Food trade is important to net food importing countries. It helps ensure their access to food and keep food price fluctuations at normal levels. In the case of rice however, policy makers in rice deficit countries in ASEAN are wary about relying on importing rice to meet their respective rice requirements. Estimated at 6% to 7% of global rice output, rice trade is relatively thin. Rice deficit countries regard relying on rice trade as taking too much risk for food security. Should there be a simultaneous rice crop failure in one or two large rice producing countries, the current level of global rice trade, in their view, is inadequate to absorb the supply shock, resulting in speculative market behavior and rice price spikes.

Even the top net rice exporting countries, like Vietnam and India, have qualms regarding giving in too much to rice trade. Facing high world prices of rice in 2008, these countries restricted rice exports to ensure they have adequate rice stocks for their domestic market. If net importing countries strive to be self-sufficient, net surplus countries have been observed to guard losing their self-sufficiency status to trade

Self-perpetuating thin trade

Both net rice deficit and surplus countries disproportionately work to attain or keep their respective national rice self-sufficiency status. This fragments rather than integrate their national rice economies, and consequently it perpetuates the shallow level of rice trade.

In the aftermath of the 2008 rice price crisis, rice deficit countries have revitalized their respective programs to become self-sufficient in rice. In pursuit of these goals, the ASEAN member states have apparently treaded this more costly path to food security compared to if they allowed trade in rice to grow to levels of wheat and maize trade.

The programs and policies designed to make their countries self-sufficient in rice comprise the largest public outlay for agriculture. This stunts the growth of the non-rice industries of the sector, where these countries may have the comparative advantage. Secondly, these measures protect local producers from import competition, penalizing rice consumers in these countries in terms of assured quality and quantity. Ironically because rice producers are in most time of the year net buyers of rice, import policies penalize the very producers they are supposed to protect.

Thirdly, the use of import restrictions to encourage more local production of rice has spawned yet another set of public outlay to stabilize rice prices and subsidize rice consumption by the poor. Lastly, they inadvertently crowd out private sector participation in rice-related businesses, compelling the public sector to incessantly spend for food security.

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2 In Malaysia, the government is targeting an increase in yield from 2.47 to 4.48 tons per hectare with public support. Sabah and Sarawak are identified as the new frontiers for production. In April 2008, the Philippine government launched its FIELDS program, targeting the country to be capable of producing at least 98% of its rice consumption in two years’ time. This program continued under the present government, in which the Philippines seeks to be 100% self-sufficient in 2013.

3 Indonesia has been working for full self-sufficiency, devoting public resources to increasing rice production. Even Brunei- Darussalam, which easily obtains its rice requirement from trade, launched in September 2009 its rice hybrid development program, targeting 1,344 hectares to help attain 26 per cent self-sufficiency in rice.

4 In 2008, rice export to output ratio was estimated to be 6.15%, far below the corresponding ratios of maize and wheat, 12.35% and 19.20% respectively.
Larger exporting countries in the region, Vietnam and Thailand, have likewise contributed to reducing rice trade. In 2008, Vietnam had restricted rice exports to avoid importing excessive price fluctuations overseas into the country. In 2011, Thailand started its rice-pledging program, under which it procures rice paddy at about 100% subsidy rate. The program will curtail the country’s rice exports, unless Thailand will subsidize its rice exports as well.

The region’s thin trade in rice can be self-perpetuating. Large rice deficit countries in ASEAN, Indonesia and the Philippines, adopt self-sufficiency programs apparently to insure themselves against the risk of relying on thin trade. Their success or failure has pushed them to adopt a “stop and go” behavior in rice importation. This does not encourage long-term investments to attain higher rice productivity in rice exporting countries, such as Cambodia and Myanmar, both of which have the potential of increasing their exportable rice surpluses.

By restricting exports or subsidizing rice production, the top rice exporters in the region contribute to stunting the growth of rice trade as well. In turn, this only helps in strengthening the resolve of rice deficit countries to stay away from rice trade.

It is important to expand regional rice trade if only to help deepen global rice trade and avoid extreme rice price volatility. Two of the top rice exporters and two of the top rice importers in the world are in ASEAN. The shallow level of rice trade in the region has kept global rice trade from rising. And when rice price spikes occur in the region, they will tend to be transmitted to the global market.

But are the rice-importing member states ready to make their rice trade policies more open? Preferential rice tariff rates in AFTA do not suggest they are. The Philippines, Indonesia and Malaysia have agreed to reduce their respective preferential import tariffs to 30%, 25% and 20% respectively—rates that are significantly higher than what free trade area tariff rates ought to be. In addition, the Philippines is negotiating with the WTO to extend its special treatment on rice. Indonesia on the other hand since 2004 has re-introduced a rice import licensing system.

**Rice price volatility**

Lack of depth of global rice trade makes global rice market susceptible to extreme fluctuations of rice prices. A supply shock, not necessarily large, in a major producing or exporting country or in a large rice consuming country which has been relatively self-sufficient, has the potential of triggering excessive speculation, causing trade shocks and price spikes, as what occurred in 2008. Without institutional mechanisms how market information gets improved and increasingly disseminated, millions of households in the region accelerate their purchases of rice, bidding up rice prices in the process. In turn, exporting countries tend to protect their domestic market by slowing down their rice exports, adding fuel to the developing self-fulfilling crisis.

Rice trade is needed to stabilize rice prices, but at the same time extreme rice price volatility tends to make the rice producing countries in the region become more focused in their pursuit for self-sufficiency, which reduces rice trade. Is it the case that the thin rice trade causes extreme rice price volatility, or the other way around? A Granger causality test suggests that extreme rice price volatility explains why rice trade is thin, and not the other way around. Moreover, results from an estimated gravity model of rice trade suggest that eliminating lagged extreme rice price volatility has a positive contribution to expanding rice trade.

It is therefore imperative that collectively ASEAN manages the risk of extreme price volatility of rice in order to develop the confidence of Member States on rice trade. This appears to be the first order of business of regional policy makers in order to strengthen the confidence of
Member states on trade. With rice price volatility kept within normal levels, the ASEAN member states can focus on measures that truly integrate rice into the region’s economic community. These reforms will eventually foster enhanced and more cost-effective food security in the region. These reforms are particularly important for the global rice market considering that the world’s top players in the global rice industry and trade are in the region.

Regional cooperation

The extreme rice price volatility in 2008 brought with it a unique opportunity for the region to break out of its food insecurity particularly in rice. After the crisis, the ASEAN heads of states came up with the ASEAN Integrated Food Security (AIFS) Framework and its implementing Strategic Action Plan for Food Security (SPA-FS). The plan involves establishing regional and national food reserves, expanding food trade, strengthening market information, and increasing food security.

The decision of ASEAN in 2011 to institutionalize regional emergency rice reserves in partnership with China, Japan and South Korea is a much welcome development. Designed to complement existing national reserves of member states and their partners, these reserves help absorb the adverse effects of supply shocks. They comprise quick response systems to supply shocks. Using forward contract arrangements and streamlined release procedures, the ASEAN and its Partners using these reserves have the capability to quickly respond to supply shocks.

However, rice reserves cannot take the role that rice trade plays in stabilizing regional rice markets and ensuring rice security. Regional cooperation needs to be tapped and strengthened to find innovative ways of addressing the problem of extreme volatility of international rice prices and finding doable ways of deepening rice trade in the region.

Another positive move in 2011 was the decision of the ASEAN Ministers of Agriculture and Forestry to undertake a pilot activity of the ASEAN Rice Trade Forum. Convened by the ASEAN Food Security Reserve Board, the forum provides a platform for Member States to share and collectively analyze rice market information to come up with evidence-based coordinated policy actions to at least mitigate the adverse effects of extreme price volatility.

The gathering and sharing of market-related data and information; using the data and an appropriate model of the regional rice market to infer the situation of the market or to analyze the impact on the market of economic shocks and policy developments; and disseminating the generated results from such analyses of the data, can significantly help avoid and reduce extreme price volatility in the regional rice market. Facing stable rice prices, Member States gain more trust in regional rice trade and thus pave the way for its sustained development.

Through the Rice Forum, Member states can collectively discuss measures aimed at making regional rice trade more open in a conducive manner, increase the incentives for increased participation of the private sector in the regional rice value chain, and finding ways how to improve rice productivity and its value chains. The Forum can serve as a platform for dialogues among various rice stakeholders in identifying emerging issues and in suggesting to the ASEAN body some ways forward.