

# Rice consumption and comparative advantage in thailand



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The research problem under consideration is about Thailand's capability of attaining a comparative advantage in the international rice market, since there is speculation of a growth in the consumption of rice in the global market.

### Defining the Research Problem

The global researches being conducted on the future of commodities consumption reveal that one of the commodities whose consumption is assumed to be on the rise is 'rice'. It has also been speculated that the expected growth in rice consumption, and subsequently a rise in its demand, would be up to 2.7%. In the similar context, there would be definite advantages for the countries that have major contributions towards the exports of this crop. Thailand, despite being ranked as the 6th largest global producer of rice, is ranked as the world's largest exporter of rice (Rice today, 2006). Comparative advantage is a term used to define the 'advantage' that a country has over the others in terms of its efficacy in producing a particular product, and Thailand definitely has a comparative advantage when referred to rice crops, as visible from the fact that despite being the 6th largest producer, it is ranked as the largest rice exporter (Pugel, 2004). Holding such a comparative advantage, the question arising, as addressed in this research, is that how Thailand can take most advantage out of this rising demand position.

### Research Methodology

For developing a conclusion on how Thailand can develop a comparative advantage based on the projected rise in consumption of rice globally, both <https://assignbuster.com/rice-consumption-and-comparative-advantage-in-thailand/>

primary research and secondary researches have been used. Secondary research would constitute literature review in the next section, and primary research would be discussed in the section posterior to that.

For secondary research, various literatures available on the given topics such as articles, news updates, analytics, and other text has been referred, while for primary research, unstructured and open ended questions have been prepared and respondents were individuals matching the profile of a rice importer and those individuals who coordinate rice export activities being in export promotion bureau or have clearing-and-forwarding establishments. Unstructured interviews have been chosen as primary research mechanism because (1) it gives the respondent the freedom to express their opinion, rather than restricting them to the pre-defined answers (2) even with lesser number of respondents, it gives a deeper insight involving opinions and statistics (3) often this form gives clues for research that cannot be determined via reviews and primary research.

## Literature Review

### 4. 1 Comparative Advantage and its Retention

The ruling of comparative advantage states that it only exists when someone has an efficient productive process, and this efficacy is the path towards a comparative advantage. Applying the same rule to the fundamentals of economics, it would be visible that efficiency in production does not imply that the crop is yielded to the maximum, however, there are other variables associated. For example, a country X may not be a huge producer of oil but may be the largest exporter of it, simply because it might have lesser

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local/internal demand or efficient processes that would imply greater production in terms of output or both. The later is the case whereby a comparative advantage is retrieved. Quite similar is the case with Thailand that despite being just 6th ranked in terms of production of rice, it yet stands on top of the rankings of the biggest exporter of rice. Holding the major share of the pie, Thailand needs to scrutinize the situation of how it can get the most of the increasing consumption volume (Hossain, 2007). However, the literature states that there are hurdles to this. For retaining its comparative advantage, Thailand needs to work on its production output either from crop or through its production process (Dilday, 2003).

#### 4. 2 Unfavorable Circumstances for Demand of Rice

Circumstances may not be highly favorable in this regard. Because (School of Farm Mechanisation, 2009):

The rice producers and suppliers across the world are facing crisis, and it may have a harmful impact on the growth in production, as the scarcity of land, labor and water are a major cause of the same. However, the steady increase in consumption, in accordance with many analysts and researchers, would remain between 3 and 4% on a year to year basis. A rather diluted figure developed after statistical modeling considering economic factors and variables, has been approx. 2. 7% mark, which illustrates a rather slow growth in consumption (Industry Outlook, 2007). This can be attributed to various other factors such as poverty amongst the low income class; however, this discussion falls beyond the scope of discussion at this point in time.

The most important aspect to this is that since urbanization is growing at a high velocity, some of the fertile rice land has to be utilized for meeting the demands of this rapid growth of urbanization.

The eating habits are also on the alteration path due to curiousness about weight, etc, people are moving away from rice and wheat and more towards fruits, vegetables, etc.

#### 4. 3 Major Contributors of Growth in Rice Consumption

The countries that are the primary importers of rice are West Asia, South America, and Africa. Analysts believe that in the future, these would be the prime drivers of the global rice trade. Additionally, these regions have been the prime consumers throughout irrespective of their lifestyles. The interesting fact remains that only 7% of the global rice production is traded internationally (Laurent, 2008).

#### 4. 4 How to retain Comparative Advantage?

The theory of comparative advantage leads to the conclusion that if countries only produce what they are efficient at producing, the worldly balance can be obtained since each of the countries would have a special product and would be in a bargaining position – the phenomenon is known as Unique Selling Proposition (USP) in marketing terminology. There are various means of retaining comparative advantage.

The first and foremost method is to utilize the economies – since the holder of a comparative advantage has been practicing it, therefore, it would be

easier for them to reduce costs compared to those who are in the process of implementing it, for example, a better technology.

Patents and trademarks have also been defined as an effective resource for retaining a competitive edge.

Value addition is another critical mechanism delicately applied for retaining the comparative advantage.

#### 4. 5 Conclusion

After the brief overview of various aspects of comparative advantage, and facts about rice and its future, the following section analyzes the various questions inquired during the interviews that were conducted.

#### Analysis of the Questionnaire

As mentioned in the research methodology section, various gurus were interviewed including those associated to firms that export rice, individuals associated with the export facilitators of rice, government authorities, and other concerned individuals. A total of ten respondents were interviewed with open ended questions, and the questionnaire is attached in the appendix section. Following is a question by question summary of the individuals interviewed:

What do you foresee about the growing demand of rice in the global landscape?

The respondents were of the view that rice is probably the least traded commodity in the international markets, with the figures between 5-7% of the total rice production being internationally traded, comparing an almost double figure for coarse grains and a triple figure for wheat. Additionally, in many countries, rice is included in the consumer index for the upper middle and upper classes, therefore, its consumption in poorer regions remains on the lower side; though there are exceptions for example Bangladesh.

However, they also indicated some regions of Africa, America, and West Asia being the prime consumers and prospect for the consumption of rice, and said that the growth in consumption has steadily risen, mainly attributing to these areas, and any prospect rise in the future would also primarily attribute to these regions.

Which countries may look as a bright prospect to take advantage of this rising demand?

The respondents unanimously stated that the Asian suppliers of rice contribute a little over 90% of the total rice consumed globally. The respondents stated that rice from Thailand travels the world; the Middle East market is captured primarily by India and Pakistan, while China and Indonesia are the major competitors (Yuan, 2003). The major importers of Thai rice include Indonesia, Iran, US, Singapore, and Iran. One of the respondents pointed out that there is low quality and high quality rice market existing globally. In the low quality market, India is expected to take advantage of the situation of rising consumption since it has very low costs, and Thai share of the pie is expected to deteriorate. In the high quality market, Thailand may retain its competitive edge, however, with its <https://assignbuster.com/rice-consumption-and-comparative-advantage-in-thailand/>

appreciating currency, importers might find it expensive to buy, therefore, the pricing needs to be stabilized, if Thailand wants to save its share in this market.

How can a supplier/exporter may take advantage of this situation?

The respondents unanimously stated that cost leadership is the major source of an advantage when it comes to this situation. However, though the rising demands favors suppliers, but the cost advantage would give the differential edge to the supplier, and subsequently, attract the buyer. They said, India, for example, is doing a terrific job in the low quality rice section by taking maximum advantage of its low costs.

Where do you see Thailand as a prospect for leading the market share for this growth?

There was a difference of opinion when it came to answer this question. The respondents that were not related to the government or the authorities were of the opinion that Thailand would not be able to sustain its position because India is giving it a tough competition and there is strong evidence to believe that the upcoming crop of Indian rice is better in quality and greater in quantity, thus, giving more bad news to the Thai rice producers. Therefore, the respondents thought that the government should take initiatives and provide incentives and leverages to the rice producers and suppliers to ensure that the country retains its share of the pie, if not increase it by any margin. The respondents belonging to the government authorities ensured that the government had plans intact to ensure that even if the market size remains constant, then too their exports would outperform the records on <https://assignbuster.com/rice-consumption-and-comparative-advantage-in-thailand/>



year-to-year basis. They said the government had worked out subsidiaries and incentive plans for suppliers and producers to protect their financing and keep a check on their costing so that the cost advantage can be achieved. They said that government had carried out surveys to conclude that which division of the production and supply chain would need subsidiaries and reliefs, and in the similar context, work has been done at higher level.

How can Thailand ensure that it leads the growing market share?

The respondents were of the opinions that the strategic think-tank needs to find out its USP (Unique Selling Proposition), and decide on its quota of production and the sectors of the market where it should concentrate for example, making a strategy of 75-25 high quality to low quality ratio of production. Once the target has been set, then the concerned authorities can define the market variables, the taxation issues, etc to ensure that there are ample benefits for the local producers to supply rice at the best possible pricing, and as mentioned, cost leadership is the way to progression in the rice market. When this opinion of the respondents was put forth to the government authorities being interviewed, they said the government had a long term plan to lead the global rice trade market and sooner than not, steps would be taken up to illustrate the same.

What recommendations/suggestions would you put forth?

Not surprisingly, the respondents unanimously suggested giving examples of other Asian states that where the country wants to boost its production or exports of any particular segment, it uses anti-dumping duties, quotas, tariffs, subsidiaries, and other incentive programs for supporting their own

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commodities. Therefore, the Thai government should look for such incentives throughout the supply chain and as a nutshell output, the costs, and finally the price would fall. The government representatives, however, added that these things are readily on record and would be taken care of in the future. Moreover, it was also suggested to stabilize the currency parity to ensure that their exports do not become expensive. This has become critical especially with countries having lesser share of the global market depreciating their currency, thus, their outputs becoming cheaper for the global market. The respondents also suggested that the import duties on chemicals and fertilizers used for various purposes should be reduced or removed, because these duties give incentive to local chemical and fertilizer producers for premium pricing, and this also becomes a critical factor during pricing.

## Conclusion

From the above discussion, it can be clearly viewed that despite having various resources available locally such as a premium quality chemicals and fertilizers, yet Thailand has not been able to beat low cost producers such as India on the global platform when it comes to price; even keeping foreign exchange rates stagnant, the fact remains valid (Thailand Secret to World's Largest Rice Exporter And the Future Plan, 2009). Therefore, the government and the concerned authorities in Thailand should take appropriate measures to ensure that their production levels, pricing strategies and other relevant variables are in line for retaining their comparative advantage, and as mentioned, they should be able to atleast retain their market share if not increase it that is. Rice is a product whereby differentiation becomes a

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difficult task because its qualities are well defined by means of its mixture in various proportions, therefore, a strategic advantage can only be obtained by using cost leadership advantage.