Build It and They Will Come: Commitment to the Association of Southeast Asian Nations’ rice policy mechanisms

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Rice is the most politicized agricultural commodity in Southeast Asia. States throughout the region view maintaining security in rice supplies as a strategic imperative, while political actors within these states see opportunities to galvanize support by promising consistently available and affordable rice. Given the varied political and agricultural systems of Southeast Asia, these dynamics play out in multiple and differentiated ways. However, an increasingly binding characteristic of rice management systems throughout the region is a focus on domestic policies and trepidation about being overly vulnerable to external events and decisions. These trends have become more pronounced since the rice price volatilities of 2007–2008, which, despite leading to calls for more open rice trading approaches, have driven countries towards more insular rice policy strategies.

There is thus an opportunity to expand and fortify multilateral engagement in Southeast Asia’s rice sector, and the Association of Southeast Asian Nations (ASEAN) appears as the logical venue for such a pursuit. However, given the politicization and deep interstate competition that characterizes regional rice trading, there are limits to what the ASEAN can achieve in building the trust and confidence needed to strengthen the international market. Some seemingly reasonable policy approaches for strengthening rice markets, such as more private sector involvement in trade and the liberalization of protectionist trade policies, are unlikely in the current political climate.

This article outlines two of ASEAN’s existing policy mechanisms that, while stopping short of liberalizing the rice trade, can contribute to more effective rice policies region-wide. These mechanisms seek to improve the availability of rice-related information and strengthen domestic rice reserves through a regional scheme. The article argues that, rather than creating a new policy apparatus, ASEAN members should strengthen their commitment to these agreed-upon areas of cooperation in order to achieve the best short-term results for food security in the rice sector.
Overview of the Rice Sector

Rice is the staple food for 3 billion people globally, mainly in developing countries. According to the International Rice Research Institute (IRRI), rice accounts for half the poor’s food expenditure and one fifth of total household expenditure. Despite anticipated widespread shifts in the developing world towards urban diets less reliant on rice, an increase in overall demand (primarily due to population growth) will result in the need for an increase in global production of 8–10 million tons of rice per year. The world will need to produce 25 per cent more rice over the next 25 years, with Asia requiring an estimated 67 per cent more rice than at present. Some of the world’s largest exporters and importers of rice are in Southeast Asia, with approximately 90 per cent of the world’s rice produced and consumed in Asia more broadly.

Despite (and perhaps because of) the importance of rice to Southeast Asia, the systems for distributing rice in the region often tend to prioritize domestic needs at the expense of the health and potential of the broader rice economy. The regional rice market has been seen as a platform for offsetting supply and demand imbalances in order to achieve domestic rice price stability. Governments play a heavy-handed role in the rice economy in comparison to other agricultural commodities, particularly in the form of tariffs, subsidies and farmer assistance programs. Many government interventions were established decades ago when the sector was more vulnerable, yet these policies continue to exist today in spite of flourishing production. Government bodies are involved in the trade and distribution of rice in importing countries and exporting countries alike. Private traders are, however, playing an increasingly relevant role.

Ultimately, the way the rice industry is structured makes rice a more unstable commodity than others (Timmer, 2010). Rice price formation is affected not only by governments and traders, but also by the decisions of millions of smallholders and consumers. Relatively little data is publicly available on quantities, trades and prices, which leads to decisions being made on unreliable information. These characteristics combine to hinder transparency and knowledge on regional rice trends, which in turn impede the trade of rice.

The thin trade of rice—just 7 per cent of the world’s rice crosses borders—results in volatility in the world market. Furthermore, the international market for rice is primarily used to secure domestic stocks and price stability (for instance, by selling excess rice or sourcing rice when stocks are low), without regard for the health of the rice economy more generally. Therefore, volatility in domestic rice markets is currently transferred to the world market. Small, less wealthy economies that have no option but to participate in the world rice market are particularly vulnerable to this volatility.

Eric Wailes (2005) notes that in the rice economy, “the combination of a high degree of protection, geographic concentration, market segmentation, inelastic supply response to price, and inelastic demand response to price and income results in volatile prices and volumes traded.” Southeast Asian rice importers and exporters have long practiced strong protectionist policies. This has been the source of considerable political tension and has been a major barrier to free trade in the region. The regional rice market is dominated by a few key exporters, particularly Thailand and Vietnam, whose strategic actions, both during and outside crisis periods, impact stability in the price and volume of rice. Thailand, for example, implemented a rice farmer protection scheme in 2011 that has contributed to the higher cost of Thai rice. The government counted on government-to-government trade deals to bolster the scheme, but as of early 2012, these have been slow in coming to fruition. The Thai Rice Exporters Association anticipates a potential 38 per cent fall in Thai rice exports in 2012 compared to 2011 in connection with the scheme (Orzya News, 2012).
The food price crisis in 2007–2008 also worsened the rice economy in ways that are still being felt. There was no actual shortage of rice in the world market leading up to the recent crisis. The explanation for what caused price volatility is complex, but put simply, a key trigger for the panicked buying of rice that ensued was India’s move to ban exports of rice in order to feed its population following wheat crop failures. In response, other exporters, including Vietnam, sought to restrict the movement of rice, while large importers (including the Philippines, Indonesia and Malaysia) frantically sought to double or triple their rice stockpiles. Traders, mills and millions of smallholder farmers and consumers also sought to increase their own stockpiles, inflicting immense stress on the ability of the rice market to meet demand.

Recent projections suggest that the volatility in food prices endured since 2008 is unlikely to ease. The unprecedented spike in the price of rice in 2008 was triggered by a series of factors, including events related to other agricultural commodities, and was worsened by hoarding and panic-buying. This purchasing behaviour was in part due to perceptions of shortages based on a lack of information on actual rice availability. Prices have continued to be volatile in the years since and rose again to a new peak in early 2011. After 6 months of easing downwards in the second half of 2011, food prices began to rise again in January and February 2012. Economic modelling developed by the New England Complex Systems Institute suggests that this trend will continue towards another peak in food prices in 2013. Furthermore, the modelling suggests that this pattern of episodic peaks within relatively short time frames will continue long term.

**Food Security Considerations**

There are clear needs to improve the overall efficiency of the rice sector and address some fundamental weaknesses. However, in determining best practice in policy, the food security goals of improving and strengthening the international rice market should be concise.

A main food security priority should be to improve economic access to rice through improved price stability at the international market level. Despite government interventions to stabilize local rice prices, volatility in the international market has still translated to domestic markets, particularly in 2007–2008 and 2011. International dynamics, in other words, cannot be avoided simply by pursuing domestically focused rice policies. With millions of households in Asia spending a relatively high percentage of their income on food, spikes and dips in the price of staples leads to uncertainty. Price volatility and uncertainty about returns also affects the ability of farmers to plan their planting and decide on the level of investment they will make into seed quality, pest control, machinery and the like. Furthermore, the poorest smallholder farmers are net buyers of food and are among the most vulnerable during periods of price hikes.

A second food security priority should be to preclude the kind of panic buying that defined the rice crisis of 2007–2008. Despite the overall availability of rice during the period, the perception of shortages brought instability to the sector, affected prices and the freedom of trade, and encouraged domestic rice supply policies focusing on self-sufficiency. The crisis sent the message to a number of stakeholders that it is imperative to gain greater control over rice supply and have less reliance on the international rice market. This is an erroneous message, however, and it is leading to policies that pursue rice sovereignty at the expense of economic and social efficacy. Rice availability and affordability will be bolstered throughout the region most readily by strengthening cooperative international
mechanisms. Myopically focusing upon domestic rice production and reserves leave a country acutely vulnerable to localized availability shocks (which can result from shifting weather patterns, natural disasters, pest and disease outbreaks, and the like), while still not fully shielding a country’s consumers from rice price trends both in Southeast Asia and in the region’s large Indian and Chinese neighbours. Policy approaches seeking to redress these problems must combine a focus on strategic regional cooperation while recognizing sensitive political feasibility calculations.

Policy Recommendations

While restrictive trade policies, the prevalence of government-to-government deals and emphases on rice self-sufficiency are unlikely to abate in the short-term, ASEAN still has an important role to play in improving regional rice management trends. As mentioned previously, ASEAN has two cooperation measures in place that should be more fully actuated to this end.

Improved Availability of Information

Although the rice sector continues to suffer from a lack of transparency, information on the availability of key crops is one area in which ASEAN has existing policy frameworks upon which to build. ASEAN has produced declarations, agreements and strategies to address the security of rice; the most recent comprehensive policy plan is the 2009 ASEAN Integrated Food Security Framework (AIFS), which is dedicated to the availability of information. A key mandate of the AIFS in 2009 was to reinforce the ASEAN Food Security Information System (AFSIS), which is a collection of data on the availability of key crops. There is significant room for improvement in the information made available through AFSIS.

ASEAN member countries should strengthen efforts to be more transparent in sharing information on rice availability. While concerns about loss of competitive advantage are legitimate under current opaque market dynamics, a collective move towards transparency would bolster rice price stability by making the market more predictable and trustworthy. Being more forthcoming with rice availability information, including data on production, trade and storage, would also strengthen the resources of the AFSIS. Capacity should be built and partnerships formed with international organizations and non-government organizations that can assist if there are difficulties in developing accurate production and yield data.

Furthermore, various rice sector stakeholders have proposed an international rice futures market for Asia to be based in Singapore. The existence of such an exchange would go some way to opening up trade-deal transparency and improving access to market information on rice availability. However, a robust international rice futures market risks increasing the opportunity for outside speculators to participate in the trade of rice, negating potential stabilizing effects of a futures market on the price of rice, including availability of information. Regulation of the potential exchange would be crucial to managing the role of outside speculation in price increases and volatility. If an international rice futures market in Singapore is established, ASEAN member states should encourage the host country to consider implementing stringent measures to limit speculation to a level that ensures adequate liquidity but does not have a driving impact on rice price formation.

1 AFSIS data often suffers from being untimely, hostage to countries that either lack the capacity or impetus to report data fully, and a dearth of data analysis efforts.
**Build-Up of Rice Reserves**

Although a costly exercise to develop and maintain, there are widespread advantages to large reserves in rice-consuming countries. Beyond the price stabilizing benefits and supply during shocks, large reserves play a key role in building trust in domestic markets. Peter Timmer (2012) argues that over time this effect could potentially overflow into the international market, with more stabilized prices leading to increased trust and confidence. Given the economic expense of the reserve system, stocks may eventually be reduced but a strong international market could remain. The private sector typically stores and reserves rice based on market demand, but this is rarely enough to meet domestic needs, therefore public reserves remain important.

The earliest integrated regional policy on reserves was the 1979 ASEAN Food Security Reserve Agreement, which launched the region’s first emergency rice reserve. The ASEAN Emergency Rice Reserve had limited success, and was not used to alleviate past crises due to a lack of volume and logistical constraints. The East Asia Plus Three Emergency Rice Reserve was established as a pilot project in 2004 to revive the ASEAN Emergency Rice Reserve in cooperation with Japan, China and South Korea. This project has led to the recent launch of the ASEAN Plus Three Emergency Rice Reserve, with the Plus Three countries pledging to contribute the large majority of volume to the reserves.

South Korea, Japan and China have pledged to contribute 150,000, 250,000 and 300,000 tonnes respectively, and the remaining 87,000 tonnes will come from the rest of the ASEAN member countries combined. The largest contributors are: Thailand, Myanmar, Vietnam, Indonesia and the Philippines, which has stated its intention to increase its contribution once it reaches self-sufficiency. While the contributions of ASEAN members may seem relatively modest, if properly actuated, this commitment, along with increasing stocks in South Asia, should go some way towards rebuilding trust in the rice sector.

**Conclusion**

In summary, ASEAN has promising existing policy mechanisms that, if fully utilized and supported by member states, could strengthen the region’s rice sector and build confidence and trust in the international market. Particularly in the case of the AF SiS information system, there is room for members to enhance commitment to providing more timely and relevant information. Commitments to the ASEAN Plus Three Emergency Rice Reserve have been forthcoming from rice exporting and importing member states alike. It remains to be seen if these commitments will be adhered to. The ideal outcome would see ASEAN members enhance their contributions as availability allows, so that the system significantly builds confidence for the rice sector.
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