

ISAS Insights

No. 426 – 28 June 2017

Institute of South Asian Studies
National University of Singapore
29 Heng Mui Keng Terrace
#08-06 (Block B)
Singapore 119620
Tel: (65) 6516 4239 Fax: (65) 6776 7505
www.isas.nus.edu.sg
<http://southasiandiaspora.org>



Political Economy of Food: A Case for India-Bangladesh Cooperation

The food security of low-income groups of people in Bangladesh has been affected by a spate of natural disasters in 2017. At the same time, neighbouring India has had a bumper production of food grains and a consequential plunge in prices and distress among farmers. The two countries, which have been unable to agree on the sharing of the waters of the cross-border Teesta River, could perhaps now explore rice diplomacy as a confidence-building measure, with India giving Bangladesh food grains as a mixture of humanitarian aid and export at price that the latter can afford.

Habibul Haque Khondker¹

Bangladesh, a delta nation with more than 160 million people, has suffered from a series of natural disasters in 2017, which have undermined the food security of the low-income classes of Bangladesh, especially those who are dependent on marketed food. In 2016, Bangladesh, the fourth largest producer of rice in the world, was also shy of building its targeted stock by purchasing rice from the farmers. The governments in South Asia build food reserves to cushion the fluctuations in the availability of rice. Over the years, successive Bangladesh governments have intervened in the market to help stabilise the prices of food grains. The

¹ Professor Habibul Haque Khondker, Professor at the Department of Humanities and Social Sciences at Zayed University, Abu Dhabi, United Arab Emirates, is an Academic Visitor at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore. He can be contacted at Habibul.Khondker@zu.ac.ae. The author bears full responsibility for the facts cited and opinions expressed in this paper.

government routinely procures food grains from the farmers by setting a floor price that covers the cost of production and also a margin of profit. The food reserve is crucial to meet the challenges of shortfalls caused by disasters of all kinds.

According to the Bangladesh Food Ministry, the government's grain reserve in 2017 is almost one-half of what it was in April 2016. As on 3 April 2017, the government's rice reserve was 496,000 tons while in April 2016, it was 883,000 tons. This shortage is the result of a failure to meet procurement targets for both *boro* and *aman* varieties of paddy last year. The government had procured 585,000 tons of *boro* rice against a target of one million tons, and 440,000 tons of *aman* against a target of 600,000 tons.²

The government also introduced, in late 2016, a vulnerable-group feeding programme to strengthen the social safety net, offering rice at Taka 10 (S\$0.17) per one kilogramme to five million very poor people in the country – it is a programme with noble intentions behind it but the government reduced supplies to the reserve stock of rice.

In addition, rice prices soared in April 2017, following crop losses due to excessive rainfall, which induced flash floods, fungi attacks on standing crops and depletion of stocks. Fungi attacks in *boro* fields were detected in as many as 19 districts this year – this provided the backdrop to the rise in the price of rice from early April 2017.

Rice price hikes have always been a highly sensitive factor in the politics of Bangladesh, especially since the famine of 1974 when the detractors placed the responsibility on the government for its suspected mismanagement and corruption. The political cost of high cereal prices has been historically heavy as it erodes the legitimacy of the government. Especially, the price of coarse rice, the staple food for the poor and low-income groups, is highly sensitive, with the price going up by 13 per cent to Taka 42-Taka 45 (S\$0.71-S\$0.76) per one kilogramme in April 2017 in Dhaka, from the price in March 2017 at Taka 37-Taka 40 (S\$0.62-S\$0.68) per one kilogramme. According to the data from the Trading Corporation of Bangladesh, a government body, the price of coarse rice rose by 32 per cent from the level in the previous year.³

² Reaz Ahmed and Rejaul Karim Byron (2017) "No Sign of Stability in Rice Market: Private sector import hits 4-year low as 28pc import duty discourages importers amid rising price in global market" *Daily Star*, 20 June 2017.

³ Parvez, Sohel (2017) "Fresh Spike in Rice Price", *The Daily Star* (Dhaka), 30 April 2017.

Floods in the *haor* areas – back swamps – wiped out 450,000 tons of cereal, according to government estimates. Bangladesh produces around 34 million tons of rice a year, a dramatic improvement from the mid-1970s when it could barely produce 15 million tons a year. Since 2011, Bangladesh has not officially imported any food.⁴ Ensuring food availability has been one of the successes of the governments; this has contributed to the reduction of the poverty level and the growth rates of more than six per cent in the overall economy for the past quarter century. These tangible developments, notwithstanding, the rice crisis triggered by flash floods, cyclones and excessive rainfalls in certain parts of the country, have had a ripple effect on the prices, encompassing the entire country.

Bangladesh acted quickly (and, perhaps, somewhat unthinkingly) and began to shop for food in the international market – it did not directly look to neighbouring India. Not that India was completely ignored; it was listed alongside other Asian countries as possible source-countries. However, springing into a quick-response mode, the government has decided on the first rice imports, to be spread over six years, ordering 600,000 tons of cereal import. Initially, under a government-to-government purchase scheme, rice has been procured from Vietnam.

In May 2017, Bangladesh struck two deals to import 50,000 tons of parboiled rice at US\$427.85 (S\$594.71) per ton and another 50,000 tons of white rice at US\$406.48 (S\$565) per ton. Two weeks later, it signed a deal with Vietnam for importing a quarter of a million ton of rice (50,000 tons of parboiled and 200,000 tons of white rice) at a higher price. It agreed to pay US\$470 (S\$653.30) per ton for parboiled rice and US\$430 (S\$597.70) a ton for white rice.⁵

The Food Ministry sources said that, apart from Bangladesh, at least six other countries, namely, the Philippines, Sri Lanka, Malaysia, Indonesia, Cuba and China, sought to import rice from Vietnam in recent weeks, resulting in a hike in demand and the price. While the rise in the international market price of rice was one problem, the unintended consequence of the domestic policy also did not help.

⁴ Ruma Paul (2017) “Bangladesh to Speed up Rice Imports in Wake of Flooding” <http://www.cnn.com/2017/05/25/reuters-america-update-1-bangladesh-to-speed-up-rice-imports-in-wake-of-flooding.html>

⁵ Reaz Ahmed and Rejaul Karim Byron (2017) “No Sign of Stability in Rice Market: Private sector import hits 4-year low as 28pc import duty discourages importers amid rising price in global market” *Daily Star*, 20 June 2017.

In a bid to protect the interests of the local producers, Bangladesh imposed a 28 per cent import duty on food imports in the 2015-16 fiscal year. The compounded crisis of high prices and low accessibility to food forced the government to eat the humble pie and move towards buying food from the international market to make up for the shortfall. Such flexibility was crucial, and the role of the Commerce Ministry under Tofail Ahmed, one of the old guard politicians, needs to be recognised. To its credit, the government did not adopt an ostrich-like policy.

The government-to-government import is a good idea to send a signal that the government is serious and ready to do whatever needs to be done to overcome the crisis. However, a durable solution lies in lowering the import duty to incentivise the private sector to import food. Common sense dawned on the government without further delay, and it lowered the import duty from 28 per cent to 10 per cent. The private sector is expected to respond by importing food, which will help relieve the crisis.

While nature has been fickle and unkind to Bangladesh, it has been generous and bountiful to its large neighbour, India, where copious monsoon rains resulted in the bumper production of various food crops. After copious rainfall during the monsoon in 2016, rice output increased by 4.5 per cent to a record 109.15 million tons while wheat production grew by 5.6 per cent to an all-time high of 97.44 million tons. Coarse grains production rose 15.2 per cent to the highest-ever level of 44.39 million tons. Various policy initiatives taken by the Indian government had also contributed to such a record food grain production in 2017, according to the Agriculture Ministry. Oilseeds output rose by 28.8 per cent to 32.52 million tons, which is higher than the average production in the last five years.⁶

Ironically, this bumper production, rather than being a boon, is proving to be a bane for India, as its farmers are currently faced with an enviable problem of plenty. The bumper crop has led to plunging prices, pushing the farmers into despair. The state governments compounded the crisis that led to violence. Onion growers in the Indian state of Madhya Pradesh have been on the streets for days demanding better prices for their produce but the administration failed to respond in time. It finally woke up after the protests turned violent, leaving at least five farmers dead.⁷

⁶ Ray, Raj Kumar (2017) "India Food grain output up 8.7% at a record 273.38 MT in 2016-17" *Hindustan Times*, 14 June 2017.

⁷ Chauhan, Chetan (2017) "Bumper Crop Production Proving to be a Bane for Indian Farmers," *Hindustan Times*, 9 June 2017.

When the water run-off from the hills in India led to the flooding of swamp lands in the northeast, some Bangladeshi civil society activists, for example, the Bangladesh Environmental Lawyers' Association (BELA) protested, asking why India did not send early warnings to and share information with Bangladesh about the floods. Given their warm political relations, the Bangladesh and Indian governments should exchange information on potential floods, Syeda Rizwana Hassan, Chief Executive of BELA, said at a protest event.⁸

Now, India could indeed send food aid to Bangladesh, not so much as to make amends for the perceived lack of cooperation in the past on floods that affect both countries but to help support India's own farming classes. This will also surely help reassure Bangladeshis and would help improve India's image among them as a friend in need. Such rice diplomacy will play a big role buttressing good neighbourly relations and help in confidence-building which was partly depleted due to the failure in the Teesta River water-sharing negotiations. However, for the Bangladesh government, this could be seen as a sign of weakness. As such, the two countries could consider a mixture of humanitarian assistance from India and a purchase order from Bangladesh at an affordable rate.

.

⁸ Bdnews24.com (2017) <http://bdnews24.com/bangladesh/2017/04/30/why-bangladesh-was-not-warned-of-haor-flooding-by-india-asks-bela>.