



FOOD AND AGRICULTURE ORGANIZATION OF THE
UNITED NATIONS
REGIONAL OFFICE FOR ASIA AND THE PACIFIC

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Record food prices driving rapid inflation in Asia and the Pacific

With the FAO Food Price Index hitting another record high during February, new data is emerging that reveals that the rising cost of food is driving rapid inflation in several countries across the Asia-Pacific region and raising concerns about social and political stability.

Countries such as China, India, Indonesia, Pakistan and many Pacific Island Nations have registered food inflation rates that are roughly 30 to 50 percent higher than their overall rates of inflation, indicating that food prices – along with the price of fuel – are a crucial factor in the rising cost of living.

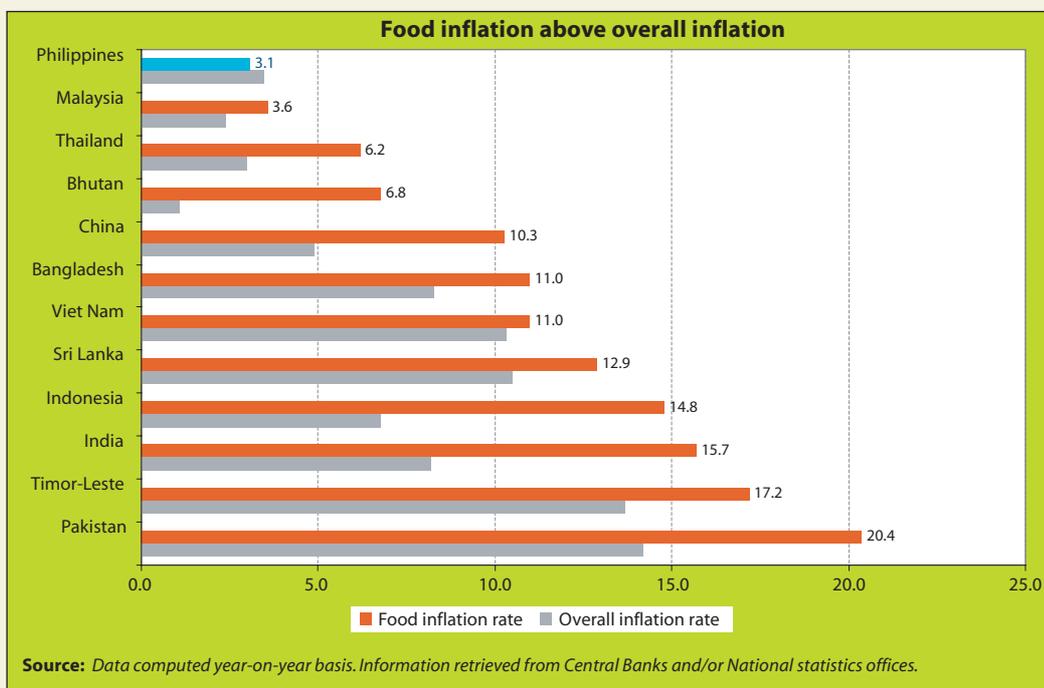
Rising prices present a policy challenge for political leaders who are well aware of the role that spiralling food costs played in the recent turmoil in the Middle East and North Africa. The impact of food price hikes are felt most strongly by the poor and lower middle class, as they spend

a higher proportion of their earnings on food than those who are financially better off.

The subcontinent of Bangladesh, India, Pakistan and Sri Lanka was hardest hit by soaring prices. Figures from respective National Statistics Offices (see Figure 1) showed Pakistan registered 14.2 percent inflation year-on-year for the month of January, with food prices rising by 20.4 percent during the same period. India struggled with an 8.2 percent inflation rate, driven by a 15.7 percent rise in food prices, while Bangladesh battled inflation running at 8.2 percent and food price rises of 11 percent. Sri Lanka had just over 10 percent overall inflation with food prices climbing by 12.9 percent.

According to the FAO's State of Food Insecurity in the World 2010, more than 21 percent of India's people are already categorized as malnourished, with 27 percent in Bangladesh, 26 percent in Pakistan and 19 percent in Sri Lanka also suffering from malnutrition.

Figure 1: Inflation and Food Inflation Rates in Selected Countries



Source: Data computed year-on-year basis. Information retrieved from Central Banks and/or National statistics offices.

Figure 2: Selected international cereal prices

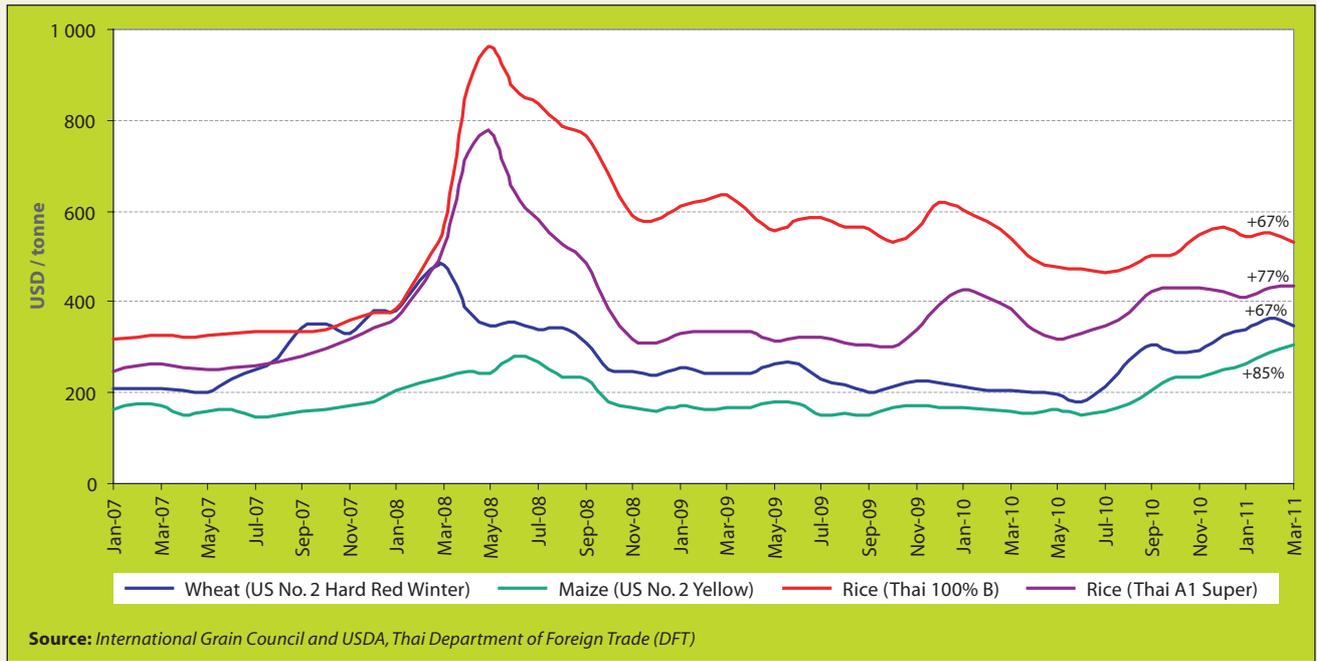
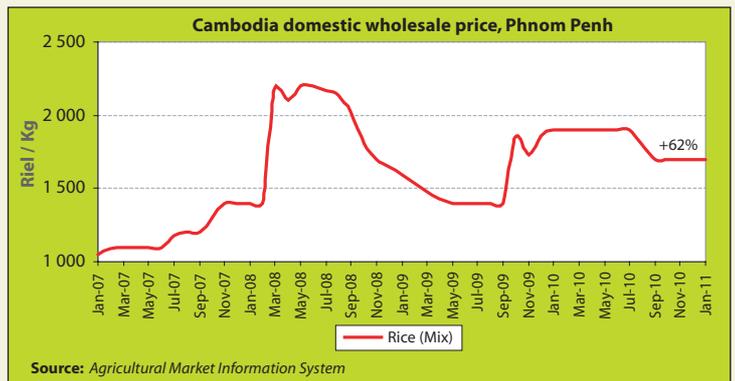
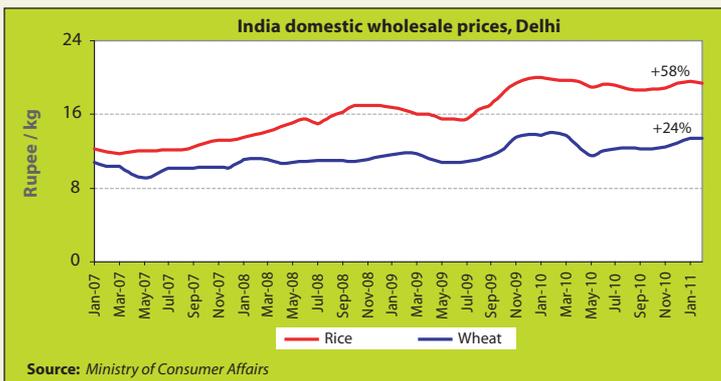
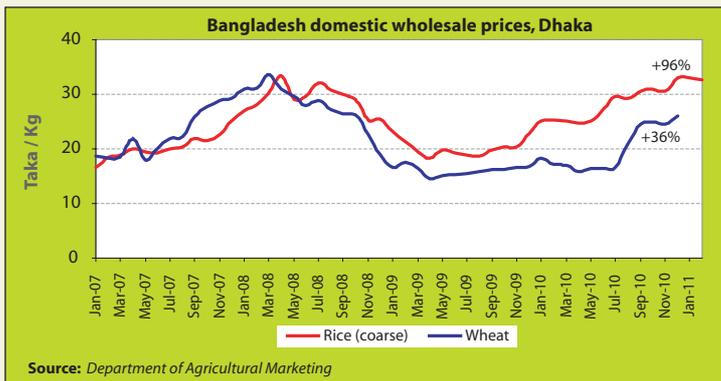
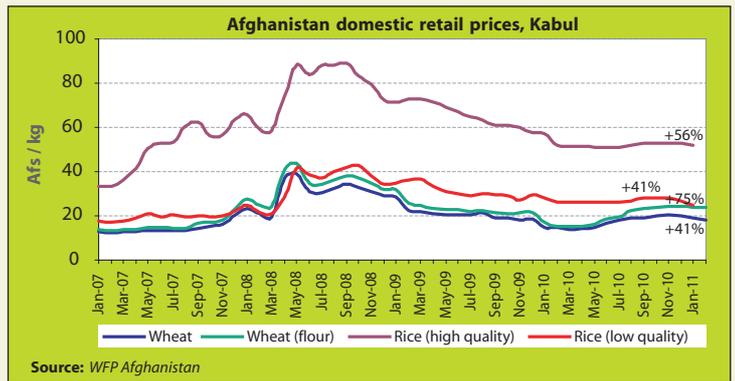
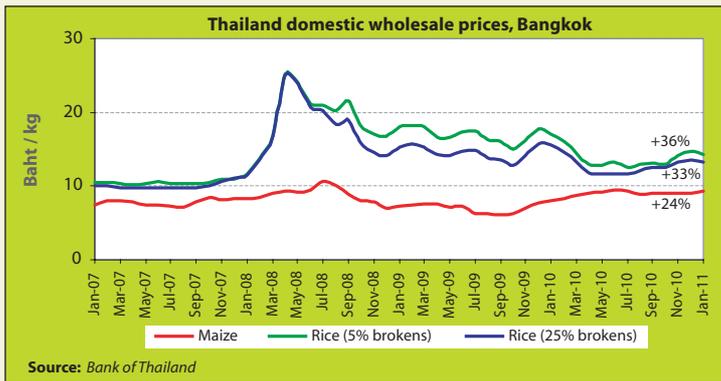


Figure 3: Trends in domestic prices for key commodities in selected countries



Indonesia, the most populous nation in Southeast Asia, saw a 6.8 percent rise in its consumer price index with food prices surging by 14.8 percent. Nearby, the newly-independent nation of Timor-Leste suffered the second-highest recorded food price inflation rate at 17.2 percent, with total inflation at just over 13 percent.

China, the world's most populous nation, had a 4.9 percent increase in overall inflation, but a 10.3 percent rise in food prices. While 4.9 percent may seem modest in comparison to other countries, price rises were an issue raised repeatedly by Chinese citizens during an online question and answer session with Premier Wen Jiabao in February.

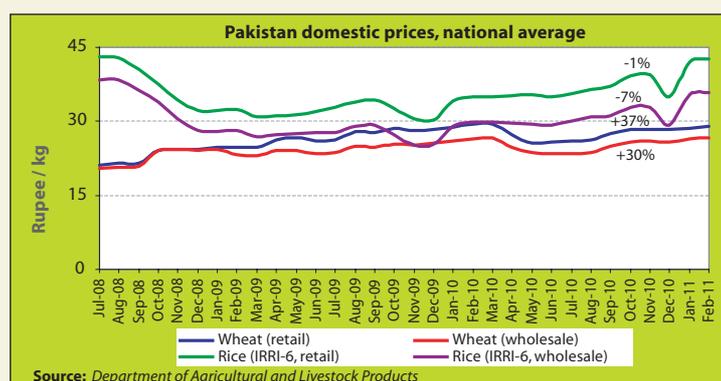
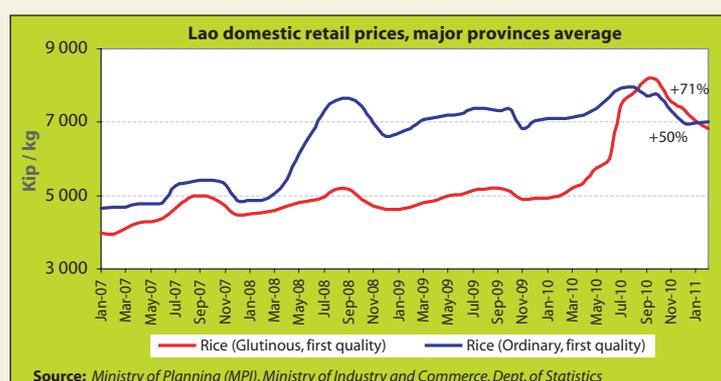
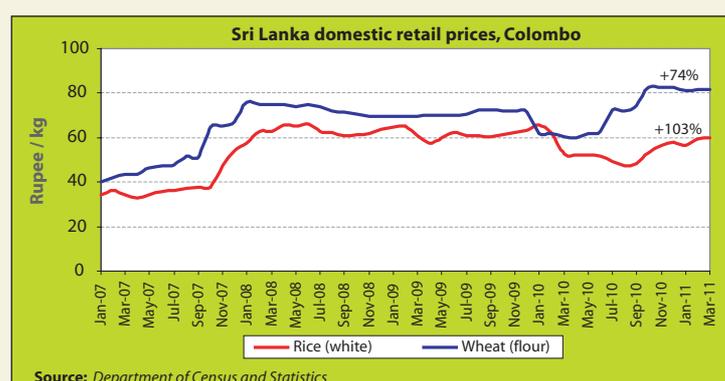
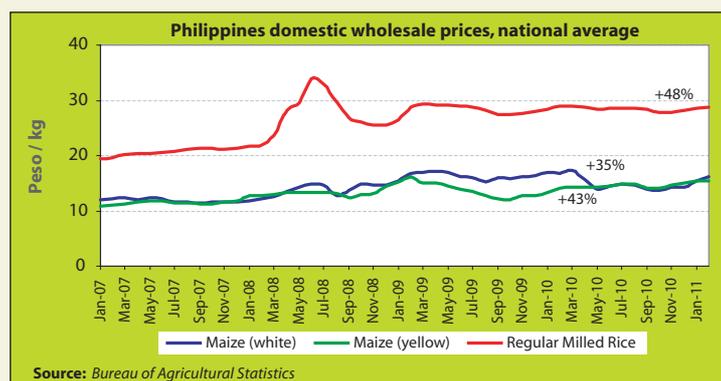
Meanwhile, UNICEF said in February that the agency's research showed that food prices had climbed 100 percent in the Pacific during the past three years. The finding was made during research conducted on vulnerabilities faced by women and children in Pacific Island Nations. A UNICEF official said the issue of food prices in particular stood out, especially in light of the warnings they had been receiving from organizations such as FAO. Nonetheless, the agency could not cite a definitive cause for the steady and insistent inflation that is affecting dozens of island nations, because the research wasn't designed for that purpose.

Cereals driving record prices

The record 236-point FAO Food Price Index for the end of February 2011 was the result of yet higher global prices for cereals, meat and dairy products. Corn and wheat led the global surge. Corn rose by 9 percent in February and 77 percent year on year, while wheat rose by 7 percent and 75 percent respectively.

Although the FAO Initiative on Soaring Food Prices (ISFP) Policy Committee is predicting a positive outlook for the 2011 global wheat crop, drought in China, floods in Pakistan and a possible continuation of a wheat export ban by Russia make the outlook uncertain and further price rises a possibility.

Figure 3: Trends in domestic prices for key commodities in selected countries (continued)



Thai rice prices fall, Viet Nam rises

The price of rice – the staple food across much of the region – remained relatively stable, and even fell in some countries. The benchmark Thai White 100 percent B Second Grade slid 6.8 percent to US\$548 a tonne year on year for the months of January and February, as the Thai government released four million tonnes of its stock on to the market. That's good news for Thai consumers, but declining prices had rice farmers protesting in Bangkok and Ayutthaya. The government responded by agreeing to modest increases in its price support programme.

Sporadic protests also took place in Viet Nam during February. The Government of Viet Nam has made reducing last year's 11.75 percent inflation a priority, but food and fuel price increases saw inflation rise to 12 percent in January. Viet Nam is the world's second-largest exporter of rice, and its price per tonne rose by 6.3 percent to US\$477 year on year for the months of January and February. The weakening Vietnamese currency, however, created downward pressure on rice prices in February.

Indonesia is weathering record rice prices that have ballooned by 23 percent over the previous year, prompting the government to waive import duties on the grain until the March harvest. Import duties on wheat and soybeans, however, were waived for the entire year.

Bangladesh has doubled its rice import target for 2011 in a bid to ease record domestic prices, while rice prices in India remained steady at already high levels.

Wheat outlook positive but uncertain

The prospects for the 2011 wheat crop in **South** and **East Asia** were mostly positive, according to an analysis released on 2 March by FAO's Initiative on Soaring Food Prices (ISFP) Policy Committee. The committee's brief said it expected **China** and **India** to see strong harvests starting this April producing bumper crops similar to those of 2009.

A rich wheat harvest in **China**, however, is far from assured, as the northern provinces that make up the country's prime wheat-growing region have been hit by a severe winter drought, with some areas suffering the worst drought in 60 years. More than five million hectares of cropland have been damaged, according to some news agencies. The economic impact has been mitigated by the country's large stocks of both wheat and rice. China is the world's largest producer of wheat, but also the world's largest consumer of the grain. The drought has also affected an estimated 2.57 million people and 2.79 million livestock who are suffering from a lack of drinking water.

The FAO Crops and Prospects update is more bullish on **India's** wheat harvest this year, despite unseasonal rains that damaged harvests last October and November. Wheat prices have been rising, however, mostly as a result of sharply rising overall inflation. Food inflation has been particularly high, driven by price rises in vegetables.

Pakistan's wheat outlook is looking up, as the government said it expects a bumper crop of 23.5 million tonnes for 2011. The country resumed wheat exports in December, and exports have reached one million tonnes since the beginning of January. Output was helped by agricultural assistance from the UN Office for the Coordination of Humanitarian Affairs, which distributed wheat seed packages to over 900 000 flood-affected families for planting during the winter season. Wheat harvested as a result of this assistance is expected to exceed 570 000 tonnes. Despite the flooding, prices for wheat and wheat flour in Pakistan have remained stable since last year.

Global wheat prices may also be affected by the possibility that **Russia** will extend its ban on wheat exports beyond July 1, the date the government initially said the ban will end. While a formal decision has not been reached, news agencies reported that government officials had said extending the ban had been discussed as an option. Russia banned wheat exports in response to drought last year.

The news, which broke on February 22, had little effect on wheat futures trading. Wheat fetched US\$9.16 a bushel on the Chicago Board of Trade on February 14, its highest level since August 2008, and a 76 percent increase over the same period in 2010. The surge was attributed to the export ban already in place by Russia, floods damaging crops in Australia and Canada and dry weather in the United States. But the surge could not be sustained, and prices fell between 10 and 15 percent by month's end as speculators sold off contracts.

Rice prices decline as Myanmar bans export

Across Asia, the price of rice declined slightly during February, but was still at high levels. Regarding exports, **Myanmar** introduced an export ban on rice after local prices increased. Reports from Yangon suggest rice rose by at least 10 percent during January, but may have eased somewhat during February. With fuel prices continuing to climb, food prices are also expected to increase, and analysts believe the government ban on rice exports is intended to ensure a stable local supply and prices.

The halt on exports should not have any significant impact on world markets, as Myanmar is not one of the larger rice exporters. The country exported roughly 800 000 tonnes of rice in both 2009 and 2010, a small fraction of the 20.5 million tonnes harvested, according to FAO estimates. Roughly 19.2 million tonnes were used domestically, suggesting that the country had been exporting more than half of its rice surplus. In addition, the present rice export ban is a seasonal measure which the country has instituted since a long time at this time of the year.

In **Cambodia**, rice prices fell at both the wholesale and retail levels. Wholesale rice prices dropped by 6.8 percent in January from the previous month, and 7.3 percent year on year. A seasonal decline is typical in Cambodia following the November harvests. The retail price of rice moved roughly in line with wholesale prices.

The price declines are even greater when taking into account January's 3.3 percent year-on-year consumer price index increase. Purchasing power for unskilled labourers increased, meanwhile, as the average daily wage for such workers rose 4.3 percent in January from December.

Despite damage from widespread flooding late last year, the price of **Thailand's** benchmark White 100 percent B Second Grade also fell 6.8 percent year on year for the first two months of the year, as the government released four million of its five million tonne stockpiles onto the market and announced plans to reduce its remaining one million tonnes to just 100 000 tonnes. Nonetheless, the benchmark price rose slightly in February from US\$542 to US\$554 a tonne.

Sri Lanka is facing a potential food security crisis as rains and flooding from the northeastern monsoon continued throughout February, threatening as much as 90 percent of the country's rice crop. January's flooding had already destroyed about 21 percent of the crop. More than a quarter of a million people have been displaced by the floods.

The world's biggest importer of rice, **The Philippines**, announced plans to cut rice imports to below one million tonnes this year. In 2010, the country imported a record 2.45 million tonnes of the grain. But this year, the government has set a target of 17.4 million tonnes for domestic production, which would be a record. The Philippines is bidding to become self-sufficient in rice by 2013.

The onion crisis in **India** may be coming to an end as prices of the vegetable dropped by 60 percent in February as new supplies hit the market. Onion prices hit a record high of 50 rupees a kilogram in January. The government had implemented an export ban and removed import tariffs on onions to help ensure better domestic supply, but removed the ban in mid-February.

Palm oil scarce in Thailand

Thailand is one of the world's largest producers of palm oil, but palm oil was scarce on most supermarket shelves during February amid charges producers were hoarding supplies. A police investigation turned up no evidence to support the allegations. The government has capped prices on a number of consumer goods to shield the public from the effects of the global economic crisis, and palm oil was among the items that had prices controlled. Once the government allowed the price of a litre of palm oil to increase from US\$1.26 to US\$1.56, supplies reappeared.

Neighbouring **Cambodia** has also seen the price of vegetable oil rise, up by 10 percent in January over December, and 28.7 percent year on year.

South Korea launches food security task force, wants warning system

Stung by soaring grain prices, South Korea has formed a government task force on food security and announced it will build a system that can give early warnings when grain prices are about to spike.

President Lee Myung-bak told reporters that climate change is increasing the likelihood that the world will suffer a food crisis, and he urged the private sector to work with the government's task force to develop a strategy on agriculture and fisheries in anticipation of difficult times ahead. He said the task force should study ways to ensure a sustainable supply of food. The task force includes the Ministry of Strategy and Finance, Ministry of Food, Agriculture, Forestry and Fisheries and other government departments concerned with the issue.

The government, meanwhile, unveiled plans to invest US\$1.8 million for a monitoring and surveillance system for world grain supplies and prices so that early warnings can be given when prices are expected to surge and measures can be taken to mitigate their impact on South Korea's economy. In a related project, Korea will also work with the US Department of Agriculture and research institutions to develop a variability model for grain prices. The model and monitoring is hoped to be up and running by April next year.

Epidemic hits North Korean livestock

This month, North Korea confirmed that thousands of livestock have died from an outbreak of foot-and-mouth disease. In response, a team of animal health specialists from FAO and the World Organisation for Animal Health (OIE) arrived in North Korea on 28 February to assist veterinary authorities there in responding to outbreaks of the disease among pigs and cattle. This collaborative effort with DPRK animal health authorities aims to cope with the present outbreaks, and prevent future recurrences of FMD.

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