

# **Rising Global Food Prices: Implications for South Asia**

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# Rising Food Prices

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# 1. Introduction

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- South Asia (SA) is the second fastest growing region in the world
- Countries have grown rapidly in recent years
- High growth rates have helped these countries to reduce poverty
- The region is still home to half of the world poor
- SA is widely considered to be one of the most severely affected regions of the world by rising food prices
- “Food inflation has hit the poor in the region” (UNESCAP, 2008)
- Both demand and supply factors in SA are expected to maintain pressure on food prices in the period ahead



# Introduction

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- Several studies have undertaken in recent months on the effects, policy responses and implications of rising food prices for SA
- The main purpose of this paper is to critically survey the recent empirical literature in terms of:
  - Background and Nature of the rising food problem in SA
  - The vulnerability of SA to rising food prices
  - The macroeconomic impact of rising food prices
  - Impact on poverty and inequality
  - Policy responses and their implications

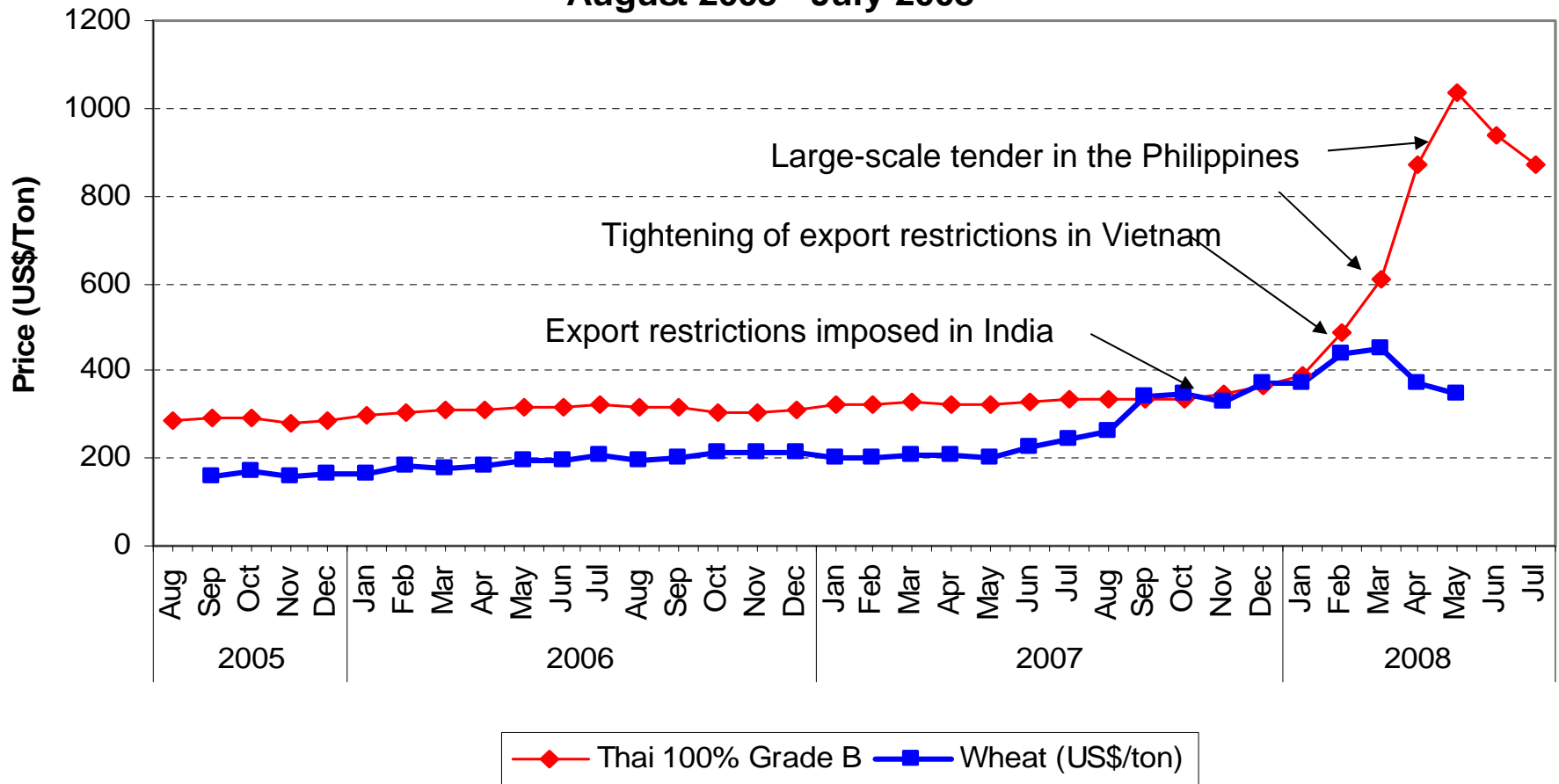
## 2. Rising Food Prices in South Asia: The Nature of the Problem

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- By mid-2008, food prices had increased by more than 200% since 2006 and more than 60% since January this year
- Between March 2007 and March 2008, prices of corn, rice, soya bean and wheat increased by 31, 74, 87 and 130% respectively
- Rice price passed US\$1000 in April 2008 (see next Figure)

## 2. Rising Food Prices in South Asia: The Nature of the Problem

Rice (Thai 100B) and Wheat Export Prices  
August 2005 - July 2008



# Rising Food Prices in South Asia: The Nature of the Problem

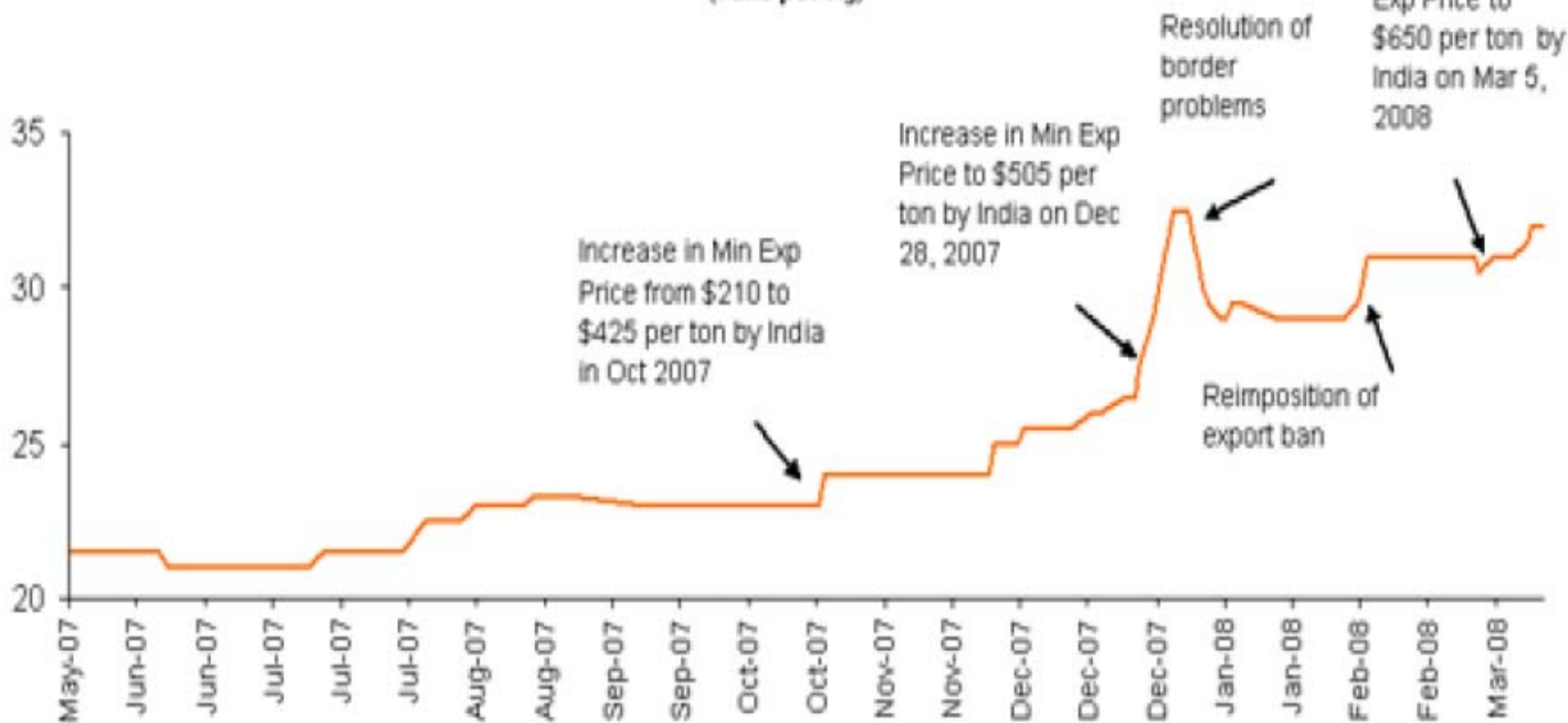
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- A number of studies have analysed trends and reasons for rising food prices
- A variety of reasons
  - Increase in food demand due to economic growth
  - Decline in supply due to a number of reasons such as subsidies for biofuels, climate change, high oil prices and related increase in fertilizer prices
- Our focus is on SA
- Although food price increases were moderate in India, its policies aggravated the food price situation in global markets and had a direct diverse impact on small neighbouring countries such as Bangladesh and Nepal (see Figure 2)

# Rising Food Prices in South Asia: The Nature of the Problem

## Price of Coarse Rice in Bangladesh

May 21, 2007 to March 19, 2008  
(Taka per Kg)



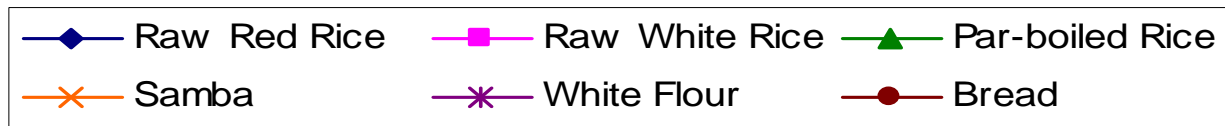
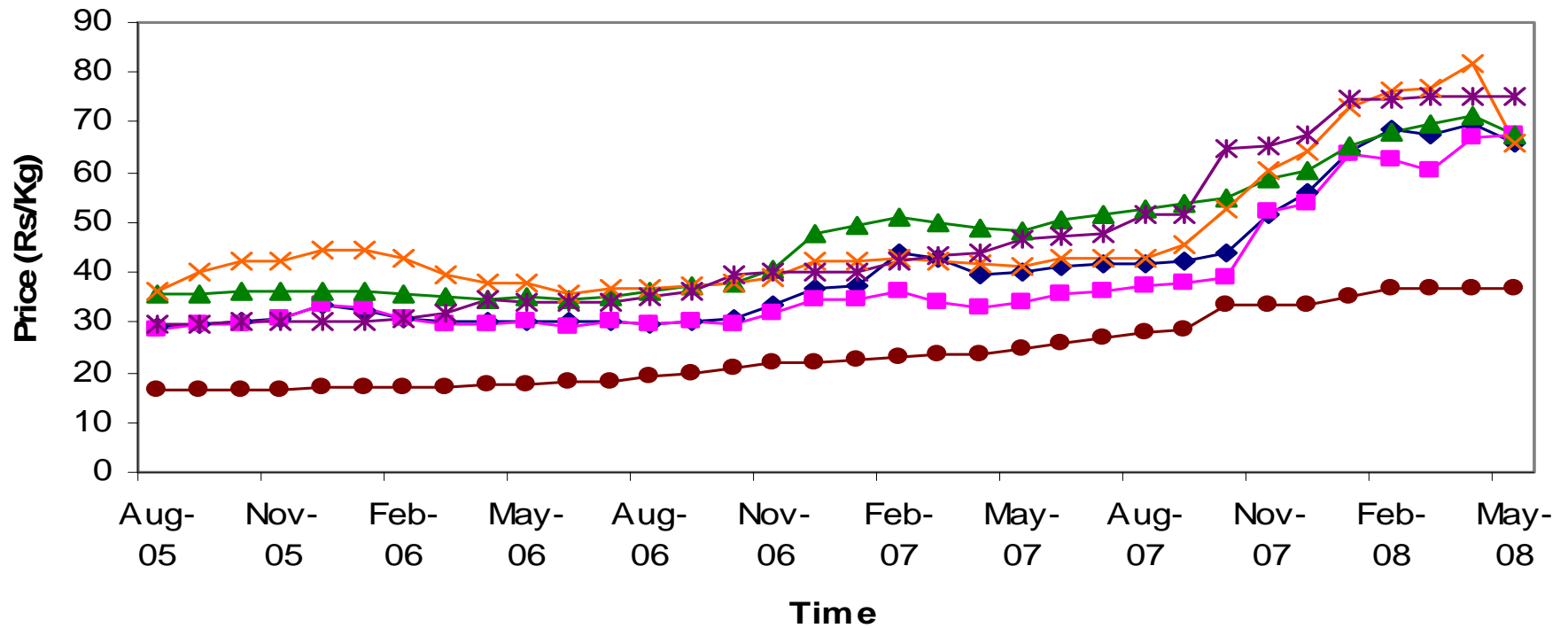
# Rising Food Prices in South Asia: The Nature of the Problem

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- Bangladesh has been impacted by the food price shock following a number of natural disasters – domestic rice price rose by about 70%
- India's ban on exports of rice has led to an increase in food prices in Nepal too
- Pakistan too has been severely affected by “the worst ever wheat crisis in the country's history” (56% increase in price of Basmathi rice)
- Sri Lanka experienced the worst food price inflation in the region (60-70% rise in rice prices)

# Rising Food Prices in South Asia: The Nature of the Problem

Trends in the Price of Rice by Categories, Sri Lanka  
Aug 2005-May 2008



# 3. South Asian Vulnerability to Rising Food Prices

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- See Table 1
- A large proportion of population depends on agriculture
- Per capita food production has been low and negative
- Proportion of calories obtained from cereals is high
- SA suffers food energy deficiency and is at high risk food insecurity
- The second most vulnerable region in the world in terms of food security
- Poverty has been a major problem (46% of the world poor)

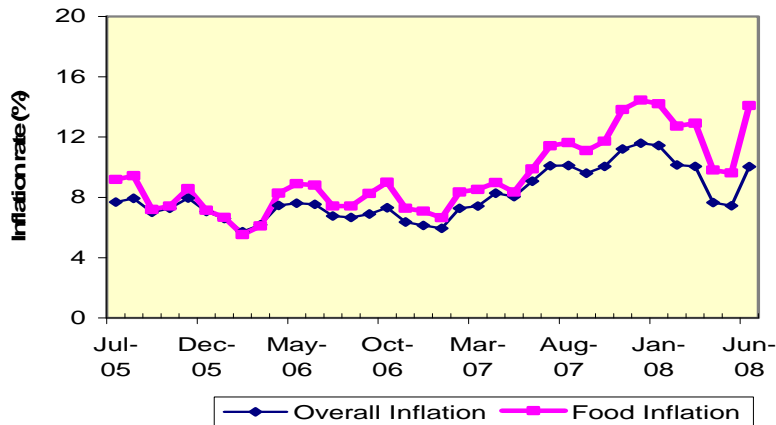
## 4. Macroeconomic Impact of Soaring Food Prices in South Asia

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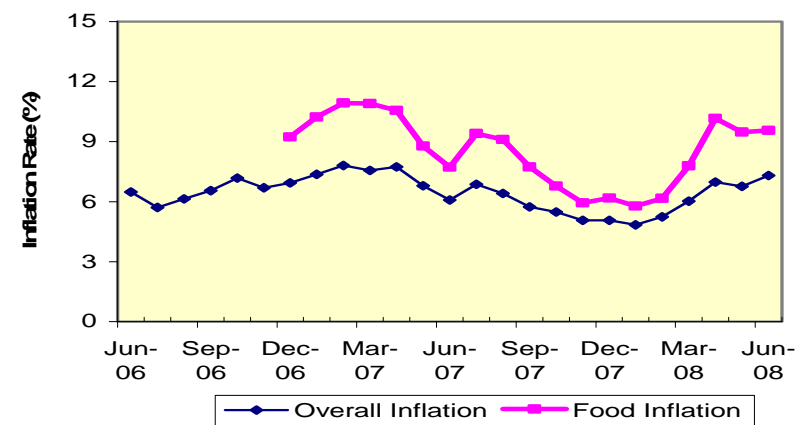
- Impact on inflation (Figure 4 and Table 2)
- Food inflation is very high
- Expenditure share of food is high
- Overall inflation is high

# 4. Macroeconomic Impact of Soaring Food Prices in South Asia

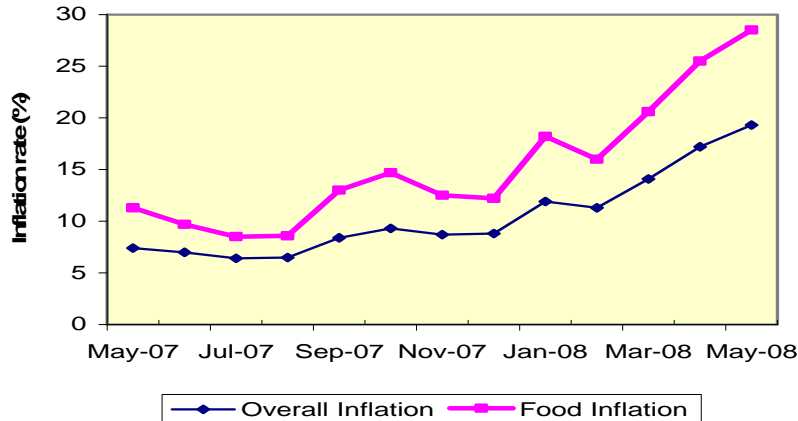
**Inflation and Food Inflation in Bangladesh**  
July 2005-June 2008



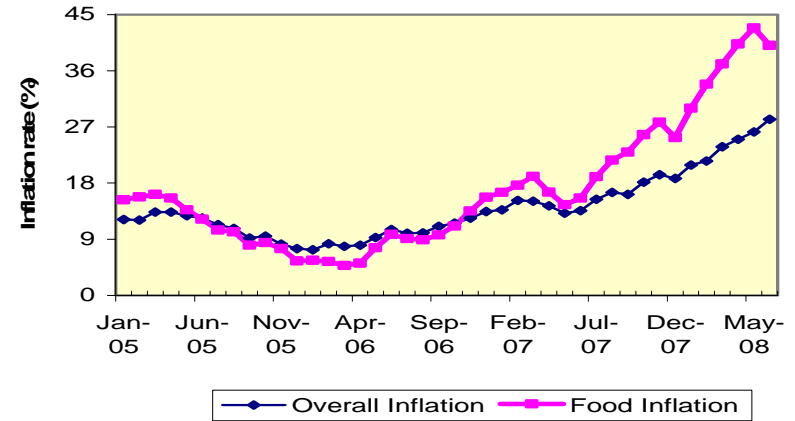
**Inflation and Food Inflation in India**  
June 2006-April 2008



**Inflation and Food Inflation in Pakistan**  
May 2007-May 2008



**Inflation and Food Inflation in Sri Lanka**  
Jan 2005-May 2008



# 4. Macroeconomic Impact of Soaring Food Prices in South Asia

**Table 2: Food price contribution to consumer price inflation in South Asian countries, 2008**

Country	Overall inflation	Food price inflation <sup>(a)</sup>	Expenditure share of food (in %)	Contribution of food prices to overall inflation <sup>(b)</sup>
(1)	(2)	(3)	(4)	(5)
Bangladesh (April 2008)	9.94	11.84	64.5	7.64
India (February 2008)	4.60	5.80	33.4	1.94
Nepal (April/May 2008)	7.50	10.00	53.2	5.32
Pakistan (May 2008)	19.30	28.50	41.5	11.83
Sri Lanka (June 2008)	28.20	40.06	46.7	18.71

Source: Statistical Departments and Bureaus of different countries, 2008.

(a) Includes beverages and tobacco.

(b) Column (5) entries are calculated as  $(5) = (3) \times (4) / 100$ .

# 4. Macroeconomic Impact of Soaring Food Prices in South Asia

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- Table 3 – Predicted macroeconomic impact (IMF study)
- Change in food price subsidies and transfer program outlays as % of GDP
- CAD as % GDP
- Foreign reserve available for imports
- Tables 4 & 5 show the predicted macroeconomic impacts of two contrasting country studies (using CGE models)

# 4. Macroeconomic Impact of Soaring Food Prices in South Asia

**Table 4: Impact of an Increase in Rice and Wheat Prices on Macroeconomic Variables in the Indian Economy**

Macroeconomic Variable	Percentage change in response to increase in world price of rice		Percentage change in response to increase in world price of wheat	
	25% increase	50% increase	25% increase	50% increase
Private consumption	0.30	0.84	-0.02	-0.03
Government consumption	0.17	0.52	0.00	0.00
Investment	0.39	1.20	0.00	0.00
Import demand	1.82	5.62	-0.12	-0.19
Export demand	0.60	1.08	-0.07	-0.13
Total domestic production	0.23	0.70	0.00	0.00

Source: Polaski, et al, (2008), A summary of Tables 4 and 7.

# 4. Macroeconomic Impact of Soaring Food Prices in South Asia

**Table 5: The Impact of Rising Food Prices: Bangladesh (CGE Estimates 60% Rise)**

Macroeconomic Variables	The effect of increase in food prices
General price level	2.16%
Real household income	-1.61%
Welfare (equivalent variation)	-0.905
Real GDP	-0.787

Source: Adapted from ADB (2008a).



## 5. Impact on Poverty and Inequality in South Asia: Evidence so far

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- There has been a considerable amount of controversy and debate over the impact of food prices on the poor
  - Country's position as a net food importer or exporter
  - HHs are net food sellers or net food buyers
  - The share of food expenditure in total budget
  - Food distribution system
  - Infrastructure
  - Government policies
- See Tables 6-8

# 5. Impact on Poverty and Inequality in South Asia: Evidence so far

**Table 6: Share of Food expenditure in Total Household Expenditure**

Country	Overall	Urban	Rural
<b>Bangladesh (2000)</b>	61.31	53.13	63.39
Total expenditure share of food	42.22	32.96	44.58
Total expenditure share of cereals			
<b>India (2004-2005)</b>	53.2	42.0	55.0
Total expenditure share of food	18.0	10.0	18.0
Total expenditure share of cereals			
<b>Nepal (2003-2004)</b>	59.0	39.1	62.9
Total expenditure share of food			
<b>Pakistan (2005-2006)</b>	43.05	35.17	49.56
Total expenditure share of food	8.00	6.00	11.00
Total expenditure share of cereals			
<b>Sri Lanka (2003-2004)</b>	34.0	25.0	36.0
Total expenditure share of food	12.0	7.0	12.0
Total expenditure share of bread and cereals			

# 5. Impact on Poverty and Inequality in South Asia: Evidence so far

**Table 7: Share of Food Expenditure in Total Expenditure in South Asian Countries**

Quintile	Bangladesh (2000)	India (2004-05)	Nepal (2003-04)	Pakistan (2005-06)	Sri Lanka (2006-07)
1 <sup>st</sup>	69.3	62.0	73.0	55.61	58.9
2 <sup>nd</sup>	66.9	59.4	66.6	52.63	50.1
3 <sup>rd</sup>	63.2	56.2	64.8	50.91	49.1
4 <sup>th</sup>	58.7	50.8	58.1	46.29	41.8
5 <sup>th</sup>	45.2	36.4	40.1	33.14	25.6

# 5. Impact on Poverty and Inequality in South Asia: Evidence so far

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**Table 8: Share of Net Staple Food Seller Households (Percent)**

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Country	Urban	Rural	All
Bangladesh (2000)	3.30	18.90	15.70
Pakistan (2001)	2.80	27.50	20.30

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Source: FAO (2008), p.33.

# 5. Impact on Poverty and Inequality in South Asia: Evidence so far

**Table 9: Average welfare gain/loss from a 10 percent increase in the price of main staple, by income (expenditure) quintile and land-ownership category**

Country	Per Capita Expenditure Quintiles					
	1	2	3	4	5	All
Bangladesh						
Landowners	-1.22	-0.86	-0.29	-0.06	0.15	-0.34
Non-landowners	-3.48	-2.92	-2.36	-2.04	-1.45	-2.60
Pakistan						
Landowners	1.16	1.20	1.65	1.65	1.91	1.58
Non-landowners	-0.66	-0.63	-0.49	-0.39	-0.15	-0.48

Source: FAO (2008), p.37

# 5. Impact on Poverty and

## Inequality in South Asia: Evidence so far

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- A number of empirical studies have been carried out in recent months (descriptive, partial equilibrium and CGE).
- Aksoy and Isik-Dikmelik (2008) –Table 9
- Dessus, et al, (2008) – Table 10 (urban poverty)
- Ivanic and Martin (2008) – World Bank study
- Polaski, et al, (2008) – Indian study
- Impact on malnutrition

# 5. Impact on Poverty and Inequality in South Asia: Evidence so far

**Table10: Estimated Poverty Headcounts and Poverty Deficits**

Country	Urban poverty at US\$1 a Day			
	Initial situation 2005		Expected situation under a 20% rise in food prices	
	Poverty Headcount rate	Poverty deficit (% GDP)	Poverty Headcount rate	Poverty deficit (% GDP)
Bangladesh	8.7	0.2	13.7	0.3
India	5.7	0.1	9.0	0.2
Nepal	8.9	0.1	14.8	0.1
Pakistan	3.0	0.0	6.2	0.1
Sri Lanka	0.6	0.0	1.8	0.0

Source: Dessus, et al, 2008.

# 5. Impact on Poverty and Inequality in South Asia: Evidence so far

**Table 10: Estimated Poverty Headcounts and Poverty Deficits (cont)**

Urban poverty at US\$2 a Day

Country	Initial situation 2005		Expected situation under a 20% rise in food prices	
	Poverty Headcount rate	Poverty deficit (% GDP)	Poverty Headcount rate	Poverty deficit (% GDP)
Bangladesh	47.4	3.5	53.2	4.8
India	44.2	3.4	51.0	4.7
Nepal	32.7	0.8	37.5	1.0
Pakistan	46.7	3.2	55.1	4.7
Sri Lanka	20.1	0.4	26.8	0.7

Source: Dessus, et al, 2008.

## 6. Response to Food Crisis: Retreat from policy liberalisation?

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- Higher food prices are likely to persist for some considerable time
- Similar to other governments in the world, SA governments responded with a range of interventionist measurements (see Table 11)
- These measures in almost all cases reversed the trend in recent years towards market based solutions and liberal trade policies
- These measures have the potential to derail necessary longer term solution

## 6. Response to Food Crisis: Retreat from policy liberalisation?

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- ❑ Mitigation measures are necessary, but other interventionist policies had the effect of aggravating the problems for importing countries
- ❑ The resort to immediate trade restrictions by India and Pakistan highlighted the fact that SA remains a bastion of anti-liberalism
- ❑ Countries like SL introduce import restrictions when domestic food conditions are good and liberalise food imports during a crisis
- ❑ Experience in SA demonstrates that price controls do more harm than good
- ❑ The anti-liberalisation reaction of governments to the food crisis was not a surprise (ex: trade restrictiveness around 46%)
- ❑ Consumer and producer subsidies are not sustainable



# 7. Concluding Remarks

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- ❑ Surveyed the effects of rising food prices in SA and documented its effects
- ❑ Government responses may lead to serious long term problems
- ❑ A sharp swing away from trade liberalisation and efficient policy aggravated the crisis and undermined international cooperation
- ❑ However, to shift governments away from these types of interventionism is not an easy task
- ❑ A combination of policies and instruments is required to deliver short terms goals of food price stability and food security without undermining the longer term goal of agricultural trade liberalisation
- ❑ This is a formidable challenge