The Economist

Rice in Asia

Paddy-whacked

By meddling in the market for rice, Asian governments make their own citizens poorer

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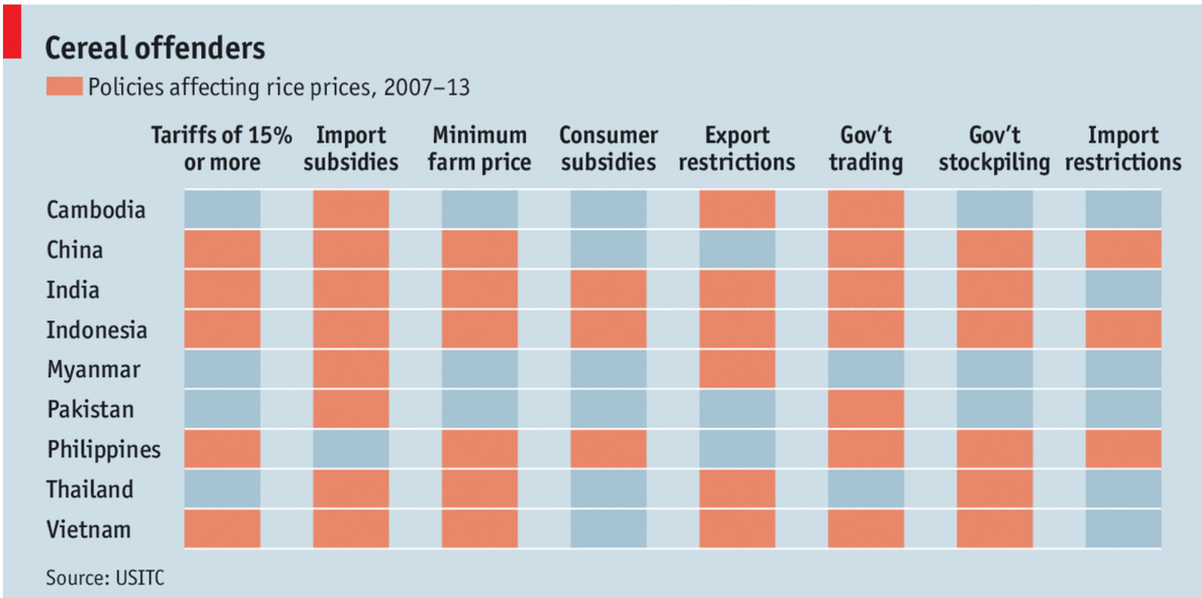
SINGAPORE

NEARLY 16% of Indonesia's 250m people survive on $1.90 a day or less, as do more than 6% of Cambodia's 15m people. In both countries, rice is the staple crop, providing more than half the daily calories of the poor. That puts needy Cambodians at a distinct advantage: between January of last year and April of this, the average wholesale cost of a kilo of rice in Cambodia was roughly $0.40, while in Indonesia it was nearly $0.70.

There are a few reasons why rice is more expensive in Indonesia. For one, it is a net importer, whereas Cambodia grows more than it needs. Indonesia is also a far-flung archipelago with abysmal infrastructure, which raises transport costs. But David Dawe of the Food and Agriculture Organisation (FAO), a division of the United Nations, has found that transport costs account for only a small share of the gap in prices. Instead, the culprit is policy.

Like many Asian countries, Indonesia wants to be self-sufficient in rice. But as well as trying to help farmers become competitive through investments in agriculture and infrastructure, its government, like others in the region, manipulates the rice market through a welter of subsidies, tariffs and other support mechanisms for domestic producers (see table). These interventions, though well-intentioned, raise prices for consumers and harm the region's poorest people.



Asia consumes 90% of the world's rice. It is used to make flour, noodles and puddings. Babies and the elderly survive on rice gruel. Steaming rice porridge is eaten for breakfast in skyscraping hotels in Hong Kong and rustic village kitchens in Hunan. Alcohol made from rice — be it *sake* in Japan or rice whiskey in Thailand — is swilled deep into the night in karaoke parlours and roadside stalls.

But rice is not just a culinary mainstay: it has religious and cultural uses across the continent. It appears on Buddhist altars and in offerings to deceased ancestors; farmers pray to gods who govern rice before the harvest and thank them afterward. In many Asian languages the verb "to eat" literally means "to eat rice".

Its ubiquity and cultural centrality make rice far more important politically than any other food. Every country believes its own rice superior: Thais love the fragrance of the local jasmine rice; Indians extol the fluffiness of basmati; Japanese rave about the delicate texture of *koshihikari* from Niigata prefecture. Having to rely on foreign rice seems to many a cultural affront.

The early adoption of especially productive strains during the Green Revolution briefly helped Indonesia and the Philippines to achieve self-sufficiency in rice in the 1980s, but for most of the past century they have been importers. The rice-exporting countries on the mainland have a big competitive advantage, in the form of large river deltas, which offer the perfect setting for growing rice and a handy means of transporting it. Peninsular, island and archipelagic countries such as Indonesia, Malaysia and the Philippines lack vast tracts of flat, swampy land. Their farmers produce more rice per hectare, but have a far smaller area under cultivation.

Many governments look back with fear to the rice-price spike of 2007–08, seeing it as a reason to build up domestic production so that they are not dependent on a fickle international market. In fact, the rice market is fairly stable: production has largely matched or exceeded population-growth rates in Asia. And global rice prices are no more volatile than those of the other two global staples, wheat and maize (corn), which also shot up in 2007–08.

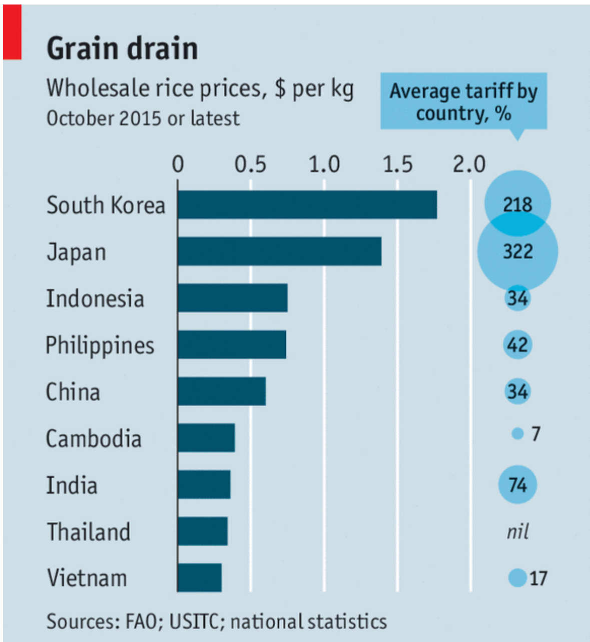
But wheat prices rose because of weather-induced shortages and maize prices jumped because of increased demand for ethanol production. Rice prices shot up because governments panicked. India restricted exports, which sent the international price soaring. The Philippines, which had low government rice-stocks but ample private stocks and was on the verge of a record harvest, nonetheless bought massive quantities of Vietnamese rice at above-market prices. That helped spur a run on rice in Vietnam. Thailand mulled restricting exports and creating a rice-exporting cartel, inspired by OPEC, with Vietnam, Cambodia and Myanmar. Elsewhere, smaller exporters cut exports while importers and farmers hoarded. Prices did not start falling until the second half of 2008, when Vietnam, Japan and Thailand all said they would boost exports, and oil and shipping costs started declining.

This episode was an object lesson in the perils of interference. But governments continue to intervene across the market. They offer trade restrictions, price support and hefty subsidies on power, fertiliser and water, mainly to keep domestic prices stable, assure supplies in times of crisis and protect domestic growers.

In one sense, this has worked. Across Asia, domestic rice prices are relatively stable. But the countries trying to reduce imports tend to have far higher prices than exporters (see chart). Japan, for instance, maintains its network of archaic, inefficient, heavily subsidised small rice farms. The average age of its rice farmers is 70. Japan imports rice grudgingly and taxes it heavily: tariffs on milled rice will remain at 778%, even after it joins the Trans-Pacific Partnership, a free-trade agreement under which Japan agreed to lower tariffs on other agricultural imports (see article).

The government plays an even more outsized role in Indonesia and the Philippines, by directly determining the volume of imports. The quota varies from year to year, depending on how good the local harvest is expected to be. Both countries also set a floor price for farmers and a ceiling price for consumers. Vietnam, an exporter, uses quotas to restrict the amount of rice leaving the country, and thus stabilise domestic prices. Such restrictions create a lucrative opening for smugglers.

Governments not only dictate the volume of trade, they also buy rice directly. For more than a decade China's government has been buying rice from local farmers at above-market rates to maintain its stockpile. The Indian government guarantees farmers a floor price in theory, but many do not receive it. The National Food Security Act, passed in 2013, is supposed to ensure that the poor can buy rice from the government at below-market rates from a network of around 60,000 fair-price shops. This byzantine, inefficient system — the central government buys rice and sends it to the states, who distribute it to shops — provides myriad opportunities for corruption. By some estimates more than half the grain is siphoned off, and tons of rice intended for the poor rot in massive government stockpiles.



Indonesia also guarantees floor and ceiling prices, and maintains a similar rice-distribution programme, spending around $1.7 billion each year to distribute subsidised rice to roughly 16m families. This scheme has also been dogged by allegations of corruption: some of the rice was rotten and weevil-infested by the time it reached poor families, and some of the families sold rice back to traders for several times the subsidised price. This year an OECD study found that as a result of Indonesia's various policy interventions rice there cost around 60% more than on the world market.

In 2012 Thailand cooked up a disastrous plan to buy rice from farmers at above-market prices, hoard it to drive up global prices (at the time Thailand was the world's biggest exporter) and then sell it when prices rose. The ruse failed when growing Indian rice exports picked up the slack; it ended up costing the Thai government around $16 billion, leaving it sitting on 13m tonnes of quickly rotting rice and getting Yingluck Shinawatra, the prime minister of the day, impeached. Many farmers still have not been paid.

As a result of interventions like these, billions of people pay above-market rates for rice. High rice prices lower purchasing power and increase poverty in rice-importing countries. They also hinder child development by reducing the amount of more nutritious foods households can afford. Studies in Bangladesh and Indonesia have found that higher prices are associated with higher rates of malnutrition.

Governments often justify keeping prices high on the grounds that it helps poor rice farmers. In fact, most benefits accrue to the richest farmers — those with the most surplus rice to sell. Farmers with holdings too small to grow enough rice to feed their families suffer, as do landless farmhands, the urban poor and farmers of crops other than rice. All told, these groups number in the hundreds of millions.

But farmhands and the urban poor lack political clout, and subsidies, once in place, can be hard to take away. Japan's ruling Liberal Democratic Party, for one, relies on the support of all those doddering rice farmers. Thailand's junta came into office promising to end rice subsidies. Yet even as the generals moved to try Ms Yingluck for the losses incurred by her rice-purchase scheme, they announced their own billion-dollar handout to rice farmers. For Asian policymakers, it seems, intervening in the market for rice has become as reflexive as eating the stuff.