

The rising rice price

Asian countries curb exports to avoid shortfalls as a 'perfect storm' nearly doubles the price of rice in three months

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Knee-deep in muddy water, her face smeared with sandalwood paste and a broad-brimmed hat for protection against the broiling sun, Samniang Ketia grins broadly at her good fortune to be in the rice growing business as she replants shoots for the next harvest two months off.

The 37-year-old, who leases a small plot of land in Samblong, central Thailand, knows the price of rice has rocketed - in some cases nearly doubling in three months - and that she is about to reap the benefit when she sells what her family does not eat. Prices for the staple food of about 2.5 billion Asian people rocketed two months ago. Thai rice, the global benchmark, which was quoted at just below \$US400 a tonne in January rose to \$US760 by the end of March 2008.



Aware that shortages of such a vital staple food could spell trouble at home, Asian governments have moved to ensure their people get enough to eat

at a price they could afford, an insurance policy which has in turn raised prices further.

Cambodia banned all exports for two months to ensure "food security", following the lead of Egypt, a major exporter. Vietnam, which ships 5m tonnes abroad each year declared a 20% cut in exports. India started the ball rolling late last year. With dwindling stocks, the large exporter introduced curbs that effectively banned exports, around 4m tonnes. Pakistan and China also introduced curbs.

While Indonesians took to the streets of the capital, Jakarta, in protest at rising prices even Thailand, the world's largest exporter, is bracing itself. The country produces 30m tonnes of rice a year, and aims to export 8.5m tonnes. Last year 9.5m tonnes was sold abroad and more may be exported this year, prompting ministers to consider curbs. "A rice shortage in the local market is very likely," said Prasert Kosalwit, director general of the Thai government's rice department.

With global rice stocks at their lowest level since 1976, analysts expect price rises to continue until the end of next year. Some analysts predict it could hit \$1,000 (£500) a tonne before farmers, spurred by the high prices, plant more crops and increase supplies. Demand outstripped supply by nearly 2m tonnes last year. The predicted shortfall this year is more than 3m tonnes on the 424m tonnes required.

Across Asia, with its vast and growing population, there is little if any extra land to bring into production, and it may take several years for any "supply response" to materialise. Growing urbanisation over the longer term in countries such as China and India is cited as a key factor in the shortfall, where the increasingly affluent middle classes demand more meat and dairy products, with land turned over to growing feed for livestock. Rising wealth in Africa has also become a factor. Oil-

rich Nigeria is now the largest importer in Africa, a continent which takes the lion's share of Thai exports, about 40%. Asia soaks up 35%.

Severe weather across Asia has also damaged production. Record icy temperatures were recorded in China and Vietnam, the latter of which also suffered a pest outbreak. Bangladesh endured a devastating cyclone while Australia suffered a prolonged drought.

"It's been described as a 'perfect storm' of factors that have pushed prices to their highest levels since the 1970s," said Adam Barclay, of the International Rice Research Institute.

The World Food Programme is also alarmed. The extra cost of feeding the 28 million "poorest of the poor" spread across 14 Asian countries will cost \$160m a year and it has asked three dozen donor governments for the cash, part of a \$500m global appeal to offset rising food prices.

"The real danger with rising rice prices is that the 'working poor' will simply be pushed into the category of 'poor' who will look to us to feed them," said Paul Risley, spokesman for WFP Asia. "There are hundreds of millions living at, or just below, the poverty line of \$1-a-day, spending 70% of their day-labour wages on food. "If food costs double they've no opportunity to increase their earnings and no alternative but to reduce what they and their families eat."



Questions

1. Explain with the help of a supply and demand diagram, why rice growers, like Samniang Ketia highlighted in the extract, are currently in a fortunate position. Show how the price rise has increased the producer surplus of rice growers.
2. Explain why consumers of rice are now in a less fortunate position. Show what has happened to the level of consumer surplus in rice consuming countries.
3. Identify and briefly describe two demand factors that have contributed to the rising price of rice.
4. Identify and briefly describe two supply factors that have contributed to the rising price of rice.
5. Use a diagram to show the impact of exporting rice on the domestic rice markets of countries such as Thailand, India, Cambodia and Vietnam. Your answer should consider the overall level of community surplus, the level of producer surplus and the level of consumer surplus.
6. What costs and benefits to the economies of rice exporting countries result from the introduction of rice export restrictions? What new costs are imposed on rice importing countries by the export restrictions?
7. What is the usual 'supply response' to a price rise for any commodity? Why might it take several years for any "supply response" to materialise in the case of rice production?