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
1. Global rise in food prices

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.
2. Impact of high food prices

Prices of cereals, crucial component of food basket of South Asians, increased the most. This gets reflected in domestic prices via exchange rate, supply costs, and trade policies.
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

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 check 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)
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.

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)*
3. High food prices and its impact on South Asia

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.
Food prices in Afghanistan

Food prices in Bangladesh
Food prices in Bhutan

Food prices in India
Food prices in Nepal

Food prices in Pakistan
Food prices in Sri Lanka

Retail price of rice in South Asia

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

High food prices and poverty

Change in percentage of poor (in percentage points) with an increase in food prices by 10%, 20%, and 30%.
High food prices and inflation

• 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
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.

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<tr>
<th>Country</th>
<th>1990-92</th>
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<tr>
<td>Bangladesh</td>
<td>36</td>
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<td>Sri Lanka</td>
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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.
4. Food production and price outlook for South Asia

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.
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.

5. Major causes of high food prices
**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*
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

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
Thank you