

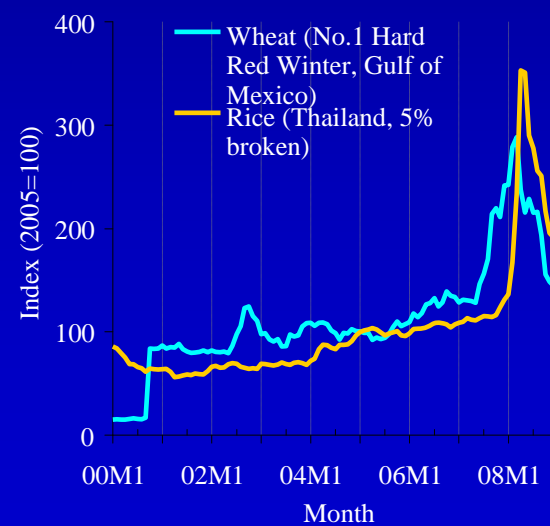
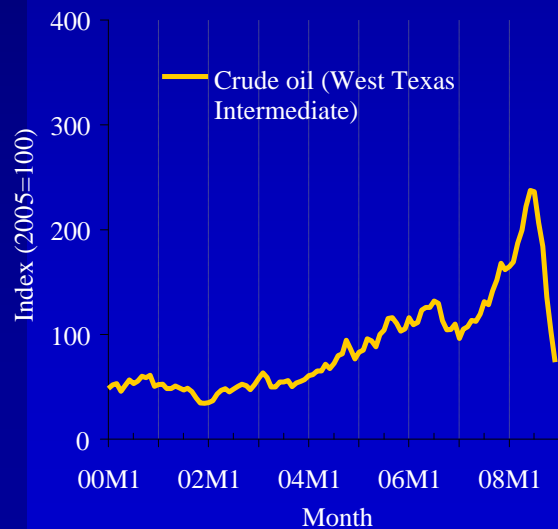
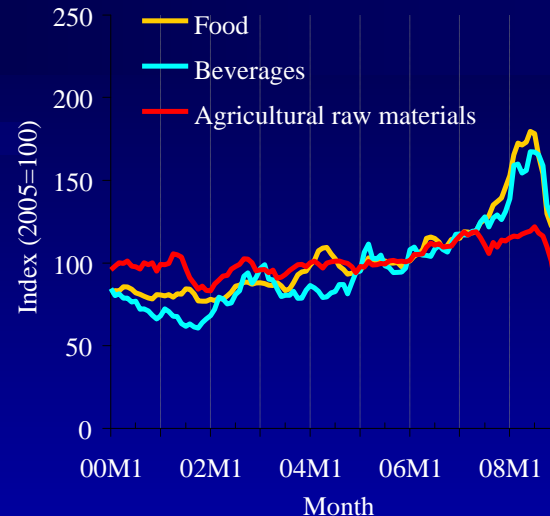
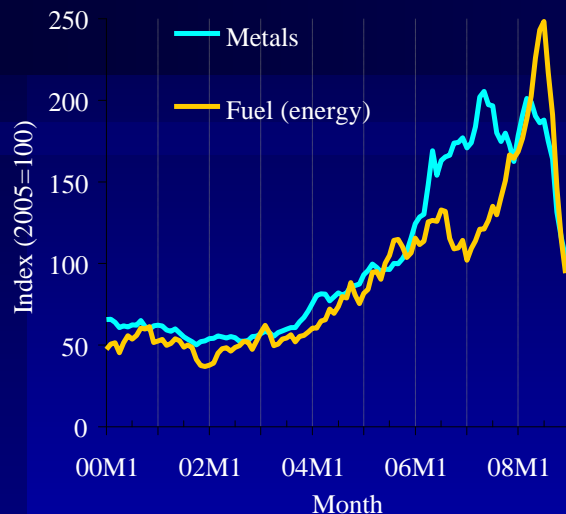
# Responding to High Prices

Craig Sugden  
Asian Development Bank

2 April 2009

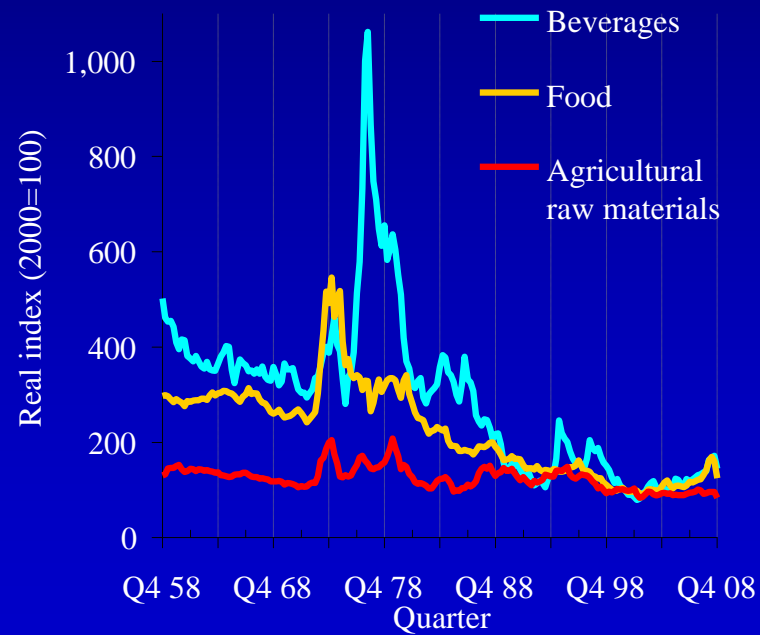
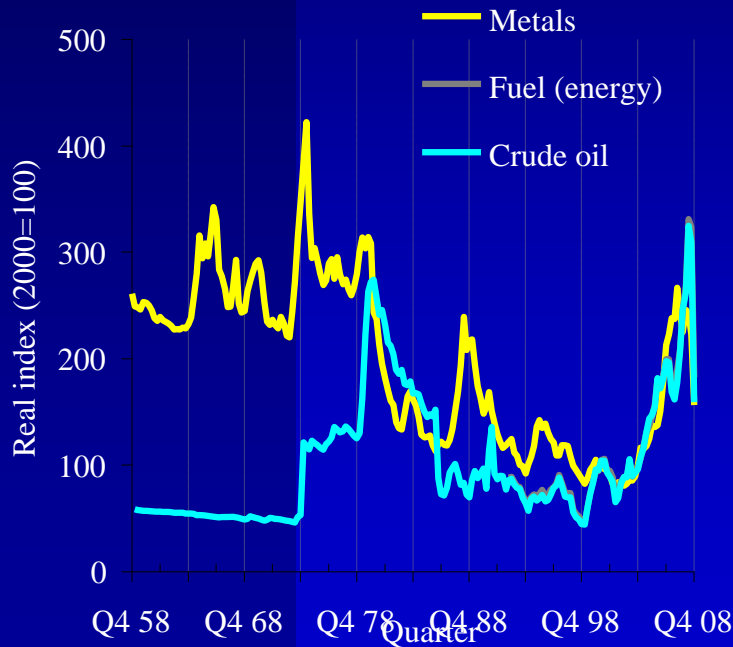
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# Commodity price boom



# Causes of the price boom

- Structural break in demand and supply



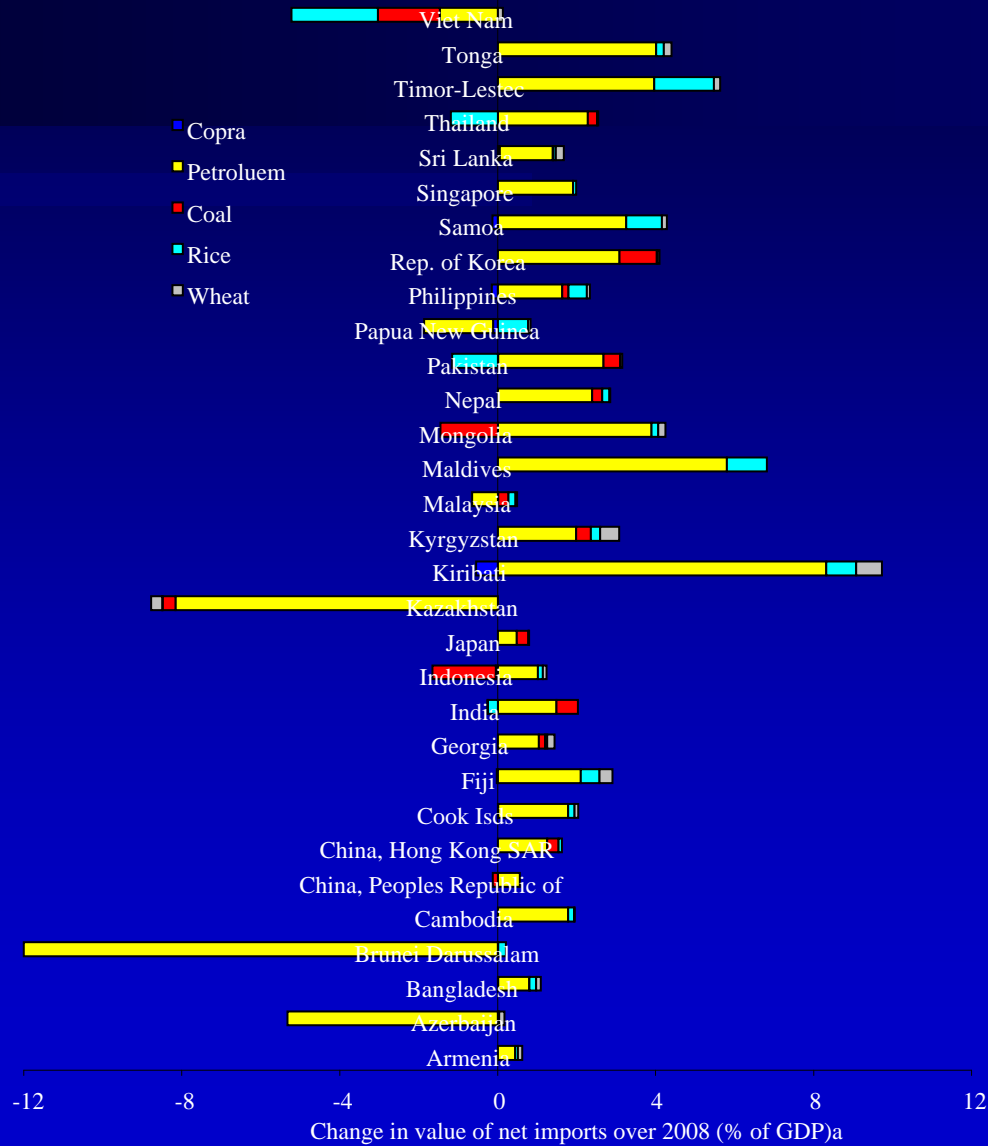
# Other causes

- ❑ A higher cost of oil
- ❑ Support for bio-fuels
- ❑ The weaker US\$
- ❑ Speculation?
- ❑ Trade restrictions and other supply shocks

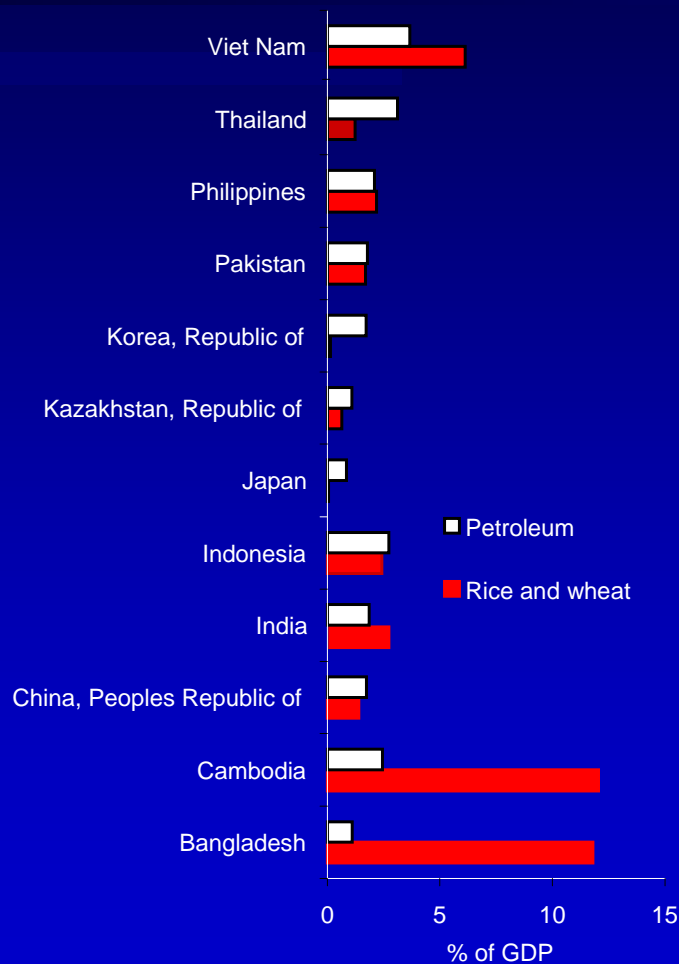
# Low pass through in Asia

| Country      | Rate of pass through (%) |     |  |
|--------------|--------------------------|-----|--|
|              | From Q4/03 to Q4/07      |     | From 'early' 07 to 'early' 08 (Timmer) |
|              | Dawe                     | FAO |  |
| Bangladesh   | 44                       | 43  | 32                                     |
| PRC          | 88                       | 64  | 4                                      |
| India        | 20                       | 9   | 8                                      |
| Indonesia    | 64                       | 41  | -3                                     |
| Philippines  | 30                       | 6   | 44                                     |
| Thailand     | 100                      | 53  | 78                                     |
| Viet Nam     | 12                       | 11  | 54                                     |
| Weighted av. | 57                       | 39  | 13                                     |

# Terms of trade impact



# Additional costs of domestic use



# Distributional impacts

- ❑ Transfers from resource-poor to resource-rich countries
- ❑ Transfers domestically from net buyers to net sellers
- ❑ Fiscal impacts
- ❑ An increase in poverty



# Poverty impact

ADB -

“[O]nce supply responses are allowed, .....[higher] international food prices will lead to both winners and losers in economies, with the winners being concentrated among farmers with marketed surpluses in food crops.

Among the losers are urban and nonfood crop-producing rural areas, where both the incidence and severity of poverty increase.”

# Policy priorities

## Global

- ❑ Lessen distortions favouring bio-fuels
- ❑ More cautious macroeconomic expansion
- ❑ Curb speculation (?)
- ❑ Fund inter-country transfers

# Policy priorities

## Regional

- ❑ Address trade restrictions on rice and other foods
- ❑ Adopt a pragmatic approach

# Policy priorities

## National

- ❑ Raise rural productivity
  - correct the neglect of the rural economy
- ❑ Expand and make social safety nets more 'market friendly'

**Thank you**

**ADB**