2. Asian experiences

2.1 Biting off more than it can chew? Agricultural price stabilization policies in India

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Summary

What has been done?

Stabilization policies can be broken down into three periods. After Independence in 1947, the government heavily intervened in agricultural prices. Before the Green Revolution, this involved forced levies on farmers and traders, an environment that shied away from private speculation, and subsidized food prices in large cities. Once the Green Revolution got underway (1965), policies focused on incentives to guarantee prices and redistribute surpluses to the entire population. Since 1991, there has been gradual liberalization.

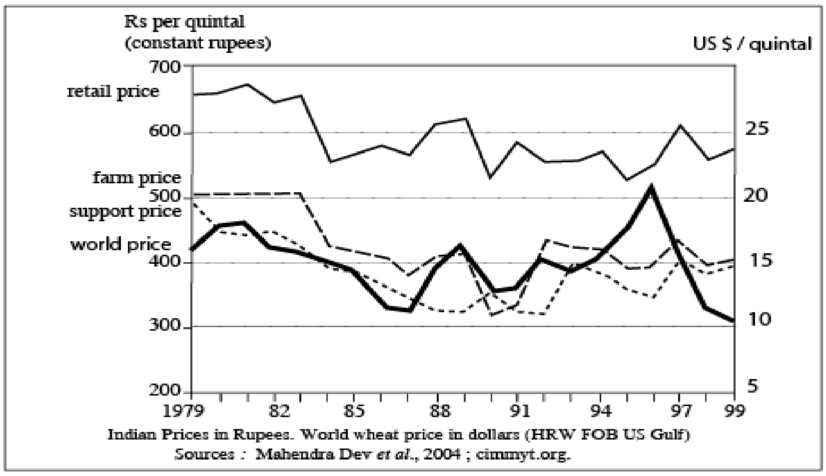
How has it been implemented?

Since 1965, the Food Corporation of India, backed by state governments, has purchased wheat and rice at reserve prices (the same system exists for sugar), thereby amassing stocks that are distributed and sold at subsidized prices through a countrywide distribution network. Purchases by firms are still controlled, as are import-export transactions to a certain extent. Input subsidies (fertilizer, water, electricity) play a major role but ultimately, Indian agriculture is more taxed than than it is subsidized.

What were the effects?

The agricultural growth in areas influenced by the Green Revoluation has started to slow, the public distribution system is riddled with corruption, and food security stocks are poorly managed. The latter results in costly imports, less costly subsidized exports, and resale on the domestic market. But, India has acquired grain self-sufficiency and food sovereignty. Agricultural and food prices are smoothed compared to world prices, which (for the most part) allows the country to avoid "hunger riots". "The coefficient of variation for rice and wheat prices in India held steady around 4% to 7% between 1980 and 2000, compared to 15% to 20% for world prices" (*High Level Committee, 2000, § 1.8*).

Table 25: Trends in wheat prices (1979-99): India and world



What recommendations could be derived?

Protectionism and government price policy have brought agricultural expansion and relative consumer satisfaction. However, India lacks flexibility in its policy (long-term management of stocks devoid of political pressure, food vouchers in cities, measures to avoid competition with distribution channels used by local producers).

2.2 The Indonesian experience with rice price stabilization

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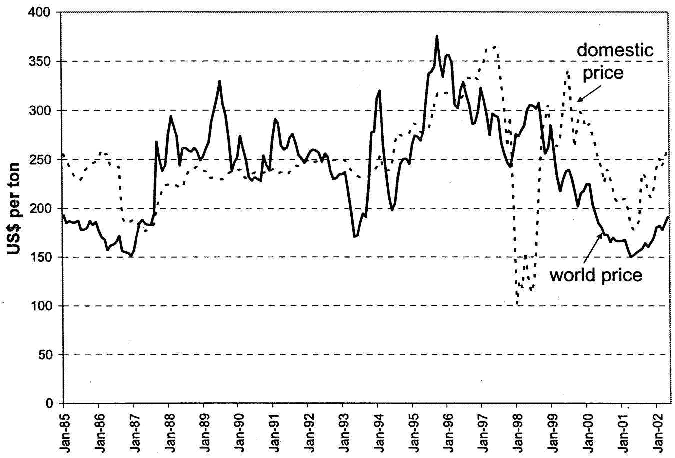
Summary

What has been done? Indonesia pursued rice price stabilization through two instruments used simultaneously: (i) intervention in marketing through public storehouses managed at a local level (ii) monopoly control over international trade. Price stabilization protects both consumers and producers by maintaining rice prices within a predetermined band and by widely disseminating floor and ceiling prices. Stable and low rice prices were a major objective of the government following the period of economic and political instability that came to an end in the mid-sixties. The rice price policy can be split into several periods, corresponding to changes in the country's context. These changes in turn have influenced the policy's implementing agency's objectives and constraints.

How has it been implemented? Rice price stabilization was implemented by a special agency created in 1968 (BULOG). BULOG managed a nationwide network of local agencies and district-level warehouses (DOLOG), which enabled it to store substantial quantities of rice. DOLOG warehouses bought rice to bring prices in rural markets up to the floor price. BULOG procured rice paddy from farmers' cooperatives as well as from private traders. Farmers were encouraged to establish village cooperatives. Major efforts were made to build capacity of BULDOG's management and staff from the beginning. Extensive analytical studies were carried out on key factors such as the size of margins between floor and ceiling prices, the size of buffer stocks, and the price of fertilizer relative to floor and world prices. A monopoly control over international trade was established, which allowed the government to import when domestic production was insufficient and to export when there was a surplus and stocks levels were already high.

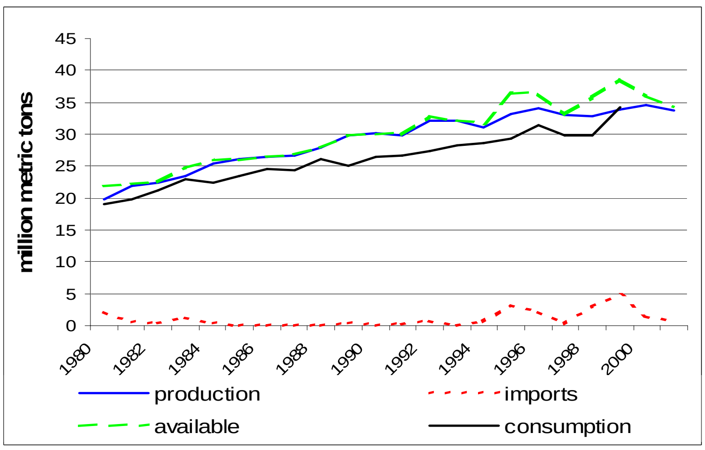
What were the effects? The supply response was dramatic: rice production increased by 10.5 millions tons over the 1978-1985 period. Fertilizer use increased by 500% between 1970 and 1985, while yields increased from 2.5 T/ha in 1965 to 4.4 T/ha in 1990. A huge improvement in food security followed.

Figure 2 : World rice prices and domestic rice prices 1985 to 2002



Source: reprint from Timmer 2004 p. 7[1]

Figure 1 : Evolution of selected indicators for rice in Indonesia (1980-2001)



Source : Central Bureau of Statistics

What recommendations could be derived? The Indonesian experience shows that government intervention can successfully adapt to a changing context and contribute to quick economic growth, but that it is difficult to implement. It is important to note that the rice price stabilization policy was only one component of the Indonesian approach to modernizing its rice economy. Public investment, not only in infrastructure such as roads and irrigation facilities, but also in human capital, through extension services and education, played an important role in the country's success. One important characteristic of government interventions is that they focused on avoiding markets failures and supporting private economic initiatives rather than substituting public initiatives for private initiatives. The whole commodity chain was not in the hands of parastatal companies.

The agricultural policy was part of a broader policy ensuring (i) macro-economic stability, (ii) making markets working more efficiently, (iii) ensuring political stability, and (iv) creating enabling environment for private investment.

Some technical lessons on price stabilization can also be drawn from the Indonesian experience:

- The target price should be aligned with international prices;
- The policy is far less costly when the country relies on imports than when it has to manage a surplus.

Key factors including the size of the margins between floor and ceiling prices, the size of buffer stocks, and the price of inputs relative to floor and world prices need to be constantly updated.

2.3 Rice price stabilization policies in Thailand

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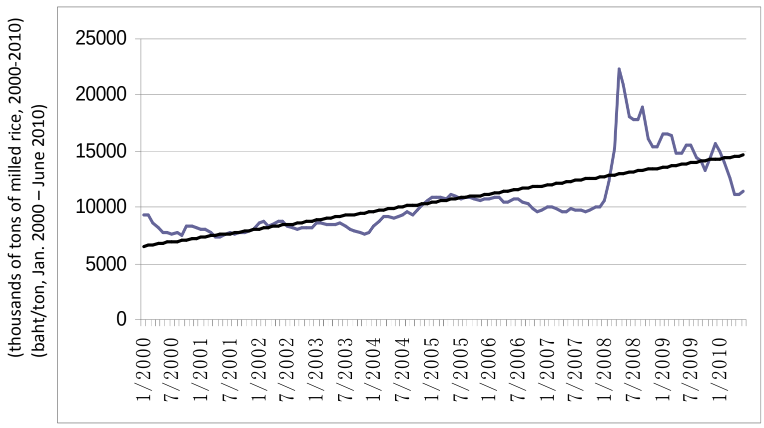
Summary

What has been done? 1) From 1950 to 1985, the government established export taxes (pro-consumer policies); 2) From the mid-1980s to 1997, it removed export taxes and implemented modest measures to support producer prices; 3) From 2001 to 2009, it developed buffer stock and support price schemes (pro-producer policies).

How has it been implemented? From late 1950s to the mid-1980s, Thailand used a combination of four instruments: a rice premium, ad valorem export duty, rice reserve requirement and quantitative restrictions on exports. From 2001 to 2009, the government purchased rice at above market prices under the Paddy Pledging Program; the pledged paddy was then sold through bids or "Government to Government contracts".

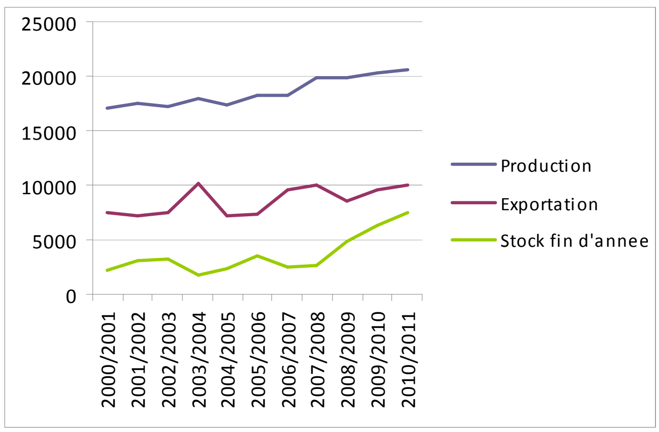
What were the effects? From late 1950s to the mid-1980s, export taxes on rice constituted an important source of government revenue. Domestic prices were kept below the export prices and stabilized during the spikes (1967 and 1973). From 2001 to 2009, production levels grew thanks to high intervention prices. Domestic prices started moving upwards, levels of buffer stock rose, and the government spent a considerable part of the budget on the policy. There were also some undesirable effects on exports (lower competitiveness and availability of rice).

Figure 4 : Wholesale real price of rice 5% broken



Source: Bank Of Thailand, Website: http://www.bot.or.th/

Figure 3 : Trends in production, exportation and end-of-year stocks



Source: USDA-FAS

What recommendations could be derived? Up until the early 1980s, the comparative advantage of rice production in Thailand could be explained by the country's wealth of resources, optimized by government policies aimed at ensuring relatively equitable land tenure; investments in road, railway and irrigation infrastructure; and an active credit policy (Phélinas, 2010). Since 2001, the Thai government's policy to stabilize the income of rice producers has started to conflict with the sector's export orientation. Above-market intervention prices have led to significant production increases. The widespread outreach of intervention policies has appeared to cause difficulty for small actors on the market. Some undesirable effects may be related to inefficient management of buffer stocks and speculation on the part of market actors. Finally, there are questions as to whether intervention policies are equitable, as they do not benefit the poorest small-scale farmers.