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The economics and politics of rice export taxation in Thailand: A historical simulation analysis, 1950–1985

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Abstract

Based on simulation analysis using the partial equilibrium trade model, this study tries to identify the factors underlying changes in rice export taxation in Thailand in 1950–1985. It was found that the Thai government over-taxed rice exports during the low-income stage and gradually reduced it to a more optimum level corresponding to increases in per-capita income, but more recently moved to under-taxation in terms of social welfare maximization for the nation. The results are consistent with the hypothesis that the process of export tax reductions reflects the shifts in the political equilibrium from the point of favoring urban interests at the expense of farmers to that of favoring farmers more. In this process, the economic welfare of the nation as a whole does not appear to have entered into politicians' calculations as a significant factor in their policy decisions.

JEL classification: Q17; Q18; N55

Keywords: Food policy; Welfare effects; Political economy; Rice; Thailand

1. Introduction

Most food-exporting countries tax their exports heavily in the early development stage and reduce taxation later as they advance into higher development stages. This study aims to identify the factors underlying this evolution of trade policies by using the partial equilibrium model simulating the efficiency and distributional effects of taxation on staple food exports. Thailand

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has been chosen as a relevant example for this purpose because the country has been among the largest rice exporters in the world, and the Thai government used to impose a heavy tax on rice exports in its early development stage and later reduced it as this country achieved successful industrialization.

The strong empirical regularity observable worldwide is that, while trade and taxation policies in developing countries tend to be distorted in the direction of exploiting (or taxing) agricultural producers, these policies in developed countries are designed to protect (or subsidize) them (Anderson & Hayami, 1986; Krueger, Schiff, & Valdes, 1992; Sadoulet & de Janvry, 1995; Schultz, 1978; Timmer, 2002). Particularly, agricultural exporting-developing countries often tax their exports by a variety of devices such as export taxes, export quotas, overvalued exchange rates, and forced procurement at lower prices by the government's parastatal. The stated objectives of these government interventions have been to correct market failure such as imperfect information, to extract surplus from agriculture which is the major sector in low-income economies, to provide food security to the poor, and to raise government revenue for national development purposes. In terms of political-economy realities, such policy choices have been the rational responses to an array of political lobbying pressures from vested interest groups including urban consumers, industrialists, and labor unions even if they might reduce the net social welfare of the nation in terms of standard economics.

Having chosen Thailand as an example, the study attempts to measure the efficiency and the welfare distributional effects of the rice export taxation on different interest groups in Thailand for the 1950–1985 period, and to shed light on factors underlying the process of Thai rice pricing policy formulation. Traditionally, the rice industry played a critically important role in the Thai economy by providing the main staple food, employing a large portion of the labor force, and contributing to government revenue and foreign exchange earnings. For the past three decades, however, the rice sector's share in the Thai economy has rapidly declined corresponding to the dramatic progress in industrialization as a part of the East Asian Miracle (World Bank, 1993). Correspondingly, a major shift in policy has progressed from taxing to subsidizing rice farmers.

Most past studies on the effects of the rice export taxation in Thailand (e.g. Siamwalla & Setboonsarng, 1989; Usher, 1978; Wong, 1978) have either failed to make a comprehensive calculation of its welfare distributional effects or simply calculated them for one time point. By applying the welfare economic analysis of the partial equilibrium framework combined with the political-economy approach to the data over the period from 1950 to 1985, this study attempts to provide a historical perspective on the effects of policy changes as well as factors underlying these changes. The whole period is sub-divided into the high taxation period (1950–1970) and the transitional period (1971–1985) from the high taxation to the non-taxation period classified according to the nominal rate of protection on rice. Moreover, political-economy inferences for the period after 1985 will also be made.

Knowledge of the distributional effects of the export taxation on different groups' welfare is essential for understanding the various stakeholders' pressures on the government policy formulation process, and, hence, is an indispensable input to politicians in their attempts to alter incentive constraints through institutional reforms. The long-term simulation analysis spanning over different development stages will enable us to identify the dynamic effects of structural and institutional changes on the bargaining power of opposing interest groups in the Thai rice policy formulation process, rendering useful lessons for other staple food-exporting developing countries. The analysis will also enable us to infer how dominant the political lobbying for group interests would be relative to considerations of the social welfare maximization for the nation in politicians' decisions.