Coping with rising food prices in Asia and the Pacific

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Main messages

- Food prices are at record high levels globally, including in East and North-East Asia (ENEA), driven by the pandemic and the war in Ukraine.

- Food insecurity is generally modest in ENEA economies, except in DPRK and Mongolia, although several of them rely on imported food items.

- Bold fiscal and trade policy measures are needed to combat food inflation, but tighter monetary policy may also be needed in some instances.

- Commodity prices, including of food items, are likely to remain volatile in the near future, complicating policy efforts to maintain price stability.
Recent food price trends
Global and domestic factors responsible for higher food prices

<table>
<thead>
<tr>
<th>COVID-19 pandemic</th>
<th>War in Ukraine</th>
<th>Economic factors</th>
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<tbody>
<tr>
<td>• Production losses due to lockdowns and labour shortages</td>
<td>• Russian Federation and Ukraine are major exporters of wheat, sunflower oil and fertilizer</td>
<td>• Exchange rate depreciation due to worsening terms-of-trade amid policy interest rate hikes in developed economies</td>
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<td>• Trade and transport disruptions amid border closures</td>
<td>• International sanctions and related financial, trade and transport disruptions</td>
<td>• General pick-up in aggregate demand as economies gradually returned to normalcy after the pandemic</td>
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</tbody>
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Global food prices have been on the rise since mid-2020...

Source: FAO.
... and are likely to remain elevated in 2023

Energy and fertilizer price indices

Food price index and its components

Source: World Bank’s projections as of April 2022.
ENEA economies are also experiencing higher food prices

Changes in consumer price index of food and non-alcoholic beverages (year-on-year)

Source: ESCAP, based on CEIC database.
To what extent ENEA economies are exposed to rising food prices?
Understanding the difference between exposure and vulnerability

High **vulnerability** to shocks = High **exposure** to shocks + Weak **capacity** to respond to shocks

- (excessive) reliance on imported food
- Existing food insecurity concerns
- Limited fiscal space and foreign exchange reserves
- Weak governance and institutional quality
A more exposed country relies on imported food, while already facing food insecurity

Meeting at least two criteria on reliance on imported food and at least one criteria on food insecurity

<table>
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<th>Reliance on imported food</th>
<th>Food insecurity</th>
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<tbody>
<tr>
<td>• Net imports / domestic supply of <strong>cereals</strong> &gt; 50%</td>
<td>• Prevalence of moderate or severe food insecurity &gt; 30% of population</td>
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<tr>
<td>• Net imports / domestic supply of <strong>meat or fish</strong> &gt; 50%</td>
<td>• Prevalence of undernourishment &gt; 10% of population</td>
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<tr>
<td>• Net imports / domestic supply of <strong>vegetables or fruits</strong> &gt; 50%</td>
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**Note:** Prevalence of moderate or severe food insecurity > 30% of population
Reliance on imported food among ENEA economies

**Share of net imports in domestic supply**

- **Cereals, excluding beer**
- **Meat**
- **Fish and seafood**
- **Vegetables**

Source: ESCAP, based on FAO database.
Yet, food insecurity is not prevalent in East and North-East Asia except in DPRK and Mongolia.

Source: ESCAP, based on World Bank’s World Development Indicators database.
Combating food inflation: selected policy options and issues
Available policy options to address surging food prices

**Administrative / fiscal measures**
- Implementing price controls
- Cutting consumption tax and import tariff on food items
- Increasing food price subsidies

**Increasing domestic food availability**
- Leveraging national food reserves and regional food aid
- Relaxing import quotas and non-tariff barriers
- Introducing export restrictions

**Broader policies**
- Raising policy interest rate
- Enhancing agricultural productivity
- Diversifying sources of food imports
- Reducing food waste
Policy issues: implementing price controls and export bans

- Asia-Pacific countries have recently restricted food exports, such as wheat by India, palm oil by Indonesia, chicken by Malaysia, and sunflower oil by Turkey.

- While this may help reduce domestic food inflation, there are several downsides:
  
  - **Price controls** discourage business investment to boost future food production capacity, as retail prices are not allowed to fully reflect higher input costs.
  
  - **Export bans** hurt local farmers and traders who would have benefited from higher global prices.
  
  - **Export bans** encourage restrictions by other major exporters, thus further reducing global food availability and disproportionately hurting poorer countries.
  
  - More broadly, introduction of non-market-based measures raises policy uncertainty and dampens business sentiments.
Policy issues: Cutting tax and tariff on food items and increasing food price subsidies

- Among others, **Bangladesh** cut value-added taxes (VAT) on vegetable oils, **India** waived import tariffs on soybean and sunflower oils, and **Turkey** reduced VAT on dairy products, fruits and vegetables.

- Policymakers should be mindful of several **implementation issues**
  - How to ensure that these measures disproportionally benefit poor and vulnerable households.
  - When and how to smoothly phase out these fiscal benefits.
  - Whether direct fiscal measures, such as cash transfers and food coupons, are more effective.
  - Design the scale of the programmes according to available fiscal space, keeping in view of rising public debt distress.
Policy issues: raising policy interest rates

- Policy interest rate hikes are considered less effective during supply-driven inflationary pressure (e.g. production and trade disruptions) than demand-led inflation.

- Adverse distributional impacts: higher borrowing costs further hamper poorer households who are typically net borrowers.

- Yet, policy rate hikes could be helpful if:
  - Higher food prices trigger sharp and broad-based wage rises, thus boosting domestic demand.
  - Higher food prices push up prices of other goods and services, thus fueling inflationary pressure.
  - Timely monetary policy actions signals serious commitment to combat inflation, thus managing inflation expectations.

- Given uncertainty of the war in Ukraine, timing policy rate hikes is challenging given lagging effect of monetary tightening (limited interest rate pass-through).
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