



Impact of COVID-19: Changing trade policy in a global pandemic - Potential implications for South Africa's rice supply chain

Most countries around the world have responded to the spread of the coronavirus through large scale lockdowns. With the global economy coming to a near stand-still, trade in food and related essentials has been prioritised to ensure food security. However, disruptions in global supply chains are inevitable, especially given restrictions on the movement of labour, a slow-down in logistics, and stringent health inspections to ensure safe operating environments. There are fears that such disruptions could lead to temporary price shocks and constraints on the availability for some of the country's major imports such as rice, wheat and palm oil.

The Association of Southeast Asian Nations (ASEAN) Food and Beverage Alliance (AFBA) (2020) has reported that Vietnam, Russia and Kazakhstan have instituted short-term trade restrictions. This was done to ensure sufficient domestic food supply during the lockdown, probably even later until COVID-19 has been contained. Examples include:

1. Vietnam – one of the world's largest rice exporters – introduced a ban on rice exports as from 28 March 2020.
2. Russia – a large wheat exporter - stopped processed grain exports from 20 March 2020, although current reports noting that the country's wheat exports are not included in the ban (Reuters, 2020).
3. Kazakhstan, another major global soft commodities exporter, suspended exports of wheat flour, buckwheat, sugar, sunflower oil, and some vegetables until 15 April 2020 (Reuters, 2020).

South Africa imports more than one million tons of rice per year (International Trade Centre (ITC), 2020). In 2018, South Africa imported R6.8 billion (\$518 million) worth of rice, coming mostly from Thailand and India (which together account for almost 90% of total imports (Figure 1)). Vietnam and China are tied at third spot with a contribution of 2% each.

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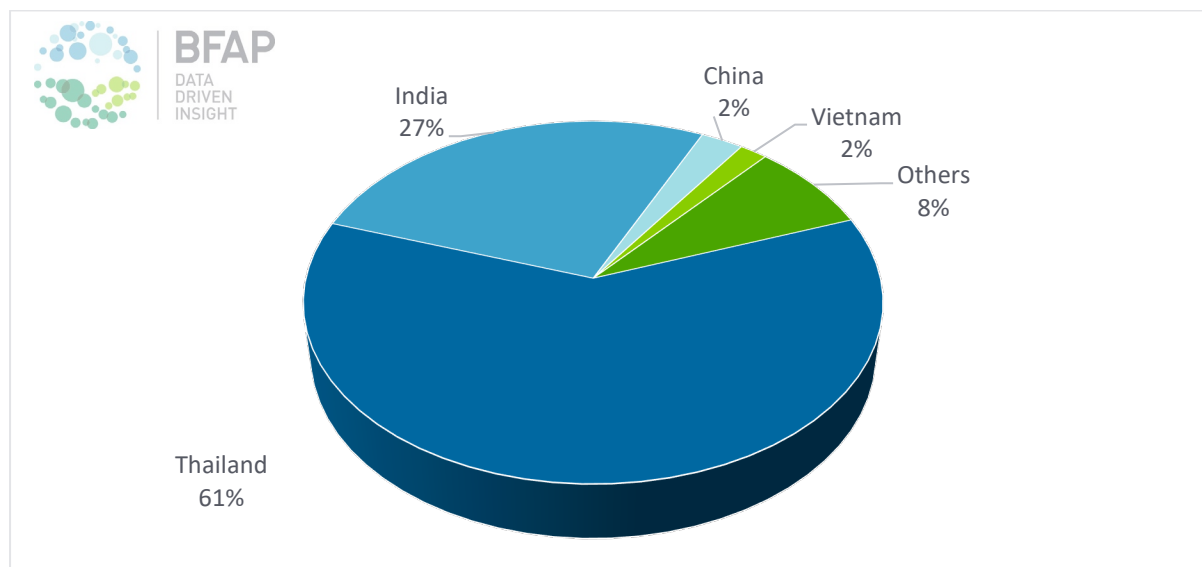


Figure 1: Share of South African rice suppliers (Average 2015-18)
Source: International Trade Centre (ITC), 2020

Historically, South Africa's rice imports are at their lowest in the first quarter of the year. Imports steadily increase through the second quarter, reaching a peak in the fourth quarter. Figure 2 shows monthly imports of rice in tons from the four largest suppliers. Imports for May are relatively low (less than 40 000 tons) compared to other months. Nevertheless, in the next few months more rice will be imported into the country. However, Figure 2 shows that Vietnam is not a major supplier of rice, and therefore unlikely to create major supply disruptions in the South African market.

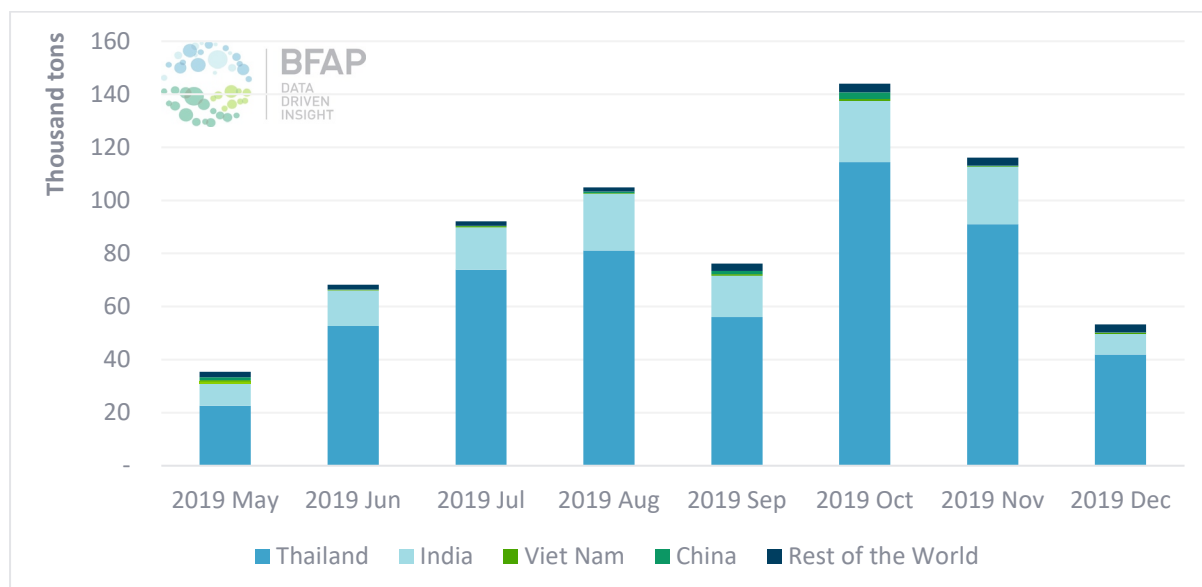


Figure 2: South African monthly rice imports from top suppliers in 2019
Source: International Trade Centre (ITC), 2020.

For now, Vietnam's policy to ban rice exports is not a major concern from an **availability** perspective due to its low relative share of the country's imports. However, Vietnam is the third largest rice exporter in the world (after Thailand and India) and world prices have responded to the news of its export ban. It therefore becomes an issue of **affordability**, with the import parity prices of rice rising sharply due to higher world prices and the depreciation in the exchange rate. Figure 3 presents weekly rice prices in Thailand, both in US Dollar and Rand terms, highlighting a clear increase through March, which has been further exacerbated by the weaker exchange rate. Following the announcement of Vietnam's export ban, the futures price for rough rice in the USA increased by a further 2% over this past week. For the lockdown period, retailers in South Africa are not allowed to increase the price of essential food items. Companies are generally well hedged for a month or two to absorb higher raw material prices. However, in a prolonged COVID-19 situation, the affordability of rice could become an issue. The value chain will not be able to fully absorb a 30 – 40 percent increase in raw material prices. Similarly, low-income households that are already spending a significant share of their income on food will be under even more pressure.

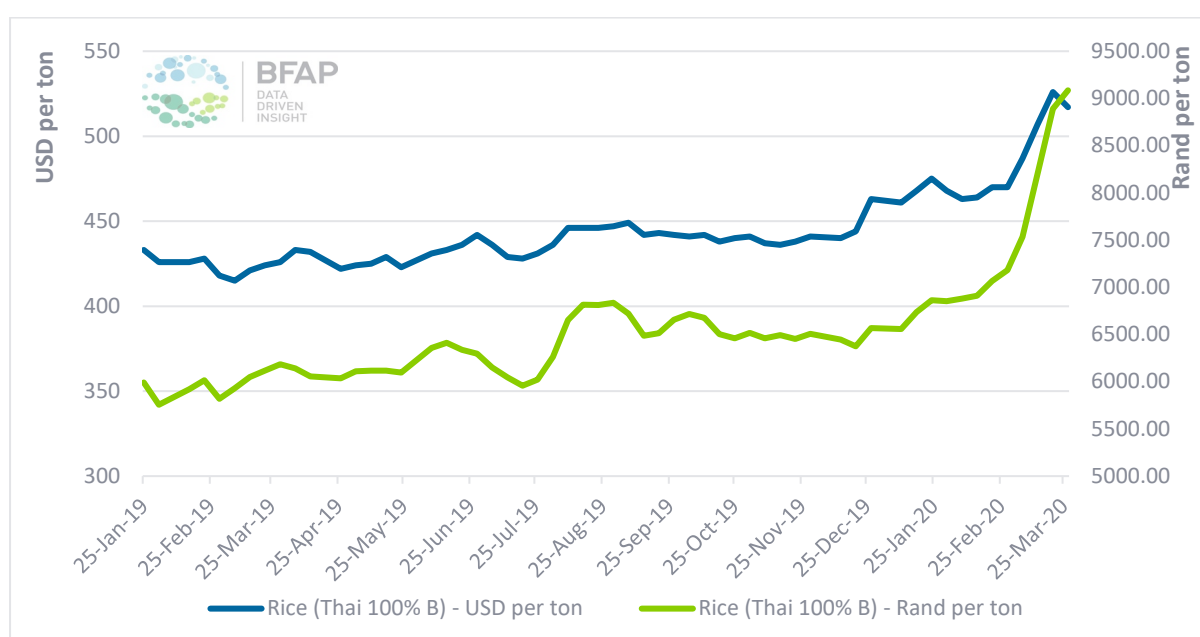


Figure 3: Weekly Thailand Rice prices, expressed in US Dollar and South African Rand
 Source: FAO GIEWS, 2020

As already mentioned in the first COVID-19 brief, South Africa will have sufficient white maize to absorb a significant consumption shift from rice and wheat to mielie meal, but depending on the magnitude of shift, this will have consequences for staple maize prices. In the second COVID-19 brief we provided an overview of the affordability of food for low income households. Amid uncertainty about the COVID-19 global pandemic, the fluidity of social and economic circumstances in the global economy might trigger policy changes among other major food producing countries. Consequently, it is important to monitor both movements in policy and in the global flow of food items.

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The next few days and weeks will be critical as major global suppliers deal with the COVID-19 crisis. Policy responses in major producing markets will likely trigger potential domino effects. In particular:

- It will be important to monitor food policy responses in Thailand and India, who had 2 220 and 4 314 confirmed corona cases on 6 April (John Hopkins, 2020). The situation might change drastically depending on how the disease spreads in those countries or even in the region. For now, Thailand has announced that they will not be introducing any export bans on rice.
- Russia, which as of now has not placed any restriction on wheat exports. The country had 5 389 confirmed corona cases on April 6, but the situation will change in the next few days (John Hopkins University, 2020).
- Malaysia has closed several palm oil plantations in three districts following the infection of workers (AFBA, 2020). The country has 3 662 confirmed corona virus cases on 6 April. It is the second largest supplier of palm oil to South Africa, after Indonesia (ITC, 2020). Palm oil is the fifth largest imported product into South Africa with a value of more than R4 billion. Therefore, some supply disruptions are to be expected in the next few weeks or months.

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