

# [Vietnams rice export by varieties economics essay](https://assignbuster.com/vietnams-rice-export-by-varieties-economics-essay/)

[Economics](https://assignbuster.com/essay-subjects/economics/)

Source: Self-compilation of author from annual reports on value and items exported, General Statistics Office2009 underwent financial crisis as well as economic slowdown which somehow affect Vietnam’s rice export. However, thanks to the flexible policies of the government, Vietnam overcame such barriers and achieved an evident rise in volume, to around 6. 0 million tons, increased by 27. 7% against previous year. One sad thing was that there was a nearly 6. 9% reduction in value which drove it to the bottom of US $2. 7 billion. Decline in rice price could be the core reason [24]. Next, 2010 was crowned as " a golden year" of rice export in term of high value ever. The year’s turnover passed landmark of US $3 billion for the first time in rice export history beside the highest 18. 5% rise in value since 1989. Yet, there were still many concerns in 2011. According to economic specialists, exporting rice of Vietnam in 2011 relapsed the disease called " boosting exports when price down" and " lessening when price up", which once appeared in three consecutive years since 1998 and lately in 2008. From the VFA’s data on quarter basis of the same year, there was time when export price of second quarter at the bottom US $465 a ton, but volume hit a record of 2. 1 million tons, making up 28. 9% of total volume. On the contrary, in the last quarter, only 1. 2 million tons was traded at the top price US $562 per ton, accounting for just 17. 4%. If done in another way, on a term basis, then within the first eight months of 2011, when export price was offered at just US $476 per ton, exported amount was up to over 5. 3 million tons, 74. 7% of total volume. Meanwhile, with extremely high price at USD 547/ton, the country shipped 1. 8 million tons, accounting for around 25. 3%. The source of this situation could originate from incorrect forecasts of Vietnam’s enterprises on world prices. Since the end of 2011, almost enterprises believed global rice would surge due to new rice policy of Thailand (mentioned previously). Then, they started to speculate which drove materials’ price to go up and stocks are always at their fullest. However, these speculators could not foresee an emergence of low-price suppliers, India and Myanmar that appealed Vietnam’s customers. As a result, although world price did rise a little bit, purchasers were sparse leading to a decline in shipped amount. A 2. 9% increase in amount and 15. 6% lift in value were mainly from shipments at early 2011 [18]. 2012 once again broke record of 2011. A total volume is unexpectedly up to 8. 0 million tons, 12. 7% higher than 2011. Core reason was from Thailand apart from favorable harvests which altogether led to a sharp increase in 2012 exported volume regardless of negative forecast of the FAO. However, 2012 was not a flawless year to this strategic produce. Although there was approximately 13% progress in amount, nearly 3% rise in value was spotted. Moreover, rice export in 2012 underwent the same phenomenon in 2011 [3] [45].

## 2. 1. 2. Vietnam’s rice export by price

## Figure 2. 2: Price of exported rice, years of 2008-2012

Source: Self-compilation by the author form statistics of table 2. 1Exported price was the average of all variations within a year, no distinct among varieties. There has been a price fluctuation during past five years, without any certain rule. Starting at a peak in 2008, then price reached a bottom in the next year and gently recovered to a higher level in 2011 before fall again in 2012. 2008 saw the highest price ever in this five-year period with US $617 a ton. Average price of the first eight months was US $606 a ton, just US $1 lower than Thailand’s. Especially in November of the same year, Vietnam’s price was equal or even higher than rival Thailand by US $20-30 per ton which was a bright signal for rice export picture of Vietnam. Explanation came from a series of huge governmental shipments to the Philippines and Nigeria [5]. Additionally, there was another external factor. It was the lack of information relating to supply-demand of global rice raising concerns on world food crisis. The outcome was that till the end of April 2008, global rice price tripled compared with the beginning. Being affected by world price, Vietnam’s price rises too. Approaching the next year, shipped price reduced considerably by US $167 a ton from 2008 record, then total loss would be up to over 1 billion dollars (US $167 a ton x 6 million tons). One thing to note is that 2009 price continuously dropped from beginning of the year. If price of 5% brokens in December, 2008 was US $517 a ton then in May next year, it reduced by 31%, at US $358 a ton. The same thing happened to 25% brokens, quoted at US $335 a ton from original US $466 a ton. Though price recovered a bit in remaining months, it was still lower than beginning of 2009 [22]. Price variation in 2010 was too different from other years. It surged at the beginning, then dipped in the middle and finally recovered at the end of 2010. There were more and more export enterprises at a loss in middle of 2010, mainly because export contracts were signed when price down, but when unexpectedly went up upon collecting rice for export. Export price bottomed around August. In 2011, price reached the near-record point, at US $521 a ton, up by 12. 3% compared with 2010, just lower than " the hot year" in 2008 (USD 617 a ton). It was an optimistic sign since world’s rice price index rose just 10% against 2010 [10]. However, there was a variation in price during 2011. Within just three weeks of January, price of 5% and 25% brokens sharply fell from US $520 and US $498 a ton to US $500 and US $480 a ton respectively. Reason was due to huge supply as either Mekong Delta was in good harvest or over 4 million tons of Thai rice would be in world market in the couple of months. In response, the VFA instructed by the government stockpiled 1 million tons of winter-spring crop. This action stabilized its exported price by a little or much since Vietnam currently ranks second in world rice market. Then, price turned out to be more stable and increased by 10-15%. Sadly, export contracts in 2012 could not retain high price of 2011. Quoted price is lower than 2011 and kept falling in first months of the year. It was down from US $521 a ton to US $475 a ton, by US $46 a ton. A reduction in export price was because big suppliers, Vietnam, Thailand, India all had good crops. Vietnam had approximately 1. 1 million tons abundant from good harvests which created extreme pressure on enterprises to deeply cut price in order to boost export as they could not stock them [7]. World rice supply was in larger excess than ever with joins of Cambodia, Myanmar, beside two available giants, Thailand and India.

## 2. 1. 3. Vietnam’s rice export by varieties

From 2008 to 2012, no optimistic change in exported quality was spotted. Vietnam still sold not much added-value rice to partners in Africa and some in Asia. That was because a vast majority of export contracts these years are government-to-government with the Philippines, Cuba,…which mainly purchased 10% to 25% brokens.

## Figure 2. 3: Varieties of exported rice, year of 2012

Source: [1]If there was no space for Vietnam’s high-grade rice at that time, then things were different in 2011 which was shown by a relative increase in quantity of 5% brokens mainly exported to Hong Kong and China. There was no sign that this trend would stop in 2012, for one thing, Vietnam’s high-class rice was much more competitive than others, especially Thailand’s. As per illustration in figure 2. 5, 2012 continued trend of the previous year with a growth in high-grade rice export, by 79%, reached 48% of 5% brokens. The reason was due to a shift of that variety demand from Thailand to Vietnam. Import markets were in West Africa beside Hong Kong and Chin. Exported volume of average-and-low-quality rice falls, accounts for 21% and 11% respectively. Considerable decline was because prices of these varieties failed to be competitive enough to compete with India’s and Pakistan’s, especially the powerful former with huge stocks, over 33 million tons since 2011. Another cause was possibly resulted from a fall in demand of the Philippines. Certain specifications exported rice could be seen in annex 2.

## 2. 1. 4. Vietnam’s rice export by markets

## Figure 2. 4: Structure of rice export to major regions, years of 2008-2012

Source: Self-compilation by author from annual reports on rice sector, AGROMONITORThe above chart illustrated percentage changes in Vietnam’s’ rice export to three big regions, comprising of Asia, Africa and Latin-America. It was the fact that its rice was mainly consumed in Asia (from 58% to 70% each year) where traditional markets such as the Philippines, Malaysia, Indonesia, etc still appeared to be among important destinations since 2008. Followed is Africa with exported volume in 2010 to hit a peak of 24. 2%. The same as Asia, Africa would be Vietnam’s potential market with increasing number of importers annually. Then, Latin-America ranked third which purchased less as the percentage in quantity seemed to fall every single year. Table 2. 2 on the following page describes three largest single rice export markets of Vietnam since 2009 in volume and value. (Annex 3, 4 and 5 shall provide more details regarding to volume, value and percentage changes of Vietnam’s top fifteen biggest importers between 2010 and 2012). There were some major changes in Vietnam’s rice export by markets from 2008 to 2012, where gentle reduction in amount purchased by traditional customers was spotted while emerging markets tended to import much more. 2008 marked the expansion of Vietnam’s export markets, up from 63 to 128 countries, but a majority is to the Philippines, Malaysia, Cuba and Singapore where the Philippines continued to take a chief role in importing from Vietnam, not only in 2008 but also in 2009. It purchased nearly 1. 7 million tons, stood at US $917. 1 million per ton in value, accounted for 34. 4% of turnover, followed by Malaysia and Cuba with specific statistics as in table 2. 2. In 2010, the Philippines still topped the list of big importers, account for 21. 4% of total volume and 29. 17% of turnover. Indonesia replaced Malaysia to be the second and followed by Singapore with around 700 thousand tons and US $346 million; 500 thousand tons and US $227. 8 million respectively. Beside markets with strong rise in two aspects (consisting of Indonesia, Hong Kong, Taiwan, etc), the rest showed a downward trend in comparison with those of 2009. They were Spain, Ukraine, Italia, etc [21].

## Table 2. 2: Vietnam’s rice export to top three markets, years of 2009-2012

Unit: million tons, USD million

## Rank

## Importers

## Volume

## Value

20091Philippines1. 7917. 12Malaysia0. 6272. 13Cuba0. 4191. 020101Philippines1. 5947. 42Indonesia0. 7346. 03Singapore0. 5227. 820111Indonesia1. 91, 019. 32Philippines1. 0476. 33Malaysia0. 5292. 120121China2. 1898. 42Philippines1. 1475. 33Indonesia0. 9458. 4Source: Self-compilation by author from Thời báo Kinh tế Việt NamIndonesia, the runner-up in 2010 became leader in the next year, followed by the Philippines and Malaysia. The happiest point was that beside familiar partners, Vietnam also shipped to new markets in 2011 including Bangladesh, Senegal, Ghana, Iraq, USA,…Among them, Bangladesh, Senegal, Ghana witnessed an increase in value exceeding US $100 million. In contrary, value dipped in following countries: East Timor, Taiwan, South Africa, Philippines, Russia and Poland [25]. An unforeseen thing occurred in 2012 where China beat all previous champions to be the number one rice importer of Vietnam, far different from specialists’ forecasts. While initial prediction for China’s import volume was just 400 thousand tons, it turned out to over 2 million tons that year. Government intervention was a core explanation for this event. Under which China continued its current policy to raise the domestic prices of paddies while global prices were too low, which was a golden opportunity for Chinese enterprises to purchase lower-price rice massively. As in table above, China’s rice import in amount and value is 2. 1 million tons and US $898 million respectively, with a 6. 7 fold mount in volume and a 5. 6 fold rise in value. However, this sharp increase soon had to offset declines in either volume or turnover of traditional customers including Africa, Indonesia, Singapore, the Philippines [7].

## 2. 2. Analysis of factors affecting Vietnam’s rice export

## 2. 2. 1. Factor conditions

Natural resourcesVietnam is a country with tropical climate, average moisture is ranging from 84-100% together with rainfall of 1, 800-2, 000 mm annually which is an ideal condition for getting paddy raised and flourished in Vietnam. Agriculture accounted for 22% of GDP, 30% of exports and 60% of employment. Up to now, paddy is raised nationwide. There are two main crops in the North (subtropical zone), winter-spring and seasonal crop. Good weather conditions in the South allow it to have an additional crop, namely summer-autumn. There are two key farming regions including Red River Delta and Mekong River Delta in the North and South respectively. However, the latter is the largest granary as well as the most active in Vietnam’s rice export (made up to 2/3 of total area and 70% of the whole exported quantity per annum). Mekong River Delta has its area of over 44, 000 square kilometer and an interlacing system of rivers favorable for sea transport and irrigation. Especially, agricultural land is made up for additional alluvium from Mekong River after floods as usual, which is thirteen fold larger than Red River Delta [26]. These advantages have been contributing in the stability and a progressing trend of rice output together exported volume each single year. Take 2012 as a case. Famers in this delta had three consecutive bumper crops with an estimated a surplus of 1. 1 million tons from 2011, which somehow caused a surge in rice export that year. Human resourcesApart from natural conditions, Vietnam has another fairly advantage in terms of workforce. Production of rice for export was a complicated procedure with many stages from breeds study, sowing,…., packing and loading on board that requires quite large amount of employers As being a country of young populations and over 50% of them at their working age, Vietnam is considered a country with ample labor force. Besides, about 70% of Vietnamese lived in countryside and a majority of them makes their living by growing and selling crops where rice accounted for 45% of agricultural production, Vietnam could easily meet aforementioned claims. Likewise, since machinery is not widely applied in rice production, huge workforce could save more costs. Nonetheless, the majority of rice growing household in Vietnam was cultivating on a scattered and small-scale fields which potentially cause disadvantages in collecting rice and registering brand, for instance.

## 2. 2. 2. Demand conditions

- VarietiesIn the past winter-spring farming crop, paddy production by varieties basically followed instructions of the MARD. Subject to different land features, there would be a variation of varieties cultivated. In regions producing three crops per annual, OM6162, OM4900, OM6932, OM8923, OM8232, OM8108,…were preferred since they were all short maturities varieties with high protein and low amylase content. Meanwhile, results showed that OMC8108, OM8232, MTL547, OM9921,… were suitable with tough growing land since they had strong potential of high productivity with fairly good quality and strong tolerance of unfavorable farming conditions. As for regions of two crops or flooded in winter-spring, OM1348, OM2496, OM1352 were cultivated hopper and yellow dwarf resistance. Although yielding high productivity at low costs, OC10 was cultivated in a restricted area of large sample fields as it was a low-quality paddy, replaced by OM6162, OM4900, OM8923,…which produced high-grade rice and higher productivity [8]. Generally, varieties were uplifted though IR50404, a low-grade rice variety that yield extremely high productivity at very low cost, was sowed in a large scale still. It resulted from high preferences of low-grade rice of Vietnam’s traditional import partners a long time ago. Nevertheless, there has been escalating demands of high-grade rice recently. Accordingly, continuous study of these varieties of fragrance, premium, saline and acid sulfate tolerance was a matter of importance and should be developed.- BrandsDue to the fact that income peer capital of Vietnamese was of low and average level and some were still in lack of food, they did not take brand seriously upon choosing rice. This partially resulted in brand shortage of Vietnam’s rice which in turn presented biggest challenge for the sector when exported to foreign markets. Rice price was in strict relation with its quality. Usually, consumers took brand as a basis for evaluating commodities’ quality. After all, those without brand would definitely lose, said by Richard More, an American brand specialist. This complement was completely true in case of Vietnam. Vietnam’s rice exported to world market has to share a common name of " Vietnam’s white rice" which caused great difficult to rice export when its quality was as fairly good as others’. Another pity fact was that a bulk of Vietnam’s rice was exported via foreign intermediaries. Oversea traders shall import rice from Vietnam, then carried out processing and added-values procedure to transform Vietnam’s rice into their own rice with a registered brand name. Just now, there has been many Vietnamese organizations, units,…trying to get their rice protected. Typically, Tien Giang Food Company shipped some branded high-grade varieties such as 9 Rong Vang, Huong Viet, Nang thom Cho Dao,…and has gradually built faith in international markets. Still, these brand building activities were just at their very early stage and did not get enough investments. Hence, actions were needed to be done so as to raise status of Vietnam’s rice in global playing field.

## 2. 2. 3. Related and supporting industries

- Research institutionsA step-up in paddy productivity was owing to deepened awareness of farmers in science technology and works of research institutions. In recent years, farmers got technical supports from related organizations and offices from regional Department of Agriculture and Rural Development together with Agriculture Extension Centers, etc. Many advanced methods were successful applied in growing paddy such as cell technology, DNA-recombination technology, genetic technology and so on. By the same token, increased growing areas carried out Global GAP standards which altogether resulted in the advancement of varieties as well as rice quality. Also, these technologies allowed farmers in some regions to work on the third farming crops for a higher productivity. For this to be done, there was rising number of universities, institutions,…taking part in study of supporting technologies for growing paddy, particularly measures to adjust to climate changes. Department of Crop production (MARD) successfully mixed breeds of GKG8, GKG15, OM4488, OM11267, OM11268,…which were results of a long study time. They were all high-quality varieties of strong resistance to blast diseases, 6-7 tons/hectare/crop productivity and were believed to replace IR50404 [11].- StockpilesThere were three official forms of rice stockpiling: reserve in citizens, enterprises’ circulation reserves and national reserves, where the middle was the fundamental mechanism for stabilizing of paddy and rice price as it holds the largest stock compared with the rests. Nevertheless, Vietnam has been long in short of stockpiles, not mentions their quality. Not many, even no farmers had large-enough warehouses for stocking their paddy after harvests. As a result, they sold almost their fresh rice to traders for preparation of upcoming crops and were definitely extorted by these traders. It was reported that 84% of farmers in Cuu Long Delta, the largest rice source for export, did not have their own storage facilities. The major cause was that those farmers are in remote areas and do not have enough financial capability to afford for warehouses. Just 37% of the rest (16%) invested their own money for own warehouses, 46% used money from bank loans, and 17% used loans from sources outside the banking system to build storage facilities, according to Pham Van Du, deputy head of MARD's Department of Plant Cultivation [34]. The same thing happened to export enterprises. Few of them had stockpiles. Once the government requested them to stock paddy in accordance with temporary reserve scheme, they would approach millers, polishers or traders. As those people failed to have stockpiles, they did not provide enough quantity for once collection, then exporters had to mix all rice for a full contracted amount which led to inconsistent quality that affected brand building of export enterprises. (details shall be discussed the in next part).- Distribution channelFor a long time, there have been many parties involving in paddy and rice distribution system from production to export. They varied from farmers, consolidators to millers, polishers and export enterprises,... Figure 2. 5: Distribution channel of rice ConsolidatorMillersEnterprises without export contractsEnterprises with export contractsWholesalersRetailersConsumersExportFarmersSource: Report on rice sector year of 2010, MARDAs seen from above figure, for rice to be exported to international markets, it had to pass many middlemen which definitely took away benefits if farmers. This process to some extent gave an obvious explanation why farmers still endured poverty without regard to bumping harvests every single year.- Model of four-factor integration