Deutscher Tropentag, October 8-10, 2003, Göttingen

"Technological and Institutional Innovations
for Sustainable Rural Development"

Potential of Futures Market for Rice in Thailand

Pornsiri Suebpongsang, Matthias von Oppen

University of Hohenheim, Agricultural Economics and Social Sciences in the Tropics and Subtropics, Germany

Abstract

A Futures Market is a centralized marketplace where commodities in the form of futures contracts are bought and sold for future delivery. Futures markets are used primarily to reduce risk and not to make or take delivery. There are 68 futures markets around the world that trade agricultural products. In Thailand the ground works to establish a futures market began in 1979. However the process to set up this market was interrupted by the economic crisis in Asia in 1997–1998. The Thai Agricultural Futures Trading Act was enacted in 2000. Thai government approved a 5 years budget for establishing the futures market in Bangkok, Thailand in 2001. The process to establish futures market has been accelerated recently.

Futures markets (FM) have economic effects both directly on the prices of commodities and indirectly on production, consumption, and storage decisions responsive to prices. FM also provide an efficient mechanism for allocating price risk from those who wish to avoid price risk to those who are interested in bearing the price risk for a potential return. Because of specific risk and return positions, FM reduces transaction costs below those of cash markets. Given the investments by Thai government into the establishment and considering the theoretical economic benefits of a FM, the objective of this study is to assess the expected welfare generated by coming FM in Thailand versus expected costs, and financial profit or loss over time. The welfare analysis is used to determine consumer surplus, producer surplus and total welfare of FM in Thailand. The financial cost/benefit analysis is applied to forecast profit and loss of coming Thai futures market over time. The result of this study is a quantification of the social welfare generated by the FM in Thailand, justifying its financial costs of establishing it in such a way that it will be financially self-sustaining in the long run.

Keywords: Futures market, rice, welfare

Contact Address: Pornsiri Suebpongsang, University of Hohenheim, Agricultural Economics and Social Sciences in the Tropics and Subtropics, 70593 Stuttgart, Germany, e-mail: pornsiri@uni-hohenheim.de