

Policy Brief

Food Issues and Regional Cooperation in Dynamic East Asia

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How can Asia avoid another panic in international markets of our staple crops, particularly rice? Lessons from the last food crisis in 2006-2008.

1. What was the last food crisis?

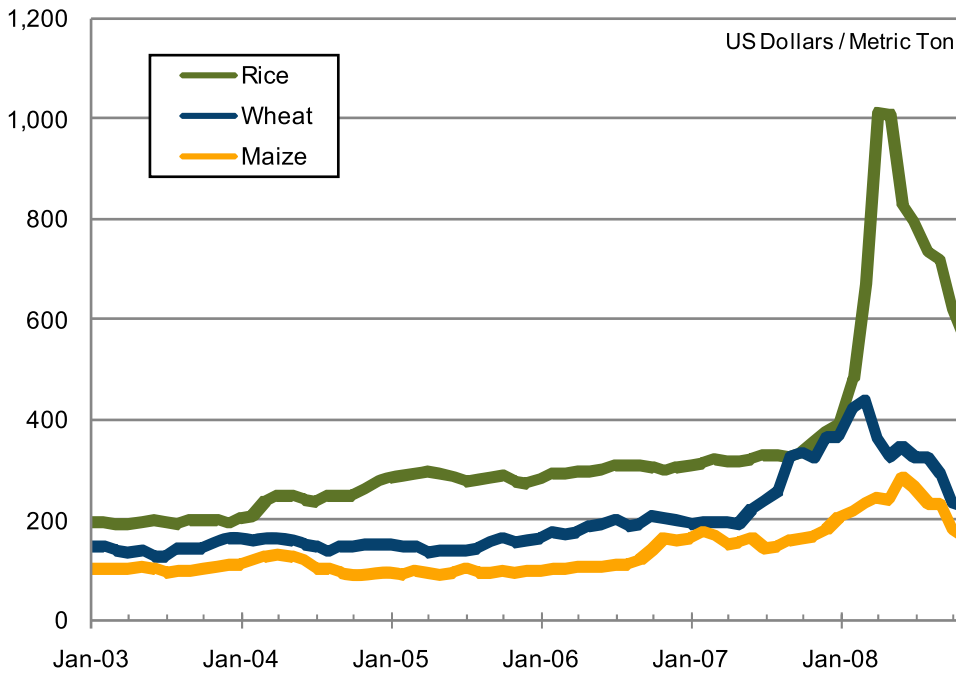
In the current financial turmoil originated from North America and Europe, many may have almost forgotten our bitter experience with the last food crisis. Recall that staple food prices started rising in 2006/2007, followed by a dramatic spike in 2008. Today, prices are going down although not back to the original level yet. Our experience here actually yields very important policy lessons on both short-run remedies and long-run strategies for the extended East Asia, considering that this is the most populated area in the world.

The steep increase in food prices generated worldwide concern because of its large impact on food and nutrition. In Asia, in particular, the most important staple crop – rice – was seriously affected by the food crisis. Several countries reacted with panic, and somewhat inappropriate policy measures influenced international markets. The confidence on global trade's ability to meet food deficiencies was gravely shaken. Asia had an obvious reason to worry about the next possible risks on food prices and food availability.

Statistical data indicate considerable differences among rice, wheat, and corn in the timing and the extent of price increases (Figure 1). Distinct price patterns suggest that combinations of varied factors cause the price surge of each crop. In general, possible causes of food price hikes are: (1) the impact of increasing crude oil prices on food prices; (2) the conversion of grain and oilseeds into liquid biofuel; (3) export restrictions imposed by some countries; (4) a decline in global food stock to a very low level; (5) a reduction in cereal production in 2006; (6) the depreciation of the US dollars; (7) demand from rapidly growing developing economies; and (8) speculative investments in food commodities. We must look into the impact of these various reasons on rice and other crops important to Asia and be better prepared for another wave of price hikes in the future.

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Figure 1. Recent surge in food prices (nominal)



Source: International Monetary Fund, *International Financial Statistics*.

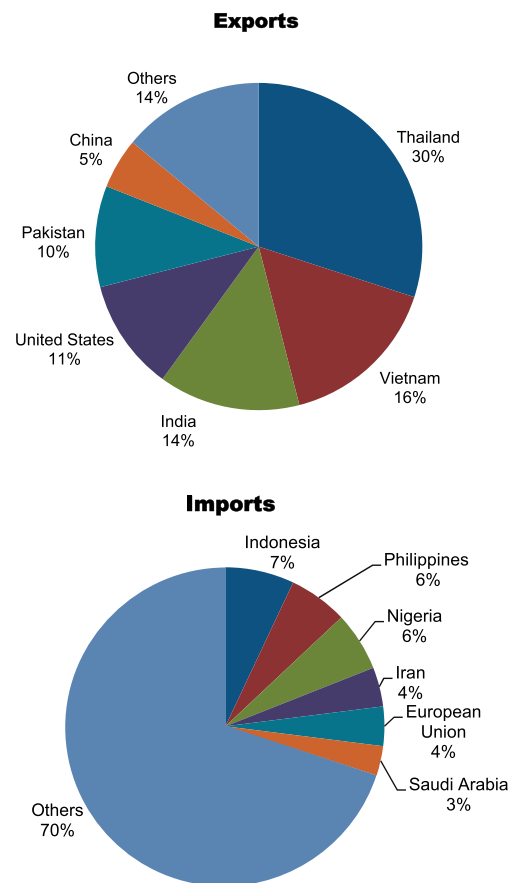
2. The impact on rice

The international rice market is thin. Only 7.5 percent of world total production was internationally traded in 2006/2007 (compared with 19.0% for wheat), and just a few exporting countries in Asia dominated the international market (Figure 2). This implies that the international price of rice is potentially highly sensitive to policy changes on the side of exporters and other external shocks.

The price hike of rice was so sudden and drastic, and the major cause was obviously the speculations. We now live in a globalizing world, and even food crops cannot stay away from harsh market forces. Going back to managed trade is not in the list of our alternatives anymore. We, however, would like to set a boundary to the extent of such wild speculation.

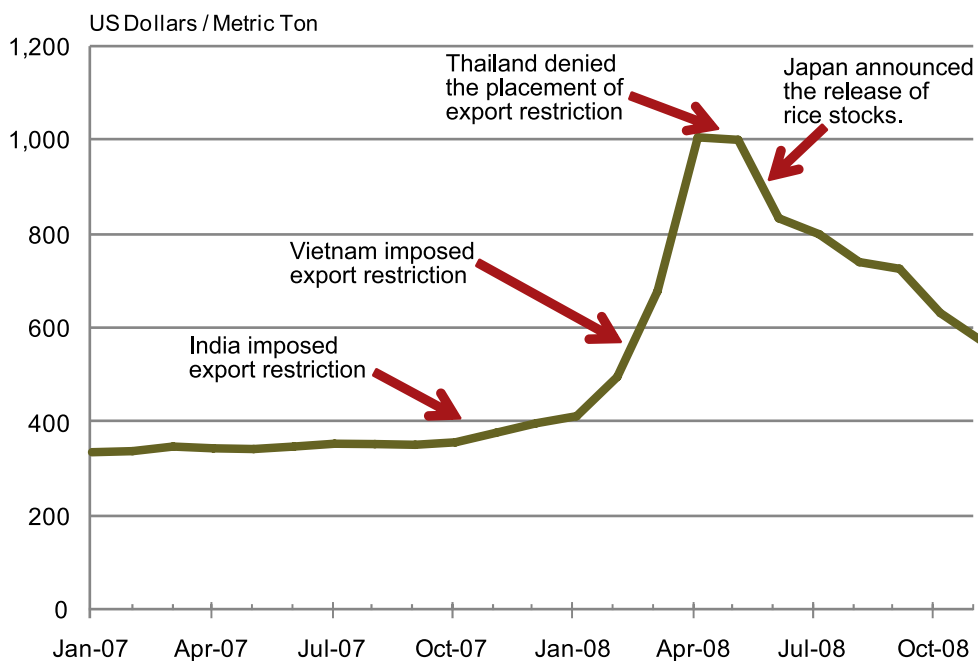
Although a rigorous proof for causality is difficult, a trigger of the sudden drastic hike in international rice prices this time was likely to be the export bans called by some of the major exporters (Figure 3). We must understand that these countries had good “domestic” reasons for restricting exports; they needed to do this to calm down domestic price hikes. In developing countries, price hikes of the most

Figure 2. The pattern of rice exports and imports in 2007



Source: United States Department of Agriculture, *Rice Yearbook*.

Figure 3. Rice prices and export restrictions



Source: International Monetary Fund, *International Financial Statistics*, and authors.

important food crop might generate huge impacts on domestic economy and politics, even in the case of exporting countries. The sensitivity of the international market to such policy was perhaps not expected beforehand, either. However, in reality, speculative market practices deeply penetrated into the international market of food, and trade restriction seemed to initiate a sort of panic in international transactions. Such speculative attack actually hurt not only importing countries but exporting nations as well.

The World Trade Organisation (WTO) discipline is relatively generous to trade restrictions on the exporter side. They may, however, trigger malevolent chain reaction against our long-lasting effort for liberalizing worldwide trade by providing a good excuse for protectionists on the importer side. In the globalizing world filled with possible speculation, both exporting and importing countries must design and construct an efficient trade regime with good coordination.

3. Issues in the middle and long run

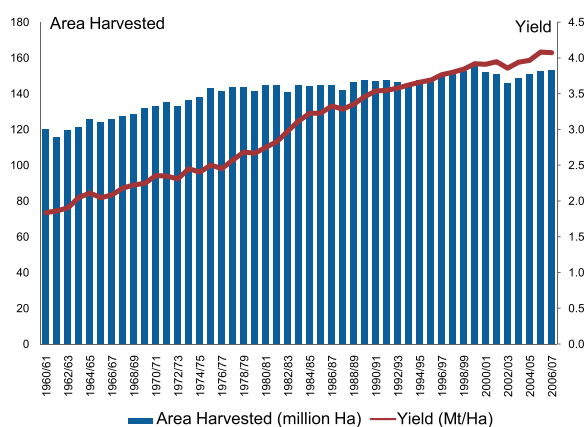
The last food crisis also calls for the review of our strategy on food supply in the middle and long run. The ultimate root of the

speculation is the fear of a future imbalance between supply and demand. Hence, confidence that sufficient food supply is secured is vital to eradicate such undesirable speculation.

One serious concern is the trend in productivity growth. Harvested areas in the world stopped growing in the mid-1970s (Figure 4). The growth of yield, i.e., the amount of products per acre, is also slowing down slightly in the last decade. These stagnant growth experiences were partly caused by the low food product prices during the last two decades, which undermined both public and private incentives to increase agricultural production. We are now, in turn, entering into the period of global excess demand for food. The fruits of the green revolution seem to be mostly depleted by now, and we obviously need some other organized effort for enhancing productivity.

Another concern is on the novel relationship between food and energy. In the pursuit of a long-run energy supply that can reduce the CO₂ emission, the introduction of biomass energy is inevitable.¹ There has been a big debate over the possible substitution between food/feed and biomass energy in terms of the use of arable land, particularly in North America.

Figure 4. Harvested area and the yield of rice



Source: United States Department of Agriculture, *Rice Yearbook*.

4. The scope of regional cooperation

In terms of regional cooperation in Asia, there are various policy lessons that can be drawn from the food crisis experience.

First, we should avoid sudden restrictions on international trade such as unilateral export bans because these may cause serious supply disruption and speculation, thereby aggravating price fluctuations. Regional dialogue on trade policy coordination is a necessary step for regional food security.

Second, we should establish a domestic/regional system of stockpiling food grains with an effective operational rule for regional food security. Having a certain amount of the stock in our inventory will mitigate price responses to sudden shocks and limit any room for speculation. We must also facilitate the active participation of the private sector in the stock building.

Third, we should enlarge the production base of staple food in the long-run perspective. Reinforcing agricultural R&D capability is a must. We also need to enhance a private sector's role in agricultural R&D by setting up proper intellectual property rights protection. At the same time, we must increase investments in agricultural infrastructure and improve water-use efficiency. It is also necessary and important to link small producers to markets by enhancing agribusiness and supply chain development.

Fourth, policies on bio-fuel and biomass utilization – particularly on how to keep a

balance between food/feed and fuel production – should be discussed at the regional level.

Fifth, the impact of price hikes of staple food on poverty should be examined by conducting rigorous empirical studies.

The regional cooperation will actually be of benefit to producers and consumers as well as exporters and importers. Instead of playing up the opposing interests, we should emphasize the benefits of having efficient and stable markets.

¹ The ERIA also has a series of policy studies on the energy sector, which include studies on energy saving, bio-diesel fuel standard, and biomass utilization. See the ERIA homepage (<http://www.eria.org>) for details. While such substitutability does not seem to be acute in Asia yet, some serious studies must be conducted for the future.

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