Food Prices and Food Security in South Asia

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The recent trends of rising world food prices have received wide attention in South Asia due to their potential impact on the food security of its population. Although countries in the region have achieved near food self-sufficiency at the national level, most of them continue to be net importers of food in the global market. Due to increased globalisation and trade liberalisation within the region as well as with the rest of the world, the region is more vulnerable to international economic trends and, as a result, the poor and the food-insecure in the region are exposed to the vagaries of international price fluctuations. This paper looks at the challenges South Asian countries face in the event of recent food price increases and propose a set of food security policy options that should be pursued to reduce the impact of increasing food prices on the poor and vulnerable sections of the population.

Global Food Price Crisis: South Asia

Food prices in the global market have doubled in the last six months. While such increase is good news for the farmers who produce surplus for the markets, it is unfavourable for sections of populations which are net buyers of food including small-scale farmers, land-less rural households, and the urban poor. International markets have seen spikes in food prices in the last decade, yet such spikes have occurred partly due to low production in one or more major food producing countries because of drought or other natural disasters.

The current trend of food price increase seems to have several elements that have brought together a more permanent medium- to long-term price increase. First, continuous high growth in large countries such as India and China has increased the demand for food in general and for high value food commodities such as meat, milk, fruits, and vegetables, in particular. Meeting such increase in demand for meat and milk, production of which depends on feed grains increases the demand for food and feed grains as a whole.

A second element that seems to contribute to the long-term trend in food price increase is the rising price of fossil fuels. This has implication for the high food prices on two levels. The cost of inputs that depend on fossil fuels, such as fertilisers and pesticides, shows a considerable increase, raising the cost of food production and, thus, resulting in higher prices of food. Further, the price of food commodities that are transported over continents and within countries has also increased due to high transportation costs that depend on fossil fuel.

A third contributing factor to the long-term price increase is the recent trend in droughts and floods caused by the signs of climatic change that have been realised in the last few years. Such natural phenomena also result in the reduction of the supply of world food, triggering a price increase. In addition to these factors, a long-term trend that has contributed to the inability of the world agriculture system to adjust to the increasing demand for food commodities is the systematic low level of investment in agricultural research and development. This has contributed to only a marginal increase in the productivity of food grains, particularly in the developing countries. Due to these low productivity levels in food crop production, several countries have been caught unprepared in the face of the sudden increase in food price levels.

Due to the net importer status of most of the South Asian countries, such price increases are likely to have serious implications for growth, poverty reduction, problems of food insecurity and malnutrition. The World Bank predicts that in South Asian countries, the current increases in food prices will reduce the GDP by 1 percent in the form of paying for importing foods with high prices. To the extent that high global food prices are transmitted to the country-level prices in South Asia, the countries are likely to see prices of all commodities driven by food price increases. For example, Sri Lanka is currently facing a general inflation level of 36 percent, while food inflation is about 20 percent. Such increases in food prices will have a debilitating effect on the poor who spend more than 50 percent of their income on food. Such food price induced general inflation is also detrimental to the overall economy. Thus, managing food prices with adequate supplies of food and stabilising the markets will protect the poor and vulnerable from sliding deeper into poverty.

Price increases also have serious implications for the stability of governments in the South Asian region. For example, even though the contribution of food price inflation to overall inflation in India has been less than 20 percent during the last one year, it has resulted in several food-related policies to address the political concerns of the government. The Indian government has imposed a ban on rice export except for Basmati varieties. In Pakistan, food price increase has become the most important factor of concern for the government as well as for the common person. Policy makers are increasingly accepting that the food crisis facing Pakistan is the chief concern for the government even surpassing national and border security. In May 2008, it was predicted that food inflation would touch 26 percent in Pakistan. This is in addition to a 35 percent increase in food prices in 2007, while the minimum wage for the same period increased only by 18 percent, resulting in a drastic reduction in the purchasing power of the poor in Pakistan.

In Bangladesh, the price of rice has been a key determinant of food security where up to 70 percent of the income of the poor is spent on food. The Bangladesh government usually keeps a food stock of one million tons of wheat and rice to stabilise food prices and for free distribution during periods of distress. In spite of the recent reduction in rice production due to the 2007 floods, the government reduced the food stock to a minimum level of 300,000 tons. This is a signal to the private traders that the government's capacity to stabilise prices has been drastically reduced. At the earliest signal of world food price increase, traders in Bangladesh have begun to hoard food grains, resulting in reduced food availability in the markets and high food prices. In addition, the promised export of rice from India and Vietnam to Bangladesh has not come through since both countries face internal political pressures to stop their rice exports. Although the recent bumper Amman crop seems to provide hope for bringing the price down, currently even the middle income groups are affected.

Given that in the last 16 months, high food prices have been a cause for social unrest in more than 30 developing countries including Bangladesh, India, and Pakistan, policy makers in developing countries view food price increase and its implications as a highly sensitive political and security issue.

High food prices have different impacts on different countries and segments of population. When the countries are net exporters of food, they benefit from the resulting improved terms of trade from high food prices. However, countries that have reacted to the high food prices by imposing a ban on export of commodities in order to feed their own population can lose out in this window of opportunity to raise the income of their farmers as is the case in India. Countries that import food, such as Bangladesh, Nepal, and Sri Lanka, will have to face higher food bills to meet their domestic food demand. Within a country, farmers who produce high quantities of food commodities could benefit from the higher prices if markets are allowed to function efficiently. On the other hand, market and price controls can be detrimental by providing a wrong set of incentives for farmers who can produce food crops.

A major segment of the poor population in South Asia—about 400 million people—will slide back into deeper poverty due to current high food prices. This is partly because they are net food buyers and spend a major share of their income on food commodities. The impact of such foodprice driven poverty will be realised in both short and long term. In short-term, the food insecurity and hunger among the poor will increase and, in long-term, the health and nutritional status of children will deteriorate resulting in low quality human capital for the countries in the future. In addition, due to distress resulting from high food prices, poor households will liquidate their productive assets to meet their food demands. As a result, the recovery from poverty will take longer time, thus prolonging the achievement of the Millennium Development Goals in the region.

What needs to be done?

In what follows, several policy options are recommended in order to address the negative impact of high food prices in the South Asian region. In the immediate and short run, countries in the region should consider removing agricultural export bans. Agricultural export bans and reducing the tariff for import of food commodities can help individual countries, but may result in higher global and regional food prices. In the interest of addressing self-sufficiency in food, each country imposes export restrictions that may affect the long-run development of export and trade-related institutions. Elimination of export bans in the South Asia will help in the stabilisation of regional grain price fluctuations and can address the problem of increasing food prices through improving the supply of food commodities.

South Asian countries should increase their investment in agricultural research. Productivity improvements in agriculture take at least three to five years to be realised. However, due to neglect of the agricultural sector and low investments in agriculture in the last decade, most of the countries in South Asia suffer from low productivity of food crops, particularly those that are grown by small-scale farmers. However, South Asian countries have shown in the last 40 years that food insecurity and famines can be overcome through increasing food production and the productivity of agriculture. For example, the Green Revolution in India and Pakistan in the 1960s and 1970s increased production of food and farmers' income, reduced poverty, and increased food security and nutritional status of the population. Yet, the policies and institutions that were responsible for food production increases in the last 40 years have not changed. They are not able to adjust to the new global trade environment and changing global food systems. In addition, the technological change to improve productivity levels in food production has been marginal at best. The continued policy complacency in several countries did not allow required policy changes according to the changes in global markets.

India provides a classic example of how slow pace of policy change can result in inability to address the changing global food situation. While India has invested high levels of resources in agriculture, much of these resources have been diverted to subsidies in the form of irrigation, fertiliser, and in procuring food grains from farmers at a minimum support price which has been higher than world price levels. This diverted expenditure has resulted in low levels of investment in infrastructure which can result in improving the long term productivity levels. For example, six percent of agricultural GDP is currently spent on subsidies while only 1.5 percent of the agricultural GDP is spent on productive investments. In order for the agricultural sector to meet the growing demand for food and to stabilise prices, these trends in investment have to be reversed. The current high level food prices can be seen as a window of opportunity to reduce subsidies and to increase investments in infrastructure. The current crisis is also an opportunity to reduce the involvement of the government in the food grain procurement. Further, it is an opportunity to reform the institutions including agricultural research and extension to address the challenge of productivity increases in agriculture.

Also in the short- and medium-term of three to five years social safety nets programmes could be implemented. Where the programmes already exist and are successful, they could be scaled up to protect the poor from the negative impact of world food prices. Food subsidies and price controls are quite often the measures that countries in South Asia resort to in order to address the problem of food insecurity in the short run. However, such measures may not benefit the poor population. Cash transfers have been a proven method of safety nets in several South Asian countries. Using the current safety nets programmes and scaling them up to provide social safety nets would be an effective approach to address food insecurity in the short run. For example, in Bangladesh the Vulnerable Group Feeding (VGF) programme and

Gratuitous Relief (GR) programme could be scaled up to protect the poor in the short run and to manage the food crisis. In India, the Integrated Child Development Services (ICDS) programme that has wide coverage could be used in targeted areas to support vulnerable households and the poor. Subsidies on coarse grains could also work in both Bangladesh and in India.

Increasing flow of regional food trade through opening up the free trade of food within the South Asian region would help in stabilising the regional prices. While South Asian Free Trade Area (SAFTA) provides a mechanism for enabling regional free trade in food commodities, effective implementation of that will require bilateral and multilateral arrangements within the region.

In order to address the need for food on an emergency scale, it is important to reconsider and operationalise the food security reserve that has been designed by SAARC countries. While the concept has been on paper for a number of years, implementation of the concept has proven difficult due to cooperation of the countries. The current food crisis provides an opportunity to implement the concept of regional food reserve under the leadership of SAARC.

Conclusion

The current food price crisis is the result of several factors including increasing population, high levels of growth in large countries such as China and India, increasing prices of oil fuel, and recurrent droughts due to climate change in different parts of the world. All these factors have long-term implications on food production and availability, and are likely to have medium- to long-term impact on food prices. Thus, the current food crisis in South Asia and the rest of the world is not a short-run phenomenon. In order to address the food price crisis and protect the poor and the hungry from sliding deeper into poverty, policy measures need to be implemented that not only recognise regional challenges, but also consider long-term implications of short-term policy changes.

A major lesson learnt from the current food price crisis for food security of the region is that the agricultural and food systems are not robust enough to address the changing global environment caused by the factors mentioned above. Building resilient agricultural production systems that address the changing needs in food demand will require prudent investments in agricultural research, technology, development, and extension and rural infrastructure.

South Asian countries must ready themselves to embrace a new system of global governance in their food and agricultural sectors. Without improved adaptability, South Asian countries may face a situation where large numbers of their population continue to suffer in poverty and hunger.

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