



# AEC: Insight

## “Why Thai Rice is Losing Its Market Share to Vietnam?”

Thailand has been referred to as the “kitchen of the world”, and is among the top five net food exporter countries globally. Until very recently Thailand was the leading rice exporter in ASEAN but has now lost its position to Vietnam. To increase its national competitiveness, Vietnam implemented its policy to boost its rice productivity during 2005-2010, and is now the market leader in rice exports in ASEAN.

### Reasons behind Thailand's loss:

- **Vietnam achieves higher rice yields.**

The average yield of Vietnamese rice is 853 kilograms/rai, ranked 4th in Asia behind South Korea, Japan, and China, and **1st in ASEAN**, while the yield of Thai rice is 447 kilograms/rai, ranked 13th in Asia and 7th in ASEAN. One contributing success factor is that Vietnam's rice fields are along the Mekong River Delta and the Red River Delta with fertile soil and good irrigation system.

- **Vietnam has lower rice production costs.**

The Vietnamese government deployed the “**3 down, 3 up policy**” to keep seeds, fertilizer, and insecticide costs down while raising productivity, quality and profit. Vietnamese farmers now benefit from 15-20% increase in profits from this initiative.

- **Vietnamese rice is cheaper.**

Vietnamese rice has lower production cost and higher yield compared to Thai rice. According to the Thai Rice Exporters Association's analysis in 2010, in addition to the high production cost, another disadvantage of Thai rice is in the absence of long term strategies for rice production and exportation.

- **Vietnam deploys a “one team” marketing strategy and seeks to enter high quality rice markets.**

Vietnamese government, private sector and rice farmers have joined force in forming a single marketing team in their rice promotion. Vietnam also focuses on high quality rice markets. The Vietnamese government leads export marketing campaigns using G-to-G approach through the Vietnam Food Association (VFA) with over 200 companies as members. As a result, more Vietnamese rice was exported to countries that consume high quality rice such as Hong Kong, Australia, and Taiwan during 2009-2010. Thai rice sold to these 3 countries has seen a decline during this same period.

- **Vietnam cooperatively produces rice with its neighbors.**

Vietnam and Cambodia jointly formed a company to invest in the total rice business. The investment focuses on the production process, storage, and export, in addition to building rice mills, rice silos, rice processing factories (for bread and instant noodle), and rice distribution networks. Vietnam also has a plan to form a joint-venture in the food industry with Myanmar.

- **Vietnam sets up measures to stabilize internal rice markets.**

The Vietnamese government works to stabilize its domestic rice market by initiating several measures to help farmers. Examples include subsidies and loans to buy raw materials and equipment, an exemption or reduction of tax, and the establishment of funds to support rice production and export.

- **Vietnam has a policy to help farmers gain 30% profit.**

In 2010, the Prime Minister of Vietnam requested that Vietnamese officials set the price of paddy rice to be sold to middlemen that reflects a profit to the farmers by at least 30%. The Ministry of Finance together with the Ministry of Agriculture and Rural Development were tasked to put together regulations and guidelines in the calculation for a baseline of the production cost of the paddy rice price. It also required that exporters work with the middlemen in order to buy rice from farmers at the set price.

- **Vietnamese government establishes rice trading markets and rice storage overseas.**

One problem Vietnam faces is insufficient storage space for rice in Vietnam. To solve this problem, measures such as building big silos in Vietnam and cooperating with other countries (such as Philippines, Tanzania, Ghana, South Africa, and Myanmar) to set up warehouses outside Vietnam are being carried out.

The Vietnamese government also allocates a huge budget for rice research (e.g. rice seed, production cost reduction, etc.). The budget for rice research in Vietnam accounts for one third of S&T government budget and also the budget investing in agricultural research, extension and information activities increased annually by 10-15% (Dang Kim Son, Institute of Policy and Strategy for Agriculture and Rural Development, Vietnam, June 2011).

### The rice research program at NSTDA comprises:

1. Improvement of rice productivity
  - a) Development of improved rice varieties that tolerate pests and adapt to climate change
  - b) Technology transfer to farmers and NSTDA's partners
    - Production of high quality seeds
    - Production of agricultural machinery to reduce cost for planting and harvesting
  - c) Development of ICT technology to detect spreading of insects for rice fields
2. Improvement of rice milling and drying processes for SMEs
3. Development of rice processing and rice products
4. Development of logistic systems and infrastructure management to reduce costs

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