

## **Regionalism and Rice Trade in Southeast and Northeast Asia: Making Liberalization Work**

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*In Southeast and Northeast Asia rice is not just a staple food but a fundamental part of livelihood and also a matter of national security. As such opening the rice market has been a continuously thorny issue for trade negotiations in this region. Although the region has trended toward free trade agreements and economic integration in recent decades, the analysis illustrates that most countries have established a set of robust institutions to safeguard their rice markets. Given the apparent benefits that the rice liberalization could bring to the region, countries should exert concerted efforts to break impasse in rice trade negotiations. This research suggests that efforts to build regional community and rice trade liberalization move in tandem. In order to materialize the benefits of an integrated and liberalized rice market, a regional governance framework that would instill confidence in region's rice market needs to be established.*

**Keywords:** *Southeast and Northeast Asia; Trade Liberalization; Regional Integration; Rice Market; ASEAN+3*

### 1. INTRODUCTION

Globalization has propagated political and economic institutions that blurred cultural and physical boundaries, imposing a relatively homogeneous amalgam of symbols in almost every corner of the globe. At the same time, there has been a resurgence of the concept of region, expressed by the emergence of a number of regional blocs. Although region is not a new subject of study in the field of International Relations, the eruption of set of countries acting as coalitions for economic and political purposes in the latter decades of the twentieth century reinstalled the idea of place, areas and regions as a branch of study in International Relations. In trade affairs two trends, 'Globalism' and 'Regionalism,' have their expressions through international organizations promoting multilateral agreements such as WTO striving to set global agreements without discrimination, and regional trade agreements (RTAs) promoting trade arrangements specific to members only (Sato, 2004). Southeast and Northeast Asia also has become a fundamental part of this discourse.<sup>1</sup>

Although opening agricultural markets has been a continuously thorny issue for trade negotiations in other regions as well, it has presented a major roadblock to trade negotiation in Southeast and Northeast Asia where millions of households rely on agriculture for their livelihood (FAO, WFP and IFAD, 2012). Of a variety of agricultural products, rice deserves special attention. In Southeast and Northeast Asia rice is a fundamental part of not just the economy, but the society as a whole. As a commodity, rice is "a staple [food] for nearly half of the world's seven billion people . . . more than 90 percent of this rice is consumed in Asia, where it is a staple for a majority of the population, including the region's 560 million

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<sup>1</sup> This paper focuses on the Southeast and Northeast Asian region, represented by the ASEAN member countries and China, Japan and South Korea.

hungry people” (Mohanty, 2013: 44). In addition, rice is “the most widely planted crop in the region,” “the most important expenditure item for poor households” and “a fundamental part of local culture” (Dawe, 2013: 2). Given the status of rice in this region, it is quite natural that during trade negotiations rice emerges as a commodity that generates concerns over instabilities within many countries and households (Timmer and Dawe, 2010).

During negotiations over the Association of Southeast Asian Nations Free Trade Area (AFTA) nations decided not to include rice in trade discussions to reach certain agreements (Mangabat and Natividad, 2007). During the negotiations over the FTA between ASEAN and South Korea, the latter “insisted that rice be omitted from any agreement . . . which led Thailand to opt out of the ASEAN-Korea negotiations in 2006” (Pomfret, 2011: 85). Japan’s decision to join Trans-Pacific Partnership (TPP) is largely dependent on whether or not Japan has to open its rice market to acquire membership (Cheong, 2013). The extremely sensitive nature of rice in Southeast and Northeast Asia has pressed countries to pursue a policy of self-sufficiency on rice (Dawe, 2013), reinforcing national policies to protect rice market which in turn has engendered more volatility and uncertainty in global rice market (Razzaque and Laurent, 2008). Despite the importance of rice to trade liberalization and regional integration in Southeast and Northeast Asia, there is a relative dearth of research investigating region’s rice policies in comparative context and their relationship with trade liberalization and regional integration.

It is against this backdrop that this research attempts to accomplish the followings. The first section of the research reviews the process of regionalization and trade negotiations in Southeast and Northeast Asia. The second section analyzes how negotiations on agricultural products, particularly rice have progressed in the region. The sections that follow investigate the ways in which rice strategies and rice trade policies of Southeast and Northeast Asian countries complicate the prospects of trade liberalization in the region and its links with regional integration. Finally, the paper proposes recommendations on rice trade liberalization in Southeast and Northeast Asia.

## 2. REGIONALISM IN SOUTHEAST AND NORTHEAST ASIA

Southeast and Northeast Asia is a region difficult to characterize; its denomination as a region has been a subject of long and controversial debate among experts from different disciplines. Southeast and Northeast Asia is a unique region, extremely diverse in geographic patterns, demography, religion, language, customs, etc. In fact, the idea of Southeast and Northeast Asia as a region has been developed only from the nineteenth and twentieth centuries; this is why several experts claim that the “concept of Asia or East Asia as a region is relatively modern” (Pomfret, 2011: 8). The preference for preservation of state sovereignty of nascent states has been “a large obstacle to adopting a supranational institutional approach” (Sato, 2004: 223).

Agricultural trade liberalization, and rice liberalization in particular, has been profoundly affected by the conditions of trade partnership the world has experienced during the last century. In the case of Southeast and Northeast Asia, the first regional arrangement was promoted by the United Nations with the establishment of the Economic and Social Commission for Asia and the Pacific (ESCAP) in 1947, with the purpose of facilitating economic progress in the region. In 1966 the Asia-Pacific Trade Agreement (APTA) was

created to help developing countries to improve their links of cooperation and preferential trade mechanisms.

In 1966 the Asian Development Bank (ADB) was established to assist project funding and investment. In 1967 the Association of South East Asia (ASA) evolved to the Association of Southeast Asian Nations (ASEAN) including the Philippines, Malaysia, Indonesia and the recently created state of Singapore.<sup>2</sup> Although these organizations functioned as mechanism of dialogue and support of economic development, they failed to offer strategic guidelines towards regional integration. In reality, in this period most Southeast and Northeast Asian countries were more preoccupied with state building and developments within their own territorial boundaries than with building regional community. The lack of commitment to regional partnership was evident, as ASEAN failed to devise a strategy of cooperative development and industrialization. As one expert aptly put, “members wanted to support their own import-competing industries but unwilling to support their partners’ uncompetitive industries” (Pomfret, 2011: 16). During this incipient stage of regional community building, the region lacked a vision and also will towards integration. Countries adopted self-centered development strategies and intra-regional economic exchanges were minimal at best. Nonetheless, regional organizations such as ASEAN and ESCAP served as forum of dialogue, hence generating mutual respect and cooperation that resulted in a more serious discussion on regional integration in later years.

One can claim that a turning point was the launch of the Asia-Pacific Economic Cooperation (APEC) by Asian and Pacific countries. APEC aimed to promote open regionalism consistent with WTO negotiations; it was a mechanism to conduct simultaneous negotiations along with WTO in order to facilitate global agreements on trade, and at the same time promoting cooperation and integration beyond trade issues. Since its creation “APEC members have shown significant increase in trade dependency” (Sato, 2004: 224). However, the organization did not work as the catalyst that some members expected for a genuine progress in trade liberalization.

During the 1990s Southeast and Northeast Asian countries had undergone important transformations. South Korea, Taiwan and the Philippines experienced transitions to democracies in what was dubbed as the ‘third wave of democratization’ (Huntington, 1991). China successfully consolidated its economic reform, hence becoming the engine of world economic growth; Vietnam was also on a path to similar economic reform. In general, the region was shifting to open market economies wherein the intra-regional trade was increasing considerably.

Meanwhile, ASEAN had gained terrain in several regional matters. In the realm of trade, it held its first tariff agreement in 1976 at the Bali Summit, establishing preferential tariffs and industrial cooperation. These measures did not have significant impact on economic integration because the intra-regional market exchange was at nascent stage. By the beginning of 1990s trade talks in the region took a different turn; the new international environment such as increasing importance of APEC in the region prompted a new agenda for trade negotiation within ASEAN. The organization announced in 1992 the establishment of an ASEAN Free Trade Area (AFTA) by 2008. ASEAN was expanding its membership to include Brunei Darussalam in 1984 and Cambodia, Myanmar, Lao PDR, and Vietnam in 1995.

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<sup>2</sup> Primarily, ASA was a bloc of countries opposed to the advance of communism in the region. It was created to balance against a group of states aligned with the Soviet Bloc.

Beginning 2000s the region has experienced an important leap toward trade negotiations. Bilateral and plurilateral negotiations led to a number of free trade agreements (FTA's), and at the same time ASEAN itself was being reinforced. As Harvie and Lee point out, in "recent years a new regionalism has begun to emerge in East Asia that represents a clear break from the region's strong history of multilateralism" (Harvie and Lee, 2002: 2). What sparked this renewed interest in regionalism? Experts seem to agree on the importance of the role that the 1997 Asian financial crisis played (Völgyi, 2011). The Asian financial crisis demonstrated not only the vulnerabilities of the global financial system, but also the high level of interdependence that Southeast and Northeast Asian financial sector had reached. The seriousness of the crisis forced countries to work toward closer economic cooperation, with China taking a leading role in providing monetary stability.<sup>3</sup> A number of proposals that emerged after the crisis to create a more robust Asian economic system worked as facilitator for a more serious discussion of economic integration in the region. The Japanese idea of establishing an Asian Monetary Fund and the Chiang Mai initiative to establish regional financial safety net unleashed earnest debates over the path that the region should follow to reach a greater stage of economic and institutional integration. In this endeavor, ASEAN held meetings with China, Japan and South Korea in the context of what would be the beginning of the ASEAN+3.

ASEAN+3 marks an important step toward regionalism in Southeast and Northeast Asia because it is the first serious and viable project to reach a trade agreement among Southeast Asia and China, South Korea and Japan. The expectations were high since ASEAN+3 could bring together potentials of developing countries with advantages of highly industrialized economies such as Japan and South Korea and the world's new economic engine, China. Meanwhile, AFTA established an ambitious agenda to reduce tariff to the range of 0 to 5 percent by 2007, creating a new scheme for sensitive products by 2010 for most of ASEAN member states, and by 2013 in case of Vietnam, by 2015 for Laos and Myanmar and by 2017 for Cambodia. Along with AFTA, a variety of regional projects have emerged. For instance, the East Asian Economic Caucus was established to promote the idea of *Asianism*, excluding non-regional economies such as the US, whereas the East Asia Summit (EAS) has embraced non-Asian countries. Major stakeholder countries in the region such as Russia, the US, and Japan proposed a Comprehensive Economic Partnership for East Asia (CEPA), an agreement on trade and other fields of cooperation between ASEAN+3 and Australia, New Zealand, and India. In years to come the epicenter of economic growth will be located in the Asia Pacific (Rosales and Kuwayama, 2012). This rationale has been translated into the idea of Trans-Pacific Strategic Economic Partnership (TPP) currently on negotiations among 12 pacific economies.<sup>4</sup>

<Table 1> summarizes varying trade engagements of different countries in the region. The most important recent trend impacting trade negotiations in the region has been free trade agreements (FTAs), prompted by the lack of progress in WTO negotiations. FTAs have been negotiated as a bloc by ASEAN, whereas Northeast Asian countries have pursued

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<sup>3</sup> China decided not to depreciate its currency, trying to take a role of leadership in the crisis, as well as enhance its image of cooperative rising superpower.

<sup>4</sup> The TPP has been considered as an attempt to overcome current problems over trade negotiations. It was first signed by the so-called P4 (Brunei Darussalam, Chile, New Zealand and Singapore). Currently negotiations are taking place between the US, Australia, Peru, Vietnam, Mexico, Malaysia, Canada and Japan.

**Table 1.** Current Status of Trade Agreements in Southeast and Northeast Asian Countries

	WTO	APEC	ASEAN	ASEAN+3	AIFTA	AKFTA	AJFTA	ACFTA	TTP	APTA
Brunei Darussalam	X	X	X	X	X	X	X	X	X	
Cambodia	X		X	X	X	X	X	X		
China PRC	X	X		X				X		X
DPR Korea										
Indonesia	X	X	X	X	X	X	X	X		
Japan	X	X		X			X		X	
Lao PDR	X		X	X	X	X	X	X		X
Malaysia	X	X	X	X	X	X	X	X		
Myanmar	X		X	X	X	X	X	X	X	
Philippines	X	X	X	X	X	X	X	X		X
Republic of Korea	X	X		X		X				X
Thailand	X	X	X	X	X	X	X	X		
Viet Nam	X	X	X	X	X	X	X	X	X	

bilateral trade agreements. Agricultural products, particularly rice, have been exceptions to region's growing trend to trade liberalization. The following section investigates the way rice has complicated trade liberalization in the region.

### 3. TRADE NEGOTIATIONS ON RICE IN SOUTHEAST AND NORTHEAST ASIA

#### 3.1 Political Economy of Rice in the Region

Agricultural trade liberalization “has been a sensitive issue in trade negotiations due to the economic and political significance” (Mangabat and Natividad, 2007: 48). In WTO negotiations, for instance, agricultural products have consistently played out as a major source of impediments. In Asia, this issue has been particularly sticking out due to the relevance of agriculture in the region. Agriculture is a politically significant sector in many countries in the region regardless of the level of industrialization. As Sato aptly put, “the most industrialized countries in the region (Japan, Korea and Taiwan) have politically significant agriculture sectors, constituting an ‘Achilles heel’ in their pursuit of free trade ... this problem is shared by several less-developed countries such as Malaysia, Indonesia, and China” (Sato, 2004: 227). In Southeast and Northeast Asia agriculture is politically sensitive

sector because it is understood by many countries as a matter of national security; self-sufficiency and food availability creates a sense of confidence in a region that has experienced a number of famines and food crises. According to the Food and Agriculture Organization (FAO), as of 2014 about 10.3 percent of the Southeast Asian population was undernourished (FAO, 2014).

Agricultural sector is guarded by influential interest groups that frequently put pressure on governments. In Thailand, for instance, because of the vehement opposition of agricultural interest groups, the government has had difficulties to pass a reform bill on the Rice Support Program, a program that pays above the market price for paddy rice with the purpose of raising farmers' income. The attempt of the Thai government to lower rice price sparked big protests from farmers, which finally compelled the Ministry of Commerce to assure farmers that high prices would be maintained (FAO, 2013). Despite compelling evidence of positive effects that agricultural trade liberalization could materialize (Bandara and Yu, 2007; Bandara, 2007; Strutt and Mikic, 2009; Oktaviani and Puspitawati, 2008), in Southeast and Northeast Asia it is still difficult to make meaningful progress in liberalizing agricultural market. Although AFTA has set a target of zero tariff protection in intra-ASEAN trade, the target has set aside a list of sensitive agricultural products including rice. In fact, the "big challenge for ASEAN is in the political economy of agriculture trade liberalization; trade diversion and creation in a free trade area" (Mangabat and Natividad, 2007: 65).

In Southeast and Northeast Asia rice consumption is driven "by income growth, population, and other socio-demographic variables such as urbanization, changing lifestyles, and food preferences" (Wailes and Chavez, 2012: 4). Since the 1960s, rice consumption increased substantially in the region. However, since 1990s "strong economic growth in many Asian countries, particularly in China and India, halted the upward trend in global per capita rice consumption as consumers diversified their diet from rice to high-level products such as meat, dairy products, fruits, and vegetables" (Mohanty, 2013: 44). This trend has been especially conspicuous in countries such as South Korea and Japan, where increasing income per capita has had a substitution effect from rice to other foods.

It would be a mistake to bundle all Asian countries together and project them to behave like Japan and South Korea as they become wealthier. Each Asian country will be "unique in the way it diversifies its consumption pattern as income rises" (Mohanty, 2013: 45). Patterns of rice consumption are complex. Rice could be in some cases an inferior good or a Giffen good. Given its role and place in the region's culture and economy, however, rice is expected to be a permanent staple food. Even in countries where per capita rice consumption has decreased, rice still is a fundamental part of their diet. In fact, it is projected that rice consumption will remain equal to population growth rate. Some analysts even points out that "in major Asian countries rice consumption will increase faster than the population growth" (Papademetriou, 2005: 1). Southeast and Northeast Asia has enough rice to feed its population; countries in the region could also satisfy rice demands from importing countries without difficulties. As one research suggests, "Thailand and Vietnam [produce] 48.0 percent of global net exports...Cambodia and Myanmar have good production potential to expand rice exports given the availability of land and water resources" (Wailes and Chavez, 2012: 5). According to one estimate, total ASEAN rice output is projected to grow "at 1.37 percent annually, from nearly 110.5 million tons in 2012-20111 to 128.3 million tons by 2021-2022" (Wailes and Chavez, 2012: 3). With proper regional division of labor in terms of supply and demand and with smart policy measures to improve research and technology on rice production systems, adequate supply of rice could be maintained in a long term.

### 3.2 Economic Effects of Rice Trade Liberalization

Rice trade market is described as “‘thin’, ‘volatile’, ‘segmented’ and ‘highly distorted’” (Razzaque and Laurent, 2008: 2). In addition, “the combination of a high degree of protection, geographic concentration, market segmentation, and inelastic demand response to price and income” makes rice prices volatile and trade volumes fluctuating (Wailes, 2003: 1). Although WTO Agreement on Agriculture and FTA negotiations have set agendas to open rice market, most countries have found various mechanisms to avoid rice trade liberalization at least in the middle term (Yang and Blanford, 2011).

Trade negotiations between ‘rice haves’ and ‘rice have-nots’ countries stimulate two simultaneous governmental reactions; on the one hand, importing countries attempt to limit the entry of large amounts of foreign rice through tariffs or quotas, promoting the increase of domestic rice production and pursuing self-sufficiency. On the other hand, rice exporting countries continuously purchase domestically produced rice using state owned enterprises, increasing fictitiously the price of rice and banning rice exports when it seems that the food security could be in jeopardy. This situation provokes an atmosphere of distrust and vicious cycle; while exporting countries do not show commitments to importers, the latter promote more vigorously self-sufficiency. However, certain countries have natural disadvantages over others because “less of their land is suited to growing rice,” and this makes it impossible for them to “compete at the margin with mainland rice exporters” (Dawe, 2013: 15).<sup>5</sup> As a consequence, rice has remained one of the most distorted and inefficient commodity in trade in the region.

What would happen if regional rice market opened up? Previous researches on this subject project different possible scenarios. In general, it is predicted that rice liberalization would increase global net welfare gains. According to a research by the Commonwealth’s Economic Affairs Division (EAD) on rice trade, rice trade liberalization would improve global gains, although “losers and winners among developing countries” would depend on “their respective situations, including whether they are net exporters or net importers of rice and agricultural products” (Razzaque and Laurent, 2008: 3). Other studies indicate that countries having comparative advantages on rice production would benefit more. For instance, since “India, Pakistan, Thailand and Vietnam all have both comparative and competitive advantage over China,” these countries would benefit more from rice trade liberalization than would China (Illyas et al., 2009). Wailes claims that reform measures to remove protection in the global rice market are expected to “result in an increase of economic welfare of over USD 7.4 billion per year” (Wailes, 2003: 2). In addition, rice trade is estimated to increase by 10 to 15 percent, with a series of disparities depending on countries and type of rice. In general rice market would become more competitive and better off.<sup>6</sup>

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<sup>5</sup> Dawe adds that governmental policies for self-sufficiency have four main consequences: 1) prices in importing countries are higher than expected, 2) high rice prices together with lack of land need more yields and irrigation in importing countries, 3) higher prices encourages the consumption of other goods such as wheat, and 4) higher prices increase poverty in importing countries (Dawe, 2013: 15).

<sup>6</sup> The study shows that prices for exporters would be higher (by 20 to 35 percent) whereas price paid by importers would be lower (by 10 to 35 percent), depending on the type of rice. In this scenario the

Rice trade liberalization in Southeast and Northeast Asian countries could result in a better allocation of resources, improving trade efficiency and gains. However, this scenario would be possible only if the region created better mechanisms of cooperation and integration that would ensure food supply at normal market prices for importing countries, including transparent rules and specific agreements for that purpose. It is necessary to work regionally on a common strategy for rice trade in order to assist the creation of domestic and regional policies that would support competitiveness of rice producers. Such strategy should encourage research on rice production and diversity. Research ought to tackle a series of new agricultural challenges such as climate change, desertification, urbanization, use of land, and population growth. Regional and domestic policies would have to consider the creation of safety nets for farmers in importing countries who would have to migrate from rice sector to other more competitive industries. Proper policies are need for consumers in exporting countries who would have to pay more for rice. Concerted efforts of this kind require not only the commitments of national governments, but also coordinated works with nations' international cooperation agencies such as JICA (Japan) and KOICA (Korea), and also with UN agencies and commissions with regional presence such as FAO and ESCAP, and regional organizations such as ASEAN, the ADB, among others.

#### 4. ASSESSING RICE TRADE POLICIES IN SOUTHEAST AND NORTHEAST ASIA

Despite obvious benefits of rice trade liberalization explained in previous section, analysis on rice policies of Southeast and Northeast Asian countries show that most countries have established a set of robust institutional frameworks on rice – a set of legal structures, strategies, specific policies and programs accompanied by budget allocation and other resources. As pointed out earlier, countries in the region could be differentiated in terms of rice market participation as “rice-having” and “rice not-having” countries. This category can be useful to analyze the state of rice-related policies and rice trade policies of different countries in the region. Review of national development strategies in the region reveals that most countries in the region consider rice as an important part of national policies. For instance, **Cambodia**'s 2014-2018 National Strategic Development Plan (NSDP) targets an increase in rice production reaching 10.85 million tons by 2018 and boosting rice exports through the Policy on the Promotion of Paddy Production and Rice Export. **Brunei Darussalam** has set a rice policy that pursues a 60 percent of rice production increase by 2015 in 2008 terms. In **Indonesia**, the National Poverty Reduction Strategy encourages rice production in order to mitigate farmers' poverty rates. *Bulog* (the state owned enterprise in charge of rice market) has set rice procurement target at 95,000 tons for 2013, up from 74,000 tons in 2012. In **Lao PDR** the Agricultural Master Plan 2011-2015 set a target of 4.2 million paddy produced by 2014, increasing rice production in the 47 poorest districts and providing an average of 350 Kg per person a year. The 10th **Malaysia** Plan (2011-2015) has established a national target of rice production enough to guarantee 45 days rice stockpile and 70 percent level of self-sufficiency by 2015. In addition, the Malaysian 10 year National Agro-Food Policy (NAFP) 2011-2020 emphasizes the need of increasing paddy production. In **Myanmar**, the Short-term National Plan 2011-2015 aims to boost crop production

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only source of price volatility that remains would be rice market size, which would continue to be relatively small compared to other agriculture commodities (Wailes, 2003).



**Table 2.** Rice Policies of Northeast and Southeast Asian Countries

Country	Rice Policy	National Rice Policies	International Rice Trade Orientation
Brunei Darussalam	Rice self-sufficiency / importations with restrictions	New rice fields, improvement of rice field infrastructure, introducing high yielding variety. Increase of 60% of rice production.	Imports are restricted to maintain security of domestic supply and price. Diversification of rice trade with partner countries, such as Vietnam and Cambodia.
Cambodia	Rice surplus / increasing rice exports	Diversification and land reform. One million milled rice for export by 2015. Rice production reaching 10.85 million tons by 2018. Renewal of 10 rice varieties.	No import tax and zero import duty on rice for ASEAN trade partners. Bilateral agreement with Vietnam to increase rice exports.
China PRC	Rice self-sufficiency / rice exchange with restrictions	Strengthening of price protection institutions. Ensure that annual grain production at least 540 tons by 2015, machinery and variety production subsidies.	Imports under the quota portion are subject to a lower, or sometimes zero, tariff rate. Imports above the quota's limit face a much higher tariff rate. State-owned companies granted with 50% of the rice-trading permits.
Indonesia	Rice stability / rice importing country	Increasing rice production to reduce imports. Market intervention by distributing low price of rice and subsidy program.	Constraint of rice imports with a 30% tariff and centralized rice trade control by <i>BULOG</i> . The import duty on rice is \$50 per ton.
Japan	Rice self-sufficiency / rice imports with restrictions	Improving technology on rice production including for sowing seeds of paddy rice directly in the fields. Self-sufficiency in food production to 50% by 2020.	Tariff for rice imports is of 778%. Rice imported outside of the minimum access framework is charged with tariffs. It allows a minimum market access to exporting countries at the Uruguay Round.
Lao PDR	Rice self-sufficiency / rice export ban	Target of 4.2 million paddy produced by 2014, increasing rice production in 47 poorest districts. Subsidies on fertilizers, millers, and yields.	Tariffs of 20% (AFTA) and 40% (AoA), although one company (State Food Enterprise) has license of duty free rice imports until 2016. Long-term agreements to import rice in exchange of palm oil or oil.
Malaysia	Rice stability/ rice imports with restrictions	National target of a 45-days rice stockpile and 70% level of self-sufficiency by 2015. Double rice yields by 2020. Increasing paddy production and varieties. Rice subsidies.	Rice imports monopolized by <i>BERNAS</i> and negotiated on a government-to-government basis. Seeking to reduce tariffs, but so far a tariff of 20% has been applied. Tariff should be eliminated by 2015.
Myanmar	Rice self-sufficiency / increasing rice exports	Surplus goal of 8.3 million hectares, average yield 5.15 Mt/Ha by 2015 (from 4.6 in 2010). Safeguard rights of farmers giving price incentives through free trade of rice.	Rice exports have been banned in different periods. In 2013 the country has shifted the rice trade policy seeking surplus of rice to recover exporting leadership with a target of 3 million metric tons by 2017.

**Table 2.** (Continued)

Country	Rice Policy	National Rice Policies	International Rice Trade Orientation
Philippines	Rice self-sufficiency / rice imports with restrictions	Increase rice self-sufficiency from 80% in 2010 to 100% in 2015. Reduction of post-harvest losses. Increasing of <i>palay</i> rice production up to 22.73 million of tons by 2016.	Government determines the amount of rice to be imported. Seeking the extension of quotas until 2017. Imported rice is subject to a 40% tariff and duty-free importation is limited to 350,000 tons.
Republic of Korea	Rice self-sufficiency / rice imports with restrictions	Establishing a public stockpiling system, maintaining the stockpile volume for 2 months consumption. Subsidies and target on rice self-sufficient, accomplished since 2003.	Two sections of quotas, one quota divided between 4 rice exporting countries and the other of increments for a most-favored-nation. Korea has set new import tariff of 513 pct. since 2015; above a set quota negotiated before.
Thailand	Rice surplus / rice exports with restrictions	Keeping leadership on rice exports. Improving fine rice production. Domestic price control through the Paddy Pledging Program. Avoiding shortages with government intervention.	Keeping Thailand as a high quality rice (such as Jasmine) exporting country, opening new markets and enhancing regional cooperation (ASEAN).
Viet Nam	Rice surplus / rice exports with restrictions	Restricting conversion of agricultural land from rice cultivation to other purposes. Strengthening rice intensive cultivation. Enhance production with some restrictions. Rice price control.	Intervention in rice export in case of shortages. Ensuring food security while liberalizing trade. Engaging in regional and international trade regimes. Government nominates companies to trade with rice export markets.

including rice, ensuring rice production surplus for exports, with a goal of 8.3 million hectares and an average yield 5.15 Mt/Ha by 2015. The **Philippine** Development Plan 2011-2016 set 2015 as the year to reach self-sufficiency. Other interesting case is the **Vietnam** Socio-Economic Development Strategy 2011-2020 where rice is considered a matter of agrobusiness, promoting rice production to transform Vietnam into a world top rice exporting country. **China PRC** is seeking a more diverse variety of rice production, ensuring an annual grain production of at least 540 tons by 2015, with great subsidies on machinery. **Japan** has set self-sufficiency on food of 50 percent by 2020 with a target of 45 percent for rice. **South Korea** seeks to maintain its condition of self-sufficiency with a stockpile that ensures 2 months consumption.

Most of Northeast Asian and Southeast Asian countries have established state-owned enterprises (SOEs) to manage rice trade policies (Molina et al., 2012). These national enterprises enjoy high degree of autonomy and work as linkage between Ministries of Trade and Ministries of Agriculture. This is the case of the National Food Authority (NFA) in the Philippines, the Vietnam Food Association (VFA), the Lao State Food Enterprise (SFE), and the National Food Logistics Agency (*BULOG*) of Indonesia. In the case of Malaysia, in 1996 the Main Market of *Burna* Malaysia (*BERNAS*) was privatized, currently acting legally on behalf of the government in the maintenance of the nation's rice stockpile. Among its functions, *BERNAS* purchases paddy from farmers, manages the *BUMIPUTERA* Rice Millers Scheme, and allocates paddy price subsidies to growers. In Northeast Asia, Japan

purchases its rice through the Staple Food Department of the Ministry of Agriculture, Forestry and Fisheries (MAFF), whereas in South Korea the same function is performed by the Korea Agro-Fishery Trade Corporation. <Table 2> is the summary of rice policies of different countries in the region.

## 5. PROSPECTS FOR RICE TRADE LIBERALIZATION IN SOUTHEAST AND NORTHEAST ASIA

### 5.1 Recent Trends in the Region

In recent years, rice exporting countries in the region have set ambitious plans to foster rice production, whereas importing countries have opened up rice markets with some restrictions. **Thailand** has lost competitiveness in rice international market, while **Vietnam** is trying to gain terrain in rice exports since 2001 when it established a mixed system of liberalized rice trade regime with governmental intervention on rice exports. **Cambodia** and **Myanmar** are also attempting to procure a greater rice export share. Rice exports in Myanmar had been banned until 2013, but the government has recently liberalized international rice trade, setting a target of 3 million metric tons for exports by 2017.

Although Japan and South Korea have to some extent opened up its markets to foreign rice, they still pursue protectionist rice policies. **Japan** agreed to import 770,000 tons of rice under the tariff-free state trading, but it imposes a 778 percent tariff on rice imported outside the minimum access framework. In recent negotiations, Japan has tried to maintain these conditions when negotiating bilaterally with countries with prominent rice sector. During negotiations on Transpacific Partnership, the US confirmed that it would allow Japan to keep its tariffs on rice but only if Japan would agree to introduce a system to increase American rice imports. **South Korea** has adjusted its rice market to 2005-2014 Doha Development Agenda agreements (two sections of quotas, one quota divided between 4 rice exporting countries and the other of increments for a most-favored-nation). Korea was attempting to conclude DDA negotiations at a level that would be acceptable for Korean rice farmers, but recent moves show that the country takes great pains to protect local farmers, setting a new tariff of 513 percent in 2015 in a move that has increased criticisms from exporting countries including the US.

**China** has moved towards a relatively more liberalized rice policy, but still uses Tariff-Rate Quotas (TRQ) to protect domestically produced rice from competitive importers. Imports during a specific time period under the quota portion of a TRQ are usually subject to a lower, or sometimes zero, tariff rate. To the contrary, imports above the quota's quantitative limit face a much higher tariff rate. State-owned companies are granted with 50 percent of the rice-trading permits. **Indonesia, Lao PDR, Malaysia** and the **Philippines** use trade agreements as policy tools to purchase sufficient amount of rice through licensed firms and this mechanism discourages importation of rice. In the context of WTO negotiations, countries in the region have used the modalities offered by the Agreement on Agriculture to protect rice. Some countries such as Philippines have asked for extension of concessions in order to avoid rice trade liberalization.

The collected information shows that Southeast and Northeast Asian countries have created a large number of policy measures safeguard rice market. Most of them are focused on self-sufficiency and rice market protection by setting specific targets on rice production.

The role of government on these policies is prominent; it acts as investor, seller and buyer of rice in several countries. Although most countries in Southeast and Northeast Asia have signed agreements on liberalizing agriculture market, in reality rice has been excluded from liberalization because it has been tagged as a ‘highly sensitive’ good.

## **5.2 Evaluating the Future and Recommendations**

Rice is a major obstacle in trade liberalization in Southeast and Northeast Asia, because it is considered a matter of national security for many countries in the region. Although more liberalized rice trade in the region would lead to more efficient allocation of resources, thereby promoting better exchange of goods and services in the region, distrust in the regional rice trade system has operated as a major stumbling block. Nonetheless, Southeast and Northeast Asian countries have shown continuous interests in removing such stumbling blocks. How can we cultivate habit of cooperation and build trust in the region? Regional institutional fora where interested parties can interact closely would certainly reduce the payoffs for cheating and strengthen cooperative behavior (Lianos and Le Blanc, 2011). Genuine progress in Asian regional integration is necessary to provide such regional institutional fora; it is imperative for rice liberalization and regional integration to move in tandem. An effective way to liberalize rice trade is through the establishment of regional frameworks that could generate trust and confidence among Southeast and Northeast Asian countries in region’s agricultural market. These institutional frameworks should be able to address such controversial issues as rice availability, sustainability of production, price stability, and social welfare of producers and consumers.

To mitigate negative impacts of national policies to pursue self-sufficiency and to ensure importing countries a continuous supply of rice, regional agencies such as ESCAP and the ADB should play a proactive role in creating bidding contracts on rice and to mobilize “commitments from rice-exporting countries that they will not unilaterally ban the export of rice” (Pochara, 2012: 15). If for instance these arrangements become a part of ASEAN+3 negotiations, a specific institutional body should be created to take charge of the administration. Such arrangements have to be specific enough in terms of quantity of rice and its type and quality. Arrangements towards food security on rice could get recognition from the ASEAN Trade in Good Arrangement (ATIGA) that enforced two obligations: the obligation to reduce AFTA’s tariffs and the obligation not to introduce more quotas (Clarete, 2010).

Regional integration would provide mechanisms with which the region could counteract a host of uncertainties in cases of emergencies. In this regard, ASEAN+3 Emergency Rice Reserve should be reinforced by increasing substantially the size of earmarks that are presently considered “too small to significantly offset domestic market movements on an annual basis” (Briones et al., 2012: 19). However, such increase would be possible only if the emergency reserve became active enough to be understood as a credible mechanism to address food emergencies. The role of regional agencies is crucial to elicit political will from Southeast and Northeast Asian countries towards the reinforcement of such mechanism.

In order to enhance sustainability of region’s rice market in the long run, it is necessary to devise a comprehensive regional strategy on food security that would induce technical cooperation to improve rice production in terms of efficiency and quality. Such strategy should address such risk factors as climate change, scarcity of land and the increase of costs of production. ASEAN, in collaboration with international organizations such as FAO and

national aid agencies, should assist rice importing countries to enhance agricultural R&D capacity that “has remained relatively unchanged over the past two decades” (Beintema and Stads, 2008: 1). Regional agencies could coordinate efforts to create a regional rice price index and to conduct further studies on rice standardization, price risk and price volatility. Regional coordination and cooperation seems to be crucial to stabilize rice price. In addition, sharing information about food stocks and projecting region’s rice supply is instrumental to prevent speculative behavior and a “self-fulfilling” crisis as an outcome of mutual distrust (Clarete, 2012; Timmer, 2009).

Rice trade liberalization is expected to bring substantial economic benefits to trading countries. If importing countries unwind policies on rice self-sufficiency, relying more on importers for rice supply, they could negotiate better terms for exports of other items. But it should be emphasized that rice liberalization would produce ‘trade losers’ in both importing and exporting countries. In exporting countries, where the rice price is expected to increase, social safety nets and policies to induce consumption diversification would be needed to mitigate negative impacts on consumers; whereas in importing countries, governments should prepare policies for timely crop replacement for rice farmers. Reinforcing regional governance on rice liberalization would be instrumental in eliciting cooperation among countries and fostering norms of reciprocity. That is, a regional framework of cooperation and integration would prove to be a key factor that could alleviate political distrust and uncertainties among member countries. Current arrangements such as the ASEAN Rice Trade Forum should take the lead in this endeavor.

## 6. CONCLUSION

In recent decades, regional integration among Southeast and Northeast Asian countries has made a genuine progress in the area of trade liberalization due to a number of factors: conspicuous policy shift from close to open trade in leading countries, increase in intra-regional exchanges, and emergence of regional trade blocs and bilateral trade agreements. Countries in Southeast and Northeast Asia have lost interests in multilateral trade negotiations in the WTO and turned to a more bloc-oriented trade talk; the region as a whole has manufactured a new concept of economic unit known as ASEAN+3 and a considerable number of FTA’s have been entered into between Southeast and Northeast Asian countries. The nature of regional integration has become trade-oriented and FTA-led.

This process of regional integration through trade agreements has, nonetheless, excluded from its negotiations a number of sensitive agricultural products, rice being the most noteworthy example. Two factors account for exclusion of rice from trade talks in the region. First, rice is a staple food in the region that has cultural and even security implications. Because of political relevance of rice in the region, rice policies oftentimes become subject to intense interest group politics and heated political debates. Second, after experiencing food crises, many countries in the region are still under the impression that rice can be used as an important tool of statecraft. Because of this nature of rice, countries feel suspicious about motives and integrity of each other’s rice policies. Against this backdrop, it is a small wonder that most countries in the region have adopted and still retain protectionist rice policies.

This research shows that rice remains as a key strategic item in trade policies of most Southeast and Northeast Asian countries. Many countries intervene in the market to increase

production and enhance self-sufficiency on rice. Governments manipulate rice purchasing, storage and selling. Some countries have made adjustments to fulfill the requirements of AFTA and WTO negotiations. But by designating rice as highly sensitive product, they have also come up with policy measures to delay their commitments.

Given the apparent benefits that rice liberalization could bring to the region, countries in the region should exert concerted efforts to break impasse in rice trade negotiations. This research suggests that efforts to build regional community and rice trade liberalization move in tandem. In order to materialize the benefits of an integrated and liberalized rice market in the region, it is required to establish regional governance that would instill confidence in region's rice market and major stakeholders of rice policy. The region's governance on rice has to involve a wide range of actors such as ASEAN+3, SAARC, UN agencies (e.g., FAO and ESCAP), the ADB, as well as national agencies of development cooperation, especially from industrialized countries such as the Korean KOICA and the Japanese JICA. It is suggested that the rice governance in the region address the following issues: 1) rice availability to give assurance to rice importing countries and to strengthen the ASEAN+3 Emergency Rice Reserve, 2) sustainability of production to assist rice producing countries and to improve rice quantity and quality, 3) price stability by establishing a regional rice price information system, and 4) protection of producers and consumers to help governments protect and support the 'losers' that rice trade liberalization could bring about.

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