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The mechanisms of corruption in agricultural price intervention projects: Case studies from Thailand

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ABSTRACT

In Thailand, agricultural price intervention has recently been under severe criticism for its ineffective management and proneness to corruption. This study focuses on the mechanisms of corruption and how such destructive activities might be minimized. Case studies of three well-known crops in Thailand, namely paddy, cassava, and shallots, were utilized as the main investigative tool. Findings suggest that government price intervention programs generate significant economic rents for various stakeholders (i.e. farmers, millers, warehouse owners, exporters, etc.). To deal with this problem, the magnitude of economic rents should be curtailed through strict quantity limits and monitoring needs to be enhance both through better human resources and integrated information technology. In the long term, such blunt intervention projects should be replaced with more sophisticated, market-oriented risk management techniques, and strict information transparency must be ensured.

1. Introduction

Many different definitions of corruption have been proposed (Goorha, 2000; Jain, 2011; Kolstad & Soreide, 2009; Kolstad & Wiig, 2009; Monte & Papagni, 2007; Otahal, Palat, & Wawrosz, 2013; Sims, Gong, & Ruppel, 2012; Ufere, Perelli, Boland, & Carlsson, 2012). According to the World Bank, corruption is defined as "the misuse or the abuse of public office for private gain" (as cited in APEC, 2006), which includes bribery, coercion, extortion, kickbacks, patronage, fraud, influence buying, embezzlement, etc. (Jain, 2011; Kolstad & Soreide, 2009; Sims et al., 2012; Ufere et al., 2012). Corruption is considered a root cause of social and economic problems in resource-rich, developing countries (Goorha, 2000; Kolstad & Soreide, 2009; Kolstad & Wiig, 2009) because it inhibits economic growth, erodes political stability, threatens democratic society, and obstructs social development (Jain, 2011; Monte & Papagni, 2007; Otahal et al., 2013).

Abbreviations: APEC, Asia-Pacific Economic Cooperation; BAAC, Bank of Agriculture and Agricultural Cooperatives; BOT, Bank of Thailand; CCTV, closed-circuit television; DFT, Department of Foreign Trade; DIT, Department of Internal Trade; DOAE, Department of Agricultural Extension; DOLA, Department of Local Administration; DOPA, Department of Provincial Administration; FOB, free on board; GDP, gross domestic product; GIS, geographic information system; GPS, global positioning system; KNIT, Knowledge Network Institute of Thailand; MOAC, Ministry of Agriculture and Cooperatives; MOC, Ministry of Commerce; MOF, Marketing Organization for Farmers; MOI, Ministry of Interior; MSG, monosodium glutamate; NACC, Office of the National Anti-Corruption Commission; OAE, Office of Agricultural Economics; PWO, Public Warehouse Organization; RD, Rice Department; TDRI, Thailand Development Research Institute.

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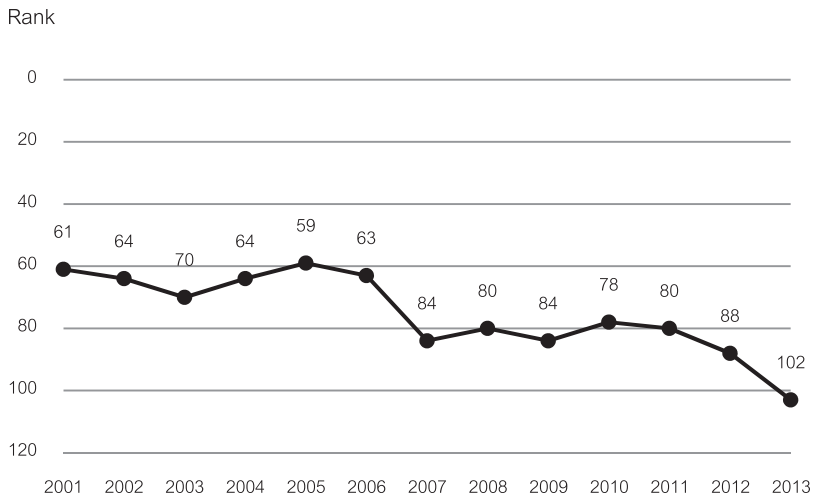

Fig. 1. Thailand's ranking in the corruption perception index (2001–2013).
Source: Transparency International (2014).

Transparency International (2014) has developed a corruption perception index and classified 177 countries based on the perception of corruption in their public sectors. A country's score ranges from 0 (highly corruption) to 100 (very clean). The index reveals that two-thirds of all countries score below 50, whereas only 10 countries (e.g. Denmark, New Zealand, Finland, and Sweden) score above 80. In Asia Pacific, only 9 countries (e.g. Singapore, Australia, and Japan) out of 28 score above 50. In 2013, Thailand ranked 102nd with a score of 35, representing a fall from 37 (ranked 88th) and 34 (ranked 80th) in 2012 and 2011, respectively. Fig. 1 illustrates Thailand's ranking from 2001 to 2013.

Krueger (1974) estimates that costs associated with rent seeking are about 7% of GNP for India and 15% for the Turkey. Posner (1975 as cited in Tollison, 2012) estimated the cost of rent seeking to be about 3% of GNP for the United States. Sauwanee Thairungroj, president of the University of the Thai Chamber of Commerce (UTCC), reported that 86% of Thai businesspeople bribed politicians and senior officials. The magnitude of the bribes has increased from 25% to 30–35% of the total investment budget, or around 252,000–294,000 million baht in 2012. Had corruption been completely eradicated, Thailand's GDP could be growing three times faster than its current rate. Sukumalpong (2013) reports that the three occupations with the worst reputation for corruption were politicians, businesspeople, and government officers.

According to Somkiat Tangkitvanich, president of the Thailand Development Research Institute (TDRI), an eminent think tank, no developing country has reached a high-income status while scoring below 4 (out of 10) on Transparency International's corruption perception index (see Fig. 2). A significant barrier to reducing corruption in Thailand has been legal loopholes that allow perpetrators to avoid punishment. Historically, almost all of the politicians/officials convicted of corruption have fled the country to wait for their convictions to expire before returning (TDRI, 2013a).

To understand the pervasiveness of corruption in Thailand, a basic historical and cultural context is helpful. Historically, the Thai state has mainly been viewed as an oppressor (Phongpaichit & Baker, 2009). In fact, compulsory male labor conscription by the state was a normal feature of life in Siam as recently as the early twentieth century. Thai peasants accepted their limited ability to bargain with the state and came to expect little support from their rulers. Following four decades of military dictatorship post World War II, the political landscape in Thailand began opening up to greater civilian participation in the late 1980s. The relationship between peasants and the state also underwent a transformation during this period. As provincial politicians required votes to win parliamentary seats, they were obliged to return the favor to their peasant supporters in the form of public works, cash, or both. Such questionable exchanges, while sneered upon by the Bangkok middle class (who had always benefitted from a disproportionate amount of public funds), were considered normal among the rural people. Because the state had offered them so very little in the past, the new system appeared quite appealing. As to what shady deals their representatives were cutting far away in Bangkok, there was little reason to care. Corruption was thus pervasive in all branches of government.

Around the turn of the millennium, the telecom tycoon, Thaksin Shinawatra, revolutionized electoral politics in Thailand (Phongpaichit & Baker, 2008). Recognizing the new calculus of power in Thai politics, Thaksin intensified the magnitude of favors granted to his political base to unprecedented levels. The rural population, the large majority of all eligible voters, were thrilled by his generous 'populist' policies, such as agrarian debt relief, sizable village-fund grants, and cheap, universal healthcare. They became Thaksin's loyal supporters, caring little about the policy maneuvers he employed to benefit his companies and enrich his family. As Thaksin's popularity grew, the bureaucracy became increasingly concerned of losing its turf. The Bangkok middle class also viewed Thaksin as a