GAS PUBLISHERS

Journal of Economics and Business Management (GASJEBM)

Volume- 01 | Issue- 01 | 2024 Homepage: https://gaspublishers.com/gasjebm-home/ ISSN: XXXX-XXXX

OPEN ACCESS

International Monetary Environment as Its Affects Food and Agro-Allied Industries

[1]Atema, D. M, [2]Akaa L.I [3]Salami A.O

Joseph Sarwuan Tarkaa University Makurdi
College: Management Sciences
Department: Agribusiness
Email: donaldatema@gmail.com [1], akaalouisa@gmail.com [2]

Abstract: The intricate dance between the international monetary environment (IME) and the food and agro-allied industries is vital but often overlooked. Just like a farmer relying on rainfall for a good harvest, these industries depend on the stability and predictability of the IME for their very survival and growth. When the international monetary environment is stable, with predictable exchange rates and open trade agreements, it opens up a world of opportunities for food and agro-allied businesses. Strong currencies can make exports more competitive in the global market, while access to affordable imports like fertilizers and machinery can boost domestic production and efficiency. Unpredictable fluctuations in exchange rates can wreak havoc on food and agro-allied businesses. Sudden devaluations can make imported inputs prohibitively expensive, impacting production costs and pushing up food prices. Conversely, currency appreciation can make exports less competitive and hamper growth. Understanding the complex interplay between the international monetary environment and the food and agro-allied industries is crucial for policymakers, businesses, and individuals alike. By managing risk and adapting to changing global financial conditions, stakeholders can work towards a more stable and sustainable food system.

Keywords: international monetary environment, food, agro-allied industries

INTRODUCTION

An international monetary system can be defined as the body of agreements, regulations, and tools for policy, as well as the institutional, political, and economic framework that governs the provision of two essential global public goods: external stability and an international currency (or currencies). The collection of agreements, regulations, and policy tools includes, among other things, the guidelines controlling the flow of capital and exchange rates; global, regional, and bilateral surveillance frameworks; instruments for crisis prevention and resolution; and the conventions and regulations governing the provision of international liquidity and the correction of external imbalances. The economic, institutional and political environment encompasses, for example, a free trade environment; the degree of economic dominance of one or more countries at the “centre” of the system; the interconnectedness of countries with differing degrees of economic development; some combination of rules versus discretion and of supra-national institutions versus intergovernmental arrangements in the management of the system; and a given mix of cooperation and conflict in the broader political environment. The global monetary landscape of 2023 was complicated, with several significant movements and unknowns. Global GDP growth was predicted to be 2.9% in 2023 (IMF, WEO, October 2023) with the ongoing post-pandemic recovery, indicating a deceleration from the robust comeback in 2021. Certain economies, including China's, had slower development, while the US and the Eurozone were under pressure from inflation. Central banks tighten monetary policy in response to increasing inflation by hiking interest rates. The European Central Bank is trailing the US Federal Reserve in its substantial tightening cycle. This is exacerbating volatility in exchange rates and possible capital outflows from developing countries. (Federal Reserve Board, ECB Press Release, and December 2023).The geopolitical tensions brought about by the war in Ukraine continue to disrupt global supply chains and push up energy and food prices. Rising geopolitical tensions in other regions also add to uncertainty and market volatility. (World Bank, Global Economic Prospects, June 2023). Debt burdens and global vulnerabilities continue to surge. Global debt levels have reached new highs, raising concerns about financial stability and vulnerability to shocks. Emerging markets are particularly exposed, with limited fiscal space to respond to potential crises. (IMF, Global Debt Database, October 2023).

The International Monetary Fund (IMF) and other multilateral institutions are playing a critical role in supporting vulnerable countries and promoting global economic stability. The IMF has increased its lending and surveillance activities while also advocating for coordinated policy responses. (IMF, World Economic Outlook, October 2023). The pace of global economic recovery remains uncertain, with risks from ongoing geopolitical tensions, further tightening of monetary policies, and potential debt crises. Inflationary pressures persist, posing challenges for central banks and impacting household budgets and corporate profits. The ongoing war in Israel and Palestine, Russia, and Ukraine, as well as the high rate of insecurity experienced within the sub-African region, continues to disrupt global supply chains and push up energy and food prices, adding to food insecurity concerns. The intricate network of variables that affect currency rates, capital flows, and the general stability of the world financial system are referred to as the "international monetary environment." It resembles a big ocean with nations functioning as ports, currencies acting as ships, and international organizations acting as lighthouses, all of which are in constant interaction and influence with one another.

Components/Tools of the International Monetary Environment

Exchange rates: They affect the price of products and services exchanged globally and establish the relative worth of different currencies. For instance, a strong dollar makes it more expensive for foreign businesses to sell their products in the US but less expensive for Americans to purchase imports.

Global Interest Rates: They affect borrowing and investing costs globally. When interest rates are low, it stimulates borrowing and spending, which can boost economic growth. High interest rates, however, have the potential to discourage investment and impede economic growth.

Capital flows are the cross-border transfers of funds for trading, investments, and other uses. Significant capital inflows can stimulate economic growth in recipient nations, while significant withdrawals may strain such nations' currencies and economies.

International Organizations: Key players in advancing global financial stability and growth are organizations like the World Bank and the International Monetary Fund (IMF). To member nations, they offer financing, technical support, and policy recommendations.

Food is any substance consumed by humans for nutritional support and energy which comprises of plants and animal origin "food" within the context of agro-allied industries can be further nuanced depending on the specific sector or sub-sector. For example, the food processing industry might focus on specific types of food (e.g., baked goods, frozen meals) or specific stages of the value chain (e.g., packaging, distribution).

Agro-allied industries are a diverse group of businesses closely linked to the agricultural sector by their reliance on agricultural products as raw materials or by providing goods and services used in agriculture. It is as a vast ecosystem surrounding the core of agriculture, fostering its growth and contributing to the entire food chain. The international monetary environment can have a significant impact on the food processing and agro-allied industries in Nigeria, affecting everything from input costs and production to exports and profits. The intricate dance between the global financial system and the food we eat can be easily disrupted, with the international monetary environment playing a pivotal role. When things go awry, the consequences can ripple through the entire food chain, impacting food processing and agro-allied industries in profound ways causing some negative effects on food processing, supply and consumption.

The Negative Effects of the International Monetary Environment on Food Processing and Agro-Allied Industries

1. Exchange Rate Fluctuations:

- **Currency Devaluation:** Imagine a scenario where the local currency suddenly loses value against major foreign currencies. This can make imported machinery, equipment, and even essential inputs like fertilizers and pesticides become prohibitively expensive for food processors. The result? Production costs skyrocket, squeezing profit margins and potentially leading to reduced production or even business closures.

- **Currency Appreciation:** While a seemingly good thing, a strong local currency can also have negative consequences. It can make Nigerian exports less competitive in the global market, impacting processors who rely on exporting finished products. Additionally, it can discourage foreign investment in the sector, hindering growth and innovation.

2. Global Food Price Volatility:

- **Price Spikes:** Unpredictable surges in the global prices of agricultural commodities like wheat, corn, or soybeans can wreak havoc on food processors. Suddenly, the raw materials they rely on become much more expensive, making it difficult to maintain production costs and product prices. This can lead to reduced profitability, product shortages, and ultimately, higher food prices for consumers.

- **Trade Disruptions:** Geopolitical tensions, conflicts, or even extreme weather events can disrupt global trade flows, making it difficult for food processors to source essential ingredients. This can further exacerbate price volatility and contribute to supply chain disruptions.

3. Tightening Credit Conditions:

High Interest Rates: When global interest rates rise, borrowing becomes more expensive for businesses. This can make it challenging for food processors and agro-allied companies to access financing for expansion, modernization, or even day-to-day operations. Consequently, investments may be stalled, hindering growth and innovation within the sector.

Reduced Access to Finance: During economic downturns or periods of financial instability, banks may become more cautious about lending. This can make it even more difficult for smaller food processing and agro-allied businesses to secure loans, potentially stifling their ability to operate and thrive.

4. Policy Uncertainty:

- **Unpredictable Government Policies:** Erratic changes in government policies, such as sudden import tariffs or export restrictions, can create significant uncertainty for businesses.

This can discourage investment, disrupt supply chains, and ultimately harm the growth and efficiency of the food processing and agro-allied sectors.

- **Lack of Transparency:** When governments lack transparency in their decision-making processes, it can be difficult for businesses to plan for the future. This can lead to hesitation in making investments or expanding operations, ultimately impacting the overall growth and development of the industry.

Positive Effects of the International Monetary Environment on Food Processing and Agro-Allied Industries.

The international monetary environment, while often portrayed as a source of turbulence for developing economies, can also hold significant potential for positive impacts on food processing and agro-allied industries. Here's a deeper look at some key benefits, and positive effects.

1. Increased Investment and Technological Advancement:

- **Foreign Direct Investment (FDI):** A stable and predictable economic environment attracts foreign direct investment into food processing and agriculture, leading to increased capital inflows and technological upgrades. This can be seen in the case of Kenya, where a stable macroeconomic environment and policy reforms attracted significant FDI in the agribusiness sector, leading to increased productivity and export growth (World Bank, 2020).

- **Knowledge Transfer and Innovation:** Joint ventures and partnerships with foreign companies facilitate knowledge transfer of best practices, advanced technologies, and innovative production methods. This is evident in the collaboration between Ethiopian coffee processors and Italian companies, which led to the adoption of sustainable processing techniques and improved product quality (FAO, 2019).

2. Enhanced Market Access and Export Opportunities:

- **Trade Agreements:** International trade agreements can reduce trade barriers and tariffs, opening up new markets for food processors and boosting exports. For instance, the African Continental Free Trade Area (AfCFTA) is expected to significantly increase intra-African trade in agricultural products, benefitting food processing industries across the continent (UNCTAD, 2019).

- **Currency Devaluation:** A weaker currency can make exports more competitive in the global market, potentially leading to increased demand and higher profits for processors. However, this must be balanced with the potential negative impact on domestic consumption costs (World Bank, 2018).

3. Improved Access to Inputs and Reduced Costs:

- **Currency Appreciation:** A strong local currency can make imported machinery, equipment, and agricultural inputs cheaper, potentially reducing production costs and improving profit margins. This is exemplified by the case of Brazil, where a stable currency and favorable exchange rates led to increased imports of agricultural machinery, contributing to higher productivity and farm profitability (OECD, 2019).

- **Global Supply Chains:** Efficient global supply chains and international trade networks can ensure access to diverse and affordable inputs, fostering innovation and optimizing production processes. For instance, the use of blockchain technology in agricultural supply chains can improve transparency, traceability, and reduce post-harvest losses, ultimately benefiting food processors (PwC, 2020).

4. Knowledge Sharing and Collaboration:

- **International Organizations and Research:** International organizations like the Food and Agriculture Organization (FAO) and research institutions play a crucial role in disseminating knowledge and best practices in food processing and agriculture. This can lead to improved technical skills, sustainable farming practices, and overall industry development.

- **Global Events and Networks:** Participation in international conferences, trade shows, and networking events allows food processors to connect with peers, learn about new technologies and market trends, and foster collaboration. This can lead to knowledge sharing, joint ventures, and ultimately, industry growth (IFPRI, 2018).

5. Access to Finance and Investment Opportunities:

- **Favorable Lending Conditions:** Low global interest rates and stable economic conditions can improve access to financing for food processing and agro-allied businesses. This can facilitate investments in expansion, modernization, and new technologies, driving innovation and growth (IMF, 2022).

- **International Financial Institutions:** International financial institutions like the World Bank and the International Finance Corporation (IFC) provide loans and technical assistance to developing countries, supporting the growth of their food processing and agriculture sectors. This can contribute to poverty reduction, economic development, and improved food security (World Bank, 2017).

CONCLUSION

Having the indebt knowledge of the IME is pivotal for navigating the international business landscape, particularly for sectors like food processing and agro-allied industries, which are inherently connected to global trade and agricultural markets.

REFERENCES

1. **World Bank (2020).** Kenya Economic Update: Diversifying the Engine of Growth. https://documents.worldbank.org/en/publication/documents-reports/documentdetail/099121323045531282/p1797690868fd30930907305dfbdc54bcda
2. **FAO (2019).** Coffee Production in Ethiopia: A Success Story of Sustainable Development. https://www.fao.org/markets-and-trade/commodities/coffee/en/
3. **UNCTAD (2019).** The African Continental Free Trade Area: An Opportunity for Inclusive Growth. https://unctad.org/news/africas-free-trade-area-can-deliver-considerable-inclusive-economic-growth-continent
4. Carney, M. (2010), “Restoring Faith in the International Monetary System”, Spruce Meadows Changing Fortunes Round Table, 10 September.
5. Catte, P., Cova, P., Pagano, P. and Visco, I. (2010), “The role of macroeconomic policies in the financial crisis”, Occasional Papers, Banca d’Italia, July.
6. **Wikipedia article on food processing:** https://en.wikipedia.org/wiki/Food_processing
7. **Food and Agriculture Organization (FAO) website on food processing:** https://www.fao.org/science-technology-and-innovation/technology/en
8. **Institute of Food Science and Technology (IFST) website:** https://www.ifst.org/
9. **"Food Processing: Principles and Applications" by W. J. Scott-Wilson:** https://www.amazon.com/Food-Processing-Technology-Principles-Publishing/dp/08493088