Move to aid farmers may devastate sector

By Su Phyo Win | Sunday, 04 August 2013

Draft legislation intended to help the country's farmers by setting minimum prices for crops threatens to cripple them as well as undermine efforts to unleash the economic potential of a country that once was the world's top exporter of rice, warns a report that will be released this week.

Workers in Ayeyarwady Region load sacks of rice on a truck bound for Yangon. Poor transport is hindering the growth of the agricultural sector. Photo: Kaung Htet

"A price-support policy imposes artificial incentives and market distortions that can lead to inefficient decision-making by farmers, traders, and consumers, which in the long run can have detrimental effects on welfare and broader sustainable development in Myanmar," says the report "Implications of a Price Support Scheme for Agricultural Products in Myanmar".

The report will be released by the Myanmar Development Research Institute-Center for Economic and Social Development (MDRI-CESD).

It says that the price-support scheme at the heart of a draft law intended to boost the welfare of farmers – which will soon be debated in parliament – could also heighten conflict over agricultural land and worsen malnutrition in a country where about 36 percent of children under the age of five suffer from stunting.

U Zaw Oo, executive director of MDRI-CESD, told The Myanmar Times that a price-support scheme for rice is "likely to have a very large negative impact on Myanmar's fiscal situation".

"Since Myanmar exports too little rice to be able to influence the world market price, the government will lose money whenever the world price is below the Myanmar target price," he explained.

"The government will also have to pay the cost of collecting the rice from across Myanmar, transporting it and storing it. The cost to the government could easily be hundreds of millions of US dollars per annum from the outset, and international experience tells us that the cost of price-support schemes tends to rise over time."

Sean Turnell, an economics professor at Macquarie University in Sydney, agrees. "Minimum prices for crops sounds attractive" but the reality is more complex, he said. "We have an example currently on display in Thailand," he added, referring to that country's rice-pledging scheme that has eroded its export power and cost the government billions of dollars.

Mr Turnell said the legislation "represents a return to older policies of Myanmar governments, policies that presume high levels of government involvement and control". Such polices have "not just failed" but "failed spectacularly", he said.

Mr Turnell and U Zaw Oo said the government has more effective and less costly options. "There is a wide range of policies the government of Myanmar could adopt which would be more effective for helping farmers and less costly than a price-support scheme. Such policy options include improving farmers' access to credit and input markets; and investing in public goods such as irrigation, roads, access to electricity, and agricultural research and extension services," U Zaw Oo said.

"Agricultural output in Vietnam and China increased greatly as a result of improvements in farmers' property rights there, with the farmers' standard of living benefiting considerably from this increased output. Enhancing property rights for Myanmar farmers could have a similarly positive effect, doing far more to increase output and productivity than a price-support scheme would," he added.

"What farmers really need is freedom," Mr Turnell said. They need "clear production rights that allow them to decide 'what, how and when' to produce", he added. "Myanmar's farmers are great survivors in the most testing of environments it is possible to imagine – what they need is freedom to harness their perseverance and knowledge."

He also said that contract farming, which critics of the new legislation say it promotes, is ill-suited to Myanmar. "The economies of scale available to rice production, for instance, best suits small-scale cultivation, and not the 'plantation' model that might be suitable elsewhere."

The legislation, first called the Farmers' Protection bill, was submitted to parliament on June 30 under the title Farmers' Interests Promotion bill.

Myanmar Farmers Network member Ko Tin Lin Aung said the legislation is silent on land confiscation, which has been identified as a major impediment to the growth of the agricultural sector.

"We think this legislation is an attempt to prohibit small-scale farmers from doing business how they see fit," he told a July 27 public meeting on the draft legislation organised by the Myanmar Rice Federation.

The bill is set to become law in mid-August, but farmers say it was drafted without significant input from them. It reflects the interests of business leaders and government officials because it was drafted with their advice, critics of the draft legislation say.

U Ko Tin Lin Aung said a price-support scheme would benefit large businesses rather than small-scale farmers.

Presidential Office business adviser U Myint said the bill should be rewritten to focus on poverty alleviation.

The legislation should also do more do address land disputes, said 88 Generation farmers' affairs committee member U Myo Thant.

A March report prepared by USAID said that Myanmar's agricultural sector could "accelerate rapidly" if a "vigorous program of policy and structural reforms" was implemented.

"Many of the underlying structural and policy problems result from self-inflicted wounds," said the report "A Strategic Agricultural Sector and Food Security Diagnostic for Myanmar".

The new report by MDRI-CESD estimates that a rice price-support scheme will cost the government at least US$225 million a year.