

Rice production in long an, vietnam



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Technology in rice production of Long An is still simple and is only able to produce raw rice, while producing parboiled rice is becoming popular in the world.

Meanwhile, knowing the importance of processing, Thailand invested a lot in building processing factories. 90% of rice factories are at a large scale and equipped with modern technology in Thailand (thai-hommairice, 2013).

Meanwhile, there are still a large number of small processing factories in Long An and rural households are not equipped with standardized warehouses or advanced technology for processing rice after harvesting in the field so that the uniformity of rice quality are not ensured in different consignments, which is one of core reasons for low prices of rice for export to the Philippines. Drying depends on climate conditions and there is still a lack of totally applying drying equipment so that drying is carried out manually in some communes. Some households have to scatter rice on roads for drying. Therefore, the percentage of breakage and impurities is high. On the other hand, summer-autumn crops are in the rainy season, which means drying is very difficult to be conducted. There is a high possibility of increasing moisture content.

In Thailand, there are two processing systems: milling factories and processing systems of exporters. Milling factories are equipped with modern machinery and received financial support from Government for storage. Processing systems are at a large scale with modern warehouses, which are near ports for loading rice consignments. In Long An, there are also two processing systems: small milling factories with no attention to quality of rice and processing systems of exporters. However, these processing places are

very far from Sai Gon port, so transporting costs are high. Recently, under the large scale paddy field model, rural households who participate are provided with technology for processing and financial support, but the model has not been greatly expanded yet.

Additionally, Long An companies lack technology of processing products made from rice. Many businesses in Long An choose to keep a large bulk of rice in storage and wait for peak seasons to gain optimal profits.

Nonetheless, techniques in preservation are poor and low standards of warehouses degrade rice quality. Besides exporting white rice, Thailand applies technology to export rice flour, rice noodle, rice biscuits to the Philippines in order to serve various demands of Filipinos.

Preservation

In addition to types of paddy seeds, after harvest steps are also key factors determining the quality of rice. For example, if grains are not dried in a timely manner will result in the higher moisture content and the higher level of yellow grains. Also, if rice is stockpiled for long and inappropriately preserved, the quality will become very poor. According to the Report of Rice Production between 2008 and 2013 of Long An Department of Agriculture and Rural Development, rice for exporting to the Philippines usually fails to conform to the moisture standard because most warehouses, except those of large businesses, are of poor quality. Meanwhile, the Department of Foreign Trade has set a higher standard for Thai rice with a view to winning the Philippines tender and to increasing the premium rice's value in the international market. The new standards require all types of Thai jasmine rice exports to have moisture content below 14% (oryza, 2014).

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As for preservation, despite the higher investment in technology, the number of companies applying hi-tech machines for protection from insects, termites, and so on is still small. Thus, old-fashioned technology and a lack of warehouse controlling are one of the main reasons for low quality of rice in Long An.

Especially, after packaging, preserving rice products is one of the crucial steps to ensure quality. Thus, it is essential that factories are always looked after. Companies have to ensure the quality of warehouses which means having treatment for insects and termites in a timely manner and also keeping warehouses as cool, dry and clean as possible.

Generally speaking, rice enterprises in Long An are following the above steps to prepare a supply of rice products for export. However, in reality, rice-growing households and cooperatives usually pre-process and preserve raw grains right after harvesting. Little raw rice is sold directly to companies.

Hence, there is much difference in the quality standard of rice grains.

Farmers are usually concerned about a fall in prices although they achieve a bumper crop. Many businesses cannot meet the market demand due to their lack of capacity and technology in processing, leading to a sudden drop in prices. Therefore, Long An companies cannot control the prices for export and have to depend much on the world's prices and export prices of Thai rice. In addition, both rice growers and enterprises suffer from much damage because of scarce and misleading information about the rice market volatility. The expansion of rice-growing areas does not go with the construction of new processing factories and available factories are still using outdated equipment, causing losses when exporting to the Philippines.

Rice prices for export

In general, prices of rice for export to the Philippines of Long An have still much been dependent on the world's rice prices. The prices of Long An's poor - quality rice, especially of 15% and 20% broken rice, are lower than those of other countries, especially Thailand as always. Particularly, the aromatic rice always enjoy higher prices than the others, their prices are, on average, three times as expensive as the 20% broken rice. However, Long An still mainly focuses on exporting rice of medium quality.

As can be seen from the table, the average export price of Long An to the Philippines has nearly been lower than that of Thailand. In the period between 2008 and 2009, thanks to the food crisis in the world, there was an upsurge in the average export price of Long An to the Philippines by 62.72USD/ton. However, since 2009, after the world's rice market was recovered, the rice supply has become abundant and the world's rice price has been lowered, leading to a reduction in prices of Long An rice. This evidence shows that Vietnam in general and Long An in particular is totally dependent on the world's demand and supply and has no control in pricing. Meanwhile, Thailand is granted a higher allocation of rice exported to the Philippines under CSQs program as mentioned in Chapter 1. The average export price of Thailand has always been higher than that of Long An although the difference has been getting smaller. Thailand always keep an active role in the context of the world's instability. Especially, with the leading position in the world's rice export, Thailand' rice price levels make a big impact on the world's prices. On the contrary, Long An rice has been inferior and accepted to export at lower prices than the average import

prices of the Philippines. There are two reasons for the difference in prices between Long An and Thailand. First, quality of Long An rice is lower than that of Thai rice. Second, Thailand is famous for its distinguishing brand names such as Thai Hom Mali Rice 100 A and B, Thai Pathumthani Fragrant Rice, etc. while Long An rice is only known as Vietnamese white rice.

Factors affecting the price fluctuation

- *A relationship between demand and supply* : Like all other commodities, the relationship between demand and supply has a direct impact on the rice prices for export. Rice is always staple food to Asian countries including the Philippines. Since Long An began to export rice, the number of rice for export has consecutively picked up. However, prices of rice do not depend on the volume of rice output for export. It is the volume of rice imported by potential markets which are determinants. It means the fluctuation in importing countries' demands results in the fluctuation in prices for export. Once importers reduce the number of rice output needed, the prices for export will be decreased as a result.

- *Production and harvesting periods*: Production and harvesting periods are associated with the relationship between demand and supply of rice as well as the price fluctuation. In fact, periods at which rice prices reach their peak do not coincide with exporting periods and vice versa, rice is exported most when prices go down.

Generally speaking, the amount of rice for export increases and decreases through an average cycle of two or three months. Peak periods of exporting rice are in dry season, especially in winter-spring crops and prices of rice are

fairly low at that time. The cycle also depends on climate and weather. Long An often face small natural calamities such as floods, storms, drought, etc. These will result in great harvest failures, leading to dramatic reductions in volumes of rice for export. These events happening in sequence will put Long An companies under pressure to suddenly increase prices for export, which annoys traditional Filipino importers. The cyclical pattern of the rice volumes lead to the cyclical fluctuation of both domestic and export prices of Long An province. Importers from the Philippines are taking advantage of the cycle of rice amounts and forcing exporters from Long An to offer them the best prices possible. As a result, the rice export turnovers are negatively affected.

- *Payment ability of Filipino partners:* Although the Philippines is one of Long An's traditional markets, Long An rice businesses usually base on Filipino importers' payment ability to sign exporting contracts with them. The Philippines' ability to pay in foreign currency is limited. Particularly, in case of economic or financial crisis, the payment ability of the Philippines will be worsening. This ability will affect the relationship between demand and supply of rice, making rice prices change.

Rice brands for export

In the past, Long An rice was exported to the Philippines under Government contracts, so there was no distinguishing brand names but “ Vietnamese white rice”. Nowadays, with the development of private contracts, rice businesses in Long An have realized the importance of brand positioning and have begun to invest more money in advertising their images in addition to upgrading quality of rice and keeping strong relationships with loyal customers. Needless to say, unknown rice brands are holding back the

development of rice export to the Philippines. Some small enterprises still have to sell rice products to foreign intermediaries instead of directly exporting to the Philippines. After purchasing rice from companies in Long An, those foreign businesses will make some changes and turn rice products into their own property with their own brand names. By that way, Long An rice companies are losing their own intangible property and make itself inferior to other competitors.

Although Long An is famous for traditional fragrant rice types such as Nang Thom Cho Dao, Tam Thom, Tam Xoan and so on, it has not maximized its potential in exporting this type of rice for larger profits. When exporting to the Philippines, fragrant rice of Long An does not have specific names for every type. Long An only has brands of white rice, long grains along with percentage of broken rice; for example, 5% broken fragrant rice at 620 USD/ton in January 2014. Meanwhile, Thailand exported rice to the Philippines with distinguishing names relevant to types of grains such as Thai Hom Mali Rice 100 B at 1, 000 USD/ton, or India is famous for Basmati at 1, 045 USD/ton (sokhcn, 2014). Recently, the Department of Foreign Trade has set a higher standard for Thai Hom Mali rice exports to increase the premium rice's value by clearly indicating the standard of their rice on the package such as “ Prime Quality Thai Hom Mali Rice” or “ Thai Hom Mali Rice” (oryza, 2014).

Distribution channels for exporting rice

Distribution of rice products exported to the Philippines takes place by means of channels. There is a number of intermediaries in Long An who make it possible for rice producers to deliver rice commodities to end users.

These intermediaries are collectors, traders, retailers, wholesalers, agents, etc. that make rice products transported quickly and available for exporting to the Philippines timely.

Thanks to strategies of Long An under large scale paddy field models, there are more and more contracts signed between rice growers and businesses specialized in procuring and processing rice. This type of contract is popular in other provinces in MRD area and helps rural households keep producing under terms and conditions agreed by both parties and reduce short-term risks including supports of capitals, fertilizers, technology, etc. Nevertheless, farmers have to become much dependent on rice businesses.

The following are the important distribution channels of rice exported from Long An to the Philippines. Members participating in trading rice products include producers, collectors, retailers, traders, foreign intermediaries, exporters and importers. These members have to make a close relationship with each other to make the distribution process smooth and fast.

From the diagram 2. 1, it is seen that the export activity is divided into two steps. For the step of rice procurement, rice is transferred from producers to exporters by some intermediaries; or it is also distributed directly to exporting companies. For the step of rice export, some exporters still depend on foreign intermediaries such as Hong Kong to penetrate into the Philippines market. However, thanks to the Philippines' open door policy recently, there is a tendency that rice commodities are directly exported to Filipino importers through private export contracts.

There are three types of rice distribution channels in Long An:

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- Channel 1: Producers/ Farmers – Exporters – Importers: rice is exported only through only one intermediary “ Exporting companies”

- Channel 2: Producers – Some intermediaries – Importers

- Channel 3: Producers – All intermediaries – Importers

The channel 3 is now the most popular in Long An. This type of channel has its own strengths and weaknesses. The strength of this type is that producers are separate from all parties taking part in distribution. Therefore, they can specialize in rice production. Nevertheless, having intermediaries participate in distribution leads to the fact that rice prices increase and farmers fail to fully understanding customers’ wants and needs. Moreover, in that case, producers are too much dependent on intermediaries so that they might be put under price pressure. Farmers directly sell rice on their land because they cannot execute the after-harvest process, or they have to prepare money for paying their lending banks. After procurement, traders will transport rice to exporting companies in Long An or even transport to businesses in other provinces if they are offered higher prices. Some traders decide to temporarily pile rice in storage and wait until the prices go up which may affect quality of rice.