Policy coordination for food security: the case of the ASEAN Rice Trade Forum

Roehlano M. Briones

The rice market and trade policies
Rice is the most important staple crop in Asia. In 2008–2010 rice production averaged 452 million tons. However, world trade in rice is thin: only 7 percent or about 30 million tons is traded, compared to 11 percent for wheat and 18 percent for corn. This feature of the world rice market has been used by governments to intervene heavily in rice trading. For instance, in major rice-importing countries, importation is done through a parastatal (BULOG in Indonesia, National Food Authority in the Philippines), which imposes quantitative restrictions. Rice-exporting countries are also engaged in parastatal trade such as the Public Warehouse Corporation in Thailand. They may even restrict the trade altogether such as through the Vietnamese Food Association in Viet Nam.

Governments have sought to insulate consumers or producers from world markets in the name of food security and poverty alleviation. Rice is regarded not merely as a source of food and livelihood, but also a political commodity and barometer of state legitimacy. Intervention in rice markets is therefore the status quo. Rather than idealizing free trade, the appropriate response would be proper management of rice intervention regimes.

Trade policies and price shocks
Sudden changes in policy may be provoked by shocks affecting the world market,
The role of supply shocks in food crisis should never be underestimated. The food crisis of the early 1970s was triggered by an El Niño episode (Timmer 2010). However, no supply shock of similar magnitude occurred in the recent 2008 episode. Rather than natural calamity, the world market was hit by an artificial scarcity.

particularly supply shocks. For instance, in response to massive crop damage, an exporting country may ban exports. The role of supply shocks in food crisis should never be underestimated. The food crisis of the early 1970s was triggered by an El Niño episode (Timmer 2010). However, no supply shock of similar magnitude occurred in the recent 2008 episode. Rather than natural calamity, the world market was hit by an artificial scarcity. At the individual level, there was hoarding of stocks by consumers, farmers, and traders (Timmer 2010). At the national level, one must take into account ad hoc trade policy. Measures taken by governments to avert a food crisis may have ironically contributed to it.

Headey (2010) has identified a series of policy actions that may have contributed to the 2008 crisis.

- Viet Nam and India place partial restrictions on exports, owing to concerns about domestic food prices: September–October 2007.
- Viet Nam bans export sales, citing cold weather in Red River delta (Slayton and Dawe 2009): February 2008.
- Egypt restricts exports; China imposes 10 percent export tax and imposes VAT: January 2008.
- Philippines purchases annual import quota over the period January–April 2008; pays $700 per ton for the 11 March tender, and $1,200 per ton for the 17 April tender.
- Saudi Arabia raises imports from Thailand by 90 percent within the Q1 of 2008; Iran orders 800,000 tons of Thai rice in January–February 2008 owing to drought.

According to Headey, policy shocks on the export side may have accounted for a 61 percent increase in world rice price. Policy shocks on the import side add another 65 percent. The combined impact is 126 percent, which is close to the observed change in the price of Thai rice from July 2007 to June 2008.

Trade policy shocks are certainly not restricted to rice as Sharma (2011) documented from food export restrictions implemented by various countries since 2010. He provided an account of the 2007–2008 price crisis in the wheat market where a series of export-restricting moves by Ukraine, India, China, Russia, and Argentina included quotas, bans, export taxes, and the like. The actions helped push wheat price to its peak of nearly $500 per ton in March 2008 before falling to around $200 per ton by year end. This demonstrates the pervasiveness of ad hoc trade policy as drivers of volatility episodes in global food trade.
**Coordinating trade policies**

Unfortunately, governments tend to impose trade policies under an invariant assumption that world markets are largely unaffected by its own actions. In trade theory this is also known as a small open-economy assumption. If the assumption is incorrect, which may be the case for large market players, then country trade policies can be seen as shocks affecting market-level outcomes.

Crop loss may provoke ad hoc insulating policies like export restriction or tariff reduction. An insulating policy by any single country is aimed at securing food supplies domestically. It may be effective if others follow the assumption of policy invariance. The same may end up amplifying volatility at both global and domestic levels if actions are simultaneous (though uncoordinated) among different countries. Analyzing this collective action problem, Martin and Anderson (2011) showed that under plausible short-run elasticities, the effect of a shock on world price can be amplified nearly seven-fold. Their simple framework estimated that insulating policies during the 2008 crisis accounted for 45 percent of the increase in the international rice price, and 30 percent for the international wheat price. This indicates the danger of ad hoc unilateral policies and the need to coordinate policy responses to shocks.

Ad hoc unilateral action typically proceeds without proper information about actions of other players in the market, which feeds into the invariance assumption. Information about the status and condition of supply, demand, and stocks also tend to be unreliable and outdated, particularly in the midst of a brewing crisis. Hence, policy coordination would involve compiling and evaluating up-to-date and credible information—a link that was also cited in the G20 Inter-Agency Report (2011).

Ideally, coordination of reactive policy is done within a global multilateral framework like the World Trade Organization (WTO). The Agreement on Agriculture contains provisions on export restrictions as follows:

- Export bans on foodstuffs are prohibited, except to obtain temporary relief given “critical shortage” (Article 11).
- A country implementing an export ban must provide due notice to the Committee on Agriculture and consult with affected importing members upon request (Article 12).
- The provisions in Articles 11 and 12 apply to developed and developing country members who are net food exporters of the concerned foodstuff.

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Case of the rice trade forum

Such disciplines have obviously been ineffective in practice, particularly for developing member countries who are also net exporters. Would regional approaches to food policy coordination be more effective if multilateral approaches are not working? This alternative parallels the transition (hopefully temporary) from multilateral trade deals (now mired in the Doha round) to regional free trade arrangements.

Regional initiatives are not new. As early as 1979, the Association of Southeast Asian Nations (ASEAN) signed the ASEAN Food Security Reserve Agreement. The agreement established the ASEAN Emergency Rice Reserve (87,000 t) and the ASEAN Food Security Reserve Board (AFSRB). The AFSRB is tasked with oversight of the agreement, including analysis of the food security situation regionally and globally.

In 2009, the ASEAN Summit approved the ASEAN Integrated Food Security (AIFS), and Strategic Plan of Action on Food Security (SPA-FS) covering the period 2009–2013. The components of the AIFS are:

1. Emergency short-term relief: this aims among others to strengthen regional food security mechanisms, such as establishing the ASEAN Plus Three Emergency Rice Reserves (APTERR) and reinforcing AFSRB and its secretariat in compiling, managing, and dissemination of statistics and information on food and food security.
2. Sustainable food trade: this involves promotion of conducive food trade, including full implementation of ASEAN Trade in Goods Agreement (ATIGA), as well as analysis of trade information.
3. Food security information: an action program is to reinforce the ASEAN Food Security Information System (AFSIS) toward a long-term mechanism.
4. Agricultural innovation: entails promoting sustainable food production and investment in food and agro-based industry.

The functions of AFSRB under the ASEAN Food Security Reserve Agreement as well as AIFS - SPA-FS are consistent with those of the coordinating policy advocated in this paper. The AFSRB has therefore undertaken a Rice Trade Forum on pilot basis to test its usefulness and sustainability.

The first ASEAN Rice Trade Forum was held in Siem Reap, Cambodia, 19–20 June 2012 (http://www.adb.org/news/events/asean-rice-trade-forum). Participants included the AFSRB and representatives from the academe, civil society, nongovernment organizations, farmer organizations, and the donor community. The meeting was supported by the Asian Development Bank under a Technical Assistance to ASEAN in relation to the AIFS.
The objectives of the forum are that, at the end of the meeting, participants will have:

- shared and analyzed rice market information;
- identified areas of cooperation and policy coordination to mitigate or avoid extreme rice price volatility;
- determined long-term and strategic policy reforms for the sustained development of regional rice trade;
- tested and discussed the business processes and arrangements involved in organizing a rice trade forum.

The agenda covered the following topics:
- Rice market situation and outlook
- Extreme price volatility and trade
- Calamity, price volatility, and emergency rice reserves
- Approaches to address price risk

The forum is still at a pilot stage, with further meetings being planned. If the results of the pilot are deemed successful, the Rice Trade Forum may be formalized as a permanent function of the AFSRB.

Prospects for the Rice Trade Forum

The task of policy coordination is advantageous in principle, but it is confronted with numerous obstacles in practice. The primary challenge appears to be the need to balance national sovereignty with collective action. Countries tend to treat domestic policy over such a politically sensitive matter as food, to sacrosanct and kept free of interference from other governments. Policy coordination does not however entail ceding of national sovereignty. It only requires simple recognition that policy invariance is an incorrect assumption all around. Insisting on national sovereignty guarantees all countries falling into a low-level equilibrium trap; hence the goals of sovereign action are not satisfied anyway. Unfortunately, the very fact that other countries are coordinating their policies may tempt individual countries to practice insulating policies. This temptation to "chisel" away at a cartel agreement is common in all collective action games.

The long-term solution is to bind countries legally to collective action by treaty obligation. This, however, entails protracted negotiation over the details of what is allowed, what is permitted, and which circumstances activate treaty provisions. Moreover, as we have seen for the WTO Agreement, enforcement is an equally difficult problem as negotiation.

In the interim, there is a need for a consultative process at an international level.
as formal agreements await negotiation and
enforcement. A regional grouping would
make this consultation more manageable. At
the same time, expanding the consultation
to cover not just policymakers, but also a
broad spectrum of stakeholders would help
open national food policies to greater
scrutiny. This process of multisectoral
discussion and information exchange is
precisely the intent of the Rice Trade Forum.

While its current format of period meetings
is necessary, it must innovate mechanisms to
enable the AFSRB to convene quickly in the
event of imminent food crisis. Moreover,
membership in ASEAN may be too narrow to
ensure effective policy coordination: it
should encompass major rice producers,
consumers, exporters, and importers in the
region, with whom ASEAN has already
developed some sort of partnership. This
covers the Plus Three countries (People’s
Republic of China, Republic of Korea, and
Japan). This would also include India, which
is now a dialogue partner of ASEAN. They
may initially participate as observers, before
being eventually elevated as co-convenors
together with AFSRB to increase the sense of
ownership, and therefore effectiveness of
the coordination effort.

There remains much to be done to transform
the Rice Trade Forum into a workable and
sustainable venue for food policy
coordination. However, all excellent
proposals need to start somewhere.
Hopefully the Rice Trade Forum can gather
momentum toward meaningful discussions
on collective approaches to food policy and
food security.

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