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## Uncertainty in the Black Sea: Implications for Asia's Food Security

*By Jose M. L. Montesclaros*

### SYNOPSIS

*There has been increasing uncertainty, with Russia opting out from the Black Sea Grain Initiative and re-joining five days later. In this brief period, wheat and maize prices jumped for commodity traders. These events portend continuing instability in supply of essential food items amid the Ukraine war and putting Asia's food security at risk.*

### COMMENTARY

Before the outbreak of war in Ukraine, over 160 cargo ships used the country's ports weekly to export food and other products to the rest of the world. The fighting has reduced this number to [less than 20 ships](#).

Since Ukraine is a significant exporter of maize (corn) and wheat, world cereal prices were impacted, peaking in May 2022 at a level close to 70 per cent higher than in 2020. As some cereals are also used as livestock feed, meat prices peaked accordingly in June 2022.

In July 2022, Russia joined the Black Sea Grain Initiative (BSGI), which allowed safe passage for ships exporting grains from Ukraine. Following that, cereal and meat prices went on a downtrend. On 29<sup>th</sup> October, however, Russia withdrew from the BSGI.

While US Secretary of State Anthony Blinken had accused Russia of once again "[weaponising food](#)," Russia's Ministry of Defence responded that Ukraine and its allies had used the BSGI-guaranteed safe vessel passage [corridors](#) in launching a recent attack on Russian naval units.

Russia re-joined the BSGI five days later. But, during the brief period when Russia was out of the BSGI, international commodity trading prices in the Chicago Board of Trade [jumped](#) for wheat and maize. Given the increasing geopolitical uncertainty, Asia and the rest of the world are not assured of reliable food exports. Asia would do well to prepare itself for future shocks arising from such war-related food supply disruptions.

### **Asia's Food Security Risk**

According to the World Food Price Index of the United Nations Food and Agriculture Organisation (FAO), world food prices fell consecutively over the [past six months](#), after peaking in March 2022. Had Russia not re-joined the BSGI, this trend could have reversed easily with food prices moving upwards to new peaks yet again.

Should either Russia or Ukraine renege on BSGI commitments in future, Asian countries' food security would be threatened. Data from the Geneva-based [International Trade Centre](#) show that Egypt, Indonesia, and Turkey are Ukraine's largest wheat importers, while China is Ukraine's largest maize importer. After China, two other significant importers of Ukraine's maize are Egypt and Iran.

Global food supplies would also be affected given Ukraine's significant share of global grain exports. In 2021, Ukraine exported more than 19 million tonnes of wheat, or 10 per cent of global wheat exports, and more than 24 million tonnes of maize, or 12 per cent of global maize exports.

### **How will Asian prices be affected?**

The impacts of BSGI-related trade disruptions will vary by commodity and will depend on the degree of concentration of food exports among producers. During the global food price crisis of 2007-08, for instance, the price of rice tripled mainly because of the high concentration of rice exports in three countries, namely, India, Thailand, and Vietnam. This rendered the rice sector vulnerable to price speculations and hoarding by traders.

Today, wheat exports are also concentrated but less so in comparison with rice, with five countries – Russia, Australia, the US, Canada, and Ukraine – accounting for 58 per cent of global exports. Among these, Ukraine exports wheat at the lowest price. Hence, Egypt, Indonesia, and Turkey will likely need to source wheat from higher-cost exporters, translating to pricier wheat-based commodities such as bread and noodles.

Maize exports are more concentrated than wheat, with four countries – the US, Argentina, Ukraine, and Brazil – contributing 77 per cent of global exports. For China, the maize export prices of Brazil and Argentina are lower than Ukraine's. However, should these countries lack sufficient stocks of this grain, China may need to make-up with imports from the US, which are more expensive.

### **Further Uncertainties**

Indonesia and China are not completely reliant on Ukraine for their grain imports. Forty per cent of Indonesia's wheat consumption come from Australia, much larger than the

27 per cent from Ukraine. Likewise, 70 per cent of China's maize imports come from the US, more than double the 29 per cent from Ukraine.

An important consideration, though, is the amount of grain stockpiles a country holds. Take Indonesia, for example. The country's wheat stockpile level of [1.7 million tonnes](#) would provide for less than two months' needs, based on its consumption of about 900 thousand tonnes of the grain per month. Hence, should a drought or flood cause poor harvests and a trade disruption in Indonesia's alternative wheat sources, the impact resulting from a future BSGI-related disruption would be more dire.

By contrast, China would be more resilient, as it keeps maize stockpiles above [200 million tonnes](#), which would last eight months given its monthly consumption of 25 million tonnes. Nonetheless, as wheat and maize are also used as animal feeds, an increase in export prices or in domestic demand by local meat processors, may raise meat prices too.

### **Preparing for Future Disruptions**

Future supply disruptions cannot be discounted given Russia's sudden though brief withdrawal from the BSGI. Stéphane Dujarric, Spokesman for the United Nations' Secretary-General, has since urged "that [all parties](#) refrain from any action that would imperil the BSGI." This point is significant given the [interlink](#) between global food security and the war-related actions of the protagonists.

The focus on Indonesia and China is intended to be illustrative. The lessons from Russia's withdrawal from the BSGI apply to all countries with substantial reliance on Ukraine's grain exports. Asian countries vulnerable to such political vicissitudes should take precautions to prepare for similar disruptions in the future.

Firstly, grain importing countries like Indonesia should consider raising buffer stocks for strategic commodities. This should be done gradually.

The lesson of the 2007-08 crisis is not to make big bids for wheat (as the Philippines did for rice then). Such a sudden move for a substantial quantity of a particular food item could quickly feed speculative behaviour among traders. China's impressive maize stockpiles were not achieved overnight but grew gradually from approximately 50 million tonnes in 2010.

Secondly, food importing countries should diversify their import sources, and cultivate trading relationships with alternative low-cost sources of food.

Thirdly, food importing countries should consider producing [wheat substitutes](#), as Indonesia is currently doing with sorghum and cassava from which flour is a derivative.

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*Jose M. L. Montesclaros is a Research Fellow with the Centre for Non-Traditional Security Studies (NTS Centre), S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU), Singapore.*

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T: +65 6790 6982 | E: [rsispublications@ntu.edu.sg](mailto:rsispublications@ntu.edu.sg) | W: [www.rsis.edu.sg](http://www.rsis.edu.sg)