

Future Thai Rice Policy from a Global Perspective: To Be or Not to Be?

Thasanee Satimanon^{*}

Abstract

The case describes the main features of the recently abrogated *rice pledging scheme* and contrasts it with the *rice price guarantee scheme* of the predecessor government. Also recounted are some of the main problems that implementation of the *pledging* scheme triggered – problems that eventually, in May 2014, led to the court-ordered ouster of the prime minister and, later, to the military's takeover of the functions of government. As the case draws to a close, it is intimated that *some* form of continued assistance to rice farmers would be needed, despite the statement of the new military head of government that there would be no further rice pledging or rice price guarantee schemes. Thus, the student-analyst is left to grapple with the appropriate contours of Thai rice policy in the future. Based in part on an examination of the rice and agricultural policies (and their consequences) of other countries, the analyst's challenge is to determine what specific government rice crop support policies should replace the *rice pledging scheme*, and under what conditions. If recommended new forms were to entail farmer subsidization, then the student-analyst has to specify the sources of budget, and demonstrate the sustainability of such support in the future.

Keywords: rice policy, Thai rice policy, pledging scheme

^{*} School of Development Economics, National Institute of Development Administration (NIDA)
118 Sereethai Road, Klong-Chan, Bangkapi, Bangkok 10240, THAILAND
E-mail: ttonganupong@gmail.com

การกำหนดนโยบายข้าวไทยในอนาคต

ทัศนีย์ สติมานนท์*

บทคัดย่อ

ข้าวเป็นพืชหลักที่สำคัญของประเทศไทยในอดีตที่ผ่านมาการกำหนดนโยบายภาคการเกษตรของไทยให้ความสำคัญกับข้าวผู้ปลูกข้าวเป็นอย่างมาก โดยมีการสนับสนุนชาวนาในหลากหลายรูปแบบ อาทิ การให้เงินอุดหนุนโดยตรงกับชาวนา การรับประกันราคาข้าว และการรับจำนำข้าว โดยนโยบายจำนำข้าวในยุครัฐบาลนางสาวยิ่งลักษณ์ ชินวัตร เป็นนโยบายที่ได้รับการวิพากษ์วิจารณ์เป็นอย่างมากทั้งจากฝ่ายสนับสนุนและฝ่ายที่คัดค้านนโยบายนี้ อย่างไรก็ตาม จากอดีตที่ผ่านมา ประเทศไทยได้เป็นเพียงประเทศเดียวที่ให้การสนับสนุนและอุดหนุนภาคการเกษตร โดยเฉพาะอย่างยิ่งข้าวซึ่งนับเป็นอาหารหลักที่สำคัญของโลก แต่ประเทศที่พัฒนาแล้วดังเช่น สหรัฐอเมริกา และญี่ปุ่นยังคงดำเนินนโยบายที่ให้ความช่วยเหลือกับชาวนาทั้งทางตรงและทางอ้อม กรณีศึกษานี้จึงให้ข้อมูลเกี่ยวกับการดำเนินนโยบายและผลจากการดำเนินนโยบายข้าวของไทยในช่วงที่ผ่านมา และการดำเนินนโยบายและผลของนโยบายข้าวในต่างประเทศ เพื่อเป็นแนวทางในการกำหนดนโยบายข้าวไทยในอนาคต โดยคำนึงถึงทั้งประโยชน์ของชาวนาและความยั่งยืนทางด้านงบประมาณในอนาคต

คำสำคัญ: นโยบายข้าวไทย นโยบายข้าวในต่างประเทศ จำนำข้าว เงินอุดหนุน

* อาจารย์ คณะพัฒนาการเcon รัฐ สถาบันบัณฑิตพัฒนบริหารศาสตร์

118 ถนนสุรศรี แขวงคลองจั่น เขตบางกะปิ กรุงเทพฯ 10240

เมล: ttonganupong@gmail.com

For twenty years, Thailand had held the status of being the Number One rice exporting country in the world (see Exhibit 1). In 2012 and again in 2013, however, she lost her premier position to India. Moreover, even Vietnam, heretofore the number three rice exporter, was expected to overtake Thailand's rice exports in 2013, when measured on the basis of export *value* (United Nations Statistical Division 2014). By early 2014, when an Administrative Court ruling removed Prime Minister Yingluck Shinawatra from office, the country's precipitous slide from Number One rice exporter had become a matter of grave concern to many Thais, but especially to those who had long opposed the policy decision deemed to have precipitated the slide. Thus, the question in the minds of many with either a direct or indirect interest in the matter was that of what type of policy and program, if any, would be best suited to replace the Yingluck administration's policy.

The Yingluck Administration Rice Pledging Scheme: Prelude to the Exports Decline

Thailand's precipitous slide from Number One rice exporter could be traced to a 2011 policy decision of the incoming Yingluck Shinawatra administration to follow through on her promise during the political campaign that brought her party a landslide victory to dramatically improve the economic lives of Thailand's rice farmers. Mostly resident in the Northeastern ("Isaan") and Northern regions of the country, the rice farmers had been the backbone of her party's base of political support during the campaign. Hence, as noted by astute observers of Thai politics, Prime Minister may have felt obliged, as it were, to make good on her campaign promises to provide greater income security and stability for Thai farmers. The onset of the decline in Thailand's rice exports could be pinpointed as the implementation of the Yingluck administration's rice-pledging scheme started the harvesting season of 2011/2012.

Under the Yingluck administration's scheme, the guaranteed price for the pledging rice ranged from US\$ 480 to US\$640 per ton, depending on specified rice quality. In Thai currency terms, the offered prices for long grain unmilled rice and fragrant Hom Mali rice with moisture not exceeding 15% was initially set at 15,000 Baht and 20,000 Baht per cart, respectively ("Policy Statement of the Council of Ministers," 2011). As a type of price insurance scheme, this policy obliged the Thai government to buy all of each farmer's cultivated and pledged rice crops at these stated price levels – prices that were 50 per cent higher than world prices at the time ("Thai PM Faces Negligence Charges," 2014).

From the outset of the rice pledging scheme, there were both supporters and critics. The supporters argued that the scheme would dramatically improve the lives of Thai farmers who had long been among the more impoverished segment of Thai society. And, in so doing, the entire economy would benefit, as higher farmer incomes reverberated through the economy in the form of higher consumption of everything from basic necessities (e.g., better quality food, clothing, and houses) to higher education to increased spending on leisure endeavors. Typical of some of these supporters' views were the following comments:

Chanchai Rakthananon, president of the Thai Rice Mills Association, allowed that "*the government's rice scheme would improve lives of Thai farmers, and at*

the same time it would open [the] door for more [rice exports to Vietnam]" ("Thai Rice Policy Benefits Vietnam's Exports: Experts," 2011).

Suthin Wainwiwat, director of E-Saan Poll, pointed out that "*81% of respondents in the northeastern region supported the government's overall performance*" (Finch 2012).

As evidence of the fiscal consequences of the scheme (e.g., huge losses for the government) began to mount in the second year of the program, many critics focused on the unsustainability of the government's buying rice at price levels so far removed from market prices, as well as on likely long-term damage to nation's fiscal solvency. The following observations were typical of those who opposed the rice pledging rice.

Kreetha Charatkulangkun, director of Tek Seng Rice Mill, a rice export company based in Bangkok, asserted that "*the scheme has proven devastating for the country's rice industry*" (Finch 2012).

Thailand Development Research Institute (TDRI) was of the view that "*pledging [scheme] puts entire industry at risk*" (Chantanusornsiri and Yuthamanop 2012).

Despite the early concerns typified by the views of the opponents of the rice pledging scheme, the Yingluck administration had forged ahead to implement it. As articulated by the Prime Minister herself and other members of her cabinet, the main objective of the rice-pledging scheme was to increase the incomes of Thai farmers', especially the relatively poor farmer. On average, Thai farm household income was around US\$3,600 a year (*"Report of the Expert Consultation on Farmers' Income Statistics,"* 2007).

However, despite the avowed lofty claim, many critics were of the view that the scheme was mostly an economically infeasible *populist* policy (*"Thailand Cuts Rice Subsidy Price," International Rice Research Institute,* 2013). It had been concocted, they alleged, to ensure that Yingluck Shinawatra's party, Pheu Thai, monopolized the rural electorate votes in the northern and northeastern parts of Thailand during the 2011 general election. The offer of government purchases of rice at a price substantially higher than world market prices was viewed by these detractors as evidence in point (Corben 2014a).

In point of fact, however, Yingluck cabinet's rice-pledging scheme was not the first populist rice policy in Thailand in recent decades. The Democrat government, led by Abhisit Vejjajiva, that had preceded the Pheu Thai government in office, had offered a similar program called "the rice price-guarantee program" from 2009 to 2010. The program was supported by farmers and many landowners (Phakdeewanich 2013). Under Abhisit's rice policy, farmers were required to register and sign a minimum-priced guarantee contract. If the market prices were higher than the guaranteed prices, the farmers could sell their rice to the market. If not, the participating farmers received a deficiency payment that was equal to the difference between world price and minimum price.

Thus, while in economic theory, the Yingluck administration's rice-pledging scheme was similar to price-guarantee scheme, there were some non-trivial differences. For example, in rice pledging scheme, pledged rice had to be transferred to the government, which was then obliged to find storage facilities for the milled rice. The government, then, bore the burden of rice stocking, as well as the risk of rice quality deterioration. Moreover, the levels of guaranteed prices offered by Yingluck's government were substantially higher – on the order of almost 50 percent higher – than the guaranteed prices under Abhisit's government. In addition, the Yingluck government promised to buy every grain of rice from farmers who participated in the program. These differences yielded the result that Yingluck's government used about 400 billion baht in 2011 to pay for rice from pledging framers while Abhisit's price-guarantee program had used only 55 billion baht ("Thai Rice Policy Benefits Vietnam's Exports: Experts," 2011) in 2009.

The Allure of a Rice Production and Marketing Cartel

Underlying Pheu Thai's rice-pledging policy were certain beliefs of its chief policy planners that as the Number One rice exporting country, Thailand had sufficient market clout to manipulate the world rice price to its advantage. The thinking was that paying Thai farmers above-market prices for rice would enable the Thai government to monopolize Thai rice exports, thereby significantly increasing its market power in global rice trading. In addition, if they could successfully secure the cooperation of other rice-exporting countries, they could set a high price of rice in the world market. In large measure, it was a vision born of knowledge of the extraordinary success of the oil cartel, the Organization of Petroleum Exporting Countries ("OPEC"), in managing world oil prices through its coordinated control of oil production and exports. If OPEC could succeed in imposing its will on one commodity (crude oil), the thinking went, then there was no *a priori* reason why Thailand, in cooperation with other major rice producing nations, should not be able to do likewise in the global market for another commodity, rice.

In time, however, the underlying premises of this argument were called into question – primarily because of some non-trivial dissimilarities between the characteristics of rice and those of crude oil. First, unlike petroleum, which can be withdrawn from the market and stored for years (if need be) without going "bad" or otherwise deteriorating, stored rice was a highly perishable commodity, one whose value could deteriorate over time if it was not sold and consumed within a certain period of time. In addition, unlike crude oil, the supply of which tended to be fixed in the short run (at least until new fields could be found and tapped or new technologies developed and employed to extract more production out of existing wells), the supply of rice in the world market could be increased relatively easily and quickly by increasing the production of rice by either exporting countries or importing ones, or both.

Finally, unlike oil exporting nations, where production and marketing decisions involved a limited number of major players (e.g., host nation governments and international and domestic oil exploration firms), rice production in most of the world's major producer nations was an undertaking involving, literally, thousands or tens of thousands of mostly small- to medium-size farmers, most of whom were greatly dependent on the earnings from each year's crops to defray household expenses until the next harvest. Even if other rice producers could be persuaded to

relieve the financial exigencies of their rice farmer population via mechanisms such as the Thai rice pledging scheme, there was no guarantee that the political will and fiscal resources in all major producer countries would be sufficient to sustain such an endeavor year after year indefinitely – as would be needed in order to sustain an effective cartel. Hence, as the Pheu Thai policy planners would soon learn, the monopolization of the global rice market through attempting to duplicate the success of the Organization of the Petroleum Exporting Countries (OPEC) monopoly in the global oil market would be a very difficult feat to accomplish, indeed.

The Allure of Cartelization Meets Reality

In the first year of implementation of the rice pledging, given that the world supply of rice was reduced by Thai government monopolize of rice export, both other exporting countries and Thailand had a good chance to export rice to the global market at higher prices. However, by the arrival of the following season, market forces had adjusted the global supply of rice to take into account Thai rice-pledging program – which enabled the competitor nations of Vietnam, India, and Pakistan to easily undercut the price of Thai rice. With the increased rice production in other producer nations, the Thai government faced a difficult time selling its accumulated Thai rice stock since it had been procured at high cost by virtue of the rice-pledging scheme and now had to compete against rice being offered by competitor nations at *market* prices.

In consequence of this turn of events, Thai rice exports dropped from 6.51 million metric tons in 2011 to 4.63 and 4.42 million metric tons in 2012 and 2013 (see Exhibit 1). This caused Thailand to lose its erstwhile first place rank among rice exporters in the global market. Moreover, adding to the woes of the pledging scheme was the fact that rice stockpiles in the government warehouses that could not be sold on the international market continued to deteriorate in quality -- which in turn led to the realization of even lower prices and lower revenue when such rice was sold, along with the expectation of even higher government losses in the future when the rice could be sold (Corben 2014, and “The Rice Mountain,” 2013).

In terms of the value of rice exports and the revenues realized by Thai farmers, the price of Thai rice did not increase to the level earlier anticipated by Pheu Thai policy makers. Firstly, the deterioration in rice (almost all stocked rice was milled rice) drove 2012 Thai rice prices down to their lowest level in a decade. In addition, the rice-pledging scheme had induced farmers to grow more rice, which in turn created scarcity in the factors of production (i.e., seeds, fertilizer, and pesticide) and subsequently higher costs of production (Pratruangkrai 2014). Thus, two years into the implementation of the rice-pledging program that was supposed to sustainably help the farmers, the program had engendered a host of problems that had become the talk of the nation.

The Vision Metamorphosizes into a Nightmare

While the avowed aim of the rice pledging scheme had been to increase household income of farmers, by its second year of operation it had produced a number of troubling “side effects. Firstly, given that the Yingluck administration had placed no limit on the quantity of rice that could enter the program and obtain the guaranteed price, the budget deficit engendered by the program increasingly became a huge burden for Thai taxpayers. Underscoring this

development, in 2013, Moodys, the credit rating agency, warned that the program was consuming around 8 percent of the national budget, which prompted the agency to reevaluate the government's credit rating (Kedmey 2013). Moreover, as the second year of the scheme drew to an end, the Thai government found that it could not borrow money to make necessary payments to farmers who were participating in rice-pledging scheme ("Thai PM Faces Negligence Charges," 2014). The creditors feared that the government could not pay the money back in time because of an inability to sell the huge amount of rice of rice in its warehouses.

Secondly, there was an increasing chorus of critics alleging "corrupt practices" in the operation of the pledging scheme. In particular, some well-connected farmers and rice traders were alleged to have been engaged in illegally importing rice from neighbor countries (e.g., Cambodia, Laos, Myanmar and Vietnam) and then illegally putting forth said rice to participate in rice pledging scheme in order to obtain the income available therefrom. Thai taxpayers were deeply chagrined to learn that not only were they subsidizing Thai farmers at above-market prices, but were also quite likely to be directly subsidizing farmers and traders from neighboring countries! Indeed, in early May 2014, prior to the military takeover of the Thai government, the National Anti-Corruption Commission (NACC) found Yingluck Shinawatra at least is partially responsible for corruption related to the rice pledging scheme (Corben 2014b).

Thirdly, it became evident that the guaranteed price was distorting the farmers' behavior. That is, rather than controlling the quality of rice by growing and harvesting the best rice possible, farmers had no incentive to improve the quality of rice at all. Regardless of the quality of rice, it could be sold at a higher fixed price than the world market price. The lack of sufficient government inspection officers to examine the quality of such a huge quantity of rice, in effect, aided and abetted some farmers' pledging of substandard quality rice. While the highest quality of rice, resold by the Thai government, was mainly in the hands of well-connected rice trading firms, lower quality rice was sold to the other traders. The net result was that Thailand's reputation for high-quality rice was in jeopardy of being undermined.

Finally, in the aftermath of the May 2014 military takeover of the government, the new military government announced (in June 2014) that it would not continue the Yingluck government's rice pledging scheme ("Gen Prayuth Says No Rice Pledging or Rice Price Guarantee Schemes," 2014, and "Oryza June 2014 Rice Market Review," 2014). However, various forms of "crop support" mechanisms existed in many countries, including some of the most highly developed ones. Hence, as the Yingluck administration's rice pledging scheme came to an inglorious end, national policy makers were keen to determine what kind of farmer subsidization, if any, should replace it.

Rice Crop Support Policies in Select Other Nations

The policies of the Japan and the U.S., along with Vietnam, were of particular interest with respect to understanding the costs, benefits, and sustainability of different approaches to crop support. The Japan's rice policy was interesting because of her desire to develop the food-sufficiency country. Her history of draught and famine that caused disruption in economic development and political turmoil was the main basis for her prevailing policies and programs.

In the cases of both Japan and the U. S., subsidization of certain crops had been an ongoing fact of national agricultural policy for many decades (in fact, for the U. S., since the Great Depression of the 1930s). Vietnam's policies were thought to also be potentially instructive because it was not only one of the top three rice exporters, but also one whose rice could compete with, and substitute for, Thai rice better than rice from India, the number two rice exporter.¹

In addition, Vietnam's rice policies had developed from the domestic food security and import substitution scheme and eventually became the basis for her export promotion policy. In Vietnam's earlier state of economic development, the land policy and productivity enhancement scheme had been prominent. The adoption of land reform and modern irrigation helped in increasing both the cultivable land and labor productivity on rice farms. Then, cooperation between the Vietnamese government and international organizations in the form of the "Green Revolution" led to even higher growth in rice farm productivity once farmers adopted high-yielding varieties and better farming practices. Later on, when the country became food-sufficient with reasonable domestic rice prices, surplus rice became a key factor in shaping the country's export promotion policy. Thus, as a top and direct competitor, Vietnam's policies and programs were thought to potentially be the most directly relevant to Thailand in the quest to create and implement a suitable rice policy in the future.

Rice Policy in Japan

Given its more than forty years of implementing protective policies for domestic rice production and marketing, Japan was thought to be a useful country to study to determine whether Japanese experiences with crop support mechanism might hold any potential lessons for the design and implementation of the next iteration of Thailand's rice production policies. The essence of the *Gentan* policy that Japan promulgated in 1971, was farmer subsidization and rice production acreage control aimed at maintaining national food self-sufficiency. The aim was for subsidization to expand rice production. Then, with acreage control, farmers could not increase production by expansion of acreage tilled, but were expected to increase production through increasing productivity through other possible means: better rice varieties, labor and capital-intensive practices, and quality and/or variety improvement. Thus, the thinking went, the burden on the government budget would be less and rice farm productivity would be higher compared to no production control.

Farmers received subsidies of around 15,000 yen (about \$148) per 1,000 square meters of *reduction* in rice production area ("Japan Announces Major Shift in Rice Policy; *Gentan* System Ends in FY2018-19," 2013). In time, however, it was found that the policy led to the long-term disadvantage of Japan rice industry, in that it reduced incentives for productivity improvement, thereby making farmers less competitive and therefore even more dependent on the government subsidies. In addition, the *Gentan* policy had the effect of keeping rice prices in Japan at artificially high levels, thereby precipitating an unforeseen reduction in demand for domestic rice of about 40 percent during the period 1970 to 2012 (Obe 2013a). Concomitantly, the rise in the number of abandoned farmland engendered by the production quota system resulted in very little improvement in food self-sufficiency that had been a major impetus for the program in the first place.

Further, accompanying the farmer subsidies and production control elements of the *Gentan* policy was the implementation of a high tariff wall that had the effect of protecting and

intensifying the inefficiencies of rice production in Japan. Equivalent to a rate of 777.7 percent, the world's highest, the tariff effectively, in interaction with the *Gentan* policy, altogether insulated Japanese rice farmers from the outside market (Moody 2014). As the years passed, the consequent cost in government expenditures on the subsidies -- about ¥500 billion a year -- and in impact on public welfare from inflated high rice prices -- around ¥500 billion -- (Obe 2013a) became increasingly untenable. Concerning the impact inflated rice prices, Japanese consumers paid roughly \$2.63 per kilogram compared to the US price of \$.20 per kilogram in 2001 (Moody 2014). Yet, notwithstanding years of concerted effort on the part of several rice exporting countries to prevail upon Japan to open its market to imported rice, Japanese governments had steadfastly refused to abandon its long history of protectionist policies for the Japanese rice industry because of the undisputed electoral clout of rice farmers (Azuma 2001). It seemed that the *Gentan* system would endure forever.

Then, in a surprise policy speech in November 2013, Japanese Prime Minister Shinzo Abe's government announced the imminent demise of the 40-year-long *Gentan* system of protecting domestic rice production. The *Gentan* system, he stated, would be revoked by the end of the fiscal year that would conclude on March 31, 2019 (Takada and Mogi 2013). From that point forward, rice farmers would produce rice based on their own management decisions, not by government dictate ("Rice Farming in Japan: Political Staple," 2013). There were at least two main reasons why the Japanese government decided to not continue with its intervention in the rice industry.

First was the desire of the Japanese government to increase productivity in rice production through increased consolidation of rice farmland that would facilitate greater use of technology, along with other benefits of economies of scale. Approximately 98 percent of rice farms in Japan were smaller than five hectares ("Rice Farming in Japan: Political Staple," 2013); and, fully 72 percent of Japanese rice farmers worked on area one hectare or less, while, an average U.S. rice farm was 180 hectares. U.S. rice farms produced more than a 50 percent greater yield per hectare compared to the Japanese rice farms (Takada and Mogi 2013). By ending the protection policies in the rice sector, some small farms will be consolidated into larger size farms which would allow for more benefits of economies of scale and improving productivity. Then, domestic Japan rice price would be lower. Lower prices for their rice crops, and therefore lower income, would inevitably force inefficient and small farmers to exit the rice industry and hand over their farms to larger operators. To facilitate this process, Japanese Prime Minister Abe also planned to establish a farmland accumulation bank. The new agency was to be charged with soliciting and consolidating farmland from smallholders and leasing the consolidated farmland to large companies that would then be able to benefit from economies of scale by adopting newer technology such as laser tilling. This plan was pursuant to the government's hopes that Japanese rice could be grown and harvested at a lower average cost, thus enabling it to compete with a possible influx of cheaper imported rice in the future.

Second was the realization that in order to compete over the long-term with Korean and Chinese manufacturers in several industries (for example, cars, and electronics), it was crucial for Japan to join the Trans-Pacific Partnership (TPP) that was currently being negotiated among

the expected signatory nations, including Japan. Joining the TPP, a free-trade alliance¹, meant that Japan had to agree to open its domestic agricultural market since it was the last economic sector that was still heavily protected by both tariff and non-tariff measures. The end of such measures would benefit both the manufacturing (e.g., automobile manufacturers) and service sectors. Indeed, a March 2013, Japanese government report estimated that accession to the TPP agreement would increase Japan gross domestic product (GDP) by 3.2 trillion yen, although farm and fisheries production was expected to decrease by 3 trillion yen (Takada and Mogi 2013).

Thus, as rice industry *cognoscenti* in Thailand continued their speculation about what type of rice farmer support program would eventually become the replacement for the Yingluck administration's rice pledging scheme, Japan was in the process of abolishing the subsidies and crop reduction policies of the long-established *Gentan* system in favor of a new fund to support agricultural infrastructure in order to help farmers boost their rice farm productivity (McLannahan 2013). Rice farmland consolidation was being touted as an enabler of greater use of proper technology that would, in turn, yield the benefits of economies of scale. The government expected that the soon-to-be-implemented new rice production policy would increase the competitiveness of the industry, albeit it at the loss of tens of thousands of small inefficient farmers (Obe 2013b).

Rice Policy in the United States

Rice production in the United States accounted for less than 2 percent of the world production. However, the United States had been one of the top five rice export countries for the last 20 years (United Nations Statistical Division 2014), exporting fully half of her rice production to the world market. One of the main reasons that make United States became an important player in the world rice market was the thin global rice market. That is, only a relatively small percentage of global rice production was traded in the world market.

The World Trade Organization (WTO) agreement and the North American Free Trade Agreement (NAFTA) were the main factors that had propelled an increase in U.S. rice exports in global market since the mid-1990s. However, despite the export boost enabled by these two agreements, U.S. rice exports were somewhat hobbled when August 2006 commercial shipments to the European Union (E.U.) were discovered to contain genetically enhanced (GE) rice, in contravention of E.U. policy which forbade the production and import of genetically modified agricultural products. Following the row that ensued over this discovery, the U.S. undertook substantial measures to ensure that all U.S. rice supplied to both domestic and international markets were GE-free.

The U.S. provided several forms of rice crop and farmer support under the auspices of two different laws and associated programs: the Farm Security and Rural Investment Act of 2002 and the 2008 Food Conservation and Energy Act (also known as the 2008 Farm Act).

¹ Twelve countries were negotiating the Trans-Pacific Partnership (TPP). They were the U.S., Japan, Brunei, Malaysia, Vietnam, Singapore, Australia, New Zealand, Canada, Mexico, Chile, and Peru ("What's at Stake with the TPP?," 2014). By value, the trade among these countries accounted two-fifths of total world trade.

Rice producers could access payments from three major programs, *direct payments*, *countercyclical payments*, and *marketing loan payments*. In addition, U.S. rice producers were able to receive payments from *crop and revenue insurance*, *trade assistance* (export and food aid programs, market access program, and foreign market development program), and *conservation programs* (Boriss, Huntrods, and Taylor 2013). As the U.S. government continued to intervene in rice market in term of rice supports, the U.S. competitiveness in the world market was expected to increase.

Through application to the Services Agency (FSA) of the U.S. Department of Agriculture, landowners and producers could establish annual agreements under which they could receive direct payments and countercyclical payments. *Direct payments* were based on the payment rate for the specific crop, a producer's historical payment acres, and a producer's historical payment yield for the farm. *Countercyclical payments* were paid when a commodity's target price was greater than a calculated effective price for producers with eligible historical rice base acreage. The *marketing assistance loan program* provided short-term financing and assisted producers when market prices are low. The *crop and revenue insurance* reduced rice farmers' risks from adverse weather, insect and weed infestations, and low prices. USDA's Risk Management Agency defrayed a portion of the insurance premium costs, and delivery and administrative costs for rice producers. *Trade assistance*, such as the market access program, helped U.S. rice farmers expand and maintain foreign markets for U.S. agricultural products and assisted in endeavors such as consumer promotions, market research, trade shows, and trade servicing. The *conservation program* provided assistance with respect to lands in production, e.g., removing environmentally sensitive land from production, and establishing long-term and resource-conserving ground cover.

Clearly, then, the U.S. government had an array of policies and programs to support rice farmers, in addition to detailed procedures and sophisticated controls to forestall illegitimate requests and corruption. Future U. S. crop support policies, including those for rice, were nevertheless in a state of flux. Pressures to reform U.S. agricultural policy continued to build due to nearly unprecedented federal budget deficits following the 2007-08 "Great Recession," concern with the trade distortions that crop support programs often created, and pressure from various World Trade Organization members (Wailes and Chavez 2010). Hence, there was some uncertainty about the direction and contours of U. S. rice crop support policies and programs in the medium term, e.g., five to ten years into the future.

Rice Policy in Vietnam

Vietnam was one of the most important rice producers and exporters in the world. Before 1986, Vietnam had to import rice due to an excess of demand over local supply. The new "*Đổi Mới*" policy, launched in 1986, was so effective in encouraging agricultural development that rice production spiraled rapidly upwards in the 1990s and thereafter. In addition, the relaxation of quotas on rice exports and on internal restrictions on rice trade stimulated both rice production and export ("Strengths of Vietnam's Rice Industry," 2012).

Vietnam rice policy had two main features, the *first* of which was the price stabilization policy. For example, during February 20 to May 20, 2013, the Vietnamese government

purchased one million tons of rice in the Mekong Delta for temporary stockpiling; moreover, the government also offered 100 percent interest rate on loans for rice buying business for a three-month term (Nhu 2013) in order to increase rice prices at the peak of harvest time. However, this policy was not effective enough to lift the rice buying price, but only to stimulate market trading. The *second* feature was a long-term rice policy aimed at increasing farmers' production level and rice quality, while simultaneously reducing production costs by limiting the use of pesticides and fertilizers. An indication of the effectiveness of this policy feature could be seen in the fact that Vietnamese farmers' income rose by 30 percent in 2010 (Fernquest 2011), almost exclusively by focusing on increasing rice productivity.

Initially, a major impediment to higher rice crop productivity was the fact that Vietnam's rice-growing soils suffered from a depletion of nutrients, a problem that had to be overcome if rice exports were to realize their full potential. Small rice farmers would have had little incentive to invest in soil improvement, given that the erstwhile maximum leasehold on land was for a 20-year period. However, with Vietnam's economically vital rice-export sector heavily managed by state-owned firms ("Against the Grain," 2014), the government found it expedient to increase farmers' incentives to undertake the effort and expense to improve soil quality by extending land leaseholds on plots of land by a factor of 2.5 times, to a maximum of 50 years compared to the previous 20 years ("Against the Grain," 2014).

As the Vietnamese government's efforts to increase rice productivity and the income generation potential of the rice sector, other supportive policies and initiatives were implemented. Among them were the following:

- Promotion of hybrid rice that increased yields per acre;
- Heavy investment in irrigation systems;
- Investment in convenient roads and waterways for transporting rice;
- Elimination of all taxes on farming machines;
- Implementation of the "3 Cut, 3 Up" policy, i.e., cutting seedling varieties, chemical fertilizers, and chemical pesticides, and increasing productivity, quality, and profit;
- Subsidization of interest rates;
- Establishment of export promotion funds, and a single marketing team comprising representatives from the government and the private sector, for promoting overseas rice sales; and,
- Establishment of a new system of contract farming that allowed a big company to contract with individual rice growers to provide them with technical support and ensure a high quality of the rice.

To gauge the effectiveness of Vietnam's systemic approach to rice crop support, one had but to consider that as of early 2014, rice productivity per acre of Vietnam was more than 100 percent higher than Thailand. Vietnamese rice farms ranked fourth in terms of rice productivity in Asia, and had the highest productivity in ASEAN (Fernquest 2011). Given Thailand's recent experiences with rice subsidies and correspondingly high rice prices, some observers believed that absent a better approach to rice support in Thailand, the day might well come when Vietnam would permanently replace Thailand as the leading exporter in the global rice market.

If Neither Rice Pledging Nor Rice Price Guarantee Schemes, Then *What*?

With the head of the new military government having emphatically ruled out any future rice pledging, rice price guarantee, or any similar such schemes, rice farming observers – and, indeed, rice farmers themselves – were adrift in uncertainty about what the future might hold for rice farming in Thailand. Quite apart from being simply “good politics,” there were other reasons why one form or another of government support of rice farmers and rice production had been inexistence since 1953 when the Thai Ministry of Agriculture and Cooperatives established Rice Department aimed to improve Thai rice productivity. Without such government initiatives, many wondered whether it would truly be possible to improve rice productivity and reduce production costs as the head of the military government seemed to believe. If so, what new rice crop support mechanisms and initiatives, if any, would be needed?

Exhibit 1: Rice Export Values of Top Five Exporter (Unit: Million U.S. dollars)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Pakistan													
India	227.27	263.05	254.37	307.07	376.36	410.21	384.02	1,361.52	893.59	907.27	1,492.40	725.78	629.93
Vietnam													667.79
Thai		1,767.85	1,086.12	1,195.54	1,426.10	1,301.96	1,558.24	1,951.54	2,001.95	2,099.62	2,102.43	1,946.72	1,629.86
USA				756.27	734.98	770.32	1,015.18	996.53	1,031.04	932.43	1,208.37	945.48	836.00

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Pakistan			626.62	682.86	1,099.27	1,151.88	1,145.68	2,439.56	1,774.46	2,277.12	2,062.06	1,882.13	2,110.99
India	610.58	1,168.65	919.15	1,178.74	1,636.49	1,456.25	2,352.95	2,843.31	2,398.16	2,295.81	4,073.33	6,127.95	8,169.52
Vietnam	623.50	726.26	719.92	950.32	1,408.38	1,275.90	1,490.18	2,895.94	2,666.06	3,249.50	3,659.21	3,677.94	
Thai	1,577.47	1,630.63	1,830.21	2,691.39	2,321.68	2,579.06	3,470.02	6,107.57	5,046.46	5,341.08	6,507.47	4,632.27	4,420.37
USA	717.46	775.30	1,031.10	1,168.56	1,290.70	1,284.85	1,396.03	2,213.92	2,186.21	2,354.06	2,087.30	2,075.29	2,176.32

Source: United Nations Statistical Division, 2014

References:

“Against the Grain.” 2014. *The Economist*, January 18.
<http://www.economist.com/news/asia/21594338-vietnams-farmers-are-growing-crop-no-longer-pays-its-way-against-grain>.

Azuma, Yasushi. 2001. “WTO Failure Relief for Japan.” *Japan Today*, September 1.

Boriss, Hayley, Diane Huntrods, and Mykel Taylor. 2013. “Rice Profile.”
http://www.agmrc.org/commodities_products/grains_oilseeds/rice-profile/.

Chantanusornsiri, Wichit, and Parista Yuthamanop. 2012. “Rice Policy Mainly Benefits Rich People.” *Http://www.bangkokpost.com*. <http://www.bangkokpost.com/learning/learning-from-news/306684/rice-policy-mainly-benefits-rich-people>.

Corben, Ron. 2014a. “Thai Rice Farmers Give Government a Week to Make Payments.” *VOA*.
<http://www.voanews.com/content/thai-rice-farmers-give-government-a-week-to-make-payments/1856234.html>.

———. 2014b. “Thailand Ends Controversial Rice Subsidy Scheme.” *VOA*.
<http://www.voanews.com/content/article/1937693.html>.

Fernquest, Jon. 2011. “The Rise of Vietnamese Rice.” *Bangkok Post*, January 26.
<http://www.bangkokpost.com/learning/learning-from-news/218345/the-rise-of-vietnamese-rice>.

Finch, Steve. 2012. “How Rice Is Causing a Crisis in Thailand.” *The Diplomat*.
<http://thediplomat.com/2012/11/rice-piles-how-thailand-lost-its-spot-as-worlds-top-rice-exporter/>.

“Gen Prayuth Says No Rice Pledging or Rice Price Guarantee Schemes.” 2014. *Thai PBS English News*. <http://englishnews.thaipbs.or.th/gen-prayuth-says-rice-pledging-rice-price-guarantee-schemes/>.

“Japan Announces Major Shift in Rice Policy; Gentan System Ends in FY2018-19.” 2013. *Oryza*. <http://oryza.com/news/japan-announces-major-shift-rice-policy-gentan-system-ends-fy2018-19>.

Kedmey, Dan. 2013. “How Thailand’s Botched Rice Scheme Blew a Big Hole in Its Economy.” *Time*, July 12. <http://world.time.com/2013/07/12/how-thailands-botched-rice-scheme-blew-a-big-hole-in-its-economy/>.

McLannahan, Ben. 2013. “Japan Approves Plans to Overhaul Rice Subsidies.” *Financial Times*, November 26. <http://www.ft.com/cms/s/0/764176d6-5697-11e3-ab12-00144feabdc0.html#axzz36qUcrdau>.

Moody, Steve. 2014. “Rice Trade Policy Overview.” Accessed July 12. http://www.japan-101.com/government/rice_trade_policy.htm.

Nhu, Tran To. 2013. “Rice Stockpile Policy Harvests All-Round Gains - In the Spotlight - VietNam News.” <http://vietnamnews.vn/opinion/in-the-spotlight/239543/rice-stockpile-policy-harvests-all-round-gains.html>.

Obe, Mitsuru. 2013a. “Japan May Take on Rice Farmers.” *Wall Street Journal*, November 6, sec. World.
<http://online.wsj.com/news/articles/SB10001424052702303309504579181491658134498>

———. 2013b. “Japan’s Rice Farmers Brace for Global Competition.” *Wall Street Journal*, November 26, sec. World.
<http://online.wsj.com/news/articles/SB10001424052702304011304579221010466048736>

“Oryza June 2014 Rice Market Review.” 2014. *Oryza*. Accessed July 11.
<http://www.oryza.com/reports/monthly-review/oryza-june-2014-rice-market-review>.

Phakdeewanich, Titipol. 2013. “Rethinking the Rice Policy: A Moral and Financial Issue.” *The Nation*. <http://www.nationmultimedia.com/opinion/Rethinking-the-rice-policy-A-moral-and-financial-i-30208959.html>.

“Policy Statement of the Council of Ministers.” 2011. <http://www.eppo.go.th/doc/gov-policy-2554-e.pdf>.

Pratruangkrai, Petchanet. 2014. “Pledging Policy Blamed for Drastic Fall in Price of Rice.” *The Nation*. <http://www.nationmultimedia.com/business/Pledging-policy-blamed-for-drastic-fall-in-price-o-30234592.html>.

Report of the Expert Consultation on Farmers’ Income Statistics. 2007. RAP PUBLICATION 2008/02. Bangkok: Expert Consultation on Farmers’ Income Statistics, FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS, REGIONAL OFFICE FOR ASIA AND THE PACIFIC.
<ftp://ftp.fao.org/docrep/fao/010/ai409e/ai409e00.pdf>.

“Rice Farming in Japan: Political Staple.” 2013. *The Economist*.
<http://www.economist.com/news/finance-and-economics/21590947-government-abolishes-previously-sacrosanct-agricultural-subsidies-political>.

“Strengths of Vietnam’s Rice Industry.” 2012.
http://www.vietrade.gov.vn/en/index.php?option=com_content&id=2026:strengths-of-vietnams-rice-industry&Itemid=232.

Takada, Aya, and Chikako Mogi. 2013. “Japan Dismantles Rice Output Policy as Abe Targets Farming.” *Bloomberg*. <http://www.bloomberg.com/news/2013-11-26/japan-to-dismantle-rice-output-policy-as-abe-targets-farm-reform.html>.

“Thai PM Faces Negligence Charges.” 2014. *BBC News*. Accessed February 28.
<http://www.bbc.com/news/world-asia-26362785>.

“Thai Rice Policy Benefits Vietnam’s Exports: Experts.” 2011. *Thanh Nien Daily*.
<http://www.thanhniennews.com/business/thai-rice-policy-benefits-vietnams-exports-experts-10337.html>.

“Thailand Cuts Rice Subsidy Price.” 2013. *Global Voices*.
<http://globalvoicesonline.org/2013/06/30/thailand-cuts-rice-subsidy-price/>.

“The Rice Mountain.” 2013. *The Economist*, August 10.
<http://www.economist.com/news/asia/21583281-increasingly-unpopular-government-sticks-its-worst-and-most-costly-policy-rice-mountain>.

United Nations Statistical Division. 2014. <http://comtrade.un.org/>.

Wailes, E.J., and E.C. Chavez. 2010. “Analysis of U.S. Rice Policy in a Global Stochastic Framework”. *Arkansas Agricultural Experiment Station Research Series* 591.
<http://arkansasagnews.uark.edu/591-47.pdf>.

“What’s at Stake with the TPP?” 2014. *BBC News*. <http://www.bbc.com/news/business-27107349>.

Endnote:

¹Though long-grain, Indian rice was of the Basmati variety that was not popular among East Asian countries.