

# Spotlight: Econ Op-eds in Summary

Week ended 11<sup>th</sup> November '20

---

## In Summary

*The underneath contains summaries of the articles given above, including key extracts from these articles.*

### 1. Price controls and shortages

**By: Daily FT**

- Recent price controls on rice, although well intentioned to reduce costs of living, can have substantial negative implications. Supply can dry up as retailers find it difficult to sell rice at such prices, and black market sales shoot up with these controls.
- This isn't limited to rice supply, as Sri Lanka's food supply is very dependent on weather and other external factors. As supply keeps fluctuating, the state is forced to step in, with taxpayer money, in order to artificially bring about a sense of stability.
- Reform of the agriculture sector is important to avoid price hikes and food shortages. Focusing primarily on supply buffers and greater production techniques and investments in technology, the government will not only be able to protect local food security needs, but also expand into export markets as well.

The Government recently slapped price controls on rice, promoting worries of shortages and a surge in black market sales. Given seasonal shifts of availability and inflation, it is concerning that the Government has little recourse but to return, time and again, to price controls.

Clearly Sri Lanka has supply chain issues that need to be fixed, and these often impact both producers and consumers.

Despite Sri Lanka aiming to be self-sufficient in rice, there has always been a longstanding issue on how the market functions. Mill owners have been faulted for controlling prices and creating artificial shortages and essentially acting as an oligopoly. This defeats the decades of investment done by the farmers and fertiliser subsidies given at taxpayer cost.

Such issues are not limited to rice. Other essentials, from chicken to spices, have been hit by shortages and price hikes, complicated by the import ban placed by the Government and issues, such as climate change, that have seen coconut prices skyrocket in recent weeks. The Government, aware that even with two-thirds majority in Parliament, its popularity will prove transient if cost of living is not controlled, has responded by placing maximum retail prices on a range of items. However, this only serves to complicate market issues and does nothing to prevent future shortages.

To resolve many of these matters, Sri Lanka needs to invest heavily in infrastructure and technology. Other countries use cooled warehouses, databases, new seed and fertiliser varieties to increase productivity and to produce year-round.

In Sri Lanka, the dependency on rain is massive, which has left an entire sector and the livelihoods of millions of people exposed to climate change. In other parts of the world, the expansion of new irrigation methods, vertical farms, and better transport systems are increasing productivity and sustainability of agriculture. These measures gave farmers

better ideas of what to plant and when, and provide better market access and price security. It also reduces gluts that result in the market being flooded with one product, which has fewer buyers.

Reforming the agriculture sector should also target an increase in exports, as that would increase revenue and improve productivity. The agriculture sector is also struggling with an ageing population, with younger people preferring to work in other sectors. The brain drain is problematic, as technology infusion and other reforms require training that can be better accessed when there is also a younger and more educated workforce available. Unless these and other challenges are fixed, the spiking of food prices will never be adequately tackled.

The Government has to make sure funding is used to reach as many people as possible, and it becomes the start of a larger sustained program of agriculture modernisation and food security. To build robust food supply chains, the data gaps and contract-enforcement problems need to be addressed. These are the productive interventions that will ensure food security, not the repetition of sporadic market control.

[For the full article - Refer Daily FT](#)

***Disclaimer: Information collected/analysed is from sources believed to be reliable or from the Central Bank/Government. Frontier Research Private Limited however does not warrant its completeness or accuracy. The bullet points provided for each summarised opinion article is written by Frontier Research and has no connection to the respective author.***

***Furthermore, the information contained in these reports/emails are confidential and should not be shared publicly. Disclosure, copying and distribution is strictly prohibited. Frontier Research has taken every reasonable precaution to minimize the risk of viruses, but is not liable for any damage you may sustain as a result of any virus or other malware in this email. Frontier Research reserves the right to monitor and review the content of all messages sent to or from this email address for operational, business and security reasons.***

***This communication including any attachments contained herein is governed and bound by the "Confidentiality and Disclaimer" detailed and available for your specific reference at our [corporate website](#).***