

## **Abstract**

Rising food prices played an important role in the acceleration of inflation across Asia and the Pacific region during 2007 and the early months of 2008. Not only is food price inflation the most regressive of all taxes, it also leads to lower growth and accentuation of income inequality. Although the index of domestic food prices in Asia has exhibited an upward trend, it is not as pronounced as that of the global index. Yet the looming food crisis has the potential of slowing down the momentum of growth and poverty reduction in this region in the short and medium run. The surge in prices of foodgrains cannot be satisfactorily explained in terms of the fundamentals of supply and demand alone. Analysis suggests that a large part of the surge is attributable to speculation. Further, many countries resorted to protective measures without realising that such measures would force more drastic adjustments and higher prices in global markets. While global foodgrain supply shrank through export restrictions and prices rose faster, food importers escalated demand by bidding aggressively for larger imports to dampen domestic inflation. A vicious circle of spiralling food prices was thus sustained by policies designed to protect domestic consumers, but likely to deepen the food crisis. Even if this bout of food price inflation persists for some time, it would be pessimistic to conclude that the *threat* to the poor and vulnerable sections is inevitable. Much will depend on what the government and development agencies do – especially to strengthen support to smallholders. Given market imperfections, it is imperative that the benefits of more remunerative producer prices accrue in equal measure to smallholders. Expansion of marketable surplus may thus dampen foodgrain price inflation, as well as help to reduce rural poverty.

**Keywords:** Foodgrains, Prices, Poverty, Speculation, Smallholders, Marketable surplus

## **Acknowledgements**

This study was prepared under the overall guidance and support of Thomas Elhaut, Director, Asia and the Pacific Division, IFAD. We are grateful to him for his support and constructive suggestions. We have also benefited from the comments and suggestions at a regional conference organised by IFAD and SEARCA in Manila, July, 2008. Discussions with Raghendra Jha also helped clarify a number of important analytical issues. Valentina Camaleonte and Sundeep Vaid provided valuable research assistance. The views represented here are our personal views and not necessarily of the institutions with which we are affiliated.

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