



Experience with managing foodgrains price volatility in Asia

Ralph W. Cummings Jr*

6308 Adirondack Court, Gainesville, VA 20155, United States

ARTICLE INFO

Article history:

Received 13 May 2012

Accepted 30 October 2012

Keywords:

Asia
Government commitment
Foodgrain
Price
Stabilization
Volatility

ABSTRACT

Governments in Asia used foodgrains price stabilization as a major policy instrument beginning in the 1960s. Food stabilization policies in India, Pakistan, Bangladesh, Indonesia, the Philippines, Viet Nam and Thailand – which had many similarities, with appropriate differences – produced clear successes in benefitting poor consumers and producers and increasing agricultural and overall economic growth. However, changes will have to be made to cope with future conditions.

Three key lessons can be learned from more than four decades of price stabilization: first, public foodgrains price stabilization can contribute positively to increased agricultural growth and overall economic development; second, a high level of government commitment in terms of improved incentives, institutions, and investments is essential for success, price stabilization is only one part of the package; and third, conditions change as times change.

Arguably the public sector has a role to play in price stabilization. However, improving parastatal-centered policies will require opening up the economy, facilitating private trade to compete on a level playing field with public parastatals, and using public policy to regulate and supplement, rather than replace, the private market. The government should let the market determine the returns to various crops and limit its role to facilitating the market to operate efficiently and effectively, protecting the vulnerable, and reducing price risk. Accordingly, a system that meets these characteristics includes: first, strengthening and reinforcing the private market; second, protecting poor consumers; third, protecting small producers; and fourth, stabilizing market prices. Market prices should be stabilized, using private trade as a first response, based on transparent rules somewhere within a band bordered by free on board (f.o.b.) prices as the lower bound and cash, insurance, and freight (c.i.f.) costs (including trade margins) as the upper bound and by using a variable tariff policy.

The institutional requirements are demanding but attainable. Analytical capability should be improved. We also suggest that it may be time to reconsider regional and/or international mechanisms or understandings to respond to food crises. But in the end, political decisions prevail. The ultimate challenge is to improve understanding of political economy.

© 2012 Elsevier B.V. All rights reserved.

0. Introduction

Price volatility is likely to be the norm in food markets in the future. Asian countries have long histories of foodgrains price stabilization from which lessons can be learned. However, changes will have to be made to cope with future conditions.

This paper reviews the foodgrains price stabilization experiences of seven Asian countries – India, Pakistan, Bangladesh, Indonesia, the Philippines, Viet Nam, and Thailand. It evaluates these programs based on five criteria – benefitting poor consumers, protecting small producers, promoting agricultural growth, limiting financial cost, and limiting economic cost. It identifies three key lessons from these experiences. It then suggests a public

sector role for future efforts in foodgrains price stabilization. It concludes with challenges in introducing changes and making them work.

1. Country experiences

Governments in Asia used foodgrains price stabilization as a major policy instrument beginning in the 1960s (Rashid et al., 2007, 2008a; Cummings et al., 2006). By the early 1970s, food stabilization policies – which had many similarities, with appropriate differences – produced clear successes over a range of Asian countries.

We propose to evaluate country policies, noting that policies should change as conditions change over time, on five criteria (Table 1). Protecting poor consumers was an initial motivation that has continued over time. The Green Revolution added concern to mitigate risks and uncertainties of new technologies; protecting

*Tel.: +1 571 334 2242; fax: +1 703 743 1448.
E-mail address: RWCummingsJr@comcast.net

Table 1
Criteria for evaluating success of price stabilization of respective Asian countries.

Countries	Benefitting poor consumers ^a	Benefitting poor producers	Promoting agricultural growth	Financial cost ^b	Economic cost ^c
India	B ^d	A ^e	A/C ^f	High	High
Pakistan	C ^g	C ^h	B ⁱ	High	High
Bangladesh	B ^j	B ^k	C/B ^l	Moderate	Moderate
Indonesia	A/C ^m	A ⁿ	A/B ^o	High	High
Philippines	C ^p	D ^q	C ^r	High	High

^a FAO warns not to mix numbers from different issues of *State of Food Insecurity in the World* (FAO, 2002, 2011), as the methodology has changed over the years.

^b Rashid et al. (2008a), Salam and Mukhtar (2008), Shawkat Ali et al. (2008), Arifin (2008) and Clarete (2008).

^c High, guaranteed support prices for wheat and rice inhibit diversification in India (Cummings et al., 2006); high rice prices inhibit diversification in Indonesia (Timmer, 2012).

^d Percentage of population undernourished reduced from 38% in 1979/1981 to 17% in 1995/1997 but rose to 19% in 2006/2008; number of undernourished reduced from 261.5 mil to 167.1 mil but rose to 224.6 mil (FAO, 2002, 2011); extensive public distribution system and guaranteed rural employment scheme; large leakages.

^e Procurement has been 18–22% of wheat production and 10–25% of rice production (Rashid et al., 2008a).

^f Wheat prices supported above international prices until 1989, rice prices supported below international prices; large subsidies for irrigation, electricity, and fertilizer; wheat production increased a robust 8% annually during 1965–1980, 4% during 1980–1995, and 1.7% during 1980–2010; rice production increased by 2.7%, 3.2%, and 0.4% annually (FAO).

^g Percentage of population undernourished reduced from 31% in 1979/1981 to 20% in 1995/1997, but has risen to 25% in 2006/2008; number of undernourished rose from 25.1 mil to 42.8 mil (FAO, 2002, 2011); wheat distributed through flour mills which siphons off some of benefits.

^h Procurement has been 20–25% of wheat production (Rashid et al., 2008a).

ⁱ Wheat production increased 6.4% annually during 1965–1980, 2.8% during 1980–1995, and 2.5% for 1995–2010 (FAO).

^j Percentage of population undernourished not reduced (41%) from 1979/1981 to 1995/1997, but fell to 26% in 2006/2008; number of undernourished rose from 33.8 mil to 41.4 mil (FAO, 2002, 2011); productive use of development-oriented NGOs.

^k Procurement has been 1–3% of rice production (Rashid et al., 2008a); Dorosh (private communication) notes the importance of trade policy and argues that Bangladesh should score highly (through 2006) for limiting food aid wheat to keep domestic prices at/ near long-term import parity, thanks in part to pressure to meet Bellmon (U.S. food aid) requirements.

^l Rice production increased by only 1.8% annually during 1965–1980 and 1.9% annually during 1980–1995, but rose to 4.1% annually for 1995–2010 (FAO).

^m Percentage of population undernourished reduced from 24% in 1979/1981 to 11% in 1995/1997, but rose to 13% in 2006/2008; number of undernourished reduced from 36.6 mil to 22.0 mil but rose to 29.7 mil (FAO, 2002, 2011); less attention to poor lately (Timmer, 2012).

ⁿ Procurement has been 3–7% of rice production (Rashid et al., 2008a).

^o Rice production increased by 5.6% annually during 1965–1980 and 3.3% annually during 1980–1995 but fell to 1.9% annually for 1995–2010 (FAO); Timmer estimated that rice price stabilization added one-half to one percentage point of growth in GDP per year during 1970s when rice still large share of economy and world rice market particularly unstable (Timmer and Dawe, 2006).

^p Percentage of population undernourished reduced from 27% in 1979/1981 to 20% in 1995/1997 to 13% in 2006/2008; number of undernourished reduced from 12.8 mil to 11.8 mil (FAO, 2002, 2011). Tariff policy has kept rice prices high (Dawe, 2010).

^q Rice tariffs were high; procurement has been 2–6% of rice production (Rashid, 2008a).

^r Rice production increased by 4.4% annually during 1965–1980 but only 2.2% annually during 1980–95 and 2.7% during 1995–2010 (FAO).

small producers, who were considered especially vulnerable, became important. Promoting agricultural growth was the ultimate “bottom line” throughout the process. Financial cost, competing with other budgetary expenditures and with overall expenditures, has to be considered in evaluating any policy instrument. Economic cost, influence on allocation of resources, was important both in the beginning but, is particularly important in guiding an economic transition over time as conditions change.

1.1. India

During the mid-1960s, India experienced two consecutive unprecedented severe droughts that reduced foodgrains production almost 20% below previous best levels (Rashid et al., 2008b). The country was in crisis; it was bailed out only by large U.S. food-aid that severely strained its pride. In 1963 new high-yielding wheat varieties first began to be grown experimentally, and by 1966, prospects for a Green Revolution appeared promising. What marked the most significant departure from the old ways was the seriousness with which policy recommendations were translated into action through emergence of an integrated food and agriculture policy.

In many respects India provided the prototype for Asian food price stabilization programs. Restrictions inhibited private movements, storage, direct sales and imports. The Food Corporation of India and the Agricultural Prices Commission were created in 1965 to ensure “remunerative prices” to cultivators while the new seeds were being introduced. Pan-country minimum support prices (MSPs), were set for wheat and rice at beginnings of sowing seasons, with guarantees to purchase unlimited quantities. Large quantities of wheat and rice (including mill levies) have been

procured by government at MSP, often at above-market prices. Public distribution has been extensive. India maintains a buffer stock that has ballooned to as high as 60 million tons, double optimal level, as result of inflexible procurement policies.

During the past four decades, successes have been spectacular. Wheat production has increased by seven times and rice production more than doubled. The proportion of undernourished people has halved. Unleashed by financial reforms in the 1990s, India is now one of the fastest growing countries in the world, aspiring to sustain an annual economic growth rate approaching double digits. However, a huge bureaucracy – with vested interests – rules food management. Subsidies dwarf public investments. Leakages in public distribution have been significant. Diversification – the future – is inhibited.

We give India a grade of “A–” (scale of “A” to “F” with “A” excellent, “C” passing, and “F” failure) for implementing effective price support (although applicable to a limited number of surplus states) and safety net during the early period, but progressively lowering to a “B–” during recent years because of huge financial and economic costs (Table 1).

1.2. Pakistan

The Pakistan Agricultural Storage and Services Corporation (PASSCO) was established in 1973 to mitigate seasonal price swings in the major urban centers (Salam and Mukhtar, 2008). Much wheat is also procured by parallel state organizations in the Punjab and Sindh. In recent years, only the federal government has imported wheat, although private sector imports were allowed in some years in the early 2000s. Together, government organizations dominate the wheat market. The government

Download English Version:

<https://daneshyari.com/en/article/1047598>

Download Persian Version:

<https://daneshyari.com/article/1047598>

[Daneshyari.com](https://daneshyari.com)