S. RAJARATNAM SCHOOL
OF INTERNATIONAL STUDIES
A Graduate School of Nanyang Technological University

RSIS COMMENTARIES

No. 153/2013 dated 19 August 2013

A Tale of Two Farms: Agricultural support in India and Thailand

By: Maria C.S. Morales

Synopsis

For agricultural subsidies to be efficient in improving farmers' incomes and eradicating hunger, holistic policy intervention is required. Complementary policies such as increased access to credit and information and improved farm infrastructure are essential in realising the objectives of such programs.

Commentary

THE THAI government recently reversed its decision to lower the price ceiling for mortgaged rice as a result of the appeal from rice producers. Similarly, the Indian government has implemented its National Food Security Bill that will subsidise the price of grains for the poorest households. Both cases highlight once again the contentious nature of agricultural subsidies.

Agricultural subsidies are employed by governments to support agricultural production, and thus secure sufficient, affordable food for its people and maintain the livelihoods of farmers. However, these subsidies are extremely costly. Also, at the international level, they distort the global trading place for agricultural commodities.

The Thai and Indian cases

However, as the Thai government's experience demonstrates, it can often be politically difficult to withdraw subsidies. The immediate impact on the livelihoods of farmers and on food prices could be significant, and that could spark off popular protests. And India might face the same issues in the future. Subsidising grains for the poorest members of the population can be contentious and unsustainable.

The governments are faced with balancing the sometimes overwhelming burden of agricultural subsidies on national budgets on the one hand, and the imperatives of food and livelihood security for citizens on the other. To reconcile the two, governments have to look beyond the short-term, and pursue longer term measures able to complement and support agricultural subsidy programmes.

In Asia, a common form of agricultural subsidy is price support. There are various terminologies employed but all result in a guaranteed floor price for farmers for their produce or cheaper staple foods for the consumers. The two largest exporters of rice in the world – Thailand and India – use price stabilisation and price ceilings.

Thailand had introduced a rice pledging programme in October 2011 to raise the incomes of farmers, who remain the poorest sector of society and comprise 3.7 million households in Thailand. However, this programme has been extremely costly for the government. As a result of increased supply from India and Vietnam, and at the same time, lower demand from large importers such as the Philippines, the price of rice has weakened. Consequently the government incurred a loss of more than $4 billion, leading to calls for a subsidy cut.

The Thai government thus decided in June 2013 to lower the price ceiling for the programme. The government was buying rice at 15,000 baht ($420) per tonne above the market price. It proposed reducing that – to between 12,000 baht and 13,500 baht per tonne.

In the case of India, the National Advisory Council (NAC) proposed the National Food Security Bill (food bill) to eradicate hunger and rural poverty. According to the 2012 Global Hunger Index, India has not made significant progress in reducing hunger and malnutrition despite strong economic growth in the past years. A third of India's population is categorised as extremely poor and about half of its children below five years suffer from malnutrition. Under the new food bill, 67 per cent of India's population will receive 5 kilogrammes of food grains every month at subsidised rates of Rs 1-3 per kilogramme – which works out to about 62 million tonnes of rice, wheat and coarse cereals every year. It is estimated that this will cost the country USD4 billion annually.

Troublesome programmes

Dissecting the two cases, the Thai rice pledging scheme greatly benefits farmers since they are guaranteed a market – ie the government. On the other hand, India's food bill is directed more at consumers. While it is undeniable that these programmes have noble objectives, critics point to several problems.

Corruption and lack of transparency in the procurement system have been blamed for the fiscal losses in the Thai pledging scheme. This has long run implications such as the decline of competitiveness of Thai rice exports and the decrease in income of Thai rice farmers. At the same time, the rice pledging programme can increase dependence on the part of the farmers by guaranteeing them a market. This will lead to their inability to adjust to global market conditions and competition. In fact, Thailand has already lost its position as the largest exporter of rice in the world to India.

In India's case, the cost of the food bill will be shouldered by taxpayers. Could the money be better utilised on other priorities such improving infrastructure and job creation instead? Furthermore, critics have claimed that the Public Distribution System has proven to be inefficient since the process of targeting beneficiaries has been burdensome. Some families considered to be living 'below the poverty line' have not even been able to receive the benefits they were entitled to. The implementation of the Public Distribution System was also contingent on the capacity and resources of the various states. Hence, only few were able to successfully implement it (e.g. Tamil Nadu, Andhra Pradesh, Orissa and Rajasthan).

Subsidies for long term agricultural development

Agricultural subsidies often serve as a band-aid for achieving food security and eradicating rural poverty. This should not be the case. The achievement of food security and eradicating rural poverty calls for an integrated approach with a series of policy interventions to ensure their attainment. Interventions such as increased access to credit and market information, improved farm infrastructure in the form of irrigation facilities, roads and bridges and an efficient logistics and distribution system and increase public investments on research and development (R&D) could support the objectives of agricultural subsidies.

Long-term food security requires an integrated policy intervention. The end result could be greater food security through cheaper food for the populace and also greater livelihood security for farmers. If policymakers are concerned with leaving a legacy to their people then they should consider a longer timeframe and systemic approach on policies.

Maria Carmencita S. Morales is an Associate Research Fellow at the Centre for Non-Traditional Security Studies (NTS), S. Rajaratnam School of International Studies (RSIS), Nanyang Technological University (NTU).