



High Food Prices in Asia-Pacific: Policy Initiatives in view of Supply Uncertainty and Price Volatility

Regional Training Workshop on “Beyond Inflation Targets: Policy Options and Instruments
for Sustaining Growth and Equitable Development”
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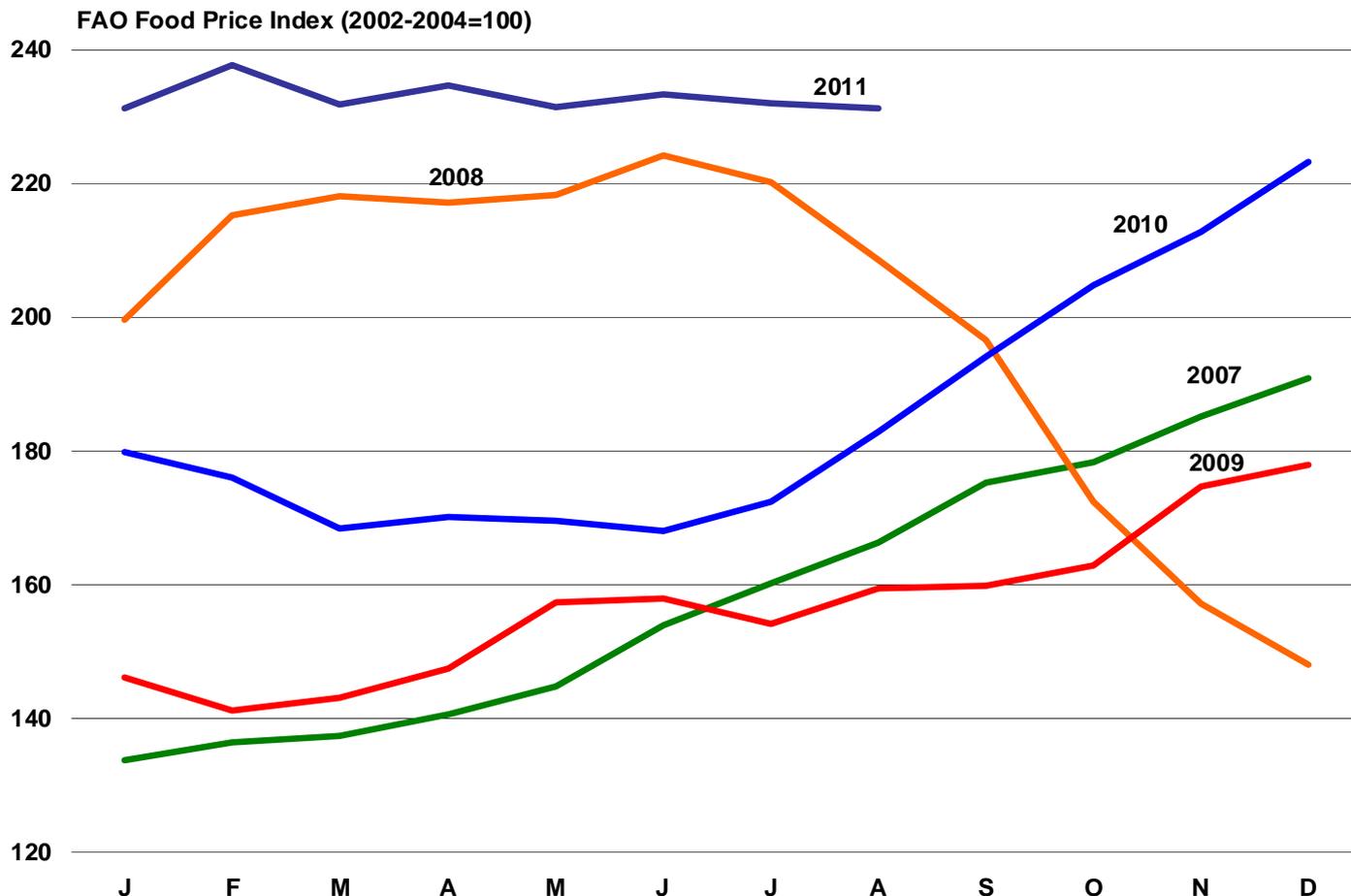
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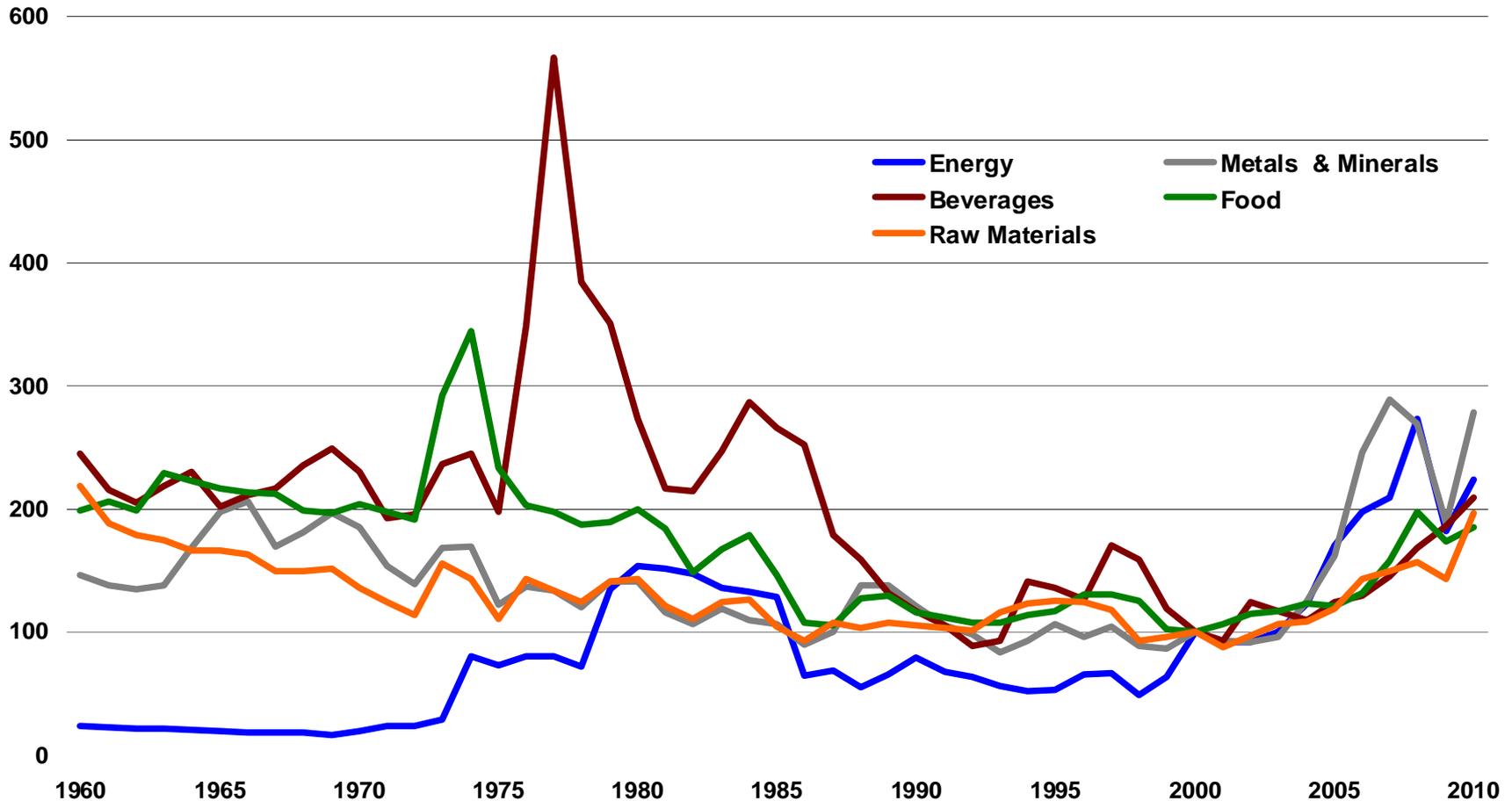
Wide ride in global food markets... Quieter for now but for how long?





Long term trend: unprecedented boom in commodity prices

Annual price indices, constant 2000 US dollars (2000=100)



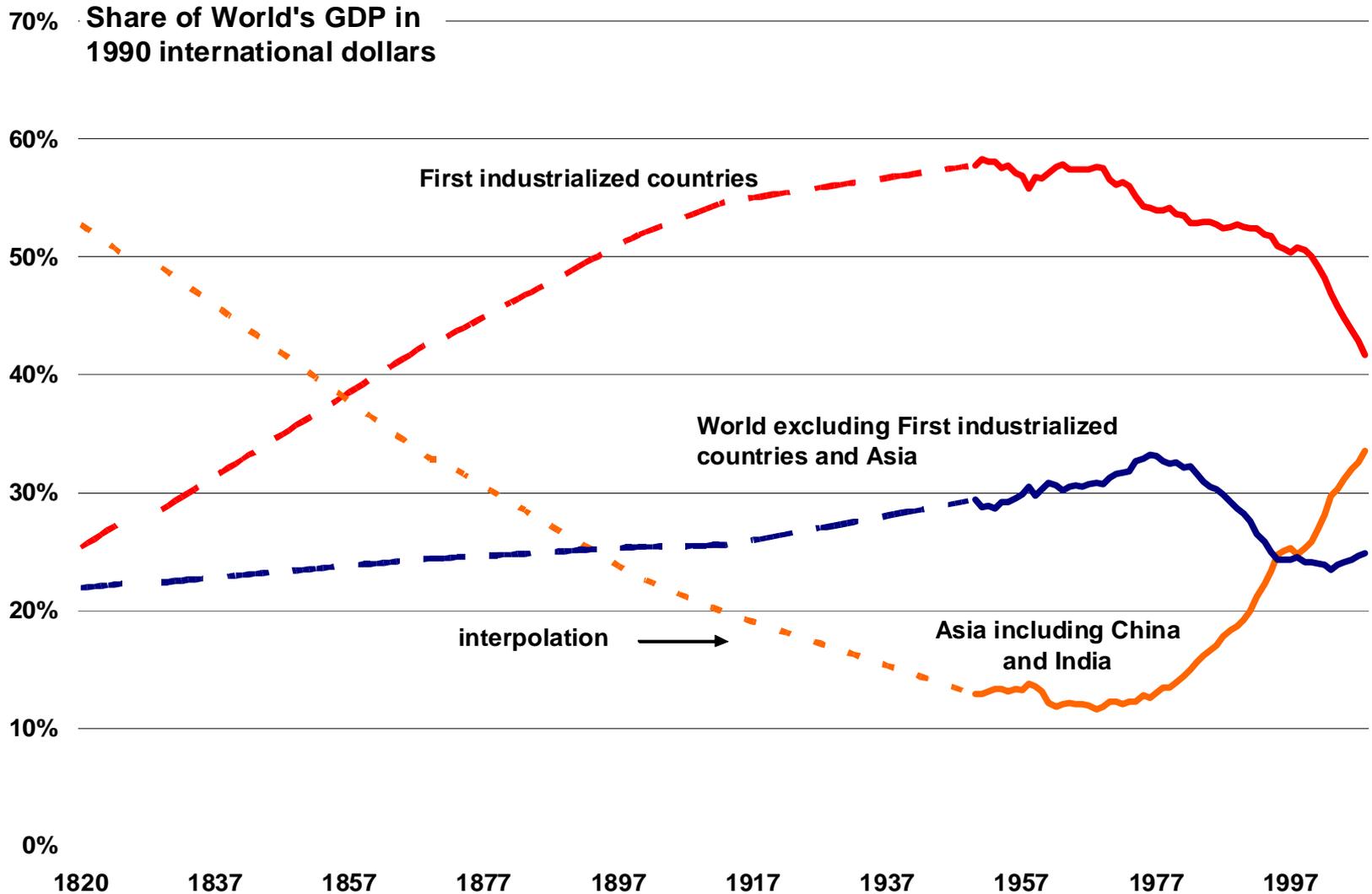


What are the causes?

- Long-term trend
 - fundamentals of supply and demand in global markets
 - Rise of Asia
 - Population growth and change in demographics
 - Conversion of food into biofuels
- Short-term volatility around the trend
 - Natural disasters
 - Export restrictions
 - Global liquidity & increasing financialization of commodity markets



Long-term drivers #1: Rise of Asia





Long-term drivers #2 – Population growth and change in demographics

- From 5.3 billion (1990) to 6.8 billion (2010)
- Growing population and GDP per capita boosted consumption of food
 - 0.5% increase of global average annual consumption of food per person (1990 to 2005)
- Ageing shifts the distribution of caloric intake needs of the population
- Result: 30% increase in global caloric intake need in the past 20 years



Long-term drivers #3 – Conversion of food into biofuels

- Displacement of food crops
- Mandatory blend and energy sources utilization targets
 - EU: 5.75% of in 2010, 10% in 2020
 - US: 36 billion gallons of renewable fuels by 2022
- Second-generation biofuels may reduce demand for land by increasing energy output



Volatility drivers #1 – Natural disasters

- Floods and droughts in 2010
 - Impact on agriculture in major producers in Asia-Pacific
 - 233+ Million people affected & US\$41+ Billion in economic damage
- South-Asia exposed to floods and tropical cyclones
- Climate change increases risk of future supply shocks



Volatility drivers #2 – Export restrictions

- Export restrictions to address disruptions in domestic supply caused by disasters
 - Examples:
 - October 2010 Kazakhstan banned the export of certain types of oilseeds, vegetable oils and buckwheat
 - August 2010 Pakistan deferred the partial lift on wheat export ban
- Global markets get smaller and more volatile



Volatility drivers #3 – increasing financialization of commodity markets

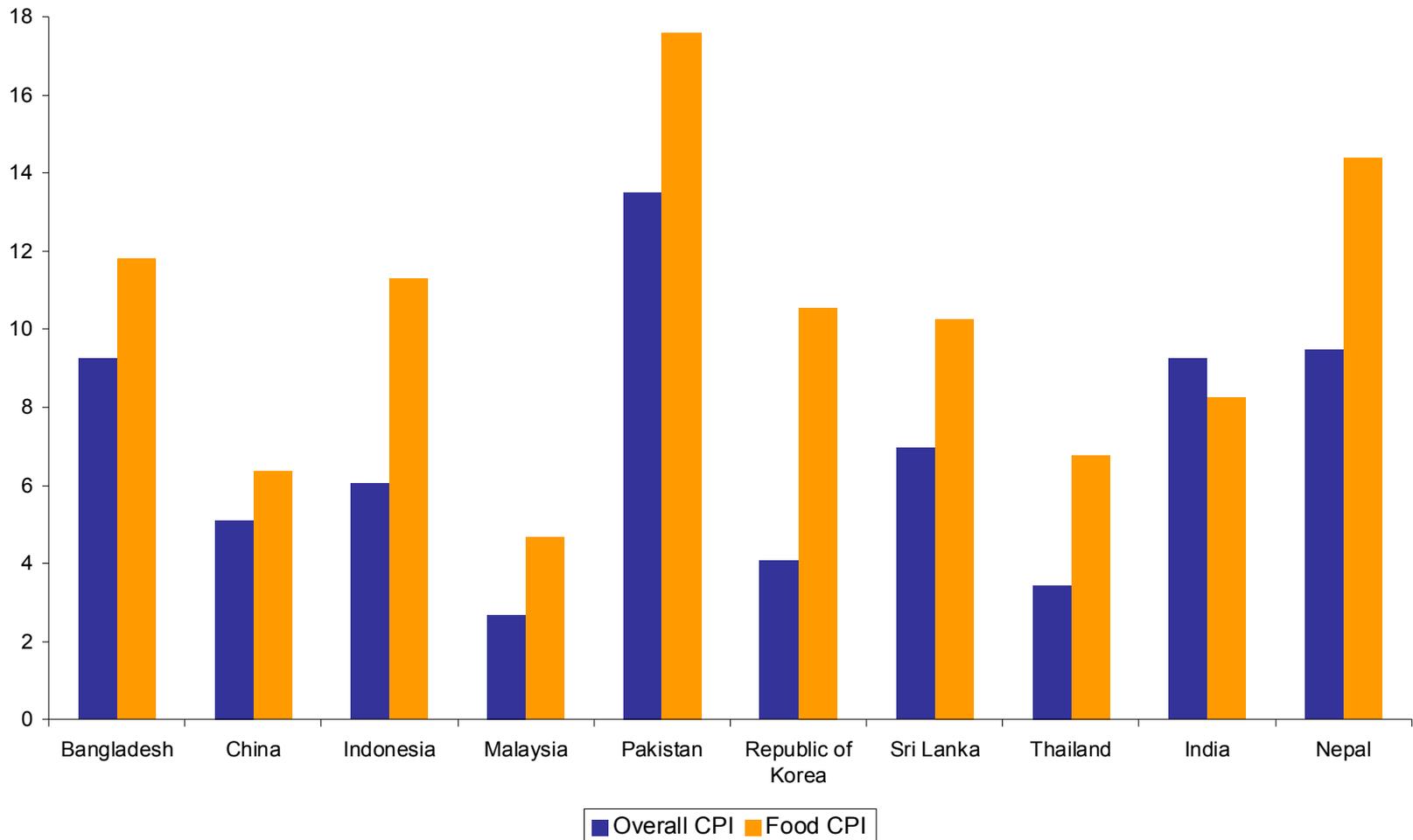
- Liquidity resulting from monetary easing in developed economies fueled speculation
- Much larger volume of funds being directed into commodity market speculation
- Accelerate and amplify underlying price movements

Impact depends on the transmission from global to domestic prices

Country	Rice			Wheat		
	% price change (in real terms)		% of dietary energy supply	% price change (in real terms)		% of dietary energy supply
	May 2010- Jan2011	Dec2010- Jun2011		May 2010- Jan2011	Dec2010- Jun2011	
Armenia				14	3	48
Bangladesh	17	-14	71			
Bhutan	16	-4	40			
China	6	4	27			
Georgia				69	12	50
Indonesia	16	1	51			
India	6	-5	30	6	2	21
Kyrgyzstan				31	9	49
Lao PDR	20	-13	64			
Mongolia				38	-7	42
Nepal	11	-2	34			
Pakistan	-2	12	7	-2	-7	37
Sri Lanka	-1	-4	39	29	1	15
Tajikistan				107	5	58
Viet Nam	34	-13	62			
Median	14	-4	40	30	3	45
Average	12	-4	43	37	2	40
Std	11	8	20	36	7	15

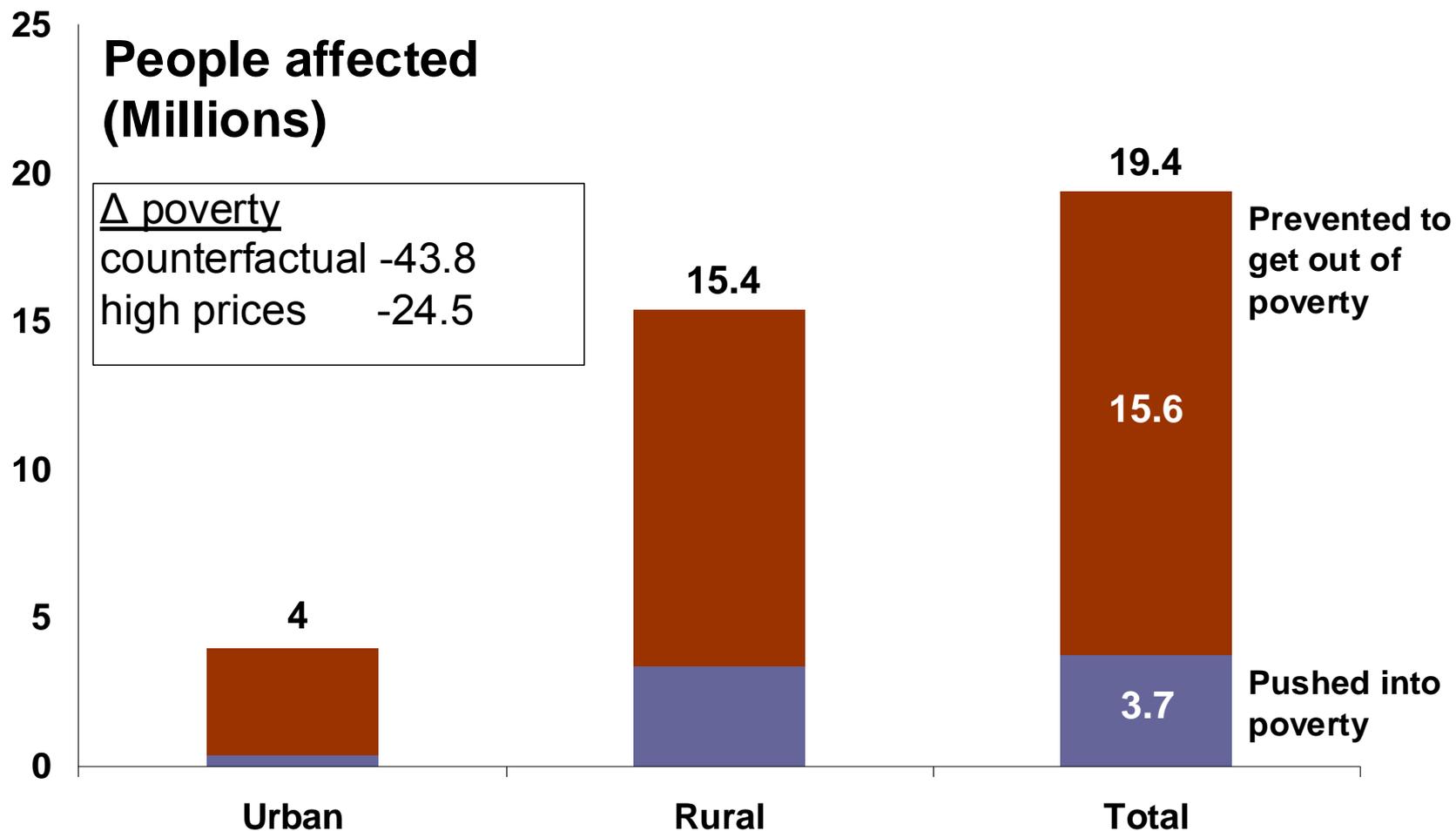


Higher food prices cause upward pressure on inflation





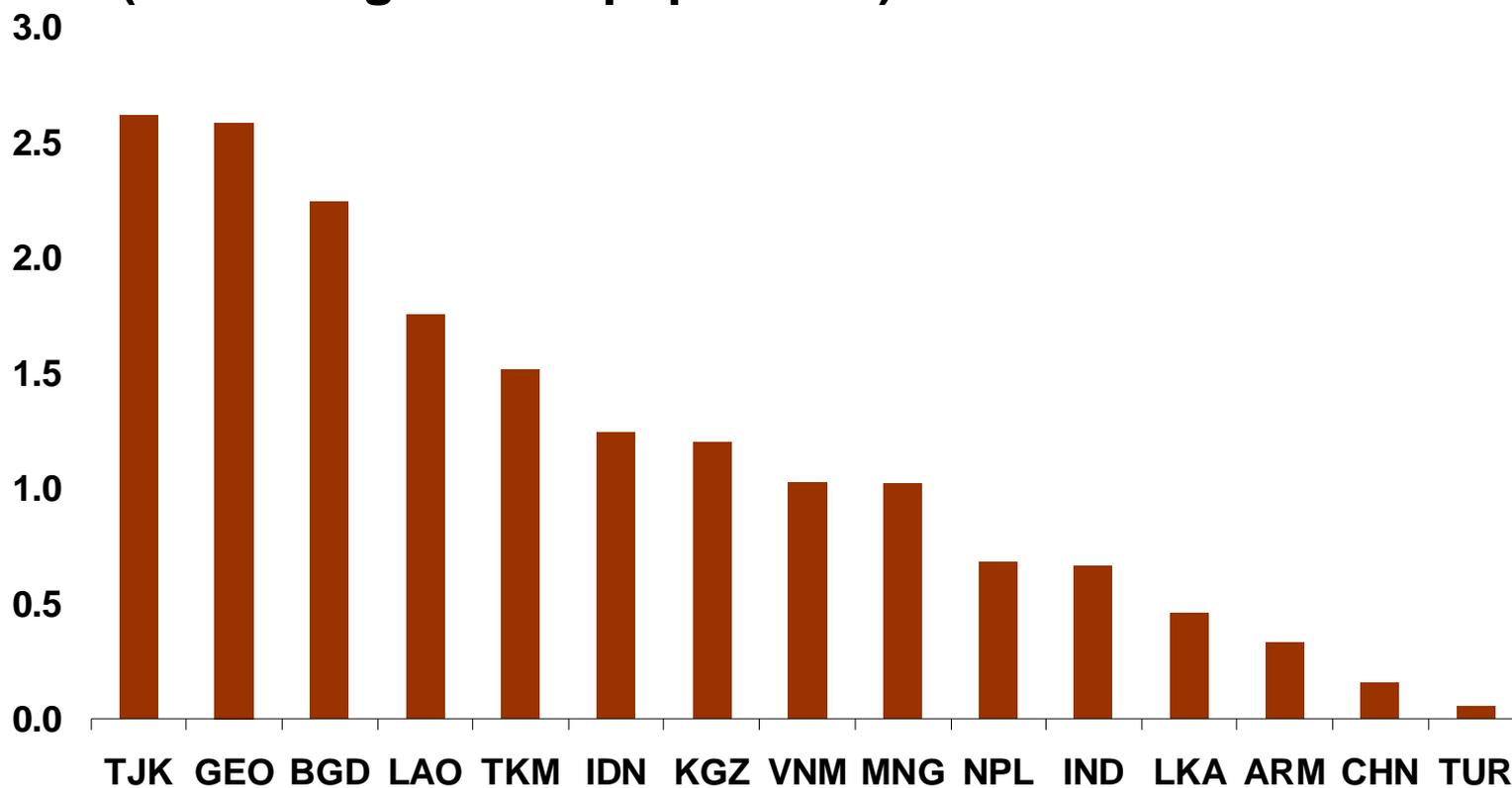
High food prices in 2010 caused slowdown in poverty reduction





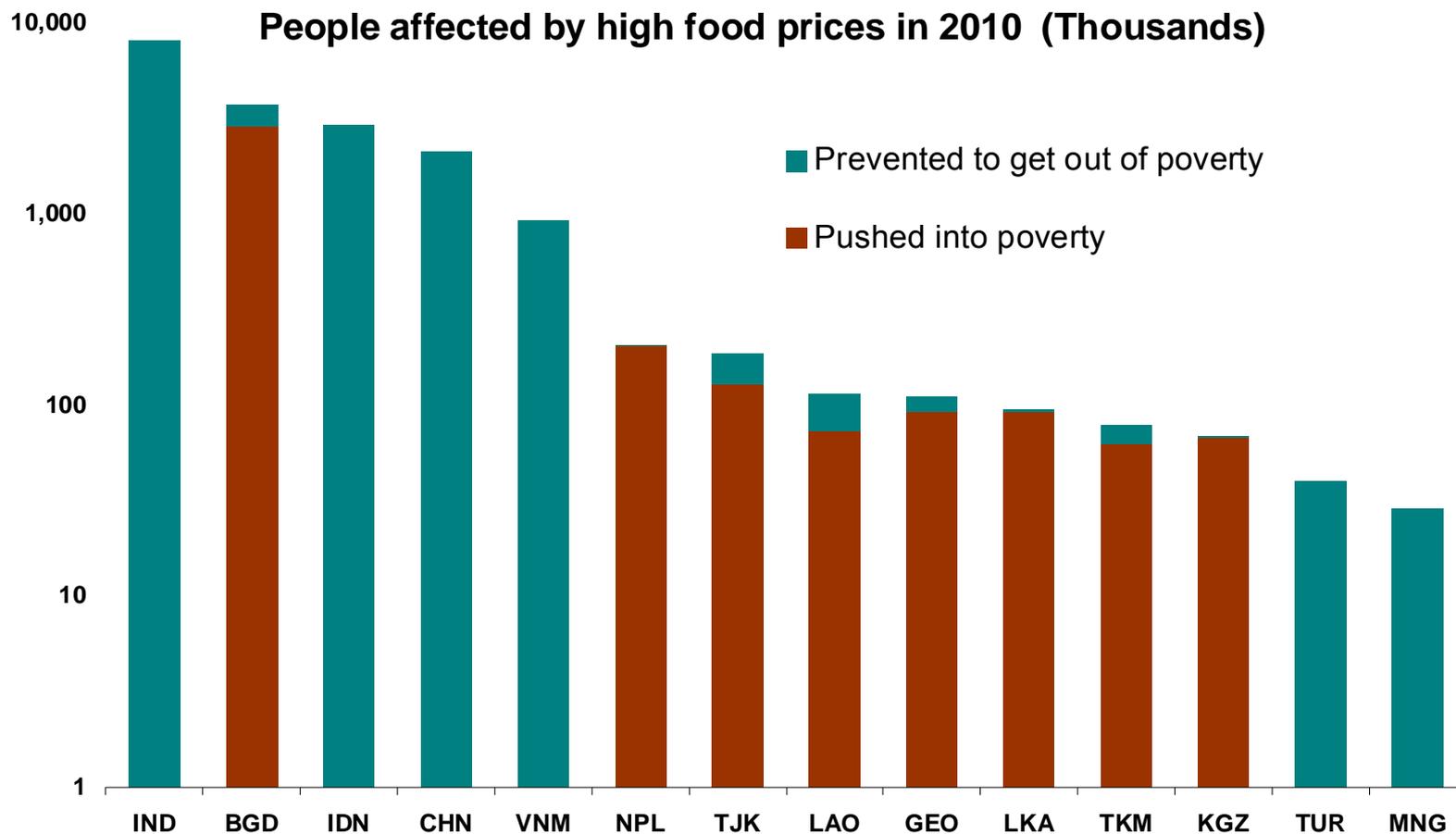
Impact of high prices in 2010

**People affected
(Percentage of the population)**



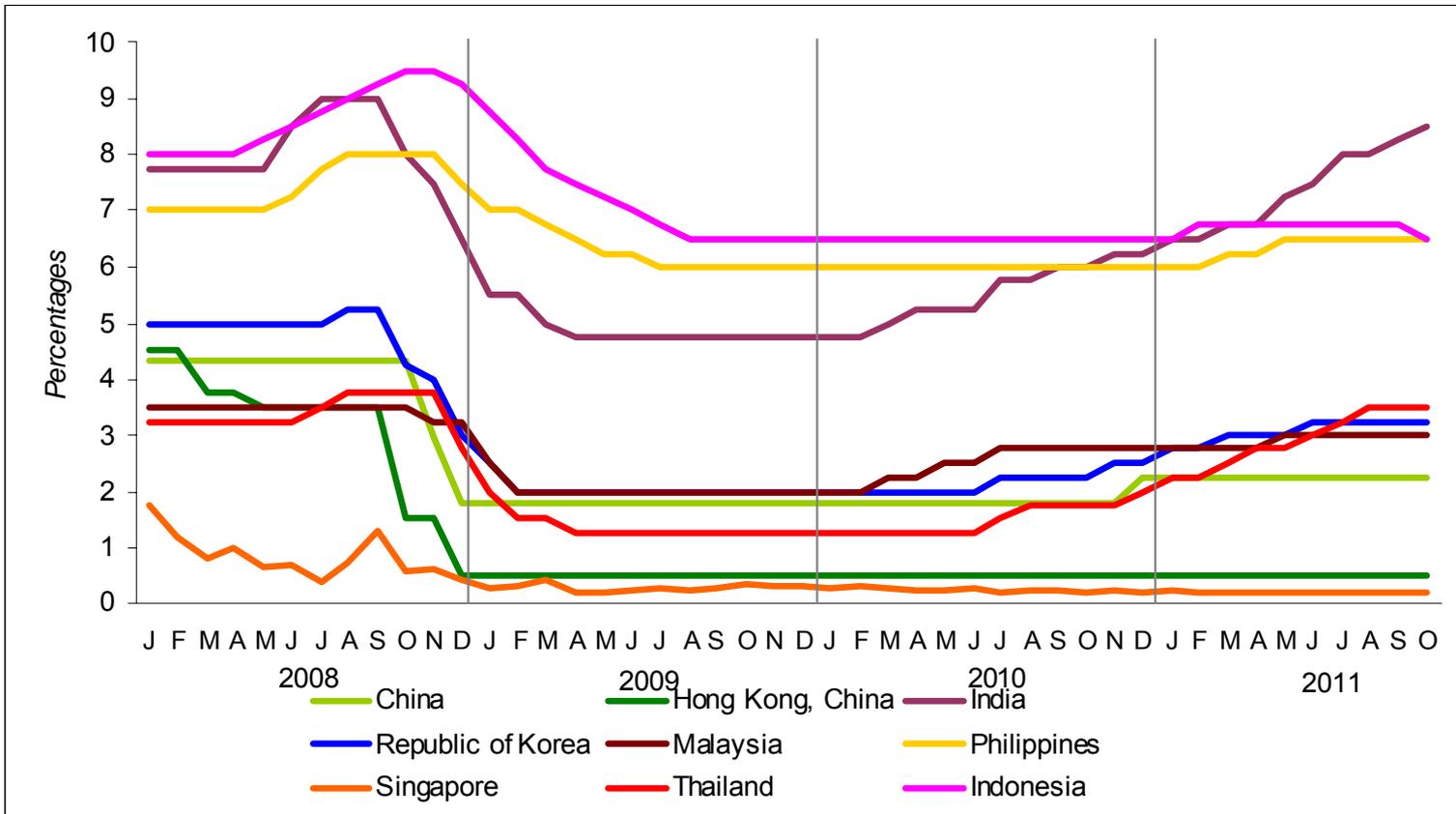


Impact of high prices in 2010





Response: countries have tightened monetary policy...but that may not be the most appropriate tool





Examples of policy response

- Bangladesh
 - Import of rice from Myanmar
 - Open Market Sale (OMS)
- India
 - Suspended import tariffs (onions) and extended duty-free privileges (rice)
 - Use of buffer stocks: 7.5 million tonnes wheat and rice
 - Increased the minimum support price of wheat



Examples of policy response

- Pakistan
 - Increased the minimum support price of wheat
 - Exports suspended in August 2010 after summer floods, but allowed in October 2010
- Sri Lanka
 - Price controls
 - Promotion of domestic production



Examples of policy response

■ Indonesia

- Temporary duty exceptions for rice import.
- Import duties increased for wheat, soybean, flours and feed products from the zero to 5%. Measure was suspended later on following protests from the industry.

■ Philippines

- Duty-free import of wheat extended.
- Agreement with Thailand to import Thai rice with a 40% tariff until January 2015
- Increased procurement price for rice from USD 0.54 to USD 0.58 per kilogram.

Policy options

- Enhance agricultural productivity
 - In poorer countries (low urbanization rate, labor surplus in the agricultural sector, large share of agricultural employment)
 - Diversification, expand productive employment out of agriculture and increasing the domestic market for agricultural products
 - industrial policy
 - Investing in infrastructure to support new productive activities
 - technology upgrading
 - growth-oriented stable macroeconomic policies that objective expanding productive employment

Policy options

- Enhance agricultural productivity #2
 - In emerging economies (higher urbanization rate, lower share of agricultural employment)
 - Revert the neglect of agriculture to achieve food security
 - Financing technology transfer and capital accumulation in the agricultural sector
 - Subsidizing input supplies (e.g. fertilizers, high yield seed varieties)
 - Promote technological upgrade and development of human capital to support the development of agricultural knowledge and the increase in productivity

Policy options

- South-South cooperation
 - Reduce gaps in crop yields across countries
 - Fostering second green revolution
- Buffer stocks
 - SAARC Food Bank
- Social protection policies
 - Distribution of vouchers
 - Targeted cash transfer
 - Mid-day meal at schools
 - Public distribution

Global response

- Regulate commodity markets
- Discipline conversion of food into biofuels



Thank you

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