Issue Sheet

September 2013
TRADE DEVELOPMENT

Turning rice into 'White Gold': A tale of four tigers

Rice is the world's most important cereal for human nutrition, with an annual production of more than 450 million tons. However, the vast bulk of this tonnage goes to feed the domestic markets of the producers, leaving only a small percentage of that amount to be traded annually. Because of the small percentage of annual rice production available for trade globally, relatively small rice-producing countries such as Thailand and Vietnam are among the world's biggest suppliers. Enter Cambodia, a small producer with big ambitions, into a highly competitive market.

The Southeast Asian region is ideal for growing rice, and the market environment has been described as a 'Tale of Four Tigers'. Thailand is described as the aging tiger—its heyday is past, due to rising production costs and populist government policies—whose dominant position is increasingly being eroded by its aggressive tiger challenger, Vietnam. The challenger is now annually exporting around 2.5 million tons of high quality rice, including soaring volumes of fragrant rice. Two tiger cubs, the elder one Myanmar (the world's largest rice exporter prior to World War II), and the younger one, Cambodia, challenge the dominant exporters. Given recent political developments, Myanmar looks set to modernize its rice industry, and is likely to become a serious competitive threat to Cambodia's white rice exports. Its export prices for low quality rice are already among the lowest in the world, and the EU is likely to soon grant it the same duty preferences as those enjoyed by Cambodia. So the youngest tiger, Cambodia, may have to compete even harder if it is to become and remain a major rice exporter, and achieve its target of exporting 1 million tons of milled rice annually by 2015.

The World Bank recently commissioned a study into the Cambodian rice market and the changes brought about by the Government's 2010 Rice Policy. The mainly positive findings showed that milled rice exports, almost non-existent five years ago, more than tripled in 2010 and again in 2011, before rising again to 250,000 tons in 2012. While this is impressive growth, we must remember that Cambodia annually can produce almost 9 million tons: 5 million tons are consumed domestically, and the rest is available for export, formally or informally. This means that Cambodia is currently exporting only 16 percent of its valuable rice surplus. What can Cambodia do to consolidate and accelerate the upward trend in its rice exports?

Government policies and incentives have led to major investments in much-needed, larger modern rice mills and polishing factories. The milling capacity of these larger mills has almost quadrupled since 2009, and the sub-sector's capacity is expected to double again by the end of 2013. This is important, because the present situation—characterized by informal exports of rice paddy to Thailand and Vietnam—leaves Cambodia with a low profit margin from its precious 'white gold'. The Government may wish to continue expanding its efforts to encourage and incentivize private sector investment, both domestic and foreign, in mills, factories and related storage facilities to derive additional value from its crop.

Cambodia's competitiveness is fragile, however. A slight increase in prices could ruin the price advantage it enjoys over its rivals. Last year, Cambodia's white rice lost its competitiveness. World prices declined as a result of India's re-entry into the market, while Cambodian prices rose, resulting in a loss of business, in particular with the EU and Russia. Cambodia can produce rice relatively cheaply, and its aromatic rice is still competitive, but it suffers from high milling costs and transportation charges on the one hand and cumbersome and costly export procedures with high port charges on the other. The industry itself must tackle these inefficiency issues. Mills in Thailand and Vietnam work three 8-hour shifts every day, all year round, while those in Cambodia work one shift of 8 to 10 hours a day and do not operate all year. As the number of larger mills increases, and they become better financed, we can expect this to improve.

Export costs must be reduced. Cambodian rice exporters face formal and informal fees of about US$11 a ton, while their Thai and Vietnamese counterparts pay only US$0.15 and US$0.05 a ton, respectively. The Government is trying to tackle this issue and has set up 'one-stop' offices designed to simplify export processes and reduce bureaucracy and related costs. But it needs to act quickly to improve the effectiveness of these operations, and reduce export costs to competitive levels.

There are a number of encouraging developments on the horizon. The construction of a new rice mill and port facilities in Kampot, and expansion of Sihanoukville Port and Phnom Penh Port, will allow larger vessels to be used from 2013 and 2015 respectively. Vietnam has informally opened up use of the Mekong River to transit shipments of rice bound for the deep-water port of Ho Chi Minh City, and the Government may want to formalize that arrangement. In addition, it could negotiate a transit agreement with Thailand to allow rice from Battambang and Banteay Meanchey to be exported via Thai ports, with cheaper port charges and ocean access. Both of these agreements would substantially reduce costs and improve logistics and competitiveness.

Cambodia's largest rice export market is currently the EU, which is highly sensitive about genetically modified food. Without accredited laboratory testing facilities to certify rice from Cambodia, exporters must send it to Vietnam or elsewhere for certification, which can be both time-consuming and expensive. An effective way around this issue would be for the Government to undertake, and independently validate, a scientific study, allowing the Ministry of Agriculture, Forestry and Fisheries to issue a blanket guarantee confirming that Cambodian rice is GMO-free, so eliminating the requirement for, and costs of, shipment testing.

So, while many challenges and obstacles remain to be overcome, there is every reason for optimism over the future of the Cambodian rice industry if current efforts are strengthened. Government policy is on the right track and enjoys the support of development partners. We look forward to seeing the growing tiger cub showing its teeth and hearing it roar!

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Funding for the Trade Related Assistance Cambodia Multi-Donor Trust Fund from the EU, DANIDA and UNIDO is gratefully acknowledged