

## The Malawi Model

*Privatization policies have been producing global famine. But one African country has prospered precisely by defying them.*

**T**he streets of Blantyre, the second largest city in Malawi, one of the poorest countries on Earth, certainly won't remind anyone of Geneva—or even Cape Town. The narrow urban alleys, lined with squat, decaying buildings and cars pouring out diesel exhaust, teem with poor people. Some 700,000 live in low-rise shacks and the occasional colonial-style mansion. At intersections, packs of thin children sell copies of the local broadsheets or beg for change from foreign aid workers driving late model SUVs. Even the grounds of Queen Elizabeth Central Hospital, a large medical center downtown, overflow with people: Unable to afford to stay inside the wards, patients and their families pitch temporary shelter on the hospital lawn.

But just outside the city, Malawi's farms tell a different story. At the height of the country's rainy season, farms are filled with shoulder-tall maize and ripening

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avocadoes. The farmers' success is not a coincidence: After facing a famine four years ago that threatened one-third of the country's 13 million people, around half of whom live in poverty, tiny Malawi has utilized a \$60 million policy of state subsidies for agriculture to become a net grain exporter. Malawi has transformed itself from a ward of the international community into one of the most successful agricultural economies in southern Africa: The landlocked, geographically diverse country, covered in green rolling hills and dotted with freshwater lakes, now exports thousands of pounds of corn to neighboring, starving Zimbabwe, a nation once known as the breadbasket of the region.

State agriculture subsidies are hardly what the doctor—or, in this case, the international aid community and the World Food Program—ordered. But Malawi triumphed precisely by ignoring the world's leading pro-privatization agricultural experts. In fact, the “Malawi model” could turn out to be one of the only African success stories in recent years. Yet few of its neighbors thus far have copied Malawi's success: Most developing countries listened to the experts and privatized their agriculture, a decision that has resulted in food shortages across the developing world, as private traders have been unable to respond to food emergencies and governments have seen their food reserve stocks dwindle, leaving little staple foods left for emergencies. Indeed, global stocks of grain and other key commodities are plummeting: World wheat production fell dramatically between 2006 and 2008, according to the U.S. Department of Agriculture. The slow failure of developing-world food policy coincides with growing upward price pressures from the First World, where governments are diverting staple crops like corn from use for food to use for biofuels, aid organizations are dedicating less money to improving global agriculture, and expanded middle classes are requiring increased food production to support their meat-eating habits.

Even as the cost of staple foods rises, drought in some of the world's leading agricultural regions threatens future production, a result of global warming and unpredictable climate patterns. And developed nations, facing their own financial crises, have become far less willing to help the developing world. As the Food and Agriculture Organization predicted, in classic bureaucrat-speak: “The possibility of further sharp price hikes and continued volatility as a result of unforeseen events seems to be likely for the next few [agricultural] seasons.” Meanwhile, the G-8 industrialized nations recently predicted that, if global food production does not double by 2050, it could severely threaten global stability. Unless the global aid community reverses its support of agricultural privatization and begins to cultivate Malawi-style state subsidies, this perfect storm of factors may transform localized food crises into an unprecedented global famine.

## How Famine Happens

The possibility of a global food crisis long seemed unthinkable. After a series of developing-world famines in the 1960s was followed by the oil crisis, many nations vastly increased their food production through agricultural innovations like South Asia's famous "Green Revolution," which used new types of irrigation and plant varieties to increase farmers' yields. By the late 1980s, with the return of cheap oil, the spread of efficiency-boosting agricultural technology, and low wheat prices thanks to the heavily subsidized U.S. agriculture market, food costs worldwide had plummeted.

With the cost of food low, famines like the deadly one in Ethiopia in the mid-1980s remained relatively localized; the international community, not overwhelmed by a global famine, was able to muster the resources to end famines when and where they occurred. And critically, global food production consistently kept pace with global population growth: According to one study by Britain's Agriculture Department, between 1970 and 1990 the increase in the world's food supply even outpaced the world's population growth. As a result, many complacent countries slashed food stockpiles designed to be used in an emergency (in a developing country) or as aid to help other nations (in a developed country).

But over the past five years, Thomas Malthus has come back from the dead. As Asia's giant economies expanded rapidly—until recently, China posted annual growth of more than 10 percent, and India wasn't far behind—the world's economic expansion picked up, and by 2004 global economic growth had surpassed food supply expansion. Throughout Asia, new middle classes shifted from traditional diets, which utilized small amounts of meat mixed with a starchy staple like rice, to a more heavily meat-oriented diet, which requires far more cultivation of land to support. China's meat consumption has more than doubled since the mid-1980s; eating large quantities of meat has become a sign of wealth and prestige. Too much prestige, perhaps: On recent visits to China, I have seen KFCs employing bouncers to keep out ruthless crowds of chicken eaters pushing and shoving to get inside the doors.

Even as the world has demanded more food in the 2000s, its farmers found themselves facing numerous new obstacles to keeping up with demand. With the rising price of oil, rich nations like the United States and the European Union began providing incentives for their farmers to switch production from food to biofuels. Overall, developed nations now spend as much as \$15 billion annually in biofuel subsidies. In the United States alone, some 20 million acres of cropland have been converted from growing corn for food to growing corn for fuel. This number is sure to rise, since America's Renewable Fuel Standard legislation mandates that, by 2010, at least 28 billion liters of fuel used in the

country come from non-petroleum sources.

But this is a costly, and unproductive, strategy. As a study by the Organization for Economic Cooperation and Development found, biofuel subsidies will increase average global wheat prices by five percent and vegetable oil prices by nearly 20 percent, while only cutting greenhouse gas emissions from transportation fuel by a measly 0.8 percent between now and 2015. Another, more damning estimate by the World Bank suggested that the shift to biofuel production was responsible for up to 75 percent of the rise in global food prices.

Meanwhile, major aid organizations, and the wealthy countries that support them, also grew complacent about funding agricultural research, the kinds of efforts that sparked the original Green Revolution—and might have provided developing countries with new ways to increase crop yields. For decades, the World Bank slashed its lending for agriculture research, while the United States, through the U.S. Agency for International Development, cut funds for agricultural programs as well. According to the World Bank's own internal monitor, the organization spent only nine percent of all its loans in Africa on agriculture between 1991 and 2006, despite the fact that farming provides a livelihood for the vast majority of Africans.

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At the same time, donors prodded poor countries to privatize their agricultural sectors. Pushing privatization made a certain sense: Donor nations and aid organizations argued that, with the cost of food so cheap, poor nations could always buy staple goods on the world market if necessary, and so would be better off putting their farmers and farmland to more efficient use. In Malawi, local farmers and agricultural experts say, both World Bank officials and other major donors constantly pushed the government to reduce subsidies for seeds and fertilizer, so that farmers could grow cash crops rather than concentrating on national food self-sufficiency.

The White House, too, has hardly proved helpful. Though George W. Bush last year provided over \$700 million in emergency aid to help nations hit by rising staple prices, his administration never embraced a shift to promoting agriculture among poor countries. His signature aid initiative, the Millennium Challenge Corporation, staffed at first by people with financial backgrounds, had little interest in agriculture and self-sufficiency. The MCC focused its spending on large-scale infrastructure and business development in poor countries. Indeed, as I learned from several congressional staffers who had closely monitored the

MCC, even when congressional representatives pushed the organization to invest more in basic needs like agriculture, MCC staffers simply refused, since they came from a business background and put their priority on developing industry and financial sectors within recipient nations. President Barack Obama thus far does not seem inclined to take a wiser path. Though he has vowed to double America's foreign aid, a move that likely would mean reinvesting in programs like agricultural development, he also has strongly backed an expansion of America's domestic ethanol program. After all, the President comes from Illinois, the second-biggest producer of corn of any state.

Yet the privatization strategy, which can work in formerly state-dominated industries like finance or transport, has failed miserably in agriculture throughout the developing world. In many poor countries, when governments stopped handing out seeds and fertilizer, or providing warehouses to store farmers' grain, the meager private sector was not equipped to fill the void. Unlike in the developed world, home to giant agribusinesses, in Africa the small private grain sellers and buyers have little capital or ability to raise money. And with little financing, it is nearly impossible for the private sector to develop large stocks of seed and fertilizer, or to build large warehouses necessary to store significant quantities of staple foods. Forced to rely upon the private sector, farmers in turn could not buy large quantities of seed, or store grain between harvests; and even if the resources were available, farmers often could not afford to buy fertilizer and seed. In many nations that had liberalized agriculture, crops simply rotted.

With private traders unable to store crops, governments selling off their warehouses to the private sector, and no one investing in agricultural research, developing nations have been left dangerously short of any food reserves. Yet for years, donor nations ignored the downside to privatization, even as country after country suffered through famines made worse by a lack of food stockpiles—and as rich countries, in a great irony, subsidized their own farmers. As former President Bill Clinton told a United Nations conference on food security last year, referring to wealthy nations' push for agriculture privatization: "We all blew it."

## **The Crisis Emerges**

By the early part of the 2000s, these factors had begun to coalesce into a global food crisis. Food prices started rising, catalyzed by droughts in major food producers like Australia. This time a far wider range of foods has been affected by price rises than ever before, meaning that poor people around the world, who spend far higher percentages of their budget on food than in America, cannot easily switch from one staple to a cheaper alternative. Between 2006 and 2008, the price of rice on the world market rose by over 200 percent, while wheat prices grew by over

136 percent. In 2007 alone, the Food and Agriculture Organization found that the price of a basket of staple foods rose nearly 25 percent, a staggering amount in one year. Though the plunging price of oil, a major input into commercial farming, has kept food prices from spiraling up even faster this year, high prices will continue; Britain's Overseas Development Institute, a leading think tank, predicted last year that global food prices might stay high for another decade.

Desperate to wring productivity out of their arable land, some poor nations even have started leasing large tracts in their countries to wealthier developing nations, which would then oversee farming in these areas, in a kind of modern-day national sharecropping. Madagascar recently sold a large tract of farmland in its country to South Korea. And when I visited Laos, one of the poorest countries in Asia, I found Chinese businesspeople had moved en masse into the north of the country, which boasted more open space than southern China. When faced with laws prohibiting such actions, they would simply buy off local officials. "Chinese businesspeople now own so much of the north," one aid worker in northern Laos told me. "The local farmers have nothing left."

Yet even as food has become more expensive, rich donors have become stingier. Global food aid distributions have dropped to their lowest level since the early 1970s, while the World Food Program, which distributes emergency aid to famine-hit countries, reports annual shortfalls nearly every year. Major donor countries, after promising new infusions of aid to Africa at the G-8 summit in 2006, have failed to keep their promises. According to one study by global watchdog Oxfam, developed nations will fail to meet aid commitments made in 2006.

With the global financial crisis spreading, developed nations will likely become even less generous. Already, many major farm producers, like Brazil, have enacted tariffs protecting their own domestic fertilizer and agriculture industries, or simply have banned some agriculture exports outright. Brazil launched a temporary ban on rice exports, and China enacted tariffs on key agricultural inputs. A group of nations in Southeast Asia, a region that includes the world's biggest rice producers, even has considered launching a multi-country rice cartel that would operate similarly to OPEC. And with the price of domestic economic stimulus climbing, they are unlikely to increase aid overseas.

This confluence of dangerous factors is already beginning to bite. In recent southern African famines, countries suffering through unusual droughts, possibly related to climate change, found themselves with dangerously low stocks of grain and other staples, having abandoned self-sufficiency and the government-run warehouses of grain. Private traders, with small warehouses and little reserve stocks, could not make up for shortfalls; indeed, some traders, facing light regulations, used the crises to speculate on staple foods and to gouge local consumers.

Unprepared for the return of widespread famine after years of promoting agricultural liberalization, Western donors moved slowly to contain these crises, leaving hundreds of thousands of people to die.

For example, in Zambia, next door to Malawi, in 2002 and 2003, a series of factors, including drought, rising HIV rates, and the government's rejection of donated bioengineered food stocks, combined to produce one of the toughest famines in decades. One out of four Zambians faced starvation at the worst points, and in some parts of the country, people survived on wild roots and grasses. Yet the government had little recourse: Rejecting bioengineered food, and having turned much of their farming sector over to private entrepreneurs, Zambians found grain warehouses empty.

These localized famines will soon go global. Over the past year, Oxfam, the Food and Agriculture Organization, and other watchdogs have issued hunger alerts for broad swaths of Africa—and not just the usual places like the Horn and the Sahel (though Somalia, at the tip of the Horn of Africa, is among the riskiest). Tajikistan and other Central Asian countries, not normally the

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front lines in the battle against hunger, confront looming crises. South Asia and even parts of wealthier Southeast Asia are in trouble too. Rural India confronts waves of drought and looming hunger crises in numerous states, while overall the Asian Development Bank last year warned that one billion people in Asia will need food aid in the coming years to overcome rising food prices.

As global hunger spreads, it is having a direct impact on political stability. Already, street protests over rising staple prices have rocked Indonesia, the world's largest Muslim nation, as well as Egypt, Morocco, Bangladesh, Mexico, and India. In Malaysia, anger over rising staple prices led to the near-collapse of the ruling party last year. Often, these food protests turn dangerous. In Egypt, police killed a boy when cracking down on violent food riots in the streets, while in Somalia troops and armed shopkeepers last year fired into large crowds massing in Mogadishu, killing at least two. In Bangladesh some 10,000 people launched food riots in the streets of Dhaka, burning cars and attacking policemen, while in Cameroon at least seven people were killed in food riots. In Haiti, where rising prices sparked a new hunger crisis in a nation used to famine, thousands stormed through the streets last year, attacking police and attempting to take over the presidential palace. And these are only a few examples: Over the past two years, violent protests over food prices have hit more than 20 nations.

As bellies grow emptier and average people have to spend more on food, instability will only increase. To make matters worse, the hardest-hit countries are often the most fragile: Somalia, Pakistan, Yemen, Egypt, Haiti, among others. Even if higher prices don't immediately topple one of these governments, more expensive food will have a long-term corrosive effect on state stability. Governments will be forced to spend more of their budgets addressing short-term hunger emergencies, leaving less money for critical longer-term social welfare needs like upgrading primary education. Robert Zoellick, president of the World Bank, estimates that in the world's poorest nations, rising food prices will cut gross domestic product by as much as ten percent. In Indonesia, for example, the government had to revamp its 2008 budget to boost food subsidies, while in India political parties center their entire election campaigns upon promises of greater food security, destroying any opportunity to address other critical issues.

### **The Malawi Model**

Quietly but persistently, poverty-stricken Malawi has managed to avoid much of this food-related unrest. How? The answer is strikingly simple: Malawi ignored donor pressure to privatize, and instead pursued a strategy of small-farm subsidies. Starting in 2004, it launched the nationwide Agricultural Inputs Subsidy Program, in which roughly half of Malawi's small farmers were given coupons to buy fertilizer and seed at a rate far below the market price. Critically, the government focused the program not on the most destitute, but on the poor farmers who at least had some land and the ability to work the plots, thus guaranteeing a return on their investment in the form of more efficient grain output. At the same time, the government invested in training programs, helping farmers learn about new types of irrigation and management to improve their yields. And once the farmers produced, the Malawian government created funds designed to buy a percentage of the maize crop and store it for future emergencies. In this way, the state hoped to ensure that it would never be caught in a famine having to rely upon private traders to supply staple crops.

Malawi's subsidy program worked. It not only saved grain in case of famine but it also provided farmers with a guaranteed buyer for some of their crop, affording them the stability to experiment with new hybrids and other initiatives. Besides increasing the amount of maize produced, the national program boosted crop yields, and as the amount of staple food in production increased, costs went down, essentially putting more money into the pockets of average Malawians.

Even the World Bank seems to have noticed. Stung by criticism of its pressure to liberalize agriculture, the Bank has posted a lengthy, and unusual, defense of

its Malawi policies on its website, arguing that it never actually opposed Malawi's subsidy program—an argument that would have surprised most Malawians I met, who had first-hand experience with onerous Bank pressure to privatize.

So what does Malawi mean for the United States and other developed-world donors? For one, it means accepting the failure of privatization. For many developing nations, at least a partial subsidy strategy would help small farmers and prevent the nations from being totally unprepared for famine. Instead of paying to send bags of wheat, it should support agricultural research, like boosting funding for research centers like the International Rice Research Institute, based in the Philippines. It's an important distinction: One comprehensive 2007 study, "Down to Earth," by two World Bank economists, showed that growing a country's agricultural sector is the most important factor in reducing poverty. In addition, by subsidizing some farmers governments will create competition for the private traders—in many developing nations, the few private traders essentially enjoy a monopoly on grain and seed and thus can jack up the price as they see fit.

That said, the developed world still has a role, and the United States, the largest donor to the World Food Program but also a major backer of counterproductive measures like subsidizing biofuels and promoting privatized agriculture, can lead the way. For one thing, the rich world must reconsider its entire renewable fuels agenda. As one OECD report shows, subsidizing ethanol production makes little impact on climate change and proves disastrous to world hunger. Stepping back from the allure of ethanol will not be an easy sell in Washington, where the events of 9/11 shocked the country into rethinking dependence on foreign oil, and where both environmentalists and agriculture lobbyists are on the ascendance in the new administration. But the new Administration can ease fears by demonstrating the close link between food scarcity and instability. At the very least, the Administration could reduce tariffs on imported ethanol from Brazil, which is cheaper and less distorting to global food prices than building an America-first ethanol industry.

Ultimately, the Malawi model shows that the new war on hunger cannot center on rich countries handing out money and determining priorities for aid recipients. Leaders in even the poorest nations usually understand their people better than the bureaucrats of the developed world. The battle must shift to what William Easterly, a prominent former World Bank economist, calls a "searching" mindset, rather than a "planning" one—seeking solutions that have already worked in individual countries, rather than trying to plan one universal response to hunger and forcing it on a diverse range of recipients. The Malawi model won't work everywhere. But that's precisely why its spirit is worth imitating. ▀