



**S. RAJARATNAM SCHOOL
OF INTERNATIONAL STUDIES**
A Graduate School of Nanyang Technological University

RSIS COMMENTARIES

RSIS Commentaries are intended to provide timely and, where appropriate, policy relevant background and analysis of contemporary developments. The views of the authors are their own and do not represent the official position of the S.Rajaratnam School of International Studies, NTU. These commentaries may be reproduced electronically or in print with prior permission from RSIS. Due recognition must be given to the author or authors and RSIS. Please email: RSISPublication@ntu.edu.sg or call (+65) 6790 6982 to speak to the Editor RSIS Commentaries, Yang Razali Kassim.

No. 166/2013 dated 12 September 2013

China as the World's Largest Rice Importer: Regional Implications

By J. Jackson Ewing and Zhang Hongzhou

Synopsis

After decades of near self-sufficiency, China is becoming the world's largest importer of rice. What does this mean for greater Asia?

Commentary

CHINA IS on track to overtake Nigeria as the world's largest rice importer by late 2013. Once a major rice exporter, China is now taking a position in the rice market that many have predicted and some lamented: that of an importing behemoth with a voracious appetite. This shift will likely impact regional food security calculations for decades to come.

China's growing rice imports are not easily explained. Per-capita rice consumption is declining, the country's rice production has expanded for nine years running and 2013 is projected to be a record production year. Import growth is thus attributable to a number of less intuitive factors.

Why rice imports have jumped

First, China's domestic rice production might be over-reported. There are both domestic and international voices that challenge official rice production figures in China. For example, over-reporting may happen when officials exaggerate rice output levels because their performance assessments are tied directly to local rice production. Second, China's agricultural sector is declining in competitiveness. Like some other Asian countries, China has implemented state-funded strategies that encourage rice cultivation by guaranteeing minimum purchase prices. After almost a decade of government increases to these prices, they are now well over international market levels.

Third, poor off-farm logistics erode China's food sector efficiency. Rapid urbanisation and industrialisation has seen China's rice producing centre shift from south to north. The fledgling northeastern rice bowl is far away from China's major rice-consuming provinces, and the country's grain transportation system is not up to the challenge. Rice transportation costs from the northeast to major consuming markets now makes up around 30% of retail rice prices, and in peak season transport capacity struggles to meet rice demands. This creates incentives for companies in the south to source rice from neighbouring exporters such as Thailand, Cambodia and Vietnam.

Fourth, rising concerns over the safety of domestically-produced rice make imported rice more attractive. A 2011 study argued that as much as 10% of rice sold in China is contaminated and unfit for consumption. Other reports indicate that due to fears of cadmium-tainted rice, growing numbers of mainland Chinese citizens are crossing into Hong Kong to purchase imported rice.

These factors combine to accelerate rice imports in China, and as the largest consumer of rice in the world, these imports have ripple effects:

The market context

China's emergence as a major rice importer is occurring alongside steadily climbing international rice prices. After more than three decades of decline, prices have more than doubled since 2000.

These increases result in part from the policy decisions of key Asian countries. Thailand's support scheme, which sees government purchases of rice at prices above market levels, has weakened the country's export competitiveness and led to a domestic storage glut. It is not alone. Since the rice price spikes of 2007-2008, other Asian players have also increased government support for the rice sector while storing greater amounts of grain that could otherwise supply markets. These policies reflect the desire to safeguard domestic rice markets from external shocks, but they have the corresponding effect of driving rice prices higher.

Large stockpiles are not impeding production in the wider region, however. Record production highs are projected across much of Asia, in large part as a result of increased planted areas. The Philippines, long among the largest rice importers in the world, claims to be nearing complete self-sufficiency after another year of strong yield improvements. Malaysia is likewise reducing its import dependence by growing more rice at home and Indonesia, while advancing more slowly, has similar ambitions.

Regional mid-level rice exporters – Myanmar and Cambodia – are also significantly expanding production in hopes of joining Thailand and Vietnam as major source countries. Outside Asia, production is increasing in Africa and South America and total global rice production for 2013-2014 is likely to reach its highest level ever.

Against the grain

So with silos full of rice and record harvests coming in, are China's rising imports a cause for concern?

There are some reasons to think so. Rice sector support schemes in Asia have long come in the form of guaranteed minimum prices, price controls, price and input subsidies, and opaque government-to-government deals. Such interventions appear increasingly unmanageable. They incur high budgetary burdens, contribute to the misallocation of resources, and run counter to the liberalisation goals of much of the region as well as the WTO. Despite these problems, the scale of China's growing import market may perpetuate such government interventions, as other Asian countries protect their domestic sectors out of fear that their access to affordable rice will otherwise be compromised.

Moreover, international and domestic rice prices are rising not only because of direct policy interventions, but also because of input shocks such as increasing costs of fuel, fertiliser, land and labour. The ecological limits of responsibly expanding rice cultivation areas are being quickly exhausted, and it is no longer environmentally tenable to clear large swathes of land for rice production throughout much of Asia.

Cheap farming labour can likewise no longer be taken for granted - particularly in areas in which urban industrialisation is driving up prices and wages. As such, the economic and environmental cost of producing rice is increasing significantly.

Despite these rising costs, China's growing imports may encourage more rice production in places where it makes little economic, social or environmental sense to do so. Countries wary of China's growing market presence may reduce or abandon their imports and bring more land under cultivation – including lands with poor rice-growing characteristics. While such moves may be defended as self-reliance, they come at a steep price. This domestically-produced rice may be more expensive, have poorer quality than imported varieties, and take up land that could be used more productively in other ways.

More stable trade ties?

The news is not all bad. China's growing imports may lead in some cases to greater capital inflows, higher farmer incomes and better access to technology for exporting countries. This may in turn contribute to more efficient and higher-yielding production strategies, which provides one pathway for addressing regional rice challenges.

While no panacea, higher yields will reduce environmental footprints by requiring less land for rice cultivation, and help to manage the movement of labour, reduce the costs of production and lower consumer prices through greater efficiency.

They may, however, also gradually lead to more stable trade relationships, as Asian price takers gain confidence that quality regional rice will be dependably available and affordable on the market. China can contribute to such a scenario through encouraging transparent rice market transactions instead of relying on opaque government-to-government deals.

While uncertainties persist, it is clear that China's days of rice self-sufficiency are over. This emerging reality will have a significant impact on Asia's food future.

J. Jackson Ewing is a Research Fellow with the Centre for Non-Traditional Security (NTS) Studies and Zhang Hongzhou is an Associate Research Fellow with the China Programme at the S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University.