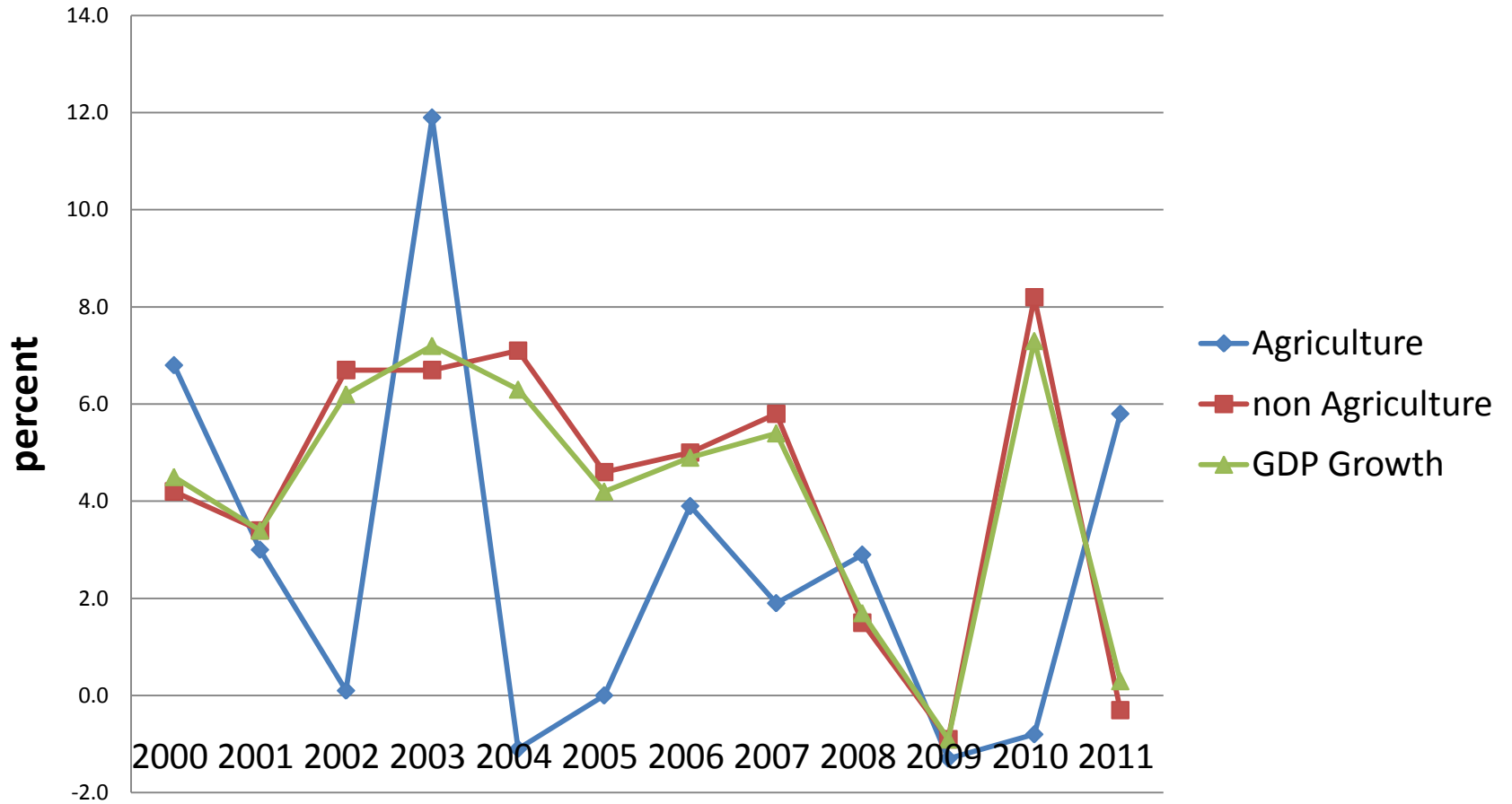


Issues in Thailand's agriculture

Lecture 12

Bhanupong

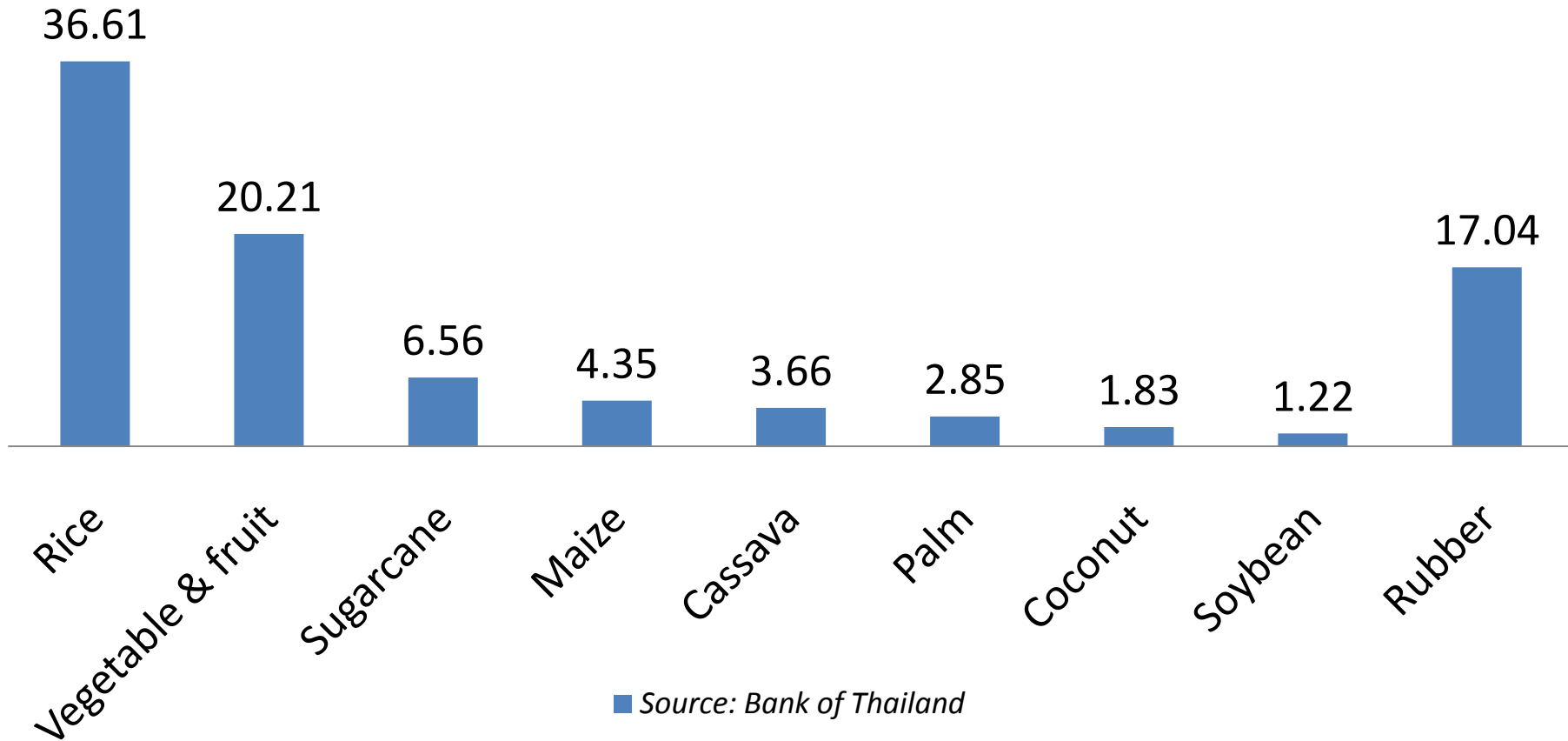
Sectoral Growth



Sectoral Growth 2000-2011

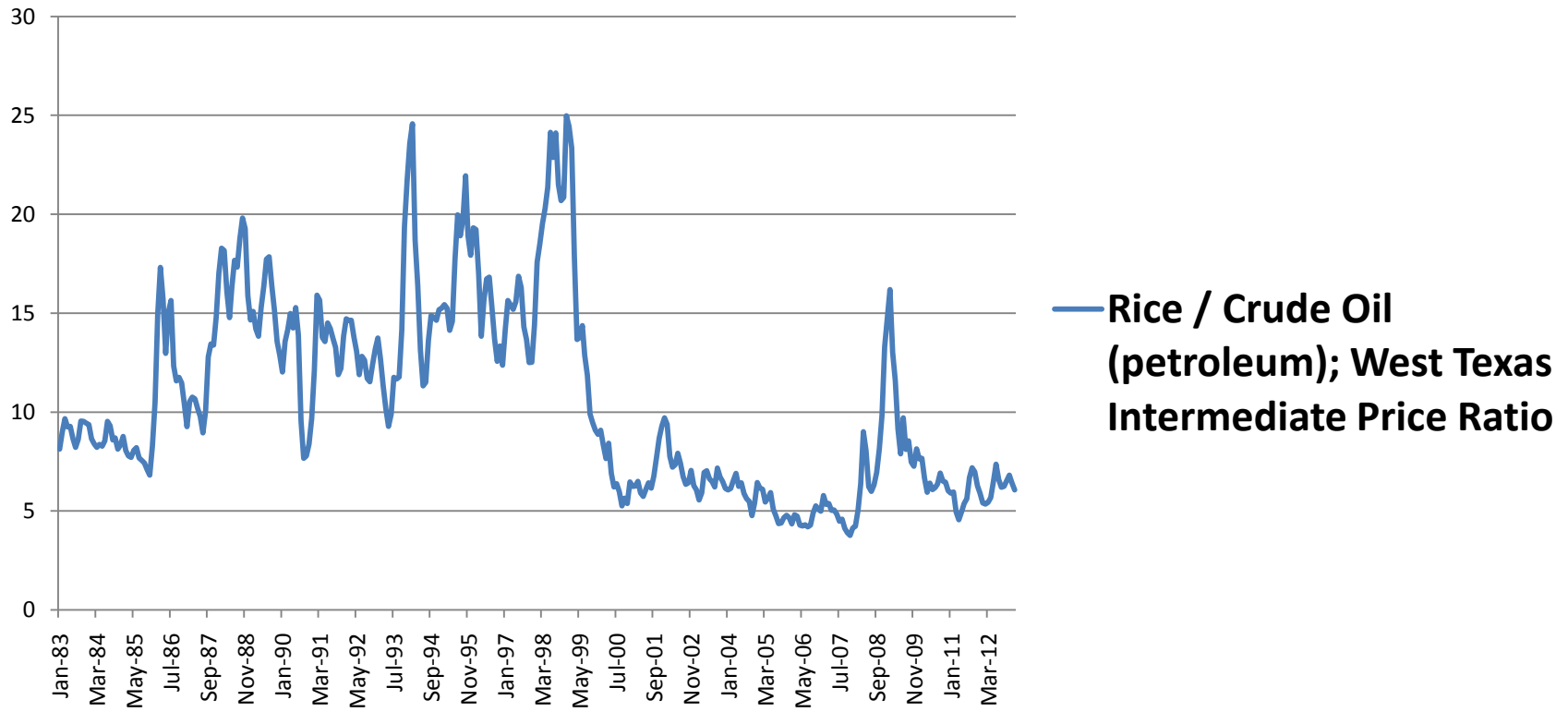
	STDV	Average	Coefficient of variation
Agriculture	3.9	2.8	1.42
non Agriculture	2.9	4.3	0.67
GDP Growth	2.6	4.2	0.63

Weight in Crops Production index



Terms of trade

**Rice / Crude Oil (petroleum)
West Texas Intermediate Price Ratio**



A lucky year: 2008

- Thai rice farmers only managed to get good prices in 2008 because the other main rice-producing countries, such as Vietnam and India, had to cope with natural disasters such as droughts and flooding.
- But when there are no natural disasters in other countries, Thai farmers are not able to compete with others in terms of price, because..

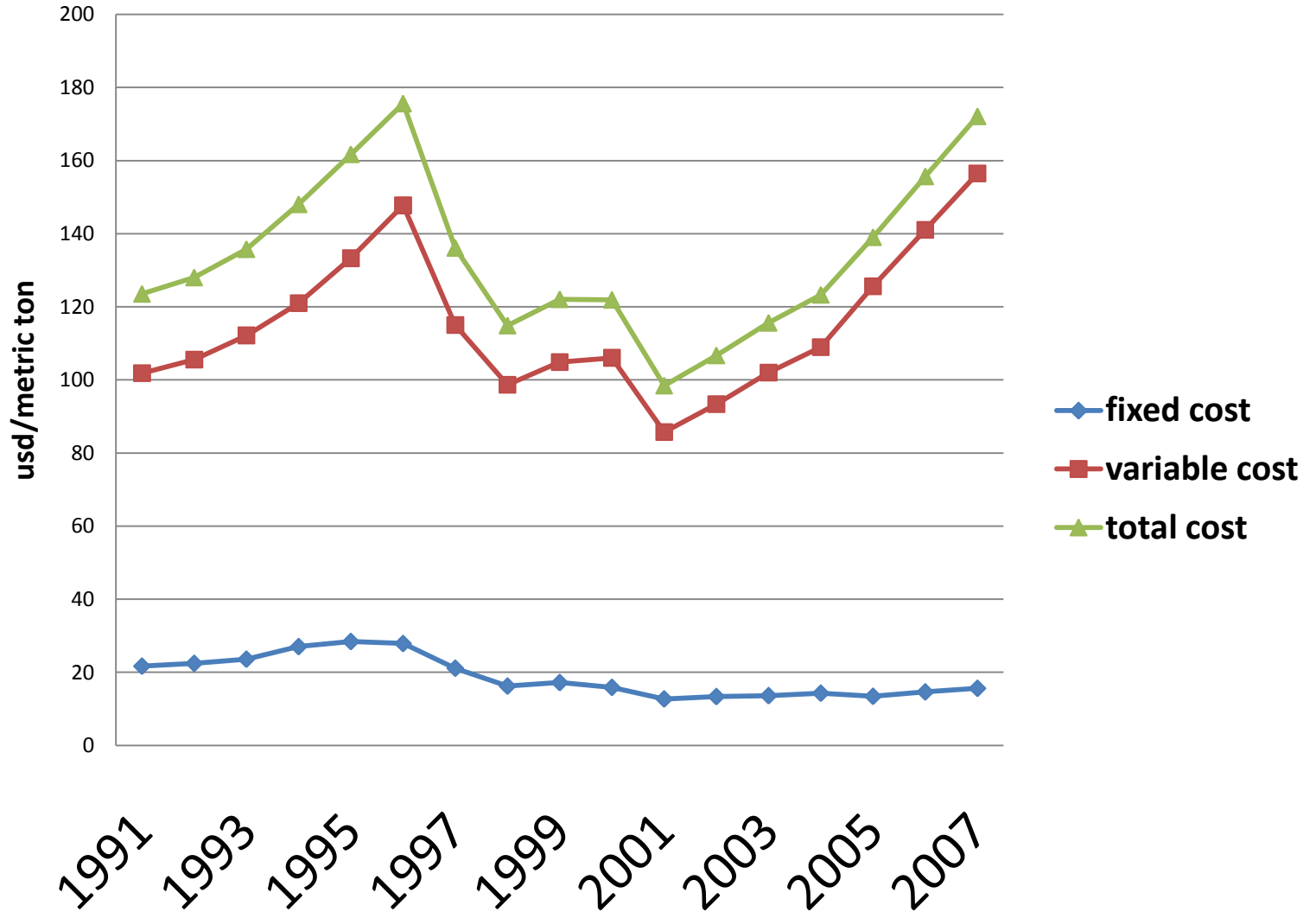
Agflation

- A wide range of factors has been blamed for the food price increases.
- Culprits include slowing agricultural productivity, climatic and weather-related factors, rising demand from China and India, higher oil prices and demand for bio-fuels, speculative behavior in financial markets, hoarding, falling stocks, dollar depreciation, low interest rates, among others.

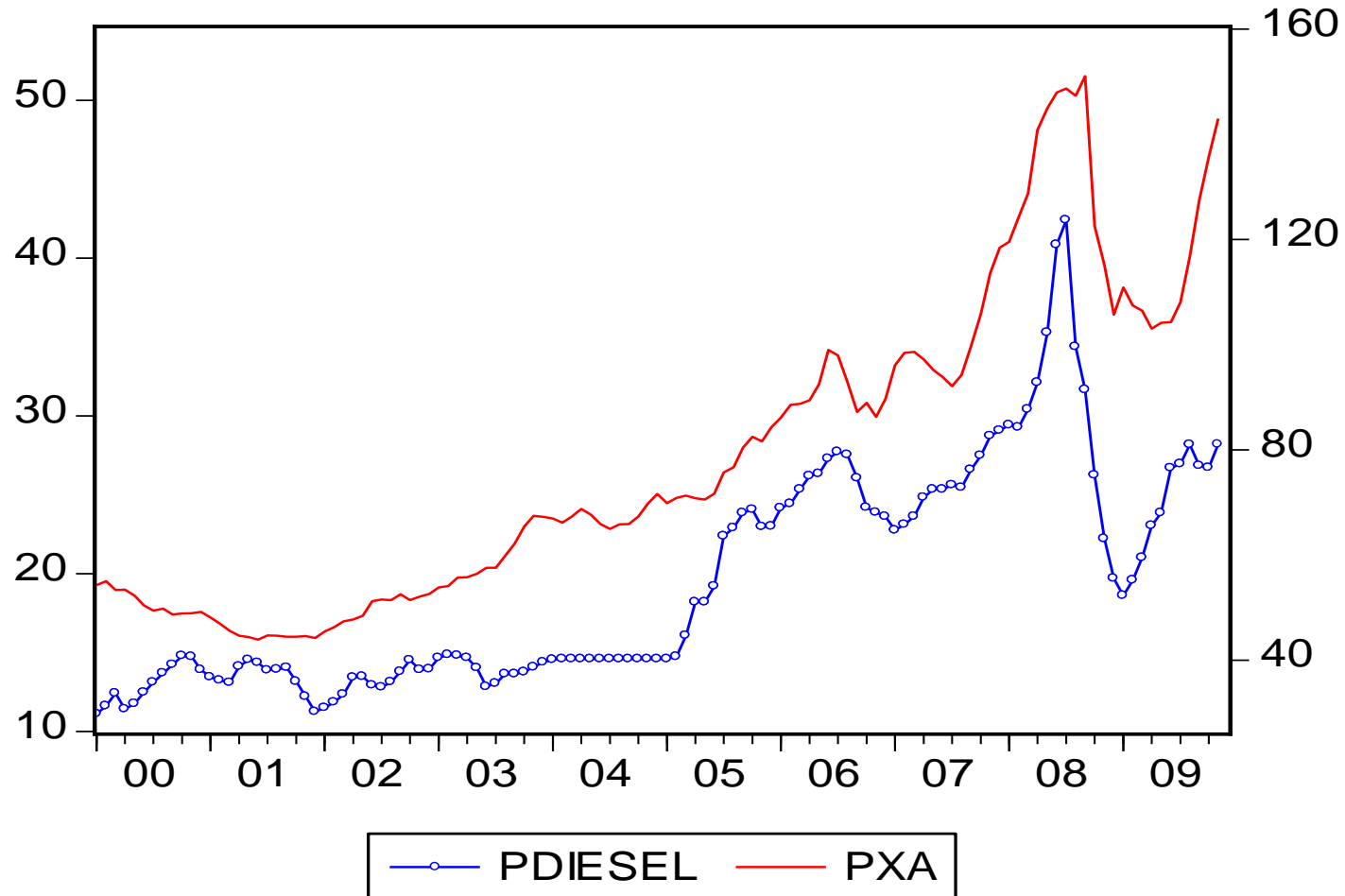
From boom to bust

- But from the second half of 2008, global attention shifted again.
- The eruption of the global financial crisis and slide of the global economy into recession raised fears that the world economy would plunge into another Great Depression.
- One consequence of the global recession has been a fall in world commodity prices that has also affected food commodity prices.
- This fall in food prices (and the fall in oil prices) has mitigated immediate concerns about large-scale food insecurity.

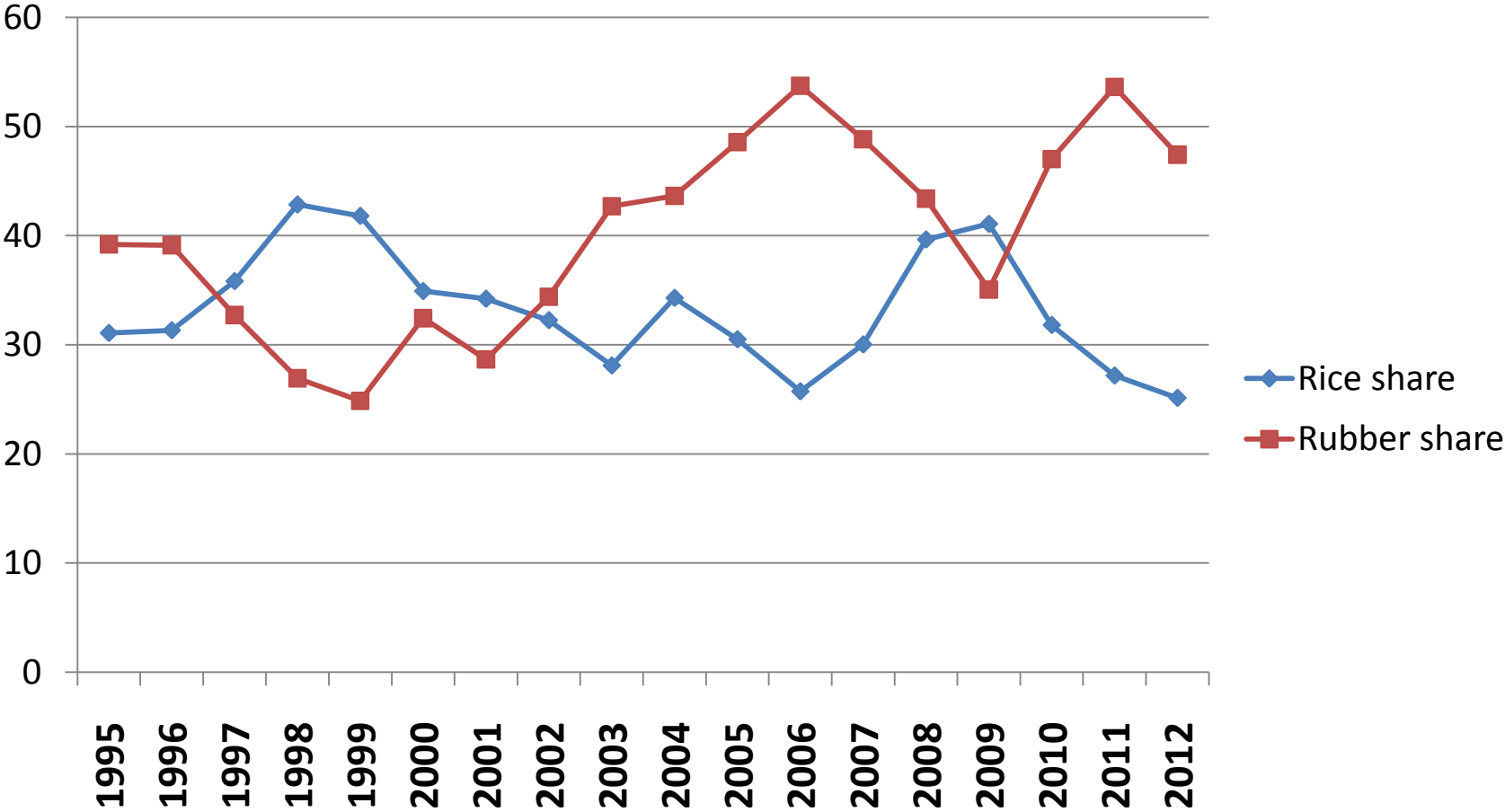
Cost of paddy production



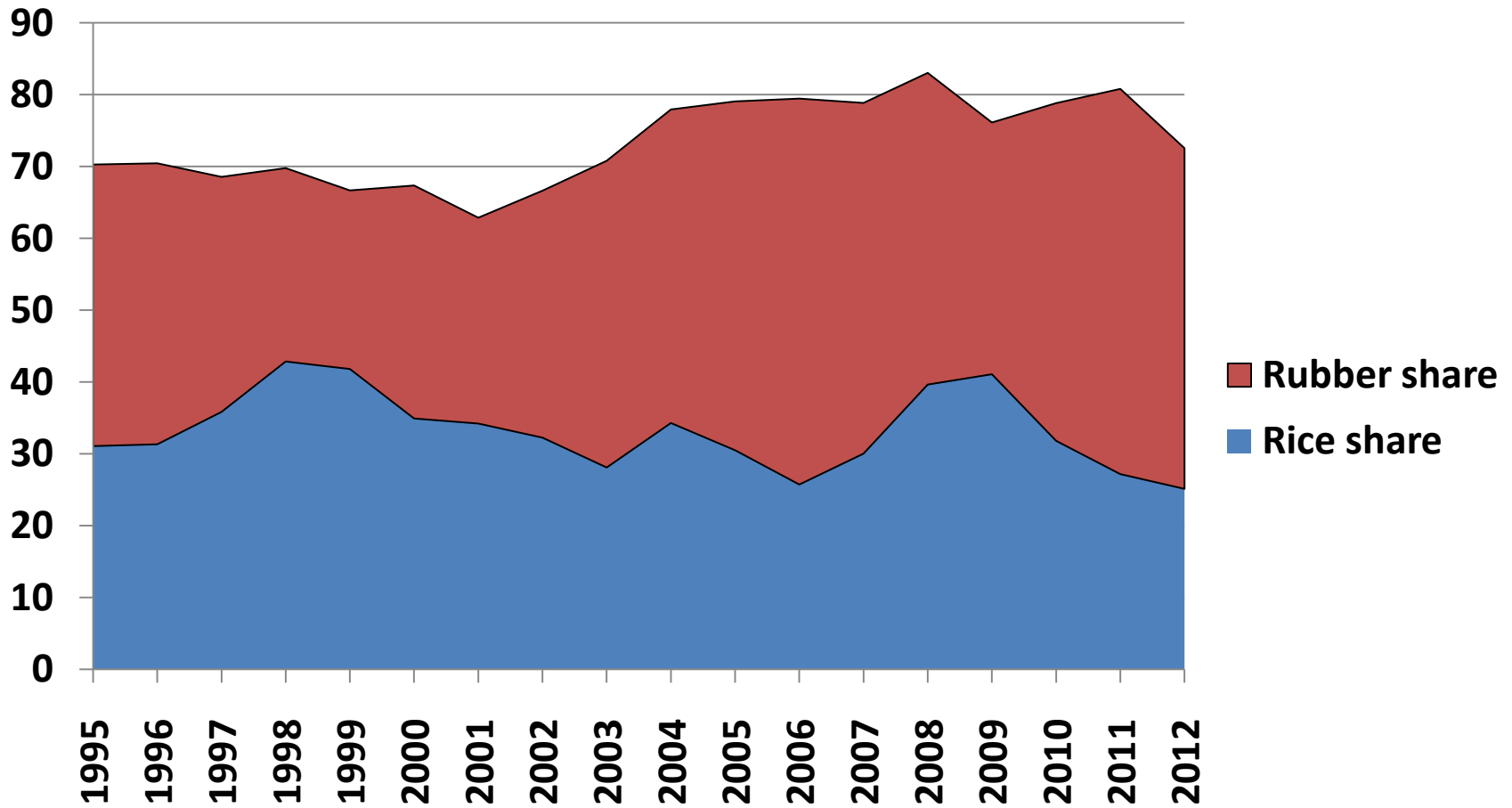
Impact of energy prices on agriculture



Agricultural Exports

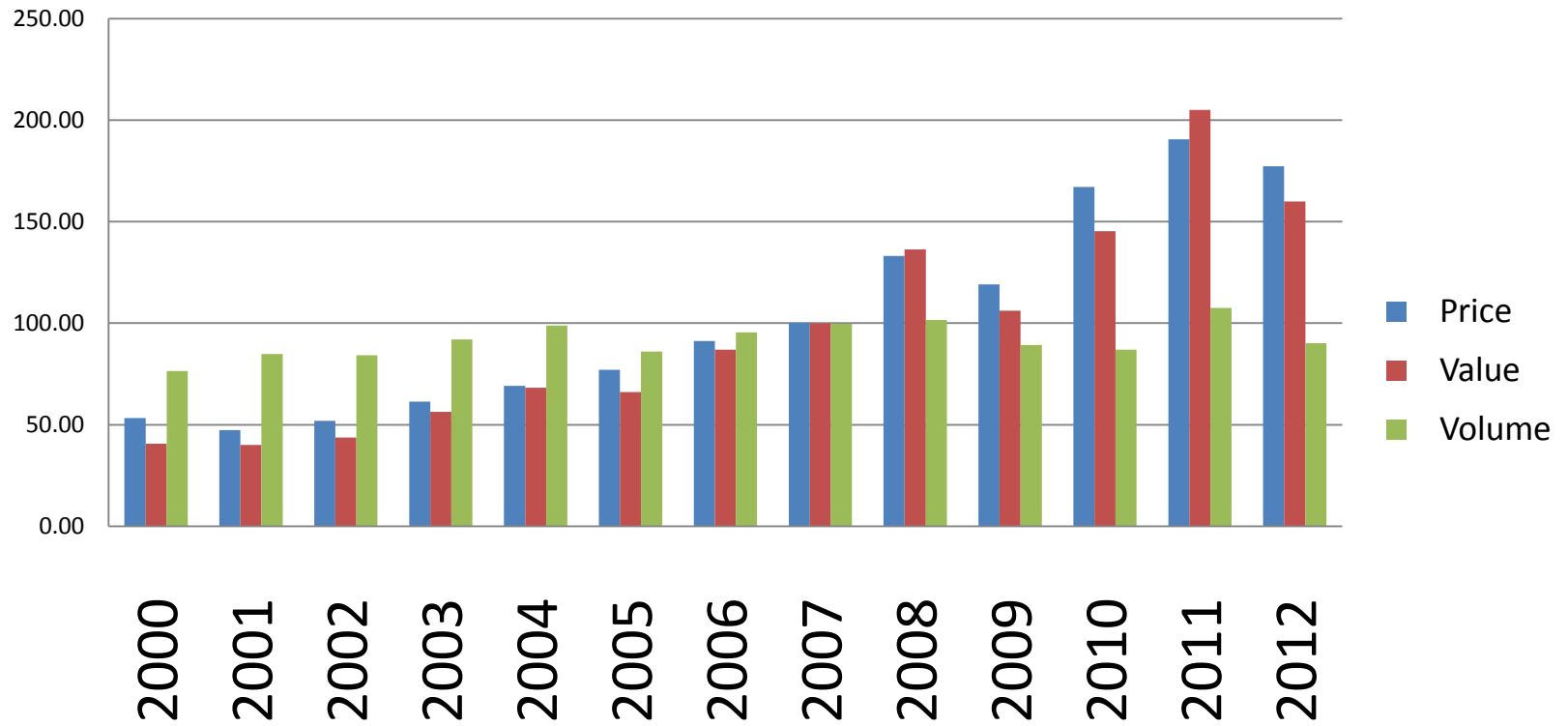


Share in total agricultural exports

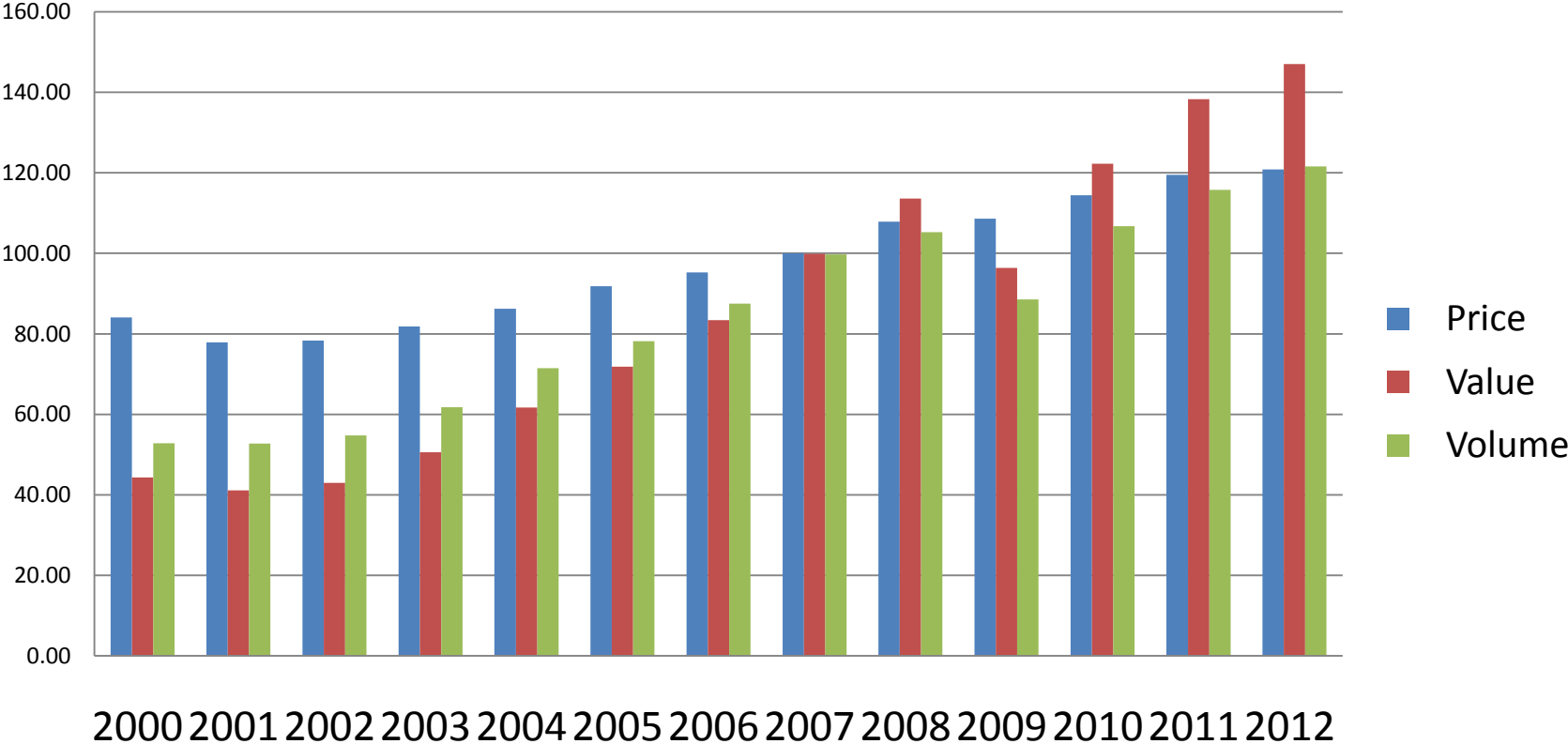


Value = P x Q

Agricultural Exports



Manufactured exports

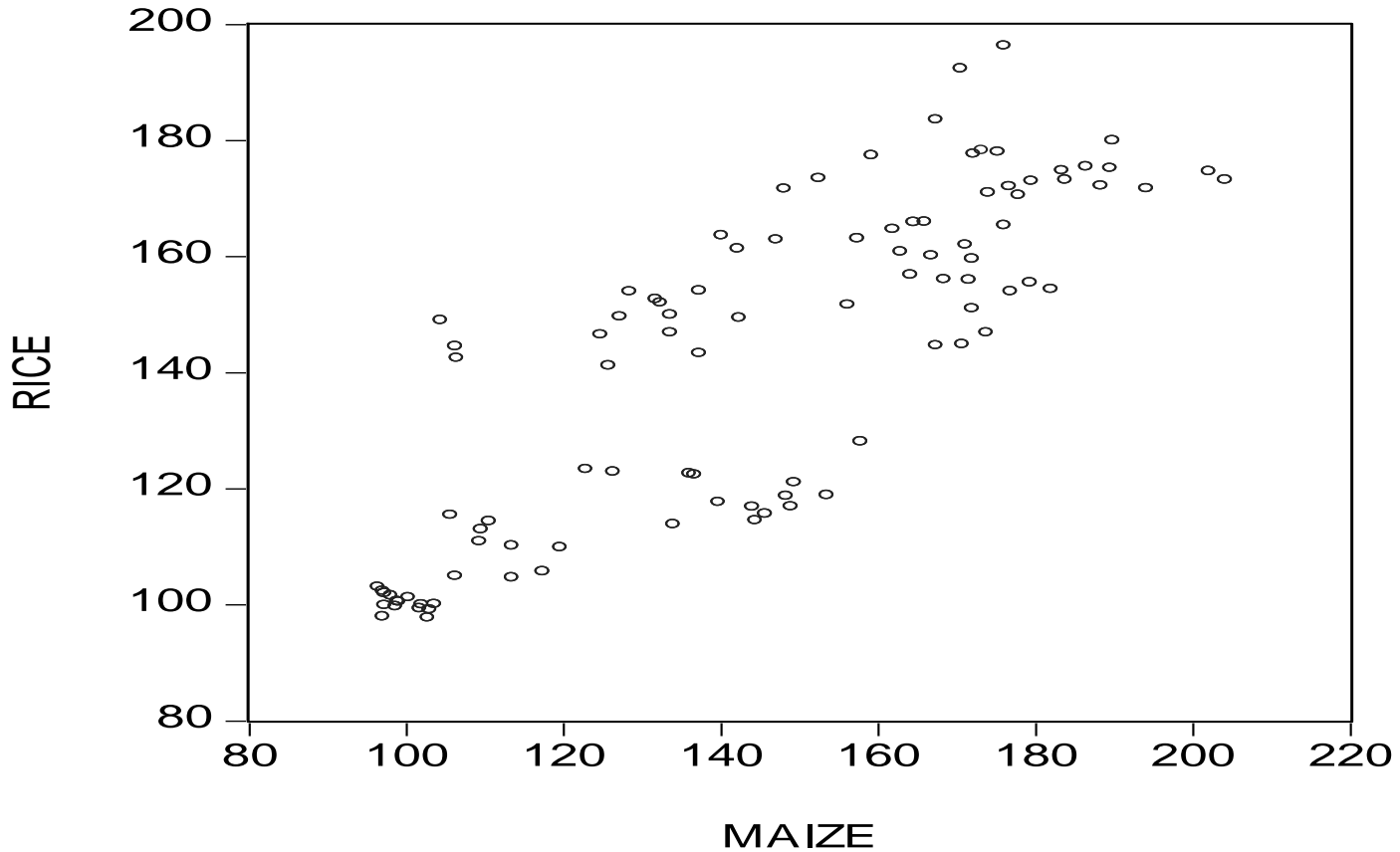


Correlation coefficients between export values (2000-2012)

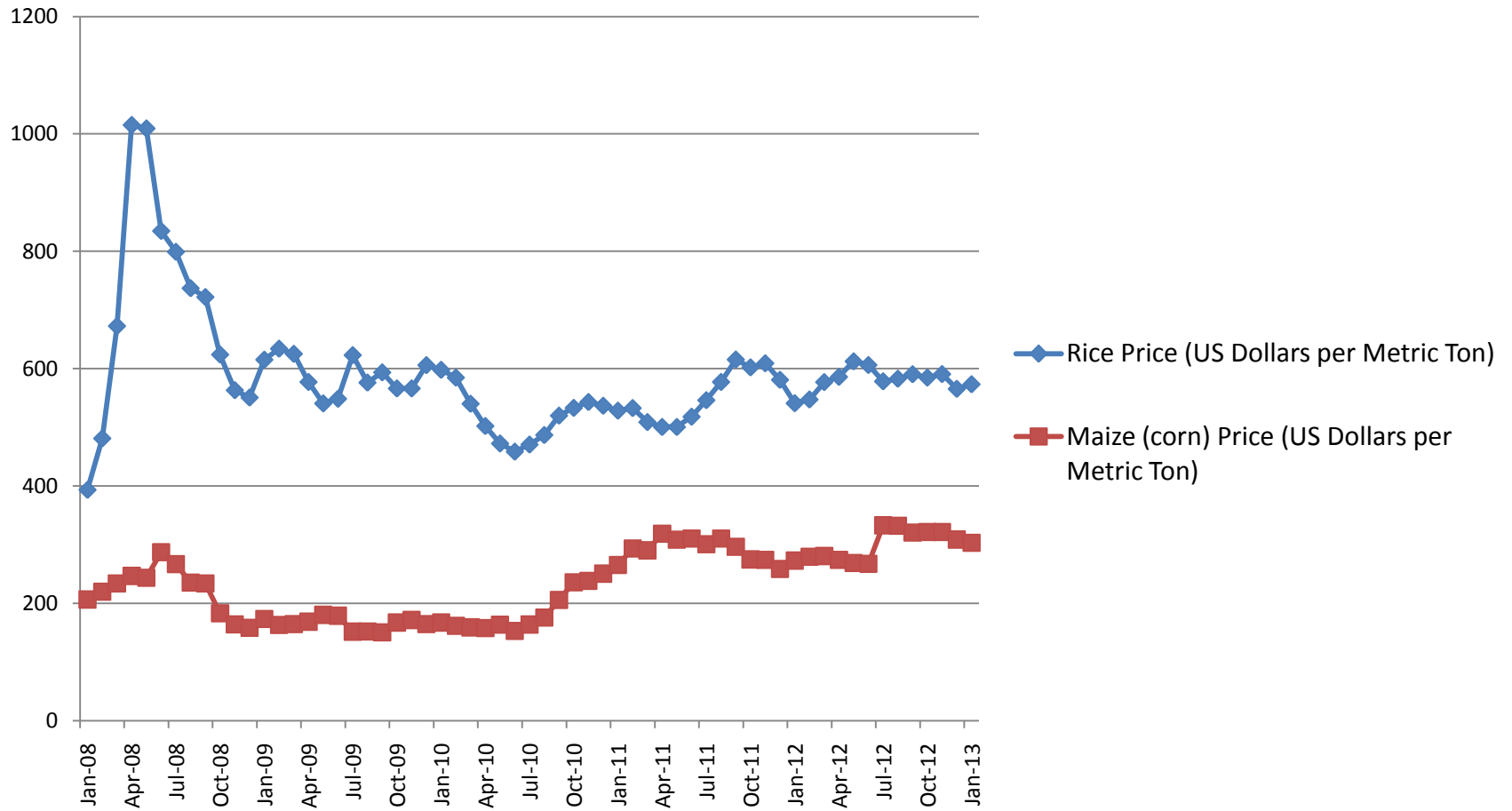
	Price	volume
agriculture	.98	.62
manufacturing	.98	.99

Supply and demand analysis

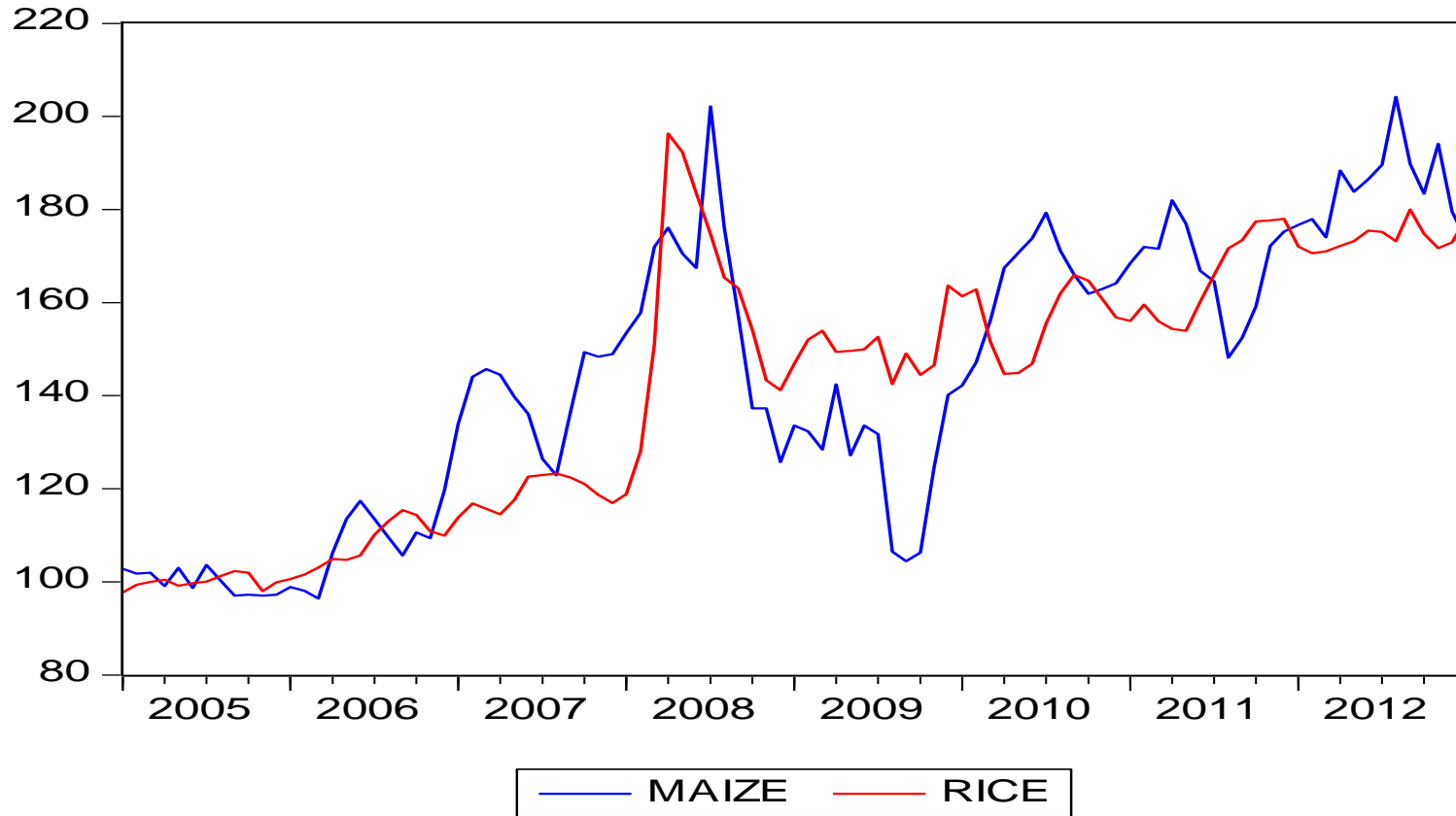
Prices of rice and maize



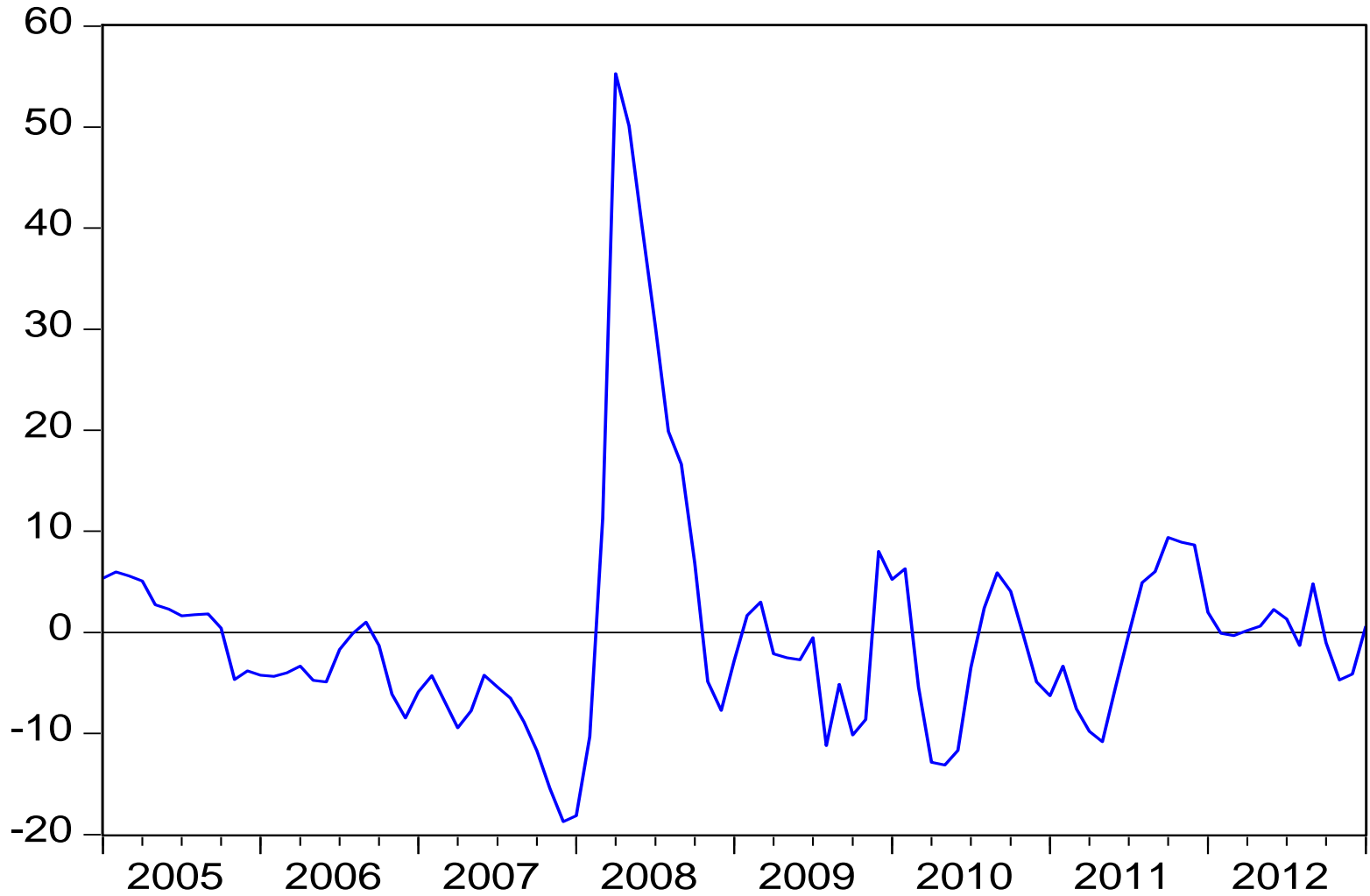
Rice and corn



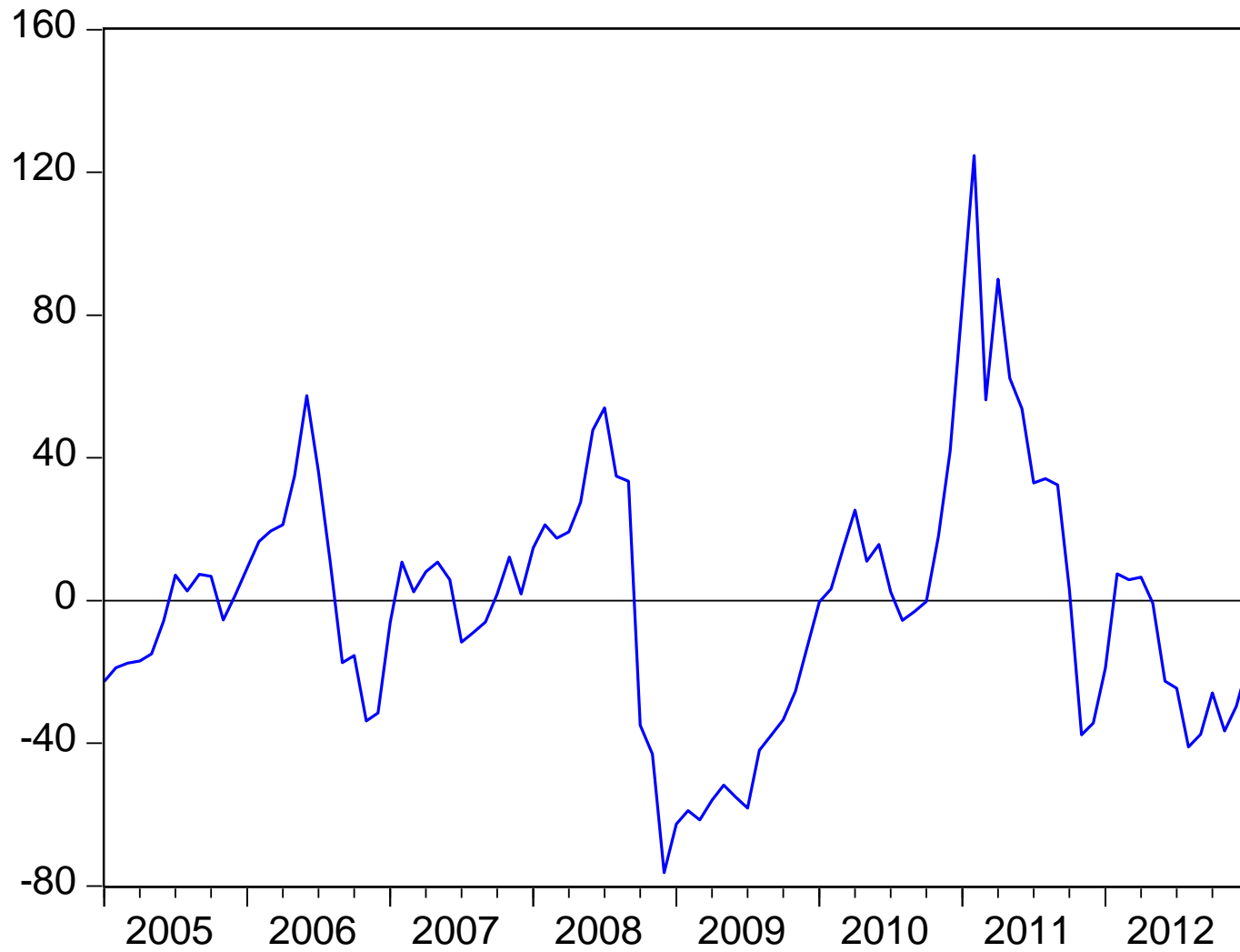
A long run price relationship



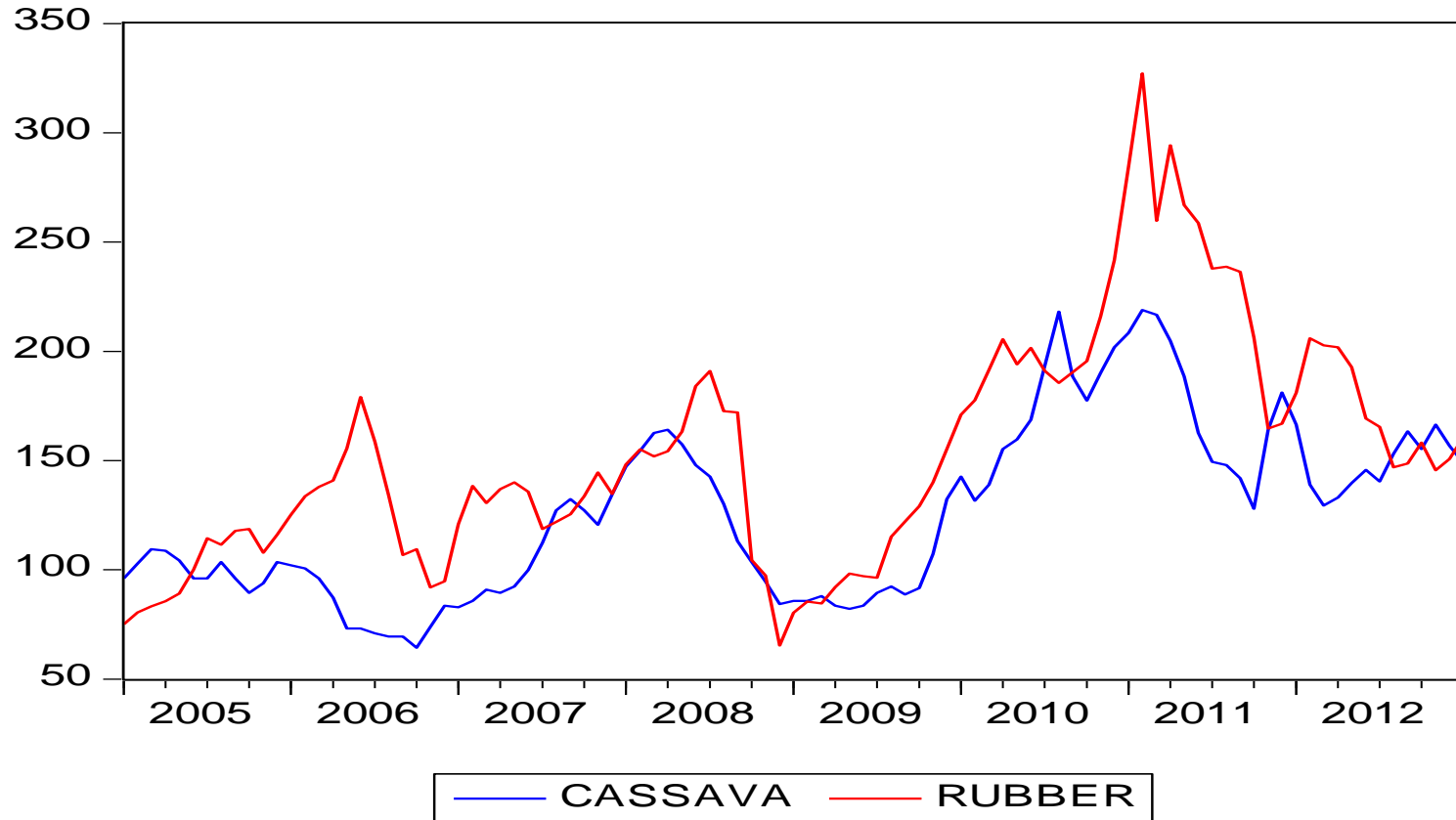
CYCLECRICE



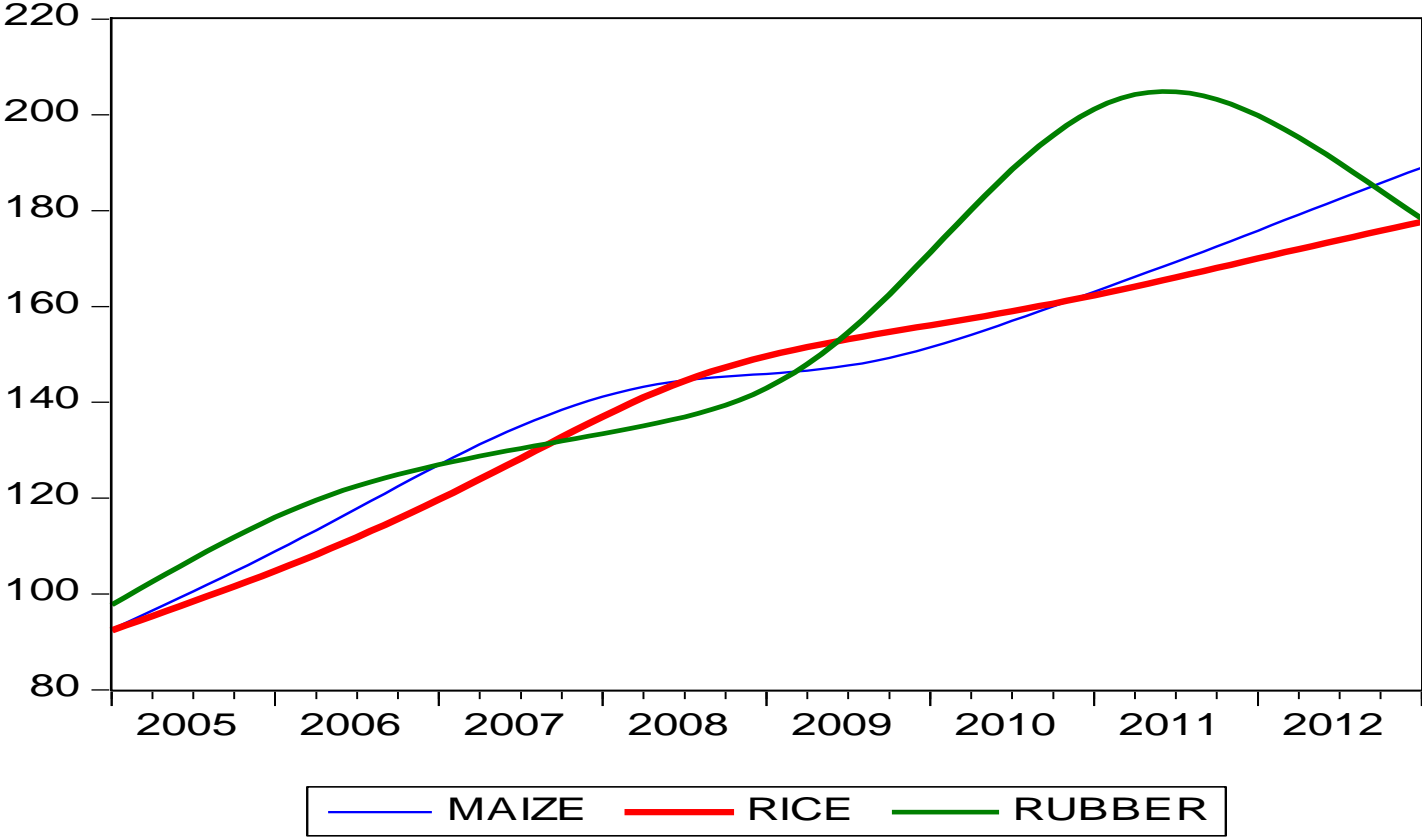
CYCLERUBBER



Rubber and cassava



Price Trends of Key Commodities



Jasmine vs. jazzman

- **Jasmine rice exports will soon run into fierce competition in the United States, which has successfully grown and registered a new type of fragrant rice called "Jazzman".**
- Louisiana State University's Agricultural Centre have come up with a new variety of aromatic rice, known as LA2125 , with a very similar fragrance, soft grain and quality as Thai jasmine rice.
- Consumers and Asian restaurants in the US may shift to serving Jazzman rice as it tastes the same but is cheaper.
- Another challenge is the yield: up to 1260 kilograms per rai of Jazzman rice can be grown, compared to 400 kilograms of Thai jasmine rice production.

Innovation and competition

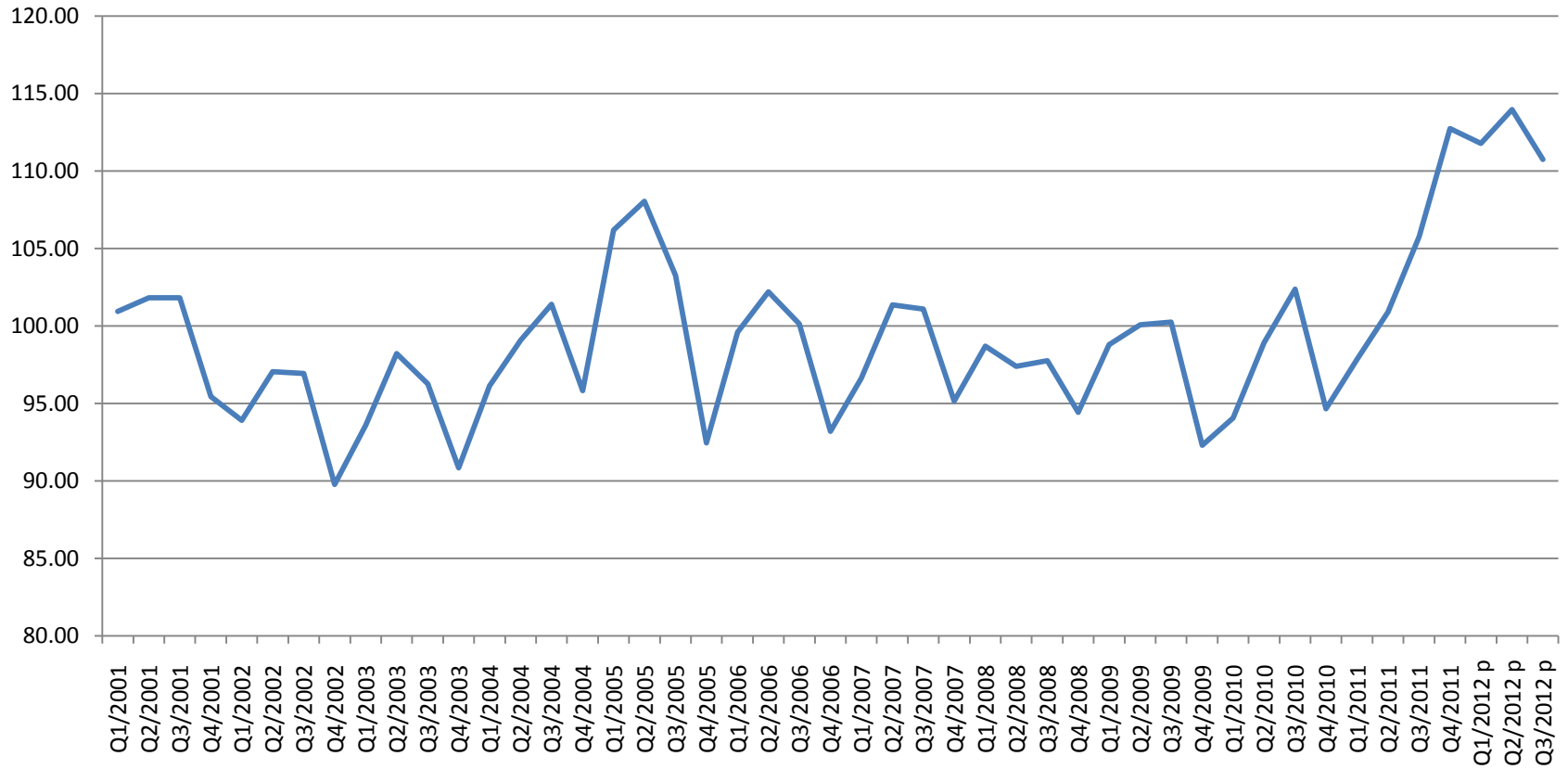
- The LSU rice breeder who developed the variety said the project required 12 years of work to obtain a long-grain rice with good milling quality, high yield and the correct aroma and flavor.
- Consumers and Asian restaurants in the US may shift to serving Jazzman rice as it tastes the same but is cheaper.

Jasmine rice from Vietnam

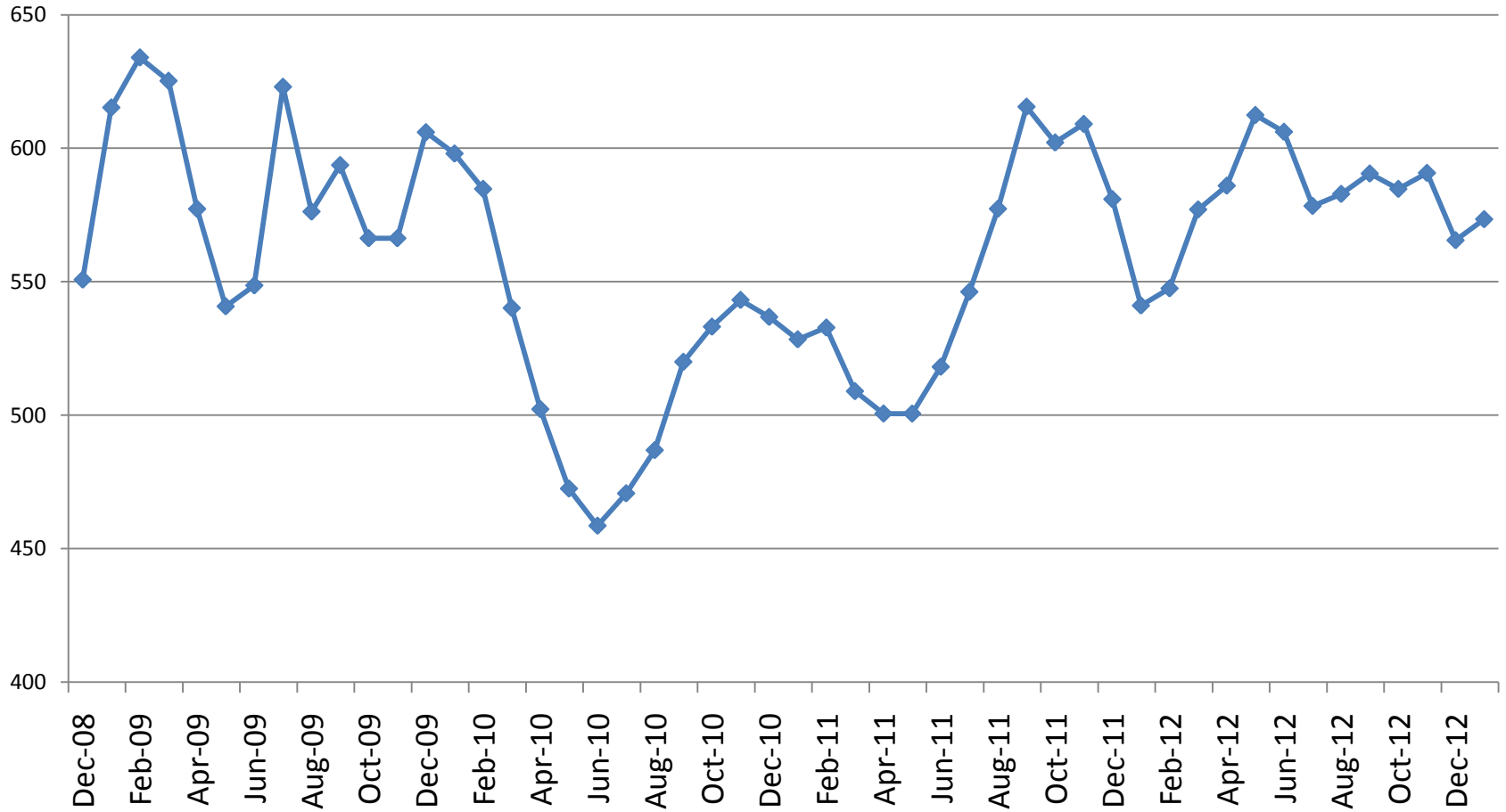
- Vietnam has already come up with rice that tastes similar to Jasmine.
- It is now on sales in supermarkets in London at 1,000 baht for 20 kg bag, compared with 1,500 baht Jasmine rice from Thailand.
- The recent dong devaluation has enabled Vietnam to offer 50% lower price than Thailand.

Baumal-Bowen Hypothesis

Thailand's Unit Labour Cost Index



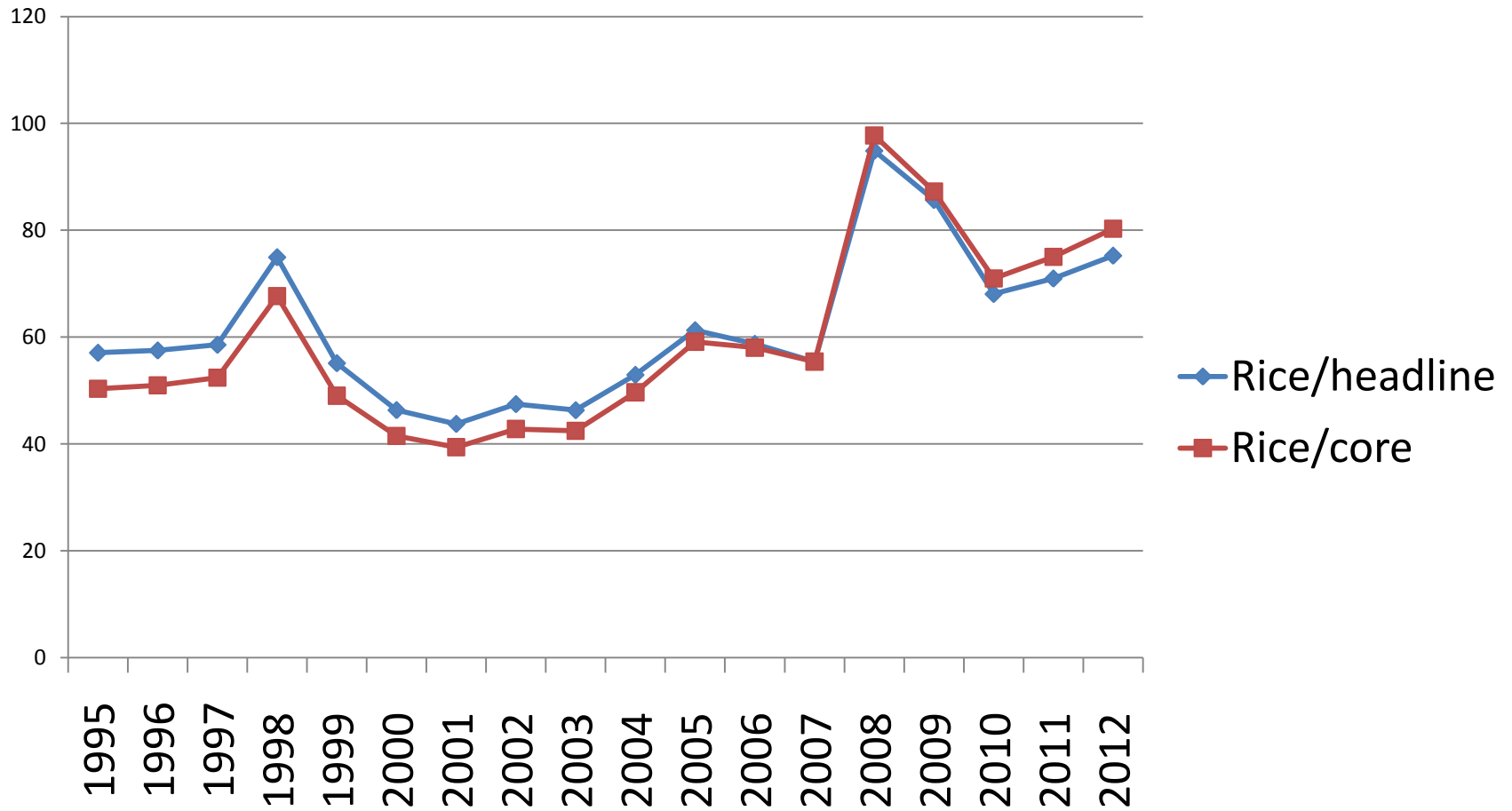
Rice price (dollar per ton)



	Rice ROC	Maize (corn) ROC
Feb-12	1.19%	2.42%
Mar-12	5.40%	0.43%
Apr-12	1.54%	-2.30%
May-12	4.52%	-1.98%
Jun-12	-1.03%	-0.58%
Jul-12	-4.58%	24.59%
Aug-12	0.78%	-0.23%
Sep-12	1.31%	-3.45%
Oct-12	-0.98%	0.28%
Nov-12	1.02%	-0.03%
Dec-12	-4.27%	-3.99%
Jan-13	1.39%	-1.76%

Terms of trade

Rice prices in real terms



Thailand rice exports hit 12-year low

Published Bangkok Post **Jan 24, 2013**

- Rice exports from Thailand plunged 37 per cent last year to the lowest in more than a decade, plunging the nation from first in the world to third place.
- Thailand sold 6.73 million (metric) tonnes with a value of \$4.63 billion, the Ministry of Commerce said Wednesday.
- That compares with 10.7 million tonnes, worth \$6.43 billion a year earlier, data showed.

Thailand rice exports hit 12-year low

Published Bangkok Post Jan 24, 2012

- Thai rice export shipments fell to the lowest since 2000 when the country exported 6.55 million tonnes, according to figures kept by the US Department of Agriculture.
- India became the largest supplier last year, selling 10.3 million tonnes, according to the USDA. Vietnam shipped 8 million tonnes, according to a report posted on the Vietnam's General Customs Department website on Jan 16.

Paddy **Mortgage** Policy

- Rice exports declined after the government of Prime Minister Yingluck Shinawatra introduced a price support programme in October, 2011. The government now buys the grain from farmers above market rates to boost domestic prices and lift rural incomes.
- Stockpiles in Thailand will climb to a record 11.7 million tonnes in the 2012-2013 season now under way, the USDA estimates.
- The government bought 9 million tonnes of unmilled rice from farmers and expects to purchase as much as 11 million tonnes this current, main harvest, according to Commerce Minister Boonsong Teriyapirom

Loss and gain

- The strengthening baht has made exports "quite difficult," he told reporters.
- The baht touched 29.66 per dollar on Monday, the strongest level since August 2011.
- The total cost of the rice-purchase programme may be as much as 440 billion baht (\$14.8 billion) in the 2012-2013 season, compared with 376 billion baht or around 3.4 per cent of gross domestic product (GDP) in the previous year, according to the World Bank.
- Losses are estimated at about 115 billion baht last year and 140 billion this year, the World Bank said in December.

On the brink

- Bangkok Post 19-07-2012
- Thailand is on the brink of losing its status as the world's number one rice exporter to either India or Vietnam, thanks to the government's populist rice mortgage scheme.
- According to the respected economic think-tank the Thailand Development Research Institute, rice exports have dropped by 44% year-on-year since January this year.

Financial loss: Total loss?

- But the grim prospect of losing its top place in the export rankings and of lost pride appears to pale when compared to the financial loss in supporting the scheme and the longer-term impact to the economy if this populist policy is not reviewed or scrapped soon enough.
- The scheme, introduced last September as a flagship populist policy of the government to curry favor among farmers, has cost the government about 270 billion baht for paddy purchases.

A 140 billion baht loss? Whose loss?

- Of this huge amount of spending, 90 billion baht has come from the coffers of the state-run Bank for Agriculture and Agricultural Cooperatives, BAAC.

A 140 billion baht loss?

- About 11 million tonnes of paddy or eight million tonnes of milled rice will have been purchased under the mortgage scheme by the time the first phase of it ends next month.
- Since the rice was bought by the government through the BAAC at 15,000 baht a tonne for ordinary rice and 20,000 baht a tonne for Hom Mali fragrant grains which are about double the normal market prices, the government stands to lose US\$350-400 baht a tonne of rice if stockpiles are sold now on the world market.

Not so fast

- That means the government will lose 130-140 billion baht if the eight million tonnes of stockpiled rice are to be cleared from warehouses across the country.
- So far, the *bulk* of the rice bought under this populist scheme is still held in warehouses nationwide.

Disruption of the world market

- But whether the actual amount will match with the purchase figures will only be known when the rice is actually sold to exporters or sold by the government in government-to-government deals.
- The huge stockpile will pose a real problem with the arrival of new harvests when warehouse space is needed to store new rice to be bought under the scheme.

Disruption of the world market

- Besides the space problem, the rice quality will drop if the grains are kept for too long and they will fetch much lower prices.
- Pressed with these dual problems, the government may be forced to sell on the cheap.
- There is no doubt the government will suffer a loss if it wants to dispose of the massive rice stockpile to make room for the arrival of new rice purchases.
- The point is how big a loss. This depends on the efficiency of the government, or the Commerce Ministry in particular, which is, at best, questionable.

An alternative

- The government has good intentions in helping farmers earn more from their crops even though it also expects to win their votes during the election.
- The loss burden from the rice mortgage scheme may be acceptable if the farmers are the only real beneficiaries of the scheme.
- However, others have benefited much more than the farmers, such as millers, brokers, corrupt politicians and officials.