Agricultural Pricing Policies in Thailand, 1960 – 1984

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This piece of research is part of the Political Economy of Agricultural Pricing Policies project carried out by the World Bank. The entire project examines agricultural pricing policies in 19 less developed countries. TDRI agreed to do the study for Thailand.

The study examines and documents government interventions in four of the country's major export crops: rice, sugar, maize and rubber. There were considerable variations in the nature of the interventions among these commodities. The instruments employed differed, as did the directions of intervention: sugar was generally supported whereas all the others were taxed, either implicitly or explicitly.

The magnitudes of the impact on prices vary widely across crops and over time. Part of the explanation for these differences lies in the nature of the political processes impinging on policy formation which vary from commodity to commodity. Thus, the sugar industry has some of the most developed and therefore powerful groupings in the country. Collectively, they have been able to pressure the government into taxing the rest of the economy in order to support it. Rice farmers, on the other hand, have traditionally been poorly organized. The sector ends up being taxed, at times heavily. Even when the government felt constrained to provide some support, as it has had to do during the last decade, the measures have tended to be acts of political patronage benefiting a few rather than rice farmers as a group. Interest group politics therefore has no place in explaining the twists and turns of rice policies in the past. The key to understanding rice policies lies in the central institution--the Ministry of Commerce.

The study goes beyond the commodity-by-commodity examination of the measures that directly affect the price of the specific goods. It also examines those measures that were not directly aimed at the agricultural sector itself, but ended up penalizing it nonetheless. Two measures in particular were examined, namely the industrial protection policy and the policy to sustain a balance-of-payments disequilibrium by means of overseas borrowing. Both these policies share the same characteristic in that they caused the baht to be overvalued in real terms. This overvaluation in turn kept the baht prices of the agricultural commodities lower than what they would otherwise be, thus imposing a penalty on the sector. These indirect effects can be substantial, lowering relative agricultural prices by as much as 20-30% in the late 1970s and early 1980s. In fact, by this time, the indirect effects of the nonagricultural measures greatly overshadowed the measures directly taxing the sector which were gradually being reduced.

Aside from the price policy measures that were imposing a net tax on the agricultural sector--the supportive measures favouring the sugar sector were insufficient to overcome extractive policies elsewhere--the Thai government did pursue a number of other policies which injected resources into the sector. It invested considerable sums of money in irrigation which directly benefited the sector, as well as in roads which partially helped it. It has also regularly spent money on agricultural research and extension. The study examines how the size of this injection of resources compares against the extraction through price policies. The results indicated that there was a net outflow from the agricultural sector which was about 6.6 billion baht (in 1984 prices) annually in the 1960s, and 5.0 billion baht annually in the 1970s. However, if the extraordinary years 1973-1975 were excluded, there was a net inflow into the agricultural sector of about 8.0 billion baht. The shift was due not so much to a decrease in the extraction from the agricultural sector--that did not take place until poor world market conditions forced the government to lower its imports in the early 1980s--but to a steady increase in its investment and expenditure on the sector. These figures took into account only the impact of the measures that were aimed directly at the agricultural sector. If the indirect effects of the industrial protection and foreign borrowing policies are also taken into account, then the relevant figures become 17.0 billion baht in the 1960s, and 27.0 billion baht in the 1970s. Even if 1973-1975 were excluded, there was still a net outflow of 14.3 billion baht. All figures show a net inflow into the agricultural sector in the 1980s.

The reason for the large outflow figures despite heavy government expenditures is because the agricultural sector was being taxed not only to support the government, but a considerable amount of the extraction was implicitly supporting the urban population. Rice export tax in particular made for a lower domestic rice price for urban consumers and this was a large part of the burden that rice farmers had to bear.

The study also measures the income distribution impact of the agricultural pricing policies, but only for the year 1980, when a socioeconomic survey was conducted. The results indicate, as expected, that the rural population lost as a result of the policies followed by the government and the urban population gained. Within the rural sector the loss was higher among the better off than among the poor. Among rice farmers for example, the richer group lost about 6% of their income, whereas the poor lost only 1%. This is because the rich markets a larger proportion of their output than the poor. In urban areas, the main beneficiaries turn out to be the richer households. This is contrary to expectation, in as much as low food prices are supposed to benefit the poor more than the rich. The reason for our results is because part of the government policies were in the form of export quotas, which benefited richer households in the urban areas. The economic rent from these quotas was substantial enough to explain the larger benefit to the rich.

The report for this project has been completed, but under the terms of the contract with the World Bank, cannot be released until their publication of the combined volume, which is expected to be in the second quarter of 1988.

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