ECONOMIC ANALYSIS OF THAI SOYBEAN POLICY

A Thesis Submitted for the Degree of Doctor of Philosophy

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DECLARATION

I certify that the substance of this thesis has not already been submitted for any degree and is not currently being submitted for any other degree.

I certify that, to the best of my knowledge, any help received in preparing this thesis, and all sources used, have been acknowledged.

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ABSTRACT

The Thai government's intervention in the soybean industry exhibits a classic case in the history of agricultural protectionism. Throughout the past decade or so the Thai government's intention to propel domestic soybean production has been evident in various forms of policy intervention. The operative measures, which have changed from time to time, consist of various combinations of production, price and trade policies.

At present, the three operative policies are an import ban on soybeans, an import tariff on soybean oil and an import surcharge on soybean meal. These policy interventions are intended to satisfy the government's normative objectives of fostering farm income and output, improving the balance of trade and generating government revenue. The three measures have been criticised widely as being inappropriate, both on economic efficiency and equity grounds, but no studies so far have adequately measured their detrimental effects on the economy.

The present study attempts to investigate the impacts of these interventions. A multi-market, partial equilibrium model is developed to help determine the effects of the various policy scenarios. Policy analyses are carried out with both first-best and second-best criteria. In this regard, a method is developed to trace marginal social cost curves to be used in the second-best policy assessment.

It was found that the range of efficiency loss as a result of the various scenarios of trade protection covers both negative and positive values. The negative value of efficiency loss (i.e. a net gain in economic efficiency) comes about since there are other distortions facing the industry. This implies that some existing policies are, in fact, corrective rather than distorting, such that the administration of some optimal tariff and/or surcharge could enhance welfare.

It was also found that the existing policy interventions favour soybean farmers and the oil processing industry, while disfavouring the oil consumers, the food industry and the meal users. Clearly, the Thai government's objective of enhancing farm income and output must be weighed against the amount of efficiency loss and the resultant problems of income distribution. The present study advocates a careful shift towards optimal intervention for the short run, and proposes gradual replacement of trade policies by production policies for the long run.

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