

## Poverty & Food Security

### Domestic Context

#### Rice, Wheat Prices Up

After several lean weeks, activity on the Karachi wholesale markets showed a considerable improvement, but prices generally rose initially under the lead of rice and wheat amid active short-covering. Much of the physical activity, however, remained confined to some essential counters where floor brokers reported pressure on supplies. Leading among them was rice including IRRI and kernel type on reports of exports at higher levels. The biggest rise of Rs250 per 40 kg was noted in sela type of basmati followed by kernel, which rose by Rs100. Wheat also showed a modest rise of Rs20 per 40kg on reports of export deals with some foreign countries including Bangladesh. Dealers said price changes were mostly orderly and did not reflect speculative rise on any of the counters amid two-way activity and higher ready off-take. The sharp rise in guar seed prices was attributed to last year's crop losses owing to floods. But some local dealers claimed the new crop was comparatively better and prices may come down. On essentials counters, wheat and sugar prices remained stable despite higher demand followed by reports of steady arrivals from upcountry market. Market sources said that some exporters have purchased about 0.4 million tons of wheat and are in advanced talks for another 0.2 million tons, after having signed export deals with some foreign buyers. Sugar prices remained stable around previous levels, although dealers reported a fairly large business at unchanged rates in an apparent effort to sell it later at higher rates.

[Dawn – January 10, 2011]

#### Market Access: The Fatal Folly of Protectionism

If government officials believe they can restrict foreign trade without any negative consequences, India's recent move to bar vegetable exports to Pakistan should serve a sobering reminder of the folly of protectionism. No country can expect to block access to its markets and products to other countries without retaliation. Earlier this month, the Pakistan government announced a ban on exports of onions to India, in part due to concerns over an increase in local prices. India then retaliated by banning exports of all vegetables to Pakistan. This case, and many others that precede it, are proof of what has become a truism amongst economists: restricting free trade does far more harm than good to any country. In order to appreciate this argument, one first needs to understand the compulsions of protectionism and the damage it is capable of, benefits of the World Trade Organisation (WTO) system as it currently stands, and then finally the many reasons why free trade is more beneficial for Pakistan.

#### Protectionism: The Curse of Smoot-Hawley

In a nutshell, protectionism is when a government restricts the flow of goods in or out of the country – either through tariffs, quotas or outright bans – in order to protect either local producers or consumers of the good in question. Yet, since 1929, the world's economists have, by and large, agreed that protectionism is damaging to both the country that engages in it as well as the rest of the world. This is because protectionism was the leading cause of the Great Depression. On October 24, 1929, the New York Stock Exchange experienced one of its worst crashes, heralding the beginning of a deep recession. Yet, what turned a severe recession into the Great Depression – a period of prolonged economic malaise that lasted a decade – was something that happened on June 17 of the following year: the United States Congress passed a law known as the Smoot-Hawley Act which raised US tariffs on 20,000 goods to record levels. This was done ostensibly to protect industries at home from foreign competition (does that argument sound familiar?). The move provoked massive retaliatory tariffs from the rest of the world, causing American exports to plummet by 50 per cent, resulting in massive layoffs at many factories and outright shutdowns and bankruptcies at thousands of others. Global trade as a whole plunged, causing the economic slowdown to spread to the rest of the world. The economic hardship faced by many European countries in the aftermath of these trade wars is identified by many historians as the leading cause for the Second World War breaking out on the continent. After the war, there was a consensus that trade protectionism was never a worthwhile effort and that it almost invariably resulted in more harm. This lesson appears to be lost on Pakistani policymakers, who routinely use arguments similar to those that preceded the disastrous

experiment of the Smoot-Hawley tariffs in order to justify their protectionism. They would do well to realize that the WTO-led system of global trade is, despite its flaws, in the economic interest of the country.

[The Express Tribune – January 10, 2011]

### **Vegetables, Fruits Dearer at Sunday Bazaars**

With prices of vegetables, fruits and eggs going up at Sunday bazaars despite the fact that the government withdrew increase in petroleum prices, the people complained about the substandard quality of products and unhygienic conditions. The people visiting the eight weekly bazaars in the city said prices were being increased but the quality of products was going down. Pointing about open manholes, pools of muddy water and stinking smell from heaps of garbage, the people said the City District Government Rawalpindi (CDGR) was least bothered about conditions of weekly bazaars. Prices of potatoes, onion, cabbage, cauliflower, green pepper, oranges, apples, guava and banana were increased compared to the last week.

[Dawn – January 17, 2011]

### **Falling Wholesale Prices: Vegetable Retailers Fleecing Consumers**

The wholesale prices of various vegetables have dropped on improved supplies from the producing areas, but consumers are not getting any relief at the retail-end. Serious government efforts are needed to reduce the wide gap between the wholesale and retail prices of vegetable and action be initiated against retailers involved in profiteering. The wholesale rate of onion has now dropped to Rs15-20 from Rs25-30 per kg two weeks back. But the retailers are charging Rs25-30 per kg making substantial profit. In December consumers had paid Rs55-60 per kg for onion following its massive export to India by land route. The potato price has dropped to Rs10-12 per kg from Rs14-15 per kg in the wholesale market, but retailers are demanding Rs20-25 per kg making Rs8 to Rs13 per kg profit. The wholesale and retail prices of tomato after hitting the peak of Rs80 and Rs100 per kg earlier this month have plunged to Rs40 per kg and Rs50 per kg respectively. Wholesalers claimed that rate of ladyfinger was Rs40-45 per kg but retailers in various areas were pocketing Rs100-140 per kg depending on the size and quality.

The wholesale rate of peas is Rs30 per kg but retailers are demanding Rs40-45 per kg. Carrot is available at Rs20 per kg while its wholesale rate hovers between Rs10-15 per kg. President Falahi Anjuman Wholesale Vegetable Market Haji Shahjehan attributed the decline in onion price to improved supplies from various producing areas of Sindh. The price of onion may drop further next month as India would resume exports of the commodity after arrival of new crop leading to slow imports from Pakistan. Shahjehan also expected drop in tomato prices in anticipation of better supplies from Sindh crop next month. He said arrival of potato from Punjab's new crop had increased thus resulting in sharp drop in its prices. Pakistani vegetables fetched 10 per cent higher export earnings owing to high rates in world markets despite 37 per cent drop in shipments. Figures of Federal Bureau of Statistics revealed that total vegetable export during July-December 2010 stood at 94,658 tons (\$40 million) as compared to 149,667 tons (\$36 million) in the same period of 2009.

[Dawn – January 26, 2011]

### **33 Commodities Register Increase in January**

According to Free and Fair Election Network's (FAFEN), monthly Retail Price Monitor released on January 26. The prices of commodities registered a varying degree of increase in the month of January 2011 as compared to their prices in December 2010. The commodities are tomato, cooking ghee and oil, rice, meat, eggs, fruits and kitchen items. FAFEN's monitor observed the price of 52 commodities in Jan 2011 at designated retail outlets in 123 towns of 77 districts in four provinces. Out of 52 commodities, 33 experienced an increase in their prices, 16 a decrease and the prices of three commodities remained approximately the same. The 33 commodities registered an average increase of 5.0 percent, while 16 commodities registered an average decrease of 6.0 percent. The price of tomato increased by 50 percent, vegetable ghee by 10 percent and cooking oil by 8.0 percent, forcing consumers to pay more for the purchase of these commonly used kitchen items. Chicken prices went up by 8.0 percent and mutton by 1.0 percent. Rice Basmati broken was available at 7 percent and Rice Irri at 5 percent increased prices in January as compared to their prices in December. While the prices of many of the essential commodities increased, the prices of potato and onion experienced a further decrease of 25 percent and 22 percent, respectively. Potato and onion prices had decreased in the month of December as compared to prices in November 2010. The prices of commodities - sugar, gur and desi shaker- that involved sugarcane as an

input also experienced a decrease in their respective prices. The decrease in their prices can be related to the ongoing harvesting season of the sugarcane crop. The price of chapati (tandoor) experienced a decrease of 3.0 percent during the observed month as compared to the previous month. The prices of medical services like blood sugar test and urine test also decreased in the month of January as compared to their prices in December.

[Daily Times – January 27, 2011]

## Global Context

### **Pakistan's Ban on Onion Exports 'Shocking': Delhi**

Dubbing Pakistan's decision to ban onion exports across the Wagah border as "shocking", India on January 06 said the issue has been taken up with the authorities in Islamabad. Commerce and Industry Minister Anand Sharma, reported Press Trust of India and said that it is shocking and unfortunate that Pakistan has banned onion exports to India via land route. We have urged them that the contracted quantities which were to come via the land route should be released. Pakistan on January 06 stopped 300 trucks of onions bound for India at the Wagah border, saying exports had to be curbed to control rising prices in domestic markets. However, a large quantity of onions from Pakistan will be reaching Mumbai via sea route.

### **Food Inflation**

**India's food inflation rose for the fifth straight week to its highest in more than a year, reinforcing fears it has spilt over to broader prices and cementing expectations of an interest rate hike in January. But the spurt in prices of many basic foodstuffs has also raised questions over the government's ability to control price rises through monetary policy, with poor infrastructure, hoarding and supply bottlenecks contributing to stubbornly high food inflation. The food price index rose 18.3 per cent in the year to December 25 and the fuel price index climbed 11.6 per cent. Hitendra Dave, Head of Global Markets HSBC India said that this number reinforces the scenario of a 50-basis-point rate hike in January.**

[The Express Tribune – January 07, 2011]