Rising concern over soaring food prices in Asia

AFP
Friday, January 14th, 2011 11:27:00

NEW DELHI: Soaring food prices in Asia are deepening concern among governments fearful of a repeat of the 2008 food crisis that triggered riots across the region and beyond.

A global alarm bell was sounded last week when the UN's Food and Agriculture Organisation warned that millions of people were at risk after its world food price index broke through the peak 2008 levels to hit a record high.

The warning was swiftly echoed by World Bank president Robert Zoellick who said rising prices were "re-emerging as a threat to global growth and social stability".

In Asia, the inflationary upswing is causing serious jitters in the region's three most populous countries, China, India and Indonesia -- seen as especially vulnerable to a further surge in the price of staples such as rice and wheat.

In India, Prime Minister Manmohan Singh called in his top cabinet ministers Tuesday to discuss the problem, with food inflation climbing above 18 percent and unseasonal rains in southern India threatening crop production.

Wary of the political fallout, Singh's government has already made efforts to keep prices in check, releasing rice and wheat stocks, extending a ban on the export of pulses and enforcing a stockholding limit on sugar.

But the finance ministry's chief economic adviser, Kaushik Basu, warned it was dangerous to over-estimate the strength of the government's hand.

"It is an utter mistake to think that it is fully within the control of the government to move prices of food up and down," Basu said.

"Government is just an enabling body ... it can only give signals, intervene strategically to keep the situation as much under control as possible," he added.

The food price surge is fuelling overall inflation and presenting India and China -- whose fast-growing economies are both key engines of the global economic recovery -- with tough choices when it comes to monetary tightening.

Economists say interest rates are a crude instrument to tackle rising food prices, however, which are influenced by a complex array of supply and demand factors.

The current price pressure is the combined result of bad weather affecting production in some countries, increasing Asian demand, export restrictions and speculation.

With food inflation at 11.7 percent in November, the Chinese government has vowed to ensure adequate supplies of food staples and to crack down on speculation in commodities markets.

President Hu Jintao visited low-income families in Beijing last month and promised more help for needy people, while Premier Wen Jiabao made a national radio address stressing the government's commitment to keeping prices stable.

Following a recent visit to China, the UN special rapporteur on the right to food, Olivier De Schutter, said Beijing needed to address issues such as soil degradation and a loss of arable land to ensure food security for the future.

"The recent food price hikes in China are a harbinger of what may be lying ahead," De Schutter said. "This situation should encourage China to move towards more sustainable types of farming."

In a research paper published last week, Swiss bank Credit Suisse said the outlook for China was "worrying" and predicted that food inflation across the Asian region -- excluding Japan -- would peak at 15 percent in mid-2011.
The paper played down the prospects of the situation deteriorating to 2008 levels, saying it would take a particularly strong "new shock" to keep the price increases going.

"We do not expect a full-blown food crisis," the bank said. "Favourable shocks (driving prices lower) would seem as likely as favourable ones, and we believe the risk of a jump in speculative demand for grains has fallen significantly."

However, Credit Suisse noted that it was still difficult to assess the full impact of last year's heavy flooding in Pakistan, Thailand and Vietnam which might have destroyed vast areas of rice paddy.

Economists also say that Asian countries exporting rice and wheat have far more healthy stock-to-use ratios than they did in 2007-2008.

In India, for example, the number of days the country could meet domestic rice and wheat demand using existing stocks has risen in the last three years from 30 days to 80 days.

The 2008 crisis was partly blamed on low ratios that fuelled a vicious price spiral as fears of food shortages in exporting countries resulted in export restrictions, leading to a hike in global prices.

The situation triggered protests and riots in countries such as Indonesia, the Philippines and Bangladesh.