

# **A STUDY ON THE SITUATION AND DEVELOPMENT OF THE COFFEE INDUSTRY IN THAILAND**

## **CHAPTER 1 INTRODUCTION**

### **1.1 Background**

Known as the top of the three major beverages of the world, coffee has won the universal popularity. In Thailand, of course, it gets more and more common in daily life and has become a significant export product stimulating the national economic development. Thailand used to be a large producer of opium. Pushed by King Bhumibol Adulyadej, a series of coffee projects were introduced in north Thailand by the government to help the local community plant cash crops, such as coffee, as substitutions of the opium. Coffee has steadily developed in Thailand. 80% of the coffee produced in Thailand is exported to Europe and America, while only 20% is sold to the domestic market. (Chen, 2008) The main export markets are the USA and Poland. The development of trade makes the competition fiercer. The trade rivals of Thailand with large market shares are Brazil, Columbia, Indonesia, Mexico, India, and Canada. In addition, the neighboring country Vietnam has become the second largest coffee producer after Brazil and the largest coffee producer in South-east Asia.

From the perspective of the market economy in Thailand, coffee not only can be exported for sales, but also stimulates the development of other industries such as tourism, service industry, etc. by creating jobs and increasing employment rate.

With the development of Thai coffee market, increasing problems have been exposed, like product cost caused by man power and short persistence of small businesses. The effective settlement of these problems could improve the industry productivity of coffee, winning Thailand a larger share in the international market.

#### **Research purposes and significance**

The planting and exporting of coffee clusters in the developing countries in the tropics and subtropics.(Ding & Zhou,2017)Because of the advantageous geographic location of Thailand, the climate in South-east Asia provides resource advantages for

planting agriculture. In particular, the plateau in the northeast and the mountain area in the north are suitable for planting corn, rubber, fruits, coffee, etc. In Thailand, the national economy develops rapidly, with the industry and agriculture continuously leveling up and the tertiary industry, especially tourism, growing swiftly. Agriculture, a traditional economic sector, is an essential part of Thai economy. In 2014, the population of Thailand was 64.5 million, among which the rural population was 44.99 million, accounting for 69.8%. Meanwhile, the GDP was 370 billion US dollars and GDP per capita reached 5,736 US dollars, with the agriculture accounting for 11.6% of the total GDP. The market valuation of agricultural export was 4,937,372,24 baht from 2002 to 2012. Coffee made up 25% of the exports. The data shows that people's demand for coffee have only expanded without decreasing. (Cheng, 2011)

In Thailand, the production and consumption of coffee have been rising. Although having been exported since 1976, coffee keeps decreasing in terms of planting. It is difficult that the export volume catches up with Vietnam that is in the same geographic position. The important reason for this phenomenon is lacking regulated industrial management and effective planning. The annually decreasing coffee production in south Thailand results in lowering prices. In addition to the rising production cost, farmers cannot bear the burden of coffee planting and fruit picking and transfer to produce other crops which are easier to grow like rubber, durian, mangosteen or other crops with low costs and high yields.

Developed countries and regions like Europe, America, and Japan have been the main consumption markets of coffee products. The EU countries could consume around 2 million tons of coffee in a year with a low percentage of instant coffee. The USA is an important coffee consumption country consuming about 1.2 million tons of coffee in a year with roasted coffee beans accounting for 90% of the sales in the US market, while instant coffee for the rest 10%. Japan is the fifth largest coffee importer and consumption country with the annual import of 370 thousand tons, most of which is roasted coffee and instant coffee accounts for 3%-4%. Korean is the second largest coffee import and consumption country with the annual import of 74 thousand tons, 1.5 kg per capita. Influenced by the culture and consumption standard, Korean people prefer instant coffee, which accounts for 95% of overall consumption. In Hong Kong, the per capita coffee consumption is more than 1.0 kg, with a coffee import of 250-310 tons annually. The dominant producers of instant coffee in the world are Nestle Company of Switzerland and Maxwell House of the USA. The biggest coffee retailer is the chain stores of Starbuck Coffee of the USA.

As a developing country of coffee, Thailand has a great potential. It is necessary to learn from Vietnam and expand the market share and export. For this purpose, we

need to find out the advantages and disadvantages of the Thai market and how to drive the development of the industry.

## **1.2 Research Contents**

This thesis is mainly divided into 5 parts, each having its own functions and studying from different perspectives:

The first part is the introduction including the subject background, research purposes and significance.

The second part is the theoretical analysis of this thesis that discusses the coffee market structure of Thailand from the perspective of coffee industry.

The third part uses the SWOT Analysis and Porter's Five Forces Model to analyze the problems and challenges which the Thai coffee market is facing.

The fourth part puts forward the solutions to improve the development condition of Thai coffee market. From the macro and micro perspective respectively, it analyzed how the government and companies can effectively deal with the problems to improve the productivity of coffee and perfectly merge with other industries to accelerate the development of Thai economy.

The last part is the conclusion that summarizes and generalizes the whole thesis, while raising the drawbacks of it which will be supplemented and improved in future learning and studies.

## **1.3 Research Methods**

The research methods of the thesis include:

### **1.3.1 Information Collecting**

Secondary information is used. Coffee belongs to agricultural products. Because of the small scale of Thai coffee industry, the ancillary data that can be found is limited. Data and relevant documents, such as journals, reports, statistical data from research institutes, etc. about the industry and consumption in Thailand from 2002 to 2016 were obtained.

### **1.3.2 Analysis**

Descriptive analysis is adopted: to introduce the production, consumption, import and export of the coffee market of Thailand and the world, as well as the production structure of Thai coffee.