

Policy Pennings by Dr. Daryll E. Ray

Thailand and Vietnam offer a pattern for international agricultural policy?

Events of the last year have taught us that blindly believing that markets are unequivocally self-regulating and universally self-correcting does not reflect reality. We are finding that those beliefs, while true under certain theoretical conditions, come up short in the real world.

We have been living in an alternate reality based on compellingly logical arguments coupled with ideological fundamentalism in the absence of "shocks" of a sufficient size to force financial, economic, and political leaders to confront the difference between the theoretical and the actual behavior of free markets. Events in the housing market, financial markets, and their worldwide repercussions provided that shock.

Events of the last year have also caused food and agricultural policy questions to pop up because the size of the "shock" was sufficiently large to break the status quo threshold. The resulting policy initiative involves rice. It involves developing countries' need to satisfy domestic needs while dependably servicing their export customers. The broader question is, does this represent a breakthrough to a new attitude toward international food and agricultural policy?

But we are getting way ahead of ourselves. Let's start from the beginning.

Rice prices hit a peak in excess of \$24 per cwt. toward the end of April 2008. Over 25 countries experienced food riots as people reacted to the high prices of staples like rice while a number of governments instituted policies that restricted exports as a means of protecting food supplies for their local populace.

Ten months later in February 2009, the price of rice is half of the peak and governments are once again concerned. This time the concern is stabilizing prices before they drop to the lows of the 1999-2002 period-in the \$4 to \$6 range.

The two biggest rice exporters, Thailand and Vietnam account for just under half of world rice exports. In the past Vietnam has captured export sales by undercutting Thailand's price.

The fall in the price of rice, led the two competitors to rethink this strategy. At the request of Thailand, they recently held a meeting to figure out how to keep prices from going even lower. The proposed strategies included setting a joint rice price and creating a regional grain reserve.

When the meeting was over, the participants inked a deal to establish a reference price for four grades of

rice. Thailand's jasmine rice was not included in the pact because Vietnam does not produce that type of rice.

The government of Thailand has also been buying rice from its farmers to prevent prices from falling further and faster, thus building up a reserve.

According to a [thanhniennews.com](http://www.thanhniennews.com) article, "Thailand...is proposing a stockpile to cope with emergencies after restrictions on shipments last year by producers including Vietnam" (<http://www.thanhniennews.com/worlds/?catid=9&newsid=46273>).

The article goes on to say, "The 10 member nations of the Association of Southeast Asian Nations (ASEAN) would discuss the [reserve] proposal at its 14th summit in Thailand scheduled for February 27-March 1."

World Trade Organization (WTO) principles notwithstanding, the two proposals are astonishing to some but should not be a surprise to those who understand the political importance of food and agriculture. High prices threaten the urban poor while low prices put producers in jeopardy and most governments need the support of both to remain in power.

Clearly, food and agriculture are different from other products and services. This difference has not been adequately communicated as evidenced by WTO considering food staples no differently than TV sets.

It is abundantly clear to us that even if WTO agreements gave free access for all agricultural markets and ordered the tearing down of all agricultural trade barriers and distortions, Thailand and Vietnam would have reacted in the same way last spring and summer to the high prices and short supplies of rice. Domestic stability trumps less immediate international agreements.

This of course means that even the "successful" completion of the Doha round of the WTO negotiations will not achieve its goal of ensuring unimpeded agricultural trade.

Any agricultural trade policy that is to have any hope of long-term compliance by member nations has to recognize that countries require a zone of comfort with regard to agricultural staples that is not required for consumer products like computers and automobiles.

Thailand and its Asian partners recognize that including physical, not virtual, grain reserves is an es-

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essential part of an international agricultural trade policy as well as providing a means to stabilize the availability and prices of food staples.

Reserves protect consumers in times of serious production shortfalls or unprecedented demand spikes by allowing prices of crops to increase moderately, but not dramatically.

The blunting of price spikes benefits producers long-term by not encouraging an over-reaction on the supply side. At the same time producers benefit as governments fill reserves during periods when production exceeds demand at a price that enables farmers to earn a reasonable livelihood.

The question is: Will the Thailand and Vietnam agreement provide a pattern for meaningful agricultural policy reform that deals with the reality of food and agriculture or will we continue to believe in an alternate reality?

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