

Rice export hit a record high in volume economics essay

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It was the fact that export enterprises did not care from whom they bought rice, merchants or farmers did not matter them. Meanwhile, farmers had no choice other than to sell rice to merchants as they could not sell directly to exporters and they had no warehouses. As a result, this temporary rice reserves program turned out to be for the benefits of merchants instead of those directly growing rice, said by MARD. On the other hand, a large majority of poor farmers had to sell out rice for the upcoming crop before a reserves scheme issued by the government. It was due to the scheme was issued too late, after farmers had all harvested or farmers failed to aware of this scheme as a result of information shortage. Although price did increase during and after campaign, farmers rarely got what they deserved.

2. 2. 6. Chance

- Thailand's policy
The biggest chance for Vietnam's rice export was pledging scheme from Thailand. Since October 2011, new Thai government introduced an attractive policy, rice subsidies for farmers as mentioned in chapter 1. This intervention scheme was obvious in favor of farmers but turn out to be a barrier to exporters since they were put in fierce competition with other countries. Thai government expected this domestic policy to create a global effect since Thailand supplied about a third of global rice exports. This meant that decisions made in Thailand could have far reaching implication which would push international price to rise as there would be less rice in world market. However, only Thailand's price rose and the country's rice failed to be competitive with others. Under this scheme, Thailand exported rice rocketed to USD 800/ton, too high the price and consumers could not accept it. The withdrawal of Thai rice has been a godsend for Vietnamese

rice exporters. Vietnam would be an appealing supplier with rice's quality as good as that of Thailand's but at lower price. The fact was that, many traditional partners of Thailand (Indonesia, Malaysia, EU, West Africa,...) approached Vietnam's exporters at the end of 2011 and beginning of 2012, even Thai exporters purchased rice from Vietnam to re-export for differences. Thailand has lost Hong Kong and Chinese to Vietnamese and Indian enterprises. This element drove Vietnam's rice export in 2012 to soar to a record of over 8.0 million tons, highest exported volume ever. China's policy Year 2011 and 2012 witnessed a race in subsidy policies in rice production of many countries. Beside above Thailand, it was a China. The objective of China's subsidy policy was not only to push up productivity, but also to lift its price to a higher level. According to statistics of FAO, China's Indica, in September 2012, rose by 11%, to US \$625 per ton while 5% broken of Vietnam was just US \$451 a ton, even fell to US \$446 a ton in November of the same year. Meanwhile, Thailand's 5% broken was offered at US \$598 a ton [27]. It made sense for China to take advantages of cheaper prices, from Vietnam typically, with some 1.64 million tons imported in the first 8 months of 2012. It was said that Thailand has ceased supplying China because Vietnam's cheaper prices attracted the bulk of Chinese buying. Beside Myanmar, Vietnam's rice accounted for a large proportion shipped to China market. Indeed, the average price of rice imported from Vietnam into China was only US \$410 per ton in the middle of December, while rice produced here in China was \$650 per ton during the same time. Consequently, China in 2012 emerged as the biggest importer of Vietnam's rice. Discrepancy in price was strength for Vietnam to export to

this giant market in the context of fierce competition. At this rate, China promised to be potential of Vietnam's rice export in the future.

2. 3. Remarks on real situation of Vietnam's rice export

2. 3. 1. Strengths and causes

2. 3. 1. 1. Rice export hit a record high in volume

Over the last five years from 2008 to 2012, exported quantity showed a rapid upward trend, a year-by-year increase, rising from 4.7 to over 8.0 million tons. This was the highest amount ever exported by Vietnam, far surpassed forecasts of FAO in mid 2012 that only 7.2 million tons would be the total largest volume Vietnam could export in the same year. One important thing to note is that around October 2012, Vietnam overran both Thailand and India to earn the title as world top rice exporter, but was still the runner-up in the end. This is considered a big success for Vietnam's rice sector after a year full of changes in the financial situation and rising agricultural material costs together with tough rivalry from low-price suppliers such as India, Myanmar, Pakistan in low and middle grade rice segment.

Causes

An increase in rice production in 2012 directly or preferential natural conditions indirectly. It was favorable growing conditions mentioned in earlier of this chapter that facilitated farmers in their jobs. Ideal weather, especially in the South of Vietnam allowed to paddy growers to conduct two farming crops or maximum three incessant crops in a row with bumping productivity each which resulted in high produced output and in turn high

export volume. As reported by the MARD, total output production was over 1.0 million higher than in 2011. This means that merchandise rice output outpaced 7.7 million tons targeted by the VFA. This number was attained by endless efforts of the whole national agriculture sector. Regardless of obstacles in odd production scope, autarky as well as a rapid rise in agricultural material price, etc, farmers nationwide struggled to get area under cultivation increased by 98,000 hectare with paddy output up to 6-7 tons/hectare/crop. These altogether raised total productivity by 3% from the last year which was an important impetus in boosting exported volume in 2012 [4]. An appropriate and timely management of the VFA. In the first ten months of 2012, Vietnam's rice export reached 6.5 million tons, 2.7% higher in comparison with the same period of last year. Since orders kept rising in the last two months of the year (Indonesia alone ordered 300,000 tons) and upon realizing that there was profuse domestic supply together with partial decrease in stocks of India, the VFA encouraged enterprises to boost export as much as possible, in order to soon approach goal of exporting 7.7 million tons. The result is Vietnam exported much more than what the country had expected in 2012 [44]. Positive influences from pledging policy of Thailand. The rice scheme of Thai government got door opened widely for Vietnam's rice export. An obvious outcome of the scheme was that Thai rice would be less competitive than Vietnamese rice in global market, over US \$800 a ton whilst Vietnam's was US \$180 a ton lower. Since the former and the latter were closely similar in terms of quality, a slip on world rice market of Thailand would result in heaven-sent opportunity for Vietnam. Consignments of rice exports have been continually leaving

Vietnam's ports for other countries, contrary to predictions about the world's quiet rice market in second half of 2012. Besides, there were some that used to purchase Thai rice such as Singapore, Hong Kong, Indonesia, etc and even Thailand's exporters bought rice of Vietnam for gaps in re-exporting to others. Therefore, Thai's scheme unexpectedly lifted exported volume of Vietnam in 2012 to a peak. China's bad rice crops together with its subsidy policy. Although China topped the list of rice production, the country had to import a large quantity of rice due to booming consumption each year. When domestic demand was not met and in the context of Thai rice price kept going up, in 2012 China approached Vietnam where price is 20% lower. Moreover, processing enterprises of China in 2012 boosted up rice import for gains in large difference in domestic and foreign price, as a result of subsidy program of its government China used to import from Thailand for years before approaching Vietnam. Vietnam was majorly chosen instead of India or Pakistan mainly because the former's rice was a little bit cheaper than others. If China purchased rice from Vietnam, it would save much shipping fees as compared with purchasing from Pakistan and India, given the same rice quality. In 2012, China was a top buyer of Vietnam's rice. Out of approximately 2.6 million tons purchased, rice originating from Vietnam was up to 2.1 million tons, made up over 26% of Vietnam's rice shipped.

2.3.1.2. Rice export by varieties showed a positive adjustment

There were bright changes in proportion of Vietnam's rice export within recent years. If for long, Vietnam has been known as a low-grade rice supplier with over 70% of 25% broken was exported, then for the first time,

high-quality rice exceeded 48% out of total rice export in 2012. A skyrocket by 80% from 2011 in exported 5% brokens was a good sign and reflected serious endeavors of the government, the VFA and relevant parties in advancing quality of exported rice to the whole foreign market.

Cause

A shift from Thailand to Vietnam. Once again, it was Thai rice pledging policy than transferred their customers to Vietnam. Their large markets such as Asia and Africa purchased high-grade rice of Vietnam due to a more competitive price, given equivalent quality. Price at US \$620-630 a ton was of Vietnam's 5% brokens while Hom mali, a high-quality rice of Thailand, was offered above US \$800 a ton.

2. 3. 1. 3. A favorable conversion in export contract types

Year 2012 witnessed a cutback in government-to-government contracts, replaced by large amount of commercial contracts. If the former accounted for over 50% of total exported rice in 2011, it dropped to just 20% in the next year, the remaining 80% was for commercial contracts. This adjustment in contract types represented active responses of Vietnam's exporters to policies of importers, especially China, the Philippines and Indonesia. They actively sought new markets in replacement to a fall in traditional importers. Large amount of these commercial contracts was with China which made the country as the top rice importer of Vietnam in 2012. The Philippines and Indonesia, used-to-be big governmental importers of Vietnam's rice, were behind China as a result of a reduction in inter-government contracts.

Cause

Positive impacts of foreign policies. Firstly, thanks to Chinese rice subsidy program for farmers as mentioned previously, Vietnam had bigger chances in shipping more rice to this large commercial market, around 2.1 million tons in 2012. Meanwhile, traditional markets of Vietnam aimed to be food self-sufficient which resulted in gradual decline in purchased amount or inter-governmental contracts.

2.3.2. Weaknesses and causes

Though there are many impediments in Vietnam's rice export since 2008, the thesis states just some prominent shortcomings in order for thorough analyses together with specific remedies in chapter 3.

2.3.2.1. A sluggish increase in value was not in line with a robust surge in volume

Rice export of Vietnam has seen significant rises in quantity while that in value was quite low and sometimes not corresponding to quantity. It was the fact that although Vietnam ranked two in global rice market, the country bottomed compared with Thailand and India in terms of exported value. In 2012, while exported quantity reached a peak of above 8.0 million tons, 12.7% increase compared with last year, value lift by just 2.7%, stood at US \$3.8 billion. Besides, 2009 witnessed a negative growth in value whilst shipped volume soared by 27.7%.

Causes

A plunge in export price. Average price in 2012 was US \$475 a ton, lower by 8.8% from 2011. Booming supplies, huge stocks, tough rivalry among

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suppliers and declining demands altogether made global price in general and Vietnam's price in particular to fall. Vietnam's rice export since the end of 2011 was under fierce competition with India, a giant supplier with over 20 million tons of rice willing to empty their huge stock at a very competitive price. India's target destinations were mainly traditional markets of Vietnam. In addition, there were some emerging low-price supply sources such as Myanmar, Pakistan as mentioned previously. Big rice importers, Indonesia, Philippines, etc showed signs of purchasing less. These drives put high pressures on world rice price to fall which in turn pulled down export price of Vietnam. Aside, a decrease in government-to-government contracts which were replaced by scattered commercial ones at low export price caused a reduction in rice export efficiency in 2012. Bottom in price, top in volume. It was forever a paradox in exporting rice of Vietnam. When quantity peaked, price bottomed. Upon seeing a dip in export price together with an upcoming booming crop, then enterprises rushed to massively export. If at the very first month of 2012, rice export in volume at its lowest, 275 thousand tons, export in value topped at US \$550 a ton. Till July 2012, an upside down situation happened. Exported volume was up to 765 thousand tons but at the extremely low price, US \$395 a ton [28]. Consequently, no matter how much rice exported, value gradually, step by step inched every thousand dollars. As a result, volume and value rarely went in the same rhythm. This problem was forecasted to show no sign of stop in the next few years. Lack of rice branding. On the same farmland, paddy varieties varied. For collecting enough amounts ordered by exporting enterprises, merchants had to purchase from many farmers, then mixed them together. As a result, upon

rice reached exporting enterprises, they were in a mass of different varieties which was no way for enterprises to get them branded. Therefore, a general name of Vietnam's fragrant rice was worth just US \$620 per ton while a branded rice, 100% B Hom mali of Thailand, was quoted at US \$1, 000 a ton, 100% B Pathumthani was at US \$910 a ton [20]. Additionally, a great number of Vietnam's enterprises were short of knowledge in conjunction with experience and financial capability regarding to brands which results in failures in building recognized brands. Without brand, Vietnam's rice was definitely squeezed and forced by international importers to reduce its price.

2. 3. 2. 2. Soaring exported volume failed to benefit farmers

What did Vietnam's farmers get from a rocket in rice export? It has become a hot topic of discussions recently. The title as world's runner-up and a record high in shipped volume earned Vietnam's peasants almost nothing. They were in poverty as always. Although farmers worked more, they got less. Being among top positions turned out to be insignificant as a majority of rice growers remained poor. Provided that a guarantee of 30% profit for farmers was a success, still their daily income was below US \$1 per capital. This problem has existed for such a long time since 1990s..

Causes

Small-scale paddy cultivation. Though the proposed gain was at least 30%, each household owned some thousand square meters to cultivate, then less profits were understandable. There was time when minimum profits of farmers were not ensured. After a favorable 2012 winter-spring crop, farmers had to sell fresh paddy immediately (usually at lower than market price) to

pay off debts and prepare for the next summer-autumn crop. Obviously, farmers who had less than one hectare faced great difficulties. To be prosperous, a farmer needed to grow more than 3 hectare of rice. Counter rice collecting mechanism via a group of brokers, traders and lack of storage. It was the fact that farmers had no bargaining power since they are at very end of export process. Normally, it had to be farmers or the government who set price for paddy first then enterprises on that basis offered export price.