

# MAKING RICE A STRATEGIC STAPLE FOR EXPORT

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## I. OVERVIEW

The following tabloid would show the role of rice in Vietnam's exports:

Exports	1989	1990	1991	1992	1993
Export turnover	1,946.00	2,404.00	2,067.00	2,475.00	2,988.70
1. Heavy industry and minerals	354.70	616.90	697.10	954.00	1,138.70
Crude oil	205.20	479.00	596.90	819.90	898.20
Coal	23.00	39.00	48.00	65.00	61.60
2. Light Industry and handicraft	571.30	635.80	300.10	350.80	363.60
3. Agriculture	742.40	783.20	628.00	827.40	976.70
Rice	310.10	274.50	230.40	405.10	335.00
Rubber	44.00	48.00	50.00	46.00	62.60
Tea	22.00	21.00	14.00	14.00	24.60
Coffee	74.00	85.00	75.00	87.00	103.90
4. Forestry	86.70	126.50	175.50	131.50	152.10
5. Fish	188.20	239.10	285.40	306.50	357.00
6. Others	2.60	2.50	0.90	0.80	0.60

Our staples with turnover of around US\$50 million per year are crude oil, rice, ready-made clothes, coffee, rubber, coal. From 1989 to 1994, Vietnam exported around 1.5 million tonnes of rice, occupied a share of 11 per cent in the world market. In the past six years, Vietnam exported around 9.50 million tonnes of rice (worth nearly US\$2 billion), and became the third biggest exporter of rice.

Crude oil is our leading export item now. It's hard to shake other items such as fish, rubber, coal or coffee leading staples and earn big money from them because their output and markets are small. The turnover of exporting raw materials and agricultural products from now until 2000 are estimated as follows:

Item	Turnover (in US\$ million)
Crude oil	1,900
Petrol	400
Gas	1,300
Coal	70
Fish	700
Minerals	270
Foodstuff	1,100
Other agricultural products	250
Total	5,990

So we can see, from now until 2000, rice is still the leading export item of Vietnam, after crude oil.

## II. TARGET IN EXPORTING RICE

The development of rice output in Vietnam could be seen in the following table:

Indicators	1976 - 1980	1981 - 1988	1989 - 1994
Foodstuff in rice (million tonnes)	13.30	17.60	23.00
- Rice (million tonnes)	11.00	15.20	21.00
- Average yield per hectare (picul or 100 kg)	20.20	26.60	34.00
- Annual food consumption per capita (kg)	254.00	294.00	353.00
- Annual exportation of rice (1,000 tonnes)			1,570.00

The year 1989 proved to be a turning point in Vietnam's economic development. From 1989 till now, Vietnam has changed from the world's 17th biggest importer of rice into the third biggest exporter of rice, after the US and Thailand.

FAO said that rice was the main food in 39 nations. The world's rice output can increase by 2 per cent per year and reach 409 million tonnes in 2000. The world's demand for rice can also increase by 2 per cent per year and reach 408 million tonnes in 2000. Rice trading could increase by 3 per cent every year and reach 17.10 million tonnes in 2000.

Basing on Vietnam's potentiality and domestic market demand, and data on the world market from now until 2000, we could target at exporting around 2.3 million tonnes from 1995 on and around 2.7 and 2.8 million tonnes in 2000.

## III. NECESSARY MEASURES AND POLICIES

### 1. In producing and processing

#### a. Affirming zones for producing rice for export

From 1989 till now, Vietnam's rice for export came mainly from the Mekong Delta. It's the only zone in the whole country where rice output per capita reached 700kg.

According to FAO's experts, the Mekong delta is a big granary not only to Vietnam but also to the region and the world as well. Therefore, international food and agricultural organizations have paid much attention to investing in this zone with a view to supplying enough food to the world population in the next century.

According to the Program of Basic Investigation in the Mekong Delta, there are 1,710,000 hectares of farming land of the first grade, 1,245,000 hectares of the second grade and 183,000 hectares of the third grade in the Mekong Delta. In present condition, if we invest reasonably in agricultural materials, the Mekong Delta could produce 11.6 million tonnes of rice; if we invest some more in fertilizer and insecticide, the total output could reach 13.3 million tonnes. If irrigation system is improved, the total output will be between 15.5 and 18.8 million tonnes per year.

These data show that if we invest reasonably in the Mekong delta, it will supply enough rice for domestic demand and export, and other zones could be used for producing other agricultural products.

#### b. Selecting seed

As we know, we can't export rice of low quality. Besides selecting seed, we should produce rice of the same quality. Therefore, we should select the best seed as we could (seed of high yield appropriate to foreign markets' demand which can be mass-produced...). We can take the following measures to help peasants improve quality of their crop:

- Bartering new seed for old one selected by peasants.
- Selling seed to peasants at a low price.

Selecting and popularizing new seed can improve quality of rice for export, make rice transportation and





classification easier, improve capacity of rice mills and increase yield of rice by 10 to 15 per cent.

*c. Investing in rice harvesting and processing*

We should harvest on time and process rice properly in order to improve quality of rice for export.

*- Drying:*

+ Humidity should be kept under 14 per cent in order to prevent rice from changing its physio-chemical quality.

+ Rice should be dried on flat and clean barnyard, be kept from dirt and rain. Rice should be laid in layer of 5cm at most and turned over regularly.

+ In rice mills, there must be cemented yards for drying rice before storing, because peasants seldom dry their rice out completely.

+ Buying well-dried rice (humidity of 14 per cent or under) at a high price and refusing to buy rice of high humidity (17 per cent and up) could encourage peasants to dry their rice more perfectly.

*- Storing:*

Granary is the weakest link in our system of rice exportation. Granary could help us get in stocks of rice for market opportunities and potential customers. We have to sell off our crops now just because of lack of good granaries. Therefore, we have to build a new network of granaries which can store rice conveniently and safely all over the country. Level of granary management should be also improved in order to satisfy all requirements of the customers (delivery time, quantity, quality...), thereby avoiding reduction in price.

*- Rice mill*

Rice mills in Vietnam are old, obsolescent and scattered. Many of them were build in the 1940s and weren't renovated and maintained properly. Their positions weren't appropriate to present and future development. Some newly-built ones such as Sakate factory of HCMC Food Company (capacity of 125,000 tonnes per year) can't work at full capacity because of shortage of rice, while in the Mekong delta there is no modern rice mill.

In order to promote exportation of high-quality rice, we should renovate and improve network of rice mills. According to calculation of Ministry of Agriculture and Food Industry, renovation of rice mills could bring in US\$100 more per tonne of export rice. It's not a small amount of money if we remember that Vietnam exports around 2 million tonnes of rice every year, so we can collect US\$200 million per year.

*d. Reducing after-harvest waste*

According to Vietnam Food Company, National Institute of Agriculture and a FAO survey, the waste of rice during and after harvest in Vietnam was 14 per cent.

Waste	Percentage
During harvest	1.00
Threshing	1.50
Drying	2.00
Transportation	1.50
Milling	4.00
Storing	4.00
Total	14.00

In order to reduce waste, besides provoking sense of responsibility and improving workers' skill, a lot of measures should be taken such as: investing in irrigation projects selecting good seed, introducing technical innovations in drying and storing rice, shortening the time for cutting, threshing, drying...

If we can reduce waste by 5 per cent only (from 14 to 9 per cent), we can have 1.2 million more tonnes of rice (5 per cent of average output of 24 million tonnes per years) worth VND1,000 billion (buying price fixed by the government in November 1994 was VND1,000 per kg). This amount of money is equivalent to 50 per cent of income from land tax collected all over the country, or 25 per cent of deficit of the national budget in 1994.

**2. Policies on agriculture**

*a. Land policy:*

The government had better solve the following problems:

- Allocating land to peasants, issuing certificate of land use rights, allowing peasants to mortgage their certificates to state banks for loans necessary for their farming business.

- Allowing peasants to transfer their land use rights: this measure could speed up the process of accumulating capital and improving efficiency in exploitation of land.

- In order to direct the agricultural production towards socialism, the government could form agricultural cooperatives basing on peasants' willingness and help them develop their cooperatives. This is the only way to mechanize and industrialize the agricultural production in large scale.

*b. Policy on agricultural encouragement:*

This policy aims at helping peasants improve farming techniques, yield, income and living standard. We could say that one đồng invested in the agricultural encouragement would yield ten đồng and national income would experience a hundredfold increase.

*c. Policy on agricultural assistance:*

At present, the government can't offer price support



peasants because of lack of funds and a constant deficit in the national budget, but the following measures could be taken to assist peasants in their business:

- Supplying low-interest loans to peasants: Peasants can secure loans mainly from state-run agricultural banks. Most of these loans (95 per cent) are of short-term ones. Interest rate of these loans is usually higher by 0.4 or 0.6 per cent in comparison with those supplied to state enterprises. Therefore, after harvest, peasants have to sell off their crops in order to pay debts on time and borrow new loans for the next crop.

On the other hand, the state-run agricultural banks supply only secured loans whereas peasants have no valuable assets to hand to the banks and they have to borrow from lenders. In selling their crops after harvest, the price is usually depressed by private traders. Therefore, it's hard for them to develop their business and reduce production cost.

In such a situation, the state-run agricultural banks should better improve procedure of securing loans, reduce the interest rate of loans for peasants, supply more medium and long term loans... As for zones specialized in rice planting, the government had better set aside some money from the public fund, or foreign aid to provide peasants with low-interest loans.

- Collecting land tax: This tax is paid in cash now, not in kind. On the other hand, local authorities usually force peasants to pay tax at short notice. Therefore, peasants have to sell off their crop at a depressed price.

The government can fix a reasonable price for rice paid by peasants for land tax, allow them to pay at longer notice. The price of rice paid for land tax could be lower than market price (from 5 to 10 per cent) in order to encourage peasants to pay tax on time. The land tax could be exempted or reduced when the market price of rice drops below a certain minimum level.

- Pricing and finding market for agricultural products:

Being left uncared in the market mechanism, peasants would find themselves in a bad situation as they did in the subsidized economy, that is, they would walk out of the frying-pan into the fire. In order to help them find their feet in the market economy, the government should take appropriate measures to intervene in rice trading in both domestic and foreign markets.

The government can find markets for agricultural products, gather information about demand for rice in domestic and foreign markets and direct peasants towards producing products appropriate to customers' tastes, especially foreign ones.

#### IV. CONCLUSION

In the coming years, rice will still be on leading export item of Vietnam. In order to make rice a Vietnam's staple for export, a big source of foreign exchange which can improve the living standard of peasants, the government should take a lot of measures and policies to innovate our system of rice production and exportation. What mentioned above are only suggestions. Many other problems should be studied carefully such as examining the competitors (especially Thailand) and customers (African and Asian countries). Basing on information about their laws and regulations, habitual practices, distribution channels... and Vietnam's capacity and potentiality, we can set out a perfect strategy for exportation of rice in future ♣

#### Reference materials

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## COOPERS & LYBRAND TO AUDIT VIETNAM BANK OF AGRICULTURE

The international accounting firm of Coopers & Lybrand has recently been appointed as auditor of the Vietnam Bank of Agriculture (VBA) for the fiscal years ending December 31, 1993 and 1994. In addition, Coopers & Lybrand will also prepare a special diagnostic report on VBA's lending, financial and accounting procedures, with recommendations on changes and improvements.

As one of the four leading state-owned commercial banks in Vietnam, VBA has over 1,800 branches and employs more than 20,000 employees throughout the country.

The audit, a World Bank funded project, will be carried out by a balanced team of highly qualified and experienced professionals drawn from both the extensive resources of the Coopers & Lybrand International Banking Practice and a local auditing firm.

The audit is part of a large World Bank funded program aimed to assist Vietnam in its efforts to restructure the rural credit sector.

As a result of the audit, VBA will implement and establish controlled accounting and administrative systems. The effect of this will enable VBA to operate within an internationally recognized business environment. This is an essential requirement in the mobilization of international financial resources, the objective of which is to satisfy the growing and urgent demand for finance from the agriculture sector.

The audit could also lead to improvements in implementing a mechanism for risk assessment in VBA's lending practices ♣