

High rice prices, CP-nomics, and the future of the farmer

Saturday 31 May 2008, by [Chang Noi](#) (Date first published: 12 May 2008).

The surge in the prices of rice and other crops is cause for celebration in the villages. For thirty years, the trend of agricultural prices has been down, down, down. Now there's a buzz. In the north, people are planting maize on abandoned hillsides, on the riverbanks, in front gardens, on the roadsides. In the central plain, people are slipping away from the factories to plant the second crop.

In the short term, this looks great for the farmer. In the medium term, it looks great for business.

Over the last thirty years of sliding prices, Thai agriculture has undergone a quiet revolution. In the drier regions, many areas planted in the crop boom of the 1960s and 1970s lapsed back to fallow. Crops like cotton, jute, and soyabean dwindled away. More and more land was put under fruit trees, rubber, sugarcane, and oil-palm, often owned or controlled by corporations.

In the wet paddy areas, the trend was different. Young members of the family drifted away to the city. Farmers invested in more machinery, or retreated to simpler methods like broadcasting. Experts predicted that land would be consolidated into larger holdings, but surprisingly this never happened. Across the paddy zone, small holdings still prevail. But one telling fact suggests this situation is ripe for change: the average age of the paddy farmer is now 53.

Rising crop prices have caught the eye of big capital. The current price levels are a bubble, boosted by speculation. There will be a bump downwards in the near future. But in the medium term the trend is going to be upwards because of rising food consumption in India and China, rising demand for agri-fuels, and global warming. This promise of a long-term trend makes investment worthwhile. For the last generation, Thailand's agri-business firms have been putting their spare cash into Bangkok shopping malls, luxury hotels, mobile phone ventures - anything but farming. Now the trend will tilt the other way.

Charoen Sirivadhanabhakdi of Mekong and Beer Chang is already ahead of the game. He began investing in agriculture to secure supplies for his liquor manufacture, and seems to have an appetite for land like an elephant for tender banana plants. He now owns over 100,000 rai of agricultural land, planted with sugarcane, rubber, oil-palm and cassava. He also controls another 120,000 rai under sugarcane and oil-palm in Cambodia. Charoen is Thailand's first latifundist.

A few weeks ago, Dhanin Chearavanont, head of the CP empire, gave an address at the National Economic and Social Development Board on "Directions for Thai Economic Development." Dhanin is usually rather quiet. Over a long and massively successful business career, he has very, very rarely spoken in public about the economy. After this speech, he repeated the contents in interviews with newspaper and television programmes. Dhanin clearly felt this was a moment when he had something big to say.

To set the scene, Dhanin explained the two-part formula behind CP's massive success in chicken, pork, and prawn. First, CP takes the risk away from the farmer. A smallholder is very vulnerable to risks. Two bad years and he's dead. But a big company can shoulder the risks because of capital

reserves and scale. Second, CP invests in technology, both better feedstocks and more efficient chain management similar to the just-in-time systems of auto manufacture. The result: higher productivity and higher profits, shared between CP and the farmer.

Suppose the same formula could be applied to crop production? Dhanin did the maths. Thailand has 62 million rai under paddy including 25 million rai of irrigated land. Concentrate on the irrigated part. At present the yield is only 400 kilogrammes per rai. But suppose the production was modernized “in the same way that we modernized chicken production” by leveling the land properly, making the irrigation secure for two or three crops, and improving the seed Dhanin reckoned the same land could yield 800 kilogrammes, three times a year.

Next, turn the other 40-odd million rai of non-irrigated paddy land over to something else. Plant 30 million with rubber, and 12 million with oil palm.

Next, firm up the rubber cartel with Malaysia to double the price, and talk with India and Vietnam for a cartel on rice.

After this magic maths, Dhanin summarized, *“With just this 62 million rai, if we planned well, we could make 2.367 trillion baht.”* Total export earnings would be almost 3 trillion, over five times the current level. *“Agricultural products are our oil, our gold.”*

Dhanin knows that the threat to this vision is the mentality of price control. Because high rice prices affect consumers, government feels pressured to keep them low. Dhanin argued that Thailand should think about crop prices in the same way that OPEC countries think about oil prices. High is good. Instead of controlling prices, government should jack up salaries, starting with government officials. Dhanin offered this “double high” strategy as the key to future growth.

We need not expect the technocrats to revise the national development plan in line with Dhanin’s vision. What is interesting about the speech is what it suggests about CP. The low productivity of Thai agriculture is a business opportunity. The promise of rising prices makes it a big opportunity. CP has been experimenting with integrated paddy production for years. It claims to have developed a super-yielding strain. Dhanin wants government to help, or at least not get in the way.

These moves by Dhanin and Charoen point to a very different future for Thai agriculture. In this vision, it is very difficult to see the role of the self-reliant small farmer idealized in the King’s vision of a sufficiency economy. A newspaper challenged Dhanin on this point. He replied that if he had a billion to invest then he would invest a billion and no more, so for him that was sufficiency. Well, at last we know what sufficiency economics really mean.

P.S.

<http://www.geocities.com/changnoi2/cpnomics.htm>