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RATIONAL RESPONSES AND THE STABILITY OF THE RICE MARKET

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In this concluding chapter, we will summarize the three case studies and discuss their implications for policies aimed at enhancing the security of supply in the world rice market. In the preceding three chapters, we showed that the policy response of each government to the crisis was understandable—in some cases, inevitable—in light of each country's internal economic and political needs, even though some of the policy choices brought about undesirable results. In a sense, the choices made by the governments were "rational." This implies that similar responses may be repeated in future crises. A preventive scheme, therefore, should be built which takes into account such rational responses by rice-exporting countries.

1. Rational Responses to Internal Needs: A Summary

India: A Mixed Policy Approach for both Farmers and Consumers

India has a large number of farmers and consumers living in poverty. A rice price rise threatens the food security of consumers, while a price fall impoverishes farmers. In order to secure cheap rice for poor consumers without impoverishing farmers, the Indian government has set up a system which intervenes into both the paddy procurement market and the retail market for milled rice. This system has stimulated rice production to grow more rapidly than domestic consumption, creating a surplus for export since the mid-1990s. Having access to export markets, the government can discharge the surplus, but at the same time, it faces the impact of international market conditions on the domestic market. When the government saw signs of a price surge in the export market at the end of 2007, it had to control the linkage between the international and the domestic markets. Since the government's intent was to protect poor consumers from the effects of the price surge, the government set a minimum export price (MEP) to restrain the export of low-grade rice.

However, the impact of the international price rise was too strong for the Indian government to deflect its influence by this method alone. The government, therefore, banned the export of low-grade rice and raised the government procurement price in order to secure enough rice for the domestic market. A rice-exporting country which has a large number of poor farmers and consumers, such as India, has enough reason to intervene into the linkage

Shinichi Shigetomi, Kensuke Kubo, and Kazunari Tsukada, *The World Food Crisis and the Strategies of Asian Rice Exporters*, Spot Survey 32, Chiba, IDE-JETRO, 2011.

between the international and domestic markets under such circumstances. Indeed, the intervention policy of the Indian government was effective at keeping the domestic price rise modest and at the same time maintaining prices attractive enough for farmers. The rice procurement and price control schemes, however, would become more effective in helping poor farmers if the geographic coverage of government procurement is widened. Also, it may be more fiscally efficient if the government directly subsidizes the food consumption of poor consumers instead of intervening in the retail rice market.

Vietnam: A Single Scheme for Food Security

Compared with India, which applied multiple measures to control the domestic rice prices, the government of Vietnam has a single method, total export volume control, for its rice security. This measure was not new to the food crisis in 2008, but has been routinely implemented every year, even before the crisis. Vietnam prepares a simple approach because the price intervention is necessary only for urban consumers. Since the production cost of Vietnamese rice is much cheaper than the other two major rice-exporting countries (Table 5-1), the FOB price is attractive enough for rice farmers in this country. Leaving exporters to compete in finding foreign buyers and domestic sellers of rice, the international market automatically brings economic benefit to farmers. As a result, a price-support scheme for farmers is unnecessary in this county. At the same time, the population under the poverty line is smaller than in India, and the retail rice price is usually reasonable for many consumers. Any sort of discount rice supply scheme is not necessary, either. Rather, to secure enough rice for domestic use is what this country needs indeed. The total control of export volume has therefore been a reasonable scheme for Vietnam.

Table 5-1 Production cost of paddy of the three countries

Country (State)	Year	Cost (US dollar/ton)
Vietnam(1)	2005	97
India(2) (Punjab)	2004/05	100
India(2) (Andhra Pradesh)	2004/05	120
Thailand(3)	2005	139

Note: (1) The cost of Summer-August paddy.
(2) There is no specification of crop season.
(3) The cost of major rice (rainy season crop).

Source : General Statistics Office of Vietnam, *Results of the 2006 Rural, Agricultural and Fishery Census.* Hanoi: Statistical Publishing House, 2006. The Fertiliser Association of India, *Fertiliser Statistics 2003-04* . (retrieved July 1, 2009 at www.indiastat.com/default.aspx). The database of Office of Agricultural Economies, Ministry of Agriculture and Cooperatives, Thailand.

However, the situation during the end of 2007 and early 2008 was far out of the expectation of this scheme. The international price went up so rapidly that the consumers felt insecure about the food supply. Partly because of the panic purchase by consumers, the early implementation of the total export volume control scheme, therefore, could not prevent the domestic price from rising further. Actually, in situations where prices shoot up as they did in early 2008, the export suspension tends to be implemented too early, and as a result hinders rice supply from the countryside, which may worsen the situation. In this sense, Vietnam needs to employ additional schemes to stabilize the domestic rice market, such as a stockpiling scheme.

Thailand: A Pro-farmer Response in the Middle of Price Surge

Contrasting to the other two countries, Thailand did not control its rice export and left the domestic price to go up as the market dictated. This was fundamentally because this country has a large surplus, a half of total production, even after providing rice to its domestic market. Even when overseas demand was strong, as in early 2008, the rice which would be harvested soon plus the stock of the government was large enough to secure domestic needs. The economic status of most urban consumers has been improved considerably as a result of four decades' economic development, which kept them from becoming too upset even as the retail price doubled within a half year. In a comparative sense, those left behind by economic development were the farmers. The policy of the government therefore changed from pro-consumer to pro-farmer in the 1980s. Several price-support schemes were introduced, and one of the schemes, the rice pledging program, has been seriously implemented since the 1990s. The volume of the governmentally purchased rice jumped in the first decade of the 21st Century when Thai politicians recognized that the rural population represented a strong constituency and the agricultural policy for farmers factored greatly in winning the rural votes. The scheme made farmers feel safe in investing in their rice cultivation, resulting in the production increase. The scheme also increased the government stock, which in turn guaranteed food security and provided rice to exporters at a price competitive in the international market.

In summary, the Thai government had no choice but to implement agricultural policies for farmers left behind by economic development. The pro-farmer policies have contributed to stimulating rice production and rice export to the present day. Thailand could maintain a "free trade" position throughout the 2008 food crisis partly because it had stimulated farmers to produce more by means of a subsidy. The price-support scheme for farmers, however, may become more and more difficult to sustain if Thailand cannot reduce the production cost or the international market becomes more competitive.

Our case studies revealed that three major rice-exporting countries, India, Vietnam, and Thailand, reacted to the international price surge quite differently. They behaved differently because the domestic needs differ according to each country's stage of economic development. The competitiveness of the cost of rice production in the world market also factors into the way governments intervene. India needs to intervene in the market both for poor farmers and poor consumers, so it combined multiple schemes to reach plural targets. Vietnam applies a simple policy of total export volume control since it prioritizes a single policy target, securing rice for domestic consumption. It has no intervention scheme for farmers since the production cost of rice is low compared with the international price. Thailand is now in the stage of development in which there is no need to protect urban consumers, but rather farmers. The price-support scheme for farmers is necessary since the rice production cost is not low enough in view of the international price level to allow farmers to earn satisfactory income. To sum up, these three countries responded to 2008's price surge rationally in terms of their economic and political needs and their given conditions.

2. Rational Actors, a Thin Market, and Deliberate Interventions

Even though these three countries responded to the crisis rationally and, to some extent, could reach their targets, it is also true that their responses, especially those restricting export, have brought negative impacts to poor rice-importing countries in the 2008 food crisis. This happened when the volume of rice was never in short supply. This was because the international rice market is generally "thin" compared with the total production or consumption. Rice is mostly produced and consumed as a staple in developing countries, especially in Asia. These countries, having Thailand as an exception, produce rice basically for their domestic consumption and channel only a small surplus to the overseas market. After the Middle East and Africa, whose supply capacity is far below their domestic needs, increased their rice consumption, the international rice market became a little bit "thicker." Citing such a recent trend, some analysts asserted that free trade would ensure rice security (Dawe 2002; Calpe 2005), but the 2008 crisis proved this interpretation too optimistic. It may be unrealistic to expect that the rice market will be as thick as the markets for other grains, at least in the near future.

Therefore, a new mechanism for stabilizing the international rice price should be built conditional on the following two constraints. Firstly, every exporting country will regulate its rice export for its own sake. Especially among low-income rice-producing countries, even export restriction may be a possible choice for securing the domestic rice supply. Secondly, the international rice market will continue to be thin. What we observed in 2008 was that the price shock hindered supply and made the situation worse. We need to make exporting countries feel safe to keep the door open.

If it was true that a panic purchase by major importers such as the Philippines was one of the causes of the crisis, a market intervention in the opposite direction may alleviate such a crisis. Indeed, Timmer (2008) indicates that an announcement by the Japanese government that it would sell 300,000 tons of rice to the Philippines brought the international price down. This means that just a prediction of an additional supply of 300,000 tons of rice could affect the price in this thin market. Then it is worth considering an internationally coordinated intervention in the midst of a price surge, as the international community often does to prevent monetary crisis.

In addition to setting up an international coordination system, governments over the longer term also need to focus on strengthening the capacity of supply in exporting countries. In the case of countries which can produce rice at a cost low enough in relation to the international price, it will be an immediate solution for stimulating production to open the channel of domestic rice trade to the international market. This will pull up the farm-gate price and the economic welfare of farmers. At the same time, this will bring new exporters into the international rice trade and diversify the source of supply. Vietnam and India employed this method successfully and have become major rice exporters. Myanmar, the largest rice exporter before World War II, is now following the same track as Vietnam. In the case of countries in which the production cost of rice is not competitive in the international market, any linking between domestic and overseas markets is not enough to stimulate production. International organizations stress the importance of infrastructure and technology development to enhance small farmer production (HLTF 2009; FAO 2008; Fukuda 2008). However, as we see in the case of Thailand, the price subsidy has a direct impact on changing the behaviors of farmers and results in the increase of production volume. Income support schemes for poor farmers can be viewed as food security schemes not only for domestic but also for international consumers.

Before the food crisis occurred, the free trade of rice was said to enhance food security. When the food crisis occurred in early 2008, some developing countries which banned export were fingered by development agencies and academics as the cause of crisis. This report, however, has found that they had reasons to do so for their domestic political and economic needs. Rather than condemning their behaviors, we suggest that building a system which makes rice exporters feel safe to open their export channel is a realistic solution for stabilizing the international rice market.

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