

# Potential markets to export economics essay

[Economics](#)



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Unit: million tons

## **Total supply**

## **Total domestic use**

## **Export**

2011 28. 219. 57. 12012 28. 819. 48. 02013 (forecast) 29. 719. 97. 8

Source: Report on supply and demand of all rice, IGC

Total supply: the sum of total production, opening stocks and imports

There was an increasing trend in supplied and internally consumed volume over three years from 2011. As predicted by IGC, in 2013, total supply of Vietnam rice shall be 0. 9 million tons higher than 2012. However, exported amount shall not as much as that in 2012, just 7. 8 million tons. This was said to be the common scenario for almost rice exporters in 2013 because of two main reasons: Firstly, it is the abundant supply of world rice market that is forecasted to outpace global demand because of favorable crops in main rice exporters together with huge stocks of Thailand and India. Secondly, that is the self-sufficient policy which could allow importers to purchases less. For these two factors, tough rivalry is inevitable not only in 2013 but also in the near future. Therefore, it is normal that there will be a slight fall in exported volume of Vietnam in 2013. Nevertheless, Vietnam still has chance in export over 8. 0 million tons as stated by VFA. The country shall export as much as it could. Upon which, after deducting total domestic use, there shall be 9. 8 million tons left for export. If related conditions are advantageous, Vietnam shall export an amount larger than just 7. 8 million tons forecasted by IGC in 2013.

## **1. 2. 2. Potential varieties to export**

Vietnam's white rice and some jasmine have been mainly exported long time ago, in which a large majority of white rice is 25-45% broken. Recently, some importers showed interests in other varieties which drive them as potentials for Vietnam to export.

### **1. 2. 2. 1. Broiled rice**

As said by Indian rice specialists, there was not that much demand of boiled rice, a varieties produced from fresh paddy which is cleaned, soaked in hot water or dried, cured and then finally processed back in 2010 because of its higher price (by US \$70-80 a ton) than 5% broken [12]. However, outstanding quality offset high price. Broiled rice has been more and more preferred recently. Taking this chance, Vietnam enterprises did start to export broiled rice since early 2011. Though quality of Vietnam's broiled rice was not as good as that of Thailand, it is better than that of India. Moreover, its price was more competitive than others. While over 4 million tons of broiled rice is needed each year, supply shall be not that much. There is also a tendency of using broiled rice in replacement of white rice in Middle East and South Africa due to high nutrition than others. In response to higher future demand of broiled rice, Vietnam invested to build more than three factories of this rice and the country aims to export over 400, 000 tons each year.

### **1. 2. 2. 2. Red dragon rice**

Vietnam's red dragon rice has been exported to some countries worldwide, consisting of Hong Kong and few in Western Africa. Exported volume was much higher than other rivals in these markets (due to competitive prices <https://assignbuster.com/potential-markets-to-export-economics-essay/>

and good quality). In spite of that success, export value of this variety was still under its potential because many farmers were reluctant to plant as a matter of heavy costs. Recently, enterprises have collaborated with farmers in red dragon rice investments and not long later, it shall be definitely strength of Vietnam's rice export [29].

### **1. 2. 3. Potential markets to export**

Beside government-to-government markets such as Cuba, Philippines, Indonesia, Malaysia, etc, Vietnam's next targets are to export to demanding customers, including Korea, Japan, etc since these markets usually yield higher turnover than others, provided same exported volume.

#### **1. 2. 3. 1. Japan and Korea**

Despite Japan planned to import 250, 000 tons and nearly 350, 000 tons for Korea from Vietnam, local exporters could not cope with orders because of poor market researches and knowledge regarding modern trading methods (electronic auction) together with strict quality standards (nearly 500 criteria). However, there was one Vietnamese exporter, Vinh Long Import-Export Joint Stock Company, successfully entering Korea with red dragon rice last year [47]. Moreover, Vietnam's rice has entered Hong Kong, a strict market often importing Thai rice. As said by Daewoo International, a large Korea importer, Vietnamese exporters should be self-confident in improving quality of rice so as to successfully join Korea market. Within the past few years, Vietnam and Japan signed many marked economic agreements. In addition, Japan has been loosening certain standards on antibiotic residues, while Vietnamese rice quality has also been much improved. All these elements would open the door greater for Vietnamese rice exports to Japan.

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If Vietnam's rice exporters could guarantee a quality product, there would be opportunities for them in new markets like Japan and Korea which shall contribute significantly in rice export turnover.

### **1. 2. 3. 2. China**

Within the first ten months of 2012, China purchased 1.43 million tons from Vietnam which was four times higher than just 505,000 tons of the same period. Such a fastened import speed raised USDA's forecast on Chinese imports in 2013 to over 2 million tons, from the original 1.5 million tons. The country might be still net importer in 2013 as Chinese government was in a mood to bolster stockpiles and allow imported rice to enter the country to keep domestic prices in check [27]. Thereby, at that high forecasted volume, there is still possibility to ship Vietnam's rice to China due to price difference. Rice originating from China was 20-30% higher than Vietnam's [11].

### **1. 2. 3. 3. Africa, Middle East**

In addition to China, Korea and Japan, Africa and Middle East with emerging import markets such as Senegal, Ghana, etc are potential for rice export since these countries prefer rice of equivalent quality to Thai, but of lower price. Vietnam's rice appears to perfectly match these conditions.

## **1. 3. Factors affecting Vietnam's rice export (Michael Porter's diamond model)**

As defined in Porter's diamond model, there are six determinants affecting an industry or Vietnam's rice export, including both internal and external as follows:

### **1. 3. 1. Factor conditions**

According to Michael Porter, key production factors include labor force, natural resource, etc. These factors are subsequently built upon, upgraded to more advanced level of competition for satisfying rising demands. Being specialized and involving heavy investments, duplicating them is rather impossible. As a result, a large number of workforces together with favorable natural condition could be advantageous to Vietnam's rice production and export.

### **1. 3. 2. Demand conditions**

The more difficult customers are, the greater pressures facing a country to constantly improve its competitiveness. However, not that many Vietnamese consumers took brands seriously upon choosing rice which eventually resulted in an uncompetitive advantage when the country exported such without-brands rice overseas.

### **1. 3. 3. Related and supporting industries**

When domestic supporting industries are competitive, the country enjoyed more business efficiency. It is said that strong connection of upstream and downstream industries shall facilitate exchange of information and promote sustainable developments of that sector. Therefore, how distribution systems, research institutions,...work could have extreme impacts on rice export.

### **1. 3. 4. Rivalry**

High domestic rivalry results in less global rivalry since more rivalry put pressure on home country to innovate and improve to be more competitive.

Vietnam rice sector appeared to be contrary. In other words, low domestic competition caused Vietnam's rice unchallenging in international markets.

### **1. 3. 5. The Government**

Supportive policies, regulations of the government promote domestic development of rice production and then export. Or, the more attention paid by the government domestically, the bigger chances for the sector to prosper and succeed in foreign markets.

### **1. 3. 6. Chance**

Together with the government, chances are extrinsic and largely outside of control. These chances, in the case of Vietnam's rice export, were decisions taken by foreign governments, typically arising from Thailand and China.

## **1. 4. The necessity of improving Vietnam's rice export**

### **1. 4. 1. Where do Vietnam's rice products stand in world market?**

Although Vietnam's trade in rice was effervescent, it occurred at market end. Vietnam ranked second in world rice suppliers with exported volume making up for 20% of global trade. Though quantity has shown a year-by-year progress, reached a peak in 2012 with over 8. 0 million tons, rice export in value (originally price) varied considerably and appeared to be not corresponding to volume. According the FAO, price of Vietnam's 5% broken is the lowest in comparison with other suppliers, even lower than that of India, Pakistan. Particularly, its 5% broken are traded at US \$415 a ton and is US \$170, US \$50 and US \$15 a ton lower than Thailand's, Pakistan's and India's respectively. Moreover, price of 25% broken is lower at least US \$10

per ton than Pakistan's [23] [25]. Vietnam has exported low-grade rice for a majority. Over 70% of Vietnam's rice exported to foreign countries has been majorly 25% broken (before 2012). This number shrank to just 50% last year. World rice export was divided into three segments with lowest-quality varieties was largely supplied by India, Myanmar; rice of low and average grade was shipped by Vietnam and Pakistan, then highest-quality rice exported by Thailand and USA [16]. Vietnam's rice has been exported to poor and less-developed destinations. Up to now, Vietnam's rice has had its present in over 130 countries and territories worldwide and 90% of them are Asian and African, countries with low and average income per capital. These importers rarely took quality as a serious criterion. Not many countries in EU or Latin-America to purchased rice from Vietnam so far since the country's rice has not been highly appreciated in terms of nutritious value (low or even no added value).

#### **1. 4. 2. Why does Vietnam need to improve its rice export?**

Improvement rather than promotion. Why? Ensuring domestic food security. Despite Vietnam has yearly exported million tons of rice, many Vietnamese has not had enough to eat and lacked of nutrition. Evidence was that up to 20. 8% under-five-year-old children in rural areas were underweight and were not fed enough rice (statistics are conducted in 2012) [13]. Therefore, domestic demands should be prioritized. Promoting rice export is meaningless once Vietnamese are still in short of food. Reinforcing returns from rice export. What is the ultimate goal of rice export, numbers in quantity, in importers or...? It is the turnover or in other words, value gained from each exported volume. Two cases are offered: exporting 5 million tons



gets US \$2 billion or exporting 7 million tons for only US \$1.5 billion in return. Of course, the former is preferred. However, that paradox happens in 2012. Vietnam exported much but did not get that corresponding much. Hence, the problem here is only value needed, regardless of exported output. Boosting export of rice is useless in case of decreasing offsets. Being more competitive. If in the past, Vietnam competed with Thailand only in high-grade rice, then since 2011, India, Myanmar,...are rising as tough rivals who focus on low-grade rice segment, directly set fire with Vietnam. Two main ways of Vietnam's rice export are mainly blocked. If the country has no measures in improving current exported rice, it is hard to survive in both low and high-grade rice in the future. Vietnam's rice export for a long time see prosperous growth in width (quantity), it is time to get it to a higher level, growth in depth (quality).

### **1. 4. 3. Socio-economic senses of Vietnam's rice export**

#### **1. 4. 3. 1. Making use of domestic advantages [2]**

Land. Vietnam owns favorable land resources for paddy growing particularly and agriculture development generally. Total area for agriculture production in Vietnam at 1st January 2011 is 10.1 million hectare in which land for paddy growing is 4.1 million hectare, accounts for over 40.6% of total agricultural land. Weather. Studies on natural conditions indicate that Vietnam has preferential weather for raising paddy in term of moisture and monsoon. It is not coincidences that rice is a strategic produce of Vietnam, a country with a history of thousand years of growing paddy. These advantages are exhibited clearest at Mekong Delta and Red River Delta where weather conditions allow farmers to do at the maximum three crops a

year: winter-spring, summer-autumn and seasonal crop. Human resources: in 2012, it is estimated that there are around 9.3 million households using lands for paddy growing, accounting for 77.6% of households using agriculture lands. It reveals that manpower for raising paddy is considerably plentiful. With that long paddy growing history, Vietnam's farmers got experiences accumulated year by year, either.

### **1.4.3.2. Being among important sources of foreign currencies**

Export as a whole and rice export in particular generate a major source of foreign currencies for further imports, industrialization of the country. In 2012, rice export makes up nearly 3.2% out of total export turnover of Vietnam, ranks at 9th, behind crude oil, furniture, textile, etc [33]. With increasing value each year, rice export seems to be a rather-stable contribution to national development.

## **1.5. Experiences from Thailand in rice export and lessons for Vietnam**

### **1.5.1. Reasons for choosing Thailand**

Common natural conditions. There is not much difference in natural production conditions of the two with respect to farming lands, weather, etc. Both Thailand and Vietnam reserve a large land proportion for raising paddy. For instance, 49% is area for paddy growing in Thailand while Vietnam is 40.6% out of total agricultural area. Either successes or failures to learn. Thailand, the country that has far outpaced Vietnam in rice export, reflects both successful and failed lessons. Beside attainments,