

Why Food Security is Determined by Elites: Price Spikes and Vietnam's Rice Policy

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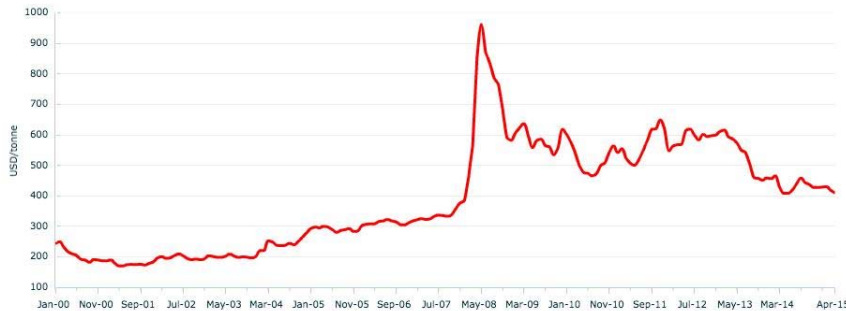
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JOHNSON-SHOYAMA
GRADUATE SCHOOL OF
PUBLIC POLICY



Fulton & Reynolds
Background
Methodology
Assumptions and Constraints
Model and Predicted Outcomes
Concluding Remarks

World Rice Prices, 2000-2015



Legend
INTERNATIONAL PRICES, Thailand (Bangkok), Rice (Thai 100% B), Export, - USD

Source
1. Thai Rice Exporters Association - <http://www.thairiceexporters.or.th/price.htm>

Fulton & Reynolds

2007-08 Price Spike

Price of Thai 100% Grade B rice rose from \$US 335 per ton to over \$US 1000 per ton

- Estimated to have driven 130 million people into poverty worldwide, with 75 million more becoming malnourished
- Causes for the spike
 - Panic buying by large importers
 - Weak U.S. dollar
 - Rising oil prices
 - Increased biofuel requirements
 - Changing diets and growing incomes of Asian consumers
 - Export restrictions by countries such as India and Vietnam



Export Bans

- Rice
 - Vietnam — 2007-08
 - India — 2007-08
 - Myanmar — 2011
 - Thailand — 2011
 - India — 2011
- Wheat
 - Argentina — 2006
 - India — 2007
 - Russia (Duty) — 2008
 - India — 2011
 - Russia — 2012
 - Ukraine — 2012
 - Russia — 2014



What Motivates Bans?

India — 2012

- “India will not think of a ban until it fears that local prices are going to increase. The rice crop is good in India and other countries and the global prices may remain stable.” Ajay Jain, assistant vice president at Almondz Commodities Ltd. (Bloomberg, January 9, 2012)

What Motivates Bans?

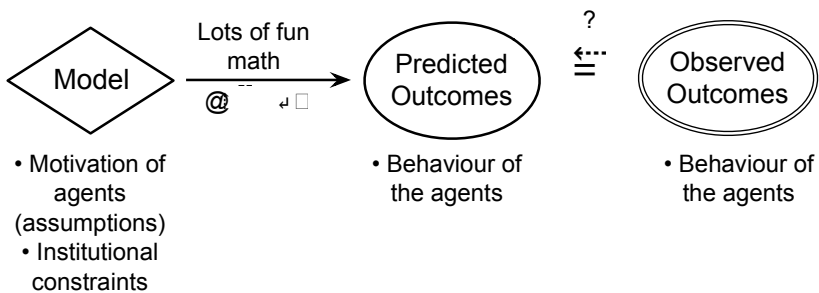
Vietnam — 2008

- Industry and Trade Deputy Minister Nguyen Thanh Bien said the export ban would help to “reduce the quantity but increase the value and export revenues, while ensuring food security and serving the state’s interest.”
- Bien said recent shipments to the Philippines, a rice deficit country, had earned a record 1,200 dollars per tonne. (Economic Times, April 26, 2008)

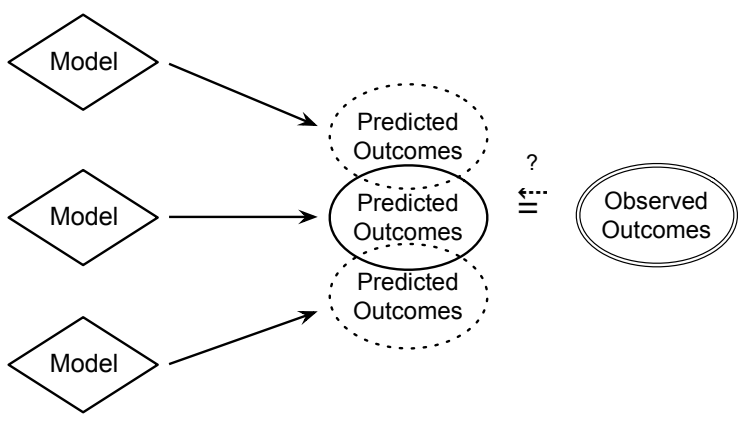
The Take-Home Message

- The structure of the Vietnamese rice export system is a rational response in political economy terms to the inherent volatility present in the international rice market
- Vietnam's political institutions provide the elite in that country with the political power to design the policy mechanisms so that the anticipated volatility in the economic environment can be exploited in a manner that is advantageous to the elite
- These actions, of course, exacerbate the price volatility, further strengthening the demand for export restrictions

Applied Theory



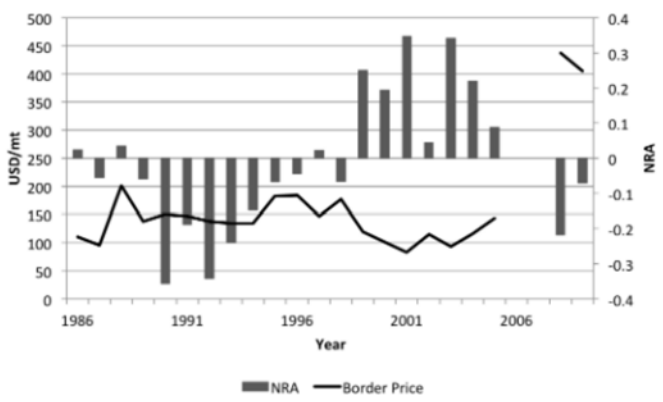
Models as Hypotheses



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Observed Outcomes

Border rice prices and nominal rates of assistance, 1986-2009



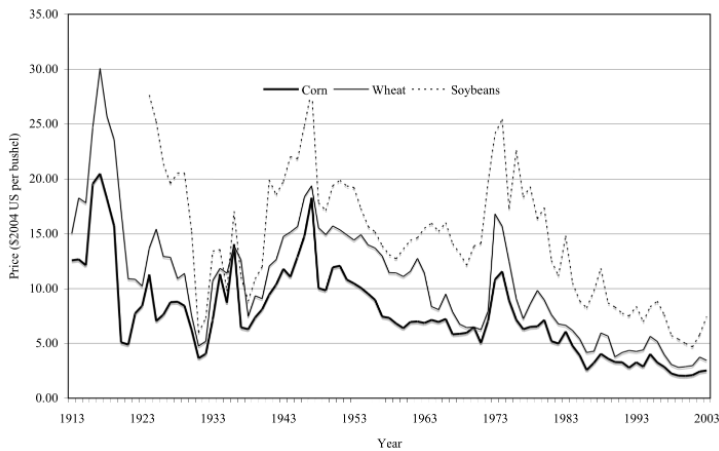
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Motivational Assumptions and Institutional Constraints

- The volatility of the grain market
- The psychology of gains versus losses
- The structure of Vietnam's rice policy
- Vietnam's political economy

The Volatility of the Grain Market

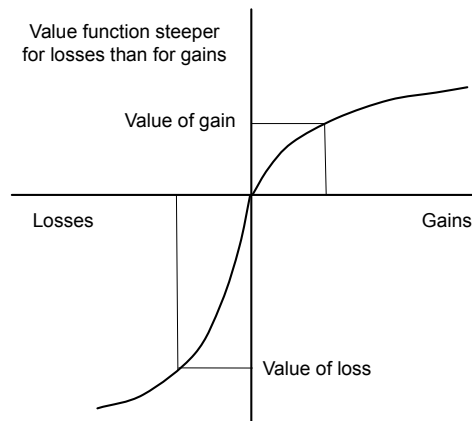
U.S. Corn, Wheat and Soybean Prices, 1913-2003



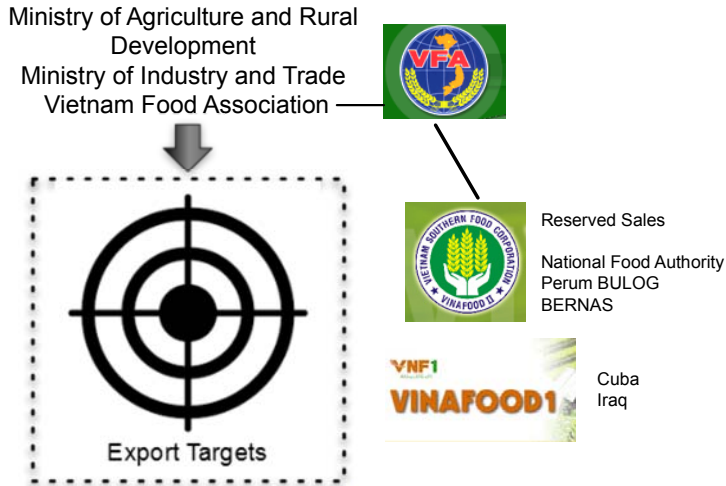
The Volatility of the Grain Market

- “Grain price volatility exhibits a special pattern with two key features. First, price fluctuations occur against a longer-term backdrop of a downward price trend during the period 1950 to 2001 and a flattening out of prices during the early 2000s. Second, against this backdrop, . . . episodes of sharp price spikes, followed by precipitous falls, are prominent features of the data, interspersed by longer intervals of less extreme variation. The price series are asymmetric; there are no steep troughs to match the spikes” (Wright 2011, p. 35)
- Demand is elastic when prices are stable; demand is inelastic when prices spike

The Psychology of Losses versus Gains

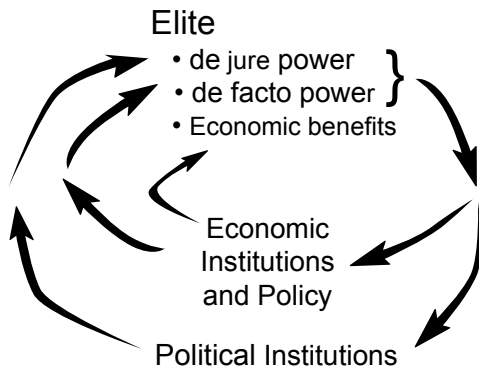


The Structure of Vietnam's Rice Policy



The Political Economy Model

Source: Acemoglu and Robinson



Governance Indicators for Vietnam, 1996-2010

Extractive Political and Economic Institutions

Year	Polity2	Voice and Accountability		Control of Corruption	
		Estimate	Rank	Estimate	Rank
2005	-7	-1.43	8.65	-0.77	24.88
2006	-7	-1.54	7.69	-0.74	25.37
2007	-7	-1.56	7.69	-0.57	33.98
2008	-7	-1.51	7.69	-0.66	29.61
2009	-7	-1.47	8.06	-0.52	36.84
2010	-7	-1.43	8.53	-0.58	33.01

Source: Polity2: Marshall (2014); Voice/Control: Bank (2012)

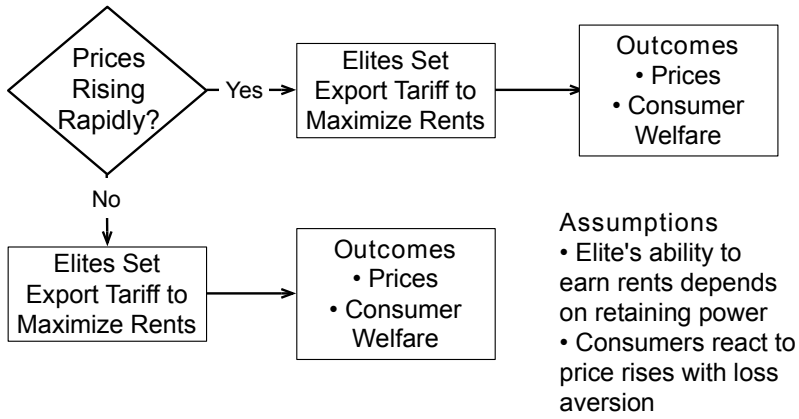
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Ongoing State Control of the Business Environment

“... the programme of so-called ‘equitisation’ [privatization] is **de facto** a means of preserving and formalizing informal ownership rights, in which party-state actors are still implicated. Hence, it proceeds at a pace suited to the interests of the owner-managers and their state and party clients and protectors. The case of SOE reform illustrates a pattern common across the economic reform process in Vietnam: because the party-state remains enmeshed with the business interests that marketisation has given rise to, it is vital that the process of ‘transition’ is one which the party-state centre controls, or at least contains. In various ways, the centre has had to fight hard not to lose control over its own people and to maintain the integrity and effectiveness of its own systems of power and rule.” (Painter 2005, p. 279).

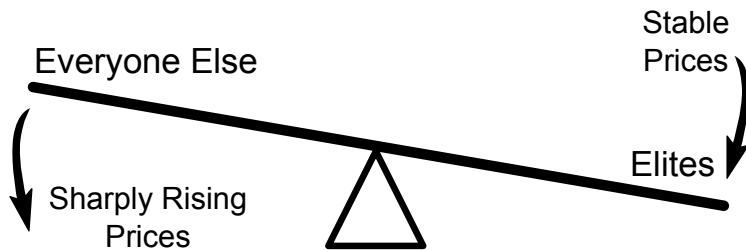
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The Structure of the Model

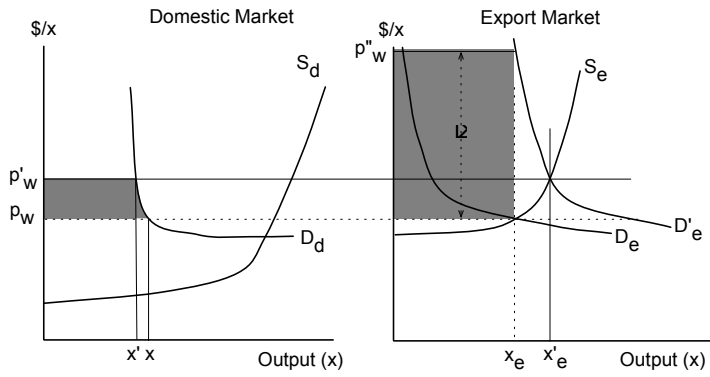


The Balance of Power

De Facto Power



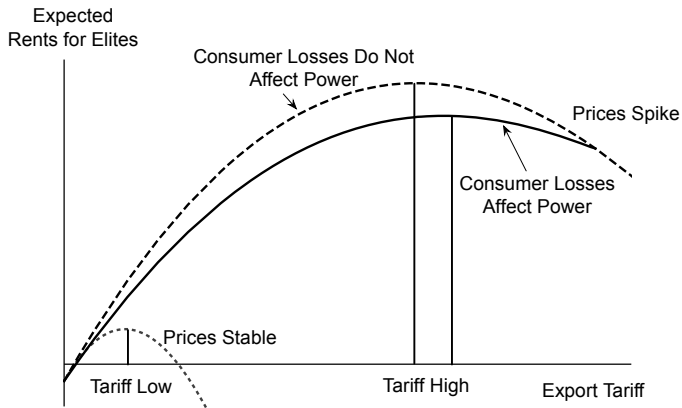
Rent Extraction by the Elites



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Impact of Price Spikes on Export Tariffs

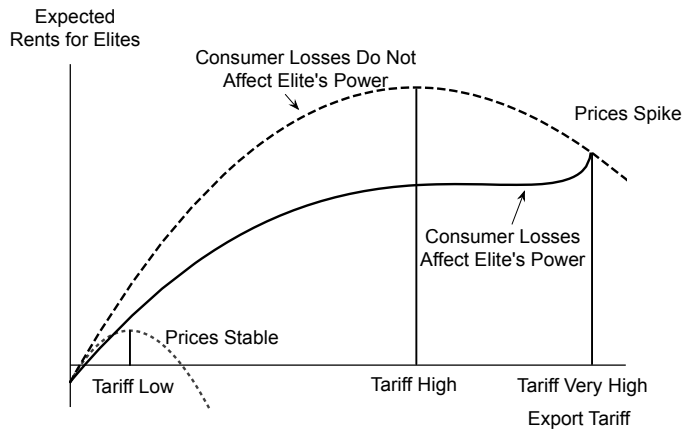
Low Loss Aversion



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Impact of Price Spikes on Export Tariffs

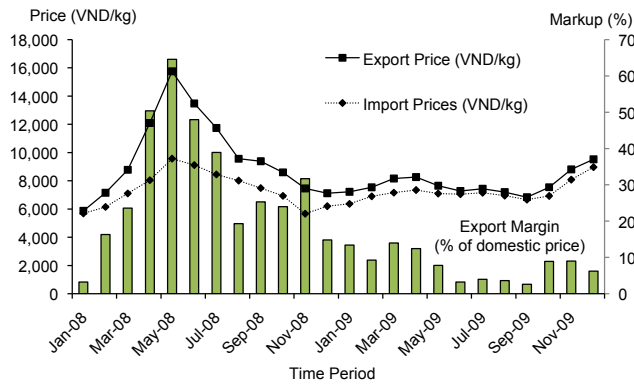
High Loss Aversion



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Fit With Observed Outcomes

Domestic and export rice prices, and export margins, 2008-2009



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Other Hypotheses

Why A Political Economy Framework is Required

- Predicted results are very different than if government is assumed to set rice policy so as to maximize economic welfare for the country
- If this were the goal, governments would not allow state-owned enterprises to benefit from the trade restrictions
- Instead, government should capture the rents
- Since this outcome is not observed, it is possible to conclude that welfare maximization is not a motivational assumption that should be used to understand trade restrictions

What Can We Expect in the Future?

- In attempts to stabilize their own domestic prices, exporting countries such as Vietnam exacerbate international volatility by restricting exports at precisely those times when the world market is tight and prices are already rising
- While the restrictions alleviate food security issues in the exporting country, they make them worse in importing countries
- We can expect this behaviour to continue

Direct Subsidies Unlikely

- Direct subsidies to consumers, while more efficient and less distorting to world prices, are unlikely to be implemented
- The reason: The elites, who have the power, have no incentive to introduce such policies
- Export restrictions, implemented during times of price spikes, both create rents for the elites and ensure the maintenance of their power
- These extractive economic policies are a legacy of Vietnam's colonial past and are likely to remain in place



Impact on Food Security

- Positive feedback effects at work mean that the political and economic institutions in Vietnam are likely to remain extractive in nature
- This entrenchment has serious repercussions for the Vietnamese economy, market stability and global food security
- International price volatility can be expected to persist
- Since food security depends critically on price volatility, concerns over adequate caloric intake for those with the lowest incomes will persist and be difficult to address



Thank You