

# Cereal Price Transmission in Several Large Asian Countries during the Global Food Crisis

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## ABSTRACT

*World cereal prices have been increasing substantially since 2003. Until 2008, the Asian countries examined in this paper (Bangladesh, China, India, Indonesia, the Philippines, Thailand and Viet Nam) had generally been able to contain domestic price increases by using trade policies and taking advantage of the depreciation of the US dollar. On average, domestic price increases in real terms were only about one-third of the world price increases in real US dollar terms. In the face of large world price increases in early 2008, the transmission to domestic markets was still incomplete, but prices increased substantially in some countries. In other countries, however, prices increased very little, if at all. Trade policies explain some of the different outcomes across countries, but speculative activity by farmers, traders, and consumers also appears to have played a role. While there has been incomplete transmission between world and domestic markets, transmission within national borders has been stronger in the sense that, for any given country, percentage increases in farm and consumer prices have been similar. The overall price increases during the past several years have probably been large enough to create a supply response, even in the face of higher fertilizer prices.*

## INTRODUCTION

International agricultural commodity prices (in US dollar terms) have been increasing since at least 2003 for cereals, other foods, and non-foods. There are many factors behind these increases, namely: increased biofuel demand; higher oil prices that have raised prices for agricultural inputs such as fuel and fertilizer; continued growth in demand for resources from China and India, which has led to reductions in net cereal and oilseed exports from these two giants in recent years; short-term supply shocks due to adverse weather conditions; low world

prices in the early years of this decade, which may have reduced production incentives; and short-term trade policy changes such as reduced barriers to imports and increased restrictions on exports. Macroeconomic factors such as a weak US dollar and low real interest rates that affect both supply and demand have also played a role.

A key question, however, is the extent to which these changes in world market prices have been transmitted to domestic economies in recent years, especially for cereals. The extent of transmission is important for at least two reasons. First, it is domestic prices that affect