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Why export restrictions should not be a response to COVID-19: Learning lessons from experience with rice in Asia and the Pacific

INTRODUCTION

The spread of COVID-19 has created tremendous uncertainty on a number of fronts, including the availability of food supplies. In such a situation, countries might be prompted to restrict their food exports to ensure greater domestic availability in the short term. However, such restrictions can cause panic, leading to price surges on international markets, and a breakdown of food supply chains. During the food price crisis in 2007–2008, trade restrictions contributed significantly to price spikes for various commodities (45 percent for rice and 30 percent for wheat (Martin & Anderson, 2020). Price volatility led to social unrest in many countries and made it more difficult for the poor to afford food, especially nutritious food.

This brief will discuss recent food export restrictions employed in the region, analyze their impacts, explain how export restrictions can hurt importers and exporters alike, and give examples of good policies.

What export restrictions have been utilized in the region?

Most of the region's export restrictions to date have been for rice. In late March, Viet Nam, the number 3 rice exporter in the world, temporarily halted registration of new rice-export contracts, although it later partially relaxed this restriction by instating a rice export quota for April. Shortly afterwards, all export restrictions were removed. In early April, Cambodia also declared a ban on exports of non-fragrant rice and paddy, although these types of rice account for a small share of documented rice exports. That ban has since been lifted. Myanmar stopped issuing rice export licenses temporarily in early April. Since then, the country has moved to a monthly quota system until October when the 2020 main crop harvest should begin to arrive. On the other hand, India, Thailand and Pakistan, the first, second and fourth leading exporters in the world, have not banned rice exports.

For other foods, Thailand placed a temporary export ban on eggs, but Thailand accounts for only one percent of global egg exports, and the ban has now expired. Russia and Central Asia imposed the most food export restrictions (Laborde, 2020), but even these have generally not had major impacts.

Export restrictions have been less common in the current crisis than during the world food crisis of 2007–2008 for several reasons. First, production of rice, wheat and maize are all close to record highs; while in 2007–2008, there were successive negative production shocks to wheat and maize. Second, stocks of the three main staple grains are ample, with stock-to-utilization ratios at close to 15-year highs. Thus, overall supplies are abundant. Third, petroleum prices are historically low, which reduces demand for biofuel from maize and sugar and puts additional downward pressure on the prices of those products. Low petroleum prices should also help keep nitrogen fertilizer affordable

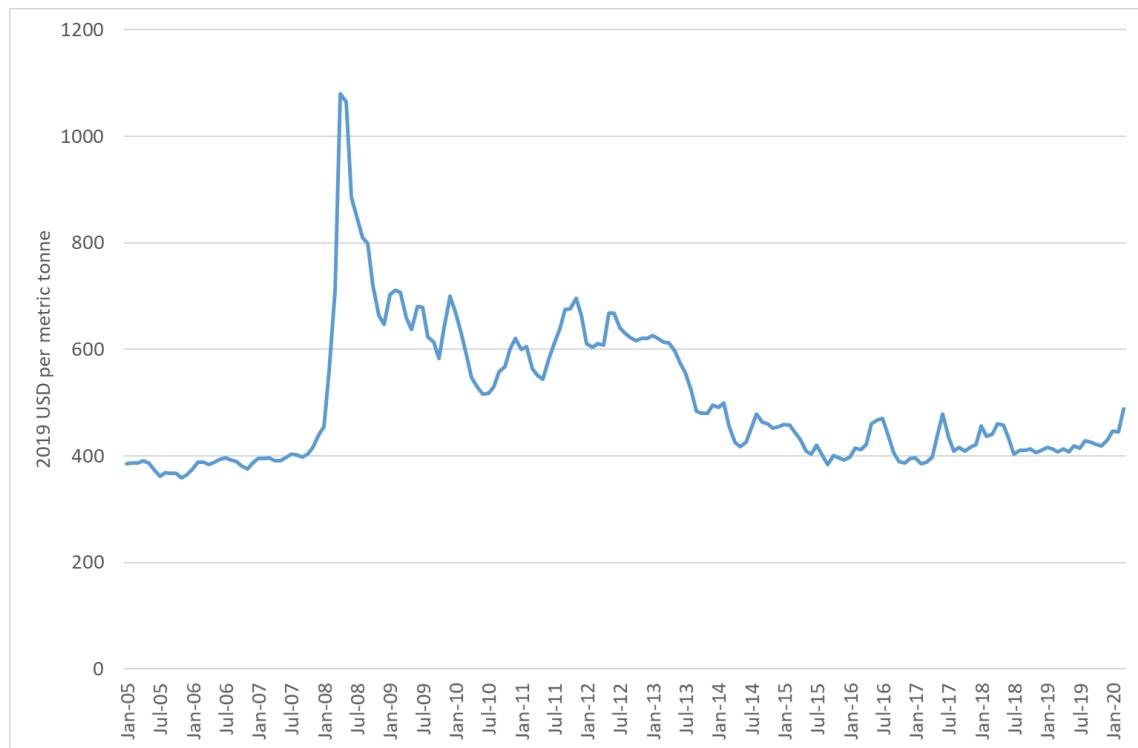
for the next cropping season. In contrast, biofuels were a big driver of the price increases in 2007–2008, and world fertilizer prices surged.

Impacts of the rice export restrictions

Viet Nam's rice-export restrictions had a predictable impact – the price of Thai 5 percent broken rice, a benchmark global market indicator, increased about US\$100 per tonne (more than 20 percent) in the two weeks after the ban on new export registrations was announced. This increase was also fueled by major reductions in the size of the Thai dry-season rice crop due to drought, as well as logistical delays that decreased the flow of rice exports from India.

Once Viet Nam relaxed its export restrictions, the price declined by US\$44 per tonne within little more than a week, and within a month fell back to the levels before the restrictions. Other factors that contributed to declining prices were the easing of logistical problems in India, good supplies among Asian rice importers, currency depreciations in some countries, and low oil prices (that reduced rice demand from oil-producing countries). Viewed from a longer-term perspective, world rice prices are much lower than during the price surge in 2008 (Figure 1).

Figure 1. World market rice prices, monthly, 2005 to 2020 (adjusted for inflation)



Source of raw data: International Monetary Fund.

Had prices stayed high or increased further, rice-importing countries would have been hurt, especially if they were unable to obtain supplies because of panic buying, as happened to some countries in 2007–2008. Many poor people spend a large share of their income on rice, and so high rice prices strain their budgets and make it more difficult for them to afford nutritious (but more expensive) foods such as fish, meat, dairy, fruits and vegetables.

What are the effects of export restrictions on exporters? The primary reason that exporters impose food-export restrictions is to make sure that ample domestic supplies are available. An export restriction will typically achieve this outcome in the short run, but there are several costs associated with the temporary improvement in domestic supply.

First, export restrictions result in lower domestic prices, which harm farmers and reduce incentives to produce more rice and invest in the sector. These effects will be larger for countries where exports account for a larger share of domestic production, such as Pakistan (56 percent on average over the past three years), Thailand (50 percent) and Viet Nam (24 percent).

Second, they benefit competitors on international markets. When Thailand indirectly restricted rice exports beginning in late 2011 by stockpiling a large share of domestic output, it promptly lost market share to India, Viet Nam and others. Thailand had been the world's leading rice exporter for more than 30 years, but India has been the world's leading exporter ever since.

Third, export restrictions damage the exporter's reputation and encourage importers to reduce reliance on the world market, consequently reducing confidence in international trade, and destroying future business opportunities for exporters. Finally, in the current situation, rice export restrictions could prove contagious and spread to other types of food, driving up demand and prices of alternative foodstuffs. As all countries import food of one kind or another, all countries would suffer in such a scenario. Thus, export restrictions could backfire by creating panic and jeopardizing food security for all countries.

Policy implications

Export restrictions can benefit consumers in exporting countries in the short term, but those benefits come with a wide range of costs. Those costs include lower prices for farmers, less domestic production and investment, loss of global market share to competitors, reduced foreign exchange revenues, reputational damage, and sowing seeds of contagion that could easily backfire by affecting availability and prices of other foods. Export restrictions should be avoided so that international food supply chains can continue to function smoothly.

Many countries have realized the problematic nature of food export restrictions and have responded accordingly. One group of countries, many of them in the region, signed an agreement to keep trade open during the COVID-19 pandemic: Australia, Brunei, Canada, Chile, Myanmar, New Zealand and Singapore (Subhani, 2020). The ten members of the Association of Southeast Asian Nations (ASEAN) agreed in the final declaration from their recent online summit to “[r]emain committed to keeping ASEAN’s markets open for trade and investment, and enhance cooperation among ASEAN Member States and also with ASEAN’s external partners with a view to ensuring food security ... and strengthening the resiliency and sustainability of regional supply chains, especially for food and ... essential supplies (ASEAN, 2020).” More countries should join in such efforts to keep food supply chains functioning at full strength.

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