NTS ALERT

NTS Alert February 2012

Click here for the PDF version.

POLITICS AND DISTRUST IN THE RICE TRADE: IMPLICATIONS OF THE SHIFT TOWARDS SELF-SUFFICIENCY IN THE PHILIPPINES AND INDONESIA

By Sally Trethewie

The volatility and instability in the rice market during the 2007–2008 food price crisis prompted two key rice importers, the Philippines and Indonesia, to pursue rice self-sufficiency with the aim of stabilising domestic rice supply and prices. This NTS Alert examines the impact of these actions for domestic and regional food security in terms of rice supply. It argues that the two countries' measures to increase production could improve stability and trust in the rice trade if, in their new-found positions of confidence as producers, they spearhead efforts for deeper, more open engagement in the world rice market.

Rice availability has for many years been considered the key indicator of food security in Asia.
Credit: IRRI Images/flickr.

Contents:

Introduction

Rice continues to command unrivalled political attention in Southeast Asia in relation to food security, despite shifts seen in its economic and cultural importance in recent years. Governments of exporting and importing countries alike have long taken a heavy-handed approach towards the rice economy, particularly because rice availability has for many years been considered the key indicator of food security in Asia.

The food price crisis of 2007–2008 deepened existing distrust between exporting and importing countries and led to instability in the international rice market. It also triggered strong long-term policy responses that sought to secure domestic supply and stable prices. In particular, the Philippines and Indonesia, two of the world's largest rice importers pre-crisis, have since taken

- **RSIS Centre for NTS Studies Website**

Recommended Citation: Trethewie, Sally, 2012, 'Politics and distrust in the rice trade: Implications of the shift towards self-sufficiency in the Philippines and Indonesia', *NTS Alert*, February, Singapore: RSIS Centre for Non-Traditional Security (NTS) Studies for NTS-Asia.

steps to be less reliant on the world market. Both have pursued substantial rice production initiatives and pledged to be self-sufficient by 2013 and 2014 respectively, with the aim of becoming net exporters soon after. In the context of an opaque, thin and relatively unstable rice trade, the push by the Philippines and Indonesia towards self-sufficiency seems a logical move for securing domestic supply and stabilising domestic rice prices. However, the very political, economic and dietary importance of rice to Asia, although in transition, implies that this strategic shift will have a substantial impact on the region's rice economy.

This NTS Alert examines what the consequences of government actions in the Philippines and Indonesia may be for domestic and regional food security in terms of rice supply. It argues that the two countries' measures to increase production could improve stability and trust in the rice trade if, in their new-found positions of confidence as producers, they lead efforts for deeper and more open engagement in the world rice market.

^ To the top

Towards self-sufficiency

Both Indonesia and the Philippines are already significant producers of rice, being respectively the third and seventh largest producers of milled rice globally in 2011 (Milled rice, 2011). Nonetheless, both countries are currently unable to meet full domestic demand and have consistently been two of the world's biggest importers of rice. This situation is changing however, with both moving swiftly towards self-sufficiency.

Little information is available on the quantity of rice stored in the region by governments, traders and millers, as well as millions of farmers and consumers. However, perceptions of the availability of rice have a strong impact on the price of rice.
Credit: IRRI Images/flickr.

In 2011, the Philippines' National Food Authority (NFA) announced that it would no longer be directly involved in importing rice through government-to-government deals and would engage the private sector to conduct all imports, as long as a minimum target is reached. The NFA will instead focus on domestic procurement and will in turn support rice producers in meeting growing demand. The country aims to reach self-sufficiency by 2013 and become an exporter of rice in 2014 (Philippines hopes, 2011).

Indonesia has begun to advocate a decrease in household consumption of rice, encouraging increased consumption of alternatives such as cassava. It has also undertaken strategies to increase rice production, including the allocation of new farmlands and the improvement of irrigation infrastructure in order to become self-sufficient by 2014 and an exporter of rice by 2015. These are not entirely new objectives given that Indonesia has been aiming for self-sufficiency for some years, but the strategy has taken on new momentum post-crisis. Indonesia has had limited success in increasing production but expects to increase paddy output by 10 per cent in 2012, moving closer to sealing the production/consumption gap of 2 million tons of milled rice (Indonesian minister, 2012).

These strategies designed to secure sufficient local supplies and stabilise domestic rice prices through self-sufficiency will come at substantial economic cost to both countries. Rice as a share of agricultural output in Southeast Asia has fallen from 40.2 per cent in 1961 to 32 per cent in 2007, while its share in the region's gross domestic product (GDP) has decreased from 14.5 per cent in 1961 to just 3.8 per cent in 2007 (Timmer, 2010a). Rice has also decreased in profitability, with the importance of rice production to the livelihoods of millions of smallholder farmers also in flux. Many rice farmers are choosing to diversify production to include or exclusively produce other crops in order to generate a larger income. There is also pressure, particularly in Indonesia, for farmers to use or sell land for the farming of lucrative crops such as rubber and oil palm. Furthermore, government interventions to achieve self-sufficiency by supporting farmers may in the long term stifle the emergence of the next stage of structural transformation and development in which it becomes more cost-effective for rice to be grown on larger farms. On the supply side, government strategies to support local rice production for domestic consumption, in conjunction with limited or no imports, typically result in higher rice cost for local consumers to cover minimum prices for farmers.

Beyond the short-term costs of funding infrastructure and programmes to increase production, the gradual decline in the importance of rice – as a key staple food, economic force and livelihood provider in Asia (Timmer, 2010a) – should be considered. However, despite rice losing proportional share in caloric intake due to increasing diet diversification in the region, it will remain a key staple food for Asian households until at least 2020, after which overall demand is expected to decline (Timmer et al., 2010). Measures to improve productivity will assist in meeting the overall growing demand for rice and help keep rice affordable if traded (Mohanty et al., 2010).

^ To the top

Uncertainty in the trade of rice

Rice plantation in Sumatra, Indonesia. Indonesia plans to open new agricultural lands of 100,000 hectares as part of its strategy to increase rice production.
Credit: Marc-André Jung/flickr.

Given the potential economic disadvantages, it is evident that the Philippines' and Indonesia's actions are primarily strategic. The characteristics of the region's rice economy therefore need to be understood in order to explain why countries would knowingly take such economic risks in order to secure supplies. Ultimately, the way the rice industry is structured makes it a more unstable commodity than others (Timmer, 2010b). Rice price formation is impacted 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, leading to decisions being made on unreliable information.

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 (by selling excess rice, or sourcing it 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.

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.' Rice importers and exporters alike in Southeast Asia have long practised 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 the stability in the price and volume of rice. Thailand, for example, implemented a rice farmer protection scheme in 2011 that has contributed to a 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 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 (Thai rice, 2012).

The food price crisis in 2007–2008 worsened the rice economy. 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 panic 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.

The bold agricultural policy responses of the Philippines and Indonesia to secure supplies, provide resilience against shocks, and stabilise domestic prices, albeit at high economic cost, therefore reflect an understandable lack of trust in the rice market. How, then, might the (in)stability of the regional rice economy (and by extension the region's food security) be impacted by the Philippines' and Indonesia's move towards self-sufficiency?

The strategic move of these previously large importers towards self-sufficiency signals a lack of trust in the rice market. However, the outcome of such strategies may produce the opposite effect. The transition of Indonesia and the Philippines from being importers to being self-sufficient may inspire confidence in a market whose volatility is partially due to a lack of public information on rice stocks and availability in various countries. In pursuing their strategy, both countries have been publicly sharing production figures and projections to a greater degree than is typical for the regional rice market, which could help bolster market confidence. The ensuing level of trust will largely depend on the extent to which Indonesia and the Philippines engage with the world market based on their new-found status. Should they increase production and concurrently trade more openly, the opportunity exists to improve stability and broaden the market.

^ To the top

Beyond self-sufficiency

Lessons from the 1980s and 1990s suggest that advocating completely free trade in rice without government intervention would be unwise. During these decades, there was a push by analysts and donors for minimal government intervention in the food and agricultural sectors, based on the determination that market forces, when left alone, would secure food supplies. The resulting problems – lack of investment in agriculture, shortage of funds and support for R&D, absence of governments from food security discussions and decision-making, and slow yield growth – has led to a shift in thinking, and it is now recognised that there is a need for governments to play a supportive and strategic role in production and trade.

The diversity of rice available in the world market exacerbates complications arising from thin trade.
Credit: IRRI Images/flickr.

Perhaps the strongest argument for Indonesia and the Philippines to resist isolationist self-sufficiency and to continue to participate in the world rice market is to ensure stability during localised shocks. While no existing studies examine the costs and benefits of these countries' strategies as they move towards self-sufficiency, general literature on rice trade liberalisation and studies of other countries suggest that participation in the world market rather than self-sufficiency strategies serve to better secure domestic supplies (Timmer, 2010a), particularly in the case of local market shocks (Tanaka and Hosoe, 2011).

In terms of overall economic impacts, a pre-crisis study conducted in 2005 when Indonesia and the Philippines were large importers suggests that both countries, as purchasers of low-quality long-grain rice, would stand to benefit overall from trade liberalisation, albeit at some cost to producers (Wailes, 2005). The same study found that all Asian exporters of rice would benefit from such moves to varying degrees. Additionally, an analysis on the impact of rice trade liberalisation on rural poverty in the Philippines found that the liberalisation of the world rice trade would benefit the country through higher export demand for its rice, while an increase in import rates would eliminate inefficiencies in the agricultural sector (Cororaton and Cockburn, 2006). Through increased trade openness, both countries would also benefit from a healthier, broader and more stable world market for rice (Wailes, 2005).

Beyond trade openness alone, both the Indonesian and Philippine governments have the opportunity to take leadership in building trust and improving long-term cooperation in the rice sector that will be crucial given the similarities in food security challenges that lie ahead for many countries in Southeast Asia. It is a geographically concentrated region of rice-producing countries, with many countries facing similar challenges in meeting their people's food needs both in the long term and during shocks. Enhanced cooperation among governments in the efficient production and more open trade of staple foods will therefore be essential for the region's future food security. Healthier regional cooperation in the trade of rice in particular is vital, especially in the context of increasingly difficult production challenges due to lagging yields, competition for land and water resources, shifting weather conditions due to climate change, and labour shortages linked to urbanisation. Furthermore, among other factors, market stability, openness and trust in the trade of rice are essential in avoiding the panic buying that took place during the 2007–2008 food price crisis.

In conclusion, in their transition towards being stronger producers of rice, the Philippines and Indonesia have the opportunity to generate increased trust in the regional rice economy through the publication of rice stock figures. They could further build on this trust by maintaining and deepening participation in the world rice market. Isolationist self-sufficiency in rice and restricted world market engagement with the view to only participate in order to stabilise domestic prices are not viable long-term food security solutions. More open engagement with the world rice market would serve to enhance both countries' security in terms of supply of rice, resilience to shocks, and opportunities to export. It would also have the impact of broadening and strengthening the regional rice market. Building trust and confidence in the market through enhanced engagement will just be one step, but it can be a significant measure for promoting greater stability in Southeast Asia's rice economy.

^ To the top

References

Cororaton, Caesar B. and John Cockburn, 2006, 'WTO, trade liberalization, and rural poverty in the Philippines: Is rice special?', *Review of Agricultural Economics*, Vol. 28, No. 3, pp. 370–77. http://gii.ncr.vt.edu/docs/cororaton_RAE.pdf

‘Indonesian minister says he lost weight from eating less rice – Advises citizens to do the same, since there’s not enough to go around’, 2012, *Oryza News*, 19 January. http://oryza.com/Rice-News/14083.html

‘Milled rice production by country in 1000 MT, year of estimate: 2011’, 2011, *IndexMundi*. http://www.indexmundi.com/agriculture/?commodity=milled-rice&graph=production

Mohanty, Samarendu, Eric Wailes and Eddie Chavez, 2010, ‘The global rice supply and demand outlook: The need for greater productivity growth to keep rice affordable’, in Pandey, Sushil, Derek Byerlee, David Dawe et al. (eds), *Rice in the global economy: Strategic research and policy issues for food security*, Los Baños: International Rice Research Institute (IRRI), pp.175–88. http://books.irri.org/9789712202582_content.pdf

‘Philippines hopes to export rice by 2014, after reaching self-sufficiency in 2013’, 2011, *Oryza News*, 16 December. http://oryza.com/Rice-News/13849.html

Tanaka, Tetsuji and Nobuhiro Hosoe, 2011, ‘Does agricultural trade liberalization increase risks of supply-side uncertainty?: Effects of productivity shocks and export restrictions on welfare and food supply in Japan’, *Food Policy*, Vol. 36, No. 3, pp. 368–77.

‘Thai Rice Exporters Association forecasts 38% plunge in private Thai rice exports – What’s in store for Indian rice exports?’, 2012, *Orzya News*, 16 January. http://oryza.com/Rice-News/14052.html

Timmer, C. Peter, 2010a, *The changing role of rice in Asia’s food security*, ADB sustainable development working paper series No. 15, Manila: Asian Development Bank (ADB). http://www.adb.org/documents/papers/adb-working-paper-series/adb-wp15-rice-food-security.pdf

Timmer, C. Peter, 2010b, ‘Rice and structural transformation’, in Pandey, Sushil, Derek Byerlee, David Dawe et al. (eds), *Rice in the global economy: Strategic research and policy issues for food security*, Los Baños: International Rice Research Institute (IRRI), pp. 37–60. http://books.irri.org/9789712202582_content.pdf

Timmer, C. Peter, Steven Block and David Dawe, 2010, ‘Long-run dynamics of rice consumption, 1960–2050’, in Pandey, Sushil, Derek Byerlee, David Dawe et al. (eds), *Rice in the global economy: Strategic research and policy issues for food security*, Los Baños: International Rice Research Institute (IRRI), pp. 139–174. http://books.irri.org/9789712202582_content.pdf

Wailes, Eric J., 2005, ‘Rice: Global trade, protectionist policies, and the impact of trade liberalization’, in Aksoy, M. Ataman and John C. Beghin (eds), *Global agricultural trade and developing countries*, Washington, DC: The World Bank, pp. 177–94. http://siteresources.worldbank.org/INTGAT/Resources/GATChapter10.pdf

^ To the top

About the Centre:

The Centre for Non-Traditional Security (NTS) Studies of the S. Rajaratnam School of International Studies was inaugurated by the Association of Southeast Asian Nations (ASEAN) Secretary-General Dr Surin Pitsuwan in May 2008. The Centre maintains research in the fields of Food Security, Climate Change, Energy Security, Health Security as well as Internal and Cross-Border Conflict. It produces policy-relevant analyses aimed at furthering awareness and building capacity to address NTS issues and challenges in the Asia-Pacific region and beyond. The Centre also provides a platform for scholars and policymakers within and outside Asia to discuss and analyse NTS issues in the region.

In 2009, the Centre was chosen by the MacArthur Foundation as a lead institution for the MacArthur Asia Security Initiative, to develop policy research capacity and recommend policies on the critical security challenges facing the Asia-Pacific.

The Centre is also a founding member and the Secretariat for the Consortium of Non-Traditional Security (NTS) Studies in Asia (NTS-Asia). More information on the Centre can be found at www.rsis.edu.sg/nts.