



THAI RICE EXPORTING SITUATION TOWARDS THE EMERGENCE OF ASEAN ECONOMIC COOPERATION (AEC)

Thanarat Pilavong, Natthasith Lekprichakul, Olan Puyakul, Thanpitcha Trakolsap, Veeris Ammarapala*

Transportation Research Center, School of Engineering Management, Sirindhorn International Institute of Technology, Thammasat University, Pathumthani 12000, Thailand

*e-mail: veeris01@gmail.com

Abstract

This paper reviews situation of Thai Rice in the world market. In the past, Thai rice was main export agricultural product of Thailand, with export volume of 12.37% GDP (refer with: Thai Rice Exporters Association (TREA)). Thai rice export volume had been ranked as the number one in the Global Rice Market for 10 years (refer with: National Statistical Office Thailand), until 2010, then Thailand lost this position to India and Vietnam. Though Thai Government has put a lot of efforts to support the Thai farmers, most of those efforts have been criticized and their results were viewed as not as effective as they should have been. By 2015, the ASEAN Economic Community (AEC) will be fully implemented (refer with: AEC organization), which could bring advantages or disadvantages to Thai rice situation. The authors conducted research to explore the opportunities of the future effects of AEC on Thai Rice market. In conclusion, this paper suggests the areas of study where interested individuals could conduct future research on how AEC can affect the Thai Rice situation.

Introduction

Thailand is a rice civilization for more than 5,500 years and rice culture amounts for more than 50% of all agricultural activities in the country with 3.7 million farming households depending on its production. Rice agriculture is truly at the foundation of Thailand's economy and industrial growth and is still playing a major role in today's political and economical decisions

(refer with: TREA). Thailand used to be ranked first in rice exporting in the *Association of South East Asian Nations (ASEAN)*, but Thai rice is not alone in this market. The ASEAN members have the potential of producing rice as well for consuming and exporting. Thailand has neighbors that are both competitors and partners in rice trading. They are Myanmar, Vietnam, Laos, Indonesia, Malaysia, Philippines, and Cambodia. Now Thailand is ranked third, it lost its competitiveness to India and Vietnam (refer with: TREA). *Currently Thailand has five strategies in order to develop a standard of Thai rice quality, is it enough to bring Thai rice back to its former position as a top leading rice exporter?* In order to answer this question, we should study the strength of Thailand's competitors' Rice Policy in order to detect Thailand's weaknesses in its own Rice Policy, and eventually bring back the country to become the lead of rice exporting in ASEAN. Because *ASEAN Economic Community (AEC)* will be implemented in 2015, we will study the effect of AEC on the Thai rice, and how we can gain the benefits and prevent from the disadvantage of the AEC and its effects on the Thai rice situation.

Current Situation

The AEC has now caused the challenge for the Thai Ministry of Commerce to develop the strategies on Thai rice production and trade before its implementation in 2015. This can be the opportunity to retrieve Thai rice reputation, as it was owing to value-chain development and cooperation between government agencies and rice traders in the past decades. Due to the new policy, government agencies try to make a better living for Thai farmers and encourage them to produce a higher quality of rice. There are five strategies in the new setup in order to develop a *Thai Rice Standard*, which are: Strategy for Development, Strategy to Promote and Support Thai Farmers, Strategy for Long-term Marketing and Production Development, Strategy to Maintain Price Stability, Strategy of International Market.

The Ministry of Commerce did a SWOT analysis of these strategies and for example one of the strengths of the government is that they are paying farmers faster and more conveniently than would the minimum guaranteed income of the rice trade as in the previous policy, and it is a good tool to assist farmers who have oversupply of rice. As for weaknesses, the government's lack of research capability hinders Thai farmers from innovation and development of new techniques. The current policy could stop farmer's enthusiasm to reduce costs and improve yields that can decline quality of Thailand's rice production. Out of those weaknesses we found that the high price of pledged rice can lead to huge fiscal damage and open opportunities for corruption by millers, and that farmers are likely to select short-growing cycle in order to maximize output and land productivity. Therefore the government should focus more on sustainable long-term solutions such as improving rice quality, boosting productivity and the pledged rice should be lower than the global market price to allow farmers to redeem their rice when the price goes up.

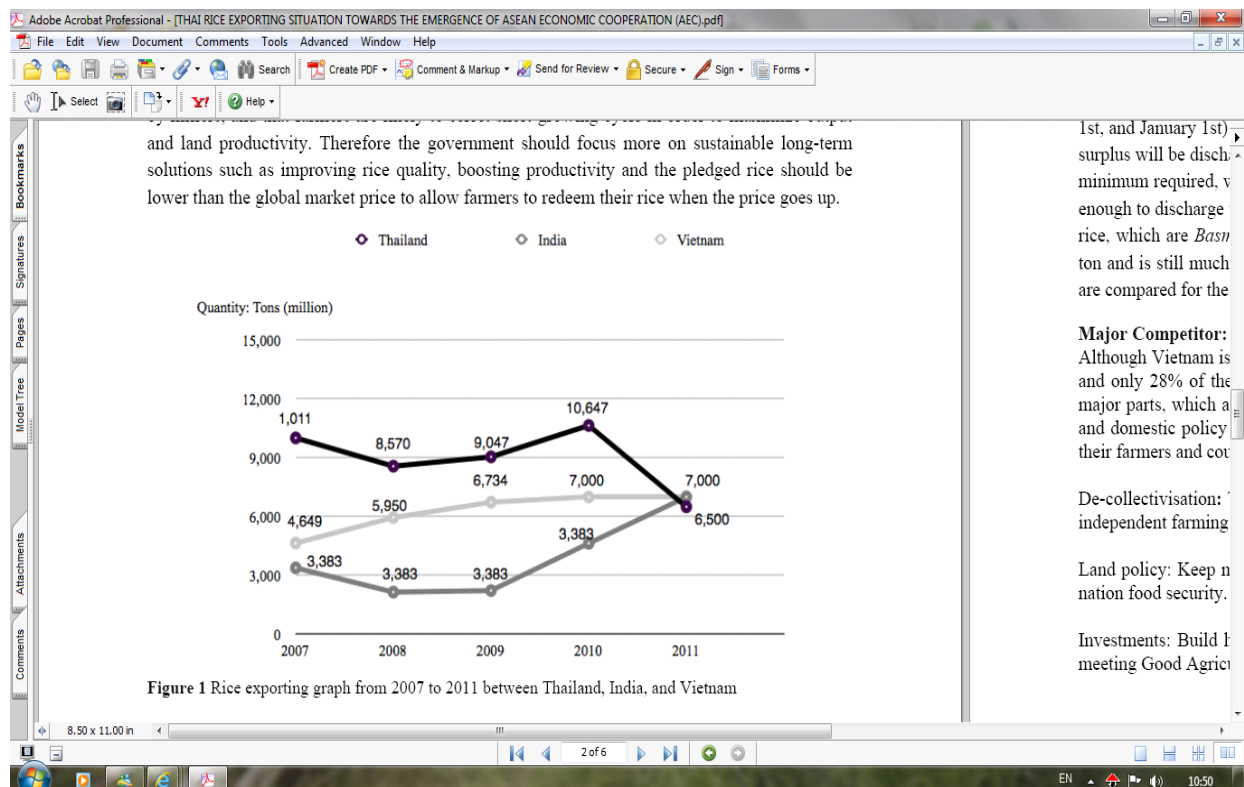


Figure 1 Rice exporting graph from 2007 to 2011 between Thailand, India, and Vietnam



Major Competitors: India

Currently (as of 2012) India is the first and largest exporter of rice in the world. Due to severe weather conditions this year Indian rice production was affected by a late monsoon that was delayed for about 3 weeks. On July 13, 2012 the cultivation of rice is at 60.50 million Rai compared to last year (2011) which was 69.75 million Rai, representing a decrease of 13.26%. The prediction for next harvesting is anticipating a significant rice production decline (refer with: [1] DITP 2012).

India's government has the policy of buying rice from farmers through *Food Corporation of India (FCI)* under *Minimum Support Price (MSP)* regulation, which was pioneered by the *Commission for Agricultural Costs and Prices (CACP)*. From July 2011 to July 2012, the government bought 34.393 million tons of rice from farmers, which is a total increase of 10.53% on the same period, mostly from the Punjab province: 7.731 million tons on 2012.

India's government, Ministry of Consumer Affairs, Food and Public Distribution, *pioneered the buffer stock and strategic reserve policies for rice*, in order to make sure that the rice stock is enough for all the people within the country, for government's public welfare scheme, and for reserve of the minimum stock for victuals endurance in case of emergency needs. The policies were stated since April 2005 and are applied quarterly within a year (April 1st, July 1st, October 1st, and January 1st). The requirement for minimum stock is at least 11.8 million tons, where the surplus will be discharged to global market; for 2012 the government has almost over 3 times the minimum required, which means that rice is still enough for consumption within the country and enough to discharge the surplus to the global market. The government exports two major types of rice, which are *Basmati* and *non-Basmati*. The exporting price of Indian rice is at US\$ 425 per ton and is still much lower than Thai rice price, which is around US\$ 600 per ton. These prices are compared for the same high quality of rice (refer with: [1] DITP 2012).

Major Competitor: Vietnam

Although Vietnam is much smaller than India and Thailand, most of the country is mountainous, and only 28% of the land is for cultivation. Vietnam has policies that can be divided into two major parts, which are the policy in rice export that helps their farmers and country's economy, and domestic policy for the demand within the country. For the policy in rice export that helps their farmers and country's economic, can divided into six policies.

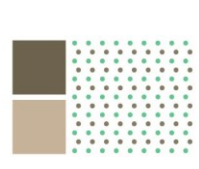
De-collectivisation: Transformation of land and production materials from collective farming to independent farming system (From communism to individual farming).

Land policy: Keep minimum 3.8 millions hectare of arable land for paddy cultivation to ensure nation's food security.

Investments: Build high density food production areas, disease-free areas, rice production area meeting Good Agricultural Practices (GAP).

Infrastructure investment: Investment for irrigation system construction, enabling adequate irrigation in double-crop rice land.

Agricultural research and development: Account for one third of the science & technology government budget. The budget investing in agricultural research, extension and information activities increase annually 10% to 15%. Support hybrid rice varieties for farmers.



Support to farmers: Farmers have access to credit provided by “Bank For Agricultural And Rural Development”, favored loan interest for companies to buy paddy for temporary stock at the peak of harvest season to ensure the farmer minimum profit of 30%.

As for Vietnam’s domestic policy for demand within the country, domestic market is liberalized, the Nation Food Reserve (NFR) reserves enough rice in case of food shortage, built a storage system that is able to stock up to 4 million tons of paddy. There is a rice provision for poor household that allows them to receive 15 kilograms per month. And lastly, the Vietnamese political system is engaged in signing government-to-government rice export contracts to increase bi-lateral awareness on rice trading and find agreements that advantage Vietnam’s economy (refer with: United Nations Economic and Social Commission for Asia and the Pacific).

ASEAN Economic Community (AEC) with Thais’ rice

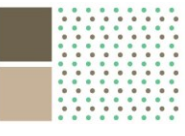
Thailand will be pressured by higher competition from Vietnam, Malaysia and Indonesia, but ASEAN Economic Community (AEC) gives more opportunities to expand Thai agricultural shipments in the region. AEC rules will give Thai exporters better access to the region’s nearly 600 million people (refer with: Nation Statistical Office Thailand). Also regional shipments of goods will become freer and more efficient because tax barriers will be eventually eliminated. Transport systems will become more deeply integrated, and logistics system will significantly improve. In other words, the AEC will enable easier movement of goods, services, investments, capitals and people. Ultimately, it will offer new ways of coordinating supply chains, or access to new markets for established products.

In order to survive in the market when ASEAN Economic Community (AEC) is fully implemented, Thailand should build brand recognition based on reputation for quality and taste for Thai rice in ASEAN market and identification of Thai rice, improve the quality and varieties of rice grain in order to make a difference and compete with competitor. Moreover, Thailand should promote for a long run and advertise Thai rice to access more customers through radio, television, and/or printed media of targeted international markets and reach out to all economic segments of society. More importantly both government and private sectors should work together to promote Thai rice excellent taste, flavor and cooking qualities in international exhibitions.

Conclusion

Our research and study about Thai rice situation within ASEAN Economic Community (AEC), made us aware of the problem caused by government policies and rice exporting from private sector affecting directly and dramatically Thailand’s economy. Most of the problems seem to come from within the country as for example corruption of officials, high rice pledging, high Thai rice price in global market. These problems motivated the government to act and solve them before the situation becomes out of control and deeply affect the Thai economy and consequently the Thai people’s quality of life.

From the current situation, we have predicted that when AEC is fully implemented Thai rice price will remain high due to the current Government Policy flaws, however the government might improve the rice strain and Geographical Identity to create higher quality and awareness. Rice strain that doesn’t pass the quality standards will be kept within country. Moreover, rice from other ASEAN countries are cheaper than Thai rice and that might create



smuggling along Thailand's borders, as a result Thai people will consume rice from abroad more than Thailand produced rice.

In the next three years, ASEAN Economic Community (AEC) will fully be implemented, it will affect Thailand in a negative way, so Thailand authorities should study and improve their policy to deal with AEC as follow:

Rice market assessment: In order for Thailand to retain its old customers (i.e.: countries within the AEC, Europe, China, United State of America, etc.) and to find which group can be new target markets.

Thai rice brand: In order to build up reputation and brand image of quality, easy to identify, and with a noticeable Thai rice character within the global market.

Logistic system: The government should plan for new logistic systems in order to plan and support the new markets when AEC will be fully implemented, and ensure that Thailand can satisfy all customers' needs while the market is expanding.

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