

POST-GATT (URUGUAY ROUND)

EFFECTS ON THE WORLD RICE EXPORT MARKET

FOR THAILAND : A RESEARCH STUDY.



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Uruguay Round-Gatt 1993

The trade talks in Geneva towards the end of 1993 (the Uruguay Round) was the culmination of seven earlier talks going back as early as 1947. Essentially, the aim of GATT had been to cut tariffs to a minimum (from as high as 40% in the late 1940's to less than 5%) GATT has also moved into the areas of anti-dumping also, the general consensus being that "discrimination poisons trade". Consequently, every country member of GATT opens its markets equally to every other.

The recently concluded "Uruguay Round" sought to stimulate world trade and output which started to slow since the 1970's. Members hoped to accomplish this by further cuts in tariffs and

reforming GATT as an institution. Specifically, it was hoped that trade quotas would be replaced with tariffs and that agricultural subsidies, particularly export subsidies, would be cut. Moreover, import restrictions were to be gradually lifted in stages.

More recently in Marrakech, Morocco, more than 100 countries signed the final documents to lower trade barriers on industrial and agricultural goods which is expected to add \$235 billion a year to the world economy by the year 2002. Indeed, the world should benefit from the strengthening of rules and the creation of the new World Trade Organization (WTO) which would replace GATT itself. Along with the other two international economic

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organizations, namely, the International Monetary Fund (IMF) and the World Bank, the WTO would represent the third pillar in international economic relations.

In general, the GATT agreement should have a profound economic impact on millions of people around the world. Implementation of the GATT agreement is expected to pump more than \$ 200 billion annually into a sluggish world economy much in need of such a shot in the arm.

This research study looks at how such trade liberalization will affect the future for the world rice market for Thailand, one of the world's foremost rice exporters. But, firstly, let us look at the situation in the world rice trade.

World Rice Market Update

World rice production and consumption are largely concentrated in the Asian region. Approximately 90% of production occurs in Asia, with China alone accounting for around 40% of Asian rice production and over 36% of world production. The USA and Brazil are the largest non-Asian rice producers.

In the years 1991-93, world rice production averaged 347.6 Mt (milled equivalent) (see Table 5) and world rice exports averaged 15.1 Mt (milled equivalent) (see Table 5). The world's largest rice exporters are Thailand, the USA, Pakistan, Vietnam, and China (see Table 4).

Australia, (see Table 5) although a relatively small producer and exporter of

rice, nevertheless, plays an important role as a supplier of high grade rice (long grain and short grain), especially to its neighbouring Pacific markets such as Papua New Guinea, New Zealand, Fiji, and other smaller Pacific Islands.

Australia's export returns are not as volatile as world rice prices. In Australia, rice exports are usually higher grades of rice, with the returns normally higher and more stable than those of the lower grades. Moreover, despite falls in world prices, Australia's competitiveness in neighbouring Pacific markets has enabled it to cushion falls in the export price levels of the normally fluctuating world rice prices.

The world's major rice importers are Indonesia, South Korea, Malaysia, Brazil, Senegal, South Africa, Iran, Iraq and Saudi Arabia. (see Table 6)

Around 5% of total world rice production enters international trade. This compares with 14% of world trade in coarse grains and 20% for wheat. With the bulk of world rice production concentrated in one region, seasonal conditions and disease can have considerable impacts on production and prices.

Small changes in rice production in the key exporting and importing countries in any one year and the unresponsiveness of demand to price changes can therefore cause large changes in annual trade levels and world

prices. Consequently, price instability is a characteristic of the world rice market.

Current Situation of Thai Rice Exports :

World Market for Thai Rice

Thailand is the world's largest exporter of rice. Thailand's major traditional export markets for rice are China, Iran, Malaysia, Singapore, Hong Kong, United Arab Emirates, Bangladesh, Mozambique, Indonesia and Russia. (see Tables 1 & 2) Recently, because of pressure from GATT and also, (in the case of Japan) domestic production shortfall, Thailand's export markets for rice have also included Japan and S.Korea. Attention is currently on these two south Asian markets (Japan and South Korea) which are potentially significant for obvious reasons. Both markets are traditional rice consuming societies and, until recently, have been closed to foreign suppliers of rice. The recent "open door" policy is therefore of great significance to the world's major rice suppliers, namely, Thailand, the United States, China, and to a lesser extent, smaller rice exporters such as Australia.

Thailand, the world's major rice exporter, aims to "take on" the Japanese market in particular, in direct competition with the other exporters such as the United States, China, and Australia.

While the United States has always been a major competitor to Thailand in the world rice market, Australia is a

relatively small producer but an increasingly significant exporter of high quality rice covering both the long grain (Indica) and short grain (Japonica) markets. Because of its dual production programs (both short grain and long grain rice), Australia has an edge on its competitors.

Australia is not a traditional rice consuming society. However, its small but efficient rice industry has been a traditional supplier to its neighbouring south Pacific region including Papua New Guinea, Samoa, New Zealand, Kiribati, and the Solomon Islands.

For the growing Japanese rice import market, Thailand will face stiff competition from both the United States and Australia although American rice and Australian rice are "different" from Thai rice.

Japanese Market Requirements

In order to succeed in the Japanese market on a longer term basis, the Thai rice industry needs to study the requirements and particular needs of the Japanese market.

Specifically, Thai rice is a long grain (Indica) variety in contrast to the round/short grain (Japonica) variety preferred by Japanese consumers. In any case, following the recent shortfall in Japanese domestic rice production, Thailand has successfully competed with the U.S.A., China and Australia, supplying

Japan with over 670,000 tonnes of rice.

Japanese rice requirements can be broken into two categories - rice for human consumption (table rice) and as raw material for the food processing industry. Generally speaking, Japanese consumers prefer the locally grown Japonica (short grain and round) variety of rice. Consequently, much of the Thai rice imported by Japan is for the food processing industry. It has been estimated that 40% of Thai rice is used to make sake, the local Japanese rice wine. Another 20% is used to make Meiji desserts. The remainder goes towards making "Semke" or crisped rice and other processed foods.

It is possible that Thailand could eventually win 30% of the Japanese rice market even though it is mainly for the processed food industry and that destined for the table is usually "mixed" with locally grown Japanese rice.

Consequently, in order to meet the needs of the Japanese rice market, Thai agriculture must be sensitive to such market needs and switch some of its rice production towards the short grain (Japonica) variety. This is the only way to break into the important Japanese rice market on a longer term basis, particularly the table rice sector.

Additionally, to counter any claims (by some Japanese elements) that Thai rice is of poor quality and is badly packed, high packaging standards need

to be upheld, particularly for the export markets. This should address the "problem" of unwanted "extraneous materials" in imported Thai rice.

Effects of the 1993 GATT Agreement on Thai Rice Exports

Looking at agriculture and, in particular, rice, one of the outcomes of the GATT talks will be an increase in world trade in rice and a change in trade pattern. Largely due to GATT and, partly due to domestic shortage resulting from a production shortfall, Japan (long self-sufficient in rice production) had to open its doors to imports of foreign rice (largely from Thailand, the USA, China, and Australia). S. Korea has also bowed to pressure from GATT and opened its domestic rice market to foreign rice.

Because of the production shortfall in domestic rice production last year, Japan has had to import 1.3 million tonnes of foreign rice and will need to order another 1.2 million tonnes, such figures being well above the "minimum" level of imported rice as required by GATT. More rice orders can be expected in the near future. There could, however, be a preference towards Australian and U.S. short grain rice over long grain Thai rice.

Of the initial previous demand of 1.3 million tonnes of rice imports into Japan for 1994, Thailand had supplied 670,000 tonnes with the remaining

supplied by the other two rice exporters, namely the USA. (600,000 tonnes) and China (100,000 tonnes).

In the near future beginning in 1995, Japan, under pressure from GATT in general and the USA in particular, will have to import 4% of its annual rice consumption needs (10 million tonnes) amounting to 400,000 tonnes, (with or without a domestic production shortfall). Moreover, this foreign rice intake will increase to 8% of its annual rice consumption amounting to 800,000 tonnes of imports of foreign rice annually. Should more production shortfalls occur on the domestic production side, total demand for rice imports into Japan could reach 2 million tonnes annually.

South Korea, although not currently facing a domestic production shortfall, faces similar GATT pressure to open its doors to rice imports. It will have to start with an import equivalent of 1% of annual rice consumption which translates into annual rice imports of around 55,000 tonnes per annum. This initial intake will increase to 2% of annual consumption for the near future. Although this is not substantial in comparison to other export rice markets, there is future potential since S.Korea is a traditional rice consuming country.

For the Thai rice market, these recent developments on the Japanese and South Korean rice markets have profound effects and implications not only in terms

of increased exports and future export possibilities but also in terms of overall world rice prices. The recent Japanese demand has already boosted world rice prices to a high of US\$ 315/tonne for early 1994 as compared to a 1992 low of US\$ 274/tonne on the world rice market although rice prices will fluctuate.

World Rice Market Forecasts : the Future

Looking now at the future of the world rice market on a longer term basis, both in the short term (for the year 1994/95) and in the medium term (five years from now or for 1998/99), the Australian Bureau of Agricultural and Resource Economics (ABARE) makes the following short term and medium term forecasts for the world rice market. Specifically, what can the world's rice exporters look to in the future, both in the short term and the medium term regarding world rice production and world rice exports?

Short Term Forecasts for 1994/95

For 1994, world consumption of rice is forecast to increase to 355 million tonnes (milled) while world production of rice (paddy) is forecast to fall by 1% to 516 million tonnes due to reduced production in Asia and the U.S.

World rice trade (exports) for the same period are forecast to increase by 11% to 15.9 million tonnes (milled), due to Japan lifting import bans (including a domestic production shortfall). (see Table 5)

Medium Term Forecasts for 1998/99

Over the medium term, world rice consumption is projected to increase. However, world rice production is expected to increase at an even faster rate with a number of Asian economies moving towards utilizing better technology and responding to higher world rice prices (nominal prices) at US \$336. World rice trade (exports) is also forecast to remain relatively high throughout the medium term as income and population growth in countries such as the Phillipines, China, and the Indian subcontinent push consumption demand upwards. (see Table 5)

In conclusion, although the "POST-GATT" era has opened up export markets for the Thai rice industry in the East Asia region (Japan and S. Korea),

Thailand still needs to adapt its production to the specific needs of these new markets. Moreover, the Thai rice industry also needs to maintain and further develop important traditional markets in the Middle East (United Arab Emirates, Iran, Saudi Arabia), Africa (Mozambique) and South East Asia (Malaysia, Singapore, Hong Kong, Indonesia.) Moreover, in the longer term, with increased world rice consumption outpaced by world rice production, there will be increased competition for the traditional and non-traditional world rice markets. However, with the proper research and forward planning, the Thai rice industry is likely to meet any future challenges both in the production and marketing spheres. □□□

Table 1. Thai Rice Exports by Region

	qty Mt	(millions of tonnes) (Mt)				
		1986	1987	1988	1989	1990
ASIA	qty Mt	1.1	1.3	1.9	2.7	0.9
	% share	(24%)	(30%)	(40%)	(45%)	(25%)
MIDDLE	qty Mt	.66	1.0	.83	1.1	1.2
	% share	(15%)	(24%)	(17%)	(18%)	(29%)
AFRICA	qty Mt	1.6	1.6	1.5	1.3	1.1
	% share	(38%)	(37%)	(32%)	(22%)	(28%)
EUROPE	qty Mt	0.51	0.24	0.20	0.47	0.21
	% share	(12%)	(5%)	(4%)	(8%)	(5%)
OTHERS	qty Mt	0.49	0.16	0.28	0.46	0.46
	% share	(11%)	(4%)	(6%)	(8%)	(12%)
TOTAL	qty Mt	4.3	4.4	4.8	6.0	3.9
	% share	(100)	(100)	(100)	(100)	(100)

Source : Ministry of Commerce - Foreign Trade Department. Bangkok, Thailand

Table 2. Thai Rice Exports by Country of Destination

(Value in millions/baht)

		1988	1989
China	Bht./m.	2,348	5,130
Iran	"	2,059	3,981
Malaysia	"	2,233	3,097
Singapore	"	2,224	2,872
Hong Kong	"	1,995	2,430
United Arab			
Emirates	"	1,224	2,032
Bangladesh	"	199	1,792
Mozambique	"	1,312	1,695
Indonesia	"	241	1,594
Soviet Union	Bht./m.	71	1,554

Source : *International Business Review (Thailand) Ltd, Bangkok, THAILAND***Table 3. World Rice Production by Country of Origin**

(Mt-millions of tonnes)

	1987/88	1988/89	1989/90	1990/91
China	173.9	169.1	180.1	182.0
India	85.3	106.0	105.0	109.5
Indonesia	41.5	42.3	44.8	44.3
Bangladesh	23.1	23.3	26.6	27.3
Thailand	18.0	21.1	21.0	20.0
Vietnam	n.a.	n.a.	18.0	17.5
Burma	11.4	12.5	13.5	14.0
Japan	13.3	12.4	12.9	12.9
S.Korea	7.6	8.4	8.2	7.6
United States	5.9	7.3	7.0	7.0
Others				
World rice				
production (paddy)	462.8	487.6	504.8	511.4

Source : *USDA, Washington, D.C., USA*

Table 4. World Rice Exports by Country of Origin

(thousands/tonnes) (kt)

	1988	1989	1990	1991
Thailand	5,089	6,140	3,926	4,200
US	2,247	2,973	2,400	2,400
Vietnam	97	1,400	2,000	1,700
Pakistan	950	779	850	1,000
India	200	400	400	400
Burma	368	456	200	400
China	698	320	300	300
Phillipines	181	195	625	250
World rice exports	11,930	15,169	12,440	13,166

*Source : Research & Development Dept., Krung Thai Bank. Bangkok, THAILAND (1992)***Table 5. Summary and Projections of Key Rice Statistics**

	Unit	1991	1992	1993	1994	1995	1996	1997	1998
		-92	-93(p)	-94(f)	-95(z)	-96(z)	-97(z)	-98(z)	-99(z)
WORLD									
Area	mil./ha.	146	145	146	149	150	150	150	151
PRODUCTION									
- paddy	Mt.	516	519	516	535	541	545	549	553
- milled	Mt.	348	351	344	357	361	369	372	375
Use	Mt.	353	354	355	358	360	364	368	372
EXPORTS	Mt.	15.1	14.3	15.9	14.8	14.6	14.8	15.0	15.3
Closing stocks	Mt.	54.8	51.6	40.4	39.3	39.7	44.5	48.2	50.8
Stocks to use ratio	%	15.5	14.6	11.4	11.0	11.0	12.2	13.1	13.7
PRICE									
(a)-nom.	US\$/t	308	274	304	315	320	324	331	336
(b)-real	US\$/t	320	282	304	305	299	293	289	283
AUSTRALIA									
Area	000 ha	127	125	135	125	120	121	121	122
Production									
- paddy	kt	1124	955	1150	1125	1085	1096	1107	1118
- milled	kt	647	592	713	698	673	680	687	693

(a) Thai white rice. 100 per cent grade 2, fob Bangkok, Aug-Jul average

(b) In 1993-94 US dollars

(p) Preliminary

(f) ABARE forecast ; (z) ABARE Projection

Sources : ABARE, ABS, QRMB, (NSW) ; Ricegrowers Co-operative ; USDA

Table 6. World Rice Imports by Country of Origin

(millions of tonnes / Mt)

	1989-90	1990-91	1991-92
Saudi Arabia	0.5	0.5	0.5
Iran	0.9	0.8	1.0
Iraq	0.4	0.3	0.3
Indonesia	0.1	0.3	0.7
Philippines	0.6	0.2	0.3
Malaysia	0.4	0.5	0.4
Senegal	0.4	0.4	0.4
South Africa	0.3	0.4	0.4
Russia	0.4	0.4	0.5
Brazil	0.4	0.8	0.5
Mexico	0.1	0.2	0.3
Others	7.3	7.4	7.4
World	12.0	12.5	13.1

Source : Agriculture Section, Academic Division, Bank of Thailand, Bangkok, THAILAND

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