Japan, China and Thailand Can Solve the Rice Crisis—
But U.S. Leadership Is Needed
by
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The world rice market is in crisis, with export prices soaring to $1,100 per ton in April, from $375 per ton in December.[2] If action is not taken, prices may double again, returning them to stratospheric real levels last seen during the crisis in 1973/74 (Fig. 1). The loss of rice production in Myanmar due to Cyclone Nargis complicates the task of stabilizing the world rice market. Fortunately, the release of rice stocks by Japan, China, and Thailand can bring rice prices down *now*, possibly cutting them in half by the end of June. But the U.S. government must take the lead in making this happen. To do so, it will need to get U.S. rice growers on board with the plan, a potentially difficult roadblock.

Why Food Aid Isn't the Answer

The alternative is hard to contemplate. Unless prices are brought down quickly, hundreds of millions of people will suffer from hunger and malnutrition—and many will die prematurely. *Food aid won't do the trick: There is simply no financial, logistical or political way that the world's poor rice consumers can be saved by food aid.* Instead of focusing solely on marshalling food aid resources, Washington can take immediate action to help solve the world rice crisis. What is needed is leadership on getting new rice supplies to the world market.

How can this be done? With India having banned all non-Basmati exports and Vietnam having largely withdrawn as a seller from the export market for now, ideally the new rice supplies must come from a non-traditional source. Fortunately, two such sources are available: rice stocks in Japan and China. In addition, Thailand's new government is sitting on almost 2 million tons which it has been husbanding.

Japan Uses High Quality Imported Rice as Animal Feed

Because of its WTO commitments under the Uruguay Round Agreement, Japan imports a substantial amount of medium-grain rice from the U.S. and long-grain rice from Thailand and Vietnam. Tokyo, however, seeks to keep most of this rice away from Japanese consumers

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(perhaps fearing a realization that the taste of foreign *indica* rice is not so bad and a bargain compared to the $3,900-per-ton locally-produced short-grain varieties of *japonica* rice). But under WTO rules, the government cannot re-export the rice, except in relatively limited quantities as grant aid. So the Japanese government simply stores its imported rice until the quality deteriorates to the point that it is suitable only as livestock feed and sells it to domestic livestock operators. Last year about 400,000 tons of rice were disposed of in this manner at a huge budget loss, displacing an equal quantity of corn exports from the U.S. and thus displeasing another constituency, the U.S. corn growers.

Japan currently has over 1.5 million tons of this rice in storage, roughly 900,000 tons of U.S. medium-grain rice and 600,000 tons of long-grain rice from Thailand and Vietnam. Most of this rice is in good condition, and is incurring large storage charges. Japan would be very happy to dispose of this rice to the world market, but it cannot do so without U.S. acquiescence. (Technically, Thailand and Vietnam will also need to give approval for rice supplies originally imported from their countries to be released to world markets.)

Why U.S. Leadership is Needed

So far the U.S. has been reluctant to take the lead, out of fear of potential political repercussions from the U.S. rice industry. Re-exporting the rice from Japan would mean additional competition for U.S. rice exports. But at the moment, there is no competition—that is precisely the problem. The rice in Japan is needed immediately. By the time the next rice harvest in California is available for export late in 2008, the Japanese rice will have averted a crisis, but the world market will still need every ton available. It is even in the longer-run interests of U.S. rice growers to prevent this crisis, as the inevitable result of continued high prices will be energetic, but inefficient, self-sufficiency programs in countries that import rice. As a result the U.S. rice export market could actually shrink.

The simplest mechanism to stop the crisis is for the U.S. to authorize Japan to sell its surplus rice stocks directly to the world market at a price that covers its acquisition and storage costs—probably below $600 per ton, to whichever importer wants to buy. Certainly, the Philippines will be at the front of the line, but other countries have urgent import needs as well. It is important to realize that this additional rice does not "solve" the world's rice problem—rice at $600 per ton is still a major burden for the poor—but it will prick the speculative rice price bubble.

An alternative, perhaps more politically attractive, mechanism, would be for the U.S. to approve the donation of the Japanese rice to the World Food Program (WFP), which is actively appealing for additional food aid supplies. The WFP needs at least 450,000 tons of rice for its regular operations—much more will be needed this year because of the disaster in Myanmar. Any supplies beyond those directly needed by the WFP could be re-offered by the organization to the world market, with the profits helping to fund their non-rice operations in Africa and elsewhere.

A Grand Gesture Ahead of Japan's G8 Summit

Indeed, the Japanese government could offer the rice as food aid directly to interested parties and finance the donations from its own budget as humanitarian assistance. With Myanmar reeling from the aftermath of Cyclone Nargis, the WFP's proposed budget will clearly be inadequate. There is an attractive headline here: "Japan steps in to solve the world rice crisis." The timing couldn't be better, as Japan prepares to host the G8 Summit in Hokkaido Toyako in July.

The Roots of the Rice Crisis

Why is there a world rice crisis at all? There is no single reason, but panic and hoarding are playing a big role. World rice production in 2007 was at an all-time high, with forecasts for 2008 to set another record. The world's rice consumers have not suddenly started eating more rice. World trade has not collapsed—the volume of exports in the first four months of 2008 was about 20 percent higher than in the same period in 2007. And world rice stocks, excluding those held by China, have been steady the past five years. These trends do not look like an impending crisis, and yet world rice prices have exploded.

And it is not just the international market that is in crisis. From October, 2007, to March, 2008, domestic rice prices increased by 38 percent in Bangladesh, 18 percent in India, and more than 30 percent in the Philippines. These are very large increases for poor people who depend on a single staple food for the bulk of their caloric intake, and typically spend 20 to 40 percent of their income on this one commodity alone. More than 3 billion people depend on rice for their daily food and half of these are very poor. Rice prices approaching $400 a ton meant a meager existence. Rice prices at $1,100 a ton means starvation. If there is plenty of rice in the world, why have prices exploded?

The world rice crisis has crept up on the United States, focused as we are on the ethanol debate and the high price for bread and gasoline. The U.S. is a major exporter of rice—more than 3 million tons per year, placing U.S. fourth in the export ranks behind Thailand, India and Vietnam. In those countries, and in major importers such as the Philippines and a number of countries in Africa, rice is a matter of life and death. In the U.S., it was national headline news only briefly when Costco and Sam's Club restricted the number of bags of rice individual consumers could purchase.

Rice is a very different commodity from corn and wheat. Corn is the ubiquitous "multi-end-use" commodity, providing tortillas and corn meal for direct human consumption, high-quality feed stuffs for livestock, high-fructose corn syrup as a basic sweetener for the processed-food industry, and now ethanol for fuel. Wheat also has multiple end uses, although only the Europeans use much for livestock feed. Rice is the quintessential "staff of life." Nearly half the world's population depends on it as their daily food—over 3 billion people get a third of their calories or more from rice each day. Little rice is fed to livestock and none is used for bio-fuel production.

Rice prices have been rising steadily on world markets since 2003. The underlying factors behind this trend in recent years are similar to those pushing up other food prices. These include rising energy and fertilizer costs and the falling value of the U.S. dollar. Bio-fuels production and, since mid-2007, heavy speculation from financial investors with little understanding of food commodities have also played important roles in propelling non-rice prices higher, but have played a less direct role in driving world rice prices. (Speculative activity on rice futures markets in Chicago and Bangkok, though, has exploded recently.)

Panic and Hoarding

Thus the trebling in rice prices is driven to a greater degree than other commodities by panic and hoarding. These were precipitated by sudden export restrictions in India, which were stimulated by events in other commodity markets, especially wheat, not from local shortages. (Facing a parliamentary election in May, 2009, the Indian government does not want to face further criticism over additional wheat imports—thus rice exports needed to be curtailed to maintain supplies for the public food distribution scheme.) These export restrictions spread to other suppliers and lead to urgent efforts by rice importing countries to secure supplies—at any price—in a thin global market. It is no accident that most of these countries face elections, and food price inflation is extremely unpopular. Rice has returned as the "political commodity," even in relatively affluent Asia. The result: the extraordinary price rises we have seen in recent months, even though the underlying fundamentals support only modest price increases (Fig. 2).

From this perspective, the current crisis can be seen as a result of the renewed tension between rice as an economic commodity traded on world markets and its role as a political commodity that influences the fate of poor farmers and consumers and, consequently, political regimes. Rice prices are the barometer of this tension, and any sign that rice markets are about to spiral out of control leads to understandable behavior on the part of farmers, consumers, traders and governments: *store more rice*.

The inevitable result of such hoarding is a spiral in rice prices, the very thing that all market participants feared. The only way to break these rocketing prices is to convince market participants that adequate supplies are forthcoming, quickly and reliably. The response is then for prices to fall immediately and sharply when new (and unexpected) supplies hit the market. Pricking the rice price bubble in today's market could drop prices from more than $1,100 per ton to perhaps half of that level.

China's Role: Olympic Rice

In addition to the release of Japan's rice stocks, China could get some badly needed good publicity by taking a leadership role in this crisis. While China's leadership is currently focused on this week's earthquake in Sichuan—the most severe effects of which appear at this time to be limited to a relatively sparsely populated area in the mountains, Beijing is holding stocks that are the equivalent of at least 4 months of domestic consumption. China could easily afford to double last year's exports of almost 1.4 MMT with no repercussions on its own inflation rate. Indeed, a high profile announcement by the Chinese government of its intention to release some of its stocks might aid its own efforts to stabilize domestic food prices in the run up to its holding the

Olympic games. Certainly, Chinese rice traders would like the opportunity to sell some of their stocks at more than double the price they paid to acquire them. It is worth noting that China has helped stabilize the world rice market before: during the three years from 1973 to 1975, during the worst rice crisis ever, mainland China had net exports of 7.1 million tons, compared to just 2.8 million for Thailand. On either side of the crisis, i.e. 1972 and 1976, Thailand exported more than China. Thus, by boosting exports, China played a major role in stabilizing the world market at that time.

Alternatively, Beijing could launch its own food aid program to help the world's poor—they could call it "Olympic Rice" and make their first donation to Myanmar. This rice could be shipped overland from China, avoiding the logistical nightmare caused by the sinking of 70 ships in Rangoon River that are unlikely to be cleared for at least a month. Word from senior Chinese policy analysts is that such a decision could only come at the "very highest level." Some subtle behind-the-scenes U.S. diplomacy could play a positive role here.

Thailand: Sitting On Needed Stocks

The newly-elected Thai government inherited very large stocks from its predecessor and has been wrestling with the question of what to do with this inventory. This month it has released a small quantity to its local population at below-market prices, but it still has almost 2 million tons for which no decision has been made. Officially, Bangkok is waiting for the new "main" harvest later this fall, but the reality is that rice is being harvested in the country's rice bowl – the Central Plains – virtually every day of the year. These stocks should be either made available to its own exporters (via a system of orderly auctions held every other week) or be sold on a government-to-government basis to countries such as the Philippines. As with China, quiet U.S. diplomacy can make a difference here.

Beyond the immediate crisis, investment in agriculture generally and rice, in particular, has suffered over the last two decades, and hundreds of millions of dollars of new funding is needed annually. But the payoff from those long-overdue investments in irrigation infrastructure, plant breeding, and post-harvest losses will only be realized over the medium- and long-term.

Why a Washington-Tokyo Agreement is Key

What's needed now is a sudden surge of unexpected supplies to prick the speculative bubble and to reassure anxious countries and poor people around the world that there is indeed enough rice for everybody. An agreement by Washington and Tokyo for Japan to release its 1.5 million tons of unwanted rice stocks is the key to piercing this bubble. It would bring prices down immediately, averting hunger, malnutrition, and increased mortality among poor people in Asia. And it would make it easier for China and Thailand to do the right thing and release some of their own surplus rice stocks as well. Now is the time for U.S. policymakers to exercise leadership by making it clear, through diplomatic channels and other means, that the United States understands the importance of stable rice prices to poor people and is prepared to do what it takes to help. After all, high-quality American rice should be fed to people, not pigs.

Figure 1

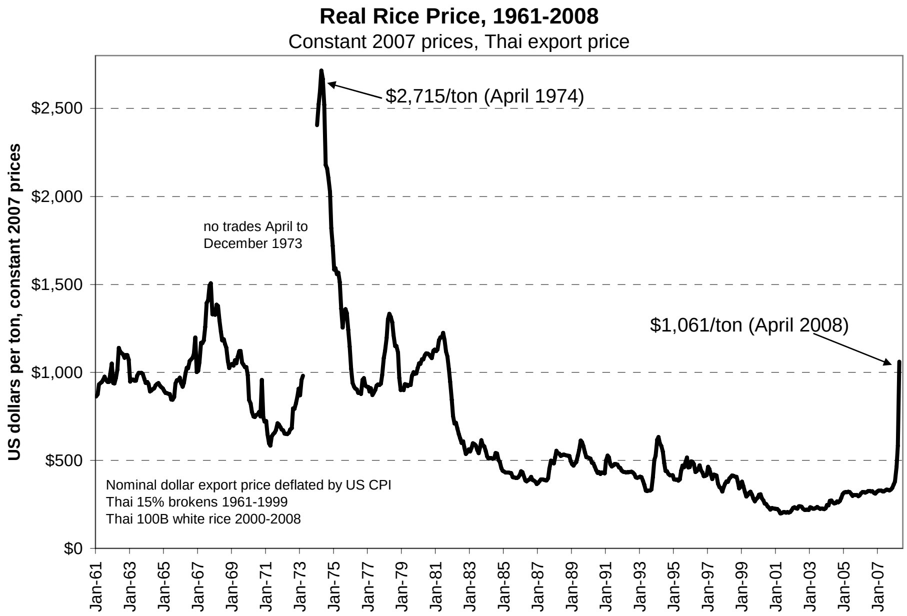

Figure 2