India's Triumph in Rice

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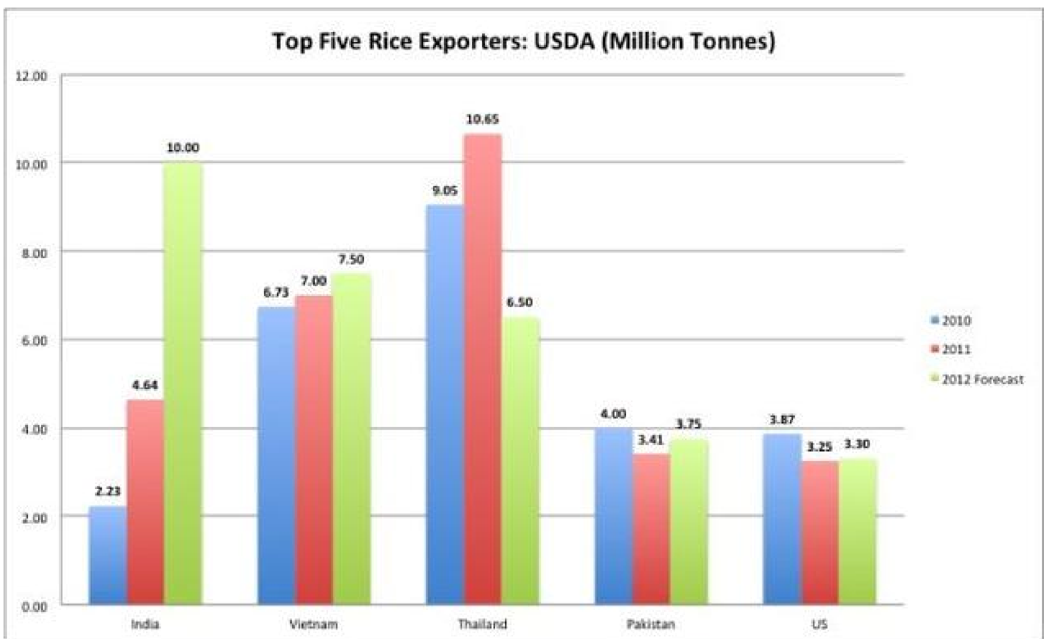
India has emerged the world's largest rice exporter, displacing Thailand from its leadership position, with rice exports in marketing year 2011/12 (October-September) placed at a record 10.4 million tonnes. This rise to the top follows the Indian government's decision in February 2011 to lift a four-year ban on exports of non-basmati varieties of rice paving the way for a rise in exports. That rise, however, was favoured by a decision in the same year of the Thai government, under Prime Minister Yingluck Shinawatra, to improve the lot of its farmers by introducing a Rice Pledging Scheme under which it procured stocks at an enhanced price of 15,000 baht (US$420) per ton - a 60 per cent increase over 2010. This obviously raised the domestic price of Thai rice. If India had not entered the market, the Thai government's decision to buy rice at prices exceeding the world price would have temporarily reduced its sales to the world market. By increasing stocks with the Thai government and reducing global tradable supplies quite significantly, this would have pushed up global rice prices and allowed Thailand to return to the export market. But India's entry and increased exports from Vietnam at the prevailing price prevented that rise, resulting in a fall in Thai exports and the loss of its position as the world's leading rice exporter. Thailand's "loss" was India's gain, as Indian non-basmati rice turned internationally competitive.



India's exports proved price competitive despite the fact that the government had raised the minimum support price quite significantly. Higher support prices had in fact resulted in an increase in stocks with the government. But this did not affect open market availability adversely, because of a record production104.32 million tonnes of rice in 2011 due to a good monsoon. Procurement during the 2011-12 marketing year touched a record 35 million tonnes. Moreover, despite an indifferent Southeast monsoon during 2012, procurement in the marketing season starting October 2012 has also been high, with procurement as on December 12, 2012 placed at 13.4 million tonnes, raising expectations that the government's target of 40 million tonnes of rice procurement during 2012-13 would be realised. The net result is that stocks of rice with the central pool are substantial. As on December 1, 2012 stocks exceeded 30 million tonnes—far higher than the buffer stock and strategic requirement of 13.8 million tonnes on January 1 of the marketing year. Adequate supply meant that all export surpluses during marketing year 2011-12 were mobilised from the open market, rather than from surplus stocks released by government agencies. Yet, the export surge has not thus far resulted in any surge in domestic rice prices, given the favourable demand supply balance.

The fact that export surpluses are being mobilised from the open market by the private trade implies that export prices being received by India are higher than domestic procurement and open market prices. Exporters can access supplies in the open market only by offering prices higher than the procurement price. And they would not offer these prices and choose to export if the export price was not higher than the domestic open market price.

These features of the rice economy have given rise the argument that the Indian government's decision to lift the four-year ban on non-basmati rice exports was a wise move that is delivering foreign exchange, raising farm incomes as well as limiting the excess accumulation of stocks with the government. However, there are reasons why this argument is both inappropriate and premature. Inappropriate because it does not take into account the fact that India's rise to global dominance in the rice trade is explained by the decision of its leading competitor to offer better terms to its farmers who in the past have had to directly and indirectly bear the cost of Thailand's export competitiveness in two senses. First, low prices of agricultural commodities, especially of rice, helped Thailand become a successful exporter of agricultural commodities like rice. Second, low food prices and domestic terms of trade that were kept favourable for manufactures vis-a-vis agricultural commodities were an important factor explaining Thailand's low non-agricultural real wage, which was an important contributor to its manufacturing export success. Low agricultural prices and incomes resulted in the huge migration of the rural population to the Greater Bangkok area.

Prime Minister Yingluck Shinawatra claims that she is only correcting this historical injustice by offering farmers a better deal. In doing so she is carrying forward her brother Thaksin's legacy of providing some state support for a long-neglected rural sector. In a sharply divided society, this effort to offer some benefits of growth to the rural poor has been under attack by a section of the urban elite that has resisted even a marginal redistribution of income in favour of the rural poor. It is in this light that the arguments that Indian farmers have been protected by the government through its support price policy and that exports occur despite this remunerative price being offered have to be judged. The export price clearly is not good enough. A price that is good for the Thai farmer should be good for the Indian farmer. If the Thai government's offer of a remunerative price for its farmers is what makes India competitive, then it is because the farmer is being deprived of that price that India has been successful. Moreover, a rising support price in itself is no guarantee that the farmer in India is doing well. What matters is the net revenue the farmer obtains. And there are many who argue that rising costs have reduced the viability of crop production.

In fact, domestic market prices in India remain subdued for two reasons. First, limited purchasing power with much of the population keeps demand low despite the high level of hunger and malnutrition in India. Second, large stocks with the government provide the assurance that if prices rise, stocks with the government would be released to hold the price level.

But these stocks exist because the government has yet to deliver on its promise of implementing an adequate food security programme that guarantees a minimum amount of access to grains at affordable prices for the needy. In fact, when provisions offered in even the diluted Food Security Act that was drafted by the National Advisory Council were further pruned by the government the justification given was that there was just not enough grain in the country to support the former programme. So, if Yingluck Shinawatra is sacrificing exports in order to improve the lot of Thai farmers, India's rice export success partly occurs at the expense of its poor and needy who are still to be delivered the promised food security.

But the celebration of even this success is premature. It is likely that as stocks accumulate within Thailand because the country is not competitive in global markets anymore, the Thai government appears to be considering bearing a part of the costs of the Pledging Scheme and selling grain at the best price it can get in global markets. That would raise Thai exports and reduce global prices. In fact, the US Department of Agriculture projects that Thai exports would rise from 6.5 million tonnes in 2012 to 8000 tonnes in 2013. The corollary is that India's exports would fall from 10 million to 6.5 million. The arguments celebrating India's rice export success may then prove to be premature, besides being inappropriate.

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