

The Asian Crisis and rice markets

As we have mentioned in other columns, the Asian Crisis is said to have begun July 1, 1997 with the Bank of Thailand announcement that it was floating the bhat currency, which subsequently collapsed. Following this, currency attacks occurred in Malaysia, the Philippines, South Korea and Taiwan. And from there it spread to Hong Kong, Japan and was felt in Brazil and Argentina.

Analyzing one crop-year at a time, what do rice trade data show about the relationship between U.S. rice exports and the Asian Crisis?

Rice did not reach its high price in the period before or immediately following the adoption of 1996 Farm Bill in April 1996, as did wheat, cotton and corn. Instead rice saw its recent price peak a year later, in April 1997 (part of standard trade year 1996).

1997 Rice Crop Year

During the 1997 rice standard trade year, which coincides with the first year of the Asian Crisis, the combined imports of the countries most affected by the Asian Crisis (Japan, Indonesia, South Korea, Thailand, Taiwan, Malaysia, Philippines and Hong Kong) increased their imports of rice. U.S. exports of rice increased by 13 percent from 78.3 hundredweight (mil. cwt.) to 80.8 mil. cwt.

Even with these increases rice prices declined slightly in 1997 with carryover stocks increasing marginally from 27.2 to 27.9 mil. cwt.

1998 Rice Crop Year

During the 1998 crop year, a time when Asia was most in crisis, Asian countries increased their imports of rice from the United States by 44 percent. But total US rice exports were roughly constant.

For the second year in a row the number of acres planted to rice increased. USDA's Rice Yearbook characterizes the situation this way, "This was the second consecutive year of relatively high rice prices relative to alternative crops."

While domestic consumption increased by 10.7 mil. cwt, and even with a reduction in carryover, U.S. rice prices dropped by 81 cents per hundredweight. Increased world rice stocks and reduced world prices pressured U.S. prices downward.

1999 Rice Crop Year

Acreage devoted to rice production increased again in 1999 from 3.3 to 3.5 million acres resulting in a record production of 206 mil. cwt., 21.6 mil. cwt. higher than the previous crop year. Increases in both domestic consumption and exports were not able to absorb the additional production causing carryover stocks to increase 5.4 mil. cwt. to 27.5 mil. cwt. The 1999 season average price dropped by 31 percent to \$6.11. Interestingly, the 1999 carryover was the same as it was at the end of the 1997 crop year when U.S. rice price was \$9.59/cwt.

So What Happened?

Clearly the Asian Crisis had little to no negative effect in the U.S. rice market. In fact during 1998, when the Asian Crisis was in full bloom, Asian imports increased by 44 percent.

It is also clear that precipitous drop in rice prices during the 1999 crop year was not the result of the Asian Crisis, which by that time was in the recovery stage. With the prices of other food grains at levels not seen in decades and expanding world-wide inventories, 1999 rice prices succumbed to the general price malaise of other crops.