

Foreign Direct Investment in the Mill Sector for Rice Value Chain Development in Lao PDR

International Symposium on Frontier Research Themes on Service Sector support for Food Value Chain Development in Developing Countries



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[The views expressed herein are entirely those of the author and do not necessarily reflect the position of the agency he serves]

OUTLINE:

- 1. INTRODUCTION**
- 2. BACKGROUND**
- 3. FDI IN MILL SECTOR**
- 4. OTHER CONSIDERATIONS**
- 5. CONCLUSION**



- **Purpose:** To share our **findings and understanding** of the underlying reasons for and impact and **dynamics** (the why, how and where, etc) of FDI (and other investments) in the **mill sector** for the **rice value chain development** in Lao PDR with a view to stimulating discussion at this Symposium
- **Underlying theme:** It is prudent to see things in **proper perspective** and recognize the **dynamics of FDI** in the mill sector and its impactful role as a **pivot in linking and integrating** the upstream and downstream segments of the Lao rice value chain in in so doing help to ‘get the basics and balance right’.
- **Caveat:** Preliminary study involving a **rapid diagnostic assessment** in short trips to Vientiane coupled with desk research and author’s years of **involvement in rice supply chains and trading networks development** in ASEAN and further afield – worm’s eye view? Impressionistic or tip of an iceberg?



KEY TAKE-HOME MESSAGES:

- The **driver** in rice supply or value chain development in Lao PDR is **not in the FDI in land** (as initially thought) but rather in the **FDI and local investments in the mill sector**
- The **spate of investments** was started in the **late 2000s**, in the wake of rapidly **increasing paddy production**; **increasing prices** for both glutinous and non-glutinous rice; coinciding with the **rolling back of State Enterprise for Food and Crop Promotion's (SEFCP)** role [cf in early 2000s, reported that only **5% of production** (110,000 MT) was commercially **marketed** and **SEFCP controlled 70%** and **inter-province trade was restricted**]. Also **millers' margin high – 23%** (EMC, 2011)
- Role of **Enhancing Milled Rice Production in Lao PDR (EMRIP)** project – EU, Helvetas and SNV – 2009-2011 – **21 rice mills**, 4 provinces – **each mill linked to 500-1,000 farmers** – seeds, farmer training, Beer Lao. Now 2nd Phase with **Robobank** in 2 provinces and Lao Extension for Agricultural Production (**LEAP**) in another 2. **Building 'trust' and 'co-operation'** between different segments of value chain - to **cope with common constraints**.



KEY TAKE-HOME MESSAGES:

- The **speed and degree** of new **investments in mills** and linking and **integrating the supply chain** involving a cross-section of stakeholders for a **land-locked country of six million**, with only **11%** of rice areas **irrigated**, producing almost exclusively glutinous rice, and only **exporting small quantities of rice and paddy intermittently**, largely private sector driven ... is astounding – stands out when **compared to Myanmar, Cambodia, and even Viet Nam's experience** – there are lessons to be learned – so cries out for **more structured research to guide policy**, including role of public and private sector in moving forward.



INTRODUCTION :

- This paper draws from a **report on FDI in rice value chain with special focus on FDI in land in Lao PDR**, commissioned by **IFPRI** in July 2012
- While received **literature** (as well as the initial focus of the IFPRI commissioned report) is **focused on FDI in land for agri-food**, our short preliminary assessment indicated that the main impact of **FDI on the development of rice value chain** in Lao PDR is rather in the **mill sector**, although there are sizable investments in modern retailing/supermarkets
- An on-going **ADB study** on the development of supply chains in CLMV countries also found that **investments in agro-food processing** (including rice mills) are increasing playing a **pivotal role in linking, integrating and driving supply chain development in all the CLMV countries**, despite the differences in endowments, stage of development and commercialization of their respective rice industries.
- Consequently, we sought to better understand the underlying reasons/factors for such investments, their interplay or dynamics and consequences of FDI and related investments in the mill sector for rice value chain development in Lao PDR

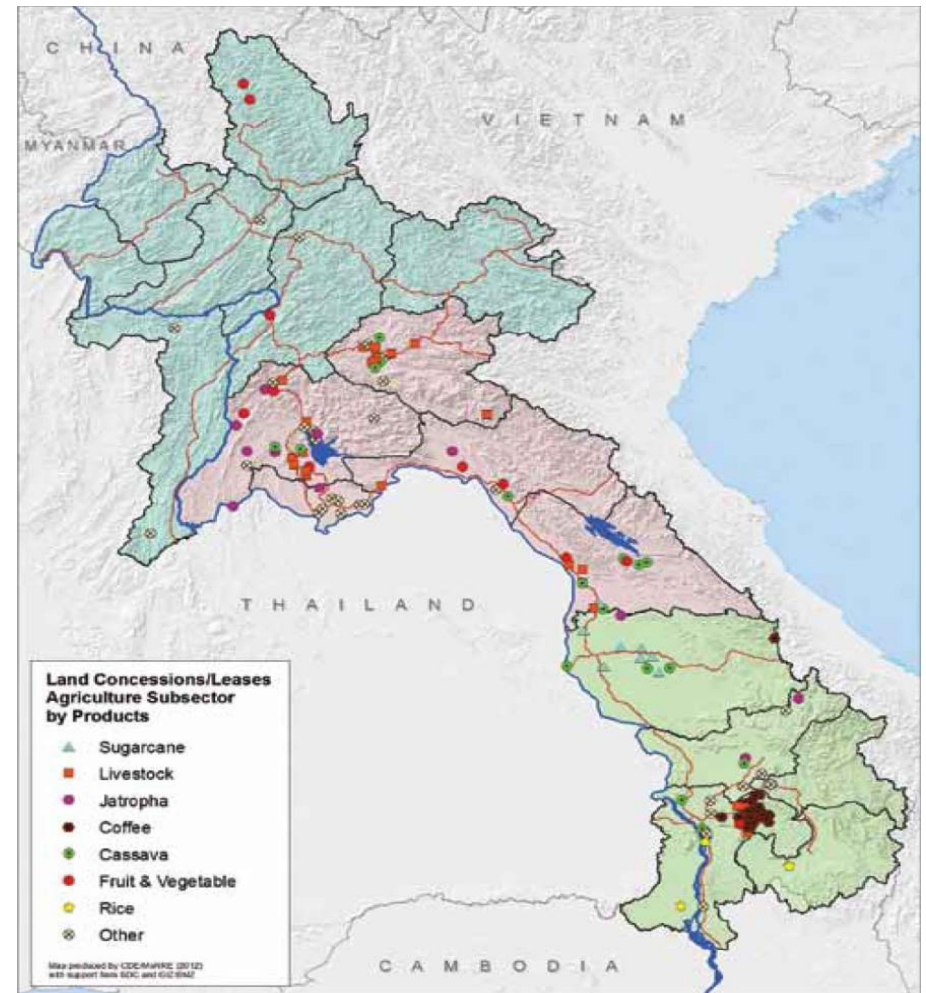
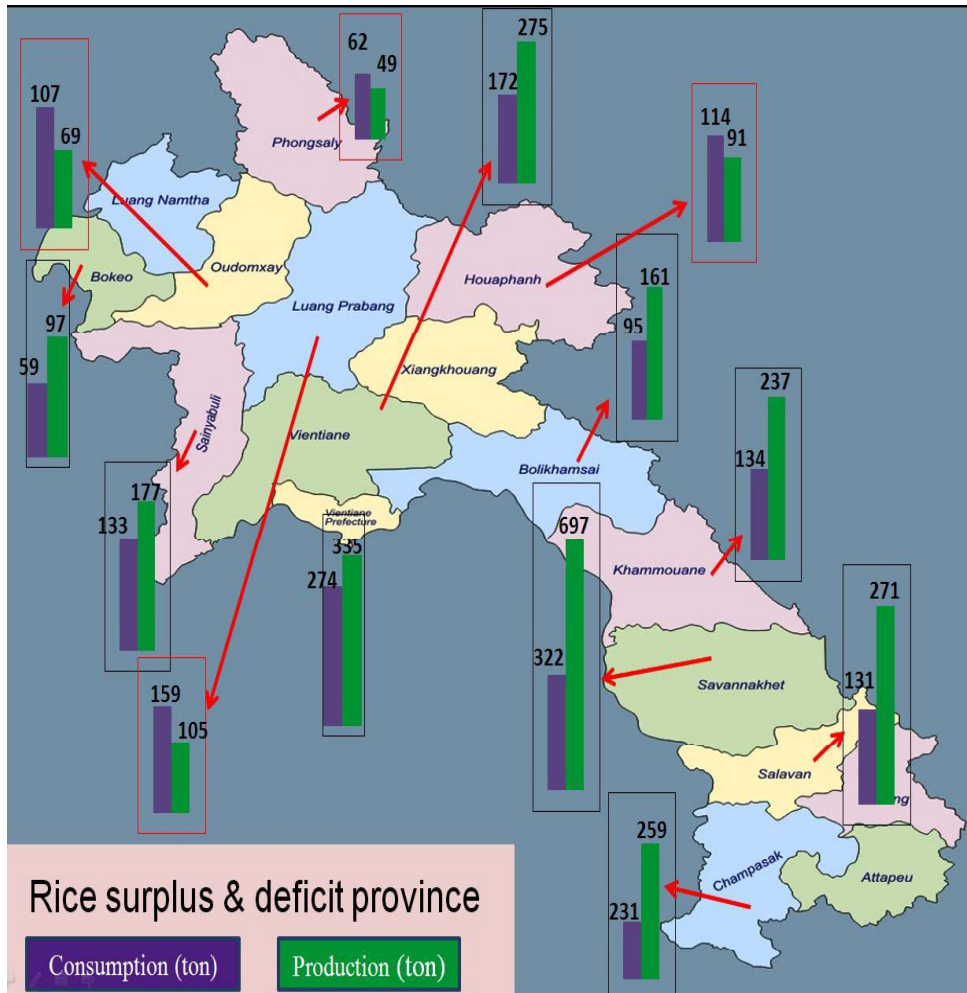


BACKGROUND:

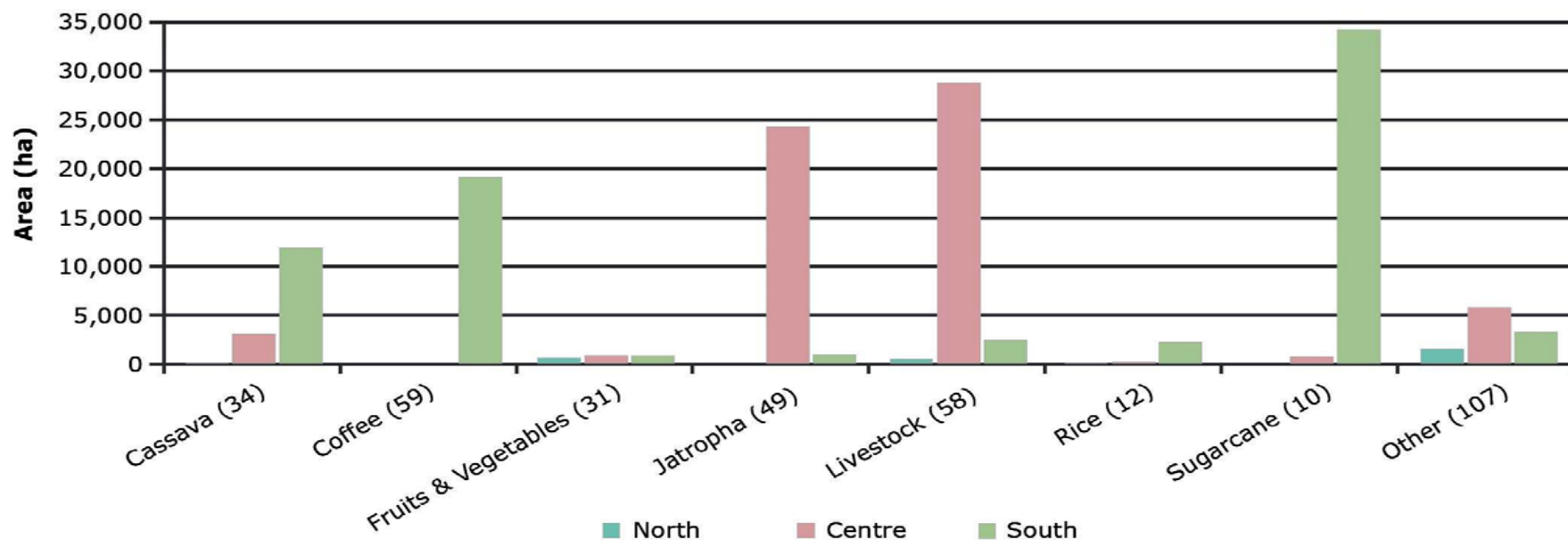
- Recent emphasis on **importance of agriculture investments** (while acknowledging danger of unprincipled investments/investors) - **World Bank's** 2008 World Development Report, **UNCTAD's** 2009 World Investment Report, and **FAO's** State of Food and Agriculture 2012 Report [Recently, together with IFAD have jointly proposed a set of **principles for Responsible Agricultural Investment that Respects Rights, Livelihoods, and Resources**]
- Many concerns with **land issues**, particularly surrounding '**land grab**' at the **global** (Deininger and Byerlee, 2011) and more specifically in **Lao PDR** (GTZ, 2009; Kenney-Lazar, 2011; IFPRI, 2012; Land Issues Working Group 2012)
- **Eliste and Santos**, 2012; and **Schoenweger et al.**, 2012, taken together - neither FDI in land nor impact on rice value chain development significant. **FDI in land for rice - 12 deals covering 2,273 ha** averaging 200ha (cf 986,600ha of rice in Laos). There may be some displacement of shifting cultivation but **insignificant impact** on production or performance or development of rice value chain.



Rice Surplus and Deficit Provinces and Land Concessions by Investment Project Locations and Products in the Agriculture Subsector



Main Products in the Agriculture Subsector by Region



- Large scale farming of paddy – littered with failure – in Lao PDR – **Lao Arrowny Corporation** – Lao- Japanese JV – grow and **export organic Japonica rice - 800 ha by 2004**, by 2010 dormant on account of flooding in 2009 and political turmoil in Thailand – difficult to mill and export from Thailand; similarly **Daum Agro Sole Ltd**, Korean company tried to do **mechanized production of Jasmine rice** from 2010 to 2011 – **450ha** – gave up after suffering heavy losses and now operating rice mill in 2012



- Lao PDR **land-locked** (between Thailand, Viet Nam, Cambodia, China and Myanmar) with **23.08 million hectares** of largely **mountainous** and covered by **rainforest**, sparsely populated by **6.5 million people**.
- The **Mekong River** forms a **fertile valley** through most of the country where agriculture, mainly **rice farming** is carried out
- Land under cultivation amounted to only **1,233,250 ha, of which rice accounts for 80%**. In terms of irrigated areas, only 11%
- Lao has the **2nd largest number of rice varieties** (next to India) and the **largest producer and consumer of glutinous rice** accounting for more than **85% of rice production**
- Lao Census of Agriculture, 2012, the total areas of rice planted in 2010/11 was 987,000 ha (714,000 ha of wet season lowland rice, 57,000 ha of dry season rice and 215,000 ha of upland rice). The **total production** was about **2,822,098 tons** and **average yield** was **3.75 tons/ha**.
- The most important rice growing provinces are **Savannaket (220,000 ha)** and **Champasak (100,700 ha)**.



Distribution of Mills in Lao PDR -2012

| No. | Province | Categories | | | Number of rice mills | small rice mills (custom milling) |
|-----|------------------------|------------|------------|--------------|----------------------|-----------------------------------|
| | | I | II | II | | |
| 1 | Vientiane municipality | 132 | 169 | 423 | 724 | 1,972 |
| 2 | Phongsaly | | | 43 | 43 | 242 |
| 3 | Luangnamtha | 7 | 20 | 111 | 138 | 88 |
| 4 | Oudomxay | 2 | 28 | 90 | 120 | 248 |
| 5 | Bokeo | 8 | 35 | 175 | 218 | 6,676 |
| 6 | Luangphabang | 30 | 62 | 90 | 182 | 4,805 |
| 7 | Houaphan | 2 | 21 | 88 | 111 | 4,065 |
| 8 | Sayabouly | 41 | 32 | 220 | 293 | 1,726 |
| 9 | Xiengkhoung | 12 | 13 | 131 | 156 | 439 |
| 10 | Vientiane province | 30 | 32 | 148 | 210 | 2,846 |
| 11 | Bolikhamsay | 34 | 52 | 2,098 | 2,184 | 185 |
| 12 | Khammouan | 23 | 25 | 1,733 | 1,781 | 399 |
| 13 | Savannakhet | 23 | 52 | 2,058 | 2,133 | 228 |
| 14 | Saravanh | 19 | 14 | 285 | 318 | 441 |
| 15 | Sekong | 14 | - | - | 14 | 75 |
| 16 | Champasak | 20 | 11 | 88 | 119 | 1,070 |
| 17 | Attapuae | 8 | 24 | 2 | 34 | 349 |
| | Total | 405 | 590 | 7,783 | 8,778 | 25,854 |

Source: MOIC

NB. Category I - >10 MT/day, Category II - 5 to 10 MT/day, Category III – < 5 MT/day commercial mills



Lao World Co., Ltd



- subsidiary of **Lao World Group** – overseas Laotian Peter Chan – (Tangferes supermarket) – involved in agriculture, engineering, ICT, construction, hotel, tourism.
- **reprocessing plant** in Savannakhet, 2010, **100MT milled rice/day**
- pre-milled **Jasmine** rice from strategically allied local mills
- export to **Europe** – **EBA** tax waiver - **Chan Brothers' supermarket chains** – Champa, Rose and Golden Mekong brands – **6,000MT** in 2012
- Locally – exclusively in **Tengferes supermarket**



Sengarthit Development Co., Ltd.



- 49% French and 51% Laotian joint venture, 2009, after abandoning corn plantation, holds concession for 300 ha of coffee plantation
- Largest mill in Champasak, 30MT/day - 5,000MT/annum limited contract farming, sourcing through agents
- focuses on high-end Lao market
- targeting to export glutinous rice to Viet Nam, China and Cambodia



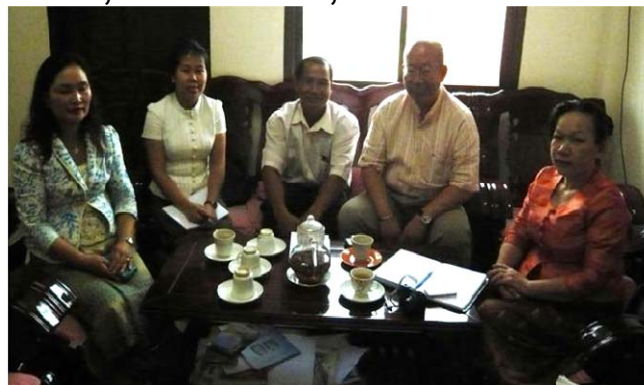


Daum Agro Sole Ltd.

- solely owned by **Daum F&B of Korea**, Kim Young Jin, 2012
- **5MT/day Korean made mill**, **1,200MT** in 2012 of mainly glutinous rice (TDK8) and some non-glutinous (TDK11)
- limited amount of contract farming, buying mainly from agents.
- negotiating with **Beer Lao** to supply non-glutinous RD 203 in 2013
- was involved in **mechanized paddy planting Jasmine** on rented land from farmers, from 85 ha in 2009, to **450 ha in 2011**
- crop failure and unstable market significant losses switched to rice milling

Fu Teng strategic alliance with Dao Phet Group

- **Fu Teng** - Chinese company, 2009, **installs rice mills** and sells **compact mills**, complete range of **milling equipment** - established more than 10 modern mills
- **Dao Phet (Star Diamond) Group**, Mdm Metkham Loriaya, President - **five mills** and **another under construction**, combined capacity of **390MT/day**
 - **Viengmany**, Vientiane, 1995, **upgraded in 2009**, **30-40 MT** milled rice/day - wet polisher and colour sorter
 - **Thoua**, Vientiane Province, 2006, **10MT/day**
 - **Ngern**, **Luang Prabang**, 2008, **15 -20MT/day**
 - **Lung Phen**, Vientiane Province, 2012 **15-20MT/day**
 - **Bounma**, **Savannakhet**, 2013, **100MT/day** - wet polisher and colour sorter
 - **Dao Phet** Rice Mill, Vientiane, under construction **150-200MT/day**



Fu Teng strategic alliance with Dao Phet Group (cont'd)



- Group linked to **25,000 farmers over 13 provinces**, contract farms half of them seeds, fertilizers, and agro-chemicals under credit
- In 2012 produced and marketed **50,000MT of glutinous, non-glutinous and Jasmine rice** in 12 and 50 kg bags with **Dao Phet Logo**
- contract to **supply 3,000MT/annum to Lao Police, negotiating to supply to Lao Military (has total requirement of 30,000MT per annum)**
- **exported 500 MT** of glutinous rice to Viet Nam and **imported 500MT of non-glutinous rice from Viet Nam**, exported **2,000MT of paddy** (both glutinous and non-glutinous) to Thailand
- applying to **export glutinous and Jasmine rice to China.**



Lao Agro. 2000 Co., Ltd



- Established in 2000, Vientiane Municipality, Mrs Bouahom Vongsiprasoam, **two** milling lines, each **10MT/day**, another **25MT/day Chinese line** ready in 2013
- **milling complex** with storage facilities, mechanical dryers, farm machinery workshop in **6 ha site**. Contract farms with **1,000 farm families** over three provinces
- seeds, fertilizer and mechanization services, operates a **400ha seed farm** with contract seed growers producing **1,000MT seeds** in 2012



Lao Agro. 2000 Co., Ltd (cont'd)



- marketed **5,000MT** of both glutinous and non-glutinous rice, bulk contracted to **Beer Lao (200MT/month)**, **noodle manufacturers (150MT/month)**
- **stockpiles rice** (3,000MT glutinous rice and 1,000MT of non-glutinous rice) **for the Government**
- In return, government **subsidizes loans** from Lao Development Bank – half of 14% interest
- The branded Lao Agro 2000 – own shop, minimarkets, supermarkets.
- plans to export glutinous rice.



Suthat Rice Mill



- wholly owned by Southat Keodouangsy, participated in the Enhancing Milled Rice Production in Lao PDR (EMRIP) funded by EU, Helvelas, and SNV in 2010-2011
- three milling lines - old 2MT/day line, 4 MT/day line, and new Korean and Chinese equipped 10MT/day line
- contract farms with 750 farmers divided 15 farmer groups comprising 50 farmers, each with a leader, supplies seeds provide technical advice (using extension workers and researchers – pay allowance)



Suthat Rice Mill (cont'd)



- shop in front of mill, sells **fertilizers, animal feed, vet medicine** besides branded (double dragon) packed rice
- 2012 sold **3,000MT** of glutinous and non-glutinous rice
- **100MT per month** contract with **Beer Lao** and **noodle manufacturers** each



Transformation in rice retailing



From loose form in traditional markets to packed and branded rice in supermarkets



Major Supermarkets in Vientiane includes:

- Tengferes (Overseas Laotian)
- D'Mart (Chinese)
- U-Express (French)
- M-Point Mart (Thai)



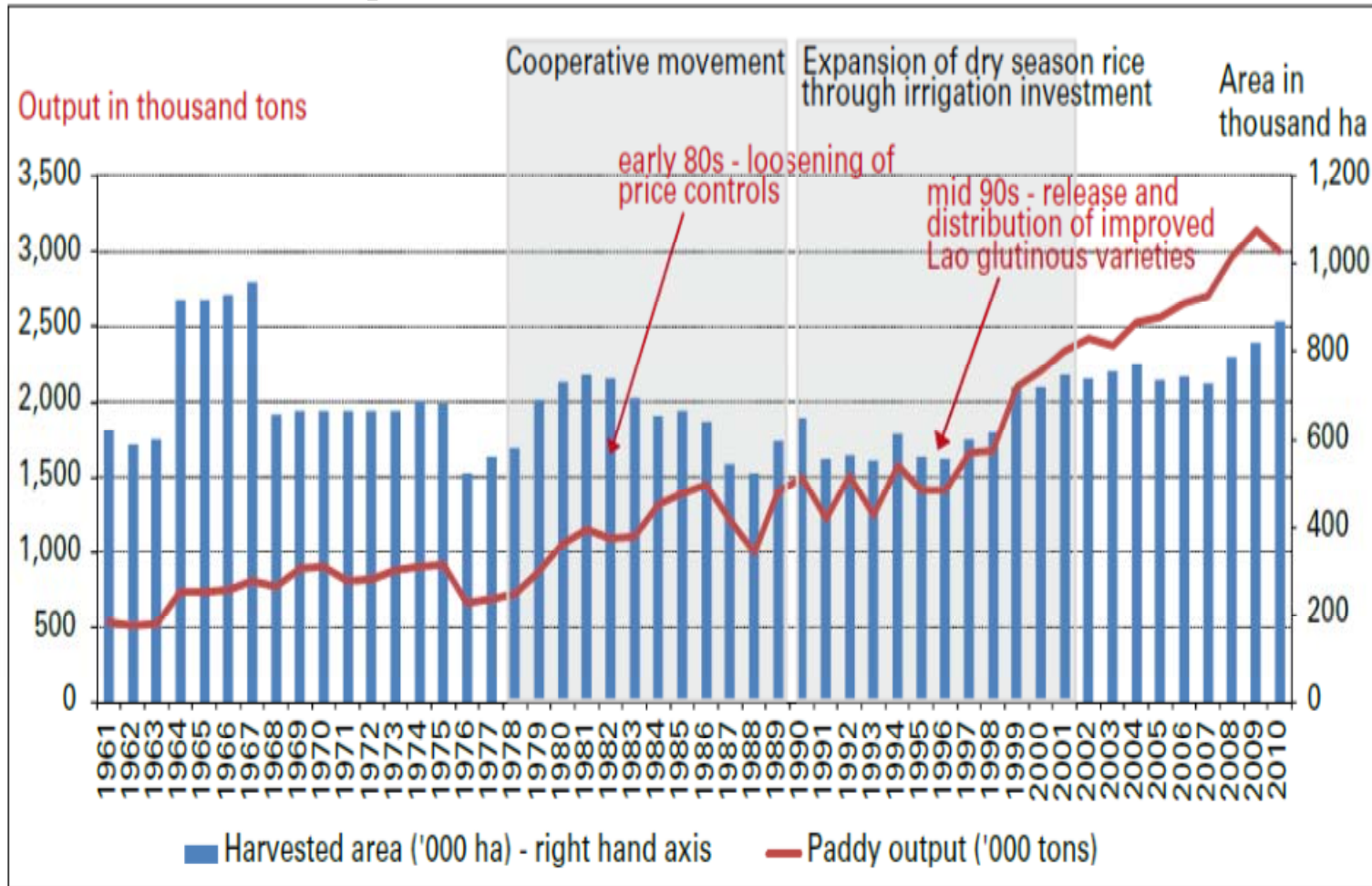
COMPARISON OF UP STREAM & DOWN STREAM LINKAGES OF THE SIX CASE STUDIES

| Company | Up Stream | | Mill | | Down Stream | | | | Remarks |
|--------------------------|--|----------------|------------------------------|---------------------------|----------------------------|-------------|---------------------------------------|---------------------------------------|---|
| | Contract Farming | Agents/ Others | Capacity | 2012 Business Volume (MT) | Traditional W/Sale, Retail | Supermarket | Institutional | Exports | |
| Lao World | | allied mills | 100MT/day | 6,000 | | Own | | Almost all | Diff to replicate |
| Sengarhit | Limited | mostly agents | 30MT/day | 5,000 | Almost all | some | | | |
| Daum | Limited | mainly agents | 5MT/day | 1,200 | Almost all | | | | |
| Fu Teng & Dao Phet Group | 12,500 contract farmers - seeds, fertilizers, agro-chemicals | some agents | 390MT/day | 50,000 | Almost all | | 3,000MT/yr to Police | glut rice Viet Nam; paddy to Thailand | Also imported 500MT Viet Nam non-glutinous rice |
| Lao Agro. 2000 Co., Ltd | 4,000 contract farmers | some | 20MT/day additional 25MT/day | 5,000 | | some | Beer Lao 2,400MT/yr, noodle 1,800/yr | | 400ha seed farm, stockpiles for Govt, own shop |
| Suthat | 750 farmers | some | 6MT/day additional 10MT/day | 3,000 | some | | Beer Lao 1,200MT/yr Noodle 1,200MT/yr | | EMRIP, own shop |



Increasing Production (and Marketable surplus)

Figure 2: Evolution of rice production and harvested area in Lao PDR

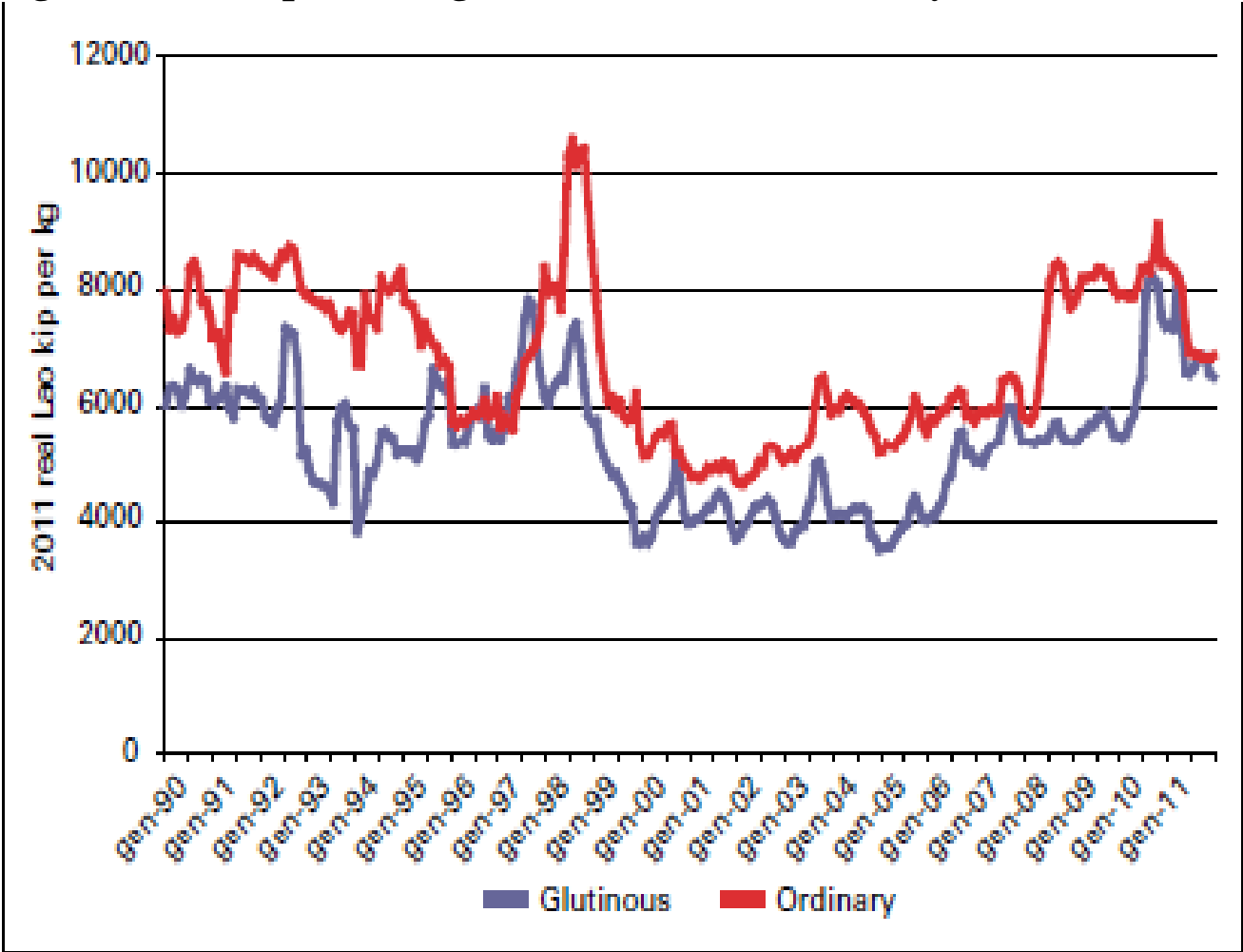


Source: FAOSTAT data from www.fao.org as of August 2012



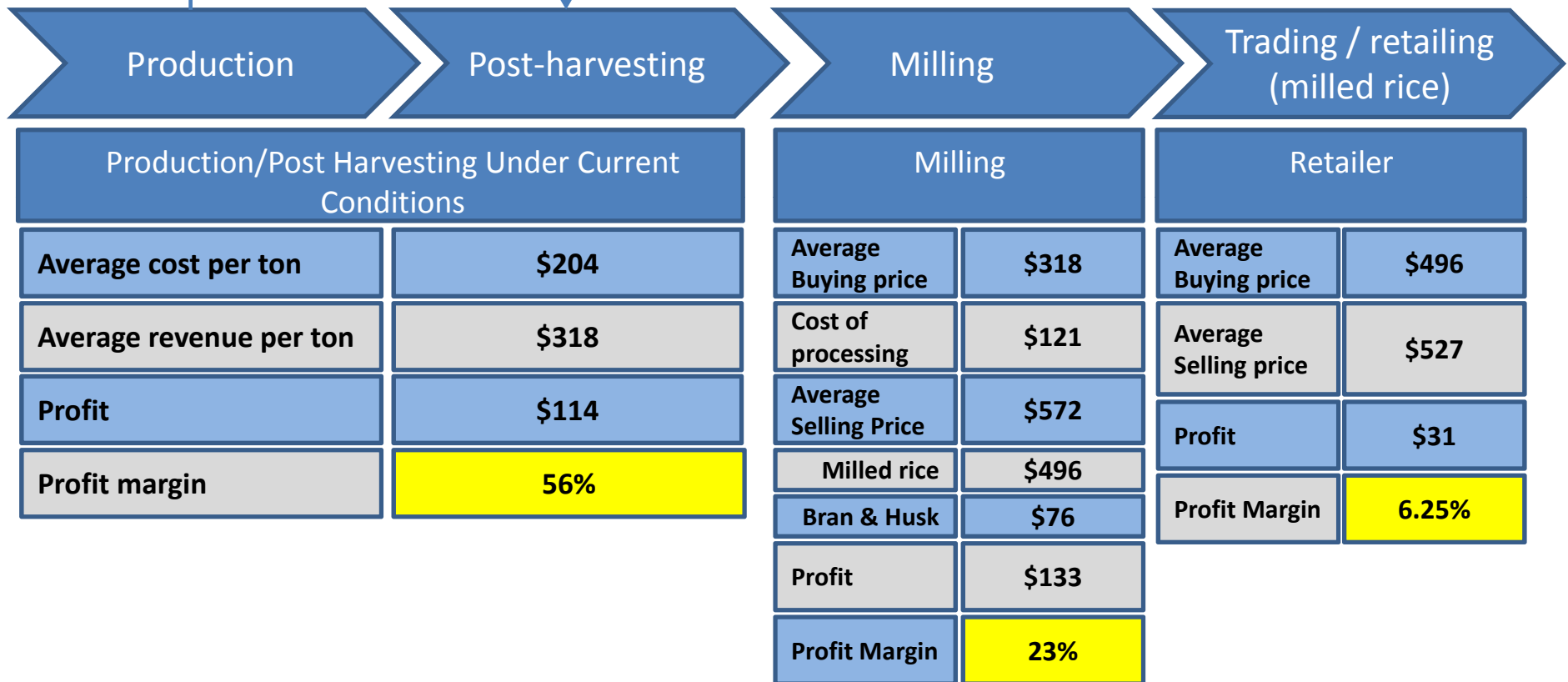
Increasing prices of both glutinous and non glutinous rice since mid 2000s

Figure4: Retail prices of glutinous rice and ordinary white rice, 1990-2011



Average farmer margin per ton is 56%; mill margin 23%, retail margin 6.25%

Threshing is normally done by farmers



EMC (2011) report for IFC



OTHER CONSIDERATIONS:

- There are almost **no significant FDI at the upstream segment** currently, except for a Thai-Lao joint-venture company to mix and pack compound fertilisers as well as distribute them together with imported fertilizers and agro-chemicals in view of their increasing use. Past attempts of FDI in large-scale and/or mechanized farming have not succeeded. Anecdotal evidence suggest that a Japanese company that has just stated contract farming and processing a pilot quantity from 30 ha of black aromatic glutinous rice.
- The **bulk of the investments** at the upstream segment is from the **government** in terms of irrigation and on-farm improvements and farm roads as well as agri-support services, including the continuing supply of certified seeds and encouraging the private sector to kick start a nascent seed industry. E.g. **Lao Agro 2000** operates a **400 ha seed farm**.
- At the **downstream level**, significant **FDI in supermarkets** but **only Lao World group is fully integrated**. Besides **Tengferes** Supermarket, there is **D'Mart** Supermarket (Chinese investor also operates 'Home Ideal' household furnishing and accessories chain); **U-Express** supermarket set up 2012 (French investor - U-Express house branded products from France and local products); **Deluxe Food** Supermarket (Lao-Canadian investor); **M-Point Mart** (Thai owned)- using 7-Eleven model (24 hour neighbourhood store) – 11 outlets in Vientiane alone.



OTHER CONSIDERATIONS (Cont'd):

- **Regionally, Golden Resources** (Hong Kong) and **Kitoku** (Japan) have JV re-processing plants in **Viet Nam** largely geared **towards export** to their respective countries and further afield.
- **Myanmar** just announced **Joint Ventures** involving **Mitsui** (Japan), **Vinacapital** (Viet Nam) and unidentified **Korean** party with **Myanmar Agri-business Public Company (MAPCO)** in mega rice processing complexes producing high value rice products (rice bran oil) and energy (using gasifier) all geared towards **export market**. There are also local investments in rice mills in Myanmar by the **Rice Specialization companies (RSCs)** which are encouraged by the government.
- Hence, FDI in rice mill in Lao PDR is **different in many important ways**, being **more spontaneous, build on trust and corporation** among stakeholders, with **minimal direct government support** or policy driven (as in Cambodia and Myanmar) and hence propensity to drive the development on rice value chain with the necessary coordinated support.



CONCLUSION:

- The **driver** in rice supply or value chain development in Lao PDR is **not in the FDI in land** (as initially thought) but rather in the FDI and local investments **in the mill sector**
- The spate of investments was started in the **late 2000s**, in the wake of: rapidly **increasing paddy production**; **increasing prices** for both glutinous and non-glutinous rice; coinciding with the **rolling back of State Enterprise for Food and Crop Promotion's (SEFCP)** role [cf in early 2000s, reported that only 5% of production (110,000 MT) was commercially marketed and SEFCP controlled 70% and inter-province trade was restricted]. Also **millers' margin** high – **23%** (EMC, 2011)
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CONCLUSION - (cont'd):

- The **speed and degree** of new **investments in mills** and the **linking and integrating** the supply chain involving a cross-section of stakeholders for a **land-locked country of six million**, with only **11%** of rice **areas irrigated**, producing almost **exclusively glutinous rice**, and only **exporting small quantities of rice and paddy intermittently**, largely **private sector driven** ... is astounding – it stands out when compared to Myanmar, Cambodia, and even Viet Nam's experience – there are **obvious lessons to be learned** – so it invites more structured research to guide policy, including role of public and private sector in moving forward.

In calling for more structured research on rice value chains in Lao PDR, we end by paraphrasing **Yu Dan** of **'Confucius From The Heart: Ancient Wisdom for Today's World'** fame:

“When we view another country's development and way of doing things through our own value system, we may be shocked; but if we take time to truly understand what dynamics have brought that country to where it is today and then consider what is possible, then perhaps we can begin to truly help that country”



THANK YOU!

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