

# Sugar and political power

Part II

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In recent years, a standard official response to rising food prices was to blame them on global markets. During the last days of General Musharraf's rule, when food prices skyrocketed to new heights, economic advisers routinely shifted the responsibility to rising commodity prices in international markets. Inflation was thus conveniently brushed aside as an imported problem. Now, in the midst of a worsening sugar crisis, representatives of the sugar industry are falling back to the same explanation. This is an intellectually lousy justification and a smokescreen for hiding failures of domestic markets.

It is true that in recent years food prices have registered an upward trend in international markets. During the last five years, the global economy has been reeling under the pressure of multiple commodity shocks. But these shocks have had a differential impact on countries, depending on the strength of their domestic institutions and markets. In countries such as Pakistan where domestic markets are imperfectly organized and institutions are generally weaker, the impact of external shocks is often amplified. In others, where institutional quality is superior, the adverse impact of shocks is mitigated. The real question to ask then is this: what is so fundamentally wrong with the way our domestic agricultural markets are organized and what makes them so vulnerable to commodity shocks?

This emphasis on structural deficiencies of our food sector commands a greater significance given the recurring nature of these crises. The sugar industry alone has witnessed a crisis every consecutive year since 2001. Informed observers regard these crises as manufactured, intended as a way of redistributing wealth from consumers to

sugar magnates. A recent statement by the finance minister confirmed this by declaring that the sugar mafia has minted Rs25 billion from the present crisis. These claims are largely unsubstantiated, but the surprising frequency with which these crises have rocked the markets indicate that the problems are probably structural in nature.

In his classic work, *Markets and States in Tropical Africa*, Robert Bates of Harvard University has described how agricultural policies ultimately have a political basis and tend to confer an advantage on political incumbents. This is as much relevant to Pakistan as to Africa. The deeper problems of our sugar industry are, in part, political. Undeniably, the most powerful actors in the entire sugar chain are sugar mills. They enjoy immense political clout and are much better organized. The Pakistan Sugar Mills Association (PSMA), which operates as one of the country's foremost cartel, safeguards interests of the sugar lobby and brings together, even at the height of political confrontation, politicians from different ideological persuasions. This lobby has the ability to convert any imminent shortage of sugar into a chronic crisis. Apart from outright hoarding, two key mechanisms are employed for this purpose: preventing timely import of sugar and distorting production incentives for sugarcane growers.

An astute economic observer could have predicted back in March that a sugar crisis was brewing up. The Economic Coordination Committee (ECC) of the cabinet was fully informed that existing sugar stocks in the country were not sufficient to meet consumption needs. Despite this, the ECC failed to import sugar in time. Had the government placed an import order five months ago, it could have benefited from lower sugar prices in global markets at the time and averted the current shortage. The important question is why did the ECC turn down the proposal to import sugar? Was it acting at the behest of sugar lobbies that are well rep-

resented in the cabinet? What do the minutes of the ECC suggest? If there were sufficient political will, it will probably take only a few hours to fix the responsibility. The state, however, is helpless before these politically influential actors and unable to enforce its writ.

The second part of the puzzle relates to the role of farmers, whose interests are largely neglected by both official policy and public debate. Despite being the real producers of value, those who grow sugar cane are heartlessly squeezed in the marketplace. The principal beneficiaries of any price hike are always sugar mills or processors. Farmers lie on the lowest rung of the value chain and are denied any benefits of soaring prices, with the result that sugar prices are rarely a guide or signal for farmers. If markets were free and fair, higher sugar prices should have translated into incentives for farmers to grow more sugar cane. Quite the contrary, sugar cane production has gradually reduced in recent years. This is manifested in falling area under cultivation.

How can one reconcile rising sugar prices with falling production levels? Why are higher prices failing to offer the right incentives to farmers? The obvious retort of millers is that wheat, whose support price has been considerably raised, offers a better alternative to farmers and is consequently driving them away from the cultivation of sugar cane. But the rise in wheat prices is a relatively recent phenomenon, whereas the crises faced by our sugar industry are more endemic and long-term in nature. The answer, it appears, has to be found in the structure of agrarian relations.

(To be continued)

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