Volatility in the Rice Sector: Time for ASEAN to Act?

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SYNOPSIS

How Thailand and Vietnam – two major rice exporters after India – will react to the latter’s recent rice export ban will depend very much on expectations of how long the ban will last. Should rice exporters in these countries engage in price speculation, global food security can be put at risk. It is time for ASEAN to explore how price speculation in the rice trade can be prevented.

COMMENTARY

Ripples of disruption were felt in the global grain sector last year and the effects continue to be felt today. The Ukraine war, which began in February 2022, held up the transport of wheat and maize across the Black Sea to the rest of the world, while India imposed duties on rice exports and restricted exports of “100% broken rice” in September 2022. These developments drove up grain prices.

There has been a worrisome turn of events in recent weeks. On 14 July 2023, Russia pulled out of the Black Sea Grain Initiative, removing guarantees of safe passage for shipments of grains and fertilisers. A week later, on 20th July, India banned the export of non-basmati rice, which makes up approximately half of India’s total rice exports.

The United Arab Emirates (UAE) has also imposed a four-month ban with a focus on re-exported Indian rice. The UAE’s action is likely to prepare itself for more uncertainty in the international grain trade in the remainder of the year. Many countries are anxiously anticipating actions by other rice-exporting states following the export ban by India, which makes up 40 per cent of global rice exports.
A Guessing Game for Thailand and Vietnam

The attention now is on how Thailand and Vietnam – the two major rice exporting countries after India – will act. They will likely be adopting a wait-and-see attitude, but ever-ready to take drastic actions should these be needed to protect their domestic food security. They will carefully note India’s policy decisions, and how their own traders will react.

If traders expect India’s rice export ban to be short-lived, then they would seek to sell as much rice as they can now, to benefit from the higher prices. Export prices for Thailand’s “semi-milled 5 per cent broken rice” – a key benchmark for non-premium rice prices – have already rallied to 50 per cent above the previous year’s prices, and reportedly to the same level of S$870 per tonne as in the 2007-08 global food price crisis, these increases being the result of trader behaviour while their governments’ wait and see.

Thailand’s commerce minister has encouraged Thai traders to sell their rice in international markets so as to benefit from the higher prices. But if they were to sell too much, it could lead to a domestic rice shortage and higher domestic prices, similar to what India is currently facing. Cognizant of this risk, Vietnam’s prime minister has advised Vietnamese traders to be mindful of meeting their own minimum stockpile requirements, even as he vowed to ensure food security amidst India’s ban.

Thus, if Thai and Vietnamese traders expect India’s export ban to be short-lived, and if they were to sell too aggressively, then Thailand and Vietnam run the serious risk of having to limit their rice exports at a later stage to ensure the food security of their own populations, as India did in July 2023.

Speculation has its Risks

The alternative scenario wherein traders anticipate India’s export ban to remain until the end of 2023 or longer, can have even more serious consequences. In this scenario, Thailand and Vietnam could engage in “strategic” or speculative behaviour by imposing rice export bans or export constraints disguised as actions to maintain domestic food security and to keep domestically produced rice affordable, or they could encourage their traders to hold on to rice stocks so as to benefit from selling them at higher prices later; both behaviours aimed at increasing revenues from higher international prices.

A further risk is faced if major importing countries engage in speculative purchases of rice as the Philippines did during the 2007-08 global food price crisis, when it pledged to buy rice at approximately twice the market price, hoping to beat the market before prices increased further. This contributed to spiralling increases in the price of rice, turning fears of inflation into self-realising expectations and causing prices to nearly triple at the height of the crisis.

Re-envisioning the Role of Rice Reserves

A lesson from the global food price crisis of 2007-08 is that price spirals resulting from
speculative behaviour by both rice importers and exporters can be arrested, if a third party with sufficient stocks could step in to help fill the shortfalls when needed.

Japan played such a role during the crisis. With support from the US, it offered to release its surplus rice stocks in 2008. This caused the rice price bubble to burst, as the offer raised fears that prices would tumble or normalise. Exporters sought to sell their rice quickly than take a risk in hoarding them for future sale. On the other hand, importers delayed importing rice until after prices had normalised.

Within ASEAN, there is a mechanism to help member states cope with food crises. Since 2011, the ASEAN Plus Three Emergency Rice Reserve (APTEERR) Agreement has required the ASEAN Plus Three countries (i.e., China, Japan and Republic of Korea) to earmark or set aside 787,000 tonnes of rice collectively to meet the emergency requirements of member countries.

The irony however is that these reserves are intended to be tapped as a palliative to assist countries already facing an emergency, and not as a mechanism to prevent price crises. Furthermore, a lengthy period of review is needed – requiring countries to prove that they are in dire straits, and after the APTERR Council comprising ASEAN country representatives had approved – before the rice reserves can be released.

Even though it will be a huge challenge for ASEAN, it may be opportune for the regional grouping to look into how the APTERR can be instrumentalised to prevent a future food price crisis. It is time to explore how the rice reserves can be used in a strategic way to nip price spirals before they worsen, just as Japan did in the 2007-08 food price crisis, only that this will be within the control of ASEAN member states.

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