Business leaders oppose Thai government's rice price scheme

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Moves by the government of Prime Minister Yingluck Shinawatra to implement an electoral promise to guarantee rice prices for Thailand's farmers have raised sharp criticisms in ruling circles. Known in Thailand as the rice mortgage scheme, the election pledge was a vital part of her Puea Thai party's efforts to maintain political support in the rural north east and north of the country for the July 3 national election.

Amid the country's worsening flood crisis, industry chiefs and economists have urged the government to abandon its promises. On October 14, severe flood damage to manufacturing areas prompted opposition leader and former Prime Minister Abhisit Vejjajiva to call on Yingluck to reallocate funds her government had set aside for its "populist policies" to flood recovery.

The floods have also wiped out part of the rice crop, adding to concerns in the business establishment about the viability of the scheme. Total losses could be as high as seven million tonnes, according to a statement by the Commerce Ministry on October 15. Earlier in the month the ministry forecast that the 2011 harvest would fall by 12 percent to 23.09 million tonnes.

Puea Thai's election victory—it won 265 of the 500 seats in parliament—was the latest episode in a struggle within Thailand's ruling elite that erupted with the military coup of September 2006 and the ousting of Yingluck's exiled brother Thaksin Shinawatra.

The ongoing differences in ruling circles have centred on the direction of economic policy since the Asian economic crisis of 1997-98. Thaksin moved away from his original position, when first elected in 2001, of protecting Thai industries from the restructuring demands of the International Monetary Fund. Instead, he accommodated the demands of foreign investors at the expense of sections of Thai business.

Thaksin's opponents were clustered around the traditional powerbrokers—the monarchy, the military, the judiciary and state apparatus. The conflict erupted into violence in 2008 and 2010 after the pro-Thaksin People Power Party (PPP) won the December 2007 election. Abhisit was installed in office in December 2008 after the PPP was outlawed in a judicial coup.

A tenuous truce was worked out between the factions last year when it became clear that the PPP's successor, Puea Thai, was set to win this year's election and that the mass protests of 2010 could reignite if it were blocked from taking office. Puea Thai had largely won support in the long-neglected rural areas and among the urban poor. Thaksin, prior to his ousting, had provided minor economic concessions such as cheap health care and village development funds.

Another "populist policy" promised by Yingluck was to raise the minimum daily wage by 40 percent to 300 baht ($US10). That pledge has also come under sustained attack from big business as a threat to Thailand's competitiveness. On October 17, the Central Wages Commission, composed of government, employer and employee representatives, recommended to the cabinet that the increase apply in Bangkok and six other provinces but only from April 1, 2012, not January 1. The 300-baht level would not be reached in the country's other 70 provinces until 2013.

The flood crisis has seen big business spokesmen demand the wage rise be delayed indefinitely.

The government began to implement the rice price scheme on October 7, appealing for the support of the 3.3 million rice farming households, many of which are small or tenant farmers. On the scheme's first day Yingluck declared: "This is a very important policy of the government to boost crop prices and increase rural income."

The scheme, however, is riddled with contradictions. The government will buy white rice for 15,000 baht ($US482) a tonne and premium jasmine rice at 20,000 baht, about 40 percent above current market rates. According to Thai Rice Mills Association, this would price Thai export rice at around $US800 a tonne—$200 more than its competitors.

The government said it would possibly buy up to 15 million tonnes of unmilled rice between October 7 and February 29 at an estimated cost of between 190 billion and 410 billion baht. The government's instrument for buying the rice, the Bank for Agriculture and Agricultural Co-operatives (BAAC), has only 50-100 billion baht available and will have to borrow heavily from state-owned banks or other financial institutions.

Some agricultural economists have warned that the plan may end up disadvantaging smaller farmers. On September 30, the Thai Farmers Association (TFA) urged Yingluck to set a 50-tonne quota, or cap, on how much rice could be sold to the government. TFA vice president Wichean Puanglamchiak warned that most rice farmers did not own their land but rented it. Without a cap, the higher prices on offer would provide an incentive for remote landlords to evict rental farmers and employ wage labour to grow rice for sale to the government.

The longer term effect of the price plan may be to undermine the entire Thai rice industry. Thailand is the world's largest rice exporter, currently accounting for about 31 percent of the 31-32 million tonnes traded. With the high guaranteed price, even with flood damage taken into account, the government will end up in control of large amounts of rice.

If a surplus accumulates, the government would have two options, both of which would have a destabilising effect on world markets. One would be to sell any surplus at a loss, forcing down the global price. Bangkok-based United Nations Food and Agricultural Organisation official David Dawe said this would mean "basically the Thai government has decided to subsidise the rest of the world. Everybody's happy except for the Thai tax payer."

The second option would be to sell rice at a price that covered the government's costs and hoard the remainder of the surplus. This would force up global prices, encouraging Thailand's competitors to increase their exports.

All these calculations are overshadowed by the increasing nervousness in ruling circles over the economic situation in Europe and the United States, the signs of slowing growth in China and the impact of the flooding.

On October 18, the Thai Finance Ministry again revised its gross domestic product forecast. Finance Minister Thirachai Phuvanatnaranubala told Reuters that GDP would contract 1.1 percent in the fourth quarter. Growth would slow this year to "just over two per cent," compared to 8 percent in 2010.

Under these conditions, the political truce in the Thai ruling class appears to be resting on increasingly shaky foundations.