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**Business**

## **Managing food security to sustain political transition**

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*[This article summarises in two instalments a paper available at [www.ergonline.org](http://www.ergonline.org). The first part looks into the plausible reasons of price increase observed. The second part will address the future and immediate actions to face it so that the goals of political transition remain shared.]*

### **PART I**

One may debate on whether Bangladesh's politics is in transition but all would agree that there has been a major departure from past trend in the politics since January 2007. One may only speculate whether some of the current actions against the 'untouchables' in the upper echelon in the society are 'eye-wash' actions or genuine.

However, the commoners cannot recall even such 'eye-wash' actions in the past. And that's where the hopes are rooted, the basis of all our patience, which may however erode if the politics is not right. Since bad economics often lead to bad politics with subsequent adverse effects on the economy, this paper highlights some recent economic issues of concern, attempts to provide explanations of these, and proposes few suggestions to make the costs of transition bearable.

The central issue of concern is the unanticipated increase in food prices -- a threat to human livelihood in a country where more than 40 percent of the people have already been living in poverty. Increased vulnerability in food security is a threat to a smooth transition to political stability as well. Current estimates show that the rice price had risen by more than 35 percent over a period of the last five months, which corresponds with the trend in the international rice prices. One may identify several reasons for the price increase:

- Increase in domestic fuel prices (effective since 2nd April 2007);
- Increase in rice price in the international market;
- Disruptions in the market, as a result of the political

transition, leading to inadequate engagements by the marketing agents, which subsequently led to supply shortfalls; and

- Presence of syndicate/cartel, which is currently getting quite a bit of attention of the media.

Let us discuss these in order

A recent ERG (Economic Research Group ) paper concluded that the increase in domestic fuel prices would lead to 10 percent or more inflation. The paper noted that the upward adjustment in prices was long over-due; and this had nothing to do with the political changes. It is no more a speculation that the relative prices of energy resources vis-à-vis other commodities have increased worldwide by great margins and will remain at these high levels; and we have to come to terms with it. Most other countries in the world have gone ahead with this adjustment, and the sooner we do the better.

On the trends in international food market, a recent FAO brief on "Crop Prospect and Food Situation" (No. 3, May 2007) notes that "The tightening of the global cereal balance in 2006/07 has pushed up prices of all cereals"; and rice prices continue their upward trend since the start of 2007. Moreover, the rice stock with major exporters worldwide is already on decline, and it is projected to decline further

in the coming year (2007-08); traded volume in the international market is projected to decline by 1.2 percent. While 7 low-income food-deficit countries (LIFDC) are listed to be deserving candidates for external assistance on account of increased import bills, Bangladesh is left out of the list!

Bangladesh's rice market currently operates in an import parity price regime, that is, the cost of making imported rice available in the domestic market dictates the rice price in the domestic market. The earlier benefits from excess food reserve in India are no more available to us. A comparative analysis of importers' responses suggests that the opportunity of buying rice early when the prices were relatively low and buying rice on time this year (January 2007) was partially lost; and the period coincides with political uncertainty.

It is also alleged that the natural functioning of the fertilizer market during the Boro season was partly disrupted due to 'excessive' control on mobility of fertilizer. The presumption was that spatial allocations (from factories) were made with perfect information that matched with regional demands for fertilizer. On the contrary, the reality may have been a biased allotment or misallocations (often associated with 'rent'), and the markets corrected these deviations through inter-market (district) transfers by private traders. Thus,

extra vigilance to check those movements may have adversely affected market functioning and optimal allocation of inputs.

There is a third dimension to market disruption -- when some of the actors in the market are on the run, the regular commodity flows would be disrupted.

The three factors considered unintended fallouts of long-desired political transition, are deemed to have adversely affected aggregate supply, contributing towards increasing the prices. However, their aggregate contribution is only a marginal add-on to price increases due to increase in fuel prices and in the prices of food grain in the international market.

Within the broad perspective laid out above, there is little room for 'syndicates and cartels' to provide satisfactory explanation of additional price increase. On the contrary, putting such factors on the central stage may misguide politics, further aggravating the problems of transition. Let me briefly note the basics to argue for the position.

- Was the cartel absent before and did it surface over the recent past to cause price increase? There is no a priori reason to believe that cartels would be absent during regimes of uncontrolled corruption and would surface

when vigorous drives were pursued against corruption.

- Could it be possible that there were cartels before and they consolidated to nullify all reform attempts? Earlier studies on rice market in Bangladesh had established that the market was competitive and spatially well integrated. As for wheat, experiences during the post-trade liberalisation period in the 1990's revealed that the individual flour mills preferred to rally behind big importers to ensure procurement of wheat from external sources. Bulk import reduces unit costs, which applies to most food imports by sea. In case, price setting behavior of few importers changed -- one may only trace it to a reduction in the number of players, and that too may be attributed to the market disruptions during political transition alluded to earlier.
- Finally, one does not require the presence of cartels in explaining why there is price difference between urban wholesale market and the retail market. One may rather take solace from the fact that the margins the consumers pay go to support the livelihood of many poor rickshawpullers and retail

traders!

Imagine a situation where cartel is not the reason for price increase and oligopoly (finite number of suppliers) exists naturally because of certain compulsions in the market. What happens if the government acts on the presumption that cartels are the cause of price increase? Hopefully, poor economics will not lead to bad politics!

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