Challenging the Market Access Agenda: A Case Study on Rice from Thailand

By Jacques-chai Chomthongdi*

Thailand is known as one of the top food exporters in the world, particularly in rice. But a study on Thailand shows that while its rice exports are increasing, farmers do not benefit from this success. Farm-gate prices have not increased over the last decade. The stagnation in real income has been accompanied by a sharp rise in the debt burden of the rural households. In short, more export does not lead to an increase in farmers' welfare, or at least, not for Thai rice producers.

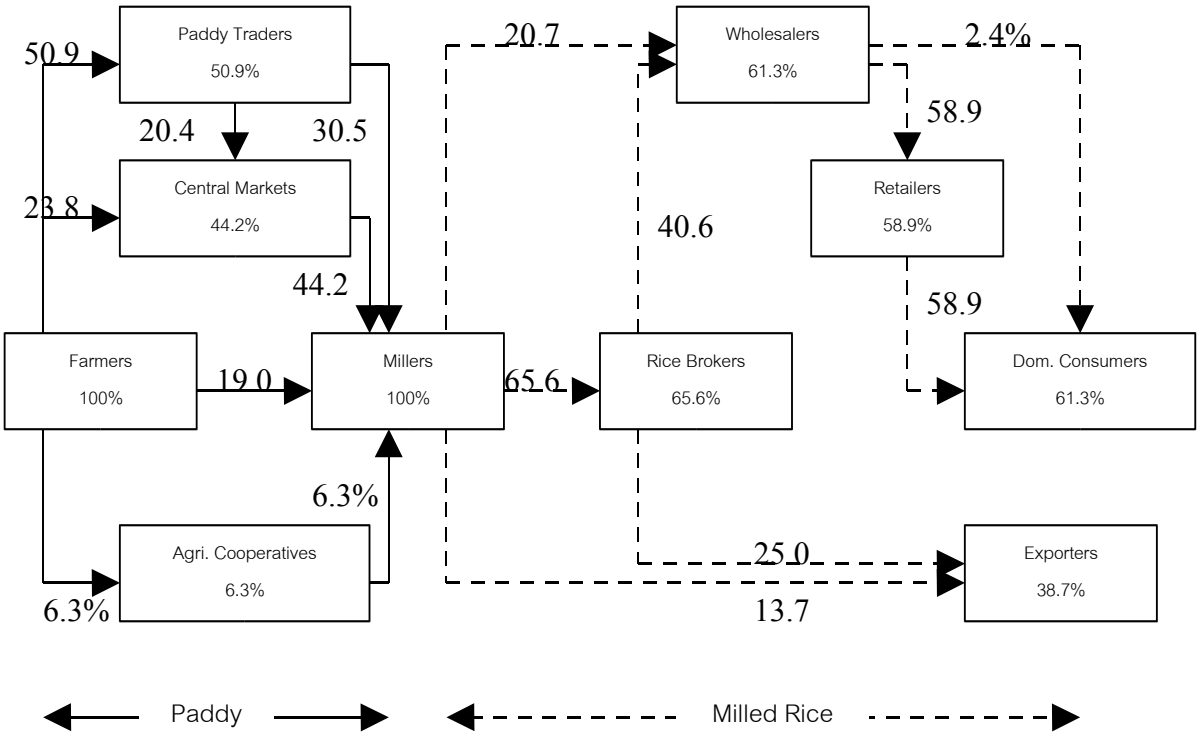
Over a long period of time, "trade liberalisation" has been projected as a magic solution to the problems confronted by developing countries. In recent years, "trade liberalisation" has not only been seen as good for economic growth but also as good for the poor. The argument goes like this: exports can generate hard currencies needed for development. Access to markets in the North not only helps to generate national income but also more jobs and higher prices for local products, hence leading to the alleviation of poverty. This assumption very much influences the focus and the direction of today's international trade negotiations both at multilateral and bilateral levels. Countries, North and South alike, aim to open up other countries' markets in an attempt to increase their exports. In agriculture, it is believe that opening up of the market in Northern countries will benefit Southern countries since, in general, the later has the comparative advantage in this sector.

Let's take this argument a little bit further. For instance, if developed countries genuinely open up their markets and developing countries are able to increase their agricultural exports, will these changes benefit the rural producers and help improve their living standard? This paper takes the case of Thailand, the country that is perceived as a successful story of the export-led growth model, to address this question.

Thailand: a success story?

Thailand is one of the major exporters of agricultural goods in the world, particularly rice. Rice is the dominant crop in Thailand. The rice planted area is much greater than any crop planted area. The total land in Thailand is 321 million rais (1) or 514,000 square kilometres. In 1995, nearly 130 million rais were classified as farm holding land, of which around 57 million rais were paddy land. The most important use of rice is domestic consumption, which includes food consumption, industrial use, animal feed, seed, and storage. On average, 60 percent of the total rice production is for domestic usage and 40 percent is for export (see Figure 1). Since 2001, Thailand has exported more than 7 million tons of rice annually, which accounts for 30 percent of the total rice export in the world. During the last 10 years, Thailand has seen its rice yield and the total production increasing, not sharply but continuously (see Table 1). Similar trends can also be observed in the quantity of export.

Figure 1: Marketing Distribution Channels of Paddy and Rice



Source: Agricultural Business Research Section, Kasetsart University (1997)

Table 1: Paddy production in Thailand

Years	Harvested area (1,000 rai)	Production (1,000 tons)	Yield (Kg/rai)
1993/94	53,015	18,447	347.96
1994/95	56,095	21,111	376.34
1995/96	56,870	22,016	386.54
1996/97	57,920	22,332	385.56
1997/98	61,955	23,580	380.60
1998/99	59,447	22,999	386.88
1999/00	62,312	24,172	387.92
2000/01	61,007	25,608	419.76
2001/02	63,284	26,523	419.11

Source: Office of Agricultural Economics, Ministry of Agricultural and Co-operatives

However, the export prices have been very volatile. Also, the increase in export quantity was not reflected in the export prices nor in the farm gate prices. For instance, the average export price in 2001 was equal to 1993, even though the export quantity increased sharply (see Table 2).

Table 2: Rice Export

Years	Metric tons	Millions of US$	Average price per ton (US$)	Average price per ton (baht)	1US$: baht
1993	5,012,262	1,037	206.90	5,213.80	25.2
1994	4,858,639	1,563	321.70	8,106.84	25.2
1995	6,197,992	1,960	316.24	7,969.25	25.2
1996	5,460,220	2,012	368.49	9,285.95	25.2
1997	5,567,308	2,080	373.61	11,720.15	31.4
1998	6,540,360	2,098	320.78	14,146.40	44.1
1999	6,838,794	1,951	285.29	10,783.97	37.8
2000	6,148,243	1,642	627.07	10,869.75	40.7
2001	7,664,958	1,585	206.79	9,160.80	44.3
2002	7,327,026	1,631	222.60	9,638.58	43.3
2003	7,343,438	1,833	249.61	10,308.90	41.3

Source: Customs Department, Ministry of Finance

Table 3 shows that farmers, who are mainly small-scale producers, acquire on average, 72.8 percent of the export value. Importantly, this proportion has not increased in favour of small farmers. It is clear that over the last decade, the distribution of wealth generated by income from exports, in the case of rice, is not improving.

Post farm-gate value added is high considering that farmers are the ones who invest in production and assume most of the risk themselves. Interestingly, the year that export price was the highest, which was 14,146.40 baht in 1998, was the year farmers had the lowest share of export value (59.2%). This and information from other years imply that exporters, traders, and millers tend to benefit more from the rise in export price than the farmers.

Table 3: The different between the Average Farm-gate Price and the Average Export Price

Years	Average export price per ton (baht)	Adjusted value (baht)*	Farm gate Prices (baht)	Post farm gate value added (baht)	Proportion (%)of Farm gate value / export
1994	8,106.84	5,350.52	3,449	1,901.52	64.5
1995	7,969.25	5,259.71	4,376	883.71	83.2
1996	9,285.95	6,128.73	5,307	821.73	86.6
1997	11,720.15	7,735.30	6,625	1,110.30	85.7
1998	14,146.40	9,336.63	5,527	3,809.63	59.2
1999	10,783.97	7,117.42	4,761	2,356.42	66.9
2000	10,869.75	7,174.04	4,347	2,827.04	60.6

2001	9,160.80	6,046.13	4,312	1,734.13	71.3
2002	9,638.58	6,361.47	4,697	1,664.47	73.8
2003	10,308.90	6,803.88	5,207	1,596.88	76.5
					Average = 72.8

**Note: 1 Kg of Paddy produces 0.66 Kg of milled rice*

***Calculated from the information provided by Office of Agricultural Economics*

The findings on the farm-gate prices of paddy make it even harder to believe that the export-led production mode benefits the producers themselves. It is evident in Table 4 that the prices in real term have not showed an increasing trend, even when exports are rising.

Table 4: The Average Farm-gate Prices of Paddy

Years	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Prices (Baht)	3,449	4,376	5,307	6,625	5,527	4,761	4,347	4,312	4,697	5,207
Deflator 94 = 100	100.0	106.4	113.8	122.8	136.2	136.1	136.3	138.2	139.3	142.0
Prices in real term	3,449	4,113	4,663	5,395	4,058	3,498	3,189	3,120	3,372	3,667
Prices in real term (US$)	136.9	163.2	185.0	205.1	92.0	92.5	78.4	70.4	77.9	88.8

Source: Office of Agricultural Economics, Ministry of Agricultural and Cooperatives

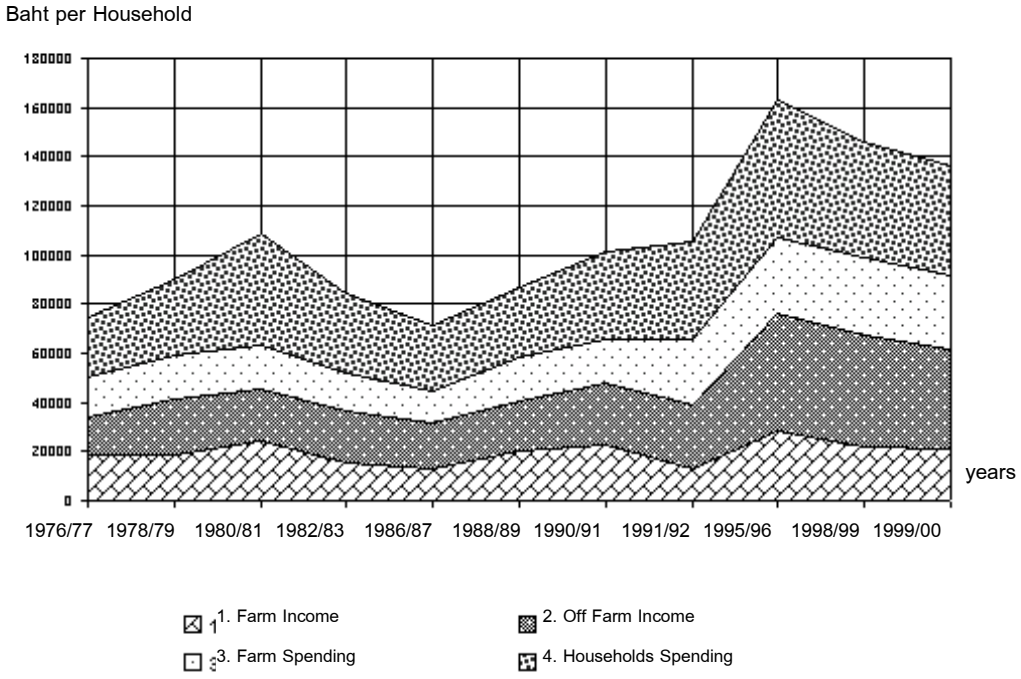
This finding coincides with the situation of the overall change in living standards of the general rural households in Thailand. Figure 2, shows that real farm income in 2000 had not increased from that in 1977. In contrast, farm spending increased over the same period. Plus, in some of the years, farm spending tends to be higher than farm income. Thus, it is fair to say that farmers, in general, are worse off than before. The introduction of cash crop production directed by market demand increased the farmers' need for credit to finance each production cycle. Although the government provided farmers with "low interest rate loans" through the Bank of Agriculture and Agricultural Cooperative (BAAC), farmers have to earn a profit at least equal to the interest that they have to pay on their investment, which means nine to twelve per cent. However, a large part of them who could not access the formal lending system have to borrow from informal lenders at interest rates as high as six per cent *per month*. The statistics on overall agricultural household debt confirms this interpretation. From the official report, between 1988/89 and 1994/95 the proportion of indebted households to total agricultural households tripled from 22.45 percent to 60.00 percent (see Table 5). Moreover, during the same period of time, the average debt per agricultural household soared from 3,777.29 to 37,231.00 baht.

Table 5:Total Agricultural Households, Indebted Households, Average Debt per household

Years	Agricultural households	Indebted households	Percentage of Indebted Households	Average Debt per household (at Mar 31, of each year)
1988/89	5,030,000	1,129,091	22.45	3,777.29
1989/90	5,040,132	1,279,000	25.38	6,046.78
1990/91	5,073,471	1,408,000	27.75	7,828.94
1991/92	5,130,531	1,729,831	33.72	12,771.74
1992/93	5,502,782	2,857,993	51.94	24,672.13
1993/94	5,513,855	3,050,412	55.32	37,019.35
1994/95	5,642,890	3,379,163	60.00	37,231.00

Source: Office of Agricultural Economics, Ministry of Agriculture and Agricultural Cooperatives

Figure 2: Comparison Between Agricultural Households Income and Spending in Real Terms



One should bear in mind that these statistics were also influenced by other factors. For example, the findings in this paper are based on the official statistics which take into account the effects of Government intervention. For a long time, the Thai government has played a major role in rice production and marketing. The price support program was first introduced as early as 1965. Presently, the government intervenes mainly through two schemes: paddy mortgage and purchasing of paddy. However, so far, a lot of farmers could not benefit from these schemes due to several limitations. Therefore, the official statistics of the average farm-gate price tends to be higher than what the farmers normally get.

Not only do many people around the world believe that the more a country exports the more benefit it will gain, but also the general Thai public including Thailand's trade negotiators. Unfortunately, only a few, so far, have pushed the thinking further. Who really benefits from the export of agricultural products? Will farmers be able to enjoy the effect of an increasing market abroad? The evidence of the last ten years proves that the assumption of the trickle down effect cannot be taken for granted. The findings on rice production and trade, at least, reveal that there is no positive correlation shown in the relationship between exports and the welfare of the farmers.

This paper is not aiming at legitimising the over-subsidised agricultural production in the North. But seeks to challenge the export enthusiasts around the world about the true beneficiaries of the export promotion agenda. Since the Uruguay Round, in order to increase the market access in the North, the South has again and again paid a high price. We know that the burdens resulted from this high cost were borne principally by the poor. Services, intellectual property rights, sovereign rights, and others were given away in a dream for more market access. At this stage we do not know whether this dream will become true or not. However, it seems that the poor may not share the same dream.

November 2004

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Notes

(1) 1 rai = 0.16 hectare = 0.3954 acre

(2) In a different report, government statistics shows that in 2000, rural households that were formally indebted jumped to 88 per cent. (Office of Agricultural Economics, "Agricultural Credit and Farmers' Debt Situation", a background paper for a seminar entitled 'Who is looking after farmers' debt?' organised by the Agronomists' Association of Thailand and the Ministry of Agriculture and Cooperatives, held at Central Grand Plaza Hotel, Bangkok, on 7 September 2000.)