordination to a more serious integration. All member-states showed their willingness to address the integration and synchronization of solutions in the field of the development of national military-industrial complexes and the newly introduced standards (TASS, 19.09.2021).
- The Armed Forces of Russia and Belarus finalized the joint strategic military exercise "Zapad-2021". The official closing ceremony was held at the Mulino training ground in Nizhny Novgorod, Russia. The event was attended by representatives of the military leadership of Armenia, Belarus, India, Kazakhstan, Kyrgyzstan, Mongolia and Sri Lanka. The participants of the exercise showed the ability to create joint powerful interspecific groupings, plan military actions and suppress any aggression (Ria.ru, 15.09.2021).
- Dushanbe hosted a meeting of the Council of Heads of State of the Shanghai Cooperation Organization (SCO) timed to coincide with the 20th anniversary of its creation. Beside the heads of the SCO member states, the leaders of the SCO observer countries - President of Belarus Alexander Lukashenko, President of Iran Ebrahim Raisi and President of Mongolia Ukhnaagiin Khurelsukh attended the summit. The participants of the meeting discussed the main results of the organization's activities over 20 years, as well as issues of cooperation, joint efforts to overcome the consequences of the coronavirus crisis and the situation in Afghanistan (Lenta.ru, 17.09.2021).
- China, Mongolia, Pakistan and Thailand finalized the international peacekeeping exercise "Shared Destiny-2021", organized by the Chinese armed forces. More than 1000 officers and soldiers under joint command performed tasks of responding to acts of violence and terrorist attacks. The exercises helped to assess and strengthen the readiness of the reserve forces to carry out peacekeeping tasks and contributed to the strengthening of cooperation between the participating countries (Russian.news.cn, 15.09.2021).

## Economy, Finance, and Energy

- Kazakhstan has produced 68 million tons of coal since the beginning of the year, exporting more than 11 million tons to Russia and over three million tons to Europe. Kyrgyzstan, Uzbekistan, Ukraine and Belarus also import coal from Kazakhstan. In total, Kazakhstan plans to export 19 million tons of coal in 2021. Energy companies in Kazakhstan used 40 million tons of coal. Kazakhstan ranks among the top ten countries in terms of coal reserves (Qazaq TV, 14.09.2021).
- Uzbekistan continues to attract foreign investments in its energy sector. Recently, Saudi Arabian ACWA Power has won another international energy tender in Uzbekistan, offering a tariff of 2.56 dollars per kWh of generated electricity. The company will invest up to \$140 million to construct a 100 MW wind farm in Karakalpakstan. The new power plant will produce 400 million kWh of environmentally friendly electricity annually. It is expected that the project will be completed in 2023 (UzReport, 17.09.2021).
- Tajikistan and Pakistan held a Forum of business circles of the two countries in Dushanbe within the framework of the official visit of the Prime Minister of Pakistan Imran Khan. Deputy Prime Minister of Tajikistan Usmonali Usmonzoda, the Prime Minister of Pakistan and over 150 participants attended the Forum. Within the forum, the countries signed several agreements on cooperation. Business circles of the two countries conducted bilateral negotiations in the "business-to-business" format, where they also signed important agreements (Asia-Plus, 17.09.2021).
- Uzbekistan and Turkmenistan held the 16th meeting of the Uzbek-Turkmen Intergovernmental Commission on Trade, Economic, Scientific, Technical and Cultural-Humanitarian Cooperation in Tashkent. Deputy Prime Minister of Uzbekistan Sardor Umurzakov and his Turkmen counterpart Esenmyrat Orazgeldyev chaired the meeting. The countries agreed to provide phased resumption of flights and mutual tariff preferences for 2022. The parties discussed the prospects for using the seaport "Turkmenbashi". Following the meeting, the countries reached a number of important economic agreements (KUN.UZ, 15.09.2021).
- The new Oil Minister of the Islamic Republic of Iran, Javad Owji, made statements regarding the country's gas policy and announced that talks with Turkmenistan would continue to increase Iran's gas exports and trade. Turkmenistan stopped gas supplies to Iran due to the accumulation of a large debt of the Iranian company in January 2017. In 2020, the International Court of Arbitration announced its verdict over the Iranian-Turkmen gas dispute in favor of Turkmenistan (Orient, 14.09.2021).
- The President of Turkey Recep Tayyip Erdogan visited the construction site of the Akkuyu nuclear power plant during his trip to Mersin. According to the President, Turkey expects the construction of the first reactor of the Akkuyu nuclear power plant will be completed in May 2023. The construction involves 3000 Russian and 10000 Turkish engineers. For Turkey, it is important to launch the first reactor exactly in 2023, when the republic is to celebrate its 100th anniversary (TASS, 18.09.2021).

## Society and Culture

- The Yunus Emre Institute released a documentary telling the story of the Gagauz Turks of Moldova. The documentary narrates about how Turkish language education started in 1934 in Moldova's autonomous region of Gagauzia with the help of Mustafa Kemal Atatürk, the founder of the Turkish Republic. Turkish education continues in Comrat, the capital of the Gagauzia region, with the help of the Yunus Emre Institute (Anadolu Agency, 14.09.2021).
- UNESCO announced the inclusion of Kolsai Lakes National Park in the World Network of Biosphere Reserves at the 33rd session of the International Coordinating Council of the Man and Biosphere Program. The Kolsai Lakes, which translates as "lake in the gorge" from Kazakh, is located 300 kilometers away from Almaty on the north slope of the Tian Shan Mountains. From now on, the Kolsai Lakes will be under the special protection of international convention (AstanaTimes, 17.09.2021).
- Khiva hosted the celebratory concert to mark the opening of the Year of Khiva – the Cultural Capital of the Turkic World 2020. The city was declared the cultural capital of the Turkic world in 2019 at a meeting of the International Organization of Turkic Culture (TURKSOY) in the Kyrgyz city of Osh. More than 500 participants, including representatives of TURKSOY and other international organizations from different countries and regions, participated in the event (AstanaTimes, 16.09.2021).
- The dispatch of a technical mission to territories in and around Karabakh that are liberated from Armenia's occupation in 2020 was discussed during a meeting of Azerbaijani Culture Minister Anar Karimov and UNESCO Deputy Director-General for Social and Human Sciences Gabriela Ramos. Restoration of historical monuments that were damaged or destroyed during the Armenian occupation was one of the topics of discussion. The sides focused on Azerbaijan's cooperation with UNESCO in the field of social sciences and humanities. The two officials also discussed gender equality, cooperation in the field of youth, as well as a partnership with the Youth Forum held by UNESCO (Azernews.az, 17.09.2021).
- The capital of Kazakhstan, Nur-Sultan, hosted a round table on the topic "Mass media of the Turkic-speaking countries: Development of cooperation in a new reality". The event was organized within the framework of the Eurasian Media Forum. The participants discussed issues of media cooperation among Turkic states such as the creation of a common platform for interaction, the development of projects, ensuring the flow of information in the field of new media and the exchange of experience. Particular attention was paid to working on the exchange of content with leading media organizations in Turkey, Uzbekistan and Azerbaijan (Morningexpress.in, 15.09.2021).
- The United Nations World Food Program (WFP) has established a major logistics center in the Uzbek city of Termez to assist Afghanistan. Due to the increased need for food aid in Afghanistan, the UN is increasing its stocks of essential goods in warehouses in Uzbekistan, Pakistan and Tajikistan. Within several days, UN agencies have successfully delivered humanitarian supplies to the provinces of Afghanistan (Podrobno.uz, 15.09.2021).