



The Main Challenges Affect Cambodian's Milled Rice Exports

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ABSTRACT <p>Rice serves as a vital staple for 85% of Cambodian households, particularly those residing in rural areas. The Royal Government of Cambodia (RGC) has prioritized the export of milled rice as a strategic pillar for economic growth, poverty reduction, and improved living standards. However, the export of Cambodian rice faces several challenges, primarily related to meeting the stringent quality standards demanded by high-income markets and increasing competition from producers of fragrant rice. Furthermore, the review identifies obstacles within the governmental processes for rice export documentation, as well as issues impacting rice processing and trading. These challenges include limited government support, financial constraints, unreliable electricity supply, and elevated transportation and milling costs, which ultimately contribute to higher retail prices.</p> <p>Keywords: Cambodia, Challenge, Export</p>			

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INTRODUCTION

Rice is a crucial source of sustenance and economic support for 85% of Cambodian households in rural areas (Sokcheng, Chhun, & Pirom, 2017), accounting for one-third of Cambodia's agricultural GDP (Molyvann, 2023). The Royal Government of Cambodia promotes paddy production and milled rice exports to strengthen the economy, reduce poverty, and improve living standards (Theng, Vuthy, & Koy, 2011). Rice is considered "white gold," highlighting its vital role in the national economy (Thath, 2016). Improved government policies and programs, such as building and improving physical infrastructure, encouraging domestic milling, setting up storage facilities, investing more in irrigation and water management institutions, giving farmers priority for land titles, improving extension services, and controlling input markets, are all beneficial ways to increase rice production and sales (Chun, 2014). Since 2015, the Royal Government of Cambodia (RGC) has been vigorously advocating for rice production with the goal of exporting 1 million tons. The

number of rice farming seasons has expanded from 2 to 3 annually, and production has experienced a 13% increase from 2017 to 2023, rising from 10.5 million tons in 2017 to 12 million tons in 2023 (Sithirith, Sao, De Silva, & Kong, 2024).

The International Commodity Institute (ICI) awarded Cambodian fragrant—or Sen Kra Ob—rice the "World's Best Rice" title in 2012, 2013, and 2014, and the World Rice Forum crowned Cambodia's Phka Romduol rice the best rice in the world in 2022. These World's Best Rice varieties boost rice exports by 12% from 572,878 metric tons in 2018 to 641,735 metric tons in 2022, valued at \$415.9 million (EuroCham Cambodia, 2023). Despite having the distinction of winning the World's Best Rice Award in recent years, Cambodia's rice export figures remain relatively low in comparison to the significant increase in rice production. The Cambodia Rice Federation has recently established an objective to export a minimum of one million metric tons of milled rice by 2025 (International Trade Administration, 2024), particularly in light of the fact that Cambodia only managed to export 538,396 metric tons in 2015 (Rath, Wonginta, & Amchang, 2023). It has been nearly nine years since Cambodia has fallen short of its target to export one million metric tons of milled rice.

This review article seeks to explore the challenges associated with the export of milled rice from Cambodia. Notably, neighboring countries received approximately three million metric tons of surplus paddy in informal exports in 2020 (Denning, 2023), with an additional five million tons still available for export in 2023 (Phnom Penh Post, 2024).

RESEARCH METHODOLOGY

The study focused on the challenges associated with Cambodia's rice exports. In this study, the researchers gathered publications from various sources such as scientific research articles, the Ministry of Agriculture, Forestry, and Fisheries, the Cambodia Rice Federation, development partners, and other posts on media or websites that discussed issues related to milled rice export.

RESULT AND DISCUSSION

3.1 Characteristic of exporting firms and export destination

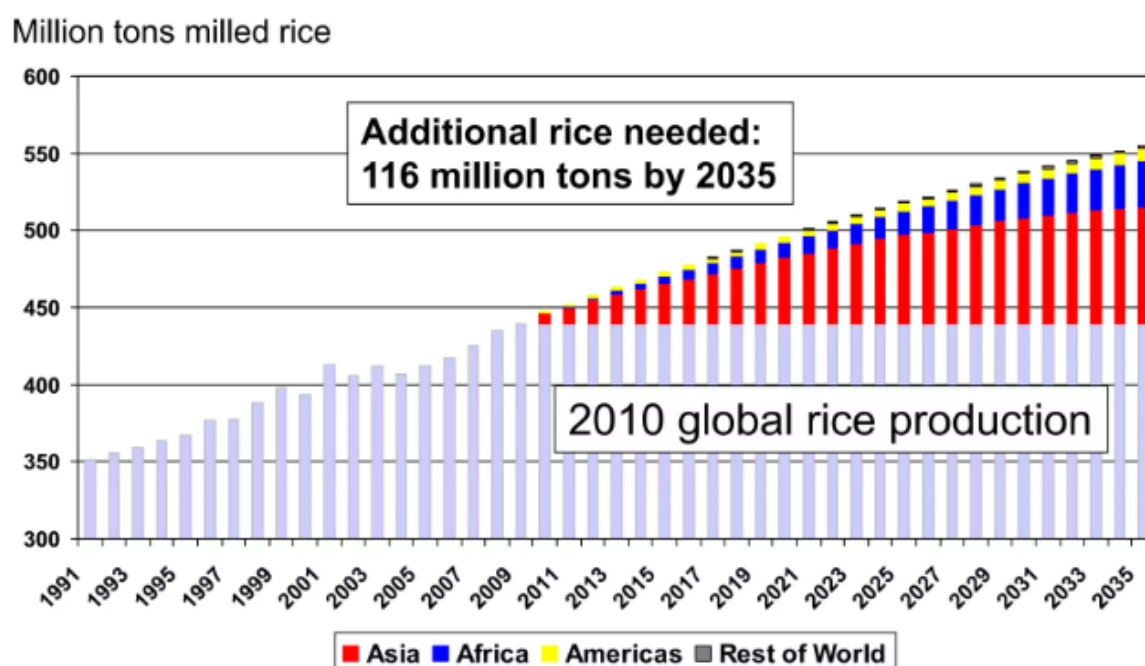
Cambodian rice top ten exporting firms are varying characteristics and target different destinations/ markets. Some firms target markets in Western Europe, North America and wealthy countries in East and Southeast Asia such as Malaysia, Hong Kong and Singapore; while other companies export to Eastern Europe that specialized on organic rice. Most of the firms own a rice mill and/or processing factory and starting from being traditional rice millers which supplied for the domestic market. Some companies are rice traders without mill owners who buy rice from the mill for processing and export. The final category comprises NGO exporters, primarily focused on the supply of organic rice. Typically, rice exporters in Cambodia are affiliated with an association or organization within the rice sector, which allows them to access various advantages such as establishing

a supply network and enhancing their bargaining power regarding export policies (Thath, 2016).

3.2 International market

International Market Global forecasts anticipate increased demand and production – particularly in Africa and Asia, where populations are growing fastest. Most rice producing countries essentially cover their domestic demand, with export volumes only a small part of their total production. However, given the increased demand projections – the IRRI projects that 116 million tons of additional rice over 2010 levels will be needed by 2035 – it is possible that world rice production may face constraints including available land and water. Such is the case with China, the largest producer and importer of rice, which is expected to increase imports as internal production rates max out in meeting the need to feed a growing population. This represents a significant opportunity for Cambodia, as China, over the next ten years, could in theory import all the Cambodian rice available for export (International Finance Corporation 2015).

Figure 1: Global rice production increase needed to meet demand by 2035



Source:

<https://www.slideshare.net/slideshow/global-rice-supplydemandoutlook/7638942#1>

3.3 Exporting markets

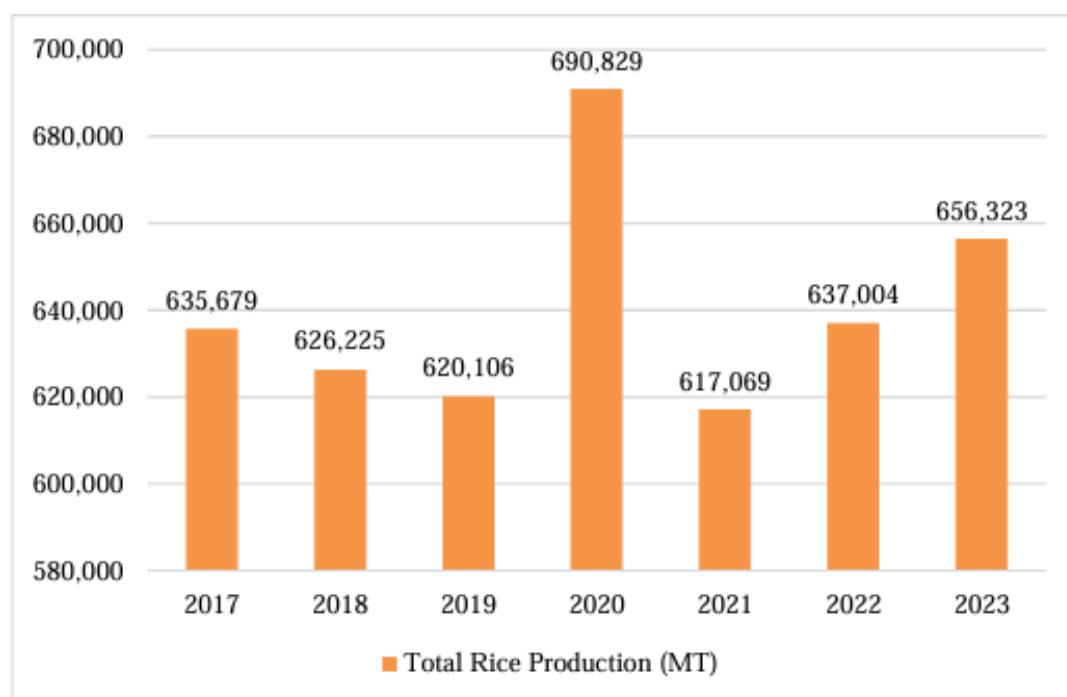
Cambodia has emerged as a prominent exporter of rice, demonstrating robust trade performance in recent years. The quantity of rice exports increased by 12%, rising from 572,878 tons in 2018 to 641,735 tons in 2022, with a total value of USD 415.9 million. In 2022, China represented the largest market for Cambodian rice, comprising 39% of total exports, valued at USD 163.8 million. Other important markets include France (USD 62.9 million), Malaysia (USD 31.2 million), the Netherlands (USD 25.1 million), and Gabon (USD 17.1 million). Several factors have driven the expansion of Cambodia's rice exports, including the country's favorable climate for rice cultivation and a growing global demand for rice. Furthermore, Cambodia has gained advantages from free trade agreements with significant partners such as South Korea and China (EuroCham Cambodia, 2023).

The Cambodia Rice Federation (CRF) has announced that the total volume of milled rice exports for the 2022-2023 period reached 656,323 metric tons, reflecting a 3 percent increase compared to the prior year (Figure 2). Estimates from the Post suggest that the overall rice exports for 2022-2023 were even greater, as the CRF figures do not account for paddy exports to Vietnam. Additionally, the CRF highlighted that Cambodia's paddy exports to Vietnam rose to 4.387 million metric tons during the 2022-2023 period. (Hoy & Luxner, 2024).

Cambodia and Myanmar possess significant land and water resources, presenting substantial opportunities for enhancing rice exports. Nevertheless, the growth of trade will depend on the ability of both countries to establish the necessary institutional frameworks and infrastructure to support increased export volumes sustainably. There is an urgent requirement to produce more certified rice seeds, alongside investments aimed at boosting output and enhancing milling quality. Additionally, it is essential to develop transport infrastructure to reduce the costs associated with delivering ex-mill exports to ports. The foundational projections for the trajectories of rice export growth provide a comparative analysis of Cambodia and Myanmar (Fadah, Lutfy, & Amruhu, 2024).

The Royal Government of Cambodia aimed to export a minimum of 1 million tons of rice in 2015; however, the actual exports totaled only 538,396 tons (Rath, Wonginta, & Amchang, 2023). As of 2023, the kingdom has yet to meet this target, with rice exports recorded at merely 656,323 tons (see figure 2). These figures highlight the challenges faced in the export sector.

Figure 2: Official milled rice export by year



Source: Cambodia Rice Federation

3.4 Rice export challenges

3.4.1 Foreign market export challenges

The European Union represents the largest market for Cambodian rice, followed by China, which includes mainland China, Hong Kong, Macao, and Taiwan, as the second-largest market. The ASEAN region ranks third, while countries involved in the Belt and Road Initiative (BRI) are expected to gradually emerge as another market for Cambodian rice (Kea, 2020). There is an increasing concern among both buyers and consumers in the European Union regarding sustainability and the social impact of their consumption. This heightened awareness compels rice millers and exporters to establish traceability systems that comply with standard requirements. A number of millers and exporters have begun to engage in contract farming with agricultural cooperatives (ACs); however, these farming agreements appear to be relatively inactive, as this practice is still in its early stages in Cambodia.

Myanmar poses a growing challenge to Cambodia's rice exports on the international stage, having been reinstated under the Everything But Arms (EBA) initiative, which grants preferential trade status retroactively from June 2012. Consequently, Myanmar is positioned as a significant low-cost rice exporter, intensifying competition with Cambodia. The global rice market remains volatile, with Thailand recognized as a primary competitor for fragrant rice and Vietnam for white rice. This competitive landscape contributed to a stagnation in Cambodia's rice exports between 2015 and 2016, with export volumes recorded at 538,396

MT and 542,144 MT, respectively, partly due to a decline in Thai rice prices. Furthermore, Vietnam's recent acquisition of a quota under the Free Trade Agreement for 20,000 MT of milled rice, effective in 2018, enhances its potential to increase market share in the EU. Lastly, both Myanmar and Vietnam have implemented policies aimed at producing fragrant rice to satisfy international market demand.

3.4.2 Government related challenges

Exporting rice from Cambodia requires numerous documents, including certificates of origin, phyto-sanitary, fumigation, and quantity, as well as a bill of lading, packing list, and test report. Multiple departments and ministries are involved in the export process, such as the Ministry of Commerce, Ministry of Agriculture, Forestry and Fisheries, and Ministry of Economy and Finance. The overlapping responsibilities among these entities lead to reduced inter-ministerial collaboration and potential conflicts of interest. The process is time-consuming and expensive due to the need for various certificates and ministry involvement. Exporters face challenges shipping rice to ASEAN countries because document preparation in Cambodia takes longer than product transit to destination ports. Unofficial fees are commonly paid by exporters to expedite document processing. The level of service provided by officials depends on the amount of unofficial payment made; higher payments result in faster service. The unofficial cost is about \$9 per metric ton, which can exceed the profit from selling a single metric ton of rice. Exporting rice legally or illegally without incurring unofficial fees is deemed unfeasible (Thath 2016).

3.4.3 Exporters challenges

There are some challenges which are faced by export firms found in this study. **First**, institutional constraints, including weak governances and institutional supports, the fact that rice industry is an emerging sector also contributes another constraint to the exporters. Because they have to complete paperwork which involves many government departments and ministries, many exporters mentioned that they have not had sufficient capacity to conduct the work by themselves. Therefore, they have to outsource the work to the so-called logistic company. This practice added the cost to their final production (Ponleu & Sola 2018).

Second, finance shortage, exporters face difficulties in obtaining loans from commercial banks and financial sources primarily due to collateral requirements. Access to finance issues are common across small and medium enterprises, not just the rice industry, with additional constraints including weak legal infrastructure, poor borrower financial records, and high borrowing costs. The banking sector struggles with insufficient funds for medium and long-term loans and lacks staff capable of managing financial risk effectively (Ponleu & Sola, 2018).

Third, high electric cost, 43% of surveyed firms experienced electrical outages, with an average of 0.9 outages per month, compared to lower percentages in Indonesia (12.7%) and Malaysia (28.6%). Inadequate electricity supply can lead to increased costs, production

disruptions, and reduced profitability for businesses. Losses due to electricity outages in Cambodia have increased significantly, from 0.3% of annual sales in 2013 to 1.1% in 2023. The cost of electricity outages in Cambodia is higher than in Indonesia (0.2%), Vietnam (0.2%), and Singapore (0%) (Ly et al., 2024).

Four, high logistic cost, the analysis conducted using the Poisson pseudo maximum likelihood (PPML) methodology reveals that distance has a significant negative impact on rice exports from Cambodia, with a 1% increase in distance leading to a 0.93% reduction in export volumes, at a 1% significance level (Kea, Li, Shahriar, Abdullahi, Phoak, & Touch, 2019). Additionally, Ponleu and Sola (2018) indicated that the cost of gasoline in Cambodia stands at USD 0.90 per liter, whereas in Vietnam, it is USD 0.81 per liter, and in Myanmar, it is USD 0.51 per liter. In Thailand, the price of gasoline is USD 1.04 per liter; however, it is noteworthy that the majority of trucks in Thailand utilize LPG, which is roughly half the price of gasoline (Ponleu & Sola, 2018).

Fifth, Cambodia's milling costs exceed those of both Thailand and Vietnam. Improvements in milling and polishing technologies are expected to enhance exports by allowing Cambodian traders to secure and fulfill larger orders. The high milling expenses in Cambodia are primarily due to elevated electricity rates and the advanced milling and storage facilities present in Vietnam and Thailand. Furthermore, Cambodian mills typically operate for only one shift of 8 to 10 hours daily and often lack the necessary working capital to maintain year-round operations. In contrast, Thai competitors operate continuously, employing three 8-hour shifts, six days a week for most of the year. On a positive note, recent investments in larger and more efficient rice milling and polishing facilities in Cambodia have led to a four-fold increase in capacity over the past four years, with expectations of further doubling that capacity by the end of 2014 (World Bank, 2015).

CONCLUSION

This literature review examines the challenges faced by Cambodian rice exports. Numerous obstacles have been identified, particularly as consumers and buyers in high-income countries demand high-quality rice that complies with standard requirements, alongside increasing competition from fragrant rice exporters. The review also highlights challenges associated with governmental processes for rice export documentation, as well as issues impacting rice processing and trading. These include government support related to policy and administration, financial constraints, electricity supply issues, and elevated transportation and milling costs, all contributing to higher prices in the retail market.

The government has established significant policies that have positively influenced the increase in rice exports over the past two decades. To effectively boost exports, which serve as a catalyst for Cambodia's goal of becoming a middle-income country by 2030 and a high-income country by 2050, the government should enhance collaboration with rice export stakeholders and take decisive actions regarding its policies. This includes streamlining the processing of export documentation, assisting enterprises in accessing international loans at low interest rates, reducing electricity costs while ensuring a stable

supply, and addressing issues of illegal corruption and under-the-table payments during transportation. Ultimately, it is essential for the government and export companies to work closely together and demonstrate a strong commitment to resolving any challenges encountered in rice exportation.

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