

High Food Prices in South Asia: Status, Impact and Solution

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Presentation outline

Global rise in food prices

Impact of high food prices

High food prices and its impact on South Asia

Food production outlook for South Asia

Causes of high food prices

Addressing the impact of high food prices

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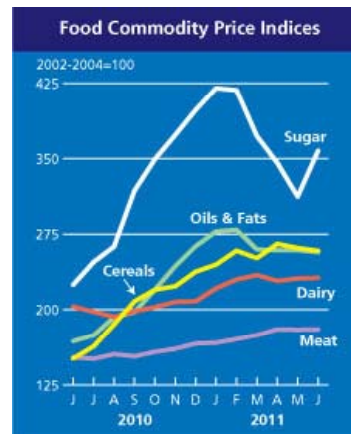
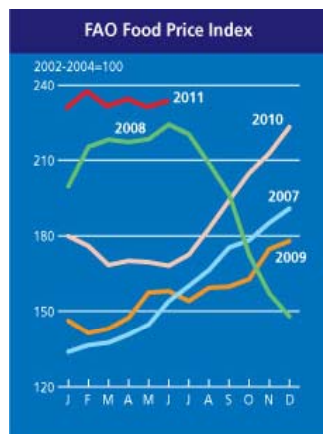
1. Global rise in food prices

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Global food prices have been rising unabated.

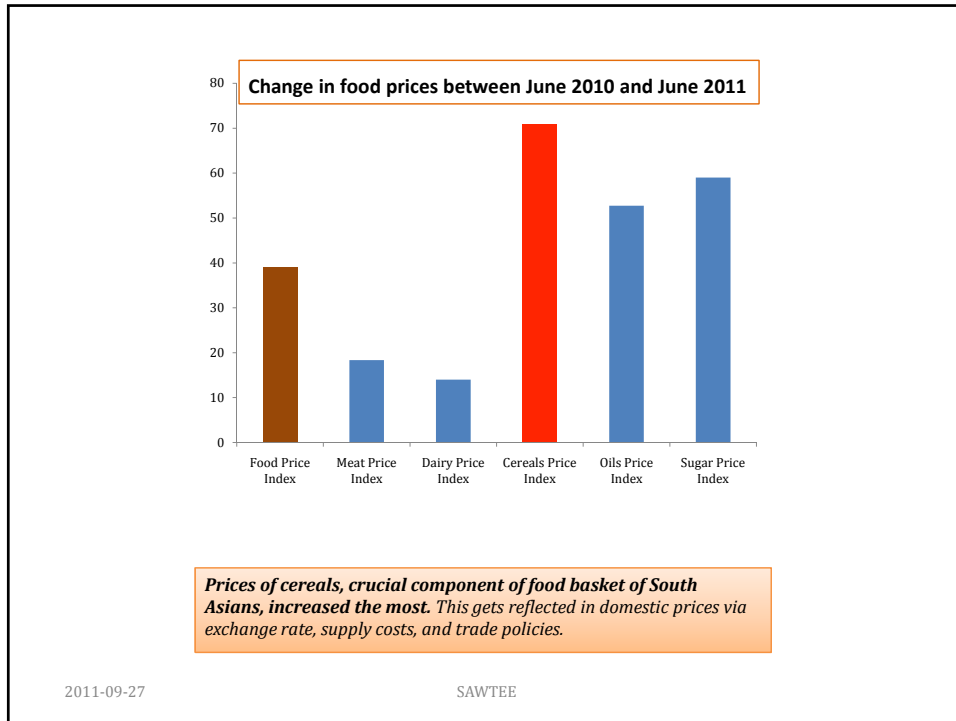
The FAO Food Price Index (FPI) averaged 234 points in June 2011, 39 percent higher than in June 2010.



Food price volatility in the past five years has been higher than in the previous two decades.

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2. Impact of high food prices

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Impact at household level

- Higher spending to meet normal dietary need
- Low income households suffer the most; most are net-food buyers and have relatively inelastic price elasticity of demand (SA HHs spend more than 50% of income on food)
- Within HHs, those in the low income deciles are the most affected
- For net food producing HHs, higher prices mean higher incentive to increase production. For instance, farmers in Latin America gained by shifting to soybean plantation when its price skyrocketed in 2007/08.
- South Asian HHs own small, fragmented land and can't adequately shift production immediately to follow price signal.
- Results: **cutback on discretionary spending and household saving; increase in poverty** (44 million people fell below poverty line of US\$ 1.25 a day during the food price rise in 2010-11); **hunger and undernourishment**

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Impact at macroeconomy level

- Low-income food-deficit countries are affected the most
- Fiscal imbalance
 - **Rise in fiscal deficit** due to high subsidies & safety net programs
 - Increase in food imports, leading to widening **trade deficit**
 - **Increase in inflation**
 - **Cutback on planned expenditure** due to fear of overheating the economy (a 30% rise in food prices might chock off 0.6 percentage points of GDP growth rate of low-income countries)
- Net food exporting countries gain as exports revenue increase, (might have positive impact on sectors with high backward and forward linkages to agriculture sector)
 - Net food exporting countries have the luxury of implementing a range of safety net programs that are financed domestically
 - In South Asia, only India has that luxury right now (NREGA, Food Security Bill, targeted local development schemes)

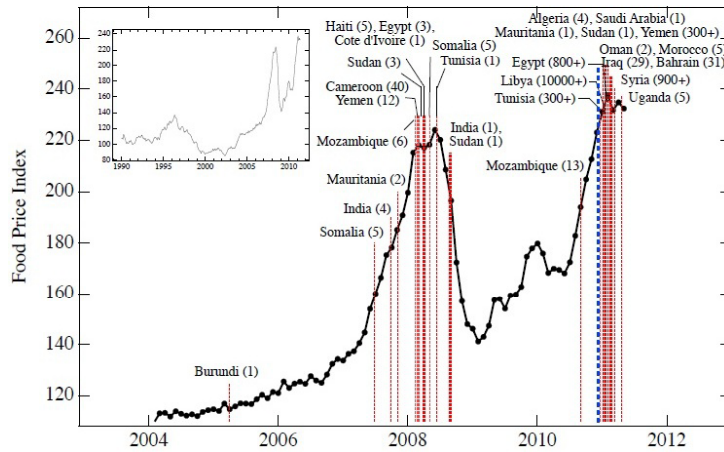
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Impact at macroeconomy level

High food prices and political instability

The red dashed vertical lines correspond to beginning dates of "food riots" and protests associated with the major recent unrest in MENA. The figures in parentheses show death toll initially linked to food riots. The inset shows FAO Food Price Index from 1990 to 2011.



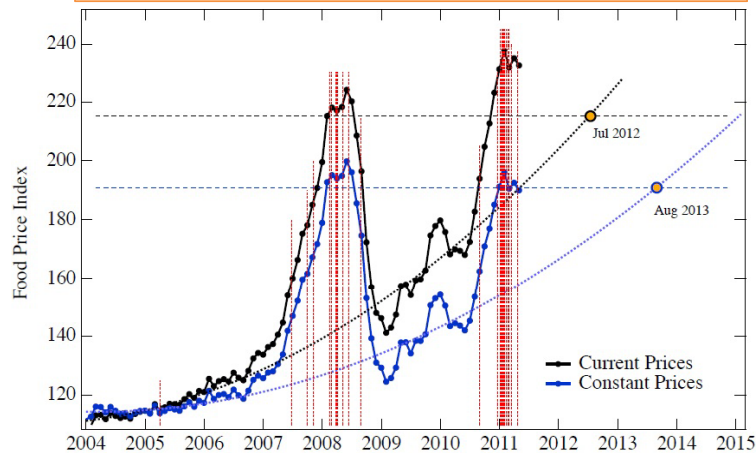
Impact at macroeconomy level

High food prices and riots threshold

Riots and protests are likely when FAO's FPI crosses threshold of 210.

"protests may reflect not only long-standing political failings of governments, but also the sudden desperate straits of vulnerable populations." (Lagi, Bertrand, & Bar-Yam, 2011)

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3. High food prices and its impact on South Asia

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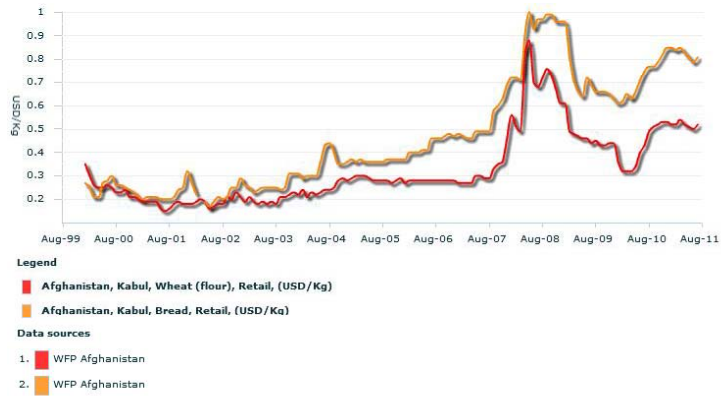
SA not so lucky during food price spike

- South Asia weathered the impact of global financial crisis pretty well.
- Similarly, global economic crisis impacted South Asia relatively less than the developed countries (GDP growth rate pretty much the same as it was before crisis)
- But, South Asia was **not so lucky when global food prices skyrocketed** in 2007/08 and most recently in 2010/11
 - All South Asian countries have seen rise in food prices, but some are more affected than others.
 - **Food price inflation in Pakistan, followed by Nepal, has been the highest in South Asia.**
 - Global food prices get reflected in domestic prices via trade policy, exchange rate and supply costs.

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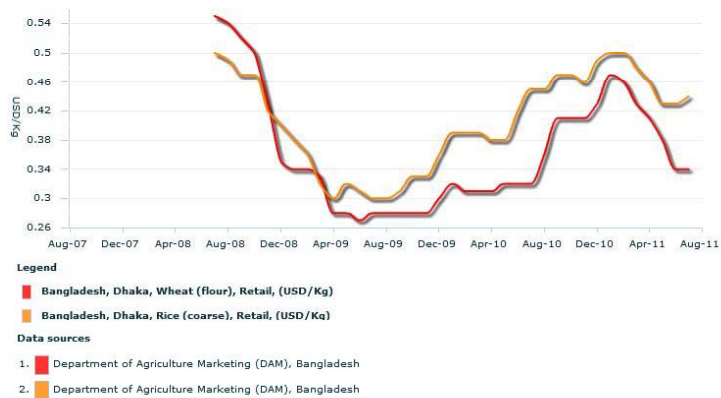
Food prices in Afghanistan



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Food prices in Bangladesh



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Food prices in Bhutan



Legend

- Bhutan, Trashigang, Wheat, Retail, (USD/Kg)
- Bhutan, Trashigang, Rice (white), Retail, (USD/Kg)

Data sources

1. ■ Agriculture Marketing Services, MoA - <http://www.agrimarket.gov.bt/>
2. ■ Agriculture Marketing Services, MoA - <http://www.agrimarket.gov.bt/>

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Food prices in India



Legend

- India, Delhi, Wheat, Retail, (USD/Kg)
- India, Delhi, Rice, Retail, (USD/Kg)

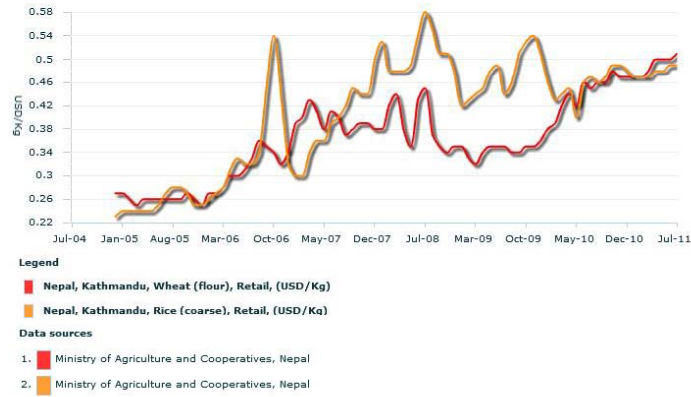
Data sources

1. ■ Ministry of Consumer Affairs - http://fcamin.nic.in/Events/EventListing.asp?Section=Price%20Monitoring%20Cell&id_pk=24&ParentID=0#
2. ■ Ministry of Consumer Affairs - http://fcamin.nic.in/Events/EventListing.asp?Section=Price%20Monitoring%20Cell&id_pk=24&ParentID=0#

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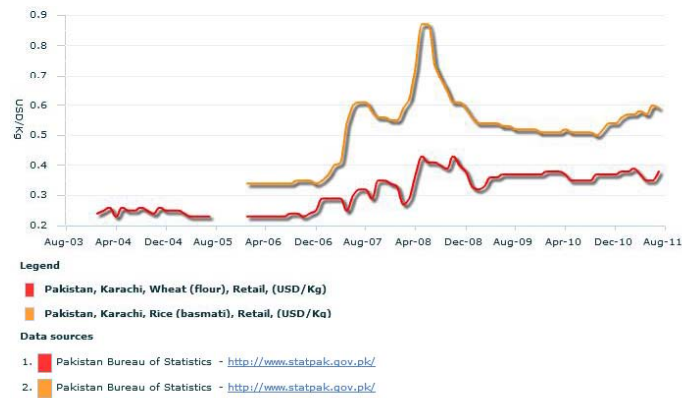
Food prices in Nepal



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Food prices in Pakistan



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Food prices in Sri Lanka



Legend

- Sri Lanka, Colombo, Wheat (flour), Retail, (USD/Kg)
- Sri Lanka, Colombo, Rice (white), Retail, (USD/Kg)

Data sources

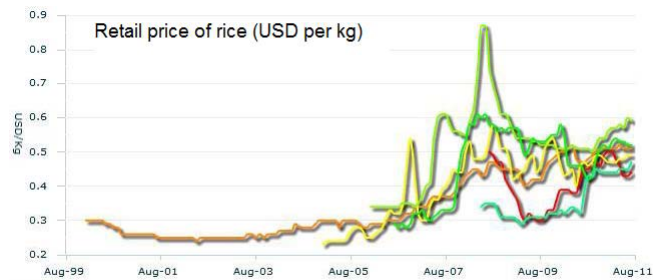
1. Department of Census and Statistics - <http://www.statistics.gov.lk/>
2. Department of Census and Statistics - <http://www.statistics.gov.lk/>

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Retail price of rice in South Asia

Retail price of rice is highest in Pakistan, followed by Sri Lanka, India, Nepal, Bhutan and Bangladesh



Legend

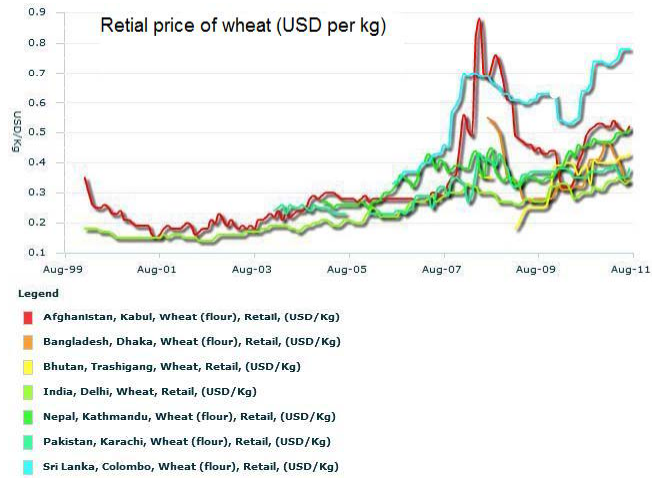
- Bangladesh, Dhaka, Rice (coarse), Retail, (USD/Kg)
- India, Delhi, Rice, Retail, (USD/Kg)
- Nepal, Kathmandu, Rice (coarse), Retail, (USD/Kg)
- Pakistan, Karachi, Rice (basmati), Retail, (USD/Kg)
- Sri Lanka, Colombo, Rice (white), Retail, (USD/Kg)
- Bhutan, Trashigang, Rice (white), Retail, (USD/Kg)

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Retail price of wheat in South Asia

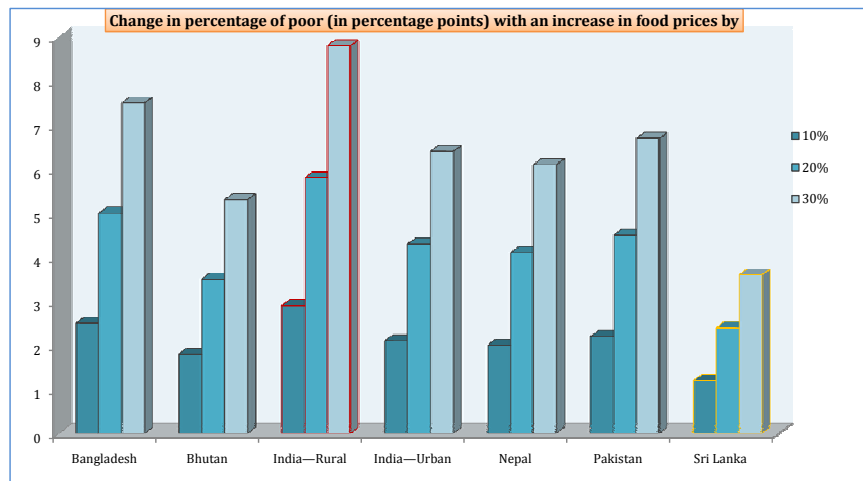
Retail price of wheat is highest in Sri Lanka, followed by Afghanistan, Nepal, Bhutan, Pakistan, Bangladesh and India



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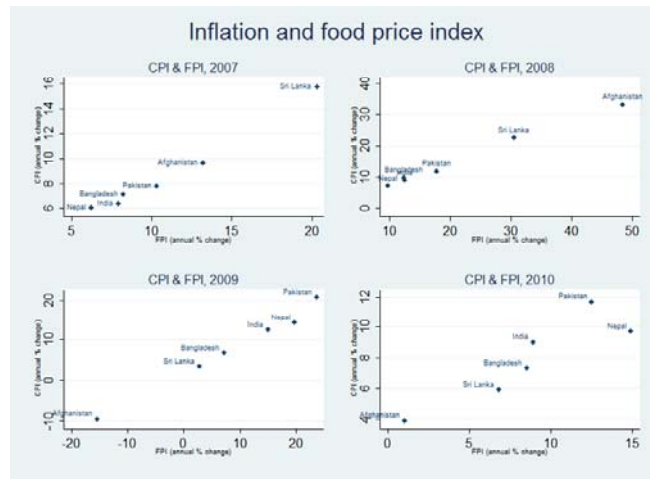
High food prices and poverty



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High food prices and inflation



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High food prices and hunger

- Food insecurity & price volatility affects hunger and malnutrition
- Despite improvement in the state of hunger, it still is at an “**alarming**” rate
- Overall, **hunger in South Asia is worse than in Sub-Saharan Africa**, according to the Global Hunger Index 2010

Country	1990	2010
Bangladesh	Extremely alarming	Alarming
India	Extremely alarming	Alarming
Nepal	Alarming	Alarming
Pakistan	Alarming	Serious
Sri Lanka	Alarming	Serious

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High food prices and undernourishment

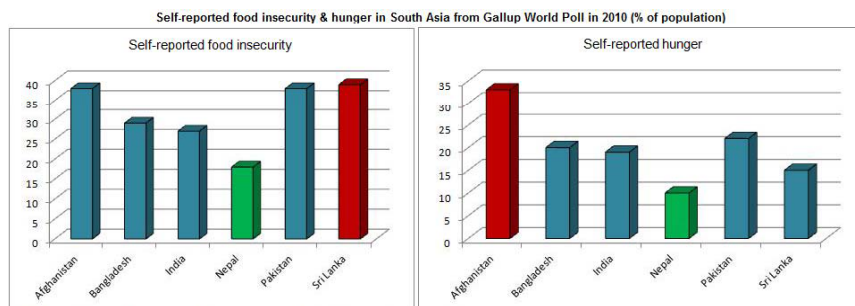
- With an estimated 504 million people below the poverty line of US\$ 1.25 a day in South Asia in 2010, **undernourishment is a major concern when food prices spiral up**
- In South Asia, highest proportion of undernourished people (% of total population) live in Bangladesh
- In South Asia, lowest proportion of undernourished people (% of total population) live in Nepal
- Underweight** children below 5 years is as high as 43% in India and as low as 21.1% in Sri Lanka

Proportion of undernourished in total population (%)		
Country	1990-92	2004-06
Bangladesh	36	26
India	24	22
Nepal	21	16
Pakistan	22	23
Sri Lanka	27	21

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Self-reported food insecurity & hunger



Sri Lankans feel they face higher food insecurity (39 percent of population), followed by Pakistanis and Afghans (both 38 percent of population).

More Afghans (33 percent of population), followed by Pakistanis (22 percent), feel that they are facing hunger than citizens of other South Asian countries.

Interestingly, the proportion of Nepalis reporting food insecurity (18 percent) and hunger (10 percent) is the lowest in South Asia. According to the latest government data, 38 out of 75 districts are facing food deficit production.

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4. Food production and price outlook for South Asia

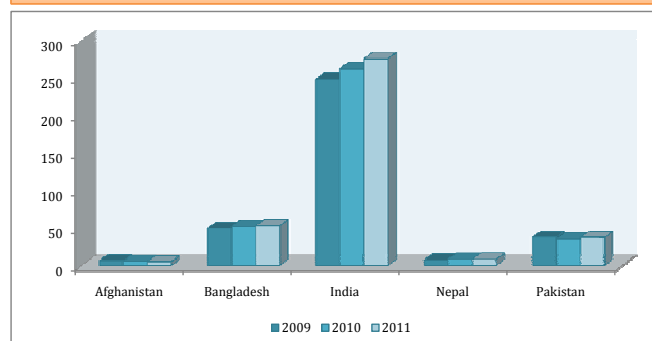
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Short term outlook

- Overall, favourable weather, enhanced supply of inputs, and high domestic/international prices are expected to **increase production** this year in India, Pakistan, Nepal and Bangladesh.
- Afghanistan is going to see a decline in total cereal output by 8.5 percent between 2010 and 2011.

Total cereal production in South Asia (million tonnes)



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Long term outlook

- Overall, **food prices are expected to remain high globally** in the near future (Helbling & Roache, 2011).
- By 2020, in India, domestic user prices of paddy rice, wheat and maize are expected to increase by 48.7 percent, 26.7 percent and 43.7 percent, respectively.
- The corresponding figures for South Asia sans India are 32 percent, 24.5 percent, and 36.6 percent (Willenbockel, June 2011).
- But, with an increase in total factor productivity growth by 50 percent (due to increased R&D, accelerated international technology and knowledge transfer, and measures to raise yields in small holder agriculture), by 2020 domestic user prices of paddy rice, wheat and maize in India are expected to increase by 36.2 percent, 17.9 percent, and 33.7 percent respectively.
- The corresponding figures for the rest of South Asia are 23.2 percent, 16 percent and 27.7 percent respectively.

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5. Major causes of high food prices

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High global food prices get reflected in domestic prices in South Asia

Weather related supply shocks

- Floods in Pakistan and floods and drought in Afghanistan; cyclone in Bangladesh; adverse weather in major crop producing countries, including Russia, Canada, the US, Australia, China, Argentina and Kazakhstan

Demand shocks

- Productivity growth has not matched population growth; shift in dietary consumption by the middle class (food demand estimated to increase by 50% by 2030)

Distortionary farm subsidies

- Subsidies to biofuel; production of corn-based ethanol absorbed about 15% of global consumption; increase in demand for biofuel in the EU and the US

Trade distortions

- Export restrictions imposed by several countries, including several South Asian countries; pre-emptive purchase of food jacked up demand; restriction on rice exports explained about 40% of the increase of global rice price in 2007-08

Speculation of food commodities

- Speculation of food commodities in the futures market amplified the rise in prices; no consensus that it itself triggered rise in food prices, but speculation did amplify prices; undermined effective functioning of agriculture markets as real production did not respond to price hikes

High fuel costs (turmoil in MENA; increased transportation and processing costs)

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6. Addressing the impact of high food prices

First recovery, then reform

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National level

Short term measures

- First recovery: stabilization of prices, production and markets
- Emergency release of food from national food grains stock; import food if necessary; subsidize food
- Reducing tariff on essential food items
- Market monitoring to check artificial rise in prices and market manipulation
- **Safety net programs:** rural public works program like NREGA, work-for-food program, PSNP (combination of transfers and public works), conditional and unconditional transfers

Long term measures

- Reform of agriculture sector: increase investment in agriculture R&D and infrastructures (road and irrigation); smoothen distribution mechanism
- Focus on increasing both production and productivity growth (should be higher than population growth rate)
- Reform agriculture markets so that farmers get right price; engage the private sector
- A **Green Revolution 2.0:** increasing production and productivity but also doing so by focusing on environment and economic sustainability

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Regional level

Short term measures

- First recovery: release of food grains from regional food reserves (SAARC Food Bank yet to be operational); having a minimum level of regional and world stocks is a sufficient condition to avert price spikes
- Reduce trade barriers (no export restriction at least in the region and duty-free import of food items); applied tariff on agriculture goods is higher than in non-agriculture goods

Long term measures

- Trade policy coordination
- Investment in intraregional infrastructure (road network, electricity, water sharing)
- Reducing the cost of doing business for private sector interested in investing in the region
- Sharing and promotion of agriculture R&D, particularly by agriculturally successful countries like India and Pakistan

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Thank you

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