

VIETNAMESE RICE THAILAND'S ARCH RIVAL WORTH WATCHING

Vietnam has evolved from being a net rice importer to an exporter of this commodity since 1988. A few years later, the country became the world's third largest rice exporter, behind Thailand and the US. Currently, it ranks second behind Thailand in rice exports to global markets. Vietnam is thus regarded as Thailand's arch rival in rice exports, as this country has a well developed irrigation system and uses up-to-date technologies in production, thanks to intensive research and development. As a result, the country's average yield per rai has risen considerably, and is continually trending higher. In addition, their rice storage facilities have been well developed as well, which results in rice being maintainable longer and this in turn helps improve the Vietnamese rice quality.

Vietnam sets a target for rice production in 2006 at 38-39 million tons, up by 15.2-18.2 percent over the 33 million tons in 2005. This increase will likely be achieved with increased production after a drought that wreaked havoc on highland rice plantations in the northern region of the country, and floods that hit the southern rice cultivation areas hard last year. This year, Vietnam will likely export about 5 million tons of rice. Among its key markets are Asia, Africa and Cuba. They also have an ambitious plan to penetrate the high-value rice markets, i.e., Japan, South Korea and Austria. However, the 2006 target for rice exports is lower than 2005 exports when they shipped more than 5.2 million tons, worth nearly USD1.4 billion; which had been a year-on-year rise of 27.4 percent in volume and 47.3 percent in value over the previous year. The greater-than-expected increase in Vietnamese rice exports last year could be attributed to hikes in prices of Thai rice, its main competitor. This has proven to be a windfall to Vietnam, as many countries, i.e., Iran, Uruguay, Syria and Nigeria have turned to buying the cheaper Vietnamese rice instead.

However, significant obstacles that are in the way of rice exports from Vietnam include: - Vietnam has made efforts to expand its production and exports of fragrant rice. They could claim success in some markets, given that their grain is cheaper than Thai or Indian counterparts. Export prices of Vietnamese rice are around USD 280-285 per ton. On the downside, their rice quality is inconsistent and an adulteration problem is quite rampant. Nonetheless, research and development on fragrant rice grains have been steadily conducted in Vietnam. Against this backdrop, Vietnam may emerge as Thailand's main competitor in exporting fragrant rice, in the future.

In 2005, Vietnam rice exporters were faced with financial problems because banks cut loan extension to 25 percent from existing levels, which inhibited Vietnamese rice exporters from buying more rice and holding it for later gain. As a result, the price of rice in Vietnam fell continuously in 2005. In addition, provincial food distributors began doing their own accounting during reorganization, which hurt their access to credit from banks because most banks would lend only to the well-established company, Vinafood.

However, in 2006, the Vietnam Food Association asked the Ministry of Agriculture and Rural Development to encourage banks to provide them with more loans to purchase stock for the next season. Vietnam rice exporters had signed export orders with many countries, and it was expected that Vietnam would be able to export more rice than targeted if exporters could solve their financial problems.

With regard to Thailand, Thai rice production in 2005/06 equaled 29.82 million tons of paddy - with a major crop volume of 23.39 million tons and a second crop of 6.43 million tons - up 4.4 percent over the previous year when major rice planting areas were facing with drought or infrequent rain. The Ministry of Commerce has set an export target for 2006 of 7.5 million tons of rice worth USD2.34 billion at an average price of USD312 per ton. Thailand, at present, can maintain its status of the world's no. 1 rice exporter because Vietnam's export figures are still far behind, however, Vietnam rice export growth is accelerating fast, and Thailand thus cannot relax.

Specifically, Thai rice is more expensive than Vietnam's, which is because the Thai government still employs a price intervention program to shore up the price of rice in the domestic market. As a result, most of the Thai harvest is in government warehouses. The government's policy has had a substantial effect on rice trading and pricing. In addition, the stronger Thai baht, which is close to THB38.00/USD, and this has pushed the price of Thai rice high in global market.

This year, the Vietnamese government has implemented a policy of improving rice quality and focusing on exporting high-quality rice, as well as set a minimum export price which should be beneficial to Thai rice exports because prices in the world market should not fall too much lower forcing Thai rice to undercut such prices and thus Thai rice will remain competitive with Vietnam's in the world market. However, Vietnam will continue to be Thailand's major competitor, and one that we will have watch closely.

Some time ago, Vietnam was Thailand's rival for rice exports, particularly for low- to medium-quality rice, as Thailand and Vietnam had targeted the same countries for rice exports. Since 2005, Vietnam has seized some of Thailand's market share by relying on lower prices to attract trade partners. This year, price competition will be less severe because Vietnam has defined a minimum export price. However, since 2005, Vietnam has also entered into the competition for exports of high quality rice, and expanded in this market by improving their rice silos to reduce moisture in rice and developing more appropriate storage systems, as well promoting Vietnamese brand names overseas. At present, jasmine rice remains the only market segment in which Thailand can compete with Vietnam, but Thailand should not be negligent because Vietnam is now expediting the development of fragrant rice to compete in this market, too, which is considered an up-market motivated by high export prices.

As the rivalry in rice exports to the global market gets tougher, the government and businesses related to Thai rice exports must adapt strategies to cope with the changing marketing situation. The government has mapped out five rice development strategies guidelines: 1. Manufacturing development to control and manage output efficiently, and

promote rice production in designated zones, expediting the production of good quality rice to replace low quality strains, and preparing a database on rice production and marketing for planning purposes.

2. Adding value to rice, for example, a project on the development of organic rice production, research and development on processing technologies for rice products, a project on marketing development for rice products, plus the establishment of a complete rice export service center, etc.

3. Rice market penetration - Thailand is still the top-ranked rice exporter in the world, and emphasizes the high-end and mid-market segments.

4. Improving the quality of life for rice growers in terms of revenue and the environment.

5. Development of management and supporting production development centers at the community level - some 14,000 centers - by 2008. The role of these community centers would be to help in the development and distribution of good quality rice seeds in each area, as well as R&D on cultivation techniques. There would be 200 rai of rice paddy land set aside for each center. Each center would serve about 4,000 rai of rice growing land. At present, there are 4,556 centers producing about 50,000 tons of high-quality seeds. The establishment of these centers will be an important key to developing the potentiality of Thai rice in growing high- quality rice to respond to the global market.

At present, the competition between Thailand and Vietnam has intensified because Vietnam has begun to seize the market for high-quality rice. In the past, there was competition in the low- to medium-quality rice markets segments. That was a warning for Thai exporters and the government to stimulate product development of Thai rice and find new strategies to stimulate rice exports to cope with the increased rice exports of Vietnam.

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