

EFFECTS OF RICE EXPORT BAN IN VIETNAM DURING 2007-2008 ON DOMESTIC AND GLOBAL MARKETS

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Abstract

In order to achieve intended objectives governments often implement policies. However, in some situations the implementations can result in unintended outcomes to society domestically and globally. By employing agricultural economics of policy and trade theoretical framework and reviewing factual evidence this paper found that the rice export ban implemented by Vietnamese government during the year 2007 - 2008 had not resulted in purposed goal of the balancing between the objective of maintaining the sufficiency of rice in domestic market and improving rice exports. Also the implementation of the ban had caused negative effects on both domestic and global rice markets during the time observed, significantly contributing to the surges in both domestic and world rice prices, and partly creating losses in social welfare domestically and internationally.

Keywords: Export ban, price surges, agricultural trade, agricultural policy, global price shock, Vietnam's rice export, global rice market

INTRODUCTION

Policies are made and implemented to achieve intended objectives. Most of agricultural trade policies are used to protect domestic consumers or producers. However, in efforts to achieve these objectives, the policies intervention, especially in large countries, can cause unintended shocks in both global and domestic markets, likely resulting the loss in total social welfare in home country as well as in the rest of the world.

According to TSUKADA (2011) since 1989 the time of re-entry in the international rice market, Vietnam has been historically continuing strict monitor on the total volume of rice exports annually. In establishing and implementing such monitor, there have been requirements to achieve the balance between the objective of maintaining the sufficiency of rice in domestic market and improving rice exports. However, the outcome of the intervention on rice export of Vietnam in 2008 was suggested by this author to be neither achievement of both aims.

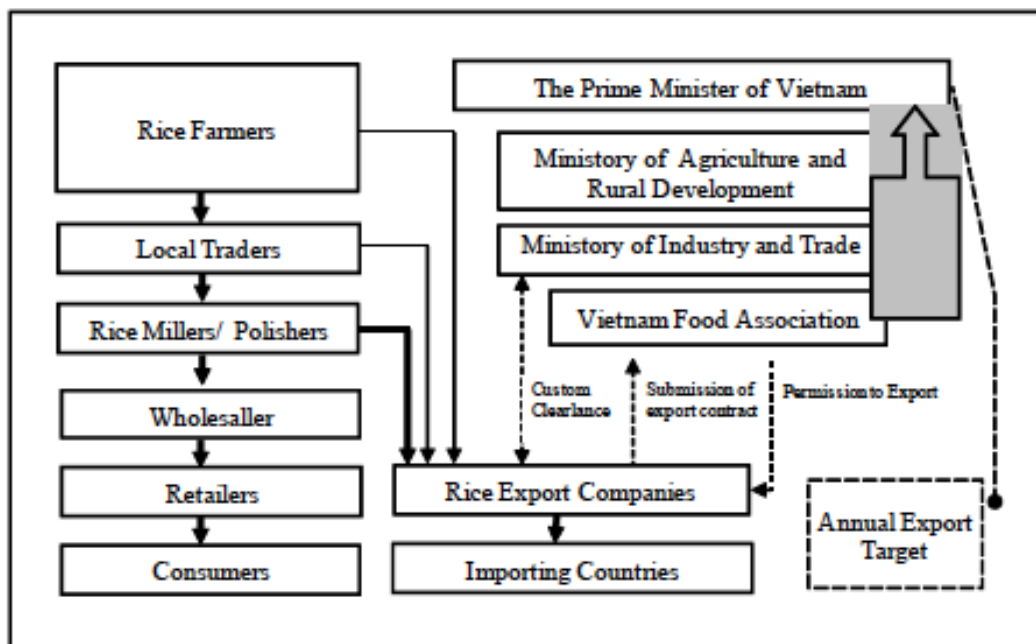
This paper will examine the impact of ban on rice export set by Vietnamese government on both world market and domestic market. It could be strongly argued that although the rise in these prices might also be affected by other factors, such policy created significant influence on world price and domestic price of rice, resulting in the remarkable changes in social welfare in both domestic and global market. The paper will firstly analyze the institutional arrangement and situation that led to the decision of rice export ban by Vietnamese government. Secondly, economic theoretical framework will be used to explain for the arguments for impacts of the ban on price of rice and on social welfare in both domestic and global markets. Lastly, some evidence will be presented to further support for the argument.

The institutional arrangements for rice export policy in Vietnam

The institutional arrangement for rice export policy intervention in Vietnam is depicted in Figure 1 by TSUKADA (2011). The Ministry of Agriculture and Rural Development (MARD), The Ministry of Industry and Trade (MIT) and Vietnam Food Association (VFA) are the three main policy institutions influencing policy of exporting rice in Vietnam. The MARD has responsibilities for collecting information related to agriculture and performing estimation of production of rice and annual consumption. Responsibilities of the MIT are dealing with general exporting policy and monitoring through customs clearance the export progress. The VFA includes 105 private companies and state-owned enterprises (SOEs) that engage in exporting rice. Providing members with global trade information on rice and representing the will of members is the main roles played by the VFA. In fact, the VFA acts as the agency of government in implementing rice export policy.

The procedures of exporting rice is also described by TSUKADA (2011) in which government indirectly controls the total quantity of rice exported. The first step to achieving the approval for exporting is that exporting contracts are submitted by export companies to VFA. Unless the special situations, the contracts will be automatically approved. However, VFA will be required to suspend the approval by the government whenever this organization considers a need for stopping new contracts. The ban on export of rice in 2008 was implemented by this standard procedure.

Figure 1. Market and Institutional Arrangements of Rice Export



Source: TSUKADA (2011)

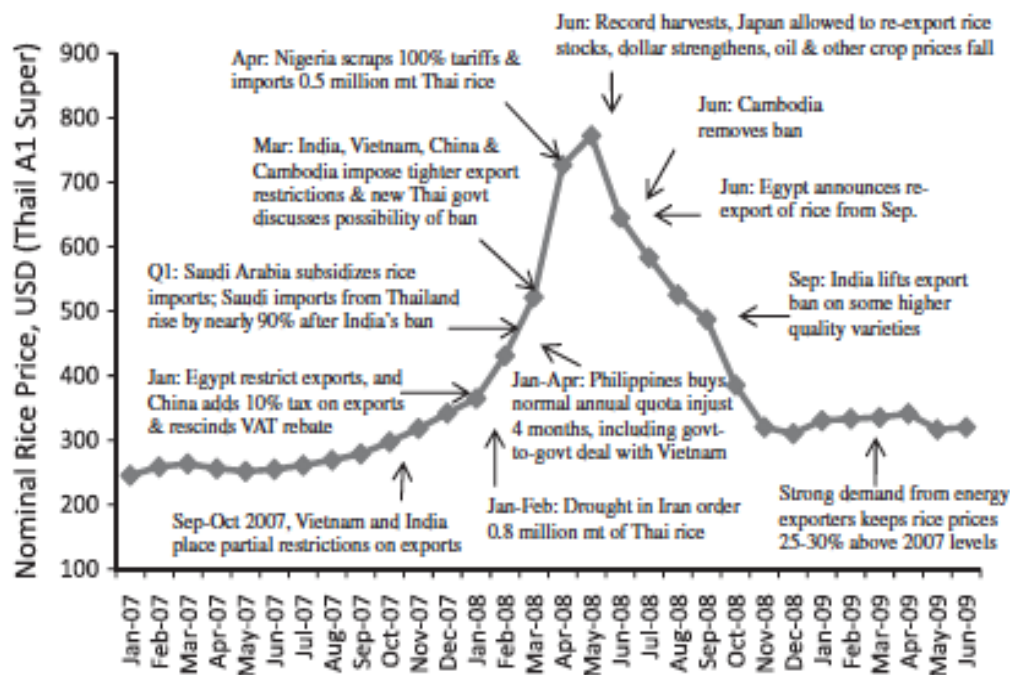
The situation leading to rice export ban of Vietnam in 2008

A restriction on rice exports was imposed in July 2007 before the significant rise in global rice prices in the middle of 2008. The suspension was implemented by VFA due to the total volume of rice contracted to export equalled the total export plan of the year. Confirmation from the government for suspension was established by September 2007 as shown in figure 2. The restriction was maintained to January 2008 when the government decided to have new bans on exports of rice.

There are several reasons causing the imposing of rice export ban in 2008. Slayton (2009) argued that there were two main causes of this decision, including the estimated shortages in rice production in the Red River Delta in Vietnam that had been resulted from

negative weather conditions beginning in the middle of 2008 and the long-term inflation. TSUKADA (2011) claimed that the ban was in place because of concerns on the insufficient availability of rice in domestic market so that domestic consumers can avoid the pressure of unexpected price surges. In addition, as can be seen in the figure 2, it could be asserted that the increase in import demand from Saudi Arabia and Philippines are other major reasons of implementing export ban in Vietnam in early 2008, suggesting the concerns of Vietnamese government on high probability of insecurity of quantity of rice in domestic market.

Figure 2. Effects of export restrictions on rice prices



Source: Derek (2010)

THEORETICAL FRAMEWORK FOR ANALYSIS

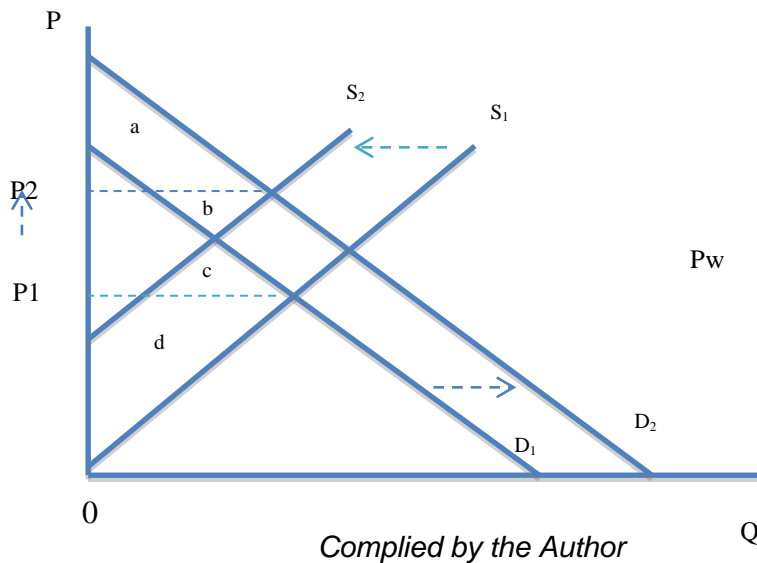
Economic theory of supply and demand can be used to explain the effects of rice export ban on both domestic price and world price.

Figure 3a depicts the effects of the ban on rice export in domestic market of Vietnam. It could be said that in normal conditions in which there was no price increase before the year 2008, the ban on the rice export could lead to the decrease in domestic price from world price (P_w) to the equilibrium price (P_1). However, because of the continuous growth in the world price from the June 2007 to the early 2008 and the huge quantities demanded by Philippines, the ban on rice export of Vietnam in January 2008 could be considered as another factor to burst the

rumor that there will likely be the shortage in supply of rice and significant increase in demand for rice in the world.

Consequently, in the short term, there could be significant changes in both supply and demand for rice. Consumers and traders could come up with decisions of buying more rice for the future use or speculation, resulting in the shift to the right of the demand curve (from D_1 to D_2). Sellers, such as farmers and traders could also think of higher prices of rice in the near future and they likely tended to hoard rice for future sales. As the result, there could be the shift to the left of supply curve (from S_1 to S_2). Having such movements of supply and demand curves, the new equilibrium price could be established at P_2 which could be much higher than P_1 . The change in the social welfare is $(a+b) - (c+d)$ in the figure 3a.

Figure 3a. Effect of rice export ban on domestic price



Since Vietnam has been considered and the second largest exporter of rice in the world, the implementation of export ban could result in significant decrease in supply in the global trade market, causing the shift to the left of supply curve on the global trade market of rice (from TS_1 to TS_2). This, in turn, could result in the establishment of higher equilibrium global trade price that is P_{W2} in figure 3b and figure 3c. The change in social welfare in the importing countries is (-5) in the figure 3b. As the consequence, total social welfare change caused by export ban in Vietnam could be $(a+b)-(c+d)-5$.

Figure 3b. Export ban and importing countries

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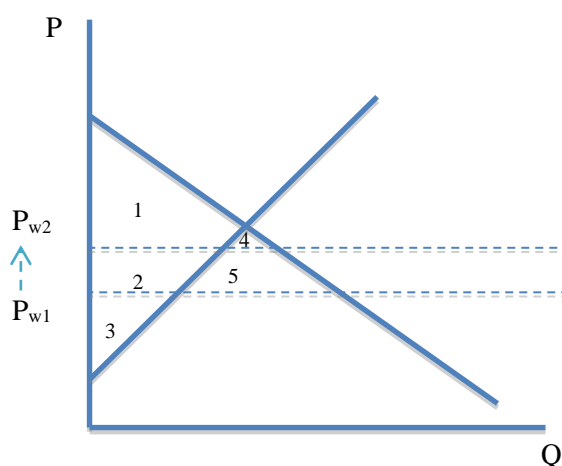
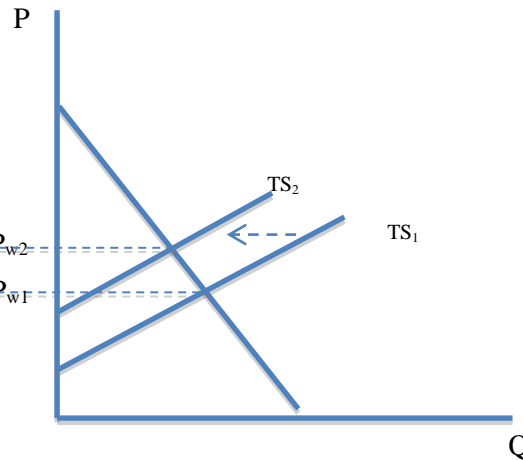


Figure 3b. Export ban & World trade market



SOME PRACTICAL EVIDENCE

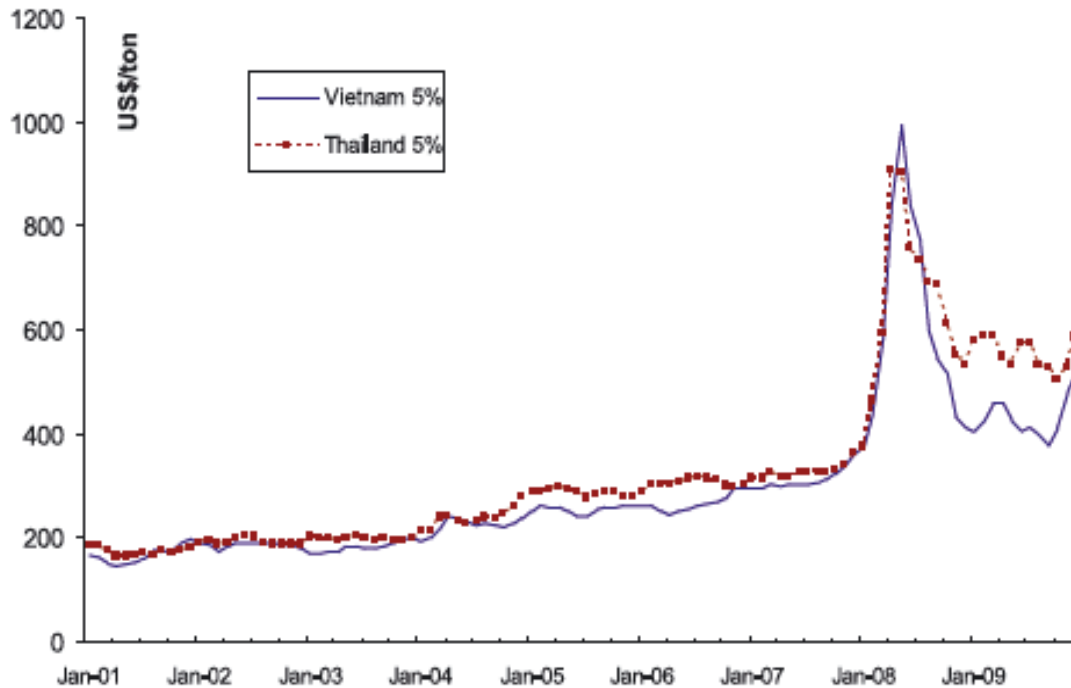
Effect of rice export ban on global rice market

The impose of export ban in Vietnam can not explain the entire increase of global rice price, however, as argued in the introduction of this paper, the policy could contribute significantly to the rise in rice price in the world. For example, Tun-Hsiang Edward, Simla, Eric, and Eddie (2011) suggested that *“the overall impact of trade policy distortions on the world rice price is the most significant”*, resulting in 24 percent increase in world rice price. Similarly, the authors of the study on *“Global market shocks and poverty in Vietnam: the case of rice”* (Coxhead, Linh, & Tam, 2012) claimed that *“since Vietnam is the second largest rice exporter in the world, Vietnam’s ban on new exports has been though partly responsible for the global spike in rice prices, and therefore to be one factor deepening food insecurity in the rest of the world”* (Coxhead et al., 2012).

The export ban implemented by Vietnam on rice in 2007 and 2008 can be also argued to partly cause other negative impacts on global market. Tun-Hsiang Edward et al. (2011) showed that while there was sharp increase in rice prices in all countries, the growth in the price is much higher in the food-deficit nations and regions which have limitation on manipulating trade policies. Accordingly, such policy intervention can cause much loss in social welfare of these parts of the world. The author asserted that the developing countries that are the net importers of rice could be the most vulnerable in experiencing price surges caused by such kind of interventions. This argument was echoed in the claim that *“While the governments in India, Vietnam, and the Philippines did not to set the world market on fire, that was the unintended*

result of their actions which threatened both innocent bystanders (low-income rice importers as far away as Africa and Latin America) and, ultimately, poor rice consumers at home” (Slayton, 2009).

Figure 4. Prices of rice exported from Thailand rice and Vietnam (5% broken)

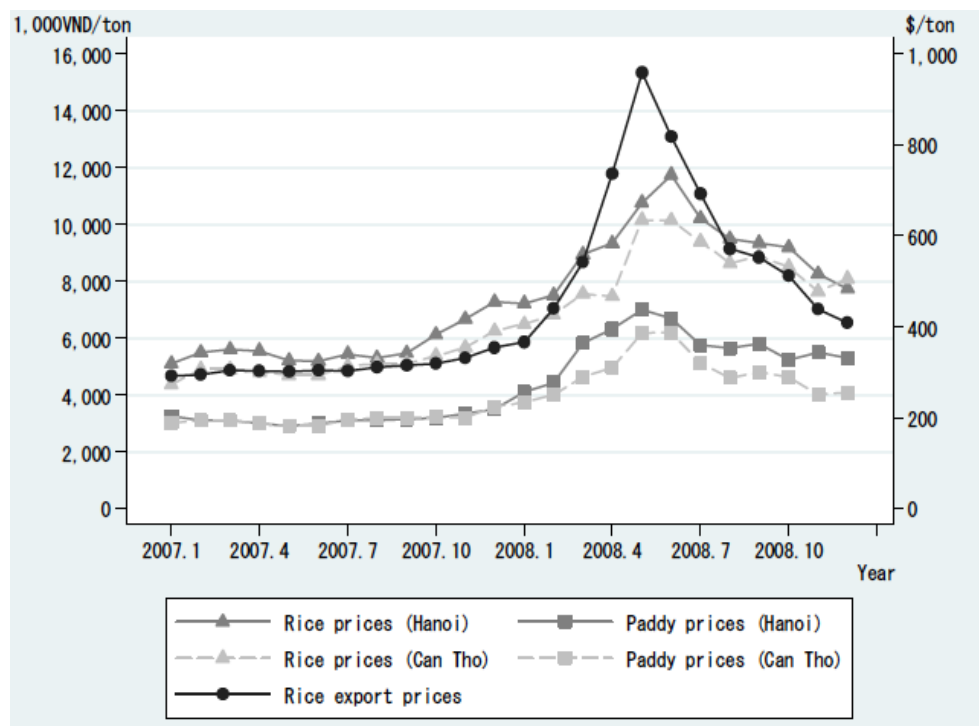


Source: Coxhead, Linh, and Tam (2012)

Effect of ban on rice export on domestic market

Features on the figure 5 can confirm the credibility of the argument that the export ban caused the increase in domestic rice prices. Specifically, rice price in Hanoi increased from around seven million VND per tone in January 2008 to nearly twelve million VND per tone in June 2008, achieving the growth of over 70% in just 5 months. Information in rice and paddy prices in other major market in Vietnam during the time of implementing the bans suggested the similar patterns of movements. The increase in the domestic rice price could create a social concern on food security within country in that period of time. Coxhead et al. (2012) contended that with nearly the half of population in Vietnam with lower than two-dollar income per day, the significant growth in rice price could be considered as the challenge in dealing with food insecurity and poverty in Vietnam.

Figure 5. Export price and domestic price (2007-2008)



Source: TSUKADA (2011)

The effects of export ban did not cease at the concerns that poor people in Vietnam could face the circumstances of food insecurity but it could create remarkable losses for a lot of farmers, traders who were hoarding and speculating for higher price expectation. This reality can be proven by Slayton (2009) when this author suggested that speculation and hoarding during the bans cause large quantity of rice stock unsold. Besides that, farmers and traders were facing a high interest rate at around 19 percent a year, and poor conditions of protection for the rice in stock, the losses of these speculators could be huge. With the same opinion, TSUKADA (2011) gave the calculation that although in 2008 Vietnam exported only six percent over the quantity of total export in 2007, the rice export revenue in 2008 was 95 percent higher than that of the previous year, suggesting that Vietnam would have earned much more money if the export ban had not been in place.

CONCLUSION

In conclusion, policies were made and implemented by governments in order to achieve intended objectives. However, in attempts to achieve such objectives by implementing policies, there could be unintended impacts on society. Although trying to balance between two objectives of improving exporting market and ensuring food sufficiency in domestic market, the

implementation of the rice export ban of Vietnam in 2007 and 2008 resulted in outcomes appropriate with neither the both objectives. The bans not only did contribute to the surges in world rice price, but also partly made the significant increase in the domestic price. In addition, the bans can be argued to be the cause of other negative social-economic consequences in both home countries and the rest of the world.

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